

Greater emphasis on ESG issues to drive capital allocation and investment performance

Media release

1 July, 2011

The short-term nature and focus of financial markets is inhibiting consideration of environmental, social and governance (ESG) issues in capital allocation and could be detrimentally impacting long-term company and investment performance, according to Colonial First State Global Asset Management (CFSGAM).

At its Responsible Investment Forum, the global funds manager advocated greater emphasis on pricing ESG issues into every investment decision, arguing that these factors can have a significant impact on company performance. Research conducted by CFSGAM revealed that the top rated ESG stocks in its Global Listed Infrastructure portfolio outperformed the bottom-rated stocks by more than 20 percent over a three year period to May 2010, supporting the argument that ESG factors and performance are connected.

Mark Lazberger, CEO of CFSGAM said the investment industry is showing signs of improving but needs to go further to achieve best practice ESG management.

“As a fiduciary it is our responsibility to make the best possible investment decisions on behalf of our clients,” said Mr Lazberger.

“Critical to that process is appropriate consideration of environmental, social and governance issues as these factors significantly impact long-term company performance.

“We’d like to see a greater number of investors considering ESG risks and we believe the investment industry has a role to play in encouraging companies to make the required changes. Positively, investors are increasingly becoming alert to the importance of ESG issues and are challenging the industry to incorporate these considerations into the investment process. As a consequence, we expect capital allocations will be made more efficiently over time.”

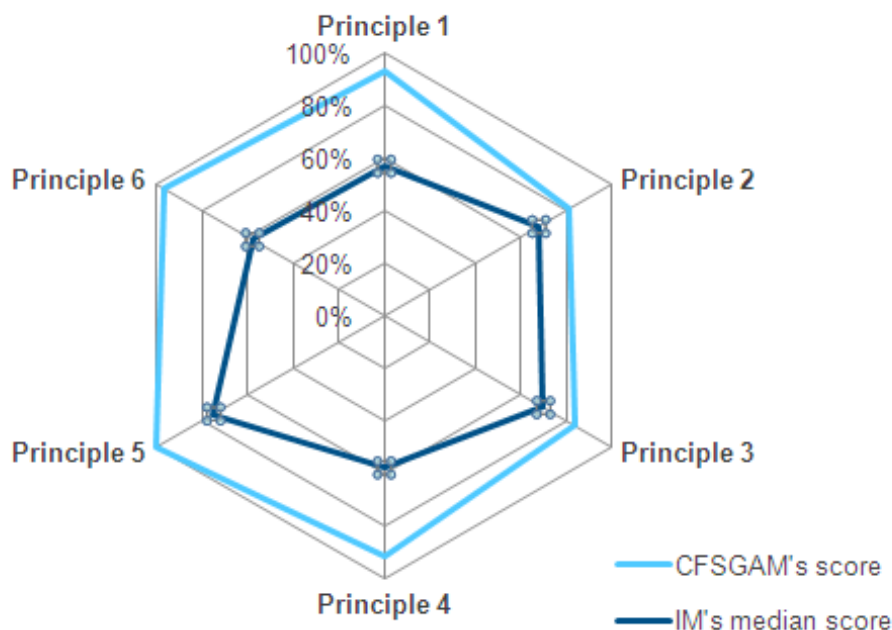
Amanda McCluskey, Head of Sustainability and Responsible Investment added: “There is still a level of misunderstanding within the industry regarding the difference between socially responsible or ethical investing and integrated ESG management.

“Our approach to responsible investment doesn’t screen out particular companies or sectors based on socially responsible or ethical strategies. Instead, ESG issues are considered in the same manner as traditional financial issues,” said Ms McCluskey.

“We take this approach because pricing sustainability issues into every investment decision allows us to protect our clients against ESG-related risks and enhance the investment performance of our funds.”

This announcement comes as CFSGAM releases its fourth annual *Responsible Investment Report*, which outlines how each fund integrates ESG practices into their investment process and details the group’s performance against the United Nations Principles of Responsible Investment (PRI)*.

The report reveals that CFSGAM improved its performance on the PRI, ranking in the top quartile in four of the six principles (Principles 1, 4, 5 and 6), up from three quartile one rankings the prior year. The business is ranked in the second quartile for the remaining two principles. In addition, CFSGAM outperformed its peers during 2010, achieving higher rankings than the combined average scores of investment managers globally on all six principles.



“CFSGAM has been committed to responsible investment for a number of years now, which puts us in a strong position to respond to the future needs of our clients and industry,” said Mr Lazberger.

“We have built performance metrics into our strategic planning process and have defined success as incorporating the six principles into all areas of our business. It’s pleasing that since signing the PRI in early 2007 we’ve made significant steps towards achieving this target and now sit in the top quartile in four of the six principles. We are currently focussing principles two and three and are actively seeking to achieve top quartile rankings across five of the six principles in 2011.”

In addition to its focus on the PRI, CFSGAM seeks to actively engage government and the business and investment community to drive further improvements in ESG related practices. Accordingly, CFSGAM became a signatory to the Extractive Industries Transparency Initiative (EITI) during 2009 and subsequently increased its focus on achieving greater transparency and accountability in operating behaviours across companies and governments via its involvement in this initiative during 2010. The EITI is a coalition of governments, companies and civil societies that have developed a global standard for transparency in extractive industries. The principles behind the EITI are being considered as regulation in the US and EU.

“The Extractive Industries Transparency Initiative is a good example of our approach to ESG engagement. This type of activity, which seeks to drive real changes in the behaviour of companies and governments, will ultimately result in better returns for asset owners via a more responsible approach to investment,” said Ms McCluskey.

“During 2010 we met with numerous companies globally to develop a detailed understanding of how benefit sharing and corruption in high risk regimes are being managed and to obtain a company perspective on the challenges associated with government’s operating in certain countries. We also sought to garner support for the initiative on a global scale.”

– Ends –

Notes to media

*The United Nations Principles of Responsible Investment include:

- **Principle 1:** We will incorporate ESG issues into our investment analysis and decision-making processes
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles

For further information please contact:

Name	Telephone	Email
Danielle Woods	02 9303 0016	danielle.woods@colonialfirststate.com.au

About Colonial First State Global Asset Management

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 manager of Australian sourced funds, employing more than 200 investment professionals. The Bank and its subsidiaries do not guarantee the performance of any funds invested in by clients of CFSGAM or the repayment of capital. Investments are not deposits or other liabilities of the Bank or its subsidiaries and are subject to investment risk including loss of income and capital invested.

At 31 March 2011, Colonial First State Global Asset Management managed more than AUD\$152 billion across a diverse range of asset classes including Australian and global shares, short term investments, fixed interest and credit, property securities, direct property, global resources, unlisted infrastructure and listed infrastructure securities.

Colonial First State Global Asset Management has been a signatory to the United Nations' Principles of Responsible Investment since March 2007. The principles are an initiative developed by institutional investors in conjunction with the UN Environment Programme Finance Initiative and the UN Global Compact.

The UN PRI provide a framework for including environmental, social and governance (ESG) issues in investment decisions. Colonial First State Global Asset Management undertakes to utilise the framework provided by the UN PRI in aligning our investment processes with the objectives of our investors. By embracing the Principles, Colonial First State Global Asset Management believes it can achieve better long term investment returns for our clients.