

Colonial First State Global Asset Management

Responsible investment report 2008



Colonial First State Global Asset Management

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Foreword by Neil Cochrane

Welcome to Colonial First State Global Asset Management's second responsible investment report. This report provides a summary of our responses to the United Nations Principles for Responsible Investment (PRI) annual survey for the year to 31 December 2008 and a summary of the important work that we are doing in this area.

2008 was a challenging year for the finance industry. Many aspects of our investment philosophy and processes were under scrutiny to ensure we preserved and enhanced our clients' wealth and satisfied expectations for shareholder returns. In our role as a fiduciary we believe that if we act in the long-term interests of our clients, our own success as an investment manager will follow. This drives our long-term focus on sustainability and responsible investment, and environmental, social and governance (ESG) issues remain an integral part of the investment process employed by all of our products.

The responsible investment process provides an effective internal governance framework to help ensure that our business and its investments are sustainable in the long term. Colonial First State Global Asset Management became a signatory to the PRI because we believe that sustainability and responsible investment issues have the potential to impact investment returns over the long term and the PRI provide a framework to help us better understand and manage these issues.

Colonial First State Global Asset Management, which operates under the First State Investments brand outside of Australia, is an active shareholder in many listed companies across the globe and seeks to encourage best practice corporate governance in these companies. We provide a twice-yearly corporate governance report which provides a summary of our engagement activities and voting decisions for the Australian-listed companies in which we invest. The report also outlines our stance on executive remuneration and our engagement with Australian-listed companies on ESG issues. The global financial

crisis has confirmed our view that sustainability issues are a vital aspect of investment decision-making. Major contributory factors to the crisis are the mispricing of risk, excessive leverage, liquidity and inadequate governance, so there is rightly an increased focus on these areas across the industry.

Colonial First State Global Asset Management has made a significant investment in sustainability and responsible investment. During 2008, we have demonstrated our commitment through our ongoing participation in the Investor Group on Climate Change (IGCC), the Carbon Disclosure Project (CDP), the Property Council of Australia (PCA) and the Green Building Council of Australia (GBCA). During 2008, we also continued to build on our governance processes and internal reporting frameworks that form the foundation of our PRI implementation. We were also proud to be the first Australian-domiciled fund manager to release a PRI implementation report.

Sustainability and responsible investment are long-term commitments for our business. We have made good progress in this area but realise there is still much work to be done. This is an ongoing learning process for us, and our leadership team is committed to continually improve the way in which we implement the PRI.

We have remained focused on implementing sustainability and responsible investment during the year, despite difficult operating conditions, and are proud of our achievements. You can read more about our achievements and the work we have undertaken to implement the PRI in this report.



Neil Cochrane

Deputy CEO and Global Head of Business Development

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Business overview

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group, one of the largest financial institutions in Australia. Colonial First State Global Asset Management is Australia's largest investment manager of Australian-sourced funds and employs more than 200 investment professionals located in Sydney, London, Edinburgh, Singapore, Hong Kong, New York, Auckland and Jakarta. Colonial First State Global Asset Management operates under the First State Investments brand outside of Australia.

At 31 December 2008, Colonial First State Global Asset Management managed more than A\$128 billion across a diverse range of asset classes including Australian and global equities, short-term investments, global fixed interest and credit, property securities, direct property, global resources, unlisted infrastructure and listed infrastructure securities. Colonial First State Global Asset Management offers tailored investment solutions for retail, wholesale and institutional investors and applies an active and disciplined approach to managing those investments.

Colonial First State Global Asset Management operates through a number of different legal entities depending on the circumstances. Each of these entities is a member of the Commonwealth Bank of Australia group (the Bank), but no subsidiary has the benefit of a general guarantee from the Bank. In this responsible investment report, references to 'Colonial First State Global Asset Management', 'we', 'us' or 'our' are references to that business as a whole except where specific activities and functions are described, or are attributed to specific entities.

Colonial First State Global Asset Management became a signatory to the PRI on 1 March 2007, and has embedded responsible investment processes and practices within many of the investment disciplines of each asset class or investment teams in which investments are managed. The business defines responsible investment as investment decision-making which gives full consideration to ESG issues. This includes engagement with companies for disclosure of their ESG practices to identify sustainable business investments.

Asset mix as at 31 December 2008 as a percentage of FUM

Percentage of total FUM	Internal active (%)	Internal passive (%)	External active (%)	External passive (%)
Listed equity (developed markets)	30.6	1.8	0.0	0.0
Listed equity (emerging markets)	6.9	0.0	0.0	0.0
Fixed income	16.5	2.4	0.1	0.0
Private equity 1	0.0	0.0	0.0	0.0
Listed real estate or property	10.3	0.0	0.0	0.0
Non-listed real estate or property	4.8	0.0	0.0	0.0
Hedge funds	0.0	0.0	0.1	0.0
Commodities	0.0	0.0	0.0	0.0
Infrastructure	2.1	0.0	0.0	0.0
Cash	24.4	0.0	0.1	0.0
Other (please specify)	0.0	0.0	0.0	0.0
Total	95.5	4.2	0.3	0.0

Notes to table:

1 'Private equity' has been listed as 0% of funds under management; however, there are some immaterial investments within the group which may be considered private equity. These assets have been shown under the heading of 'Listed equity'. While the 'Commodities' figure has been listed as zero, it should be noted that we hold equity in listed commodity companies on behalf of our investors, and these holdings are shown under the 'Listed equity (developed markets), active' category.

Accumulated totals may not add up to due to rounding error.

The scope of ESG

The following definitions explain the scope and context of ESG as we refer to it in this document and consider it in our business.

Environmental

These considerations cover all aspects of companies' impact on the environment. This includes the immediate environment in which companies operate, as well as the broader community and region. We take a broad consideration of environmental issues, such as considering the track record of how companies have dealt with past environmental issues, how companies have acted in environmentally-sensitive areas and its public leadership on environmental issues. We do not seek out environmentally friendly companies, but rather look for evidence that companies have effective management, processes and behaviours in place to mitigate any impact that it may have on the environment.

Social

This covers all people who are touched by a business's operations, whether they be employees, suppliers, customers, or the community at large. It is important that companies are supported by the people they affect, in order to be able to operate without undue interference or hindrance. This concept is referred to as a 'social licence to operate' and is especially vital in large organisations and infrastructure companies. As a shareholder in many large organisations and direct owners of infrastructure, a social licence to operate is an important part of our ESG considerations. As well as companies being a good corporate citizens, we may look for strength of community relationships, employee safety records, sensitivity when dealing with vulnerable communities and public leadership on social issues.

Governance

The scope of governance, in relation to ESG principles, covers the effect management, processes and behaviours have on the long-term interests of the business, its investors and the community in which it operates. It complements the required standards of governance as mandated by regulation or legislation.

“We will incorporate ESG issues into investment analysis and decision-making processes”



Principle 1

Since becoming a signatory to the PRI, Principle 1 has been a key area of focus for Colonial First State Global Asset Management. By successfully implementing Principle 1 throughout our business, we hope to ultimately realise the full investment proposition of responsible investment.

We continue to make good progress integrating ESG considerations into all of our internally-managed assets. The consideration of ESG issues provides insight into the long-term outlook and sustainability of companies and is becoming integral to the way we manage investments day-to-day and over the long term.

Governance foundation for implementation and management

The Responsible Investment Steering Committee, chaired by Neil Cochrane, Deputy CEO and Global Head of Business Development, has overall responsibility for the implementation and management of sustainability and responsible investment initiatives across the business.

Sub-committees for the workplace, listed investments and unlisted investments report into the Responsible Investment Steering Committee. The unlisted and listed investment committees work collaboratively to integrate sustainability and responsible investment into the investment processes.

The Boards responsible for the direct property funds also receive quarterly Board reports on sustainability and responsible investment initiatives implemented in the direct property funds. Each investment team within Colonial First State Global Asset Management takes its own approach to integrating ESG issues. Each team has a different investment strategy which provides it with the best opportunity to realise the benefits of systematically considering ESG issues. We are gradually updating each of the teams' investor communications to outline how they approach ESG considerations.

Responsible investment sessions

The responsible investment sessions form part of a planned education and awareness-raising program for our employees. These sessions consist of management seminars and events for general employees which allow our people to gain a better understanding of the opportunities and challenges presented by responsible investment and allow staff to be well positioned to engage on ESG issues with clients and the wider funds management industry. The following table summarises some of the guest speakers that were invited to present at the investment sessions and the topics they covered.

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Principle 1 (continued)

Presenter	Title	Company	Topic
Helga Birgden	Head of Responsible Investment	Mercer Asia Pacific	The client industry drivers for considering ESG issues in investing.
Ian Robertson	Trustee, Chair of the LGSS Investment Committee and Chair of AIST	Local Government Superannuation Scheme	
Martin Lawrence	Head of Research, Australia and New Zealand	RiskMetrics	The key aspects of governance that provide insight into a company and what analysts should consider longer term.
Ann Byrne	CEO	Australian Council of Superannuation Investors (ACSI)	Current sustainability reporting practices of the ASX 100 companies as found by recent research conducted by ACSI.
Richard Beole	Managing Director	Banarra Sustainability Assurance and Advice	The process a company goes through in producing a sustainability report and gaining sustainability assurance, the types of information investors should find in these reports and their accompanying assurance statements and some insights into how to differentiate the facts from the marketing.
Stephen Goodwin	General Manager, Operations	Brisbane Airport Corporation	The drivers for sustainability in the infrastructure sector, specifically toll roads and airports. The key sustainability risks and opportunities for infrastructure (both environmental and social). The different drivers for a company's approach to sustainability in listed and unlisted markets. Some of the metrics infrastructure managers use within their business to track their own sustainability performance and how those may be useful to investors.
Melissa Clarkson	Manager, Sustainability	Transurban Group	
Andrew Gray	Head of Environmental, Social and Governance Research	Goldman Sachs JBWere	Approaches to sustainability research.
Nathan Fabian	Head of ESG Research	Regnan	
Elaine Prior	Director/Senior Analyst	Citi Investment Research	Carbon trading, climate change and ASX companies: Impacts, risks and opportunities.
Lauren Smart	Associate Director, Investor Business Development	Trucost (UK)	Assessing the carbon footprint of portfolios – the Trucost approach.
Liesel van Ast	Research Editor	Trucost (UK)	
David Blood	Senior Partner	Generation Investment Management LLP	Shareholder value and sustainability: Why sustainability research should be integrated into an equity investment process.
Grant Harrod	Managing Director, Executive Director	Corporate Express Australia Limited	How a company's approach to human capital can drive long-term shareholder value.

Presenter	Title	Company	Topic
David Robb	Partner	Allens Arthur Robinson	Corporate engagement from a shareholder's perspective.
Erik Mather	Managing Director	Regnan	
Peter Meurs	Managing Director	WorleyParsons	WorleyParsons is one of the firms leading the thinking on sustainability from an investment point; particularly through its division EcoNomics. Through its business it is looking to realise the opportunity presented by the global shift to increased sustainability.
Don Reed	US Partner	Ecos	Carbon principles and integrating carbon issues into valuations with an emphasis on the utilities sector.
Paul Mitchel	President	International Council on Mining and Metals (UK)	The key sustainability issues for the global resources sector and the work done by ICMM to help resource companies better communicate their sustainability practices to the market.
Dr Rory Sullivan	Head of Responsible Investment	Insight Investment	Dr Rory Sullivan gave a presentation on European approaches to responsible investment and the lessons that have been learned over the past three years. For more details on this session, see under Principle 4.

Resourcing

Colonial First State Global Asset Management's responsible investment team has worked to implement the consideration of ESG issues across all portfolios managed by the business. The team has worked closely with investment analysts, research analysts, fund managers, portfolio managers and investment managers to seamlessly integrate ESG considerations into our investment process.

Supporting policies

Colonial First State Global Asset Management has issued a standalone responsible investment policy statement which outlines the integration of sustainability and responsible investment issues within investment decision-making and ownership practices. This was first issued in 2007 and was updated in 2008 in line with our undertaking to update it at least annually. The updated policy along with other ESG policies are available on our website¹. ESG policies and updates released in 2008 include the following:

Corporate governance update

The corporate governance update has been expanded to cover our engagement with companies about ESG issues. The latest update, available on our website², outlines our commitment to engagement and provides case studies of our interaction with companies and the outcomes of our engagement. Colonial First State Global Asset Management's size and standing in the investment management industry puts our investment managers in a strong position to speak with individual companies on ESG issues. Through our discussions, our aim is to raise issues for potential improvement and encourage disclosure on these issues.

¹ www.cfsgam.com.au/RIPolicies.aspx

² www.cfsgam.com.au/RIReports.aspx

Principle 1 (continued)

Climate change position statement

We believe climate change is the environmental issue that has the most potential to affect our investments over the long term and consequently is of high interest to our stakeholders. As a result, we have specifically outlined our approach to climate change in our climate change position statement. This statement outlines our recognition of the need to approach the issue of climate change based on a thorough understanding of the risks and opportunities it poses for the companies in which we invest.

Colonial First State Global Asset Management also pledged to integrate ESG issues, including climate change, into our investment processes. A copy of the climate change statement is publicly available on our website³.

Property sustainability policy

Colonial First State Global Asset Management has enhanced its treatment of ESG issues in the management of its direct property portfolio by incorporating ESG considerations into its property sustainability policy statement⁴. This policy recognises the physical impacts that direct property assets can have on the environment and society, and offers direction for the management of these assets by making commitments in nine specific areas to manage and minimise the effects of that impact. It is through the setting of benchmarks and targets that the policy seeks to further align sustainability and ESG considerations for the long-term benefit of our clients and investors.

³ www.cfsgam.com.au/RIPolicies.aspx

⁴ www.colonialfirststate.com.au/cpof/AboutCPA/cfspPolicy.asp#sustainPolicy

Research

Engagement of Innovest Strategic Value Advisors

As part of our commitment to fully integrate ESG risk assessment into our investment processes, we engaged third-party research providers Innovest Strategic Value Advisors (Innovest) in December 2007. Access to high-quality ESG research helps us to understand factors which may place business value at risk.

The enlisting of Innovest's services underscores our commitment to sustainability and governance issues, and helps to ensure that we continue to offer our clients outstanding products and services. The outcomes from Innovest's research are very much aligned with the interests of our business and our clients. Innovest provides in-depth analysis of ESG-related risks on more than 2,200 companies globally, and provides other services including industry analysis, specialised research and activities screening.

Innovest is one of the research houses that we currently utilise. We also engage companies directly, encourage brokers to produce ESG research and use other ESG research providers, as demonstrated in the Colonial First State Global Listed Infrastructure case study at the end of this section.



Emerging markets focus

Increasing investment in emerging market equities is fuelling scrutiny of opportunities for growth, as well as risks. Population growth, rising consumption and urbanisation are adding to strains on land, water and energy resources, as well as metals and other materials in emerging markets. Investors are starting to recognise that resource efficiency and environmental sustainability will increasingly drive financial performance and long-term equity returns from these markets.

Rising energy consumption coupled with the depletion of natural resources are set to make developing countries the main source of projected increases in greenhouse gas emissions. Many emerging market countries are particularly vulnerable to the impacts of climate change such as water scarcity, flooding and rising temperatures.

To help address this issue, we commissioned Trucost to assess the environmental performance of the largest one-third of listed companies by market capitalisation in the MSCI Emerging and Frontier Markets Index, excluding Asia, with a combined value of more than \$2.2 trillion. This groundbreaking study provided insight into better understanding the environmental performance of emerging and frontier market companies in order to identify potential risks and opportunities driven by environmental efficiency.

Trucost then ranked 30 companies with the best and worst performance on environmental key

performance indicators including greenhouse gas emissions, water and natural resource use. Damage costs were applied to these impacts in order to identify their relative significance at an absolute level, as well as to identify each company's potential financial exposure.

From the research, it became clear that there are some significant potential losses if the environmental impact is accounted for. The research provided a list of the potentially-impacted companies and, in the next stage of this project, we plan to engage some of the companies highlighted in the research and meet regularly on the research outcomes.

Responsible investment library

We have created a responsible investment library on the company intranet. This library acts as an information repository, where all staff can gain access to research papers, reports, presentations and articles relating to a range of current ESG topics. The responsible investment library includes items that have been prepared by external companies and organisations as well as material that has been prepared internally.

The purpose of the library is to stimulate interest amongst employees and enable them to keep abreast of the latest ESG thinking and developments. The library seeks to educate employees about the scope of ESG issues and provide a deeper understanding of how these issues may affect our investments.

Principle 1 (continued)

Case study:

The global listed infrastructure securities investment team's integration of ESG considerations

ESG issues are especially pertinent to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate.

The global listed infrastructure securities investment team employs an active, bottom-up security selection process that aims to exploit market inefficiencies.

The team employs a qualitative ranking model where each company is evaluated on 25 criteria that the team believes influence a company's performance. These criteria include company management, corporate governance and sustainability. The team's rating process effectively means that companies that score poorly on the team's assessment of sustainability and responsible investment will be discounted to internal valuation to be considered for the portfolio.

The inclusion of sustainability criteria helps the team to identify mispriced stocks, many of which are clean energy assets. These clean energy assets now make up around 20% of the total portfolio of the team's flagship fund, the Colonial First State Wholesale Global Listed Infrastructure Securities Fund (the Fund), and have significantly contributed to the outperformance of the Fund. During the year to 31 December 2008, the Fund outperformed its index, the UBS Global 50-50 Infrastructure and Utilities Index (AUD Hedged), by 3.25%. This outperformance is an illustration of the contribution that sustainability criteria can deliver to the investment process.

The incorporation of ESG considerations into the investment process helps to identify potential ESG risks and opportunities and enables us to price them accordingly.

Environmental considerations of the investment process typically examine a company's:

- historical environmental safety record
- management of past environmental problems
- history of operations in sensitive wilderness areas, and
- public leadership on environmental issues.

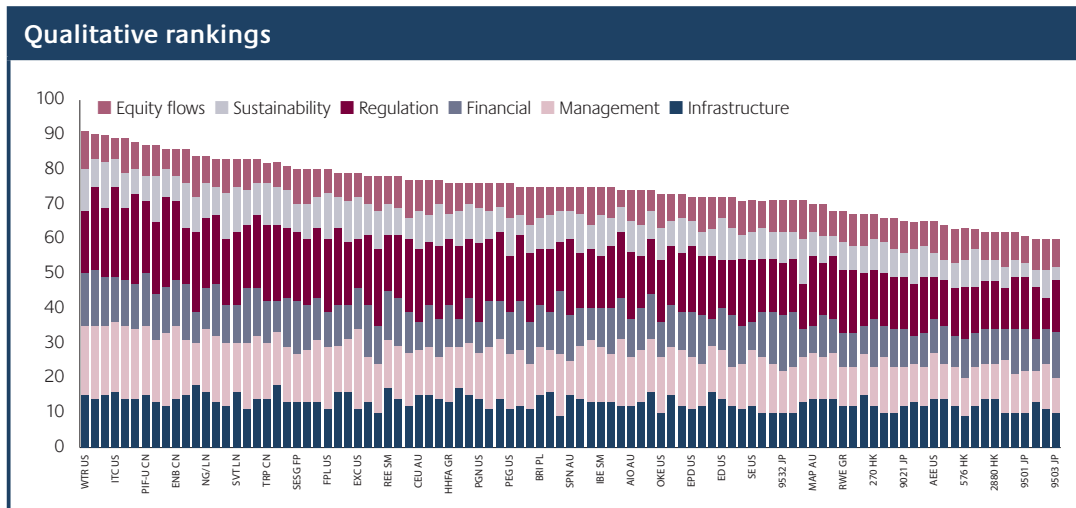
Social considerations of the investment process typically examine a company's:

- strength of community, customer and supplier relationships
- employee safety record and its inclusion in management's key performance indicators
- internal culture
- sensitivity when dealing with indigenous populations, and
- display of public leadership on social issues.

Governance considerations of the investment process typically examine a company's:

- potential exposure to political interference
- accountability for externally managed vehicles and related party transactions
- dominant shareholders and protection of minority interests
- Board composition
- total shareholder returns and return on investment as management incentive targets, and
- history of transparency and financial disclosure.

The chart below shows the qualitative rankings of the Fund's investments.



As at 31 December 2008.

Source: Colonial First State Global Asset Management research.

External research tools

As part of its ongoing commitment to integrate ESG considerations into its investment processes, the global listed infrastructure securities investment team engages third party research providers and accesses other high-quality ESG research. The following are some of the external research tools the team employs.

Environmental research providers

Innovest Strategic Value Advisors, Dow Jones Sustainability Index, Davos 100 Most Sustainable Companies, The United Nations Global Compact, The Carbon Disclosure Project.

Social research providers

Innovest Strategic Value Advisors, The United Nations Global Compact, Corporate Responsibility Officer '100 Best Corporate Citizens', American Customer Satisfaction Index, J.D. Power Customer Surveys.

Governance research providers

ISS Corporate Governance Quotient, Governance Matrix International, Audit Integrity's Most Trustworthy Companies, Innovest Strategic Value Advisors, Corporate Responsibility Officer '100 Best Corporate Citizens'.



“ We will be active owners
and incorporate ESG issues
into our ownership policies
and practices ”



Principle 2

Listed investments

For our listed investments, Colonial First State Global Asset Management is an active manager of investments and focuses on proxy voting and private direct company engagement for our listed investments. As the active representative of major shareholders in many listed companies in Australia and overseas, we use our influence to encourage best practice management of ESG issues in the companies in which we invest.

During 2008, we did not engage in filing or co-filing any shareholder resolutions nor conduct public collaborative engagement with other managers. We did undertake some private collaborative engagement, primarily on corporate governance, and we also supported the engagement undertaken as part of the corporate governance research process by RiskMetrics for Australian companies.

Proxy voting

Colonial First State Global Asset Management seeks to vote on all resolutions where it is possible to do so. We make decisions based on our corporate governance principles, on our own discussions with company management and on what is in the best interests of our investors.

Our investment teams also have access to research and proxy voting guidelines provided by research providers Glass Lewis (formerly known as Corporate Governance International) and RiskMetrics (formerly known as ISS Governance Services). Both of these organisations provide recommendations on proxy resolutions and research into companies. These are used as part of our corporate governance process to assist in making voting decisions.

General engagement

At Colonial First State Global Asset Management we engage with companies in which we invest on a variety of ESG issues. The following list does not necessarily apply to all asset classes or investment management processes, but our ESG considerations during the year included:

- activities in conflict zones
- benefits and compensation
- bribery and corruption
- climate change
- distribution of fair trade products
- management quality
- occupational health and safety
- HIV/AIDS
- human rights
- labour issues, and
- social licences to operate.

We believe that engagement with companies is key for achieving ESG improvements in those companies. We also have collaborative initiatives with external engagement providers, such as Innovest and RiskMetrics, to gather information.

Due to the autonomous nature of our investment teams and the scale of capturing this information in a comparable form, we are currently unable to capture every engagement activity that the business undertakes. Following are examples of the engagement we have undertaken.

Principle 2 (continued)

Examples of engagement with listed companies

In the following examples we have excluded the names of companies where there were sensitivities around the engagement process.

Adidas

In light of rising raw material costs and labour inflation, the market was becoming increasingly concerned that Adidas's gross margins, and hence overall profitability, would come under pressure. This issue had the potential to challenge our neutral view on the short-term outlook for the stock and cause us to downgrade it.

However, following a visit to the factory outside of Shanghai, China in July, the Colonial First State Global Asset Management global equities investment team realised that the Adidas supply chain was focused on a variety of ESG-related factors to better improve margins and returns. These included improving working conditions for workers in order to enhance retention and improving production efficiencies. This served to not only increase efficiency and reduce resources, but also reduce energy utilisation and waste. The financial benefits of these actions became apparent when the company reported its first half figures. We began a holding in the stock during the course of the following month and communicated this to the company.

Mermaid Marine

Mermaid Marine is an Australian marine services provider to the offshore oil and gas industry, including the Dampier supply base where a significant wharf extension is underway. The Dampier supply base, located in Western Australia, is an environmentally-sensitive and Aborigine heritage area where getting access to land is difficult, while the land itself is categorised as a Class A quarantine area with very strict shipping requirements. These factors are a barrier to entry for competitors meaning Mermaid Marine can derive superior returns from this privileged asset.

The Colonial First State Global Asset Management Australian equities, core small caps investment team has visited the Dampier base and had extensive discussions with Mermaid Marine on its approach to issues and the long-term management of potential risks. As a result of the discussions, the team views the firm's strong environmental management as favourable to the company. The small caps team expects Mermaid Marine to continue to outperform the broader market, in part due to the Dampier supply base. This has been a significant factor in the team's decision to retain an overweight exposure to Mermaid Marine.

South African coal company

The Colonial First State Global Asset Management global resources investment team had invested in a small South African coal company following the sell down by some major shareholders and after meeting new experienced management. After appointing new auditors it was revealed that there had been fraudulent accounting behaviour and that the 2007 results would need to be recast. The stock halved in value.

A global resources team member arranged a site visit to see the operations and engage senior management. Key issues of the meeting were to assess the commitment of the new CEO and CFO to resolving the problem and improving the corporate governance of the company. Following the visit, the global resources team was confident that the new management were committed to the business and to the improvement of corporate governance. The company has already made significant changes to its Board composition and has added more independent directors, which is encouraging.

Canadian oil sands company

The Colonial First State Global Asset Management global resources investment team has invested in a large Canadian oil sands company for many years. As with many other oil and gas companies, the company is a significant carbon dioxide emitter and environmental risk is a source of significant liability for the company. The company is committed to, and has policies in place for, sustainability, environmental and social leadership. The company is focused on reducing the operational greenhouse gas emissions as well as investing in renewables, especially wind power and bioethanol.

The global resources team has regular dialogue with the company around sustainability and responsible investment initiatives. At the first one-on-one meeting with the company since Colonial First State Global Asset Management signed the PRI, the global resources team took the opportunity to explain our more formalised responsible investment process and had a healthy discussion around the company's renewable initiatives, carbon trading and workforce retention strategies. The company was able to provide satisfactory answers to the global resources team and both parties understand that there will be now be an increased focus in this area.

Unlisted investments

For our unlisted infrastructure and property investments, Colonial First State Global Asset Management generally seeks representation at the board level or equivalent. We are active via this

representation or by company engagement. We also seek to ensure that there are adequate sustainability policies in place and reporting against these policies takes place.

Our investment process for unlisted investments seeks to:

- price ESG risk as part of the consideration during the initial transaction process
- incorporate ESG considerations into the due diligence process
- incorporate ESG management through the governance process, primarily through Board representation, and
- continually monitor all aspects of the investments, including consideration of ESG risks.

Legislated environmental requirements and ESG issues are equally as relevant to unlisted investments as they are to listed investments. The relative lack of liquidity in unlisted investments makes these issues potentially more material if not managed proactively. As investors in unlisted assets, we are generally able to take a longer term view than may be the case with publicly traded equities.

The requirement of Principle 2, that we will be active owners and incorporate ESG issues into our ownership policies and practices, is also relevant to unlisted asset classes. However, the implementation of this Principle is somewhat different from listed investments, given the different nature of the shareholding and ownership relationship.



Principle 2 (continued)

Hazelwood Power Station (International Power)

Colonial First State Global Asset Management has been working with International Power (the operator of Hazelwood Power Station) to understand the implications of the recently released Federal Government white paper on climate change and particularly the proposed introduction of the Carbon Pollution Reduction Scheme (CPRS). While an established carbon market and active carbon pricing are still at least 18 months away, the impacts of the introduction of the CPRS are being felt now at the asset level and it is critical to gain an understanding of the value impacts that sustainability issues, such as carbon, have at asset level.

Analysis of the impacts of a future carbon charge on investment decisions being made now, will ensure that appropriate values are attached to the CPRS and do not shock the value of the asset post the commencement of the new carbon regime. It is also important to note that the CPRS is currently both a risk and an opportunity to investment performance. The risk lies in undervaluing carbon liabilities associated with carbon producing assets whilst the opportunity lies in investing in under-priced assets that will either benefit from a carbon scheme or have sound risk management systems in place that will allow them to adjust to a carbon constrained environment efficiently. Our engagement with International Power has provided us with an in-depth industry insight into the potential costs and benefits of the proposed CPRS.

Property

The Direct Property Investment Fund (DPIF or the Fund) is an Australian domiciled fund which provides institutional investors with sector-specific investment options in office, retail and industrial property within the Australian real estate market. DPIF is an active owner and incorporates ESG issues into ownership policies and practices.

All office assets in the Fund have a sustainability action plan which outlines the initiatives that will help ensure buildings within the portfolio are positioned to operate as efficiently as possible to minimise their environmental impact. The sustainability action plans are updated on a regular basis, with focus placed on reviewing the status of the existing initiatives, the identification of new action items and their scheduling, and allocation of resources and appropriate capital expenditure.

Sustainability issues are a consideration when transforming existing properties into high performance assets and, as a result, most office assets have informal National Australian Built Environment Rating System's (NABERS) energy targets established as part of their individual improvement programs. This forms an important part of the sustainability benchmarking program.

Significant focus has been placed on improving water performance across the retail assets. Water management plans have been established at each property to identify opportunities to reduce overall water consumption and improve water efficiency through the base building.



Case study: Brisbane Airport

Brisbane Airport is the principal international and domestic gateway to Queensland, Australia, and is located 13km east of Brisbane CBD. It is Australia's third largest airport by passenger volume, handling 19 million passengers annually. Brisbane Airport is Australia's largest capital city airport by land area and has Australia's largest on-airport mixed-use commercial development zone. Brisbane Airport Corporation (BAC) operates the airport under a 50-year lease with a 49-year extension from the Commonwealth Government, which commenced in 1997. Colonial First State Global Asset Management was a foundation investor when the airport was privatised in 1997 and has direct representation on the Board of BAC.

Through Board representation and an active approach to asset management, Colonial First State Global Asset Management has worked together with BAC management to develop and execute a water management strategy during the past four years to reduce the potable water consumption at the airport. Identifying the opportunity for a reduction in potable water consumption is a result of the airport's management embracing new environmental challenges and adopting a sustainable approach to the airport's operations.

As a result of the successful implementation of the water management strategy, Brisbane Airport realised a water saving of approximately 6,000 megalitres in 2008, which is a saving equivalent to the annual potable water usage of 24,000 households and a saving of approximately \$2.1 million in potable water costs for 2007/08. This saving illustrates the long-term investment horizon of sustainability projects such as this and the potential for sustainability initiatives to affect the bottom line.

As an iconic part of Brisbane's landscape, this environmental initiative makes a powerful statement about the management's approach to sustainability and supports the 'social licence to operate' for this environmentally and socially sensitive piece of infrastructure.

Colonial First State Global Asset Management, through our direct Board representation, supported a number of significant infrastructure projects to implement the airport's water conservation strategy, including:

- the construction of a separate and parallel recycled water network with sophisticated controls which carries water from sources other than potable sources
- constructing all new buildings with dual plumbing for the future supply of appropriate quality recycled water for toilet usage
- the domestic terminal expansion, currently at the schematic planning stage, incorporating significant water saving initiatives including storm water and roof water harvesting and the use of recycled water for indoor use
- incorporating similar features in the international terminal such as dual plumbing, water efficiency fittings and enhanced landscaping practices, and
- the commissioning of a new fresh water lake at Brisbane Airport in early 2008, saving 20 megalitres of potable water a year – the equivalent of 400 Olympic swimming pools.

As a result of these initiatives, BAC received the 2008 International Water Association award for best water management in the world. This is a significant award from the largest professional water sustainability association in the world. The Award Jury Panel believed the achievement was especially noteworthy as it was driven by a private company and was an exemplar and model for business and cities worldwide.

Next year, the Brisbane Airport Energy Strategy will be rolled out, which is designed to ensure sustainable provision of energy across the airport to reduce the reliance on electricity and maximise energy efficiency opportunities.

As an active investor, we will continue to support initiatives that deliver sustainable investment returns for the ultimate benefit of our funds and clients.

“ We will seek appropriate disclosure on ESG issues by the entities in which we invest ”



Principle 3

To enable us to best consider the risks and opportunities of an investment, we need to obtain consistent and comparable ESG data. In addition, for our unlisted investments, we also recognise the need for both transparency to help mitigate regulatory risk and adequate board reporting.

Company reporting on sustainability and responsible investment was a key feature of engagement with companies in 2008 as we encouraged companies to report according to the Global Reporting Initiative's (GRI's) G3 Reporting Framework and in line with our corporate governance and engagement policy⁵.

The G3 Reporting Framework is an example of best practice disclosure and provides companies with principles and indicators to measure and report their economic, environmental and social performance.

Colonial First State Global Asset Management is a signatory to the Carbon Disclosure Project (CDP) which is a global initiative in which more than 385 investment managers participate. The CDP writes to the world's 3,000 largest companies, and asks them a series of questions on carbon and climate change issues.

In August 2008, a letter was sent from Colonial First State Global Asset Management's Chief Investment Officer to all the Australian companies that did not respond to the CDP. We requested that they send us any information on how they are managing carbon and climate change risks and opportunities, and to respond to the CDP next year.

We have also requested company reporting on ESG issues, policies, practices and performance to:

- be integrated with financial reports
- contain standalone corporate social responsibility or sustainability reports
- be part of the GRI
- be part of the CDP
- comply with the Global Framework for Climate Risk Disclosure, and
- where relevant, be produced with the assistance of Trucost.

Property fund reporting

CFS Retail Property Trust is a retail sector-specific Australian Real Estate Investment Trust (A-REIT) which invests in high quality regional and sub-regional shopping centres across Australia. The trust listed on the Australian Securities Exchange in April 1994 and its stock market trading code is CFX.

Commonwealth Property Office Fund is an A-REIT which invests in prime quality office property located in central business districts and major suburban markets across Australia. The fund listed on the Australian Securities Exchange in April 1999 and its stock market trading code is CPA.

Both CPA and CFX respond to the following:

→ Carbon Disclosure Project (CDP)

CDP is an independent not-for-profit organisation which holds the largest database of corporate climate change information in the world. The data is obtained from responses to CDP's annual Information Requests, issued on behalf of institutional investors, purchasing organisations and government bodies. CPA was recognised as a Climate Leader by CDP.

⁵ www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/12746_GAM_Corp_Gov_Update_AUG08.pdf

Principle 3 (continued)

→ Australian SAM Sustainability Index (AuSSI)

AuSSI tracks the performance of Australian companies that lead their industry in terms of corporate sustainability. Based on a thorough assessment of economic, environmental and social criteria, the AuSSI comprises the top sustainability-driven companies from each of 21 industry clusters covering the entire Australian economy. CPA was recognised as the leader for the Real Estate Investment Trusts Cluster by AuSSI. CPA and CFX are both listed on the AuSSI.

→ FTSE4Good Index Series (FTSE4Good)

FTSE4Good has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies. Both CPA and CFX are listed on the FTSE4Good index.

→ Dow Jones Sustainability Index (DJSI)

DJSI tracks the financial performance of the leading sustainability-driven companies worldwide. Currently 70 DJSI licences are held by asset managers in 16 countries to manage a variety of financial products including active and passive funds, certificates and segregated accounts. CPA and CFX are listed on the DJSI.

CPA produces a sustainability report⁶, while CFX integrates sustainability reporting into its annual report⁷. Direct Property Investment Fund (DPIF), one of our unlisted wholesale direct property funds, produces a sustainability report⁸.



⁶ [cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/CPA sustainability report 2008.pdf](http://cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/CPA_sustainability_report_2008.pdf)

⁷ <http://colonial0802.interactiveinvestor.com.au/>

⁸ [cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/DPIF sustainability report.pdf](http://cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/DPIF_sustainability_report.pdf)

Case study:**Direct
infrastructure
ESG disclosure**

Colonial First State Global Asset Management encourages its direct infrastructure assets to report on sustainability and responsible investment. Our UK-based water utilities business, Anglian Water, is a prime example of one of our direct infrastructure investments which has transparent reporting on ESG issues. Anglian Water's management approach to ESG issues is in addition to, and to complement, the requirements of the UK water industry regulator, Ofwat, which regulates the operations of Anglian Water.

Anglian Water is a water and waste water services business and provides more than a billion litres of drinking water to 4.2 million customers every day. Colonial First State Global Asset Management has a 33% interest in the holding company of Anglian Water and holds two of six board seats.

At Board level we ensure that there are adequate sustainability policies in place and there is reporting against those policies. We are also an observer to the 'operational Board', which deals with the day-to-day operational management of the Anglian Water business, which enables us to monitor the implementation of those policies.

Through our operational oversight, we support and encourage strategies and behaviours that demonstrate a commitment to the long-term success of the business. This reinforces the belief that business decisions should take into account ESG issues, as well as economic ones.

Anglian Water has disclosed its ESG performance for a number of years and the latest report is available online⁹. Targets and progress against targets are reported in the Anglian Water annual Community and Environment Report and published on its website¹⁰.

Taking a lead on the climate change agenda, its membership of the Corporate Leaders' Group allows them to work at a national level with Government and at a European Union level, to support early adoption of measures that will increase the rate of mitigation and adaptation to the effects of climate change.

Anglian Water seeks to take a leading role in water conservation and in March 2008 it launched the Regional Water Partnership, the first of its kind in the UK. Working with other organisations and companies in its region, the partnership is working to put all aspects of water at the forefront of decision-making in planning processes.

Anglian Water is a member of the Water UK Sustainability Steering Group and contributes to the annual Water UK Sustainability Index. In 2008, it contributed to the production of the first State of the Sector report by Water UK which looked at the sustainability of the industry.

⁹ www.anglianwater.co.uk/index.php?sectionid=49&parentid=49

¹⁰ www.anglianwater.co.uk



“ We will promote acceptance and implementation of the Principles within the investment industry ”

Principle 4

During 2008, Colonial First State Global Asset Management has actively engaged in dialogue, lobbying and initiatives pertaining to government policy and industry regulations as they relate to sustainability and responsible investment issues. This has been primarily through the Investor Group on Climate Change (IGCC), the Investment and Financial Services Association (IFSA) and the Responsible Investment Association (RIA).

We consider sustainability and responsible investment requirements when selecting external investment managers, proxy voting specialists, investment research and internal operations. Where relevant, service providers are encouraged to become PRI signatories and we encourage clients and peer organisations to also become signatories. We believe it can encourage the wider asset management industry to think more broadly about the long-term impacts of sustainability and responsible investment issues.

External presentations

Employees from across Colonial First State Global Asset Management have presented at a number of key industry forums on various aspects of ESG integration. Examples of these presentations include:

Association of Superannuation Funds of Australia (ASFA)

Presentations were given to ASFA members in Brisbane and Adelaide about emissions trading and long-term investing, specifically in relation to sustainable investment within the context of the PRI and emissions trading scheme.

Financial Services Institute of Australasia (FINSIA)

A presentation to members of FINSIA was given about the PRI more generally and how it impacts investment decisions.

Australian Council of Superannuation Investors (ACSI)

Chris McArthur, Senior Asset Manager, spoke to ACSI on how directors of unlisted assets can influence ESG performance.

The Australasian Investor Relations Association (AIRA)

Investor relations professionals were addressed about communicating a company's approach to climate change.

Client briefings

David Gait, Senior Portfolio Manager and ESG specialist, spoke at a company client briefing with the theme, 'Sustainable Investment in Emerging Markets: is it a contradiction in terms?' At the briefing, David outlined what the key ESG issues are now and in the future, how investors can start to understand the risks and opportunities presented by sustainability and emerging markets, and some of his own observations on the effectiveness of engagement with emerging markets companies.

Responsible investment briefings in conjunction with Ethical Investor

Neil Cochrane, Deputy CEO and Global Head of Business Development, in conjunction with Ethical Investor magazine, hosted an investor briefing for the Australian responsible investment industry. Dr Rory Sullivan, Head of Responsible Investment at Insight Investment, presented on European approaches to responsible investment and the lessons that have been learnt over the past three years.

Dr Sullivan highlighted the catalytic role that has been played by the PRI in moving responsible investment from a socially responsible investing niche to a wider expectation that investors will promote high standards of corporate responsibility and sustainable development. The key message from the briefing was

Principle 4 (continued)

that responsible investment is not about ticking the boxes, but is fundamentally about the principles and values that are brought to the investment process. In particular, the need to take a long-term view on ESG issues and for asset managers and asset owners to act as owners of stocks, not just as traders.

Russell Australasian Investment Summit

Neil Cochrane participated in the Russell Australasian Investment Summit in 2008 and was a panellist at the Responsible Investing and Investor Activism session. The session covered a range of topics on the implementation, progress and the future of responsible investment at a company and industry level. It also covered the impact of the PRI and the practical steps we have taken to implement them.

Engaging service providers

We recognise the need to send a clear signal to the research community regarding the need for quality ESG research and have been active participants in the discussions leading to the formation of the ESG Research Australia Initiative. Colonial First State Global Asset Management hosted the Sydney launch of this initiative where a speech was given to attendees by our Chief Investment Officer, David Dixon.

ESG Research Australia is a commitment to integrate ESG issues into the sell side research review and reward process. Unlike in the UK, there is very little ESG research produced by the sell side for the Australian market. The launch of ESG Research Australia is a significant step in the move towards rigorous integrated financial and ESG research for the Australian market.

Further to working with the sell side we also continue to subscribe to Innovest, RiskMetrics and Glass Lewis's global ESG research services and commission bespoke research.

We are also working with our service providers in the unlisted area. In appointing our panel of independent valuers for infrastructure assets, the information we requested included data on their capabilities in taking account of ESG considerations relating to valuations. This information was used in the shortlisting process for our valuation panel. Similarly, in the appointment and review of all service providers for our direct property investments, ESG capabilities are a consideration.



“ We will work together to
enhance our effectiveness in
implementing the Principles ”



Principle 5

Colonial First State Global Asset Management participated in a number of sustainability and responsible investment engagement initiatives and associations and contributed to the development of a number of education programs to enhance our effectiveness in implementing the PRI.

Facilitating the development of training and education

Kaplan Professional

Colonial First State Global Asset Management helped to develop course material for Kaplan Professional's Personal Development sessions. The module, titled 'ESG factors in the fund', looked at how fund managers have started to incorporate ESG factors into their investment decisions, what impact these factors have on financial performance and how they should be considered when evaluating a managed fund.

Australian Institute of Superannuation Trustees (AIST)

Throughout 2008, Colonial First State Global Asset Management was pleased to work with the AIST to raise the level of awareness and understanding of ESG issues across the superannuation industry in Australia by developing a course titled 'Defining, Managing and Mainstreaming Environmental, Social and Governance Issues'.

This course was developed with the goal of assisting the Australian superannuation industry to protect and enhance the retirement savings of average Australians. It was designed to show participants that ESG issues can have material impacts on long-term investments and should be considered as a key component of any investment strategy.

The course also gives participants the tools required to take the first steps in mainstreaming ESG issues as part of the investment process, as well as an understanding of the impact that climate change can have on long-term investments.

It is AIST's and Colonial First State Global Asset Management's belief that this course will benefit people at all levels of the superannuation industry, particularly trustee directors who are interested in learning more about the impact of ESG issues on investments.

Macquarie University Applied Finance Centre

Colonial First State Global Asset Management committed to work with Macquarie University Applied Finance Centre on a course titled 'ESG issues in Finance' in 2009. The course is designed to provide a broad overview of ESG issues in finance for corporate, government and regulatory professionals in an informative and practical way.

Responsible investment delegation

Representatives from Colonial First State Global Asset Management formed part of a delegation of responsible investment professionals visiting Canberra to speak with Australian government ministers to work on aligning the objectives of the financial services industry with those of government.

The responsible investment sector has not been previously presented as an industry body to government and so this was an important first step in establishing dialogue and stimulating interest with government ministers.

PRI global meeting in Korea

Colonial First State Global Asset Management was invited to give three presentations at the second annual PRI global meeting in Seoul, Korea. We spoke to attendee signatories about how we have integrated the PRI across all of our investments. The second presentation covered Anglian Water, a significant infrastructure investment of ours, and how we considered the management of this asset's ESG risks and opportunities, as well as other infrastructure investments more broadly. In the final presentation, the impacts of carbon markets in Australia were addressed.

Principle 5 (continued)

Infrastructure roundtable

We participated in a roundtable hosted by the Australian Conservation Foundation, AIST and the Responsible Investment Association on sustainable infrastructure. The roundtable was designed to create an investment community communiqué aimed at government policymakers to highlight the investment opportunities in a low carbon future and other sustainability issues, if incentives and regulations are properly aligned. The communiqué can be found on the Australian Conservation Foundation website¹¹.

Integrating PRI into mainstream internal communications

The Colonial First State Global Asset Management employee newsletter included a 'Responsible investment update' section. This section provided an update on all aspects of responsible investment and ESG initiatives in the business.

The company intranet has a dedicated responsible investment section which enables all staff worldwide to access news and information about sustainability and responsible investment initiatives in the business.

Two videos for internal use were produced during 2008 to promote greater awareness and understanding of the importance of responsible investment to our employees. The videos featured Amanda McCluskey, Head of Sustainability and Responsible Investment, talking about ESG more broadly, and Mark Rogers, Asset Manager, talking about the importance of sustainability in direct infrastructure and some of the initiatives that are currently taking place. The videos are available to all staff globally and are an effective means to educate and promote sustainability throughout the business.

Collaboration initiatives

To support our implementation of the PRI, we participated in a number of other collaborative initiatives. This participation helps us to stay abreast of developments in the sustainability and responsible

investment arena more broadly, and also helps us to collaborate with like-minded investors to facilitate ongoing improvements in the industry's approach to sustainability and responsible investment issues. Examples of the industry bodies we participate in include:

- **Investor Group on Climate Change (IGCC)**
Colonial First State Global Asset Management was one of the foundation members of the IGCC and has been an active participant in many of its projects. In late 2008, Amanda McCluskey, Head of Sustainability and Responsible Investment, was appointed as Deputy Chair for the IGCC.
- **Green Building Council of Australia**
Rowan Griffin, Head of Sustainability, Property, is a Board member of the Green Building Council of Australia.
- **Property Council of Australia**
We engaged in a national sustainability roundtable and regional sustainability development forums.
- **The Sydney Conference Advisory Committee of the International Corporate Governance Network**
- **Investment and Financial Services Association Carbon Markets and Climate Change Committee**
- **Carbon Disclosure Project**
- **International Corporate Governance Network**
- **Regional social investment organisation – Association for Sustainable and Responsible Investment in Asia**
- **UN Global Compact's 'Who Cares Wins' initiative**

This initiative aims to provide recommendations by the finance industry to better integrate environmental, social and governance issues in analysis, asset management and securities brokerage.

¹¹ www.acfonline.org.au

Colonial First State Global Asset Management, as one of Australia's largest property asset management and property development groups, seeks to integrate sustainability aspects into its operations and provides the opportunity to enhance operational efficiency and improve environmental performance.

We recognise that achieving sustainable outcomes for property is not the sole responsibility of the owner, the designer, the property manager or the tenant. Rather, each has a shared responsibility and role. Importantly, we recognise the need to ensure our supply chain understands our aspirations and their responsibilities to support our sustainability objectives.

To help achieve this aim we introduced a tailored sustainability manual across our retail and commercial office assets. The manual clearly outlines our strategic objectives and provides the property managers with a framework for sustainability integration into all relevant business activities. Both the Commercial Office and Retail Sustainability Manuals cover key operational areas including managing energy, water, waste, indoor environment quality and refrigerants, along with performance benchmarks, sustainable fit-outs, the supply chain, tenant engagement and sustainability reporting.

Our industry leadership in this area was recognised by DECC and a partnership between Colonial First State Global Asset Management and DECC was formed to build on the success of the sustainability manual. The partnership has three main objectives:

→ To develop the manual to be applicable as an industry-wide resource for the commercial property sector.

- To distribute the manual with a focus on education, awareness and evaluation.
- To build capacity within the property sector to undertake sustainable practices through promoting the use of the sustainability manual to the broader property industry and provide industry workshops and training.

Colonial First State Global Asset Management's alignment with the PRI reflects our willingness to partner with organisations to continually improve our performance, as well as to provide a leading example to the industries in which we operate.

The creation of the Sustainable Property Guide, in conjunction with DECC, is an excellent example of collaborative achievement. We believe that sharing information in this field is paramount to effecting positive change in the property industry and the broader business community. Furthermore, the Sustainable Property Guide will be publicly available online for anyone who wishes to use it.

We have worked collaboratively with DECC and the predecessor organisations (the Department of Energy Utilities and Sustainability and the Sustainable Energy Development Authority) over a number of years to oversee the development of this guide, along with a number of other initiatives including the Energy Smart Business Program and the NABERS Suite of Performance Rating Tools.

Colonial First State Global Asset Management is proud of its partnership with DECC and is committed to delivering enhanced value through an integrated approach to sustainability.

Case study:

Development of the Sustainable Property Guide with the New South Wales Department of Environment & Climate Change (DECC)

“We will each report on our activities and progress towards implementing the Principles”



Principle 6

Colonial First State Global Asset Management has undertaken a number of steps to raise awareness of its sustainability and responsible investment initiatives.

Responsible investment report released

In 2008, we were pleased to announce the release of our inaugural responsible investment report for the calendar year 1 January to 31 December 2007, covering the period of our membership since 1 March 2007. Colonial First State Global Asset Management was the first Australian-domiciled fund manager to release a comprehensive PRI implementation report which covers our position on climate change and guidelines for ESG issues. The report also includes case studies of engagement examples undertaken by our global emerging markets team.

Commonwealth Property Office Fund (CPA) sustainability report

Released in 2008, CPA's second sustainability report covers the sustainability initiatives taking place across CPA's property portfolio. The fund reports on how it has performed and the benefits to investors in undertaking this activity.

CPA believes that ESG issues have the potential to impact on investment returns and therefore the implementation of the framework provided by the PRI makes good investment sense. The report outlines how CPA's daily operations and approach to business help drive long-term sustainable value. The key philosophies underpinning CPA's engagement in sustainability practices are consistent with Colonial First State Global Asset Management's membership of the PRI. The report demonstrates how CPA has upheld the PRI and monitored its impacts on the environment and developed relationships with stakeholders.

Direct Property Investment Fund (DPIF) sustainability report

DPIF released its inaugural sustainability report to investors on the sustainability initiatives undertaken throughout the 2008 financial year and its plans for the future. While this is the first official report to investors on these activities, it is worth noting that the fund has been actively focused on managing ESG issues for many years.

DPIF is committed to assisting change within the industry and to facilitating further advances in sustainability initiatives adopted not just within the fund's portfolio, but by the broader property industry and its customers. DPIF will continue to drive operating efficiencies within the fund's properties, while increasing our focus on improving tenant engagement and fostering tenant/landlord partnerships.

Corporate governance reporting updates

As one of Australia's largest asset managers, Colonial First State Global Asset Management is an active representative of major shareholders in many Australian listed companies. We use our influence to encourage best practice corporate governance in the companies in which we invest and produce a regular report to provide an update on our corporate governance practices and activity.

The report outlines how we voted on key issues such as director elections/re-elections, executive remuneration and non-executive remuneration. The report currently only covers our Australian investment funds' equity investments in Australian listed companies. The corporate governance report has recently been expanded to cover wider ESG issues along with traditional governance reporting. All corporate governance updates are available to the public on our website¹².

¹² www.cfsgam.com.au/RIReports.aspx

Principle 6 (continued)

Investor communications

In 2008, there was a marked increase in focus on ESG issues and considerations in investor communications which reflects the importance that funds and investors now place on sustainability and responsible investment.

Responsible investment website

A revised responsible investment section was created on our website¹³. The new responsible investment website pages include information on our commitment to sustainability, links to all current policies and reports, latest news and research on sustainability and responsible investment in the business and profiles of the responsible investment team. Reports and policies available on the responsible investment website include:

→ Colonial First State Global Asset Management responsible investment report 2007¹⁴

- Commonwealth Managed Investments Limited Corporate Governance Report June 2008¹⁵
- Commonwealth Managed Investments Limited Corporate Governance Report June 2008 – Unlisted Funds¹⁶
- CFS Managed Property Limited Corporate Governance Report June 2008 – Unlisted Funds¹⁷
- Corporate governance updates¹⁸
- CPA 2008 sustainability report¹⁹
- DPIF 2008 sustainability report²⁰
- Property sustainability policy²¹
- Colonial First State Asset Management (Australia) Limited guidelines and principles for corporate engagement on governance, environment and social issues²²
- Climate Change Position Statement²³
- Colonial First State Global Asset Management Responsible Investment Policy Statement²⁴.



13 www.cfsgam.com.au/RI.aspx

14 www.cfsgam.com.au/RIReports.aspx

15 The report on the Australian Securities Exchange Corporate Governance Council's Principles and Recommendations for the listed CFX and CPA forms part of the June 2008 annual reports.

16 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/CMIL_corp_gov.pdf

17 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/080910_CFSMPL_June_2008_corp_gov_report_unlisted_funds.pdf

18 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/12746_GAM_Corp_Gov_Update_AUG08.pdf

19 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/CPA_sustainability_report_2008.pdf

20 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/DPIF_sustainability_report.pdf

21 www.colonialfirststate.com.au/cpof/AboutCPA/cfspPolicy.asp#sustainPolicy

22 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/080903_CFSGAM_ESG_guidelines.pdf

23 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/080721_CFSGAM_climate_change_statement_FINAL.pdf

24 www.cfsgam.com.au/uploadedFiles/CFSGAM/About_Us/Responsible_Investment/Responsible_investment_policy_statement.pdf

Challenges to implementation

In the annual survey conducted by the PRI, we are asked what we believe are the biggest challenges in the implementation of the Principles. For us, some of the challenges are organisational, and other stem from the characteristics of the industry. The following questions and answers are taken from our response to the 2008 PRI survey and have been provided to encourage transparency and encourage discussion and development in the industry in line with Principle 5 of the PRI.

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes

The lack of quality research, combined with a lack of comparable reporting by companies, was the biggest obstacle we encountered when implementing Principle 1.

We are provided with very limited research that actually combines traditional financial research and ESG research, and explores the materiality of ESG issues to long-term company performance.

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. 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. 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 to fulfil our commitments under this Principle.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices

As we reported last year, the large scale and complex structure of our business continues to provide challenges when implementing Principle 2. Given the autonomy of the investment teams and the different investment styles, it is very difficult to capture the engagement that occurs in an efficient manner. As a result, tracking our success is challenging. This, combined with the fact that the actual outcomes of engagement are difficult to measure, means we do not have a good sense of what we are actually achieving.

Improved systems for capturing proxy voting will provide confidence in the success of that aspect of active ownership, although capturing company engagement globally continues to be a challenge.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest

Mixed messages companies get from the broader market in relation to what they need to do regarding ESG reporting continues to present a challenge to us when requesting ESG-related information. Companies still convey their concerns around survey fatigue and the fact that there are still very few investment managers that are asking for the ESG information, and that requests often do not reflect an understanding of their business. As a result, companies have a pre-conceived idea of what we are asking them for in relation to ESG and tend to provide more marketing-style information that provides very little insight into the real ESG issues and how the companies are managing them.

Challenges to implementation (continued)

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry

There remains a 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. If applied to their investments, these investors believe that those investments may be compromised through a reduction in their investment universe or a preference towards environmentally friendly companies, rather than ones that will provide the best possible investment outcome.

This is clearly not the case for the mainstream investment managers that have signed the PRI, yet the potential materiality of ESG issues is still not yet broadly accepted or fully understood by the market.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles

We find other investment managers are the least likely to collaborate on ESG. This means collaboration to push for good quality ESG research is not as effective as it could be. Given this is such a considerable gap, particularly in the Australian market, it presents both a challenge and opportunity moving forward.

Principle 6

We will each report on our activities and progress towards implementing the Principles

We sought feedback via an email survey to companies on our inaugural responsible investment report and, to date, we have not received any feedback. The limited engagement from the institutional investor market in relation to our ESG reporting makes it difficult to ensure that we are providing relevant information. This has proven to be a barrier to effectively implementing Principle 6.



Looking ahead

We maintain our ongoing commitment to integrating ESG issues into our investment and asset management processes. The business has a long-term vision to be regarded as the leader in responsible investment and sustainability.

The global financial crisis can be, to an important extent, attributed to failures and weaknesses in corporate governance arrangements which did not serve their purpose to safeguard against excessive risk taking. This has resulted in an increased focus on this area across the industry and we remain committed to the PRI and will continue to demonstrate leadership in this area.

Looking ahead, we are working towards achieving a complete integration of ESG considerations into our investment process. In order to achieve this, we are encouraging the provision of research that combines traditional financial measures with ESG to identify the materiality of ESG issues to long-term company performance. There has previously been a lack of useful information that can be readily integrated into the investment process, but it is encouraging that ESG research is gaining momentum to address this hurdle. Increasingly, the finance industry and its customers are beginning to ask the right questions and companies are being compelled to supply the information. The investment community is now achieving a critical mass which is beginning to impart the information the industry needs to work with.

Our top three PRI-related goals and priorities for 2009 are:

1. to factor ESG into the assessment process of analysts, such as through their key performance indicators
2. to facilitate the development of more detailed education and engagement programs for analysts, and
3. develop better transparency around how ESG issues translate into portfolio construction.

Colonial First State Global Asset Management looks to the future to determine the issues that may impact our business and those businesses in which we invest. We are firmly of the view that through ongoing focus and continuous improvement in our approach to considering ESG issues we are fulfilling our role as a fiduciary and will help protect and enhance the investments of our clients.

By making continuous improvements in all areas of ESG, our practices will be enhanced so that ultimately Colonial First State Global Asset Management will be considered one of the leading responsible investment asset managers globally.

Glossary of terms

Association of Superannuation Funds of Australia (ASFA)
Australasian Investor Relations Association (AIRA)
Australian Council of Superannuation Investors (ACSI)
Australian Institute of Superannuation Trustees (AIST)
Australian Real Estate Investment Trust (A-REIT)
Australian SAM Sustainability Index (AuSSI)
Brisbane Airport Corporation (BAC)
Carbon Disclosure Project (CDP)
Carbon Pollution Reduction Scheme (CPRS)
CFS Retail Property Trust (CFX)
Commonwealth Property Office Fund (CPA)
Direct Property Investment Fund (DPIF)
Dow Jones Sustainability Index (DJSI)
Environmental, social and governance (ESG)
Financial Services Institute of Australasia (FINSIA)
FTSE4Good Index Series (FTSE4Good)
Global Reporting Initiative (GRI)
Green Building Council of Australia (GBCA)
Investment and Financial Services Association (IFSA)
Investor Group on Climate Change (IGCC)
National Australian Built Environment Rating System (NABERS)
New South Wales Department of Environment & Climate Change (DECC)
Responsible Investment Association (RIA)
United Nations Principles for Responsible Investment (PRI)

Useful references

Anglian Water Group

anglianwater.co.uk

Brisbane Airport

brisbaneairport.com.au

Carbon Disclosure Project

cdproject.net

Commonwealth Property Office Fund: sustainability report

colonialfirststate.com.au/cpof/

Colonial First State Global Asset Management: corporate governance and proxy voting

cfsgam.com.au/corporategovernance.aspx

Colonial First State Global Asset Management: policies

cfsgam.com.au/Policies.aspx

Colonial First State Global Asset Management: research

cfsgam.com.au/Research.aspx

Colonial First State Global Asset Management: responsible investment

cfsgam.com.au/RI.aspx

Investor Group on Climate Change

igcc.org.au

Further information

For further information about Colonial First State Global Asset Management's commitment to the PRI and ESG activities, please visit cfsgam.com.au/RI or contact:

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