For professional clients only

First State Investments

Colonial First State Global Asset Management

2018 RESPONSIBLE INVESTMENT & STEWARDSHIP REPORT

FOREWORD

In last year's responsible investment report we described the need to 'rethink performance', and the challenges of moving away from the focus on backward looking, short-term, benchmark relative returns to a more holistic view of organisational quality which also includes forward looking, long-term, sustainability and societal outcomes.

To that end, we provided what we believed was a well-rounded view of our organisation's quality which included reporting on our achievement of client return objectives, active management, company engagement, diversity, and our approach to key issues like climate change and human rights. We used quantitative measures, described our focus areas and provided a significant number of case studies to demonstrate our ability to be reliable, consistent and excellent stewards of our clients' assets both now and into the future.

We continue with that approach this year and have made further improvements to our online reporting and disclosures.

This year we have also changed our reporting period from calendar year end to align with the Australian financial year end (30 June) and so this report covers a period of 18 months unless otherwise stated.

Our business and the landscape of our investment capabilities has also evolved. We no longer offer Australian Equities Core, Indonesian Equities or Global Resources as investment options and they are therefore not included in this year's report.

In addition, our Emerging Market Debt and Asian Fixed Income teams have merged and our Equity Income team (formally part of the Core team) are being included as standalone capabilities.

CONTENTS

We provide detailed information on our approach to RI on our website.

WELCOME

TO OUR 11TH ANNUAL RESPONSIBLE INVESTMENT & STEWARDSHIP REPORT.

Since our last report, there has been a shift in the views of policy makers and regulators around the world regarding the role of sustainable and responsible investment in well-functioning capital markets. Part of this view has included greater scrutiny of the role of asset managers in not only delivering attractive long-term financial outcomes for their clients but also their influence and impact on societal and environmental outcomes.

Last year's report was built on the theme of "Rethinking Performance" and this year's report continues in the same vein. In it we have once again provided an overview of how stewardship and responsible investment (RI) is implemented across our business practices but also highlighted how we are working to understand the outcomes of our investment processes beyond long-term risk-adjusted financial returns.

Our culture and values are important factors in delivering our commitment to being the best stewards of our clients' assets that we can and ensuring that at all times we understand that we have been granted a social licence to operate. Maintaining this licence requires that our clients continue to have confidence in our investment capabilities and that we always put their interests at the heart of our business. Striving for the highest degree of transparency that we can achieve, ensures that we are held accountable and therefore operate with honesty and integrity in our work on our client's behalf.

Our RI & Stewardship Report provides an important point of evidence, detailing many examples of how we go about integrating environmental, social and governance (ESG) issues into our investment processes and provides a level of transparency and disclosure which we are constantly seeking to improve.

I believe that our approach to RI is a business strength which has helped define our purpose. We will continue to work on improving our approach because we believe it is in our clients' long term interests to do so. Evidence of this is our continued ability to deliver attractive long-term financial outcomes for clients with 75% of the funds and 83% of the assets we manage outperforming their respective benchmarks over a rolling 5 year period.

Source: Colonial First State Global Asset Management/First State Investments.

In addition, our performance against an important industry benchmark, the annual assessment by the Principles for Responsible Investment (PRI), has been encouraging with our business now achieving the highest A+ rating in seven of the eight areas in which we are assessed, up from four last year. This improvement was driven by a number of areas of our practice including: the implementation of a business-wide RI training program, the development of a system to provide portfolio ESG quality assessments, and, improvements on ESG integration across our fixed income teams.

We continue however to work towards improving all areas of our processes and our capability. In this year's report we provide a range of examples of this including new investment strategies, thought leadership work and investments we are making in technology that are designed to meet the growing expectations of our clients and wider society. We hope this report provides meaningful insights into the way RI and Stewardship are implemented across our global business.

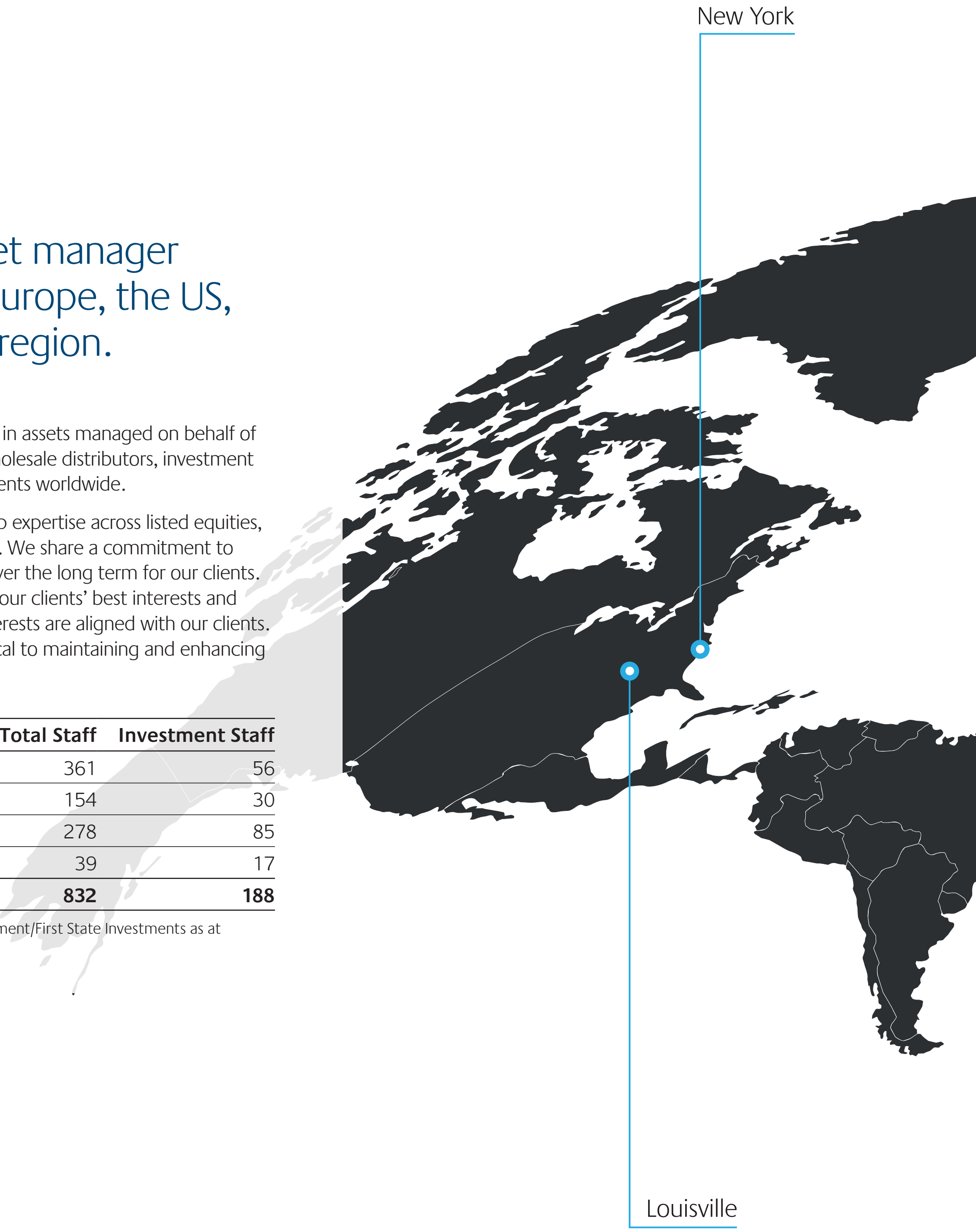
Our goal is to always do the best job we can for our clients and our commitment to best practice in RI is very much aligned with that objective and is, in my view, central to our purpose, which is to redefine success for our clients, shareholders and society.

As always we welcome your feedback and comments on our work.

Email: stewardship@firststate.co.uk

Mark Lazberger CFA

ABOUT US



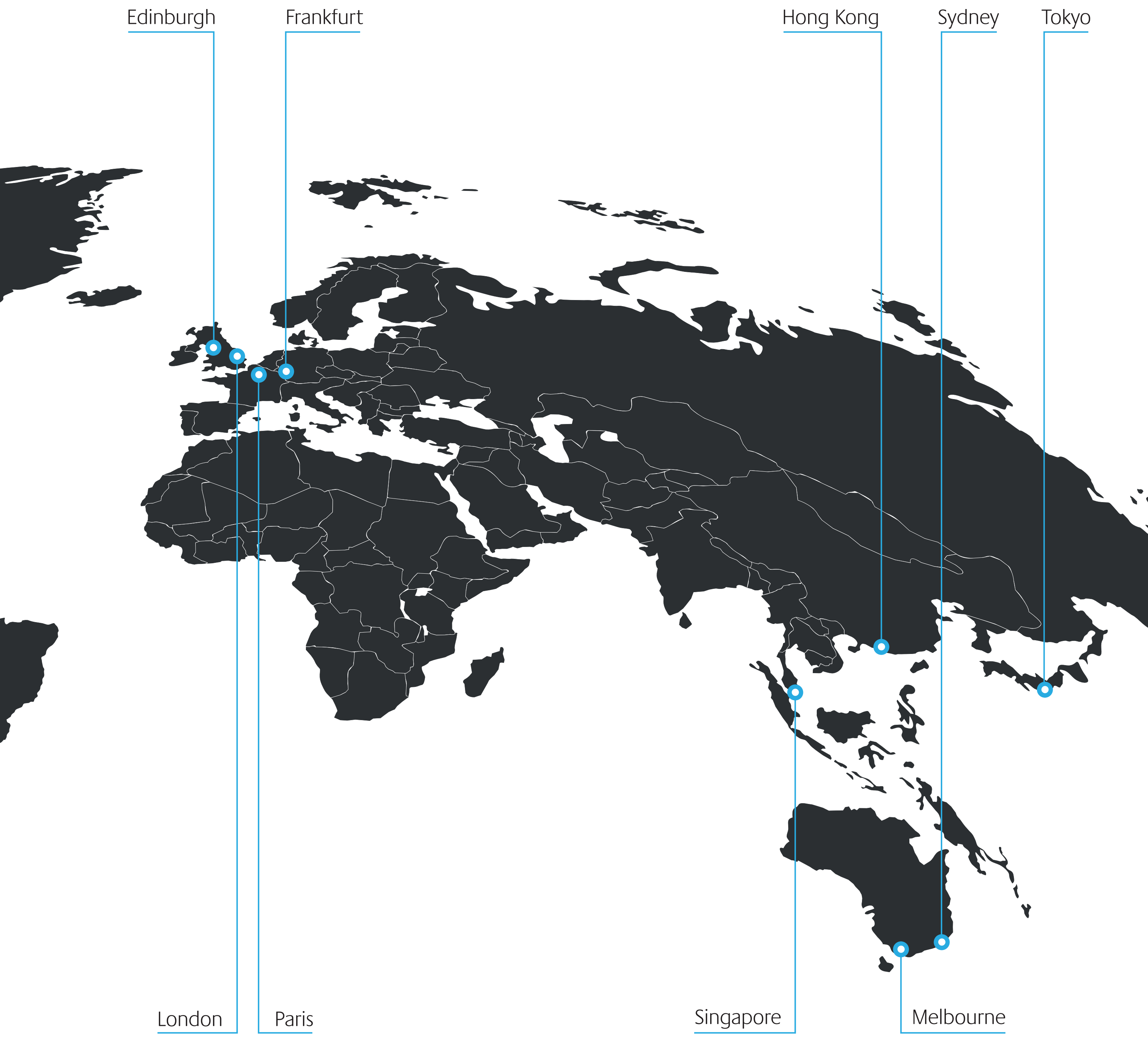
We are a global asset manager with offices across Europe, the US, and the Asia Pacific region.

We are stewards of over A$212.7 billion in assets managed on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide.

Our diverse investment teams have deep expertise across listed equities, fixed income and unlisted infrastructure. We share a commitment to achieving the best possible outcomes over the long term for our clients. We uphold a culture of always acting in our clients' best interests and structure our business to ensure our interests are aligned with our clients. Principles of stewardship and RI are critical to maintaining and enhancing this culture.

	Total Staff	Investment Staff
UK and Continental Europe	361	56
Asia (including Japan)	154	30
Australia and New Zealand	278	85
North America	39	17
Total	**832**	**188**

Source: Colonial First State Global Asset Management/First State Investments as at 30 June 2018.


Edinburgh
Frankfurt
Hong Kong
Sydney
Tokyo
London
Paris
Singapore
Melbourne

OUR APPROACH

TO RESPONSIBLE INVESTMENT AND STEWARDSHIP

For five years our strategic approach to RI has focused on enhancing the quality and relevance of our investment capabilities, embedding a culture of stewardship across the organisation and engaging all of our employees in our RI work.

This approach is underpinned by a strong governance and oversight framework.

In this report we describe the progress we have made in each of these areas.

We employ 16 investment teams across a range of asset classes. Each are specialists in their respective fields and set their own investment philosophies and processes.

Our commitment to RI and stewardship is a common thread which runs through these diverse investment capabilities.

In particular, all teams believe that ESG issues comprise sources of long-term risk and return and can therefore impact long-term investment value. Teams also believe that as a leading global institutional investor and stewards of our clients' assets we can achieve better long-term investment outcomes through active company engagement and by exercising the equity ownership rights we hold on behalf of our clients.

Maintaining and testing those beliefs is an important part of ensuring we are effective and credible in our RI work. In 2017 we conducted a survey of our entire organisation on RI. The survey found that over 80% of our investment professionals believe that considering ESG issues leads to more complete investment analyses and over 90% believe that stewardship can positively influence company behaviour and returns.

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 across the business and the systems for cross-team information sharing and collaboration are critically important and includes a Responsible Investment Steering Group, chaired by our CEO, and an ESG Committee made up of investment professionals from each investment team.

More information on our governance and approach is available on our website.

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

OVERVIEW

WHAT YOU CAN EXPECT FROM US

While we are proud of our diverse investment capabilities and their asset class specific approaches to RI, the following provides an overview of what our clients and other stakeholders can expect from all of our investment teams. Individual team profiles on our website provide a more in-depth description of each team's specific approach.

For all teams, responsibility and accountability for analysis and integration of ESG factors, investee company engagement and proxy voting rests with each investment professional and the head of the team. Integration and engagement are mutually reinforcing; company analysis drives engagement and engagement outcomes influence the analysis. This is why we have made the strategic decision not to separate proxy voting, engagement or ESG research and analysis into specialised functions.

Overview - ESG integration

ESG integration refers to the methods by which our investment teams incorporate ESG factors into their investment analysis and decision-making. These factors can be relevant to both a team's assessment of an assets quality and its valuation.

Listed Equities - Each listed equity team has a process for identifying and assessing the relevance and materiality of ESG issues for their respective asset classes. For all active equity teams, company engagement is a key source of insights on such risks and opportunities. These insights, coupled with the best available third party ESG research, are assessed by the relevant company analyst and incorporated into stock notes or reviews and influence company valuations.

Some teams assign specific ESG scores, while others incorporate the assessment into broader views of company management and business quality. All active equity teams hold regular team meetings to discuss company assessments, including ESG factors.

Fixed Income - Our Fixed Income teams believe that ESG issues have a direct impact upon an issuer's risk and therefore its probability of default. As risks turn into liabilities, they can impact cash flow and, therefore, on debt costs and credit ratings. ESG issues can also impact on a sovereign's ability to generate sustainable revenues or potentially increase its future costs, affecting its ability to repay bond holders.

Detailed descriptions of each team's approach to responsible investment is available on our website in their team profiles.

For all teams, responsibility and accountability for analysis and integration of ESG factors, investee company engagement and proxy voting rests with each investment professional and the head of the team. Integration and engagement are mutually reinforcing; company analysis drives engagement and engagement outcomes influence the analysis.

OVERVIEW OF OUR APPROACH

Our Fixed Income teams engage with counterparties, corporates, governments and supranational issuers to raise ESG concerns. For counterparties, they conduct a formal ESG assessment, which is provided to the counterparties.

The teams have an assessment process for ESG issues which flows into their view of a particular security, whether through a proprietary six-factor model used for emerging markets debt or the ESG score and internal credit rating used for other securities.

Unlisted Infrastructure – For our Unlisted Infrastructure team, the ownership interest we currently hold in our portfolio companies ranges from ~15% to 100%. Our investment professionals are therefore a key part of the corporate governance structure by sitting on Boards of Directors or Shareholder Representative Groups. Consequently a more bespoke approach to ESG integration is desirable and necessary. The team has developed separate and detailed RI policies and assessment frameworks, while still adhering to the organisation-wide approach.

Overview – Stewardship

Given the varying nature of the asset classes we manage, the geographies in which they operate and the size of our holdings, each of our investment teams' engagement approaches are tailored to individual companies and the specific issues in question. In all cases there is a focus on material ESG issues that could impact on investment value over all periods, but particularly over the long term.

Listed Equities – Engagement with company management is a fundamental part of our active equity teams' investment processes. Through company engagement, we seek to highlight areas for potential improvement and risk reduction, encourage improved disclosure on ESG issues, and commend companies that are making progress in these areas.

Proxy voting rights are an important asset for listed equity investors and exercising these rights is a core part of our stewardship responsibilities. Our policy is to vote on all resolutions at company meetings with the exception of share blocking markets.

Our investment teams retain full control over their proxy voting decisions informed by the guidance provided by third party governance research providers CGI Glass Lewis and Ownership Matters. In the team profiles on our website, we have disclosed statistics on the independence of our teams' voting and also provide a 'live' voting tool which discloses all voting decisions post meeting. This approach means that from time to time different teams may vote differently on the same company.

Fixed Income – While different to the access and approach that is possible for listed equity teams, our fixed income teams engage with counterparties, corporates, governments and supranational issuers to raise ESG concerns. For counterparties, they conduct a formal ESG assessment, which is provided to the counterparties.

We also engage with credit rating agencies and collaborate with other fixed income investors to improve ESG integration practices across the industry.

Unlisted Infrastructure – For Unlisted Infrastructure, our seats on company boards allow greater direct oversight and influence.

EACH INVESTMENT TEAM HAS DEVELOPED THEIR OWN APPROACH TO RI

SPECIALIST EQUITIES

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.

Equity Income

We work in partnership with other investment teams within our firm. As part of this approach, the team draws upon the analyst research from various investment teams which includes the identification of any relevant ESG issues.

Australian Small Companies

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

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.

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 24% of the overall quality score we assign when considering investment.

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.

Stewart Investors

Sustainable investment has always been an integral part of Stewart Investors' investment philosophy and stock-picking process. We believe ESG issues are investment issues and we identify them, and their importance, through bottom-up company research. Our own team of investment analysts identify and analyse companies and their behaviour towards ESG issues.

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.

FIXED INCOME AND CREDIT

Our fixed income teams share significant aspects of their credit research process as it relates to ESG considerations.

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

For Short Term Investments, the ESG assessment most often comes through its impact on the internal credit rating (ICR) provided by the Credit Analysts via our Credit Research process.

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.

Emerging Markets Debt & 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.

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

Global 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.

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.

FEATURE

STEWART INVESTORS – BRINGING COMPANIES TOGETHER TO SOLVE THE PLASTIC WASTE PROBLEM

Having identified plastics pollution as an engagement priority for 2018, the Stewart Investors Sustainable Funds Group, in partnership with the Institute for Sustainable Futures at the University of Technology Sydney, hosted an interactive forum on 25 July in Mumbai with some of the largest local and multi-national consumer goods companies in India.

The main objectives of the Forum was to bring business leaders together to share knowledge about the challenges they face in relation to plastic packaging waste and to brainstorm ideas for how they can work together to improve the situation. The Forum was attended by 23 participants representing 11 companies, as well as representatives from World Resources Institute (WRI) India and XYNTEO, who were invited both as guest speakers and as participants.

Stewart Investors

Having identified their 'preferred futures', participants then engaged in a structured process to identify and prioritise collaborative actions in addressing the issue of plastic pollution. A long list of ideas was generated, then summarised down to a short list that was prioritised by Forum participants and grouped under the broad headings of:

1.

Forming a national industry body focused on plastics

The proposed new national industry body would lead projects on behalf of members, including working together on a national strategy and targets, providing a strong voice with government, and educating consumers about appropriate disposal and recycling.

2.

Shared visions and targets

While participants agreed that many of the building blocks for a successful plastics waste management strategy were already in place, a national, industry-lead strategy, with associated targets, would help to drive change. Perhaps along the lines of the UK's Plastic Pact, this shared vision could be co-ordinated by the new peak body, but work could start earlier.

3.

Knowledge sharing and peer learning

Participants acknowledged the importance of peer-to-peer learning. One specific opportunity identified for knowledge sharing was the development of a list of credible, responsible waste management organisations. Many of the companies represented at the Forum want to ensure that their partners have appropriate policies and procedures in place to ensure their activities are socially responsible and environmentally sustainable.

The proposed new national industry body would lead projects on behalf of members, including working together on a national strategy and targets, providing a strong voice with government, and educating consumers about appropriate disposal and recycling.

The group acknowledged the importance and usefulness of plastic but agreed there was a need to find better ways to manage its use and disposal. Through various group sessions participants shared some of their organisational successes, challenges and priorities for plastic packaging; on a personal level what a plastic pollution free India might look like to them; and then explored the practicalities for achieving their preferred futures.

4.
Consumer awareness and behaviour change

There was general agreement amongst participants that consumers need to be engaged to raise their awareness of recycling and the need for responsible disposal. Multiple participants therefore proposed a national communications campaign to achieve a few objectives. A separate but related opportunity is to run an education campaign through schools on the importance of recycling and proper disposal.

5.
Innovation and technology for waste management

While many types of plastic packaging are already recycled, others have limited value and are generally not collected. Several initiatives were proposed to support investment in new or improved processes to facilitate recycling of these lower value materials. One was to run a competition for innovations in plastic waste management, as this would help the industry to understand the current landscape. Another idea was to seed an incubation fund that would invest in R&D for alternative materials.

6.
Building the collection system

One of the frustrations expressed by participants was that despite numerous trials and pilot schemes to improve recycling, there is no mechanism to scale these. Participants proposed a number of initiatives including:

- develop a new for-profit company or public private partnership (PPP) to aggregate collected plastic packaging
- companies work with existing third-party collectors and recyclers to build scale
- provide funds for equipment that would improve efficiency, for example bottle crushers, sachet compactors and pelletisers to feed waste to energy (WTE) markets
- recognise and reward the informal sector to bring inclusivity and create a 'feel good' factor.

Attendees participated enthusiastically and were generous in sharing their knowledge and experience with peers. They demonstrated a high level of goodwill, genuine concern for the future and a strong desire to collaborate to address the issue. Participants were also very clear in their view that industry must take the lead on this issue to drive change in collaboration with governments and NGOs.

The challenge is to ensure that the goodwill and commitment demonstrated at the Forum is converted into action. Setting up the peak industry body that is focused purely on plastic packaging waste is the key next step as this body will be tasked with exploring and progressing the actions further. This work is currently in progress.

Forum briefing paper and output paper

OUR PROGRESS

The following pages detail our progress against three strategic pillars of quality investment processes, highly engaged employees and a culture of stewardship.

We have been recording the progress of our RI work for 11 years and in that time have seen significant growth in responsible investment across the industry globally.

While the essential work of integrating ESG factors into our investment decision-making and stewardship practices has evolved over time, our reporting shows this has been gradual and deliberate improvements over many years.

As new issues emerge and remerge, be it modern slavery, stranded asset risks or the sustainable development goals, our investment teams incorporate these considerations into the same transparent processes most have had for over a decade.

ESG has always been a consideration for the Global Listed Infrastructure Securities team, making up over 24% of their quality score.

OUR PROGRESS
QUALITY INVESTMENT PROCESSES, INFORMATION AND TOOLS

Each year we also invite expert speakers to talk to both our investment professionals and other colleagues on current and emerging issues.

During the period we continued to improve our management and aggregation of ESG information by integrating the ESG ratings from our external ESG research providers into our data warehouse and investment systems and to enhance our internal ESG Portfolio Monitor tool and its associated dashboard reports.

Realindex – Governance Factor included for Australian smaller companies

During the period our smartbeta team, Realindex, incorporated an explicit governance factor in their Australian Smaller Companies strategy. The team has been conducting research on ESG factors for some time and is able to offer clients both bespoke and off-the-shelf ESG solutions.

Enhanced use of ESG Data - Sustainable Infrastructure Strategy

In December 2017 our Global Listed Infrastructure Securities team launched a Sustainable Listed Infrastructure Strategy. The team uses proprietary research, detailed engagement and a rigorous investment process to construct a high conviction portfolio of companies that make sustainability part of their corporate culture and who are led by high quality management teams that are accountable and focused on delivering sustainable value creation over the long term.

ESG has always been a consideration for the team, making up 24% of their quality score, because the essential service nature and large environmental footprints of infrastructure assets make sustainability considerations a vital part of doing business.

The new strategy has a specific sustainable development focus and also seeks to allocate capital to companies best placed to drive the transition to a low carbon economy. 2°C alignment analysis shows the strategy very closely aligned with Paris agreement objectives and carbon footprinting analysis shows it is 38% below the benchmark's emissions intensity.

2°C alignment analysis was provided by the Transition monitor tool created by the 2° Investing Initiative.

Capacity Building – Knowledge Development

Ensuring our investment teams have access to good quality information on current and emerging ESG issues is an important focus for us. Information takes a number of forms including our external ESG research providers, broker research, NGO and other research including from organisations like the World Bank and the International Energy Agency among others.

Each year we also invite expert speakers to talk to both our investment professionals and other colleagues on current and emerging issues. These are group sessions in addition to the various briefings, seminars and conferences which teams undertake independently. We are very grateful to the speakers and their organisations who present to our teams on these important issues.

Topics covered include:

Subject	Speaker
Green Bonds	Climate Bonds Initiative
Gas Report	Climate Council
Results of Board Confidence Index	Ownership Matters
Integrated Reporting	IIRC
Health & Safety Presentation	School of Business UNSW
Working conditions of migrant workers in Australian supply chains	UNSW Law & Faculty of Law, University of Technology Sydney
Modern Slavery Act	Baptist World Aid
Climate Science update	Oxford University

OUR PROGRESS HIGHLY ENGAGED PEOPLE

Engagement of our people to develop an awareness and understanding of our philosophy is integral to embedding RI within our business as usual practices.

We recognise that to achieve our goals, people right across our organisation need to be engaged and fully informed of our philosophy and approach to responsible investment and stewardship. This is critical to our success as we continue to strive to be a leader in this area and in helping deliver strong long-term investment outcomes for our clients.

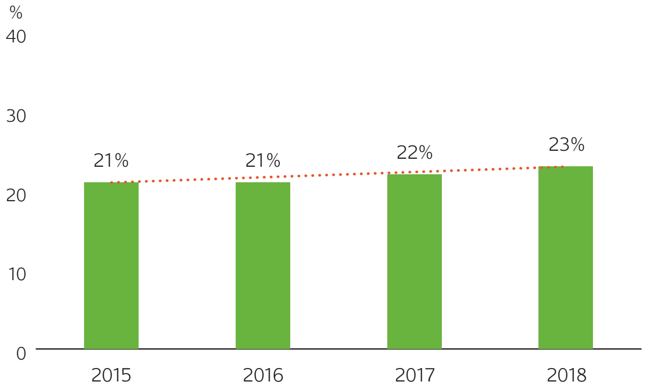
Engaging our people to develop an increasing awareness and understanding of our RI approach is integral to embedding RI within our business as usual practices.

During 2017/2018 we have focused on:

- Launch of an RI eLearning module to build consistent awareness and understanding across all of our employees. 93% of employees globally have completed the module since launch. We also encourage more bespoke learning, including input from a range of industry expert speakers described on page 16.
- Recruitment and onboarding – Recruitment agencies continue to be briefed on our commitment to RI, with some agencies also being invited to our RI events. RI continues to be embedded into our onboarding processes for new starters.
- Feedback from surveys across the organisation have guided our efforts on continuing to communicate our RI progress with our people. In last year's report we described our investment beliefs survey results and continue to use those results to guide our employee and client engagement activities.

OUR PROGRESS
HIGHLY ENGAGED PEOPLE

Women in investment management roles



As at 30/06/2018. Source: First State Investments/Colonial First State Global Asset Management.

Diversity and Inclusion

We believe diversity of thought contributes to better decision-making in our investing and the management of our business. We value individuals with a diverse range of perspectives and different ways of thinking and believe this helps us to be a successful organisation.

Our overarching objective is to encourage and promote diversity of thought across our business and we acknowledge that the many different dimensions of diversity contribute to achieving this. We have continued to focus our efforts on gender diversity and achieving meaningful change through this commitment.

Our Diversity Committee has continued to support and drive our diversity agenda with regular meetings to review progress and our metrics.

As at the end of June 2018, women represent 23% of our investment management roles, which continues to demonstrate gradual improvement over the 4 years that we have disclosed this metric.

We continue to be confident that the activities we are undertaking are having a positive impact on the behaviours, actions and decisions of our people and that we will continue to make progress.

Our focus areas include:

- Ongoing disclosure of our diversity metrics, including UK Gender Pay Gap regulatory reporting.
- Our Recruitment approach includes a female interviewer for each role and a request to agencies to consider the diversity of candidate pools as we aim to maximise the potential talent pool. We have seen positive results of this with senior female appointments to our organisation.
- As an integral part of annual remuneration review process, decisions are made through the lens of gender equity with approvals dependant on demonstrated equitable outcomes.
- Development of our Diversity & Inclusion Commitment which is undergoing internal endorsement with a view to publishing it externally on our website.
- Continuing support and engagement with external groups including:
  - In Australia, the 30% Club, Women In Super and YWCA NSW twilight series.
  - In the UK, the Investment 20:20 Program, York University and sponsorship of Surrey County Cricket Club's Disability Program.
  - In Asia, the Singapore Women's Intercompany Network and membership of the DIAN network.

OUR PROGRESS
HIGHLY ENGAGED PEOPLE

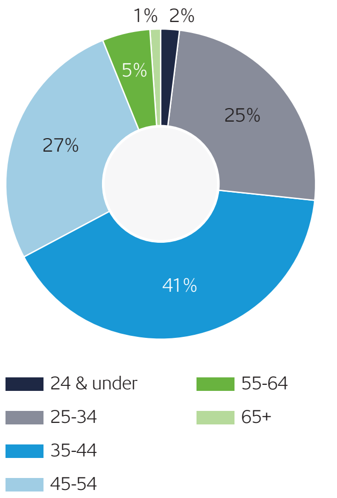
Our workforce is relatively stable with 7.2% annual turnover, and over the last 12 months we have seen lower voluntary turnover for our employees with more than 5 years' service.

We continue to monitor and report on our diversity scorecard (see opposite). We are pleased with our progress on gender numbers, particularly given we have a low voluntary annual turnover rate of 7.2% and therefore recognising that shifting the numbers will take time.

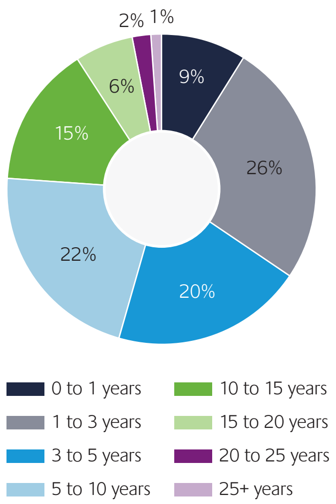
We have seen a decline with our client-facing professionals with females decreasing from 51% to 43%. The composition of this group has changed with an overall reduction in numbers and a change in geographic locations. Despite these changes, we recognise that this is an area that needs ongoing focus for us as an organisation to ensure we achieve diversity within this role/group.

One of the ways we encourage diversity of thought is by employing people with a diverse range of ages and fostering a team made up of people with varied length of service. Our workforce is relatively stable with 7.2% annual turnover, and over the last 12 months we have seen lower voluntary turnover for our employees with more than 5 years' service, compared with the total population. With this stability of employees with more than 5 years' service as well as our new hires we continue to bring new people with different experiences to contribute to our goal of having diversity of thought.

We employ a diverse range of ages



Length of service



As at 30/06/2018. Source: First State Investments/Colonial First State Global Asset Management.

OUR PROGRESS
HIGHLY ENGAGED PEOPLE

Our diversity initiatives and activities will continue to focus on ensuring we remain on track to improve the shape and balance of our global organisation from a gender equality perspective.

Gender Pay Equity

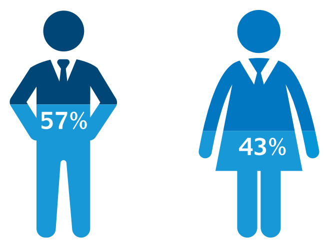
From an equal pay perspective we are confident that gender is not a factor in determining pay. Our process for determining pay includes a comparison against market data and on average, fixed remuneration of our men and women in similar roles is consistent.

During the year we also published UK gender pay analysis in line with UK legislation. The legislation focuses on comparing the average pay by gender of all roles collectively, regardless of level or type of role. When looking at our UK gender pay, there are differences in the overall average pay as we have fewer women in senior management and senior investment roles. This is consistent across our global business and the industry in general.

Our diversity initiatives and activities will continue to focus on ensuring we remain on track to improve the shape and balance of our global organisation from a gender equality perspective.

Gender Diversity

Total Firm



Operating Group	77%	23%	↑
Senior Professionals	67%	33%	↑
Investment Management Professionals	77%	23%	↑
Client Facing Professionals	57%	43%	↓
New Starters to the Firm in the last 12 months	50%	50%	↓
New starters to Investment Teams in the last 12 months	71%	29%	↑

Pay Equity[1] differential of **0%** on fixed remuneration

[1] Pay Equity refers to the gender difference for fixed remuneration relative to current market rates (using position specific compa ratios). As at 30/06/2018. Source: First State Investments/Colonial First State Global Asset Management.

OUR PROGRESS
STEWARDSHIP

3,900
COMPANY MEETINGS

21,622
RESOLUTIONS VOTED

Our 2018 PRI transparency and assessment reports are available on our website.

Company engagement and proxy voting is a key part of all our active team's stewardship activities. Successful engagement is built on trust and is intended to be challenging but constructive.

Historically, we have found it challenging to report on engagement beyond case studies partly due to engagement often being part and parcel of the long-term relationships developed with companies by our teams, and partly due to each team operating independently and maintaining its own meeting databases.

Individually, a number of teams have been improving how they capture company engagement. An example from a client report from the Global Listed Infrastructure Securities team is provided in the breakout box. In addition the First State Stewart Asia and Stewart Investors teams have hired dedicated engagement administrators who book meetings, capture notes and flag follow ups for the teams to action.

Global Listed Infrastructure Securities – Engagement

Over the 12 months to 30 June 2018, the global listed infrastructure investment team engaged with companies on ESG-specific topics a total of 29 times. These engagements were one-on-one meetings with company management, on sustainability-related issues.

The topic breakdown was as follows (some meetings addressed more than one E / S / G topic):

Environmental:	Social:	Governance:
14	7	13

Engagement examples by topic

Key environmental issues we have discussed with companies include:

- Meeting a 2 degree scenario
- Levelised cost of renewable technologies
- Evolution of the competitive landscape, and renewable deployment opportunities globally
- Ways to support the further development of renewables, including government subsidies
- Technological innovation – batteries, decentralised grids, electric vehicles

Social-related discussion topics have included:

- Health and safety
- Customer satisfaction and customer solutions
- Appropriate consideration of all stakeholders when determining environmental asset siting (eg building new roads, pipelines etc)

Key issues related to Corporate Governance included:

- Management succession planning
- Board composition and experience
- Board tenure and independence
- Remuneration – targets set for both financial and non-financial KPIs
- Diversity levels
- Capital management
- Alignment of interests

We also engaged with a number of companies to encourage improved and more consistent ESG data disclosure. We have provided several companies with advice on how to better report on these issues, and given specific examples of actions that we would like to see undertaken to improve their ESG reporting.

OUR PROGRESS
STEWARDSHIP

Across the business, teams reported in excess of 3,900 company meetings for the year ending 31 December 2017 with many meetings involving discussion of ESG issues. In our annual report to the PRI two teams reported that 50% of engagements were comprehensive (i.e. face to face meetings and follow up), while three teams responded that it was between 10-50% of engagements. Two teams responded that it was less than 10% while one could not give an estimate.

Proxy Voting

For active listed equity teams we voted on 21,622 resolutions at company meetings between 1 January 2017 and 30 June 2018 (excluding our smart beta team Realindex and multi asset team who generally vote in-line with our proxy voting advisor CGI Glass Lewis).

Proxy Voting Record	Abstain	Against	For	2017/18 Total
Audit/Financials	3	20	1,397	1,420
Capital Management	14	175	2,605	2,794
Climate Change Related		10	7	17
Director Election	52	374	8,298	8,724
Director Remuneration	2	14	816	832
Executive Remuneration	1	68	946	1,015
General Business	3	99	1,735	1,837
Governance Related	58	108	3,138	3,304
M&A		6	202	208
Remuneration Related		45	660	705
Shareholder Proposal	2	71	35	108
Shareholder Rights	5	173	520	698
Grand Total	**140**	**1,163**	**20,359**	**21,662**

Proxy voting information is as at 30/06/2018 Source: Colonial First State Global Asset Management/First State Investments/CGI Glass Lewis

Intelligent and Independent Voting

The table shows the number of times the teams have voted against management recommendations, our proxy advisors recommendation or against both. The purpose of this table is to show the independent judgement which is applied by the team when making voting decisions.

	2017/18
Against Proxy Advisor	2,750
Against Management	1,130
Against Both	267

OUR PROGRESS
STEWARDSHIP

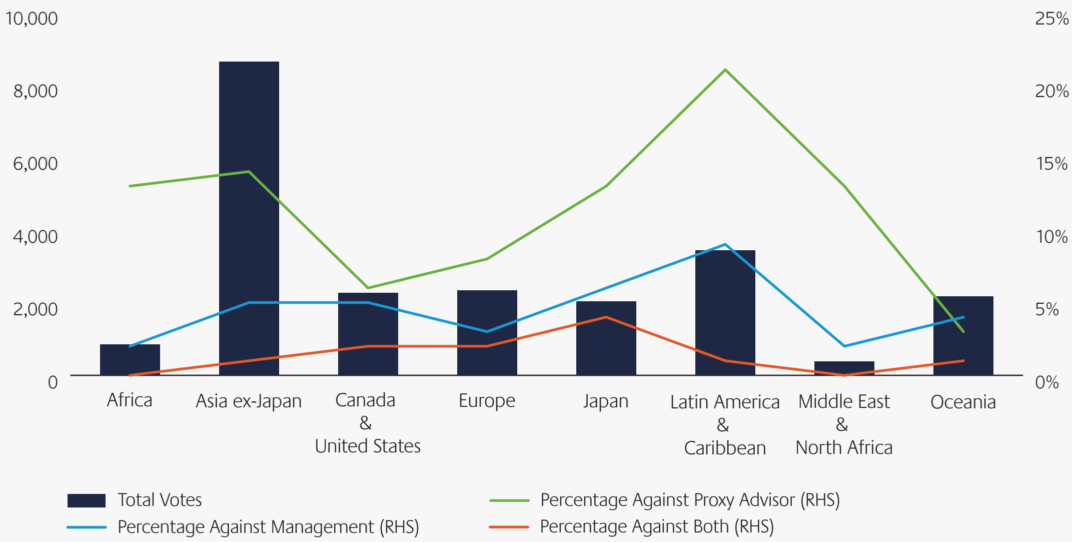
During the year we voted against management recommendations on 1,130 occasions (5.12%). The main themes for these votes included:

- Director elections and re-elections (408 resolutions or 36.11% of votes against management), mostly related to director interdependence.
- Shareholder proposals regarding independent board chairs, lobbying reports, various rights, (37 resolutions or 26.06% of votes against management).
- Executive remuneration, compensation, bonuses and share plans (67 resolutions or 5.93% of votes against management, mostly related to setting of hurdles for short term and long term incentives).
- Capital management (189 resolutions or 16.73% of votes against management, mostly related to discounts to issue prices, dilution and the need for additional capital).
- Shareholder rights around authority to issue shares without pre-emptive rights (181 resolutions or 16.02% of votes against management).
- Shareholder proposals regarding independent chairs, lobbying reports, climate change and other issues (37 resolutions or 3.27% of votes against management). For the most part we supported management where the team believed they were making adequate progress related to the issues raised.

Share blocking markets and other operational constraints prevented us from voting on 102 (0.46%) resolutions.

Proxy Voting by Region

The chart shows the number of times the teams voted in each region and the percentage of votes against management recommendations, against our proxy advisors' recommendations, or against both. The purpose of this table is to show the regional difference in voting patterns and governance concerns.



As at 30/06/2018. Source: CGI Glass Lewis & Colonial First State Global Asset Management/First State Investments.

Breakdowns for individual listed equity teams are available in their profile pages on our website. A 'live' proxy voting history is also available in the responsible investment section of our website.

OUR PROGRESS
STEWARDSHIP

Climate Change Disclosure

We provide a climate change statement on our website which is aligned with the Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations. The statement describes our governance, risk management and strategy as it relates to climate change.

As described earlier, through our ESG information management plan, we are also improving our approach to metrics. This includes carbon footprint reporting which we can now produce at the push of a button for any listed equity portfolio manager or team.

The metrics opposite are an example of this output, looking at all our listed equity teams combined and compares the weighted average carbon footprint of our holdings vs that of their aggregated benchmarks. As may be expected our global listed infrastructure securities team's portfolios have higher weighted average emissions due to the carbon intensive nature of many infrastructure assets. Pleasingly for them and most team's with the largest carbon exposures, they are generally lower carbon exposure and more carbon efficient than their benchmarks.

As described in previous years, we believe carbon footprinting only offers a partial view of climate change related risks and opportunities. In order to achieve a more well-rounded view, we have also begun using 2oC alignment reports from the new transition monitor tool developed by the 2 degree investing initiative and are exploring other data sets which can also support this goal.

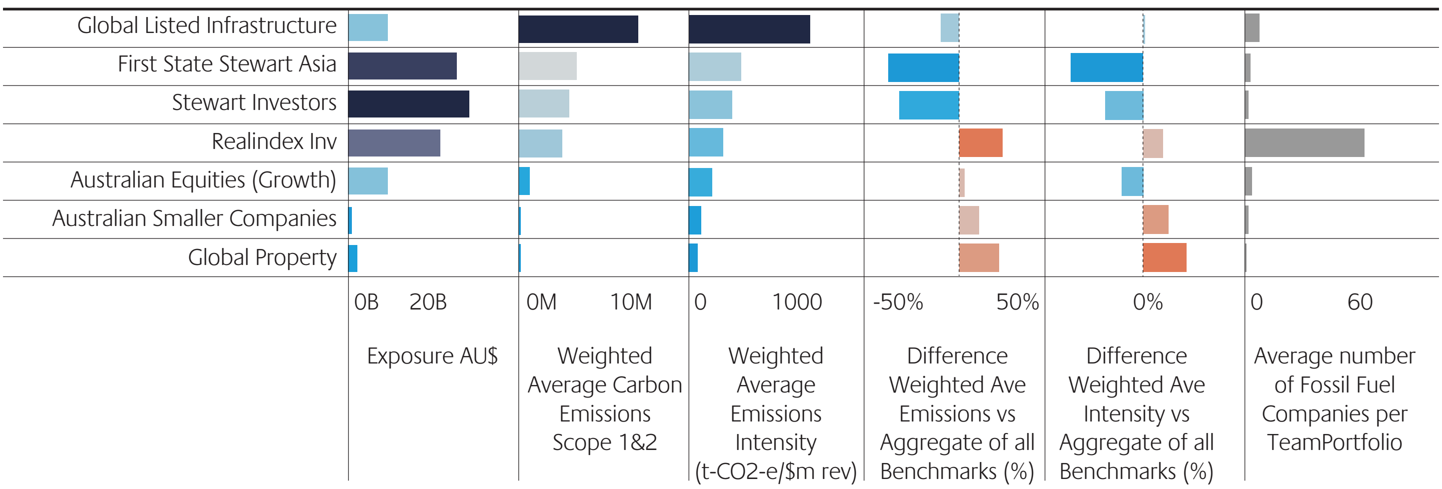
We have also looked at other external ratings of our strategies, in particular the Morningstar Low Carbon Designation, which was launched in May 2018. Below we detail the breakdown of low carbon designation strategies currently covered by Morningstar. Individual strategy ratings can be accessed from Morningstar's website.

Aggregated Listed Equities Emissions Profile

The table below shows key carbon metrics including the total and weighted average emissions for the team (all portfolios) vs an aggregated benchmark, the intensity of emissions (emissions/$M of sales) and the exposure to fossil fuel companies as classified by MSCI. Carbon footprint reports for each investment team and an explanation of how each measure is calculated can be downloaded from our website.

967/1,015	88,314M/90,955M	3,683,789 tCO2e	-48.1%	372.2 tCO2e	-18.8%	3.2
Companies/Covered	$/Covered	Weighted Ave Emissions (Scope 1+2)	Diff Weighted Ave Emissions vs Benchmark (Aggregated)	Weighted Ave Intensity (Scope 1+2/$m Sales)	Diff Weighted Ave Intensity vs Benchmark (Aggregated)	Ave Fossil Fuel Comp per Portfolio

Listed Equity Teams Emissions Profile



Carbon footprint reports for each investment team and an explanation of how each measure is calculated can be downloaded from our website.

OUR PROGRESS
STEWARDSHIP

We will also be releasing a series of papers on the investment implications of climate change covering five areas of climate risk that our working group identified.

The low carbon designation is provided to strategies which receive a carbon risk rating of less than 10 which also include minimal exposure to fossil fuels, this includes 10% of our strategies. Strategies with scores of 10 to 25.99 are considered to have medium risk (see box). While we would like to see more strategies receive the designation, the average rating of 13.6 for those strategies which are covered but have not received the designation is still relatively low.

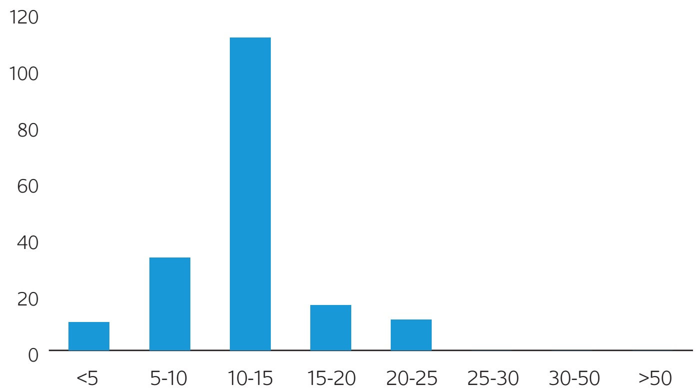
Understanding what various metrics do and, more importantly, don't tell us was a key focus of the climate change working group which completed its work earlier this year. A summary of the group's findings are available on page 36 of this report. We will also be releasing a series of papers on the investment implications of climate change covering the five areas of climate risk our working group identified. We hope these papers help our clients and stakeholders better understand the multiple dimensions of climate change risk impacting their investments.

Morningstar Low Carbon Designation

Scores range from 0 to 100, where lower is better, indicating lower carbon risk. Scores may be interpreted as follows, both for Sustainalytics company ratings and Morningstar portfolio scores.

Score	Carbon-risk level
0	Negligible
>0-9.99	Low
1-25.99	Medium
30-49.99	High
50+	Severe

Our Strategies by Morningstar Carbon Risk Scores



Source: Morningstar.

FEATURE

CARBON RISK MAY NOT ALWAYS BE WHAT IT SEEMS

The work we have done on climate change is described on our website. The issue is having real investment implications today which we believe will continue into the future. However, as we have described previously, the focus on carbon footprinting is potentially missing significant risks in portfolios and can even, at times, be misleading.

In a recent white paper the portfolio manager of our Sustainable Infrastructure strategy, Rebecca Sherlock, discussed some of these issues when comparing pipeline companies and utilities. An extract of the paper is below with the full account available on our website.

Most carbon footprint methodologies take a straightforward perspective. They focus on direct emissions from owned or controlled sources (scope 1), plus emissions from the generation of purchased energy (scope 2). This approach can lead to assets appearing carbon friendly, despite a close association with substantial emissions further along the value chain.

Our team believes it is more realistic to take a 'lifecycle' approach to emissions. This point can be clearly demonstrated by comparing a utility with an oil pipeline company.

Enbridge Inc. is a North American energy infrastructure company which owns extensive crude oil and liquids pipeline networks. Enbridge's assets are responsible for transporting 65% of all Canadian energy exports to the US. 90% of Canadian oil production comes from tar sands.

NextEra Energy is a regulated utility in the US. Its assets include Florida Power & Light Company, a regulated electric utility business, and NextEra Energy Resources, a clean energy leader which is the largest wind operator in the US, with a growing portfolio of solar assets.

The following chart compares the carbon intensity of the two above-mentioned companies over time, taking a traditional (or 'direct emissions') approach.

Most carbon footprint methodologies take a straightforward perspective. They focus on direct emissions from owned or controlled sources, plus emissions from the generation of purchased energy.

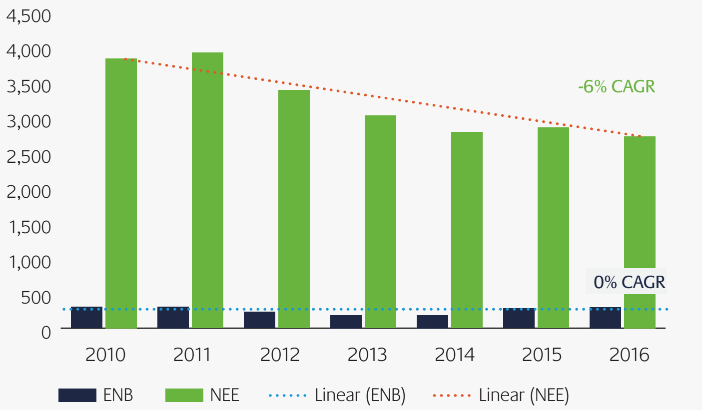
Our team believes it is more realistic to take a 'lifecycle' approach to emissions.

On this metric, Enbridge is clearly much less carbon intensive than NextEra. This is because the emissions associated with the fossil fuels transported by Enbridge are allocated to the transport sector and not to Enbridge itself. However in NextEra's case, the emissions from power generation are allocated to the utility.

Using only the carbon footprint the preference would clearly be Enbridge, but which company actually faces the greatest risks from climate change and transition to a low carbon economy? Using carbon intensity as the only form of analysis has the following flaws:

- It ignores change. Carbon emissions for NextEra fell by 6% CAGR (Compound Annual Growth Rate) over this period, reflecting its investments in wind technology and improved carbon efficiency. The corresponding change for Enbridge is zero.
- An investment premised solely on the metric of carbon intensity supports the use of oil pipelines versus other cleaner resources – thus having no impact on climate action.
- It ignores stranded asset risk. Following progress in clean energy generation, the disruption of the transport sector could represent the next global wave of decarbonisation. This implies a structural decline in demand for oil, and a risk that infrastructure associated with oil storage and transportation may no longer be able to earn an economic return.

Carbon Intensity Scope 1+2 over time (metric tons/revenue)



As at 30/06/2018. Source: Colonial First State Global Asset Management/First State Investments & Bloomberg.

BENCHMARKING
OUR PROGRESS

Our approach to RI and stewardship has always been client-focused. We benchmark our approach 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.

While we are very pleased to have improved in our PRI Assessment results in 2018 (see table), and to have continued our record of steady improvement since 2014, we recognise that this comes against a backdrop of broad industry improvement. For example in the PRI assessment results, median manager ratings in our peer group continue to rise as the industry increasingly adopts RI approaches.

The number of investors responding has also increased which makes the improvement in the median rating more impressive as it implies that either new signatories are starting from a higher base and/or that existing signatories are improving rapidly.

Other sources also demonstrate this improvement with the number of managers who achieved above 80% in the Responsible Investment Association of Australasia's benchmarking report go to 24 from 17 last year.

As long time advocates for RI we are encouraged by the general industry progress.

Since 2014 we have been fully compliant with the CFA Institute's Code of Ethics and Standards of Professional Conduct for asset managers.

Principle for Responsible Investment - Assessment Ratings

Each year every PRI signatory reports to the PRI on their responsible investment practices and how they apply the Principles. Our results since 2014 are below. Because we have changed the reporting period we are reporting both our 2017 and 2018 results this year. In 2018 we achieved an A+ rating in seven of eight areas, an improvement in three.

Our 2018 PRI assessment can be found on our website.

Module	2014 (Pilot)	2015	2016	2017	2018	Median manager 2018
Strategy & Governance	A	A	A+	A+	A+	A
Listed Equity Incorporation	A	A+	A+	A+	A+	B
Listed Equity Active Ownership	A	A	A	A	A+	B
Fixed Income SSA	B	B	A+	A+	A+	B
Fixed Income Corporate	A	A+	A+	A	A	B
Fixed Income Corporate Financial	N/A	N/A	A+	A	A+	B
Fixed Income Securitised	N/A	N/A	B	A	A+	C
Infrastructure	A	A	A+	A+	A+	A

BENCHMARKING OUR PROGRESS

We are one of 24 managers (from 112 assessed) who scored above 80% in the RIAA assessment.

RIAA Benchmark Report Assessment

Each year the Responsible Investment Association of Australasia assesses the RI practises of asset managers in its annual benchmark report. The assessment includes the quality of a manager's approach to RI policy, ESG integration, active ownership, transparency and industry involvement.

In 2018 we were pleased to remain one of only 24 managers (from 112 assessed) who scored above 80% in the RIAA assessment. Most of those assessed are PRI signatories and so we find the RIAA results an important differentiator given most managers do not disclose their PRI assessment results.

Although our focus is on integration of ESG within all our investment processes, we are one of Australia's largest managers of 'core' RI strategies as defined by RIAA*. In this category our Realindex investment team is the fourth largest and the Stewart Investors investment team the seventh largest manager. These strategies either have an explicit sustainable development focus (Stewart Investors and Sustainable Listed Infrastructure) or use a combination of negative and positive screens (Realindex). Over time these strategies have grown to represent 17% of the total listed equity assets we manage.

UK Stewardship Code – FRC Tiering

In 2016, the UK regulator the Financial Reporting Council (FRC), which has responsibility for the UK's Stewardship Code, announced that it would be ranking asset managers into three tiers depending on the quality of their stewardship related disclosures and activities. Since that time we have maintained the highest tiering – Tier 1 – awarded by the FRC.

Independent Research in Responsible Investment Survey 2017

We were pleased to be voted 26th globally for having made the most positive contribution to RI amongst asset management firms. Stewart Investors, who offer dedicated sustainable investment strategies were voted 14th in the category.

Each year SRI Connect and Extel conduct a global survey of RI professionals asking them to vote in various categories. Recognition from peers is particularly valued by us and we thank all those that voted for us.

CFA Institute's Code of Ethics and Standards of Professional Conduct

Since 2014 we have been fully compliant with the CFA Institute's Code of Ethics and Standards of Professional Conduct for asset managers. In 2017 we reviewed our adherence to the code through our compliance process. The code is available to view on the CFA Institute website.

PLSA Stewardship Disclosure Framework

We also benchmark our practices against the UK's Pensions and Lifetime Savings Association (PLSA) Stewardship Disclosure Framework. The framework provides an 'at a glance' comparison between the approaches of different asset managers. Our disclosure is available on the PLSA website.

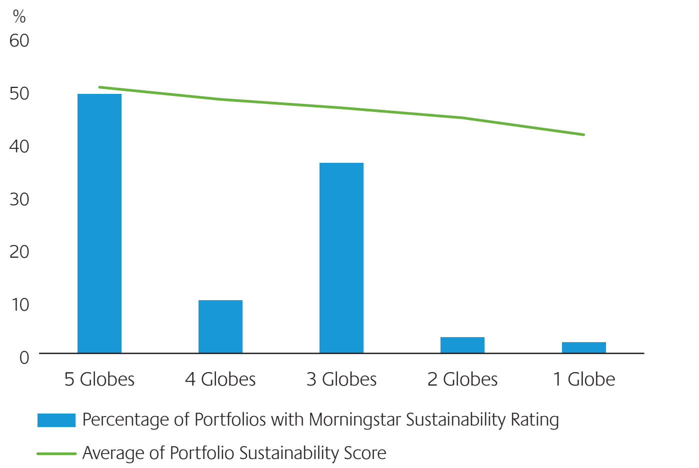
RIAA's Benchmark Report is available on RIAA's website.

*RIAA defines Core responsible investment as approaches which apply at least one of the following primary strategies: negative, positive or norms-based screening; sustainability themed investing; impact investing and community finance; or corporate engagement." Source 2018 RIAA Benchmark Report

BENCHMARKING STEWARDSHIP

For the third year we underwent an independent assurance of our practices against our Global Stewardship Principles and the UK Stewardship Code by PwC.

Almost 50% of our strategies rated by Morningstar achieved the highest sustainability rating.



Source: Morningstar.

Morningstar Sustainability Ratings

Distribution	Score	Descriptive rank	Rating icon
Highest 10%	5	High	
Next 22.5%	4	Above average	
Next 35%	3	Average	
Next 22.5%	2	Below average	
Lowest 10%	1	Low	

In 2017, Morningstar, in partnership with Sustainalytics, launched new sustainability ratings and more recently have added a low carbon designation. These ratings are unique as the only widely available ratings that evaluate the ESG quality of a strategies holdings rather than asset manager's policy and process.

We believe ESG ratings from independent research providers offer a valuable lens for understanding the ESG performance of companies. However we note they are predominately desktop research and so can only offer an incomplete understanding without direct company engagement. This is due to variability in company disclosures and biases related to company size, industry and location.

Notwithstanding their limitations, the ratings are a very welcome and important development as they will allow investors and their advisors to ask questions to get a better understanding of a strategy's approach to ESG, and to encourage investors to improve their own disclosure of the ESG performance of portfolios.

Research by the Chicago Booth School* showed that since their launch, investment flows into strategies with high Morningstar sustainability ratings have been positive while flows for lowly rated strategies have been negative. This supports a significant and growing body of research pointing to strong demand for sustainable investment.

Opposite we detail the breakdown of sustainability ratings for strategies we manage which currently have Morningstar ratings. Individual strategy ratings can be accessed from Morningstar. We are pleased to see a high proportion of our strategies well rated. We note that there is some duplication as some strategies are offered in different vehicles in multiple markets or on different platforms.

External Assurance of our Global Stewardship Principles

For the third year we underwent an independent assurance process against our Global Stewardship Principles and the UK Stewardship Code by PwC. The statement of assurance is available to clients on request.

* Hartzmark and Sussman: Do investors value sustainability? A natural experiment examining ranking and fund flows.

CASE STUDIES

Each year we provide case studies from each investment team as a way of demonstrating what RI and stewardship means to each team in practice. Over the last four years we have been accumulating these case studies in an interactive case study map, where users can look at case studies filtered by investment team, year or issue type. We believe this tool helps bring our RI work to life. The case studies come from the application of transparent processes that are described in each of our investment team's profiles on our website.

We believe read together, along with the other contextual information we provide, our clients and other stakeholders can form a well-rounded view of our investment teams. We provide six case studies here which we have selected to reflect the range of issues, countries and investment teams represented, more than 100 more like it can be accessed through the interactive map.

firststateinvestments.com/case-studies

Host has achieved a 32% reduction in greenhouse gas emissions per square foot, a 16% reduction in energy use per square foot and a 25% reduction in water consumption per occupied room.

PETROLEOS MEXICANOS (PEMEX)

Issue Type: Environmental, Social	
Industry: Oil & Gas	
Asset Class: Asia Fixed Income and Emerging Market Debt	
Country of Domicile: Mexico	

As part of our ESG engagement strategy, we engaged directly with the former Pemex CFO, Juan Pablo Newman Aguilar regarding safety and environmental concerns at an investor update in late 2017. In doing so, we raised specific concerns around safety accidents involving the loss of life and encouraged Pemex to consider re-instating its membership to the International Association of Oil and Gas Producers. Membership in this association would necessitate Pemex to contribute to the compilation of safety statistics, allowing investors to track trends in safety performance and to make informed comparisons. The executive confirmed that our request would be considered by the company.

HOST HOTELS & RESORTS, INC

Issue Type: Environmental	
Industry: REITs	
Asset Class: Global Listed Property Securities	
Country of Domicile: United States	

Host Hotels & Resort (Host) is the largest lodging REIT in the index and one of the largest owners of luxury and upscale hotels globally. We've held the stock since October 2017, as the company was poised to benefit from a better macro backdrop. Host is committed to corporate responsibility and focuses on three themes of RI, environmental stewardship and corporate citizenship. It establishes long-term investment plans for all assets and incorporates building systems, equipment and technologies to improve efficiency and conserve natural resources. Since 2008, Host has achieved a 32% reduction in GHG emissions per square foot, a 16% reduction in energy use per square foot and a 25% reduction in water consumption per occupied room.

Over time, we have had active dialogue with Host's senior management team to comprehend the depth and breadth of their commitment to sustainability, and have reaffirmed our continued support in their endeavors in further strengthening their corporate responsibility program. Host has walked us through case studies to show their commitment such as a fuel cell power purchase agreement to reduce utility costs at the Sheraton San Diego Hotel & Marina, that cuts natural gas usage by 50%. A local example (given our presence in New York) is the on-site steam boilers that were installed to remove its hotel from the New York City utility steam system and reduce carbon emissions by at least 20%. The company continues to be a core holding in our global portfolios.

CASE STUDIES

Water Utilities Australia operates Lightsview reWater, which is part of a sustainable housing community, where an alternative supply of water is available to every home. Lightsview reWater captures, stores, treats and supplies high-quality recycled water to residents.

COSTA GROUP HOLDINGS (COSTA)
Issue Type: Environment, governance
Industry: Food products
Asset Class: Australian Equities Growth
Country of Domicile: Australia

Each year Costa uses some 4000 casual fruit pickers, often on temporary visas and contracted mainly through agencies. Following issues at other listed companies regarding the underpayment of wages to workers, the Australian Equities Growth team investigated and engaged with other potentially “at-risk” companies to ensure correct wages were being paid.

The team raised the risks with the CEO, CFO and Chairman and received assurances around Costa’s management of labour hire arrangements including use of only a limited number of well-screened labour hire companies and processes that ensure the matching of time sheets with payment rates.

While these issues potentially pose high ESG risks, our engagement with the company reassured the team that these risks were being satisfactorily managed and they did not change its portfolio position.

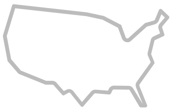
WATER UTILITIES AUSTRALIA
Issue Type: Environmental, climate change and recycled water supply
Industry: Water supply
Asset Class: Direct Infrastructure
Country of Domicile: Australia

Water Utilities Australia is assisting in ensuring a reliable water supply for irrigators in the McLaren Vale, a wine region south of Adelaide. Through its subsidiary the Willunga Basin Water Company, Water Utilities Australia sources water from state government-owned SA Water wastewater plant. It is then supplied to hundreds of customers under long term contracts. The threat and impact of climate change has motivated grape growers to make additional efforts to ensure sufficient soil moisture. The Water Utilities Australia infrastructure ensures security of supply, and provides it at a rate materially cheaper than potable water.

In another part of the business, Water Utilities Australia operates Lightsview reWater, which is part of a sustainable housing community, where an alternative supply of water is available to every home. Lightsview reWater captures, stores, treats and supplies high-quality recycled water to residents. The recycled water is applied to uses such as watering lawns and gardens, flushing toilets and washing cars. The recycled water supply is also used for watering community green space.

Investments such as those by the Willunga Basin Water Company and Lightsview reWater deliver sustainable water solutions for their communities and also help displace the need for additional state-sponsored investments in the potable water supply network.

We have raised our concerns relating to production oversight with management and have discussed ways in which governance issues could be addressed. Pleasingly, the senior management team appeared to take our feedback on board and we look forward to receiving a formal response on outstanding queries.



PEPSICO INC (PEP)
Issue Type: Social
Industry: Packaged foods and meats
Asset Class: Global Fixed Income
Country of Domicile: USA

PEP's ESG risk assessment of Moderate highlights the relevant issues primarily reflecting dynamics of the packaged food and beverage industry, with growing risks related to the expensive and key public health issue of obesity. These risks pose long-term challenges from a regulatory and consumption perspective of soft drinks and fatty, salty snacks. The risks inherent in the ESG-focused areas are not unique to Pepsi, but a large majority of food/beverage producers via the vast array of sourcing and manufacturing requirements essential in operating globally.

Pepsi has come under specific criticism for its lack of a satisfactory response to JV partner Indofood's handling of palm oil-related deforestation. PEP is also exposed to nutrition-related issues regarding its snack-foods (high salt, high sugar, etc.) as well as its soft drink products which are increasingly targeted by anti-obesity groups in the states (as well as anti high-fructose corn syrup headlines). Carbonated soft drink consumption in the U.S. continues to be on a long-term gradual decline, at least in part due to public health concerns.

NISSAN MOTOR COMPANY
Issue Type: Governance
Industry: Autos
Asset Class: Global Credit
Country of Domicile: Japan

As vehicle demand firmed in 2017, so too did Nissan's balance sheet. Our view of the credit is, however, tempered by:

- Quality control during the production process.
- A complex shareholder structure, which contributes to governance risk.
- The high carbon footprint of cars, along with Nissan's relatively slow development of electric vehicles.

We have raised our concerns relating to production oversight with management and have discussed ways in which governance issues could be addressed. Pleasingly, the senior management team appeared to take our feedback on board and we look forward to receiving a formal response on outstanding queries.

Our internal credit rating on Nissan is currently two notches below that of external rating agencies, in recognition of the elevated ESG risks we have identified for the issuer.

FEATURE

CLIMATE CHANGE

An important part of our approach has been the efforts of our climate change working group which concluded its research earlier this year.

Over the coming weeks we will be presenting more detail on this research, implications for investors, and provide guidance on how investors can incorporate these issues into their risk management and investment decision-making processes. An outline of the key areas we have focused on is provided below:

Climate change is one of the greatest challenges of our time, with the UN Intergovernmental Panel on Climate Change (IPCC) concluding that rising global temperatures, increasing extreme weather events, rising sea levels and diminishing ice caps are being largely driven by human activities such as the burning of fossil fuels (e.g. coal, oil or gas) and the reduction of forest cover.

Climate change and global warming pose systemic risks to society and the global economy, with major impacts on the availability of resources, the price and structure of the energy market, the vulnerability of infrastructure and the valuation of companies. The World Economic Forum has rated climate change as one of the most significant global risks in terms of both likelihood and impact since 2011, with the 2018 report finding that the top two risks in terms of likelihood and four of the top five in terms of being climate change related.

In 2015, building on agreements stretching back to 1994, the Paris Agreement was made at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change. The agreement sets an ambitious goal to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C".

In December 2015, Mark Carney, the Governor of the Bank of England and chair of the Financial Stability Board (FSB) stated that "the challenges currently posed by climate change pale in significance compared with what might come. The far-sighted amongst you are anticipating broader global impacts on property, migration and political stability, as well as food and water security". Subsequently the FSB launched the Taskforce on Climate-Related Financial Disclosure (TCFD) which found that the nature of climate change risks were such that all companies should disclose their assessment and response to the risks in their financial fillings.

For investors climate change poses a complex problem which has already, and will continue to, impact on different investments in a number of ways. In 2013 we convened a group of our investment professionals in a Stranded Assets Working Group to better understand the implications of a transition to a low carbon economy on fossil fuel related industries. The group developed, and in 2015 published, its findings and a 'Stranded Assets Toolkit' to aid investors assessing the issue.

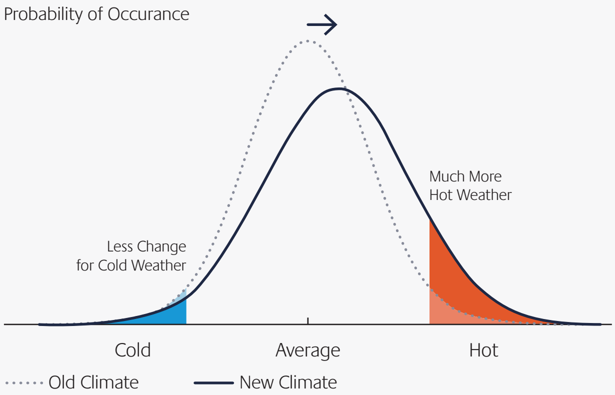
Climate-Related Financial Disclosures (TCFD)

In 2016, we established a climate change working group to take a broader view of the issue and its investment implications. From this work we have identified five key categories of climate change risk facing investors today and into the future.

1. Physical Risks Of Climate Change

It is clear that changes in climate and corresponding weather patterns are already having costly impacts on physical assets, business continuity, supply chain resilience and agricultural production. We expect these changes to continue and impacts to worsen as temperatures and sea levels rise. There is also the risk of irreversible discontinuous changes to the climate system if 'tipping points' are breached.

Increase in Mean Temperature and Variance

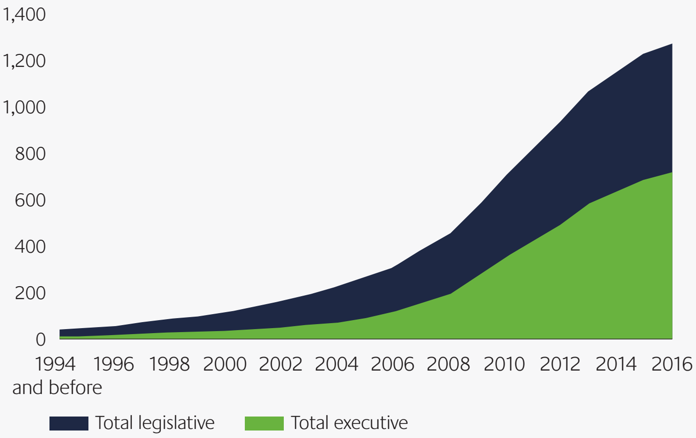


Source: Adapted from IPCC (2001) http://www.c2es.org/publications/extreme-weather-and-climate-change.

2. Regulatory Intervention On Emissions

National and state level commitments to reduce greenhouse gas emissions are resulting in a variety of policy frameworks being deployed. Other regulatory concerns on air pollution are also impacting carbon intensive companies.

Total Climate Change Laws And Policies

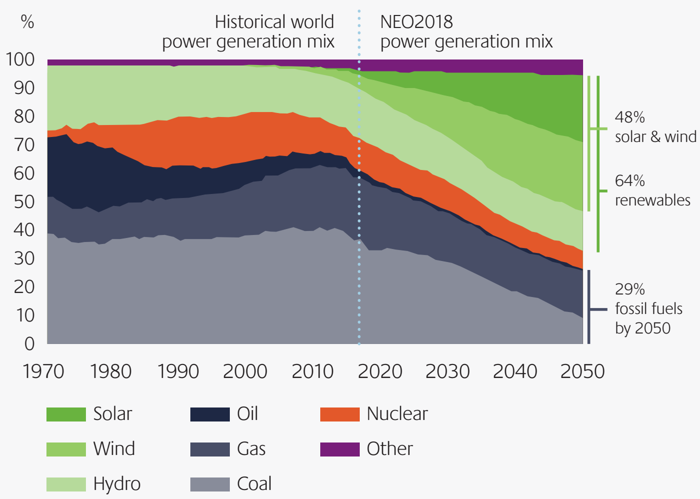


Source: Climate Change Laws of the World, Grantham Research Institute.

3. Business Transition And Stranded Asset Risk

As the economy shifts to low carbon, companies will face headwinds or tailwinds depending on the sectors in which they operate and the opportunities available to them. For some businesses this will be direct - with the risk of assets being written-down or 'stranded' while for other businesses the need to retool and realign their business models to utilise low carbon technologies will offer both risks and opportunities.

Power Generation Mix



Source: International Energy Agency & Bloomberg New Energy Finance.

4. Director Duties And Legal Risk

An increasing body of legal opinion and regulatory guidance across the globe has found that companies and investors who cannot demonstrate that they have considered the implications of climate change are potentially in breach of their director duty of care and/or trustee fiduciary duties.

5. Reputational Risk And Potential Challenges To A Firm's 'Social License To Operate'

The increased sophistication of environmental NGOs, public concern and the reach of social media has resulted in companies who do not act on climate change being increasingly targeted. A good example of the success of these campaigns is the recent lobbying against further bank financing of coal mines and fossil fuel based energy generation.

Each of these areas of risk also feature corresponding opportunities for our clients, from our stewardship, engagement and investment activities on their behalf. We look forward to sharing deeper insights on them in the coming weeks.

POLICY

AND WIDER INDUSTRY ENGAGEMENT

During the period we participated in a number of consultations and initiatives which we believe support a more sustainable financial system, these included:

EuroSIF played a critical role in the European Commission's High Level Expert Group (HLEG) on a Sustainable Financial System. Our Global Head of Responsible Investment is the President of EuroSIF and strong advocate for HLEG's work.

Through the Financial Services Council (FSC) we responded to a consultation on the revised Australian Securities Exchange Corporate Governance Principles. In line with our views, the FSC supported proposed changes to the principles which would focus directors on maintaining a company's social license to operate among other positive changes.

We responded to MSCI's consultation on the design of ESG indices including our concerns around a proposal to remove tobacco and other exclusions from some MSCI indices.

Our Chief Investment Officer, Equities led the development of the Financial Services Council's new standard on Internal Governance and Stewardship which is now compulsory for FSC members.

We are leading a working group on behalf of the UK Investment Association on developing standards and clarifying definitions of sustainable investment.

Our Head of Responsible Investment Asia Pacific chairs the Investor Group on Climate Change's Investor Disclosure Working group which developed a Master Class with leading ESG research provider Regnan on preparing TCFD aligned climate change disclosure for investors.

Stewart Investors held a plastics round table in India following research they sponsored by the University of Technology Sydney. The round table brought together some of India's leading consumer companies (some for the first time) to collaborate on solutions to the plastic pollution crisis.

We hosted and led the discussion for a Debt Roundtable conducted by the Prince of Wales' Accounting for Sustainability (A4S) initiative which sought to explore barriers and solutions for unlocking sustainable debt financing from Australian banks and corporates.

INDUSTRY COLLABORATION

We support a number of industry and trade groups who are focused on developing and improving RI. While these groups do not represent our views unless we specifically sign up to a particular statement, we do support and are aligned with their broader mission.

Each year we review the various initiatives that we have been involved with to ensure their purpose aligns with our clients' interests and that we have the capacity to make a meaningful contribution.

The initiatives that we remain actively supportive of and engaged with are listed below:

GLOBAL INITIATIVES

Cambridge University Investment Leaders Group

- Founder member
- Working Group Chair

Integrated Reporting

- Business Reporting Leaders Forum (Australia)

EMEA

Investment Association

- Member of Sustainable & Responsible Investment Committee
- Chair of Standards & Definitions Working Group

UK Sustainable Investment Forum

- Member

EUROSIF

- Chair

ICAEW

- Member – Corporate Governance Committee
- Member - Sustainability Committee

Prince's Acounting4Sustainability (A4S)

- Expert Panel Member

ASIA PACIFIC

Financial Services Council

- Member of the Investment Committee
- Member of the ESG Working Group

Responsible Investment Association Australasia

- Chair
- Member of Governance Committee
- Member of Human Rights Working Group

Investor Group on Climate Change

- Member of the Committee of Management
- Chair Investor Disclosure Working Group

Asian Corporate Governance Association

- Member

96 AWARDS

While our focus is always on delivering for our clients rather than winning awards, we appreciate the recognition we receive when we deliver for our clients. During the reporting period we received 96 awards in Asia and Europe including from;

- Thompson Reuters Lipper,
- Citywire,
- Benchmark Fund of the Year
- Fund Selector Asia
- AJ Bell Awards
- Asian Private Bank; and
- VWD Cash Awards

In terms of RI we received the Asia Asset Management Best of the Best Awards 2018 – Best Application of ESG and the Benchmark Fund of the Year Awards 2017 – Grand Awards – Best Sustainable Investment Award (Overall Leader).

OUTLOOK

We recognise that adoption of RI practices across the industry has accelerated and standards are evolving rapidly. Two key areas for us in this regard are the increasing focus on measuring the impact of our investments on society and the environment, and considering how these measures can help us better contribute to and support the UN Sustainable Development Goals (SDGs).

Our colleagues at Cambridge University's Investment Leaders Group are working with us using their academic excellence and resources to navigate the key challenges in measuring SDG impact at a whole of portfolio level.

We have seen attempts at SDG mapping by investors and have become increasingly concerned that the focus on what a company does was being counted regardless of how it does it. For example, it is clear that not all health care companies contribute positively to the SDG's third goal of 'good health and wellbeing', however several of the mapping exercises we have seen ignore this.

As we look at the SDGs further we will be very mindful of these considerations so as not to misrepresent the contribution our investments make.

We will continue to review and seek to enhance our own practices and processes and increase the level of knowledge of RI across our organisation. We have long believed that in order to be a credible industry leading responsible investor we must act as and, at all times, be a responsible business.

Other key milestones for 2018/2019 include:

- Refreshing our ESG tools for investment analysts with new data including MSCI Carbon and Reprisk ratings which are currently being integrated into Bloomberg.
- Roll out of new ESG Portfolio Monitor reports, including interactive carbon footprint reports on our website.
- Scoping data requirements for portfolio impact measurement and SDG assessment.
- Exploring other opportunities for the development of new more explicit sustainable investment strategies.

We look forward to continuing our journey and sharing the challenges and progress ahead.

Appendix – Policy Exclusions
We exclude cluster munition and land mine manufacturers. The criteria were established under our cluster munitions policy which was approved by the Responsible Investment Steering Group.

Sanctioned and High Risk Countries
We also exclude sanctioned and very high risk countries, companies domiciled in those countries and individuals. The process includes a two-tier system whereby some countries are completely blocked (such as Iran, North Korea and Syria) and others are heavily restricted.

The companies captured by the policy are reviewed annually with any changes reported on our website.

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