

Colonial First State Global Asset Management



Responsible
Investment
report 2007

Colonial First State Global Asset Management

Colonial First State Global Asset Management is the consolidated asset management business of the Commonwealth Bank of Australia group, and includes the First State Investments and Property and Alternative Investments groups. It 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, but no subsidiary has the benefit of a general guarantee from the Bank. In this report references to Colonial First State Global Asset Management 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 is also a registered business name of Colonial First State Asset Management (Australia) Limited ABN 89 114 194 311 (AFSL 289017).

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All information is as at 31 December 2007 unless otherwise stated.

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A photograph of a sandy beach at sunset or sunrise. The ocean waves are breaking on the shore, creating white foam. Several footprints are visible in the sand, leading away from the water. The lighting is warm and golden.

“Implementing the PRI and ultimately enhancing our Responsible Investment practices is a long-term goal for our business.”

Foreword by Neil Cochrane

I am delighted to present Colonial First State Global Asset Management's Responsible Investment Report for 2007.

This report provides a concise version of the inaugural response by Colonial First State Global Asset Management to the United Nations Principles for Responsible Investment (PRI) annual survey for the calendar year of 1 January to 31 December 2007, covering the period of our membership since 1 March 2007.

The key philosophy behind Colonial First State Global Asset Management's membership of the PRI is that we believe Environmental, Social and Governance (ESG) issues have the potential to impact investment returns; and for us as one of Australia's largest asset managers, the implementation of the framework provided by the PRI makes good investment sense. Additionally, by becoming a signatory to the PRI, Colonial First State Global Asset Management believes it will act in greater alignment with our clients' long-term investment interests.

In addition to the rigorous research that has long been undertaken by our investment teams, we believe the PRI provide a formal framework for the consideration of ESG issues when making investment decisions. Ultimately, we think our investment managers will be better informed to make long-term investment decisions, leading to an enhanced risk/return outcome for our clients.

During 2007, we demonstrated our commitment to being amongst the leading Responsible Investment asset managers globally by appointing a Head of Sustainability and Responsible Investment.

In this report we have aimed to outline what we are doing under each of the Principles and how a Responsible Investment framework helps our business. We have not shied away from outlining the difficulties of implementation across a business with the size, scope and geographical dispersion of Colonial First State Global Asset Management.

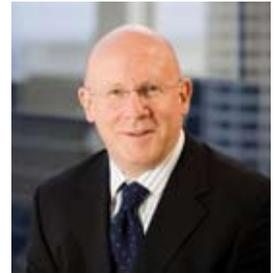
The format of this Responsible Investment report for 2007 follows the format of the PRI questionnaire for the 2007 calendar year. As well as providing a more transparent account of our first year as a PRI signatory, we have also issued this report in the hope that it provides valuable insight to our clients, our consultants and our fellow asset managers.

Implementing the PRI and ultimately enhancing our Responsible Investment practices is a long-term goal for our business. We are focused on making continuous improvements and we look forward to keeping you informed of our progress. While we have produced a limited number of hard copies of this Responsible Investment Report, in the future these reports will be produced in electronic format on the company's website, with hard copies only provided specifically where requested.



Neil Cochrane

Acting Chief Executive Officer



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Business overview

Colonial First State Global Asset Management is the consolidated asset management business of Commonwealth Bank of Australia, one of the largest financial institutions in Australia and a leading global banking group. The business offers tailored investment solutions for retail, wholesale and institutional investors and aims to create wealth for its investors by applying an active and disciplined approach to managing investments and assets.

Colonial First State Global Asset Management is Australia's largest asset manager of Australian-sourced funds, employing more than 200 investment professionals located in Sydney, London, Auckland, Edinburgh, New York, Singapore, Hong Kong and Jakarta. The business manages more than A\$164 billion across a diverse range of asset classes including Australian and global shares; cash and short-term investments; fixed interest and credit; property securities and listed infrastructure securities; direct property; global resources and infrastructure.

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, 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 are references to that business as a whole except where specific activities and functions are described, or are attributed to specific entities.

The asset management functions contained within Colonial First State Global Asset Management operate as a 'house of boutiques', with each of the fund teams having investment autonomy and dedicated investment processes tailored to meet their objectives. For example, in the Australian equity space, the business runs two separate, dedicated Australian equity teams – a Core (or style neutral) team and a Growth team. Each team has autonomy over its investment process and decisions even down to the dealing desk functionality and corporate governance voting practices. This provides the teams with the ability to make judgement calls in line with their fund objectives, while still benefiting from the support and governance structures provided by the wider business.

Colonial First State Global Asset Management became a signatory to the PRI on 1 March 2007, and is undertaking a process to further embed Responsible Investment processes and practices within the investment disciplines of each asset class or investment team in which we manage investments. The business defines 'Responsible Investment' as investment decision-making which gives full consideration to Environmental, Social and Governance (ESG) issues. This includes engagement with companies for disclosure of their ESG practices to identify sustainable business investments.

As at 31 December 2007, Colonial First State Global Asset Management had a total of A\$164 billion in funds under management (FUM). An overview of these assets, by nearest whole percentage of funds under management, is shown in the table opposite.

Asset mix as at 31 December 2007	% of FUM
Listed equity (developed market, active)	27
Listed equity (developed market, passive)	2
Listed equity (emerging market, active)	19
Listed equity (emerging market, passive)	0
Fixed income – developed markets	17
Fixed income – emerging markets	0
Real estate or property	11
Private equity	0
Hedge fund	1
Infrastructure	1
Currency	0
Commodities	0
Cash	22
TOTAL	100%

Notes to table:

1. 'Cash' figure incorporates cash at bank, cash funds and short-term investments managed by the Short Term Investments team.
2. 'Private equity' has been listed as 0% of funds under management; however, there are some small (A\$114 million) investments within the group which may be considered private equity. These assets have been shown under the heading of infrastructure.
3. While the 'Commodity' 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 market, active' category.

Of the total assets managed by Colonial First State Global Asset Management, the vast majority are managed internally. All listed equity funds, real estate or property, infrastructure and cash are 100% managed internally within Colonial First State Global Asset Management. Within the fixed income (developed markets) category, a small percentage (approximately 1%) of funds under management is externally managed.

Our Responsible Investment journey

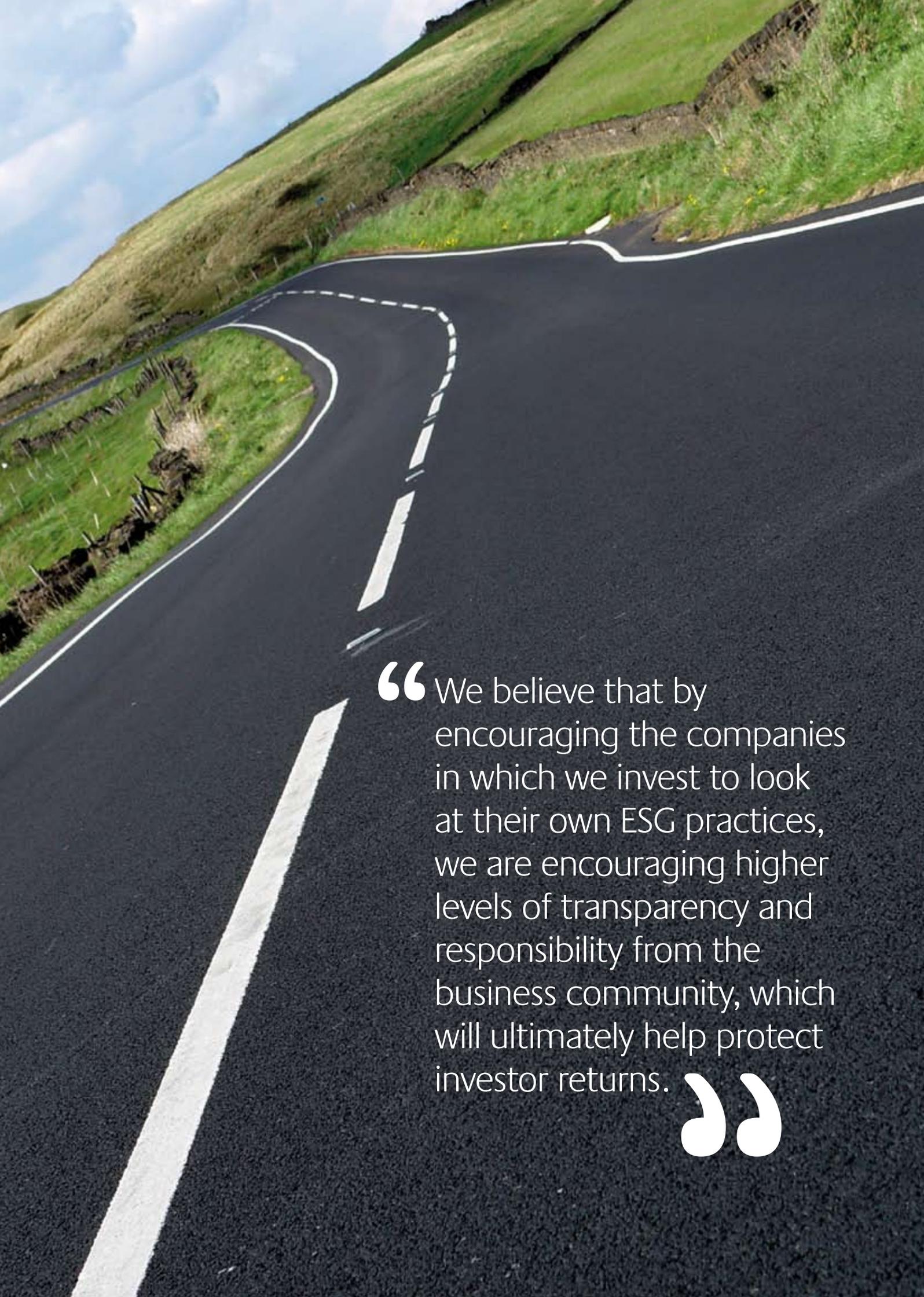
Colonial First State Global Asset Management became a signatory to the PRI because the business believes that ESG issues have the potential to impact investment returns. As an asset manager, the business wants to understand and manage those potential impacts. Colonial First State Global Asset Management believes the PRI provide the framework to further embed Responsible Investment practices across our business.

Since Colonial First State Global Asset Management signed the PRI, the business has focused its initial efforts on implementing, from the six Principles, those concerned directly with the investment process – namely, principles 1, 2, 3 and 6. These Principles concentrate on investment process, industry collaboration and engagement. Colonial First State Global Asset Management believes that by encouraging the listed and unlisted companies in which we invest to look at their own ESG practices, we are encouraging higher levels of transparency and responsibility from the business community, which will ultimately help protect investor returns.

By signing the PRI, Colonial First State Global Asset Management believes it will achieve greater alignment with our clients' long-term investment interests. Additionally, as one of Australia's largest investment managers, the business recognises the important role it can play in global efforts to improve ESG practices.

One of the benefits the business has experienced since becoming a signatory to the PRI has been the increased level of engagement from employees across our firm, regardless of country or investment expertise. As a business that was restructured in 2005, Colonial First State Global Asset Management has gained, through the PRI, a channel through which to encourage collaboration across the organisation, including the attraction of new employees. By implementing an enhanced governance framework as part of the PRI implementation process, employees have broadly accepted the importance of ESG issues in all aspects of the business and its investments.

Since becoming a signatory in March 2007, Colonial First State Global Asset Management has noticed a pronounced increase in awareness in the Australian investment community of the potential that ESG issues have to impact long-term investor returns. We believe the PRI have been a significant driver in industry debate – from superannuation funds, asset consultants, through to investment managers and brokers – about what making the consideration of ESG issues mainstream actually means and the issues that the investment community should be factoring into their collective investment considerations.



“ We believe that by encouraging the companies in which we invest to look at their own ESG practices, we are encouraging higher levels of transparency and responsibility from the business community, which will ultimately help protect investor returns.

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Principle 1

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

Principle 1 has been a key area of focus for Colonial First State Global Asset Management since becoming a signatory to the PRI. In many ways, our process has been to first understand what to what extent we already consider ESG issues and how that can be improved and better communicated. The other focus area for the business has been the governance foundation for implementation.

Responsible Investment oversight

Within Colonial First State Global Asset Management, the Acting Chief Executive Officer Neil Cochrane has overall responsibility for Responsible Investment and ESG issues within the firm. Mr Cochrane chairs a Responsible Investment Steering Committee which has responsibility for the implementation and management of ESG factors across the business.

Reporting into the overarching Responsible Investment Steering Committee are separate sub-committees for both the listed and unlisted (asset) investments that are chaired by executives from these areas. These committees work collaboratively to find ways to integrate ESG issues into the investment processes.

In addition, the boards responsible for the direct property funds receive quarterly board reports on ESG initiatives implemented in the direct property funds. For such entities, it is one of the boards' functions to ensure that the funds are managed in line with their investment processes.



Supporting policies

Colonial First State Global Asset Management has issued an independent Responsible Investment Policy Statement, which makes reference to the integration of Responsible Investment/ESG issues within investment decision-making and ownership practices. This was first issued in 2007 and is publicly available on our website at cfsgam.com.au/unpri.

Colonial First State Global Asset Management has undertaken to review this Policy Statement on an annual basis. Our direct property business (formerly known as Colonial First State Property) has had a formal sustainability policy since 2001. This policy is available on the listed property trusts' website, including colonialfirststate.com.au/cfx/Aboutcfx/cfspPolicy.

Internally managed assets

The consideration of ESG factors is integrated into the investment decision-making process for all internal assets under management within Colonial First State Global Asset Management. We do not suggest that we are covering and systematically 'pricing' all of the ESG issues that could impact the performance of our investments over the longer term. However, we believe that considering ESG factors in all assets managed internally reflects our firm commitment to making a consideration of ESG issues simply part of the way in which we manage investments.

Within Colonial First State Global Asset Management, each asset class and investment team is at a different stage of this process. We believe there will always be

room for increased understanding and knowledge, as there is with any investment issue. Therefore, the extent to which we consider ESG issues have been implemented for internally managed assets, as broken down by asset class, is shown in the table below.

It is important to note that Colonial First State Global Asset Management does not 'screen out' or exclude stocks or sectors from any of our portfolios based on ethical criteria. Rather, through engagement on ESG issues with the companies in which we invest, we believe we are better able to identify potential risks and opportunities in companies and therefore better able to determine which of those risks are material and what is being done to manage them.

Resourcing

Within Colonial First State Global Asset Management, our stated intention during 2007 has been to implement the consideration of ESG issues across all portfolios. For the most part, this has become the responsibility of our existing investment analysts, research analysts, portfolio managers and investment managers. Formal assessment of the capabilities of our investment staff continues to be conducted on the basis of their investment abilities including Responsible Investment issues. However, in order to support our investment staff to be better equipped to consider ESG factors, Colonial First State Global Asset Management has commenced regular internal training sessions for investment staff. Additionally, staff are encouraged to participate in other ESG conferences, briefings or programs as appropriate.

Degree of implementation	Asset class
To a large extent	Listed equity (emerging markets, active) Direct real estate or property
To a moderate extent	Listed equity (developed markets, active) Direct infrastructure
To a small extent	Fixed income (developed markets)

Principle 1

During 2007, the business has also continued to build its resources dedicated to Responsible Investment. These have included dedicated investment analysts, Responsible Investment policy advisers, engagement specialists and the appointment of Amanda McCluskey to the position of Head of Sustainability and Responsible Investment.

Non-proprietary ESG tools

During 2007, Colonial First State Global Asset Management supported the development of various non-proprietary ESG issue-related tools. These were primarily through our involvement in the Investor Group on Climate Change, which produced a series of sector-specific reports on the potential impact that climate change may have on unlisted assets and listed investments. These reports are available at igcc.org.au/.

We have also started the process of engaging our brokers to provide our listed equity teams with a higher level and improved quality of ESG research. Making the delivery of ESG research mainstream through our broker channels is a priority for our business.

Several key research papers covering sustainability in the environment were developed and issued by Colonial First State Global Asset Management's Property and Alternative Investments Research team. Examples of these can be found at cfsgam.com.au/Research.

Significant achievements during 2007

The most significant achievement for Colonial First State Global Asset Management during 2007 was the global implementation of a formal Responsible Investment governance structure, strategy and policy statement. This included the establishment of our executive-led Responsible Investment Steering Committee, along with two investment implementation committees for unlisted assets and listed investments.

Under this governance framework, each listed investment team is responsible for implementing the PRI into its investment process. Teams have now completed the first of future quarterly surveys on implementation of the PRI. In this survey, each of the investment teams reports on its progress towards embedding the PRI into its investment process, barriers it has faced in implementation and highlights for the quarter. This report is then provided to the Chief Investment Officer, to ensure transparency and continuous improvement.

In our direct property business, we are well advanced in valuing some of the sustainability issues in our investment and governance process. This is a result of this area of our business having had sustainability policies and programs in place since 2001. Evidence of this includes our hotel fund being recognised for best practice sustainability performance, the continued presence of our listed property trusts in the Dow Jones Sustainability World Index (DJSI) and the FTSE4Good Index, as well as the ongoing ESG reporting by two of our core infrastructure investments.

Barriers to implementation of Principle 1

The largest barrier faced by Colonial First State Global Asset Management during 2007 in relation to Principle 1 was the size and scale of our business. As a fairly recently reconfigured company with operations globally, the breadth of our investment offering and the autonomy of each of our investment teams have meant that the implementation of a uniform framework for implementing the PRI across different teams and regions has been challenging.

To overcome this barrier, in late 2007 the business appointed a Head of Sustainability and Responsible Investment and a supporting team who will coordinate the effort globally to drive continuous improvement. We believe our clients, and Australian superannuation funds in general, who are signatories to the PRI may also face similar issues and barriers to the implementation of Principle 1, and we look forward to collaborating and sharing our experiences with them.

“ During 2007, we implemented a formal Responsible Investment governance structure, strategy and policy statement, including the establishment of an executive-led Responsible Investment Steering Committee. ”

7,494

6,373

476

801

1,121

1,121

1,121

1,121

Principle 2

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

To be active owners in 2007, Colonial First State Global Asset Management continues its focus on proxy voting and continued direct company engagement (conducted privately) for our listed investments. For our unlisted investments, we continue to be active via the board representation we have for those investments or through the equivalent joint venture committees, or via company engagement for our small shareholdings.

During 2007, Colonial First State Global Asset Management did not engage in filing or co-filing any shareholder resolutions, nor conducted collaborative engagement with other managers. Similarly, the business did not undertake any direct public engagement. Co-filing of resolutions is not as much of a feature of the Australian market as it is in international markets.

As regards collaborative engagement, to date Colonial First State Global Asset Management has preferred to undertake private and confidential company engagement. Given our size and weight of ownership in the Australian market in particular, we believe we are making good progress with companies.

Proxy voting

Colonial First State Global Asset Management has had a publicly disclosed proxy voting policy since 2002, available at cfsgam.com.au/CorporateGovernance. The business ensures that all proxy voting is conducted in accordance with this policy. For the international offices in the UK and Asia, a detailed investment management handbook covers all investment management policies, procedures and practices, including a proxy voting policy and guidelines.

Proxy voting is conducted by Colonial First State Global Asset Management on behalf of our clients, and votes will be cast in accordance with our policy unless otherwise advised by our clients. In these situations, proxy voting can be executed in accordance with client-specific or mandated policies.

Currently, the Colonial First State Global Asset Management proxy voting policy directs action on governance issues to a large extent, and the business has since expanded this policy to incorporate direction for environmental and social aspects during 2008.

Comprehensive reports detailing our proxy voting history during 2007 can be found on our website at cfsgam.com.au/CorporateGovernance.

Aggregate voting history	January – June 2007	July – December 2007	Total 2007
# company meetings	93	268	361
# resolutions voted	457	1,455	1,912
% resolutions supported	96%	87%	91.5%*
% resolutions opposed	2%	7%	4.5%*
% resolutions abstained	2%	6%	4%*
% resolutions no action	0%	0%	0%*

* Annualised average % of resolutions.

Engagement

Investment teams from Colonial First State Global Asset Management engage portfolio companies directly. Responsible Investment issues that were addressed in our shareholder engagement initiatives include benefits and compensation, bribery and corruption, climate change, environment, governance, health and safety, human rights and labour issues. It should be noted that engagement is conducted across the company on an individual portfolio level, so not all themes or issues are applicable to all asset classes or investment teams within the business.

Responsible investment issue-related engagement targets and topics are identified by sector exposure, risk profile and reactive methods. We have not yet attempted to quantify the level of our engagement in the listed equity areas, predominantly due to technology and operational limitations. The business has not yet reached a final decision on the definition and capture of engagement activities across different asset classes and investment teams. Most investment managers have communicated that they have increased the level of engagement with companies regarding ESG issues significantly since the business became a signatory to the PRI, and each investment team has provided examples of engagement in their quarterly PRI implementation report.

There have been examples of what we believe has been effective engagement. This has been demonstrated through portfolio companies' governance practices changing and written commitment by these companies to improve particular ESG issues.

Significant achievements during 2007

During 2007, Colonial First State Global Asset Management's most significant achievement in the listed investments has been the expansion of our corporate governance policy to now cover environmental and social issues and engagement (albeit still in final draft form at 31 December 2007). This policy is now available on the Colonial First State Global Asset Management website at cfsgam.com.au/UNPRI. In developing this policy,

broad sectors of the business have been engaged to define engagement and what is a reasonable expectation for investment managers regardless of asset class.

In our direct infrastructure investments area, we have also been active in overseeing our governance. We are active managers and take board seats for many of the assets we own. We aim to use our governance oversight to ensure the management of ESG issues for the assets and appropriate board and public reporting.

Likewise, in our direct property investments we take a longer-term view, allowing us to systematically consider many of the environmental and social issues for the assets. Our continual improvements in this area and the ongoing inclusion of our Australian Real Estate Investment Trusts (A-REIT) in the Dow Jones Sustainability World Index (DJSI) and the FTSE4Good Index also are significant achievements.

Barriers to implementation of Principle 2

As with Principle 1, the size and scope of our business was one of the largest barriers to the implementation of Principle 2 during 2007. The structure of Colonial First State Global Asset Management is best described as a 'house of boutiques' and therefore, individual asset classes and investment teams are autonomous and do not necessarily share common investment processes or house views. As a result, the largest barrier faced in the implementation of Principle 2 has been the volume of work required to implement ESG issues into our ownership policies and procedures globally. To address this, our main focus during 2007 has been the construction of, and enhancement to, our governance framework.

As discussed briefly above, capturing and measuring the levels of engagement, while not a barrier, is an issue of ongoing debate in relation to our implementation of Principle 2. Given the independent nature of our investment teams and the sheer scale, capturing this information in a comparable form across the investments is challenging.

Principle 2 (continued)

CASE STUDY: Engagement examples

Activity One – Norilsk Nickel

Norilsk Nickel mines base and precious metals in Russia. The company is the world's largest producer of nickel and palladium and also mines platinum and copper. As part of regular due diligence on prospective investments, a site visit was made to company operations in Russia.

During the visit, our portfolio manager witnessed first hand the high level of pollution emitted by the operation and the resulting impact on the nearby township. Given this high level of pollution, mine workers were experiencing a lower than normal life expectancy. As a result, our portfolio manager decided not to invest in the company, given its environmental and social issues and the risk this presented with the stock. Potential impacts on the company's licence to operate as a result of the poor environmental and social performance and the potential future liability associated with its actions meant we could not see the long-term upside in the stock. We also believe it demonstrates poor management quality. It is interesting to note that these environmental issues were present despite Norilsk Nickel having a social policy, a social mission and principles in the area of sustainable development and corporate social responsibility. It is always important to view company operations and directly engage with companies to ensure that the highest standards of social, environmental and governance matters are being met.

In this example, we have not owned the stock, and the site visit was undertaken several years ago. However, during 2007 we continued to raise our concerns with senior management and outline that they are a key reason for us not holding the stock. We believe this encourages the company to improve its environmental and social performance. The company has improved over time, but is still below world's best practice on environmental and corporate governance issues.

Activity Two – Oakton

Oakton provides professional IT consulting services in Australia. As part of regular research into the company, the analyst noticed a deteriorating trend in staff turnover ratios, sick days and retention rates. As part of our commitment to ensuring that our investments adhere to good social policies and operate in the best interests of employees, this trend was raised with company management. After investigation and questioning, it was found that Oakton lacked quality human resource policies and a dedicated human resources team, resulting in high staff turnover.

After this was raised with the company, Oakton introduced a new human resources team, improved work-life balances and improved communication with employees. This resulted in a dramatic turnaround in staff morale and reduced the staff turnover.

Activity Three – Ramsay Health Care

A key area of corporate governance is the composition of the board of directors. In the second half of 2007 we voted against a proxy resolution for a nominee for the Board of Ramsay Health Care.

Our concern was the high number of board members that were affiliated with the majority shareholder of Ramsay Health Care. Independent directors did not represent a majority on the board and there had been a lack of renewal amongst board members in the last decade. Our Corporate Governance Policy states that membership of the audit committee and nomination committee should be held by independent directors. In the case of Ramsay Health Care, this was not the case, given the number of affiliated board members. We classified them as non-independent. It was because of the relatively poor board composition that we voted against the election of this nominee, as we did not perceive the necessary level of independence that is our preference being achieved.

With all our 'against' votes cast, we attempted to raise contentious issues with company management and their boards. We feel this is one of the best ways we can communicate the high standards of corporate governance we desire. If Colonial First State Global Asset Management has an issue with a company's corporate governance principles, we will raise the issue directly with the company and not just rely on the use of proxy votes to get our message across.



“There is a need to obtain consistent and comparable data to enable us to best consider the risks and opportunities of investment.”

Principle 3

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

During 2007, Colonial First State Global Asset Management has asked that investee companies and other investment entities produce standardised reporting on their ESG issue policies, practices or performance. This reporting has been requested in various formats – whether integrated with regular financial reports or as part of the Carbon Disclosure Project (CDP). We have sought information on the adoption of the Equator Principles, the Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises, and the Universal Declaration of Human Rights.

Throughout the year, Colonial First State Global Asset Management also encouraged companies in which we invest to adopt the Global Reporting Initiative (GRI) – G3 Reporting Framework. The G3 Reporting Framework is an example of best practice disclosure, providing companies with principles and indicators to measure and report their economic, environmental and social performance. For our unlisted assets business, reporting has been supported by their boards.

The business expects to increase its efforts in this area in 2008. Colonial First State Global Asset Management recognises the need to obtain consistent and comparable data from companies to enable us to best consider the risks and opportunities of investment. For our unlisted investments, we also recognise the need for transparency to protect the licence to operate for those entities.

Significant achievements in 2007

In 2007, Colonial First State Global Asset Management had a number of significant achievements in relation to Principle 3.

- As a board member of Anglian Water Group Limited (AWG), a direct infrastructure asset, we actively supported the adoption by, and participation of AWG in, sustainability practices during the year. This included those ESG practices mandated by the UK industry regulator. AWG also proactively contributed to the development of sustainability policy within the UK and the broader European Union. AWG's ESG performance information is available at anglianwater.co.uk
- Brisbane Airport, another direct infrastructure asset, is an example of the way in which the Group proactively reported environmental impacts of our investments. Details of its programs can be found at brisbaneairport.com.au
- Commonwealth Property Office Fund, one of our A-REITs, published its first stand-alone sustainability report: colonialfirststate.com.au/cpof
- Both of our A-REITs – Commonwealth Property Office Fund and CFS Retail Property Trust – responded to the CDP, and retained membership of the Dow Jones Sustainability World Index and the FTSE4Good Index
- We experienced an increase in the level of engagement across all our listed investment teams with listed companies regarding their sustainability reporting and expanded the CDP to cover S&P/ASX 200 companies (from S&P/ASX 100 last year), and
- The level of engagement with investee companies on the part of our emerging markets investment teams was very high.

Principle 3 (continued)

Barriers to implementation of Principle 3

One of the largest challenges faced by Colonial First State Global Asset Management in implementing Principle 3 is the independence of each of our investment teams. While this is an integral part of how we function as an asset management business, the lack of a 'house view' means that disclosure requirements for each area of our business differ. Compounding this is that different global markets and sectors are in different phases of the ESG cycle in terms of understanding, adoption and maturity. As a result, the disclosure we require for reporting purposes also varies. Strategies for managing ESG issues across all these disclosure requirements are included in our expanded corporate governance policy, and company engagement will be a focus in 2008. With the appointment of a Head of Sustainability and Responsible Investment, we believe we will be able to better manage opportunities for collaboration across our investment teams.

Principle 4

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

Colonial First State Global Asset Management considers RI/ESG requirements when searching for and selecting external investment managers, proxy voting specialists, investment research and internal operations, such as travel, purchasing and office space. Service providers (where relevant) are encouraged to become PRI signatories. We have encouraged clients and peer organisations, such as other Australian institutional asset managers, to become signatories.

At present, no service provider relationships, such as broker arrangements, have been reviewed in light of RI/ESG principles.

During 2007, the business has actively engaged in dialogue, lobbying and initiatives pertaining to government policy and industry regulations as they relate to RI/ESG issues. This has been primarily through the Investor Group on Climate Change (IGCC) and the Investment and Financial Services Association (IFSA).

Significant achievements in 2007

Colonial First State Global Asset Management is very proud of a number of initiatives undertaken in relation to the implementation of Principle 4, including the Group's:

- active participation in the IGCC
- work with the IFSA Board to encourage other members to become signatories to the PRI and for IFSA to take a greater role in the funds management industry in relation to ESG issues

- active engagement with the broker community to encourage greater delivery of ESG research
- industry engagement to raise the profile of ESG issues
- proactivity in providing our approach to ESG issues in tender documentation, and
- work with clients to raise their awareness of ESG issues through 'non-traditional' forums such as our sponsoring of the UN High Commission on Refugees.

Colonial First State Global Asset Management believes that by encouraging the asset management industry to think more broadly about our impacts and longer-term societal issues we can increase the capacity to think more broadly about ESG issues.

Barriers to implementation of Principle 4

Most of the peer organisations of Colonial First State Global Asset Management in the Australian institutional funds management industry, along with many of our clients within Australia, have now become signatories to the PRI. The challenge for 2008 and beyond for our business centres on the successful implementation of the PRI, and on working with our clients to understand exactly what their expectations are and what is deliverable by us to assist in achieving those expectations.

Principle 5

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

In 2007, Colonial First State Global Asset Management participated in a number of Responsible Investment and ESG-themed collaborative engagement initiatives and associations. These included:

- Carbon Disclosure Project
- Investor Group on Climate Change, Australia/ New Zealand
- Investment and Financial Services Association
- Property Council of Australia, and
- Green Building Council of Australia.

Highlights of the collaborative engagement conducted by Colonial First State Global Asset Management are detailed below.

Investor Group on Climate Change (IGCC)

Through the IGCC, the business was able to encourage brokers to collaborate with Monash Sustainability Enterprises to produce detailed sector-based reports on the impacts emission trading would have on different sectors of the Australian economy.

Colonial First State Global Asset Management was also able to collaboratively engage with the Australian regulators in relation to the nature and form of emission trading schemes and greenhouse reporting frameworks for Australian companies.

More information about the Investor Group on Climate Change is available at igcc.org.au

Carbon Disclosure Project (CDP)

In 2007, Colonial First State Global Asset Management was involved indirectly in the Australian CDP through the IGCC. As a result of the IGCC's involvement, the CDP was extended to cover the top 200 companies on the Australian Securities Exchange (S&P/ASX 200). Previously, the CDP had been limited to the top 100 listed companies (S&P/ASX 100) only.

More information about the Carbon Disclosure Project is available at cdproject.net.

Investment and Financial Services Association (IFSA)

During 2007, the Acting Chief Executive Officer of Colonial First State Global Asset Management presented to the Investment and Financial Services Association (IFSA) Investment Board Committee on the Principles of Responsible Investment, and encouraged all members to become signatories.

Through the business' engagement with IFSA, the Group continued to campaign in 2007 to implement electronic proxy voting in Australia, to ensure a more transparent and accurate voting system.

Significant achievements in 2007

We believe that by reviewing our internal processes for our investment teams, we are better able to engage the investment sector more broadly in the longer term. The high levels of engagement from our investment teams since our becoming a signatory to the PRI provides us with a solid foundation for further industry engagement and collaboration.

Barriers to implementation of Principle 5

As a large and global asset management business, Colonial First State Global Asset Management's focus in relation to Principle 5 has been to concentrate initially on internal collaboration, before extending to the wider investment management industry.

Principle 6

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

Colonial First State Global Asset Management has issued a public statement to clients and the public on how Responsible Investment and ESG issues are integrated into our investment processes. This Responsible Investment Policy Statement is available on the Colonial First State Global Asset Management website at cfsgam.com.au/UNPRI

Similarly, our commitment to Responsible Investment has been distributed to our investors, clients and consultants in the form of regular communication updates.

Proxy voting

Colonial First State Global Asset Management discloses a summary of its proxy voting, including votes cast by the business on behalf of our investors. Bi-annual corporate governance updates, including an aggregate voting history and a six-monthly summary are available on the company website at cfsgam.com.au/CorporateGovernance

Additional reporting activities

Colonial First State Global Asset Management has undertaken additional efforts to raise awareness of the ESG issues among our stakeholders. This has included seeking to determine what impact our Responsible Investment issue-related efforts, requests and guidance have had on the consideration of ESG issues by external service providers such as research providers and consultant firms.

Significant achievements in 2007

Our most significant achievements in relation to Principle 6 during 2007 were the increased communication to, and disclosure for, stakeholders of Colonial First State Global Asset Management in relation to Responsible Investment, and the implementation of ESG issues into all investment portfolios. Examples of this increased communication include marketing communications, such as flyers and information on the company website, the issue of policy statements and public statements on Responsible Investment, available at cfsgam.com.au/uploadedFiles/CFSGAM/About_Us.

Barriers to implementation

The most pronounced barrier to implementation of Principle 6 was the fact that our clients are still determining what they want to achieve from the PRI. During the latter part of 2007, and in 2008, we have received an increased level of requests from clients for information on how we are implementing the PRI, and this is helping us shape our response to Principle 6.



“ We believe Responsible Investment is about investing in good quality management teams with the ability to successfully manage ESG risks and opportunities. ”

Focus on Global Emerging Markets

In the 2007 PRI survey, there was a specific section on the approach to investing in global emerging markets. In many ways, the Colonial First State Global Asset Management Global Emerging Markets business is one of the most sophisticated in its approach to integrating ESG into the investment process. It should be noted that other listed investment teams may also invest in emerging markets and may take a slightly different approach to what has been detailed below.

In our dedicated Global Emerging Markets business, Colonial First State Global Asset Management has fully integrated the consideration of ESG issues within the investment decision-making and ownership practices.

We believe RI is about investing in good quality management teams with the ability to successfully manage ESG risks and opportunities. At the heart of our approach is the concept of stewardship. We believe our role is to allocate our clients' capital to good quality companies with sound growth prospects, ensuring we pay sensible prices. We focus on management integrity and corporate governance, attitude to ESG risks and the ability to execute long-term strategies. As long-term investors, we aim to make investment decisions with at least a three to five-year time horizon. As a result, sustainability issues become investment issues. We define risk as losing money for our clients, rather than in terms of deviation from any benchmark index. We focus as much on the potential downside of our investment decisions as on the anticipated upside.

In 2007, our active ownership strategy for emerging markets involved the continuation of our comprehensive RI/ESG engagement capability through utilising the following tactics:

- proxy voting
- direct engagement conducted privately, and
- collaborative engagement.

From our shareholder engagement initiatives, the three most addressed RI/ESG-related issues were:

1. environmental and social impact of mining practices
2. human rights issues in China, Burma and Sudan, and
3. land clearance issues.

We believe that ESG factors are increasingly being considered in the emerging markets investment universe. Our emerging markets engagement program has produced substantial evidence that we have played a role in the improved integration of ESG issues by external parties investing in emerging markets. In 2007, we sought information from companies regarding their adoption of and adherence to norms, standards, codes of conduct or international initiatives related to RI/ESG issues in emerging markets.

Similarly, throughout the year we have noticed consultants beginning to factor ESG issues into their short-listing process of emerging markets managers and have worked together with other investors to improve the effectiveness of implementing the PRI in emerging markets. Because of these factors, combined with our efforts to raise awareness of RI/ESG issues in emerging markets, we believe the industry is becoming increasingly aware of the importance of Responsible Investment practices in this asset class.

During 2007, we have encouraged two emerging markets companies, against their initial judgement, to take part in GRI sector groups. However, we have decided not to sign a recent group letter to emerging markets companies requesting GRI reporting, as we do not feel GRI is appropriate for every emerging markets company. A greater focus on the timeframe of portfolio investment into emerging markets would help.

Focus on Global Emerging Markets (continued)

Engagement activities

1,634 companies met

During the year we engaged senior management on a wide range of ESG issues. The majority of our engagement work is during face-to-face meetings. Indeed, since the assessment of ESG issues is a key part of our investment process, a significant proportion of most meetings is spent discussing ESG issues. We conducted 1,634 one-on-one meetings with companies across the region in 2007. This compares with 1,614 companies met during 2006. We always prefer face-to-face engagement where possible, as it becomes much easier to have an open dialogue about the issues in hand and how they relate to long-term shareholder value. For us, engagement is about encouraging change rather than simply making our point. Our strategy is to be constructive rather than confrontational, and to ensure we do not back managements into a corner from which they are unlikely ever to emerge.

Written word sometimes required

Writing to the management of companies is used occasionally – either we would like to raise an issue ahead of our next meeting, or we feel the need to underscore the importance of the issue to us as shareholders by putting fingers to keyboard and formalising the engagement process. Following are two case study examples, containing emails and letters written during 2007.¹

Voting

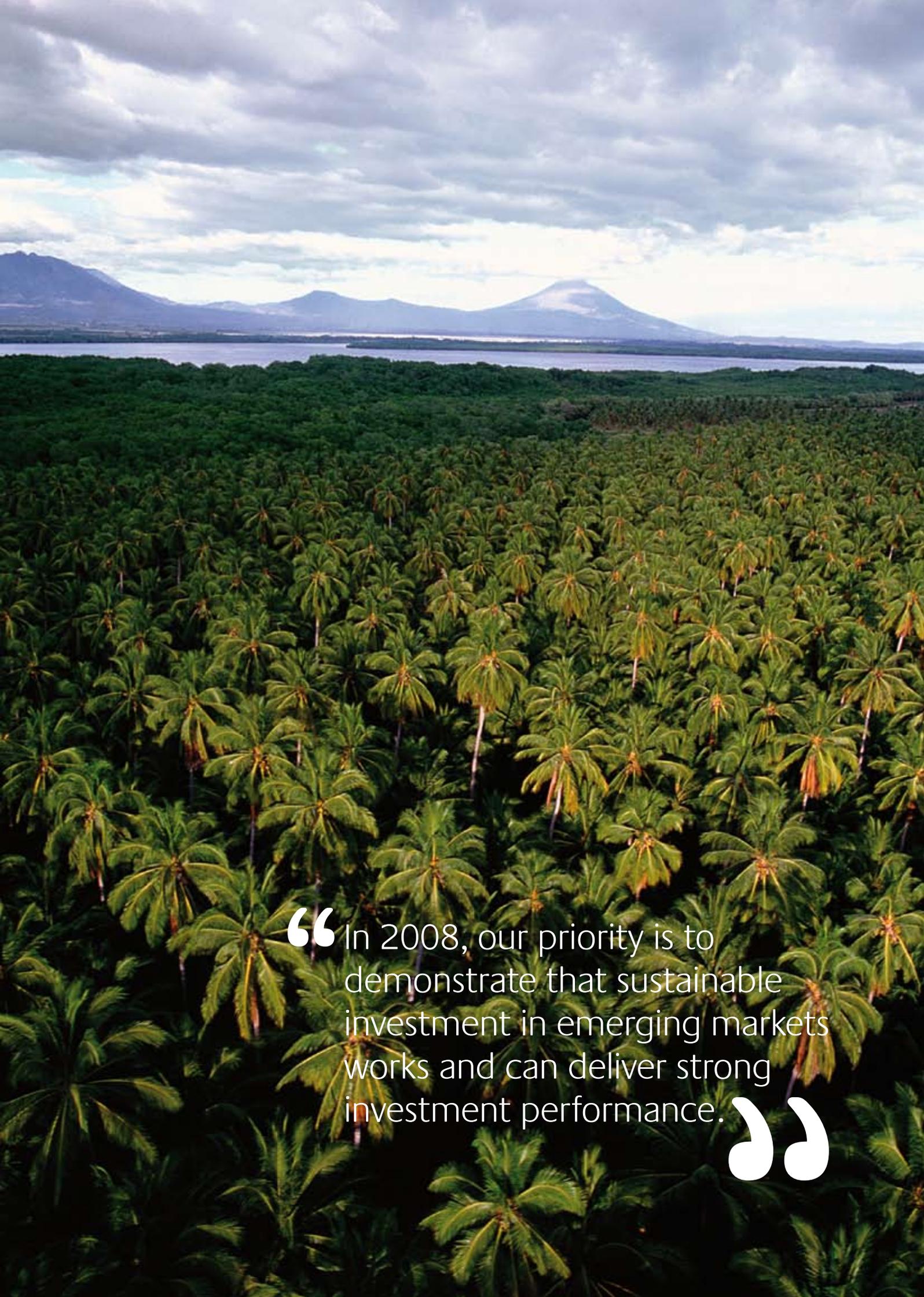
While we do not table our own shareholder resolutions, we do take our voting responsibilities seriously. During 2007 we undertook 88 proxy votes for companies held within the Global Emerging Markets Fund. Out of these 88, we voted 23 times against specific resolutions, either due to corporate governance concerns or where management had failed to provide sufficient rationale. Our most common complaint was against poorly designed incentivisation programs.

Looking forward

We believe the short-term mindset of clients, investment managers, consultants, investment banks and companies is a major barrier to better corporate practice. We would question whether the PRI could focus on the measurement of investment managers, with emerging markets fund managers incentivised on a minimum rolling three-year time period, instead of on an annual basis. We believe that short-term incentive schemes can be a major barrier to the objectives of the PRI.

In 2008, our top priority is to demonstrate that sustainable investment in emerging markets works; that is, that it can deliver strong investment performance. We believe concern over performance is the biggest barrier preventing greater ESG integration in the emerging markets sphere.

¹ In keeping with the spirit of our engagement, we have removed reference to names and have not published the full responses received. Although some replies are no more than a cursory acknowledgement of our concerns, more often than not we receive very frank and full responses. Please note that only one of the company examples is held within our dedicated Sustainability Fund.



“ In 2008, our priority is to demonstrate that sustainable investment in emerging markets works and can deliver strong investment performance. ”

Focus on Global Emerging Markets (continued)

Engagement case studies

Case study 1 – An Asian palm oil company

From: Colonial First State Global Asset Management

Sent: Thursday, 1 November 2007

Hi XXX

Many thanks for setting up the meeting with XXX and XXX this week. Sounds like they have identified a very interesting asset in XXX! We did have a few concerns, though which, we thought we should share with you as a future director.

- We have some reservations about the incentive scheme for XXX and XXX. The triggers are easy ones – surely anyone can start a nursery or plant bushes etc. Their money will be made well before the fresh fruit bunches start appearing and we can tell whether the yields will be competitive. Also the number of options being granted bore minimal relationship to relative size of two plantations. The reason given was that the package was designed by their nomad broker! Also, they are given at £0 I think?
- Why no industry-based palm oil expertise on the Board? It's a shame that two of the directors seem to be there purely for regulatory reasons – XXX has 48 CURRENT directorships, XXX has 50!
- Key operational team member was identified as 'XXX' – former senior controller of the XXX Group – who as we know have struggled on the environmental, social and governance front in the past and present! Also, XXX is primarily a logging company not a palm oil company?
- We were a bit worried about the native claims on the land. According to XXX there are 70 'squatters' currently present on the land, but 'they have no rights to be there'. The prospectus is more vague – according to one part 'numerous village settlements are noted on the subject land' although elsewhere it states the concession will be free from settlements – why the discrepancy, does that imply clearances? We would be interested to know how you plan to deal with the 'squatters' – I imagine just because they haven't taken legal action in the past, it doesn't mean they don't have a right to be there?
- We were also a bit concerned about how hilly the land is ...again information is a bit vague – for example, according to the prospectus, while 35% of the Sabah land is 'undulating', a further 50% of the land is 'slightly hilly terrain' while the remaining 15% is very steep (25% gradient or above). We're not sure what 'slightly hilly' means in terms of environmental risks and impact on yields. It would be interesting to know out of that 50%, what percentage is over say 15% gradient. Some of the photos in the prospectus look quite steep. Likewise for the Sarawak plot (another 4,000 hectares), the 'slightly hilly' percentage is 60% and only 10% is deemed to be too steep. However, the independent report in the prospectus states: 'It is estimated that about 70% of the land is plantable.' Why the difference?
- From the photos it looks as though not all the land has yet been logged – some of the trees will be new growth, but it looks as though there are some old growth trees too. Management claim it is fully logged?
- We would be interested to know what XXX thinks of the environmental and social aspects of this project, and how they compare to others in the sector?
- Any chance Management will give a commitment to share the full environmental impact assessment with the market, please?

Hope these comments make sense – am sure there are good answers for them all!

Best wishes

Company reply:

Reply received 6 December 2007, thanking us for the email and informing us that the deal has been postponed until early in 2008, which allows time for them to 'fine tune the structure' as per some of our suggestions.

Case study 2 – An Asian forestry company

From: Colonial First State Global Asset Management

Sent: Friday, 28 September 2007

Dear Mr XXX and Mr XXX

A quick email to say thank you very much for coming to visit us in Edinburgh this week. Scott and I really appreciated the chance to meet you both and get a better understanding of XXX's vision and long-term strategy. We are also keen to follow up on some of the sustainability issues we discussed in the meeting:

- **Certification:** As you can imagine, sitting in Edinburgh as non-specialists, it is extremely difficult for us to tell the difference between those logging companies who have adopted sustainability best practices and those who simply talk about them, while continuing unsustainable practices on the ground. One of the few ways for us to make this crucial distinction is through certification schemes. While we understand that there is no such thing as the perfect certification scheme, it would provide us with much greater comfort if XXX was able to demonstrate a higher level of compliance, either with XXX or international certification schemes. Given that the company is already doing so much good work in this area, the small additional costs of greater certification would surely be outweighed by the benefits of being able to demonstrate global leadership in this area to a wide range of investors, customers and suppliers.
- **China and India:** We accept that commercial interest in certification schemes remains limited at present. However, we do believe that the current shift in mindset in both China and India towards a more harmonious and sustainable model of economic development will lead to a much greater focus on certification and the sustainability practices of logging companies amongst buyers from these countries in coming years.
- **Workforce:** Another of the measures we try and use to assess commitment to sustainable forestry relates to workforce practices. For example, if loggers are incentivised only on volume extracted are they are less likely to reduce logging activities during rainy seasons when sustainability problems are most acute, particularly where such decisions are taken by local work teams? Also, how do accident rates and fatality rates for logging compare to industry averages etc? It would be great to see more information on such issues on the website or in the annual report.
- **Greater openness:** We also understand that sustainability is a journey and that it is unrealistic to expect any company to achieve all its sustainability goals in the very short term. However, there is still an opportunity for XXX to communicate its sustainability strategy more openly. For example, it would be interesting to read on your website why less than 5% of your XXX natural forest is certified under XXX – what are the biggest obstacles to overcome, do you have a target date for 25%, 50%, 100% certification? Why do you feel Forestry Stewardship Council (FSC) is an inappropriate certification for your XXX forestry operations compared to your XXX operations etc?

We hope that these comments make sense and look forward to discussing these issues further with you in future meetings. Meanwhile, we wish you all the best with your current plans.

Best wishes

Company reply:

Reply received on 19 October 2007 thanking us for our interest and discussing the difficulties of forestry certification.

“Our approach to Responsible Investment has always been driven by a commitment to providing the best possible outcome for our investors.”

Looking forward

During 2008, Colonial First State Global Asset Management is committed to focusing its Responsible Investment efforts on those Principles which are specifically investment-related.

We are recognised as a leader among our peers in regard to ESG thinking and action and have been aware of ESG issues for some time. We continue to focus on all critical themes for our business including health and safety, employees and the benefits that we can bring to communities.

Our approach to corporate responsibility has always been driven by an ethos of doing and our commitment to providing the best possible outcome for our investors. We are committed to continuing to integrate the PRI into all aspects of our business and are focused on incremental improvements in each stakeholder area.

Priorities for the business during 2008 will include:

- the encouragement of our investment teams to further incorporate the PRI into their investment philosophies

- sourcing the necessary data to 'price' ESG issues
- proactively engaging clients and the industry at large, to better understand their expectations and aspirations in relation to Responsible Investment, and
- enhancing an internal staff education series to continually build the capacity of investment managers across our business in the consideration of ESG factors.

We believe that by focusing on making continuous improvements, we will enhance our Responsible Investment practices and ultimately achieve our long-term goal of being among the leading Responsible Investment asset managers globally.

We are looking to the future to determine the issues that will impact upon the business in the future and establishing a series of corporate responsibility objectives to address these issues.

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

Colonial First State Global Asset Management: Policies

cfsgam.com.au/Policies

Colonial First State Global Asset Management: Research

cfsgam.com.au/Research

Colonial First State Global Asset Management: Responsible Investment

cfsgam.com.au/UNPRI

Investor Group on Climate Change

igcc.org.au



“ We are focused on making continuous improvements to our Responsible Investment practices and believe this will lead to enhanced risk/return outcomes for our clients. ”

Further information

For further information about Colonial First State Global Asset Management's commitment to the PRI and activities in 2007, please visit cfsgam.com.au/UNPRI or contact

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