

# Stewardship statement

## First State Investments

December 2010

First State Investments is an asset management business with specialist capabilities in Asia and global emerging markets, global resources and global equities, property securities and both listed and direct infrastructure. We manage investments on behalf of institutional investors and pension funds, wholesale distributors and platforms, financial advisers and their clients. First State forms part of the consolidated asset management business of the Commonwealth Bank of Australia, managing £93.3 billion (as at 31 October 2010) on behalf of investors worldwide. In Australia we operate as Colonial First State Global Asset Management.

Our investment teams are structured so managers and analysts are given a strong sense of portfolio ownership by way of team-focused incentives. We believe this promotes commitment and intellectual engagement, aligning our interests and success with those of our clients.

This document discloses our corporate engagement policies and the philosophy and approach of our investment teams with respect to our responsibilities as investors. Whilst First State has not currently signed the UK Stewardship Code adopted by the Financial Reporting Council, we have signed the United Nations Principles for Responsible Investment (UNPRI) and believe the Code duplicates that which we already do. We are focused on working towards, or operating at, global best practice in this area. Our [Corporate Engagement Policy](#) is available on our website.

### Stewardship responsibilities

The concept of stewardship is at the heart of First State's investment approach. We believe our job is to allocate our clients' capital in accordance with the investment process and philosophy that has been agreed with our clients. Each investment is a decision to purchase, on behalf of our clients, a share of a real business. In particular, we emphasise the importance of the quality of a company's management. We spend a great deal of time focusing on issues such as management integrity and corporate governance, attitude to environmental, social and governance (ESG) risks and the ability to execute and to develop successful long-term strategies.

First State believes in having direct contact with the management and/or directors of companies into which we invest. This contact might include constructive communication about performance, corporate governance, environmental and social issues, or other matters affecting stakeholder interests and long-term shareholder value.

As a shareholder, First State is entitled to receive reports and accounts and other explanatory circulars from companies which are required by law or regulatory authorities. We also have the right to attend company meetings and raise questions about the affairs of the company. While these formal bases for communication are necessary, they may not be sufficient to allow companies and shareholders to gain full understanding of each other's aims and requirements.

Direct dialogue gives First State a better appreciation of a company's objectives, its potential aims and the quality of its management, while making the company aware of our expectations and requirements as a shareholder. In regard to environmental and social issues, First State will engage management on those matters that it believes have material impact on company earnings and value, and on best practices which the company should adopt.

Our Corporate Engagement Policy includes our policy on voting. In exercising our voting rights on behalf of our clients, we combine our own research with that provided by third parties such as Glass Lewis, in addition to specific ESG research from providers such as Ethix SRI advisors, Thomson Reuters Asset4 and RepRisk and bespoke research conducted on our behalf from other research providers. We have also produced a Responsible investment report, available on our website, which outlines the significant activities we have undertaken under the UNPRI Principles.

### Conflicts of interest

Our Corporate Engagement Policy recognises the fact that conflicts of interest may arise in exercising voting rights on behalf of our clients, and includes procedures to ensure that such decisions are made objectively, in line with our proxy

voting guidelines, and in the best interests of our clients. We have a specific policy in place relating to securities issued by our parent company, Commonwealth Bank of Australia.

### Monitoring investee companies

As an active investor, we are active in monitoring our investee companies. We believe that purchase of a share in a business comes with both rights and responsibilities. Rights include voting rights, dividends and tag-along protection in takeover deals. In return equity owners, although legally protected by their limited liability status, share responsibility for the actions and behaviour of their companies. For us, environmental, social and governance issues are investment issues. Positive engagement on such issues therefore is a powerful tool in driving shareholder value and protecting and enhancing the value of our portfolios.

Our primary means for monitoring companies is through the regular dialogue we have as part of our investment processes across all our equity investment teams.

We also purchase extensive ESG research that tests our views of companies' approaches to ESG issues, including:

- RepRisk that provides us an alert whenever there is a controversial ESG issue reported for one of the companies we cover
- Asset4 that provides us with ESG data on companies
- RiskMetrics and Glass Lewis that provides us another opinion on governance issues for the purposes of proxy voting
- Broker research on traditional financial as well as ESG issues.

### Engagement escalation

We believe corporate engagement and voting activities are a key part of both our investment approach and our responsibility, acting on behalf of our clients, as part owners of the businesses in which we invest.

We will seek to engage in a manner appropriate to each individual circumstance; and where such engagement does not produce the desired result, to consider other forms of engagement. We will generally look to engage with companies initially in a private and confidential manner, conducive to achieving a suitable outcome, and only if such activities fail to produce results would we consider more public forms of engagement. With the exception of calling for an EGM and submitting resolutions at shareholder meetings, we have undertaken all the activities recommended in the Code when it is appropriate given our ownership stake.

### Collaborative initiatives

We regularly participate in collaborative initiatives with other investors that look to increase transparency, improve corporate ESG practices or call for regulation that supports long-term shareholder interests. Examples include:

- Asian Corporate Governance Association
- Carbon Disclosure Project
- Extractive Industries Transparency Initiative
- International Corporate Governance Network
- Investment and Financial Services Association
- Association for Sustainable and Responsible Investment in Asia
- UN Global Compact's 'Who Cares Wins' initiative
- ESG Research Australia
- Green Building Council of Australia
- Investor Group on Climate Change
- Property Council of Australia
- United Nations Environment Programme Finance Initiative
- Australian Green Infrastructure Council

We have also consistently encouraged both mainstream investment banks and independent SRI research providers to broaden and deepen their analysis of ESG issues for our asset classes. Occasionally we undertake written engagement with regulators and stock exchanges on ESG issues. First State is a signatory to the UN Principles for Responsible Investment.

### Voting and disclosure

Our policy on voting and disclosure is contained within our Corporate Engagement Policy. First State votes on all issues at company meetings where it has the authority to do so. Voting rights are a valuable asset which we believe 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.

First State generally seeks to engage a company prior to a vote so that appropriate consultation may take place with a view

towards achieving a satisfactory solution. If the company does not change its behaviour and is not in-line with what we see is minimum requirements for a given market, we will vote against. We do look to have a positive relationship with the companies we invest in so we can have the most productive engagement. When we are long-term shareholders this also support the effectiveness of engagement and ideally we will not need to vote against the company.

Where a satisfactory outcome cannot be achieved on an important issue, it may be desirable for us to attend the relevant meeting of the company and to explain why the proposal is being opposed. In such cases a poll may be requested to ensure that the vote is duly recorded.

All votes are made in the best interest of our clients. While our goal is to apply our corporate governance guidelines and principles in a consistent manner, there may be occasions where First State believes it is in its clients' best interests to exercise its proxy vote in a manner that is not consistent on certain occasions, as a degree of subjectivity may be required.

### Reporting

We report to those of our clients who have requested us to do so, usually at quarterly intervals, on our voting activities on their behalf. These reports contain both quantitative and qualitative information, with the content of such reporting often differing between clients based on their specific needs. We also report, where requested, on engagement activities; however we note that on occasion the engagement that produces the outcome which we believe is in the best interests of investors should in some cases remain confidential. We also report publicly on our engagement activities in our bi-annual voting and engagement reports and our annual responsible investment implementation reports. As part of a SAS 70 report on the control environment with our business, our voting activities are reviewed on an annual basis.