First State Investments

2019 RESPONSIBLE INVESTMENT & STEWARDSHIP REPORT

Our progress and performance
in a year of change

CONTENTS

WELCOME

TO OUR 12TH ANNUAL RESPONSIBLE INVESTMENT & STEWARDSHIP REPORT

Since we published our last report in 2018, we've been through a change of ownership. In August 2019, we were acquired by Mitsubishi UFJ Trust and Banking Corp (MUTB) of Japan.

MUTB is a member of Mitsubishi UFJ Financial Group, which is one of the largest financial institutions in the world. Our new parent shares our commitment to the ESG (environmental, social and governance) and stewardship principles that have informed our investment approach for decades. The backing of such a large and well-regarded owner gives us the stability and support to make us even stronger.

This change offers many exciting opportunities for collaboration between our business and MUTB. We'll provide more details on the ways we aim to work together to enhance our responsible investment work in future reports.

Rebranding our business

We've begun work to rebrand our business globally following our change of ownership.

In Australia, we now operate as First Sentier Investors (replacing Colonial First State Global Asset Management). This differentiates us from the Colonial First State business that remains under the ownership of the Commonwealth Bank of Australia. Over the next 12 months, we'll adopt the name First Sentier Investors in all markets. FSSA Investment Managers, Stewart Investors and Realindex will remain as separately branded investment teams within our group.

'Sentier' is a French word meaning 'path'. We've chosen the name First Sentier Investors to preserve links to our heritage while reflecting our long-term commitment to follow our own path – investing responsibly over the long term for the benefit of our clients. A unified global brand will benefit both our employees and clients.

Growing public awareness and policy change

Our focus on ESG issues, as a source of long-term risk and return, is embedded in our investment approach. In more recent times, responsible investment concerns have become key drivers in the decisions of ever more institutional and retail investors.

Over the past 2 years, we've witnessed an increase in interest from policymakers and regulators, which have begun to promote the adoption of sustainable and responsible investment as a means of bringing market and economic stability, as well as satisfying the demands of investors.

In this year's report, we explore this trend and reflect on how policy and regulatory developments – as well as rising awareness in society – are reshaping the investment industry.

Greater transparency and why it matters

The European Union has been a key driver of this change with the EU Sustainable Finance Action Plan, which will have a significant impact on the industry over the coming years. The action plan stresses the importance of greater transparency and disclosure from market participants.

At First State, we've worked hard to stay at the leading edge of high quality reporting and disclosures for the benefit of our clients and their advisors. This high level of transparency makes it clear to our clients and regulators how we execute our responsible investment obligations and act as the best possible stewards of their capital. It also means we can be held accountable for our performance and shows that we operate with honesty and integrity. We welcome this scrutiny from all our stakeholders.

This Responsible Investment & Stewardship Report is an important part of that transparency. It shows how we go about integrating ESG issues into our investment processes. It reports on our engagements with investee companies, both directly and through working with our peers. And it includes case studies from across our business, demonstrating the progress we've made and the challenges we've met. One of these tells the story of an investment industry initiative we are leading to increase the availability of insurance for people in emerging markets who need it most. You can find out more on page 16.

What we've done – and what we've got planned

Our performance this year against an important industry benchmark, the annual assessment by the Principles for Responsible Investment (PRI), has seen us again rated at least 'A' in all applicable categories. We achieved the highest rating of 'A+' in 4 of the 8 areas in which we're assessed.

We've also undertaken thought leadership work with Cambridge University's Institute for Sustainability Leadership. Together we've carried out research and work on topics such as long-term investment and investor preferences for sustainable investments. We've also created, in our opinion, a market-leading framework to assess an investment portfolio's environmental and social outcomes against the UN Sustainable Development Goals. You can see this framework on page 34.

We hope this report gives you meaningful insights into how we implement responsible investment and stewardship across our global business. Our goal is always to do the best job we can for our clients. Our commitment to best practice in responsible investment is very much aligned with this.

As always, we welcome your feedback on our work. If you've got any questions or comments, contact stewardship@firststate.co.uk

Mark Steinberg
CEO, First State Investments

ABOUT US

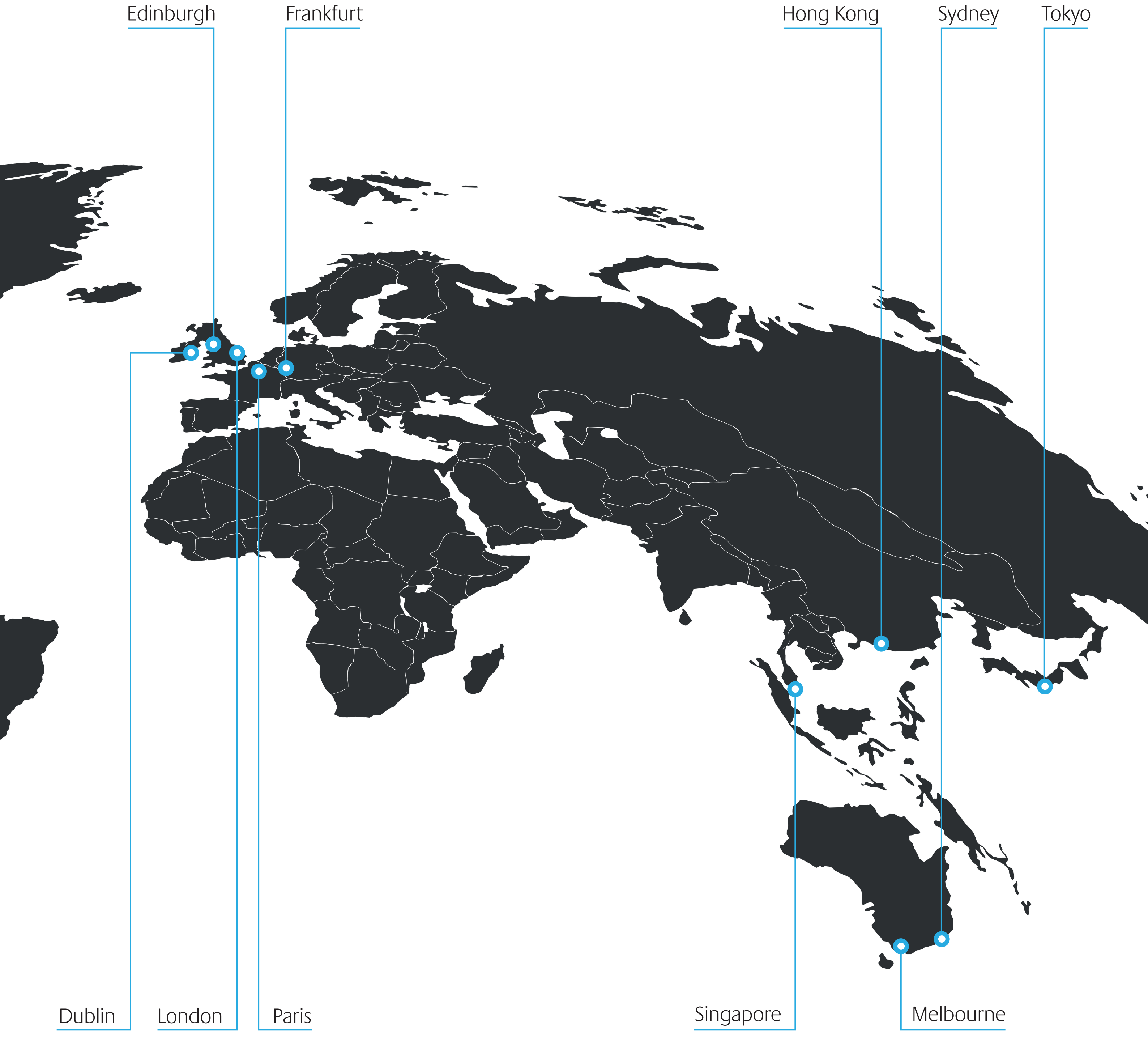
We are a global asset manager with offices across Europe, the US, and the Asia Pacific region.

We are stewards of over US$160.6 billion in assets managed on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisors 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 responsible investment are critical to maintaining and enhancing this culture.

	Total staff	Investment staff
UK, Europe and Middle East	360	69
Asia (including Japan)	149	33
Australia and New Zealand	300	89
North America	42	20
Total	**851**	**211**

Source: First State Investments as at 31 December 2019.


Edinburgh
Frankfurt
Hong Kong
Sydney
Tokyo
Dublin
London
Paris
Singapore
Melbourne

OUR APPROACH

TO RESPONSIBLE INVESTMENT AND STEWARDSHIP

This year, we've enhanced the quality and relevance of our investment capabilities. We've further embedded a culture of stewardship across the organisation. And we've worked to engage all our employees in our responsible investment work.

Our approach is underpinned by an effective, strong governance and oversight framework. This keeps us accountable for delivering our responsible investment obligations.

We're now made up of 16 investment teams working across a range of asset classes. Every member of every team is a specialist in his or her field. They've got the autonomy to establish their own investment philosophies and the expertise to manage their own processes.

Each investment team's approach evolves over time. This autonomy and diversity of approaches is a key strength of our business. It helps us to share ideas and develop our knowledge. And it means that everything we learn from each other's successes and mistakes becomes part of our institutional memory.

Our commitment to responsible investment and stewardship is a common thread that runs through and unites these diverse individuals, teams and capabilities. We all believe that putting ESG factors at the centre of our investment decisions is a crucial obligation to the institutions and individuals that we serve. But we also believe they're a key source of long-term risk and return. And we believe that, as a leading global institutional investor, and as stewards of our clients' assets, we can achieve better outcomes through active company engagement and by intelligently exercising the equity ownership rights we hold on behalf of our clients.

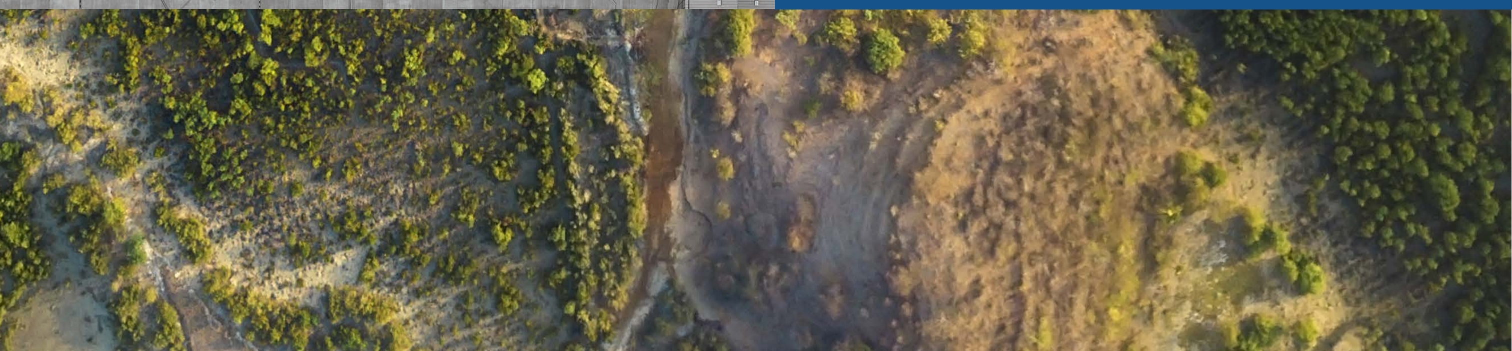
Proper governance of responsible investment, and systems for collaboration and information sharing are critically important to our progress. This is largely the work of our Responsible Investment Steering Group, chaired by our CEO, and of our other RI/ESG committees and working groups. These are made up of investment and non-investment professionals from different teams across the global business.

In this report, we describe the progress we've made over the past 12 months.

You can find out more about our approach, the performance of our funds, and our people and culture at firststateinvestments.com

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

For all teams, responsibility and accountability for analysis and integration of ESG factors, investee company engagement and proxy voting rest 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.



SPECIALIST EQUITIES

Australian Equities, Growth

ESG risks are primarily identified by our rigorous company engagement programme. We equally weight our own assessment from these engagements with quantitative measures to generate a proprietary ESG score. Analysts incorporate this score together with fundamental analysis in determining stock ratings (Buy/Hold/Sell). In assessing how companies are managing ESG issues, we 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

ESG considerations influence all our investment decisions, given that sustainability is one of the 6 key criteria used in our evaluation of companies. Where ESG factors are determined to have a material impact on profitability, they are quantified and can influence other factors, most directly in the valuation and financials of the company. In addition, ESG issues are frequently raised with senior management and board members during our extensive engagement with companies, making an important contribution towards our investment view.

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-related criteria have always been fully incorporated into our investment process, and account for 25% of the overall quality score we assign when considering investment. Company engagement, to encourage ESG best practice for the benefit of investors, is a key part of our investment approach.

FSSA Investment Managers

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

Responsible investment and stewardship principles are important to our approach to investment management and an area of ongoing research. Our approach to ESG integration can be grouped into 3 key areas: 1) encourage companies to effectively manage the ESG risks and opportunities facing their businesses through proxy voting and engagement; 2) understand ESG risks in our portfolios; and 3) integrate ESG factors and considerations into our investment processes to enhance performance and/or manage risk.

FIXED INCOME AND CREDIT

In our experience, ESG issues can have a significant bearing on default risk. Historically, poor corporate and regulatory governance have been recognised contributors in most corporate failures. Consequently, ESG risks are identified as part of our bottom-up credit research process to help manage default risks in bond portfolios. Our ESG assessment has an important bearing on proprietary internal credit ratings that are assigned to every credit we review, in turn influencing portfolio construction decisions.

As well as this bottom-up research, ESG factors are considered as part of our position sizing discipline. Understanding the potential for ESG drawdown risks in the developing world has been a critical factor in our Emerging Market Debt Team's ability to outperform in down markets, for example.

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 set ESG targets, develop initiatives and help drive cultural change.

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

GIVING MILLENNIALS THE RESPONSIBLE INVESTMENTS THEY WANT

Barely a week goes by without new research showing how pension and other savers are motivated by the idea that their money could be ‘doing good’ as well as growing while it’s invested.

Our research shows a growing interest in responsible investment (RI) from younger pension savers and investors – the ‘millennials’ who were born at the end of the last century and are now in the workforce. This age group in particular want to know where their money is invested, and expect it to be avoiding undesirable sectors and companies.

The investment industry needs to understand that these attitudes are becoming the new normal: millennials are the mainstream investors of tomorrow. There is a great opportunity here for the industry, but there’s work to do if we are to make the most of it. We need to manage and meet expectations, inform and educate, and of course give investors more of the sort of investments they want.

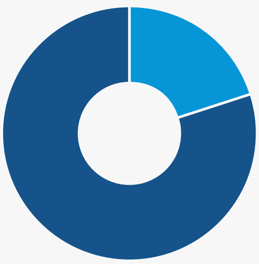
Our research focused on British millennials

In 2018, we carried out a joint research project with European financial services company Kepler Cheuvreux into people’s views and understanding of RI. The survey was worldwide, though most of the 540 respondents were British, and we focused our report on the 79% of respondents who were born between 1980 and 2000 – a broad definition of ‘millennials’.

8 trends we identified in our research

1.

Millennials care about RI



Over 80% of millennials not already holding RI investments were interested in doing so.

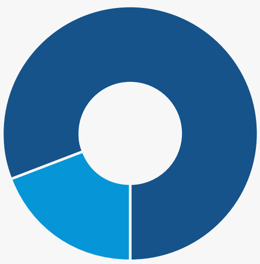
2.

Millennials think they are more interested than others

79% of millennials thought people their age would be more open to the idea of RI than older people are.

3.

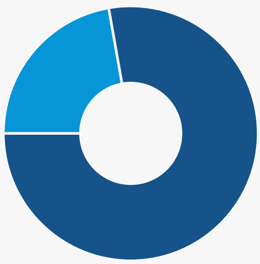
Everyone wants more information about RI



81% of all respondents wanted ‘more education’ about RI and the products available.

4.

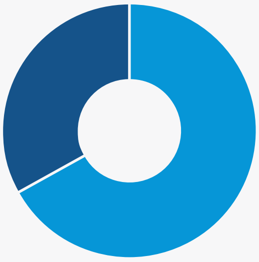
Investors will choose providers who have RI expertise



78% of respondents said evidence of RI expertise would affect which provider they chose.

5.

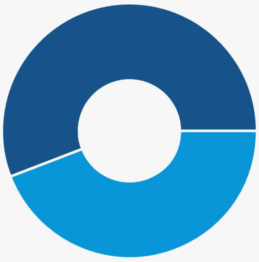
The environment is the top ESG theme



Over a third of respondents said the most important ESG theme is the environment.

6.

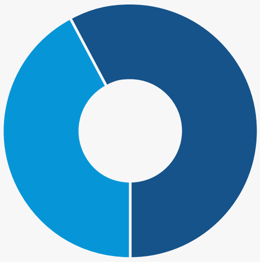
People don't see RI as reducing long-term returns



In line with many recent studies, 56% think RI is likely to boost long-term returns.

7.

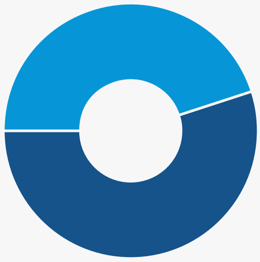
People will divest from controversial companies



58% said it would take 2 to 5 controversial company incidents for them to change investments.

8.

Digital is an opportunity for RI



55% of respondents thought that the move to digital could increase uptake of RI products.

Source: Kepler Cheuvreux/First State Investments 2018

What these trends mean for the investment industry

Our research showed that investors, and particularly millennial investors, have a healthy appetite for good quality information about RI. They expect providers already to be integrating ESG factors into their strategies and decisions, and that the RI products should be transparent and genuine. Every part of the industry can join in with the common goal of giving the investors of tomorrow what they need.

Defined Contribution schemes need to inform themselves properly on RI, and to explain their policies to members. We believe consultants need to support trustee boards and, following the new regulations on Statements of Investment Principles, help them to think about how RI will be a part of their default fund, as well as their self-select options. There's a great opportunity here, as members are likely to save more when they feel good about where their savings are invested.

Investment managers need to be clear about their beliefs and approach to RI. They should show ESG outcomes of funds alongside financial performance. They should develop their in-house expertise and tie incentives to the quality of their RI work. Managers need to move away from language that states or implies that RI investments don't perform as well. But they also need to understand that millennials don't want to sacrifice morals for performance – they want a balance.

Regulators and policy makers need to support these changes, with standards for trustee training and education resources for members. Trade groups should promote consistent definitions for RI classifications and use independent measures to test the RI claims of investment managers. And policy makers should consider whether to use tax tools to stimulate take-up of RI products.

Investment platform providers and fund selectors should provide clear information for investors on RI, where money is invested and the expertise of their fund managers. They need to offer more RI funds and easy ways to compare them.

Finance sector trade bodies and NGOs* should be pushing for wider education on RI, from financial literacy in schools to accredited programmes in investment houses. And they have an important role to play in highlighting good practice and calling out bad, including 'greenwashing'.

Initiatives such as the ILG framework (see page 34) will be helpful in satisfying the information need from millennial investors, enabling an insight into the desirable outcomes they wish their investments to achieve.

*non-governmental organisations

Forum briefing paper and output paper

OUR PROGRESS

The next few pages detail our progress in 2019 against the 3 strategic pillars of our business: quality investment processes, highly engaged employees and a culture of stewardship.

We've been tracking the impact of our RI work for 12 years. In that time, the role that ESG factors have played in our decision-making processes and stewardship practices has evolved. New issues, such as plastic pollution, have emerged and risen in the public consciousness. New policies and initiatives, not least the UN's Sustainable Development Goals, have pushed for change in business and industry all over the world. All the while, our investment teams have worked to incorporate these considerations into the same transparent processes that we've had in place for over a decade.

We've seen interest in RI from across the global investment industry grow enormously. And in the last 2 years, the amount of activity from policy makers and regulators aimed at that industry has grown to an unprecedented level. Before 2018, less than 20% of regulation was focused on investors. Since 2018, more than 80% has been.* As stewards of our clients' capital, it's imperative that we keep on adapting to this rapidly changing environment.

*MSCI: The EU sustainable finance package: What do investors need to know, August 2019.

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OUR PROGRESS QUALITY INVESTMENT PROCESSES, INFORMATION AND TOOLS

Access to the best possible information and cutting-edge tools helps our investment teams fully integrate ESG factors into their processes.

Making our data more accurate

Our ESG Portfolio Monitor tool gives us an 'at-a-glance' overview of the ESG quality and climate exposures of our equity portfolios. In 2019, we worked with our service providers to improve the quality, management and aggregation of the information that we get from them. We integrated all the ESG ratings from our external research providers into our data warehouse and investment systems to enhance the Portfolio Monitor and its associated dashboards. And we kept on extending its use across the business. We hope to make it available to our fixed income teams in 2020.

Following up on our Mumbai Plastics Workshop

In our last report, we talked about a plastics workshop organised by our Stewart Investors Sustainable Funds Group in Mumbai in July 2018. This day-long, interactive session involved senior management from 11 of India's largest consumer goods companies coming together to talk about how they can reduce the amount of plastic packaging they use. Attendees included CEOs and other company executives, packaging and supply chain experts, and representatives from the World Resources Institute and Xynteo. They discussed the common challenges facing their companies and brainstormed ideas for how they can work together to improve the situation.

At the forum, the companies agreed on 13 steps for change. The most important of these was to set up a new industry body to agree plastic reduction targets and develop shared initiatives. Since the event, the UN Environment Programme has announced a new collaboration with the Confederation of Indian Industry and WWF India to address many of the same issues that were discussed at the workshop. This was great timing, and we are thrilled that the companies now have a dedicated forum in which to progress their ideas and collaborate with a wider group of peers and experts.

Developing our knowledge

Making sure our investment teams are up to speed on current and emerging ESG issues is a consistent and important focus for us. Increasing our collective knowledge of ESG and sustainability issues is a key learning and development goal, and features in our long-term RI strategic plan.

Knowledge comes into our business through a range of channels. These include our external ESG research providers, broker research, NGOs and supranational organisations such as the World Bank and the International Energy Agency.

Each year, we invite expert speakers to talk both to our investment professionals and other colleagues on topics of relevance. These are on top of the various briefings, seminars and conferences that teams undertake independently. We are always very grateful to the speakers and their organisations for taking the time to present to our teams and share their knowledge and expertise on important and developing issues. In 2019, topics and speakers included: Sustainability Themes & Investing Trends from Morgan Stanley; Sustainability Ratings from Morningstar; and Carbon Risk Assessment Tools from MSCI.

OUR PROGRESS DEVELOPING A HIGH-PERFORMING WORKFORCE

How we're attracting and retaining diverse, highly engaged people

The success of our business depends on our ability to attract and retain great people and give them the tools and motivation they need to succeed. This year, we've been helping people navigate our change in ownership, setting out a new code of conduct, and increasing the number of women on our subsidiary boards.

We continue to focus on employee engagement

Keeping everyone at First State engaged with our approach to responsible investment and stewardship is essential to the success of our business. It reflects our commitment to being a leader in our field, and it's one of the most important ways we have of delivering good results for our clients.

Our change of ownership has made 2018/2019 a time of rapid and intense change. Change can be unsettling, so we've been working hard to help our people stay motivated and focused at work. We ran 'Adapting to Change' workshops in our offices around the globe, equipping everyone with the tools and techniques to navigate change both personally and professionally. These workshops were designed to support staff wellbeing and engagement, and to help with the delivery of good outcomes for clients.

We wanted our employees to have a say in our rebrand, to make sure that the end result reflected what matters to them. We ran a number of workshops to understand what it is about our purpose and culture they value. Our new global brand incorporates the ideas that most resonate with our people, whether they are portfolio managers and analysts making investment decisions, or individuals with more operational responsibilities, or those managing client relationships and business development.

OUR PROGRESS
DEVELOPING A HIGH-PERFORMING WORKFORCE

We're staying focussed on improving gender equality in our organisation.

We've launched and embedded a global code of conduct

This year, we've published a global code of conduct. It reinforces our commitment to operating with the highest standards of professionalism to protect our investors' interests, and to behave ethically and responsibly as a firm. The code sets out what we expect from everyone who works here, in our day-to-day operations and interactions with our clients and other stakeholders. People attest to maintaining these standards when they join the business, and annually from then on.

We've published our Diversity and Inclusion Commitment

We're committed to building a diverse and inclusive environment. We believe that it contributes to better decision-making and outcomes for clients, and it's a philosophy that we apply across the organisation.

This year, we launched our Diversity and Inclusion Commitment, which sets out our approach. It reinforces our ongoing commitment beyond our transition to new owners and it provides a platform for discussions to share our learnings around diversity and inclusion with our new shareholders at Mitsubishi UFJ.

We've been keeping track of our progress

In a year of significant change, we've stayed focused on developing a diverse and inclusive workforce. We've embedded a range of associated activities in our business processes, including:

- Ongoing reporting and disclosure of our diversity metrics (scorecard on the next page). This has shown movement in both directions and highlighted areas where we need to focus
- A structured recruitment process designed to maximise our talent pool
- An ongoing focus on gender equity throughout our annual remuneration review process. This has helped us keep our pay equity differential at 0%
- Our global parental leave policy, which encourages both parents to share in the parental responsibilities. We've seen an increasing number of our male employees take time out as primary or secondary caregivers.

We've also spent time working to rebalance our subsidiary board membership numbers. We believe this is an area where women can participate outside their defined areas of expertise and gain exposure to more senior business representatives. By focusing on appointing women, we've seen the number of women on our subsidiary boards rise to 28%. We believe this delivers more variety in the skills on our subsidiary boards, which in turn benefits clients.

OUR PROGRESS
DEVELOPING A HIGH-PERFORMING WORKFORCE

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

Breaking down our gender diversity scorecard

Our diversity scorecard shows some movement of our numbers in both directions. At the end of June 2019, women represented 22% of our investment management roles. This was a 1% decrease from the previous year. However, the number of females joining our investment teams over the 12 months (July 2018 to June 2019) has increased by 8%. We believe this shows that our work to increase the size of our talent pool, encourage consideration of a diverse range of candidates and to minimise bias is paying off.

Gender diversity

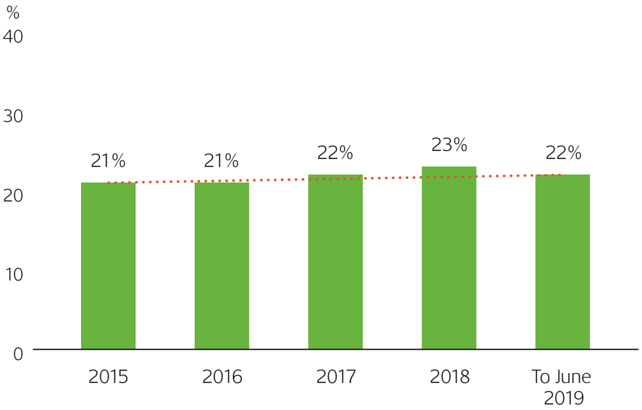
	Male	Female	
Total firm	56%	44%	↑
Executive leadership team	73%	27%	↑
Senior professionals	66%	34%	↑
Investment management professionals	78%	22%	↓
Client facing professionals	61%	39%	↓
Subsidiary board members	72%	28%	↑
New starters to the firm in the last 12 months	72%	28%	↓
New starters to investment teams in the last 12 months	63%	37%	↓

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) July 2018–June 2019. Source: First State Investments/First Sentier Investors, as at 30 June 2019.

OUR PROGRESS
DEVELOPING A HIGH-PERFORMING WORKFORCE

Women in investment management roles



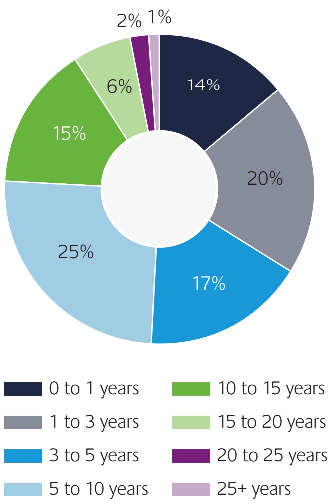
Source: First State Investments/First Sentier Investors, as at 30 June 2019.

The number of females in our client-facing roles has declined, from 43% to 39%. It's important to us that we reflect the make-up of the clients we work with, and we've identified this as an area for improvement. In spite of the decline, we have seen some positive examples of progress, with 2 of our females being promoted to lead regional client services functions.

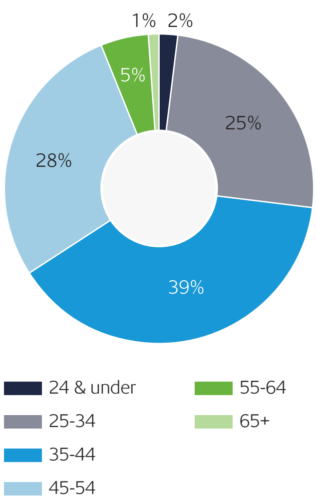
The female compositions of both our Executive leadership team and senior professionals have both increased over the last 12 months by 4% and 1% respectively.

Staff turnover over the last 12 months has increased by 1.5% to 8.7%; this is in line with our expectations when going through a period of significant change. However, we've seen an increase in the number of people with 1 to 5 years' service, up 5% on last year. Most movement out of the organisation has been among people with between 1 and 5 years' service. The number with more than 5 years' service remains steady. Across all these metrics, our age diversity is unchanged on last year.

Length of service



Diversity by age



Source: First State Investments/First Sentier Investors, as at 30 June 2019.

FEATURE

INSURING THE PEOPLE WHO NEED IT MOST

How Stewart Investors is encouraging the growth of micro-insurance in the developing world

Millions of people in the developing world are just one broken rickshaw or bad harvest away from the breadline. These are the people that need insurance the most – but they often struggle to get it. In the Sustainable Funds Group at the Stewart Investors team within FSI, we've been leading an industry initiative to engage with major insurers with the goal of making coverage widely available to people on low incomes. We believe that this is an opportunity for these firms to build their customer base and generate profit both in the short and long term, and meaningfully contribute to the wellbeing of the societies in which they do business.

Making insurance work for the low-waged

In the past few decades, millions of people in the developing world have escaped absolute poverty. But many of these people are still financially vulnerable. An accident or an illness could radically reduce their income and force them to make tough choices – like taking their children out of school, or even reducing the amount they eat. The countries in which they live are too large, too poor and ageing too quickly for a European-style welfare state to be sustainable. This means that the private sector will need to play a larger role in providing social protection for the most vulnerable individuals.

Most of the large insurance groups in these countries focus on providing products to the affluent middle class, who have property to insure. For the companies involved, this is a low-risk strategy. But because of the number of people it excludes, it's also low reward. Providing insurance to people on low incomes is a social responsibility. But far from being an act of charity, or a piece of corporate social responsibility designed to lose money in exchange for positive PR, this is a huge business opportunity.

In order to take advantage of this opportunity, insurers will need to adapt their approach. They can't simply target a different demographic with products designed for the relatively affluent. Instead, they need products that can profitably address this larger volume market through appropriate product design, claims infrastructure, collection processes and claim payment techniques. This class of products is known as **micro-insurance** – and we believe that an effective policy can be boiled down to 10 key principles:

Policies must protect against risks which are relevant to the target customer base.

What makes effective micro-insurance?

1. The policy must protect against risks that are relevant to the target customer base.
2. It has to be priced appropriately.
3. Coverage must be proportional to a customer's potential financial loss.
4. Products must be simple and easily understood by people who are financially unsophisticated and perhaps even illiterate.
5. The means of claiming must be transparent, accessible and fair to the client, given his or her circumstances. Pay-outs need to be fast, efficient and unobstructed.
6. Product risk has to be manageable for underwriters. Moral hazard and fraud will be challenges, with technology having a key role to play.
7. The timing of premium payments must be designed around individual clients' cash flows. This can often mean very small, frequent premiums. For example, $10 a quarter may be too much all at once, but $0.77 a week can be much more manageable for many.
8. There must therefore be an efficient way to collect many thousands of tiny premiums on a regular basis. Use of mobile technology and/or micro-finance institution partnerships seem the obvious solutions.
9. Scale is required. This will improve data, and so enable more effective and profitable underwriting. And it will reduce fixed overhead costs, enabling long-term profitability.
10. Policies must be provided by insurance companies or financial institutions with brands and reputations that are trusted by the target population.

The Stewart Investors initiative

In the Sustainable Funds Group at Stewart Investors, we've been leading a collaborative industry initiative, within the membership of the Principles of Responsible Investment, to make micro-insurance policies available to people on low incomes. We've gathered the support of 34 institutions managing US$1.4 trillion in assets, and used this support to write directly to the senior management in targeted insurance companies. We've set out our belief that pursuing this opportunity can be profitable for those companies, as well as contributing to the societies and communities in which they operate. We've worked in collaboration with the MicroInsurance Centre in Wisconsin, one of the world's leading consultants on micro-insurance policy design and implementation, to encourage target businesses towards greater focus on the topic.

This engagement is aimed at enhancing our clients' returns over time, by encouraging our investee businesses to identify and seize profit opportunities. We believe that keeping company engagement very closely linked to investment decisions will help to drive returns for our clients. We'll continue to engage with the targeted companies, together with the MicroInsurance Centre and our industry collaborators, with the aim of furthering the availability of inclusive financial protection to people in the developing world who need it most and who are, arguably, not well served today.

OUR PROGRESS
STEWARDSHIP

Our 2019 PRI transparency and assessment reports are available on our website.

Company engagement and proxy voting are key parts of all our active equity teams' stewardship work. Successful engagement is built on trust and is intended to be challenging but constructive.

The UK Stewardship Code is changing

Reporting back on engagement activity isn't straightforward. Although we can highlight particularly successful examples in our case studies, most engagement work isn't simply about the meetings we've been to or the shareholder resolutions we've voted on. It's about the long-term relationships our investment teams develop with companies and their executives.

The investment industry is now taking more of an interest in stewardship than ever before. In 2020, changes to the 2012 UK Stewardship Code will come into force. These changes mean a much stronger focus on the integration of ESG factors into investment decisions. And they mean a much greater emphasis on the outcomes of stewardship – on reporting organisations demonstrating what they've done to protect and increase the value of their clients' assets.

We're delighted to see these changes. We welcome the challenges and opportunities of articulating the outcomes of our stewardship work to our clients. We expect this kind of reporting to feature prominently in our 2020 report.

Engagement update from the Global Listed Infrastructure Team

In the 12 months to 30 June 2019, the Global Listed Infrastructure Team engaged with companies on ESG-specific topics a total of 26 times. These engagements were one-on-one meetings with company management, on sustainability-related issues. We held many other meetings where ESG topics were part of a broader conversation.

The topic breakdown was as follows.

Environmental	Social	Governance
11	7	10

(Some meetings addressed more than one ESG topic.)

Environmental subjects included:

- Meeting a 2-degree rise in global temperatures
- The lifetime (or 'levelised') cost of renewable technologies
- The evolution of the competitive landscape in renewable energy, and the global opportunities for deployment
- Ways to support the further development of renewables, including through government subsidies
- Technological innovation, like batteries, decentralised grids and electric vehicles
- Disruption

Social discussion topics included:

- Health and safety
- Customer satisfaction and customer solutions
- Stakeholder engagement for environmental asset siting (eg building new roads, pipelines etc.)

Governance discussion topics included:

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

OUR PROGRESS
STEWARDSHIP

In the 12 months up to 31 December 2018, our investment teams attended over 3,000 company meetings. Many of these meetings involved comprehensive, face to face discussions with senior executive management and board directors concerning a range of material ESG issues.

Our proxy voting record

Active listed equity teams voted on 15,445 resolutions at company meetings between 1 July 2018 and 31 December 2019. (This excludes 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	Grand total
Audit/financials	6	15	883	904
Capital management	6	85	1,527	1,618
Climate change related			3	3
Director election	19	188	5,755	5,962
Director remuneration	3	6	587	596
Executive remuneration		44	1,071	1,115
General business	8	50	913	971
Governance related	121	76	2,380	2,577
M&A		64	242	306
Remuneration related	6	34	737	777
Shareholder proposal	2	70	30	102
Shareholder rights		78	436	514
Grand total	**171**	**710**	**14,564**	**15,445**

Proxy voting information for 18 months to 31 December 2019. Source: CGI Glass Lewis/First Sentier Investors/First State Investments, as at 31 December 2019.

Intelligent and independent voting

The table shows the number of times the teams have voted against management recommendations, against our proxy advisor's recommendation, or against both. Data shown is for the 18 months to 31 December 2019.

	2018/19
Against proxy advisor	**1,934**
Against management	**685**
Against both	**190**

OUR PROGRESS
STEWARDSHIP

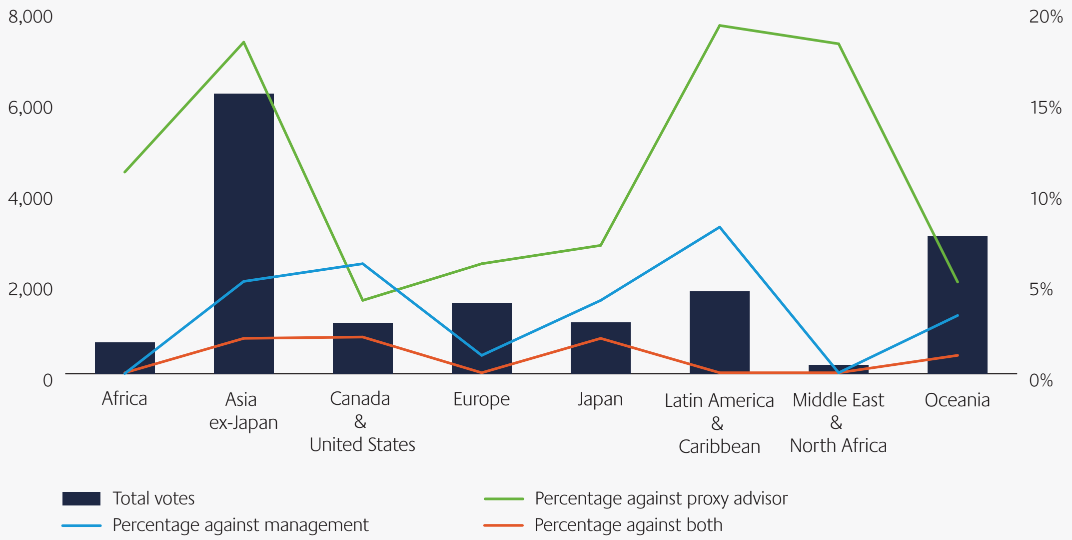
During the year, we voted against management recommendations on 685 occasions (4%). The main themes of these votes included:

- **Director elections and re-elections**
  194 resolutions or 28% of votes were against management. These mostly related to director interdependence.
- **Executive remuneration, compensation, bonuses and share plans**
  98 resolutions or 14% of votes were against management. Most of these related to setting hurdles for short-term and long-term incentives.
- **Capital management**
  89 resolutions or 13% of votes were against management. Most of these related to discounts to issue prices, dilution and the need for additional capital.
- **Shareholder rights around authority to issue shares without pre-emptive rights**
  78 resolutions or 11% of votes were against management.
- **Shareholder proposals regarding independent chairs, lobbying reports, climate change and other issues**
  28 resolutions or 4% of votes were against management. For the most part, we supported management where we believed they were making adequate progress on the issues raised.

Share blocking markets and other operational constraints prevented us from voting on 87 (1%) resolutions.

Our proxy voting record 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 advisor's recommendations, or against both.



Source: CGI Glass Lewis & Colonial First State Global Asset Management/First State Investments. Data shown is for the 18 months to 31 December 2019.

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

Making our metrics more useful

This year, we've been improving the quality and utility of our metrics through our ESG information management plan. One output of this plan has been better carbon footprint reporting, which we can now produce at the push of a button for any listed equity portfolio manager or team.

The chart on page 22 is an example of this improved reporting. It shows the average weighted carbon footprints of our equity teams compared with those of their aggregated benchmarks. For example, it shows that our Global Listed Infrastructure securities team's portfolios have higher emissions because of the carbon-intensive nature of many infrastructure assets. But it also shows that their exposure is generally lower and more efficient than their benchmarks.

We believe carbon footprints don't tell the whole story about the risks and opportunities related to climate change. That's why we've been exploring tools and data sets that can help us develop more sophisticated measures. We've recently started using the Transition Monitor Tool developed by the 2° Investing Initiative. This tool helps us to understand the risks to our portfolios of adjusting towards the emissions targets set out in the 2015 Paris Agreement.

And we've also tracked how our investment strategies are rated by external agencies. In particular, we've looked at the Morningstar Low Carbon Designation, which was launched in May 2018. On this page, we detail the breakdown of low carbon designation strategies currently covered by Morningstar. Individual strategy ratings can be seen on Morningstar's website.

Strategies that receive a carbon risk rating of less than 10, with minimal exposure to fossil fuels, are designated 'low carbon'. Strategies with scores of between 10 and 29.9 are considered to have medium risk (see box, above right). Approximately 38% of our strategies have a low carbon scoring, and none of our strategies has a high or severe score. On average, our strategies have a carbon risk score of 10.38.

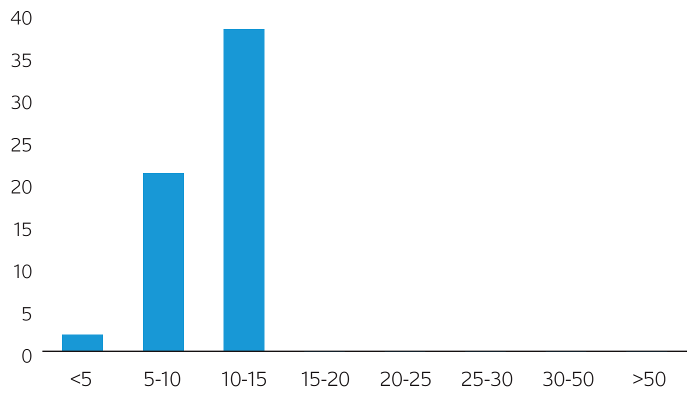
Morningstar Low Carbon Designation

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
>0.1-9.99	Low
10-29.9	Medium
30-49.9	High
50+	Severe

Source: The Morningstar Portfolio Carbon Risk Score, 30 April 2018.

Our Strategies by Morningstar Carbon Risk Scores



Source: Morningstar, as at 31 October 2019.

OUR PROGRESS
STEWARDSHIP

We believe carbon footprints don’t tell the whole story about the risks and opportunities related to climate change.

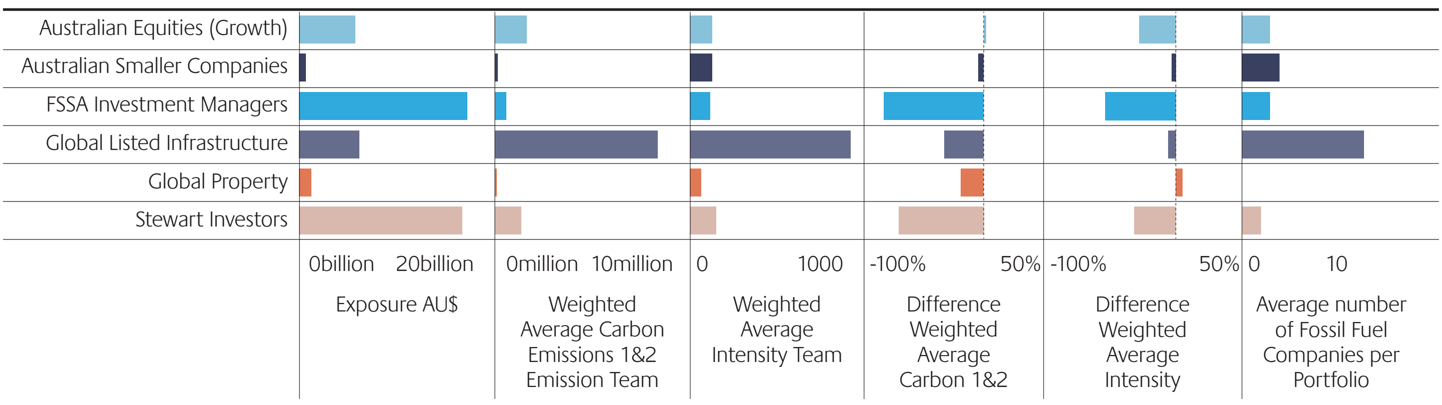
Understanding the emissions profile of our aggregated actively managed listed equities

This table below shows our key carbon metrics, including the total and weighted average emissions for all our teams’ portfolios against an aggregated benchmark. It also shows the ‘intensity’ of emissions, measured by the volume emissions per million Australian dollars of sales, and the exposure to holdings classified as fossil fuel companies by MSCI. Carbon footprint reports for each investment team, and an explanation of how each measure is calculated, can be downloaded from our website.

896/929	94,775million/ 95,177million	3,238,418 tCO2e**	-56.5%	335.3 tCO2e	-23.3%	3.9
Companies covered	A$ covered	Weighted ave emissions (Scope 1+2)*	Diff weighted ave emissions vs benchmark (aggregated)	Weighted ave intensity (Scope 1+2/$million Sales)	Diff weighted ave intensity vs benchmark (aggregated)	Ave fossil fuel company per portfolio

Data disclosed in these tables does not take into consideration the investments of our RealIndex Team
*Scope 1 emissions relate to direct emissions by the company (for example by burning fossil fuels) while scope 2 refers to indirect emissions from electricity and heating.
**Tonnes of carbon dioxide equivalent.

Actively managed listed equity teams emissions profile



Weighted average emissions and emissions intensity
Rather than disclose a straight average we use a weighted average based on the size of our holding in each company. The weighted average is of each company’s greenhouse gas emissions (scope 1 and 2). We compare this to the weighted average emissions for the companies in the aggregated benchmark. Intensity normalises company emissions for size by dividing emissions by $ sales, which means larger companies (with more emissions) can be compared to smaller companies. It should show which company is more efficient.

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

FEATURE

TAKING ACTION AGAINST MODERN SLAVERY RISKS

What the new legislation means and how we're responding

Every year, millions of people all over the world fall victim to modern slavery practices – such as forced labour and human trafficking. New legislation in Australia has made large corporations responsible for safeguarding human rights in their organisations and their supply chains. At First State, we've been managing human rights risks in our portfolios for several years. This means that we're well placed to engage with our investee companies on the subject, reducing the risks to our clients' capital and helping to stamp out pernicious activities that have no place in modern society.

Australia is taking action on modern slavery

In 2016, the International Labour Organization of the United Nations estimated that 40.3 million people in the world were victims of modern slavery – that's 5.4 victims for every 1,000 people.[1] 'Modern slavery' is used as an umbrella term for crimes such as forced labour, debt bondage, human trafficking, child labour and forced marriage. It disproportionately affects vulnerable communities and people, including children.

The Sustainable Development Goal for 'Decent Work and Economic Growth' (8) has a target (8.7)[2] that calls for immediate and effective measures to eradicate modern slavery by 2030, and to end all child labour by 2025. There is much work to be done before these goals can be achieved.

Australian companies are particularly exposed to the risk of modern slavery. This is because their supply chains are often closely linked to businesses in the Asia Pacific region, where 75% of victims are believed to be.[3]

On 1 January 2019, the Modern Slavery Act 2018 (Commonwealth) was introduced in Australia. It makes Australian companies responsible for safeguarding human rights throughout their organisations and supply chains. The act is largely based on the UK's Modern Slavery Act 2015, with a key difference being that the Australian legislation includes mandatory reporting requirements.

[1] Global Estimates of Modern Slavery: Forced Labour and Forced Marriage, Geneva, September 2017.
[2] https://www.un.org/sustainabledevelopment/sustainable-development-goals.
[3] https://tinyurl.com/s7uw8rz para 3.128.

FEATURE

TAKING ACTION AGAINST MODERN SLAVERY RISKS

> In 2016, we formed a Human Rights Working Group composed of members from our investment teams globally to develop a more structured approach.

What the Modern Slavery Act means for Australian business

The Commonwealth Act requires that entities with a consolidated revenue of over AU$100 million must produce an annual Modern Slavery Statement, approved by the board and signed by a director. Around 3,000 entities[4] are covered. This statement must:

1. identify the reporting entity
2. describe the reporting entity's structure, operations and supply chain
3. describe the risks of modern slavery practices in the reporting entity's operations and supply chain
4. outline actions taken to address these risks (including due diligence and remediation processes)
5. describe the effectiveness of these actions
6. describe the consultation process with entities the reporting entity owns or controls
7. include any other relevant information.

The first statements under the Commonwealth Act will be published on the Australian Government website in 2020.

For investors, the risks facing companies that are exposed to modern slavery practices can be difficult to quantify. But, as well as the direct risk to people's wellbeing, the financial and reputational repercussions can be significant. Because companies that don't publish a Modern Slavery Statement currently face no financial penalty, we believe investors must play a role in driving compliance.

[4] 2018 Department of Home Affairs. Guidance for Reporting Entities.

Our work on managing modern slavery risk

Creating positive change for the millions of victims of modern slavery and securing sustainable long-term investment returns is central to our stewardship responsibilities, which is why it is critical that we assess and manage human rights risks in our portfolios.

In 2016, we formed a Human Rights Working Group composed of members from our investment teams globally to develop a more structured approach to the problem across different regions and asset classes. This working group created a Human Rights Toolkit to help all investment teams globally better manage human rights risks in our portfolios. The toolkit provides research and guidance for each of the following steps:

1. Identifying companies with a risk of modern slavery in their operations or supply chains
2. Assessing companies' approach to the issues identified
3. Engaging with the companies identified as at risk of modern slavery practices
4. Internal reporting on our progress.

The toolkit gives us a sound basis for our response to the Australian legislation and a framework for our engagement with reporting entities worldwide. For example, we've identified fresh food retailers in Australia as being at particularly high risk of exposure. In response, our investment teams are using a coordinated approach to engage with these companies, encourage an industry-wide solution, and drive faster improvements.

In the coming year, we plan to introduce dedicated portfolio-level analytics to identify and report on risks in each portfolio across our global business. We're also developing additional guidelines on engagement, and improved reporting on engagement outcomes. This will help us to work more closely with companies so that we can identify, understand and address these issues, minimising risks to our clients' capital and benefiting civil society wherever those companies may operate.

BENCHMARKING

OUR PROGRESS

Our approach to responsible investment and stewardship is designed to deliver the best possible long-term results for our clients. We benchmark this approach against various global standards and industry codes. These help us identify areas where we can make improvements and guide the development of our reporting and disclosure mechanisms – making us ever more transparent.

Our PRI Assessment results provide a useful independent benchmark of our progress against industry peers. We're pleased to have maintained a minimum 'A' rating in all the 8 categories against which we're assessed, in spite of ever-increasing standards of practice among our peers.

We're always conscious of the risks that such systems come to be seen as box-ticking exercises, and we use a range of rating and assessment systems to give us a complete picture of our relative global position. One such source is the Responsible Investment Association of Australasia's annual benchmarking assessments, where we're rated among a small group of industry leaders.

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

Principles for Responsible Investment (PRI) Assessment ratings

Each year, every PRI signatory reports to the PRI on its responsible investment practices and how it applies the principles. Our results since 2014 are below.

Our 2019 PRI assessment can be found on our website.

Module	2014 (Pilot)	2015	2016	2017	2018	2019	Median manager 2019
Strategy & Governance	A	A	A+	A+	A+	A+	A
Listed Equity Incorporation	A	A+	A+	A+	A+	A+	B
Listed Equity Active Ownership	A	A	A	A	A+	A	B
Fixed Income SSA	B	B	A+	A+	A+	A	B
Fixed Income Corporate	A	A+	A+	A	A	A	B
Fixed Income Corporate Financial	N/A	N/A	A+	A	A+	A+	B
Fixed Income Securitised	N/A	N/A	B	A	A+	A+	C
Infrastructure	A	A	A+	A+	A+	A	A

BENCHMARKING OUR PROGRESS

In 2019, we were again 1 of only 33 managers (from 183 assessed) classified as an RIAA Leader.

RIAA Benchmark Report assessment

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

In 2019, we were 1 of only 33 managers (from 183 assessed) classified as an RIAA Leader. These are managers who 'clearly demonstrate leading practices of ESG integration in their investment processes…' Most of those assessed in the benchmarking process are PRI signatories, so we believe the RIAA results are an important differentiator when most managers do not disclose their PRI Assessment results.

UK Stewardship Code – FRC tiering

In 2016, the UK's Financial Reporting Council, which is responsible for the UK's Stewardship Code, started ranking asset managers in 3 tiers based on the quality of their stewardship-related disclosures and activities. We've been ranked in the highest tier every year since.

Independent research in Responsible Investment Survey 2019

Each year, SRI Connect and Extel conduct a global survey of RI professionals, asking them to vote in various categories.

We were pleased to be voted 32nd in the world for our positive contribution to RI among asset management firms. Stewart Investors, which offers dedicated sustainable investment strategies, was voted 25th in the category.

Recognition from peers is particularly valuable. We thank everyone who voted for us.

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

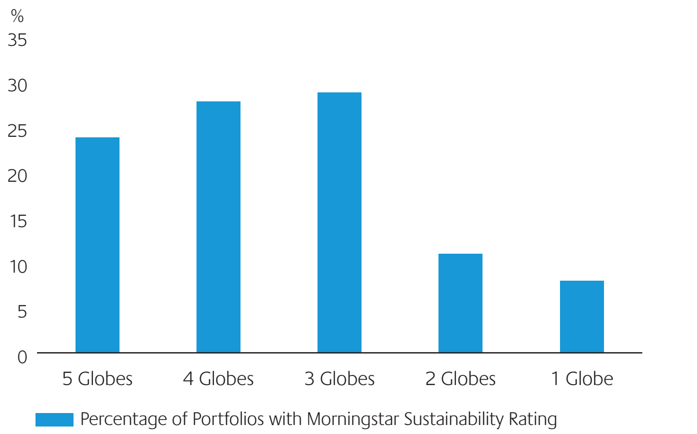
Since 2014, we've been fully compliant with the CFA Institute's Code of Ethics and Standards of Professional Conduct for asset managers. You can find out more about the code on the CFA Institute's website.

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

BENCHMARKING OUR PROGRESS

For the fourth year, we've undergone an independent assurance by PwC of our practices against our Global Stewardship Principles and the UK Stewardship Code

More than 50% of our strategies rated by Morningstar achieved a 'high' or 'above average' rating.



Source: Morningstar, as at 31 October 2019.

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	

Source: Morningstar, as at 31 October 2019.

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

In 2017, Morningstar, in partnership with Sustainalytics, launched new sustainability ratings. In 2018, they added carbon scoring to help investors understand a portfolio's exposure to carbon risk. These ratings are unique. They're the only widely-available ratings that evaluate the ESG quality of a strategy's holdings rather than its asset manager's policy and process.

We believe ESG ratings from independent research providers offer a valuable lens through which the ESG performance of companies can be better understood. But because they draw predominately on desktop research, without direct company engagement, they cannot offer a complete picture. Company disclosure standards are too variable, and differences in size, industry and location make for unavoidable biases.

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

The Chicago Booth School* has carried out research into the effects of Morningstar's sustainability ratings. This research has shown that 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.

On this page, we detail the breakdown of Morningstar sustainability ratings for the strategies we manage that currently have them. Individual strategy ratings can be accessed through Morningstar. We are pleased to see that a high proportion of our strategies are well rated: a quarter have achieved the highest sustainability rating and more than half of our strategies have a 'high' or 'above average' rating.

External assurance of our Global Stewardship Principles

For the fourth year, we've undergone an independent assurance process against our Global Stewardship Principles and the UK Stewardship Code by PwC. Please get in touch if you'd like to read our statement of assurance.

CASE STUDIES

Each year, we provide case studies from each investment team as a way of demonstrating what RI and stewardship mean to each team in practice. Over the last 5 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 that, read together along with the other contextual information we provide, these studies can help our clients and other stakeholders form a well-rounded view of our investment teams. We provide eight case studies here, which we have selected to reflect the range of issues, countries and investment teams represented. More than 100 others like it can be accessed through the interactive map online.

firststateinvestments.com/case-studies

CASE STUDIES

GODREJ CONSUMER PRODUCTS LIMITED

We introduced one of India's leading fast-moving consumer goods (FMCG) companies to a sustainable packaging solutions provider

Industry: Consumer staples

Investment team: FSSA IM

Country of domicile: India

Issue type: Environmental

Godrej Consumer Products Limited (GCPL) is a leading FMCG company. It's based in India and does business in global emerging markets. It's 63% owned by the Godrej family, one of the oldest business houses in India, with a strong reputation for ethical business practices.

We've been shareholders of GCPL for many years and we've met with its management on numerous occasions. We believe the Godrej group companies are among the highest quality and best managed in the region, and the consumer business is no exception. Sustainability at GCPL isn't just CSR gloss – it's deeply rooted in the way that the company operates. This is evidenced by its many large social and environmental projects.

Nisa Godrej is the family representative and sustainability champion, meeting with the head of sustainability on a monthly basis to discuss each project. She's also driving diversity and inclusion efforts, specifically addressing gender inequality. Godrej is one of the first companies in India to support the UN's LGBT workplace standards, and is still one of the few to do so. There's an executive Corporate Social Responsibility committee, which reports to the board, and a green sub-committee.

Projects such as plastic reduction are coordinated across the business, from design to procurement, and all through the supply chain. GCPL has committed to sustainable packaging and targets are published on its website. To help it achieve these goals, we introduced GCPL to Polymateria, a UK-based biodegradable plastics company, to discuss possible alternatives to plastic packaging.

Godrej and Polymateria have since identified a shortlist of solutions. They're also working collaboratively to help develop India's biodegradable ISO standards, to get new technology that doesn't create micro-plastics recognised by the Central Pollution Control Board.

TRANSURBAN

We worked with a leading global operator of toll roads to help it become more transparent

Industry: Toll roads

Investment team: Global Listed Infrastructure

Country of domicile: Australia

Issue type: Governance

Toll roads can offer a reliable solution to congested highways. They encourage car-pooling, reduce the amount of time that vehicles spend idling in traffic, and are safer for drivers and passengers. Transurban is one of the world's biggest toll road operators. It builds and manages urban motorways in Australia, the United States and Canada. We believe it's one of the best businesses of its kind, with strong, independent management and inflation-linked price agreements.

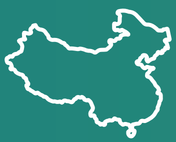
Transurban works hard to reduce its environmental impact, and to mitigate the impact that noise and air pollution have on the people living near its roads. But we identified a lack of structured reporting on ESG issues, and a need for greater transparency on how remuneration is linked with individual performance.

We met with the chairman, CEO and group executives for Corporate Affairs and People & Culture. We also had discussions with KPMG, which conducted an external review of the company's reporting suite. We made a number of recommendations on their public reporting, including:

- integrated reporting of financial and sustainability reports
- reporting against the UN Sustainable Development Goals (SDGs)
- more disclosure and history on individual KPIs
- published evidence of customer satisfaction and community engagement.

The latest annual corporate report takes a holistic approach by outlining how the company has performed for 6 stakeholder groups, including customers, employees and business partners. And there are now detailed disclosures against the nine most relevant SDGs that become more meaningful once trends have had time to develop. The company has also provided detailed disclosure on individual KPIs of the CEO. There are a number of helpful examples of customer benefits and community engagement, which Transurban hopes to build on in the coming years.

CASE STUDIES



FOUNDER GROUP
We sold our holdings in a large Chinese technology business over governance concerns

Industry: Industrial

Investment team: Asian Fixed Income

Country of domicile: China

Issue type: Governance

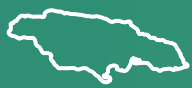
Founder Group is a large Chinese technology corporation, established by Peking University in 1986. It's evolved to become a conglomerate with business segments in IT, healthcare and pharmaceuticals, real estate, finance and commodities trading.

Founder Group had never previously explored an external rating from the major rating agencies. We believed that indirect support from the Chinese Government through the Ministry of Finance was very likely. The issue was also attractively valued compared with other Chinese state-owned industrial/education credits at the time. At the time its first bonds came to market in 2017, we assigned an investment grade rating and bought holdings in our Global and Asian credit portfolios.

However, the group's total debt surged by around 50% during the 2018 fiscal year. Five additional US dollar bonds (worth a total of US$1 billion) were issued between January 2019 and July 2019. Our ESG risk rating of Founder Group increased to 'very high' and our internal credit rating was downgraded to the high yield category. These moves reflected concern about intensifying governance issues, such as shareholder disputes, and risks related to various negative headlines in the media. Further to this, aggressive management was driving rapid expansion into non-strategic mandates as the firm sought to become a more commercialised conglomerate.

We met with Founder Group management to try to understand the firm's increased appetite for funding. After several meetings during 2019, and after analysing the company's latest financial results, we began reducing our exposure to the company and eventually sold all our holdings.

Since our disposal, the value of Founder Group bonds has fallen sharply. At time of writing, their yield was over 20%. This sell-off has been driven by private banks and real money over concerns about the company's ability to refinance.



JAMAICA
We are increasingly comfortable holding larger positions in Jamaican sovereign debt

Industry: Sovereign

Investment team: Emerging Markets Debt

Country of domicile: Jamaica

Issue type: Environmental & Social

This year we've had several discussions with the representatives from the International Monetary Fund (IMF) as a way to indirectly engage with the sovereign and encourage progress on a number of ESG related reforms that we believe will benefit our clients. In doing so, we were also able to get an update on a number of specific environmental and social programmes that the Jamaican government is implementing with the help of the IMF, the World Bank and other global institutions. Such programmes have been made possible following a remarkable multi-year effort by the Jamaicans to pay down government debt.

Our assessment is that there is broad political consensus and commitment to implement these programmes. They include several initiatives under the 'Programme of Advancement through Health and Education' (PATH) that are designed to reduce the future economic cost of crime by encouraging Jamaican children to stay in school for longer.

With the support of the IMF, the government has also recently set aside a larger portion of the national budget that will act as a fiscal buffer against the cost of future weather events. And it's working with global multinationals to develop innovative and affordable insurance solutions to reduce the ex-ante cost of such events and to speed up time to recovery.

Jamaica's progress in reducing its climate vulnerability supports our overweight position and in time will enable us to make larger risk allocations to Jamaica in client portfolios. We continue to maintain a dialogue with the global organisations involved to help us keep track of progress.

CASE STUDIES

AGL
We voted for a shareholder resolution calling on AGL to disclose its emissions reduction strategy

Industry: Multi-utilities

Investment team: RealIndex

Country of domicile: Australia

Issue type: Environmental

AGL is one of Australia's biggest energy companies. It's the country's largest private owner of renewable energy assets, but also its largest greenhouse gas emitter. Over 2019, some of the company's shareholders proposed a resolution calling for AGL to disclose its emissions reduction strategies, in line with the goals of the Paris Agreement.

As a signatory to the Investor Statement on Climate Change, we support the proposition that companies should take action to address climate change risks and align their business operations with the goals of the Paris Agreement. The company had expressed concerns about the shareholder resolution's implied 2030 deadline for closing its coal-fired power stations. But we believe that the non-binding nature of the resolution offered AGL the flexibility to devise a strategy appropriate to its circumstances. We therefore voted for the resolution, to signal to AGL's management that we want them to take climate change risks into account.

We've met with AGL's management to better understand what action they are taking to address climate change risks. We look favourably on their commitments to transitioning to a low carbon economy. And we're supportive of the action they've taken to date, including disclosure on carbon scenario analysis and commitments to reduce emissions.

GENEX POWER
We're supporting the construction of an innovative renewable energy hub in Australia

Industry: Energy

Investment team: Australian Equities, Growth

Country of domicile: Australia

Issue type: Environmental

The First Sentier Developing Companies Strategy continues to provide important capital to small companies in Australia including investments in clean and renewable energy. One such company is Genex Power Limited, which is developing a renewable energy hub in northern Australia.

The 250MW Kidston Pumped Hydro Project is a unique, innovative scheme to build hydroelectric plant in the dam and pits of the abandoned Kidston Gold mine, with solar energy generation alongside. The project involves constructing a tunnel between an upper and lower reservoir and installing 2 turbines. During periods of low energy use, water will be pumped from the lower reservoir to the upper reservoir, using solar power during the day or low power prices at night. During peak electricity demand periods in the morning and evening, water will be released from the upper reservoir to the lower reservoir, generating electricity for the national market.

There will also be more than 3 million solar panels installed, capable of generating 783,000 MWh/year. If operating today, this would be the largest solar project in the southern hemisphere.[5] As well as helping to power the hydro project, the solar panels will provide energy for 143,000 homes.

The First Sentier Developing Companies Strategy owns 4.6% of the company. The project will be 50% owned and operated by Energy Australia on completion of the Final Investment Decision (FID). The Federal Government, through the Northern Australia Infrastructure Facility, has approved a AU$615 million concessional loan for the development of the project. And the project has also attracted investment from large Japanese conglomerate J-Power. J-Power intends to acquire 15–20% of the company via a placement following successful implementation of the FID.

[5] Source: https://www.genexpower.com.au/270mw-kidston-solar-project.html.

CASE STUDIES

CARUNA
How Finland's biggest electricity distributor is establishing a health & safety culture

Industry: Energy distribution

Investment team: Direct Infrastructure EMEA

Country of domicile: Finland

Issue type: Environmental, Social and Governance

Caruna is the largest electricity distribution system operator in Finland, with c.21% market share.[6] The company operates a network over 87,600km long. It has around 290 direct employees, as well as over 1,000 contractors, to plan and deliver an investment project designed to meet legislative targets.

Such a large capex programme inevitably involves complexities around safety in the field which requires continuous monitoring, co-ordination and training for best practice.

Mandatory training, safety walks and the inclusion of safety metrics into all employees' performance schemes have had a significant impact since being phased in over the preceding years. Alongside improving regulatory network reliability metrics related to the duration and number of outages, safety metrics including Accident Frequency Rates have continued to improve, falling from 1.3 to 0.4[7] since acquisition.

Another focus has been on improving Caruna's relationship with customers. A key part of this has been increasing employees' face-to-face contact with customers, rather than the main point of contact being contractors. This includes Caruna employees being present in the place where works are being carried out and available to answer questions, explain why the works are necessary and what benefits it should bring to the community.

Initiatives have already been proving successful and Net Promoter Score ("NPS"), a key measure of customer satisfaction, reached 20.3 in 2019 vs. a full year result of 2.0 in 2018 and compared to a target of 12.0.

BRISBANE AIRPORT CORPORATION (BAC)
A First State investee business was part of The first trial of biojet fuel in Australia

Industry: Transport

Investment team: Direct Infrastructure

Country of domicile: Australia

Issue type: Environmental

A first for Australia occurred at Brisbane Airport this year. Virgin Australia carried out a successful trial to deliver sustainable aviation fuel, known as biojet, through the Brisbane Airport fuel supply system. The trial involved the procurement and blending of biojet with traditional jet fuel for supply into the existing fuel infrastructure. This was the first time that biojet had been delivered through the general fuel supply system at any airport in Australia, and makes Brisbane one of the few airports in the world where it's occurred.

Biojet meets recognised international quality and safety standards and contributes to lower levels of carbon emissions when compared with traditional fossil jet fuel on a life cycle basis. It's already in use at major airports in Oslo and Los Angeles. It can be derived from sustainable sources including agave, sugarcane, molasses and waste wood.

BAC is 17% owned by the Direct Infrastructure team at First State Investments. It's committed to reducing the airport's impact on the environment and to programmes that help manage and minimise the long-term impacts of climate change. BAC also recently partnered with the Queensland Renewable Fuels Association to add its support to the development of a local sustainable fuels industry across Queensland.

The trial will continue over the next 12–18 months, giving supply chain partners time to refine and improve the fuel blending and supply processes.

[6] Source: https://www.caruna.fi/en/responsibility/we-ensure-society-can-function-providing-reliable.
[7] Source: Caruna, 2019.

FEATURE

NEW FRAMEWORK TO MEASURE SOCIAL AND ENVIRONMENTAL OUTCOMES OF INVESTED CAPITAL

In January 2019, the Investment Leaders Group (ILG), published a new report, 'In Search of Impact – Measuring the Full Value of Capital'. The report builds on a 2016 framework to enable asset managers to quantify the real world, social and environmental impact of their investments.

The framework identifies a set of metrics that translate the UN's Sustainable Development Goals (SDGs) into measurable indicators. These indicators are designed to be easy to understand, calculate and implement. Specifically, the framework empowers financial consumers and their advisors to understand and make choices about the social and environmental outcomes of their investments, alongside their use of traditional financial data.

The framework represents an important first attempt to provide investors with a standardised way to compare funds between different providers and across asset classes. Fund factsheets can show such information to inform selection choices. Institutional investors can also use this information in 'request for proposal' processes, mandates and policy statements, to set out the outcomes they might expect to see.

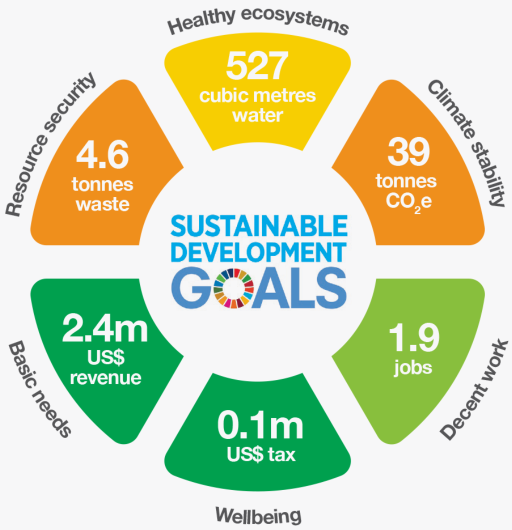
The ILG is a voluntary group of 12 leading investment managers and asset owners committed to advancing the practice of responsible investment. First State Investments is a founding member of the group. The ILG is facilitated by the University of Cambridge Institute for Sustainability Leadership and supported by academics at the University of Cambridge. It produces practical research and tools to help the industry to adopt economic, social and environmental sustainability as an outcome of the investment process.

The ILG shares a vision of a common standard for reporting the real world outcomes of all investment funds. This standard would mean financial consumers and their advisers can make informed choices about how, where and with whom to invest, based on a fuller understanding of the outcomes their choices may have.

The framework gathers the 17 SDGs and maps them into 6 themes against which the portfolio or company can be assessed. The six themes are basic needs, climate stability, decent work, healthy ecosystems, resource security and wellbeing. The University of Cambridge seeks to provide academic rigour and robustness to the model.

UNIVERSITY OF CAMBRIDGE INSTITUTE FOR SUSTAINABILITY LEADERSHIP

Investment Leaders Group



The framework identifies a set of metrics that translate the SDGs into measurable indicators.

Summary of impact metrics

Basic needs: Total revenue from goods and services from clothing, communications, education, energy, finance, food, healthcare, housing, sanitation, transport and water.
Unit: US$

Wellbeing: Total tax contribution.
Unit: US$

Decent work: Total number of employees based on full time equivalent.
Unit: FTE workers

Resource security: Total net waste (total waste arising – total waste recycled).
Unit: Metric tonnes (t)

Healthy ecosystems: Fresh water use (surface water plus groundwater plus municipal water).
Unit: Cubic metres (m^3)

Climate stability: Total greenhouse gas (GHG) emissions (Scope 1 and 2).
Unit: Tonnes (t) carbon dioxide equivalent (CO_2e)

Each theme includes a 'base' metric driven by data that is easily available to investors today. It also includes a theoretically stronger 'ideal' metric for which data is either lacking or unavailable at scale across financial markets. These metrics are grounded theoretically, shaped by academics and specialist practitioners. Results generated from the base metrics are crude proxies for the more ideal measures. However, they allow investors to get started with impact measurement and can be refined over time.

The sub-optimal state of impact data should be a call to action for the whole investment value chain. Given how economically significant the issues are, we must ask how corporate disclosure and data distribution networks can be upgraded to help investors see their real world impacts. This is an area of ongoing exploration by ILG to enable the framework to progress towards being able to measure a fund's performance against the ideal metrics.

You can read the full report at www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group

POLICY

AND WIDER INDUSTRY ENGAGEMENT

This year, we've taken part in a number of consultations and initiatives, which we believe support the wider move towards a more sustainable financial system.

The amount of policy and industry regulation implemented over the past 2 years, including that which is currently in development, is unprecedented. We believe this vast amount of change will have a significant impact on investor behaviour. For example, UK pension scheme trustees now bear the responsibility to weigh ESG and climate change risks more explicitly. This greatly increases their environmental, social and governance responsibilities.

Other notable examples in the UK include:

Regulation	Focus	Voluntary	Mandatory
UK PRA	How firms manage financial risk from climate change		
UK FCA	Climate change and green finance		
DWP	DB/DC schemes to publish Statement of Investment Principles (1 October 2019)		✓
FCA: shareholder engagement	Proposals to promote shareholder engagement		✓
UK Stewardship Code (by Financial Reporting Council)			
IA	Development of common approach to responsible investment		

We're proud to have led the working group at the UK Investment Association (IA), which developed a framework for the different approaches to sustainable and responsible investment. We particularly welcome this initiative. We believe that the plethora of different descriptions for how 'responsible' and 'sustainable' investments are makes it difficult for investors to choose between products. We plan to use the IA's new framework to make sure that our stakeholders fully understand the characteristics of our portfolios.

In May 2018, the EU launched a ten-point action plan on sustainable finance. It sought to make sure that ESG considerations are taken into account in investment decision-making processes.

EU sustainable action plan

In May 2018, the EU launched a 10-point action plan on sustainable finance. It sought to make sure that ESG considerations are taken into account in investment decision-making processes. The action points fall into 3 categories:

Re-orienting capital flows
This involves establishing a taxonomy, creating eco-labels and taking ESG preferences into account in sales and distribution.

Managing financial risks:
This involves imposing requirements on financial institutions to take sustainability into account and avoid risks associated with 'stranded assets', that is, non-sustainable assets that may lose value over time.

Encouraging transparency and long-termism
This includes initiatives that encourage companies to disclose appropriate information on their sustainability, so that investment decisions are made on the basis of effective metrics and boards take a long-term view. In turn, there are obligations on asset managers to disclose how they use the information to take sustainability into account.

We believe the 10-point plan will make a significant contribution to the adoption of responsible investment and could unlock significant retail investment.

1. Establishing classification system (taxonomy)
2. Creating standards and labels for sustainable financial products (i.e. green bond standard)
3. Fostering investment in sustainable projects
4. Incorporating sustainability risks and factors in financial advice
5. Developing sustainable benchmarks
6. Better integration of sustainability in ratings and market research
7. Clarifying institutional investor and AM duties
8. Incorporating sustainability in prudential requirements
9. Strengthening disclosure and accounting rule-making
10. Fostering corporate governance and attenuating short-termism

INDUSTRY COLLABORATION

We support a number of industry and trade groups that are focused on developing and improving RI. While these groups do not speak for us unless we specifically sign a statement they draft, we are aligned with their broader missions.

Each year, we review the various initiatives that we have been involved with. We do this to ensure their purpose aligns with our clients' interests and that we have the capacity to make a meaningful contribution. The initiatives that we actively support and engage with are listed below:

GLOBAL INITIATIVES

PRI

- Signatory
- Member of the Sovereign Bond Working Group

Cambridge University Investment Leaders Group

- Founder member
- Chair of Working Group

ASIA PACIFIC

Financial Services Council

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

Investor Group on Climate Change

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

Australian Sustainable Finance Initiative

- Member of Technical Working Group

Responsible Investment Association Australasia

- Member
- Deputy Chair
- Member of the Human Rights Working Group

30% Club Australia

- Investor Working Group member

Women in Sustainable Finance

- Committee member

EMEA

UK Sustainable Investment Forum

- Member

EUROSIF

- President

Institute of Chartered Accounts in England and Wales (ICAEW)

- Member of the Corporate Governance Committee

Prince's Accounting for Sustainability (A4S)

- Expert panel member

UK Investment Association

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

34 AWARDS

While our focus is always on delivering for our clients rather than winning awards, we appreciate the recognition we receive. During the reporting period, we received 34 awards in Asia and Europe from, among others:

- Asia Asset Management
- Benchmark Magazine
- Fund Selector Asia
- Lipper
- Morningstar
- Citywire Asia
- AJ Bell

OUTLOOK

As RI adoption across the industry accelerates and standards evolve, we're working to improve many of our practices and processes. We'll keep working towards understanding, measuring and disclosing the impacts of our investments on society and on the environment. This will help us further understand how companies in our investment portfolios work towards the UN's Sustainable Development Goals (SDGs).

Supporting the Cambridge Impact Framework

In February 2019, the Investment Leaders Group at Cambridge University launched the Cambridge Impact Framework to help the industry measure the impact of investment decisions. We've promoted use of the framework and encouraged others to adopt the reporting tool. We plan to collaborate with others to encourage companies and researchers to disclose better and more appropriate data to help the tool evolve over time.

Keeping an eye on greenwashing

We've seen attempts by investors to 'map' their decisions to the Sustainable Development Goals (SDGs). We understand the challenges driving this behaviour, but we've become increasingly concerned that the SDGs are being used to market products when the underlying data is not sufficiently rigorous. The growing interest in, and asset deployment into, ESG and sustainable investment portfolios raises the risk of 'greenwashing'. This is an issue that should concern all credible and thoughtful responsible investors.

We're mindful of these considerations and are committed not to misrepresent or exaggerate the impact our investments make.

We've long believed that we must be a responsible business if we're going to be a responsible investor. We continue to review and improve our own processes and increase the level of knowledge of RI in our organisation. Our learning and development agenda is designed to help us, and is a focus for us in 2020 and beyond.

Other key milestones and improvements for 2020/21 include:

- Strengthening our ability to identify and measure exposures to climate risk
- Enhancing our internal ESG analytical and monitoring tools after a successful pilot in 2018/9 and seeking to include SDG-related information within the scope
- Implementing a group-wide ESG/RI learning and development programme
- Enhancing our reporting and disclosures. These now reflect changing client expectations on our stewardship performance, climate risk management and emerging reporting frameworks, and meet external standards such as the TCFD (Task Force on Climate-related Financial Disclosures)
- Improving our processes to capture and report on the outcomes of engagement work with investee companies as well as with other key stakeholders
- Strengthening our governance system to ensure we deliver on our stated commitments.

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 and the manufacturers of cigarettes and tobacco related products. The criteria were established under our cluster munitions and tobacco exclusion policies, which were 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 who work with or operate from those countries. 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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