

2017 Responsible Investment and Stewardship Report

RESPONSIBLE INVESTMENT RETHINKING PERFORMANCE



75%

of funds
outperformed their
benchmark over
five years*

US\$159 billion
Funds Under
Stewardship

Welcome to the First State Investments 2017 Responsible Investment (RI) and Stewardship Report

This year's report marks a major milestone for our business. 10 years ago, First State Investments, known as Colonial First State Global Asset Management in Australia, became a signatory to the UN Principles for Responsible Investment (PRI) and produced our first RI Report.

As our business has evolved over the past decade, so too has our approach to RI. I am particularly pleased that a clear set of stewardship principles and a thorough RI governance model have been developed and are embedded across our business globally.

Leading ESG research providers have been appointed and we have developed a number of tools to support our investment teams, enabling them to analyse the potential financial impact of ESG-related issues to a much greater degree than was previously possible.

I firmly believe that this company-wide commitment to RI and stewardship has had a positive influence on our investment performance. Across all asset classes globally, 75% of our funds have outperformed their respective benchmarks (86% on an asset-weighted basis) over the five years as at 30 April 2017, gross of fees.

I am confident that our investment professionals' increasing understanding of how ESG issues comprise sources of risk and return has been a factor in delivering such outcomes for our clients. While this progress is encouraging it must be seen in context; the latest Edelman trust survey shows that trust in business, governments and the media is at record lows. These broader trends are reflected in the World Economic Forum's global risk report, which continues to focus on significant environmental and social risks. So in spite of the progress we have seen, there is no room for complacency with many areas of further research, understanding and engagement to be undertaken.

It is for this reason that as our reporting has evolved over time, we have increasingly sought to rethink and for ourselves redefine investment performance from the narrow backward-looking performance numbers that we most commonly see, to a more holistic and forward looking view of our firm's quality.

This summary report covers a number of these areas, however I encourage you to visit our online report, which provides a higher degree of interactivity and depth. In addition to deeper coverage of the issues in this summary report, the online report includes profiles of each of our investment teams, information on our approach to human rights and climate change, an interactive case study map and 'live' proxy voting disclosure, as well as detail on how our approach to responsible investing has developed over the last 10 years.

I hope that you will enjoy reading the report and that it provides a useful insight into the progress we have made towards meeting our long-term goals. Please contact us if you require additional information about our approach to stewardship as well as our philosophy and strategy more broadly. We are always delighted to hear from you.

Thank you for your ongoing support.

Mark Lazberger
Chief Executive Officer
First State Investments

RESPONSIBLE INVESTMENT RETHINKING PERFORMANCE

How we view investment performance must change. Our focus has been to broaden the discussion of performance so that it becomes long-term, socially connected, active and sustainable.

Measuring investment performance has long been dominated by one number – percentage returns, mostly versus a benchmark. Within this implied zero-sum game, investors can only control what share of the pie they received, not its size or the broader economic, environmental and social outcomes achieved.

The way investment performance is measured needs to evolve if it is to reflect the fact that the allocation of capital and use of ownership rights have both real world and real investment impacts.

For long-term investors, understanding how effectively capital is being deployed for productive and sustainable purposes, and the ability to influence better outcomes through engagement and advocacy are critical for achieving a holistic view of investment performance.

Stewardship and RI have become the key terms used to describe this shift in thinking, however they have not yet entered the investment performance discussion beyond whether their impact on returns can be discretely measured. That debate assumes that all of the benefits of these approaches can fit within the existing norms and frameworks for performance measurement.

To address this, new forward and outward looking measures are needed as indicators of the quality of investment practices, part of which will be determined by their alignment with broader societal objectives and environmental sustainability.

Over the last 10 years we have recognised the challenges of rethinking performance measurement and have been evolving our reporting accordingly. In addition to long-term returns, we report on long-term holding retention, turnover, proxy voting, inherent levels of ESG risks and the processes underlying the way they are managed.

Our integrated approach to reporting uses quantitative measures, narrative and case studies to provide a more complete picture of our investment beliefs, approach, process and performance. While we still have much we can improve on, our focus has been to broaden the discussion of performance so that it becomes long-term, socially connected, active and sustainable.

If institutional investors are to accept and be recognised for playing their role in society and for allocating capital in the way beneficiaries expect, such multidimensional ways of assessing performance will emerge and become more widespread. Achieving this goal will help underpin long-term returns for both the investors and society through an increasing focus on delivering a fairer and more sustainable economy.

Rethinking performance:

Our listed infrastructure, property and resources teams invest in companies that are 27%, 47% and 70% respectively more carbon efficient than the average company in those sectors.

Rethinking performance:

In 2016 our active equity teams voted against both our proxy advisors and company management recommendations 96 times.

RESPONSIBLE INVESTMENT STRATEGIC APPROACH

Our success relies on fully
integrating RI across every
aspect of our business.



WANT MORE information on each investment
team's approach to RI? Find out how we invest at:
ri.firststateinvestments.com/2017/teamprofiles

Q | [first state RI](#)

We have been rated by the UK's Financial Reporting Council as being in the top tier of asset managers for the quality of our stewardship disclosures.

We are a global asset management business offering a broad range of investment strategies. We employ 17 investment teams that are specialists in their respective fields and who set their own investment philosophies and processes. Our commitment to RI and stewardship is a common thread which runs through these diverse investment teams, guides the broader management of our business and is integral to our culture.

Our approach to RI is based upon three strategic pillars; Investment Quality, Stewardship and Employee Engagement. The strategy is underpinned by a strong governance framework and is supported by our specialist RI team.

The RI team engages with the entire business to deliver the strategy, which is overseen by the Responsible Investment Steering Group. The steering group is chaired by the CEO and is comprised of executive committee members whose role is to monitor, direct and champion RI and stewardship practices across the organisation.

Each of our investment teams has a lead RI representative who coordinates information flows across and within their respective teams. The RI representatives also sit on the Environmental, Social and Corporate Governance (ESG) Committee, which reports on team progress, contributes to thought leadership and assesses new approaches for addressing current and emerging ESG-related risks and opportunities.

Functional working groups have been formed from across the business to support the strategy including our Human Resources and Employee Engagement Group, Business and Client Support Group and the Marketing and Communications Group.

In addition to dedicated forums, RI principles have also been integrated with other business governance functions including: ESG reporting to the Global Investment Committee, inclusion in Risk Management profiles and assurance through our internal audit function.



RESPONSIBLE INVESTMENT STEWARDSHIP

We recognise our significant responsibilities as stewards of our clients' assets. These include our role in maintaining the integrity and quality of the markets in which we operate, the allocation of investment capital to productive purposes, and the use of sound judgement and detailed analysis to make investment decisions which protect and enhance our clients' capital over the long-term.



INTERESTED IN case studies, company engagement and proxy voting information?

Each of our investment teams cover their stewardship approach and activities at:
ri.firststateinvestments.com/2017/teamprofiles

Q | [first state RI](#)

Principles of stewardship are the foundation of our investment business. In 2013, we launched our global stewardship principles, which comply with all current stewardship codes globally.

Our approach to RI and stewardship has always been client-focused and investment-led. We also benchmark our progress against various global standards and look to those standards to identify areas where we can improve our practices.

These standards also provide a basis for developing our disclosures and therefore allow us to be more transparent about our progress. In 2016, PwC conducted an assurance review of our Principles and provided an opinion that we are meeting the statements that we have publicly made.

UK Stewardship Code

The Financial Reporting Council (FRC), which is the UK regulator with responsibility for the UK's Stewardship Code, announced in 2016 that it would rank asset managers on the quality of their disclosures and activities. We achieved the highest tiering – Tier 1 – awarded by the FRC.

Rethinking performance:

Our active equity teams voted on 8,621 resolutions at company meetings in 2016 – to help view these our online report now provides 'live' and searchable disclosure of proxy votes.

In addition we asked PwC to assess our stewardship practices against our own Global Stewardship Principles and the UK Code. Following this evaluation, PwC provided an assurance statement that we were in full compliance with both the UK Code and our own Principles. The assurance statement is available to clients on request.

Investor Group on Climate Change (IGCC) – Disclosure Working Group

Last year we reported on our involvement with the Investor Group on Climate Change (IGCC's) Disclosure Working Group. Through the IGCC we established and chaired the group following concerns we had about the direction of climate change disclosure by investors, and in particular the dominance of carbon foot printing as the primary form of disclosure.

Following a period of consultation the guidance that the group developed was launched on 12 April, 2017. The guide supports the Michael Bloomberg led Task Force for Climate-Related Financial Disclosures (TCFD) recommendations by providing practical approaches for implementing the principles.

This year we have sought to align the disclosure in our online report with the IGCC guidance and TCFD recommendations.

Principle for RI – assessment and ratings

Each year, every PRI signatory reports to the PRI on their application of the Principles. We strive to achieve industry best practice and are therefore encouraged that our results have steadily improved from the pilot year. We use this benchmarking process to identify areas for improvement.



View our full assessment report at ri.firststateinvestments.com/2017/pri-assessment

Module	2014 (Pilot)	2015	2016	Median manager 2016
Overarching Approach	A	A	A+	B
Listed Equity Incorporation	A	A+	A+	A
Listed Equity Active Ownership	A	A	A	B
Fixed Income SSA	B	B	A+	C
Fixed Income Corporate	A	A+	A+	C
Fixed Income Corporate Financial	N/A	N/A	A+	C
Fixed Income Securitised	N/A	N/A	B	E
Infrastructure	A	A	A+	B

Source: PRI as at July 2016.

RESPONSIBLE INVESTMENT INVESTMENT QUALITY

We believe that embedding environmental, social and corporate governance factors into our investment processes enhances their quality and will deliver long-term benefits to our clients.

Rethinking performance:
Over 70 case studies are available
in the interactive case study
map in our online report.

Our diverse investment capabilities

Across our diverse investment teams we share a belief that ESG issues impact investment value and that as a leading global institutional investor we can achieve better long-term investment outcomes through active engagement and by exercising the equity ownership rights we hold on behalf of our clients.

Each investment team's approach to incorporating these factors into their investment process has evolved over time. We believe the diverse approaches of our individual investment teams are a key strength of our collective business as they allow us to share ideas, develop our knowledge and learn from each other's successes and mistakes. The governance of RI and the systems for cross-team information sharing and collaboration are critical and a significant strength in this regard.



How do our investment teams add value for clients?

Access the team profiles online
ri.firststateinvestments.com/2017/teamprofiles

- Investment philosophy
- People profile
- Approach to RI and climate risk
- Historical and forward-looking indicators of long-term performance

60% emissions reduction from our
Unlisted Infrastructure team converting
two HH Ferries to 100% battery power.

Improving the quality of our investment processes

During 2016 and in early 2017 we sought to support our investment teams' processes in three areas:

- Improving access to data and reporting on company ESG performance;
- Improving, understanding and developing guidance on complex ESG issues; and
- Supporting new and existing investment teams as they developed their approach to RI.

Access to data and reporting on company ESG performance

In early 2017 we began the rollout of our ESG Portfolio Monitor tool. The culmination of two years of work, the platform is an interactive reporting tool that allows people from across the organisation to better understand the environmental, social and corporate governance profiles of our listed equity investments.

The tool has initially been used to support the reporting requirements of our Global Investment Committee which began receiving ESG reports on each of the listed equity teams during 2016. The reports highlight where company ratings have changed, the reason for any low or falling company ratings and controversies associated with companies invested in. The tool is currently being rolled out to investment teams and eventually will be used to support client reporting.

During 2016 we also appointed MSCI to provide us with climate change related data including carbon emissions and fossil fuel exposures. This data has enhanced our disclosure in the online version of this report and supports team specific statements on their management of climate change risks and opportunities.



To find out more go to

ri.firststateinvestments.com/2017/our-progress-outlook

RESPONSIBLE INVESTMENT INVESTMENT QUALITY

Improving understanding and developing guidance on complex ESG issues

In late 2015 as part of a broader governance change, we established three issue-specific working groups under the ESG Committee. This followed the success of our stranded assets working group, the results of which we reported on in our 2015 RI Report.

The three working groups are focused on climate change, human rights and executive remuneration. The groups are comprised of investment professionals from the ESG Committee and are supported by the RI team. The purpose of the groups is to develop guidance for our investment professionals across the organisation regarding topical and complex issues. The results of the human rights group's work are summarised on page 20 of this report, and is discussed in detail in the online version of this report. The climate change and executive remuneration groups are expected to finish their work in the second half of 2017.

 [Visit our website for an in-depth update on the progress of our working groups](https://ri.firststateinvestments.com/2017/our-progress-outlook)

ri.firststateinvestments.com/2017/our-progress-outlook



VISIT OUR WEBSITE for investment team Q&A and information on our new frameworks:
ri.firststateinvestments.com/2017/our-progress-outlook

 [first state RI](#)

Supporting new and existing investment teams

During 2016 we welcomed our new High Yield Fixed Income team based in New York. The team joined as part of a strategic broadening of our fixed income capability over the last few years. This work has seen RI and stewardship practices extended to these new teams and integrated into the shared Investment Opinions Network (ION), a global platform for sharing investment insights.

In addition the credit analyst team implemented a stranded assets framework, following the completion of our stranded assets working group's guidance in 2015. The Fixed Income Credit Research team adapted this work when considering stranded asset risks for fixed income.



A Q&A with the head of the high yield team Matt Philo

ri.firststateinvestments.com/2017/high-yield-qa

Rethinking performance:
Our Fixed Income team has shown the link between internal ESG ratings, internal credit ratings and default experience.

 ri.firststateinvestments.com/2017/fixed-income-overview

Each investment team has developed their own approach to RI

SPECIALIST EQUITIES

Australian Equities, Core

We believe there is a correlation between companies with good governance practices and strong, sustainable shareholder returns. Consequently, we seek to positively influence companies towards ESG best practice for the ultimate benefit of our investors.

Australian Equities, Growth

ESG risks are primarily identified by our rigorous company engagement program. Analysts assess how companies are managing ESG issues and encourage stronger ESG performance and disclosure.

Australian Small Companies

By favouring companies with sustainable competitive advantages, strong financials, quality management and predictable earnings we can deliver superior returns and protect from downside risks. Sustainability is one of the six factors that we assess when evaluating a company's investment credentials.

Global Resources

ESG has been a core part of our investment philosophy and process for 20 years. Our extensive research, first-hand site visits and stock reviews – supplemented by third party ESG providers – are critical to assessing stock-specific ESG risks.

Indonesian Equities

We use ESG analysis to determine whether a stock valuation should be discounted as a result of a higher risk. It is our responsibility to make sure that companies we invest in understand what they can contribute to slow down global warming.

Global Listed Property Securities

We have developed a tailored ESG framework that is part of our stock review process. Despite sourcing third party research, in-house research remains the most important source of reference when integrating ESG considerations into the investment process.

First State Stewart Asia

We only invest where we perceive the management operates the business effectively and in the interests of all stakeholders. Companies that do not look after their customers, employees, suppliers and the larger community are unlikely, in our view, to be rewarding long-term investments.

Realindex

The incorporation of ESG into the Realindex investment process remains an important and ongoing area of research for our business, with our research and design focusing on developing a systematic, rules-based implementation that delivers on the value proposition for clients.

Global Listed Infrastructure

ESG issues are fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate. ESG criteria account for 20% of the overall quality score we assign when considering investment.

FIXED INCOME AND CREDIT

Australian Fixed Income

We assign a proprietary internal credit rating to every bond we review. The rating is a forward looking measure of default risk, including ESG risk. Our internal rating is often materially different than a rating agency's assessment of individual issuers.

Short Term Investments & Global Credit

In our experience, companies who manage ESG risks poorly typically manage other risks poorly. This has a flow on effect which filters through to most aspects of the company.

Asian Fixed Income

Analysts identify ESG risks during their bottom-up credit research. We analyse ESG risks through our own risk framework, which also takes into account stranding risk, arriving at a customised ESG ranking.

Global Unconstrained & US Fixed Income

ESG issues can have a significant bearing on risk. Poor corporate and regulatory governance are recognised contributors in most corporate failures. Dangerous environmental and social practices can lead to significant financial cost, reputation and brand damage.

Emerging Market Debt

ESG assessment is part of our Key Factor Model. For each country that we invest in, we monitor six variables: human development, corruption, business environment, institutional strength, government effectiveness and energy dependence.

High Yield

Key factors such as corporate governance, business practices, industry and contingent liabilities related to environmental issues are researched thoroughly and heavily influence investment decisions.

REAL ASSETS

Unlisted Infrastructure

We have the distinct advantage of being able to engage directly with our portfolio companies via board representation and/or workshops with management, giving us the opportunity to help drive cultural change and set ESG KPIs.

MULTI-ASSET

Multi Asset Solutions

We work with clients to integrate ESG considerations into their portfolios as required to meet their investment objectives. In addition to our standard exclusion of munitions and armaments companies, we can exclude specific 'red flag' companies or industries, such as those involved in tobacco, gambling and alcohol. We also vote on all company resolutions where we are able to do so.

RESPONSIBLE INVESTMENT ENGAGED PEOPLE

The engagement and knowledge of our people is vital to achieving our vision of being a world class global asset manager that delivers superior investment performance, acts at all times in our clients' best interests and is a global leader in RI and stewardship.

Rethinking performance:
Our voluntary turnover rate is 6.4%.

In 2016 a working group focused on RI and Employee Engagement was formalised. This group focuses on further integrating RI into the employee lifecycle to engage a wider spectrum of colleagues in our RI philosophy.

The working group has been involved in the development of particular activities, which link to the broader business strategy:



Our recruitment practices have been refreshed

These practices include updated guidelines for recruiting managers and interviewers which embed RI into our recruitment process including consistent references to RI in our advertisements, briefing packs to external recruitment agencies, and interview question templates.



All staff will complete a new RI eLearning module

The module will be rolled out to all employees and new starters to create a consistent base level understanding of RI.



Staff were surveyed about their investment beliefs

In addition to our annual People & Culture Survey, which now includes RI specific questions, all employees were invited to complete a survey to better understand their investment beliefs and convictions in relation to the value of integrating ESG and sustainability in our investment processes and activities. We will use the results to enhance RI education in our business. The results of the survey are discussed on page 16.

Rethinking performance:
Women represent 22% of our investment management roles with key client facing professionals being 51% women.

The First Foundation

Since 2012, our charitable foundation, The First Foundation has encouraged our people to give back to their local communities by promoting charitable time and giving in the areas of education, environment and social welfare. In 2016 we donated AUD500,000 to different charities in locations where we operate. This involved grants to support local charities where our staff are actively involved in volunteer positions as well as matching their financial contributions.

By being employee led, the First Foundation not only helps good causes but does so in a way that seeks to engage our people.

Case Study:

Dandelion Support Network

Dandelion is a charity run by volunteers who accept, sort and safety check nursery items, clothes, toys and linen for babies and kids. The donations are then passed on to families in need through referrals from social workers. Leanne Sayers from our Sydney office has been an advocate for Dandelion and has driven a number of fundraising initiatives including: volunteering days; Christmas Campaigns; Funding for the purchase of approximately 60 cots; and three years of fixed funding from First Foundation.

RESPONSIBLE INVESTMENT ENGAGED PEOPLE

Diversity

Our diversity strategy is aimed at the continued development of the firm as a well-rounded, high quality investment business. We value individuals with a diverse range of perspectives and believe that having an inclusive environment helps us to be a successful firm.

In 2016 we established our Diversity Committee, which comprises all members of the Operating Group, to review our progress against key diversity metrics and monitor our diversity-focused activities to ensure they are having the desired impact.

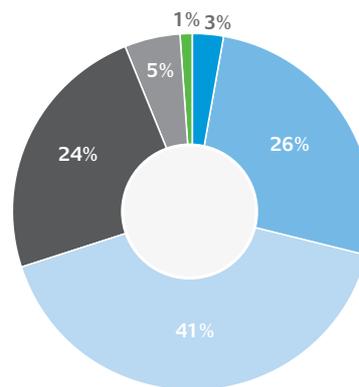
As part of this ongoing strategy, we are committed to the following activities:

- Improved disclosure of diversity metrics.
- Recruitment approach to maximise the potential talent pool.
- Influencing industry change and using our influence as investors, for example through our membership of the 30% Club Australia.
- Annual Pay Equity Analysis.
- Global Parental Leave Policy.
- Continuing partnerships including the investment 20:20 Program in the UK and sponsorship of Surrey County Cricket Club's Disability program.

We are confident that our diversity strategy is focusing on the right activities and starting the conversations that will lead to greater gender balance, and improved thought diversity; therefore contributing to a well-rounded, high quality investment organisation.

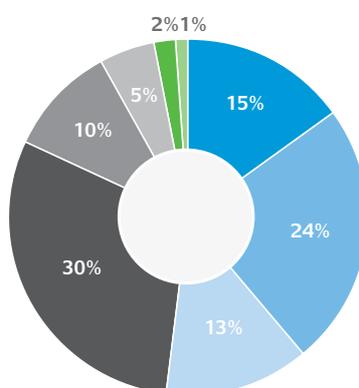
We invest in companies with greater diversity to reap the benefits of better corporate decision making. In our own firm women represent 22% of investment management roles and 51% of our key client facing professionals.

We employ a diverse range of ages



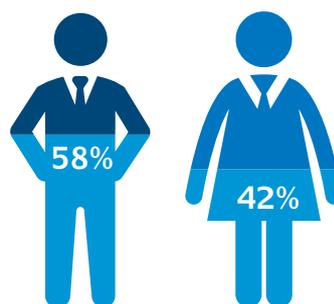
- 24 and under **3%**
- 25 - 34 years **26%**
- 35 - 44 years **41%**
- 45 - 54 years **24%**
- 55 - 64 years **5%**
- 65 and over **1%**

Length of service

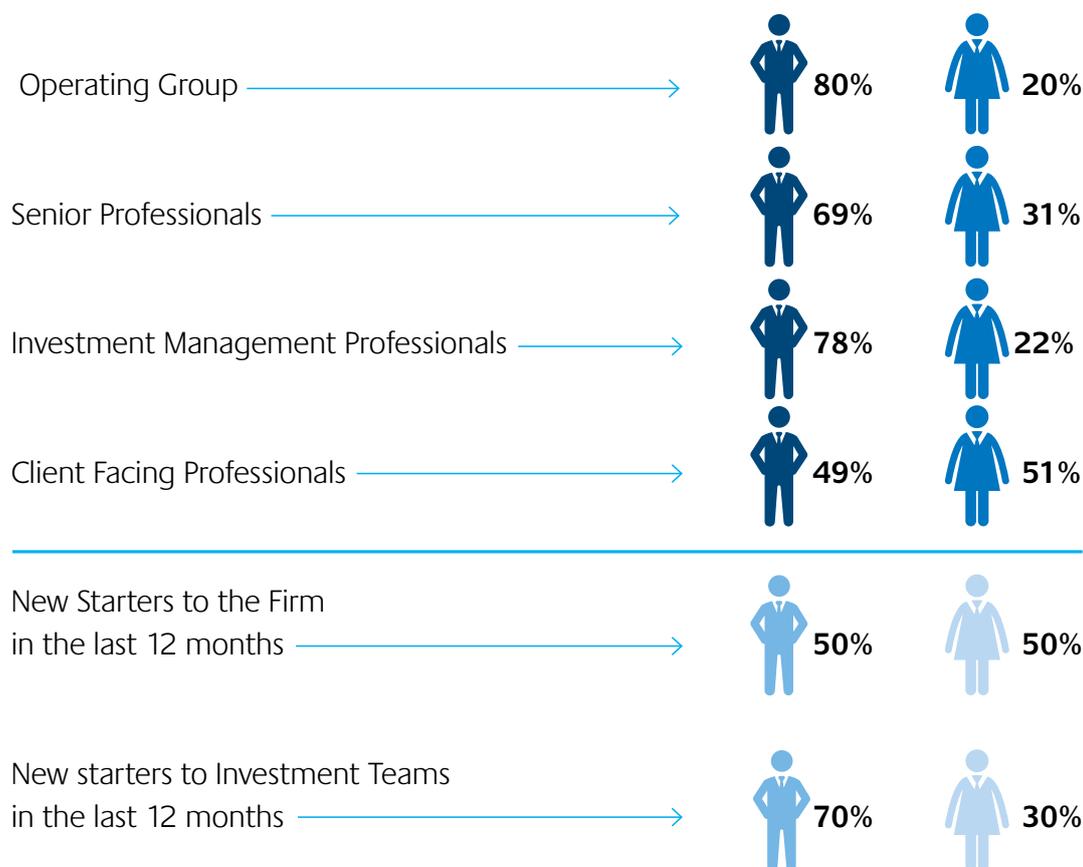


- Less than 1 year **15%**
- 1 to 3 years **24%**
- 3 to 5 years **13%**
- 5 to 10 years **30%**
- 10 to 15 years **10%**
- 15 to 20 years **5%**
- 20 to 25 years **2%**
- Over 25 years **1%**

Gender Diversity Total Firm



Gender Diversity



Gender Pay Equity differential of **3%** on fixed remuneration

Source: FSI data as at 31 December 2016.

RESPONSIBLE INVESTMENT OUR BELIEFS

The adoption of RI practices has been a decade-long journey for our business. Our focus extends beyond processes and policies to culture and shared beliefs. Progress can only be achieved through a willingness to ask difficult questions of our people and, most importantly, to act on what they tell us.

17 specialist investment teams, over 200 investment professionals, in 8 locations – belief in RI is the common thread which ties them together.



ri.firststateinvestments.com/2017/teamprofiles



Mapping our conviction

Investment beliefs survey

A decade of experience in responsible investment has taught us that individuals and the wider industry's views on sustainability/ESG are constantly evolving. In response to this challenge, in April and May 2017, we commenced a project with the support of Willis Towers Watson's *Thinking Ahead Institute* to establish the investment beliefs across our entire business relating to ESG integration, climate change and sustainability. Unprecedented among global asset managers, this project in its first phase involved a business wide exercise testing the extent of individuals beliefs on issues such as the materiality of ESG factors, the extent to which they are mispriced and can therefore contribute to long-term investment performance and the wider social purpose of sustainability, ESG and stewardship in investment management. Helpfully, we are able to assess and benchmark our own beliefs against a peer group of managers and asset owners within the Willis Towers Watson client base who have completed a similar exercise.

The survey has established where employees have the strongest (and least) conviction on a range of potential beliefs statements. We have also evaluated the coherence of beliefs in terms of the degree of consistency and uniformity i.e. the extent to which individuals in a group share beliefs.

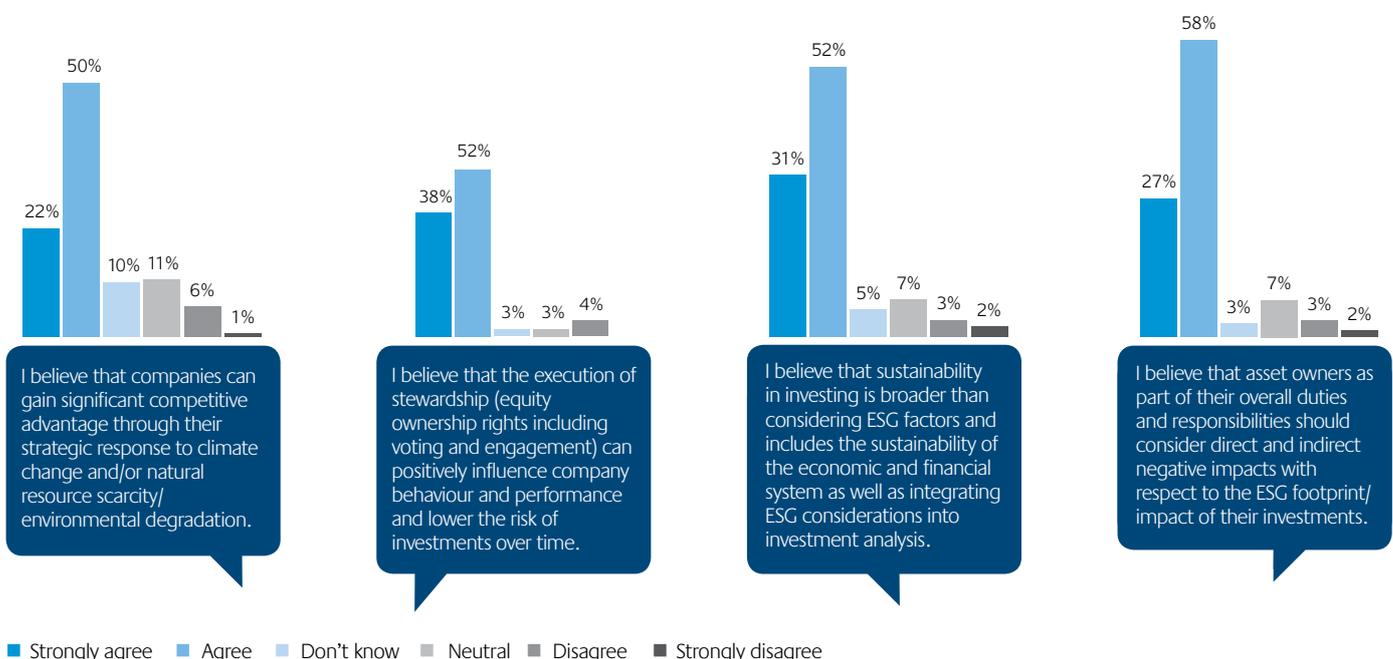
Some early raw output from this research includes data that indicates that **80%** believe considering ESG issues leads to more complete analyses and better-informed investment decisions.

The analysis also reveals how beliefs vary among different groups within the business; from the leadership team to individual investment and operational teams, as well as across our different regions. This rich source of information has provided the basis to build a draft set of investment beliefs for the business. This will require internal consultations and workshops to establish and then define an agreed set of statements which will integrate and align with our corporate culture. The research will also allow us to ascertain if there are any regional biases across the organisation by, for example, comparing views of our colleagues in Europe or Asia with those of our Australian and US-based staff.

When this process is complete, it will enable us to review and enhance our investment Principles and Policies and to assess how our current range of investment portfolios' comply.

Some early raw output from this research includes data that indicates that:

- 80% believed that considering ESG issues leads to more complete analyses and better-informed investment decisions.
- An overwhelming 9 out of 10 employees believed that effective stewardship can positively influence company behaviour and returns.
- 7 in 10 believed climate change will have a material impact on society.



RESPONSIBLE INVESTMENT OUR BELIEFS

... There is a broad and strong belief in the value of responsible investment and stewardship ...

80% of our investment professionals believe that considering ESG issues leads to more complete analyses and over 90% believe that stewardship can positively influence company behaviour and returns.

Our senior executive committee, known as the Operating Group, showed even stronger support with over 90% support for these statements. No one in the Operating Group disagreed with the statements while there was less than 5% disagreement among investment professionals.

... This value is not efficiently priced by markets due in part to short-termism and other barriers to responsible investment ...

Most investment professionals believe that neither ESG nor long-term factors are efficiently priced by markets. Around 75% believe that investors are over sensitive to short-term factors. A similar number believe that risks and opportunities associated with ESG externalities are not being captured in market values.

Research shows that beliefs develop from firstly framing issues (competitive positioning, fiduciary obligations, time horizons and analytical insights), secondly providing evidence, measurement and reporting and finally socialising and settlement.

The belief statements most highly rated by our leadership teams included; execution of ownership rights can increase performance and reduce risk; considering ESG issues leads to better analysis and decisions; sustainability in investing is broader than simply ESG integration.

... Over 70% believe climate change will have a material impact on society and there was majority belief that climate change will have a material impact now or within the next 10 years ...

There was majority belief that climate change will have a material impact now or within the next 10 years. However, beliefs on the extent of the financial impact were mixed with almost 45% believing the impacts would be moderate or negligible over the next 20 years. At the same time 40% believed that the impact would be either substantial or extreme over that period. This reflects the challenge of attempting to value the impact of as yet unknown and unpredictable climate volatility.

Notwithstanding these results, more than 70% of our investment professionals believe that companies will gain competitive advantages from a strategic response to these issues. A more difficult question, however, related to fossil fuels, with 28% believing technological advances would overcome the risk of these resources becoming stranded, while 35% held the opposing view.



Mapping our conviction

... There is significant support for investors playing a role in mitigating some of these risks ...

The link between broader societal and environmental sustainability to stewardship and RI in this regard was also clear. With strong support for 'sustainable investment' to be broader than ESG and also include the sustainability of the economic and financial systems, and for asset owners to take a more assertive role in this regard.

85% support the view that asset owners should, as a part of their duties, consider both the direct and indirect ESG impacts of their investments. Our investment professionals also believe that asset owners should incorporate these factors into investment mandates and monitor investment managers accordingly.



Get the full results of our investment beliefs survey
ri.firststateinvestments.com/2017

 Visit our website for more information on human rights
ri.firststateinvestments.com/2017

HUMAN RIGHTS OR HUMAN WRONGS



A guidance note for investment professionals

As stewards of our clients' assets, we have a duty to manage a wide range of risks on their behalf. In December 2015, a working group was established to research and develop human rights guidelines for investors in our business. Corporations have legal, moral and commercial responsibilities to respect human rights and manage the human rights impacts of their operations. As an investor in these businesses on behalf of our clients, it is imperative that we fully understand and mitigate these risks.

Why are human rights relevant for companies and investors?

As investment managers, we face two main types of risk from human rights infringements. First, earnings and valuations could be impacted by a company's poor performance in managing human rights issues. This represents a clear and significant risk to the performance of our portfolios.

Second, when investing in a company, we can become exposed to the same human rights concerns that the investee business faces. This could result in reputational damage to individual investment teams, our business and jeopardise long-term relationships with our clients.

In addition to the risks to our clients' investments, the tragic human costs are of great concern. While generating sustainable investment returns, we recognise the opportunity to contribute to improvements in human rights outcomes to the benefit of millions of people.

Improving the quality of our investment processes

In 2016, our working group developed a Human Rights Toolkit to help identify and manage human rights risks in our portfolios. We engaged external specialists and an international human rights lawyer to clarify best practice on how companies should manage human rights-related incidents and allegations.

More broadly, we hope to be able to make a genuine difference to vulnerable groups of individuals by influencing corporate behaviour. This can be via direct engagement with company directors and management, collaborative engagement with other investors on human rights issues, and proxy voting on resolutions relating to human rights. Our toolkit incorporates a five-stage process designed to help minimise human rights risks in our portfolios represented by the image above and described in detail on our online report.

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