For Professional Investor / Institutional Investor Only

First State Investments

Colonial First State Global Asset Management

Responsible Investment and Stewardship Annual Report 2015

First State Investments operates as Colonial First State Global Asset Management in Australia. The entire company is collectively referred to as First State Investments in this report.

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Foreword

Responsible investment (RI) and stewardship touches every aspect of our business. The foundations of our approach to RI are built on aiming for the highest professional and ethical standards of behaviour and are a key part of the stewardship of our clients' capital.

The financial services industry is in a constant state of change, particularly in the area of governance. Many of the changes, such as the introduction of stewardship codes globally, are positive steps and we welcome any developments that demand greater accountability from asset managers and enhance the service our industry provides to its clients.

Codes and regulation are only part of the picture however. Our industry should always be focused on the interests of end investors and must work hard to earn their trust. The most recent Edelman Trust barometer again shows financial services and banking among the least trusted sectors; our industry must do better.

An effective way of improving standards in our industry is by being held to the highest standards of practice by our clients. There has been a marked increase in scrutiny and engagement from our clients, and the broader community, on a range of issues relating to RI. This can only be positive for our business and the broader investment industry.

We are constantly looking for more effective ways, including through publishing this report, to respond to our clients' demand for increased transparency and accountability.

Leading by example

This year we undertook a survey of our staff to gain an understanding of our role and ambitions as a responsible investor. It was pleasing to see the support of our colleagues for our approach to RI. Particularly pleasing was the desire to be bolder in our long-term ambitions. This process has been important in helping us set more challenging goals which will, over time, set the standards by which our clients and other stakeholders will hold us to.

Setting goals by themselves, however, achieves little without the support and commitment of our people. To ensure we have a common purpose and approach to RI and stewardship, we have committed to an RI training program for all of our staff and will engage new staff as part of their induction program. We are also focused on hiring people who fully support our approach by highlighting our commitments and expectations in all job advertisements and during the interview process.

We have continued to make progress in integrating high quality environmental, social and governance (ESG) information with our diverse investment capabilities. During 2014, we have worked hard to integrate the data from our service providers with Bloomberg, FactSet and our own proprietary databases. This has enabled seamless and flexible access to high-quality information for all of our investment professionals.

Taken together, these improvements will make us a more accountable, engaged, resilient and successful investment management firm.

Collaboration

Collaboration has always been a key part of our approach to RI. Through collaboration, not only can we can be part of a wider voice pushing for change, but we can learn from others and share our experiences to increase the effectiveness of RI in our industry as a whole.

In 2014, our Global Head Responsible Investment, Will Oulton, chaired the University of Cambridge Investment Leaders Group's work on mandates for long-term investment and sustainability. This is a project to promote active equity mandates that complement the long-term interests of asset owners and investment managers.

During the year, we also supported the Financial Services Council of Australia with the development of an Australian stewardship code. Our Chief Investment Officer for equities, David Dixon, co-chaired the Committee which led the development of the code. This follows on from the first formal stewardship code introduced in the UK in 2010.

In March this year, we became a member of the inaugural Thinking Ahead Institute, created by global investment consultancy Towers Watson to help inform our own strategy and thought leadership work.

Transparency and engagement

Transparency and engagement are key tenets of effective stewardship. We strive to incrementally improve the quality of our reporting, to provide our clients and stakeholders with greater insight into our RI and stewardship practices.

This year, we are focusing on providing more detail on how RI and stewardship adds value to our investment processes by proving additional metrics for each of our investment teams and significantly improving the depth and interactivity of the report online. There are no current best practice standards for this type of reporting, and so we expect the mix of indicators to evolve over time.

However, notwithstanding any limitations, they are a genuine attempt at improving the dialogue with our clients on these important issues. I hope our integrated reporting achieves this goal and we welcome suggestions for improving our reporting further.

Performance

Finally, one of the longstanding goals of our business is to achieve global best practice in RI. In 2014, we were pleased to receive the 'ESG Implementation of the Year' Award at the UK Financial News Asset Management Awards.

I am proud that our investment teams continue to deliver excellent investment performance, while being highly-rated for their RI and stewardship practices and am encouraged by the results of last year's pilot PRI Assessment Report, which showed good progress. This RI and Stewardship report captures much of the work that has gone into achieving these results. We look forward to continuing to share this journey with you and, as always, welcome your feedback.

Mark Lazberger
Chief Executive Officer

About Us

First State Investments (First State, known as Colonial First State Global Asset Management in Australia), is the consolidated asset management subsidiary of the Commonwealth Bank of Australia. We are a global asset management business with experience across a range of asset classes and specialist investment sectors. We are one of the largest managers of Australian sourced funds, with a growing presence in international markets.

First State and Colonial First State Global Asset Management (CFSGAM) are stewards of over US$156.9 billion on behalf of institutional investors, pension funds, wholesale distributors and platforms, financial planners and their clients worldwide.

We have offices located in Sydney, Melbourne, London, Dubai, New York, Louisville, Paris, Frankfurt, Edinburgh, Hong Kong, Singapore, Tokyo, Jakarta and Auckland; and are represented in Beijing and Shenzhen through the First State Cinda joint venture.

	Assets under stewardship	Investment staff
UK, Europe and Middle East	US$46.4 billion	58
Asia (include Japan)	US$15.4 billion	35
Australia and New Zealand	US$90.8 billion*	95
North America	US$4.3 billion^	10
Total	**$156.9 billion**	**198**

* Total assets under stewardship indicated above includes Realindex Investments which is a wholly owned investment management subsidiary of the Colonial First State group of companies. During the 2013/14 financial year, we divested our direct property and asset management business. As a result of these transactions the Funds under stewardship have reduced by A$17 billion from 30 June 2013. These transactions related to: the internalisation of the management of the Kiwi Income Property Trust by Kiwi Property Management Limited on 13 December 2013; the internalisation of CFS Retail Property Trust Group on 24 March 2014; and the takeover of the Commonwealth Property Office Fund by DEXUS Funds Management Pty Ltd on 14 April 2014.

^ USA assets managed through CFSAMAL (Australia-based non-domiciled), FSII (UK-based non-domiciled), FSI Singapore (Singaporean-based non-domiciled), USA SEC Registered Investment Advisers.

Source: First State Investments as at 31 December 2014.

Our Approach to Responsible Investment and Stewardship

We became a signatory to the UN backed Principles for Responsible Investment (PRI) in 2007 and since that time we have systematically and progressively improved our RI practices across our investment teams globally.

First State employs teams of investors who are specialists in their respective fields and set their own investment style. Each investment team is structured so that portfolio managers and analysts have a strong sense of portfolio ownership. Incentive structures are directly aligned to the results they deliver for clients. Information on the investment philosophy and approach for each team can be found in the team profiles in this report and on our website.

While different investment teams have different investment approaches, all teams believe that markets are not completely efficient and that value can be added for our clients through careful investment analysis and prudent decision-making.

Our commitment to RI and stewardship is a common thread which runs through these diverse investment capabilities. In particular, all teams believe that ESG issues impact investment value and that as a large institutional investor we can achieve better long-term investment outcomes through active engagement with companies and by exercising the ownership rights we hold on behalf of clients.

Each investment team's approach to incorporating these factors into their investment process has evolved over time and we believe the diverse approaches are a key strength of our business as it allows us to share ideas and learn from each other. The governance of responsible investment and the systems for cross-collaboration are critical in this regard.

Our governance framework includes our Global Responsible Investment Committee (GRIC) which is chaired by our CEO and has ultimate oversight of our RI and stewardship practices including approval of all policies and the business's RI strategy. We also have an ESG Committee comprised of investment professionals from each of our investment teams.

More detailed information on our approach including our governance structures and policy framework are available on our website.

Assets under stewardship by investment team:

AS AT 31 DECEMBER 2014	US$ billion
First State Stewart (Asia Pacific, Global Emerging Markets and other worldwide equity strategies)	56.8
Global Listed Infrastructure	4.9
Global Resources and Agribusiness	2.0
Global Property Securities	2.7
Australian Equities	20.6
Indonesian Equities	0.5
Realindex Investments (global and Australian equities)*	8.1
Total Equities	**95.6**
Global Fixed Income and Credit	18.1
Asian Fixed Income	1.9
Emerging Markets Debt	1.4
Short-Term Investments	35.9
Total Fixed Income	**57.3**
Unlisted Infrastructure	3.9
Total Alternatives	**3.9**
Multi-Asset**	6.2
Total Multi-Asset Solutions	**6.2**
Interfund holdings***	(6.1)
Total assets under stewardship	**156.9**

* Realindex Investments is a wholly owned investment management subsidiary of the Colonial First State group of companies.

** In addition to investment management services, the Multi-Asset Solutions team also provide investment advisory services on a further US$5.2 billion in assets.

*** Multi-Asset Solutions assets under stewardship invested in underlying investment capabilities listed above.

Source: First State Investments as at 31 December 2014.

2014 in Review – Progress Against Our Strategic Goals

Strong governance frameworks

Strategy review

Our three-year RI strategy, set out and agreed in early 2013, reached its mid-point in late 2014. A number of the key objectives and milestones we set have been achieved with most others on target for completion. We have made progress in developing a common understanding and shared belief of the value that leadership in RI and stewardship can bring.

This mid-point in the strategy provided an opportune moment for reflection on our progress to date and for us to identify and agree a set of objectives, targets and deliverables for the business in the years ahead. The review involved an assessment of our progress against the original plan, a review of the current business environment, and a consultation process with investment and business leaders where we sought to challenge their current assumptions and beliefs about what leadership in RI really means.

The consultation addressed:

- Beliefs and commitment to RI and stewardship;
- Culture and behaviours;
- Investment capabilities and products;
- Client relationships;
- Client engagement/communications/reporting; and
- Industry leadership.

Following this process, the GRIC noted the progress made to date and approved the reprioritising of a number of areas and added some new initiatives, including:

- Employee engagement components of the strategy be prioritised, with RI and stewardship becoming part of the behaviours assessment for all staff and be included in the induction training for all new staff;
- Develop a set of responsible investment principles which build on our Global Stewardship Principles;
- Incorporate RI into the investment risk and product development and management processes;
- Focus performance reporting on timeframes appropriate to the assets, specifically by presenting long-term investment performance first rather than last, and avoid reporting monthly performance wherever possible; and
- Set standards for simplifying our language when communicating both internally and externally so that we can be clearer and more concise in our communications.

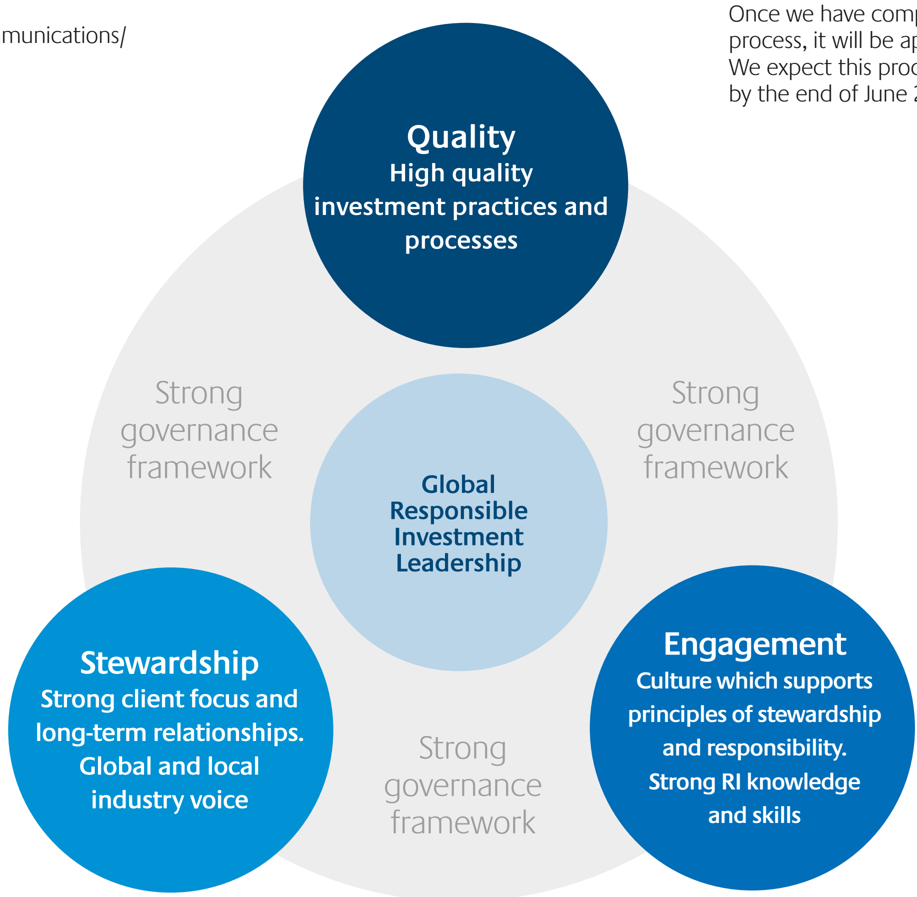
Linked to the strategy review process was an all staff consultation. The purpose of this survey was to help us assess the level of awareness and understanding of our RI and stewardship activities and goals across the business and to gather insights on issues our people are particularly interested in. We will be conducting the survey every two years to benchmark our progress and identify any areas of opportunity or concern.

Policy review

In last year's RI report, we committed to reviewing our policies in 2014. While this process has commenced, it is yet to be completed. To date we have:

- Performed a benchmarking assessment of policies across the industry;
- Incorporated policy discussions into our strategy review consultation process and all staff survey;
- Reviewed our existing practices and policy set;
- Drafted new RI principles and RI policy (which will include active ownership and proxy voting); and
- Initiated consultation across the Group on the policy.

Once we have completed this consultation process, it will be approved by the GRIC. We expect this process to be completed by the end of June 2015.



Quality investment processes

ESG Committee update

Each of our investment teams has an RI representative who coordinates information flows across their respective teams. The RI representatives sit on an ESG Committee which plays a key governance role by representing their teams, reporting on team progress, contributing to thought leadership and looking at new approaches to addressing current and emerging ESG risks and opportunities. The ESG Committee is an important part of ensuring that we have the highest quality of ESG integration embedded within our investment processes.

In 2014, the ESG Committee met six times and during the course of the year they focused on:

- Developing an accountability and assessment framework for evaluating each team's RI and stewardship practices;
- Considering best practice approaches for integrating human rights considerations into investment decision making. This included reports from HESTA following a benchmarking study they conducted and Oxfam's report 'Banking on Shaky Ground';
- Providing feedback on the work of the Stranded Assets Working Group (SAWG);
- Overseeing the implementation of the ESG information management plan;
- Considering our approach to proxy voting in share blocking and power of attorney markets;
- Monitoring the growth in stewardship codes and UK Law Commission's review of fiduciary duty; and
- Information sharing and case studies.

Stranded asset risks

During the year, the SAWG concluded the research phase of their work and developed a toolkit for investment teams. This toolkit will allow investment teams to assess whether their investment processes adequately test companies, exposure to stranded asset risk across three areas (baseline analysis, resilience testing, and management approach).

We will be rolling out the toolkit throughout 2015 and incorporating assessment of each team's approach to stranded asset risk within our investment assurance framework. While investment teams are not required to adopt the toolkit in full, they will be required to demonstrate how their existing processes adequately address the issues highlighted.

Where investment teams believe that enhancements to their processes are required, the toolkit is sufficiently flexible to allow them to mix and match different elements in a way which can be integrated with existing investment processes.

More details on the toolkit and the work of the group are provided in the RI and Stewardship in Focus section on page 36.

Approach to sanctions monitoring

During 2014, the Risk and Compliance team reviewed our approach to monitoring sanctions globally. Following the review, new processes have been put in place to provide additional assurance.

Current process for investments

In both fixed income and equity systems, we enforce country level restrictions based on the constituents of the Australian Department of Foreign Affairs and Trade (DFAT) Sanctioned Countries List and similar lists issued by Governments in other jurisdictions where our funds are domiciled. The constituents on each system are regularly reviewed and updated.

Within this list, a two-tier system is in operation, whereby some countries are completely blocked (such as Iran, North Korea, Syria) and others are heavily restricted. Any potential investments in companies domiciled in these countries would be rigorously screened to ensure that there is no association with any sanctioned individual, entity or regime prior to investment. No investment is possible in companies domiciled in any country on the DFAT list without clearance from Investment Compliance personnel as the system controls do not allow it.

Enhancements

During 2014, a project was launched to assess our approach and identify areas for improvement. In response we implemented a more stringent framework to extend our controls to include any potential investment from a country deemed to be 'very high risk' in relation to politically exposed persons, sanctions and ultimate beneficial ownership controls. The scope of this framework will be wider than the sanctioned countries list and the countries deemed to be 'very high risk' will be updated where appropriate. The system was implemented on 31 March 2015.

ESG information management

In late 2013, we developed a plan to enhance the quality, relevance and timeliness of ESG information provision to our investment professionals. The plan addresses service providers, access to information, integration of information with existing systems and training.

During 2014, we made significant progress on our ESG information management plan, the highlights of which include:

- Integration of Sustainalytics and GMI Ratings (GMI) data with Bloomberg which was then made available to all Bloomberg users;
- Developed an Excel-based ESG dashboard which draws on Sustainalytics, GMI and Bloomberg data to provide a comprehensive view of a company's ESG performance;
- Integration of Sustainalytics and GMI data with the Australian Equities Growth team's proprietary database;
- Made GMI data available through FactSet which is being used by three investment teams including our smart beta team Realindex. Access has allowed the team to undertake research which culminated in a recent paper.

In 2015, we plan to finalise the main elements of our information management plan, which includes:

- The launch of a new intranet site which will provide training material, research, policy guidance and other information needed to effectively exercise our responsible investment and stewardship obligations;
- Finalise the integration of ESG information on FactSet and our data warehouse;
- Develop portfolio level ESG reporting for use by Investment Assurance, the Investment Committee and investment team heads; and
- Enhance our client and public reporting.

Proxy voting

Historically we have not voted proxies in shareblocking and power of attorney (POA) markets, which is common practice in the industry. Shareblocking markets are markets where a shareholder is prevented from trading a company's shares for a period after they have lodged their proxy votes, while POA markets are markets where POAs must be lodged in order for the votes made to be counted.

We believe proxy voting is an important investor right and asset and should be exercised wherever possible. During 2014, we reviewed the practice of not voting in these markets and have made the following changes:

- We will be lodging POAs for markets where we hold shares in order to vote in these markets; and
- We will provide portfolio managers with the option to vote in shareblocking markets so that they can weigh the benefits of voting with any risks of not being able to trade on a case by case basis.

These new procedures are currently being implemented and will be fully rolled out across all equity teams by the end of 2015. For Realindex, voting will be rolled out for POA markets but not shareblocking markets.

Engaging our people

All staff consultation

We conducted an employee survey as part of our RI strategy review process. The response rate for this exercise was a very high 62%, with most respondents providing detailed feedback. We are now using the results as a baseline for improving our engagement with all employees.

Of all respondents, 35% were from investment teams, representing approximately 60% of investment staff globally. There was also a good mix from other areas of the business, including all of the Executive Committee.

We plan to conduct the survey every two years and will share the key highlights in this report.

The key highlights of the staff survey were:

- 76% believe that RI and stewardship is embedded in our culture; and
- 77% 'believe' or 'strongly believe' that as a firm we should have a firm and public stance on issues that may have a medium to long-term impact on investment returns.

The consultation also told us that over the next 12 to 18 months our people would like us to:

- Enhance our communications with clients and investment consultants and work to increase our colleagues' understanding and knowledge of RI;
- Establish our views on what is best practice for the companies that we invest our clients' money in; and
- Share more examples of companies that investment teams decide not to invest in for ESG reasons.

Our culture

As reported last year, we have been reviewing our HR processes and incorporating our RI and stewardship principles across the employee lifecycle. We have made good progress in this regard and expect 2015 to finalise the key elements of this plan. During 2014, we implemented the following:

- RI Report and Stewardship Principles are now provided to all new hires;
- Our commitment to RI and stewardship is now highlighted in all job advertisements globally.

Ensuring that our commitments have been fully appreciated by new hires through training and induction programs is now underway. In addition, we are working towards integrating behaviour assessments for implementation in 2015/16. This work is being done as part of a broader review of HR processes and has been prioritised by the GRIC as part of the RI strategy review.

Diversity and inclusion in the investment industry

Like many responsible investors we recognise the benefits of diversity and inclusion for company senior management and boards. We believe the same holds true for the investment industry. Gender is the most common prism through which we consider diversity and inclusion but more broadly it also focuses on characteristics such as cultural diversity, disability, age, sexual orientation and experience.

In this year's report we have chosen to disclose the gender split of our investment professionals and we have done this for three reasons:

- To disclose information similar to what we expect companies to disclose;
- To highlight the challenge of gender diversity with investment professionals;
- In our hiring practices we actively include diversity as a benefit to be sought; however, we believe there is a larger role the industry can play in attracting more women into investment roles.

We hope that our disclosure of the gender split will encourage others to do the same and as a result, focus the industry's attention on rectifying this imbalance. As at 31 December 2014, 21% of First State's investment professionals were women.

Stewardship and thought leadership

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

During 2014, we assessed our investment practices against the CFA Institute's Code of Ethics and Standards of Professional Conduct for asset managers and found that our practices are fully compliant with the code. We believe the CFA code is an excellent framework for assessing an investment manager's approach to internal governance, ethical conduct and a fiduciary mindset.

We will be reviewing our adherence to the code annually through our compliance process and more formally every two years when we review our Global Stewardship Principles. The code is available to view on the CFA Institute website.

NAPF Stewardship Framework

During 2014, we also assessed our stewardship approach against the NAPF Stewardship Framework. NAPF represents more than 1,300 pension schemes in the UK and has developed the framework to allow funds to consider the stewardship practices of managers at a glance. The framework provides assets managers with a maturity matrix against which they can assess their practices. Our self-assessment is available in the Policy and Reports section of our website and as well as on the NAPF website.

Investment Leaders Group (ILG) Long-Term Mandates Working Group

In 2014, our Global Head of Responsible Investment became chair of the ILG Long-Term Mandates Working Group. We believe a critical issue exists where short-term mandates, use of benchmarks and performance monitoring are driving short-term investment decision-making, herding behaviour and a failure to properly incorporate long-term environmental and social challenges into investment practice.

The Working Group has been established to explore opportunities to break down this barrier and open the way for long-term partnerships to be built between asset owners and asset managers. We believe these types of relationships will allow for the investment implications of these long-term challenges to be worked through together.

Towers Watson – Thinking Ahead Institute

We have become one of the inaugural members of a new initiative launched by global investment consultancy Towers Watson. This initiative is the establishment of a 'Thinking Ahead Institute' (TAI) which is headed by senior consultants Tim Hodgson and Roger Urwin.

2014 in Review –
Progress Against Our Strategic Goals (cont.)

The TAI is a limited membership group which has been established to "provide a forum where likeminded parties can meet to discuss, challenge and, ultimately, bring about positive industry change for the benefit of the end saver". The TAI has three pillars, research, roundtable meetings and one-to-one meetings.

The research plan for 2015 includes work on the following topics:

- The state of the industry;
- What is investment success?;
- Market efficiency;
- Rethinking compensation;
- Industry outlook;
- Money-weighted returns;
- Culture and leadership;
- Limits to growth; and
- Time horizons.

Our membership of TAI, along with that of the Cambridge University Investment Leaders Group, are the two main components of our industry thought leadership strategy.

Collaborative engagements

During 2014, we reviewed the range of industry initiatives that we were involved with. The purpose of this review was to ensure that any initiatives we committed to supporting met a number of criteria. These criteria are based upon the interest of and long-term value to our clients and our ability to provide sufficient resources to effectively support such initiatives. The initiatives that we remain engaged with are detailed in Appendix 2 on page 40.

During 2014, we were involved in a number of collaborative engagements including:

Financed emissions disclosure

We worked with other investors and key industry groups (Investor Group on Climate Change, Responsible Investment Association of Australasia, Australian Council of Superannuation Investors and Regnan) to engage with Australia's four largest banks (including our parent, the Commonwealth Bank of Australia) on carbon disclosure.

The engagement included a workshop with the banks, meetings between our two Australian equity teams and the banks, and other correspondence which led (along with pressure from other interested groups) to improved disclosure practices for financed emissions. We believe that this constructive engagement has created good momentum for Australian banks to lead the world on financed emissions disclosure.

Remuneration in the mining industry

We contributed to a PRI-led working group focused on the integration of ESG issues into the remuneration practices of mining companies. This project has led to a report being published which will help investors to better assess pay practices in utilities and extractives companies. Our Global Resources and two Australian Equities teams were involved in the project.

Fixed income engagements

Our Fixed Income and Credit team supported an engagement led by the Asian Corporate Governance Association with Hyundai Motors. We were the only fixed income investor to support the engagement and believe there is significant scope for fixed income and credit investors to be involved in collaborative engagements in the future.

Our Fixed Income and Credit team also produced a case study of the semi-government engagement program the team embarked on last year, in the hope of encouraging other investors to also engage with sovereign and semi government issuers. We have submitted this case study to the PRI and hope it will be published shortly.

Reporting improvements

Transparency and client engagement are key components of effective stewardship. Each year we seek to improve our reporting to provide our clients and stakeholders greater insight into our responsible investment and stewardship practices.

Over the last two years, we conducted a survey at the time of the report's launch and a reoccurring theme has been that the industry is still not linking RI activities to investment outcomes.

In this year's report we have included a number of additional pieces of information to begin to address this. These include:

- More clearly drawing the links between each team's RI and Stewardship practices and their investment philosophy;
- Being more specific on how ESG issues are incorporated into investment processes;
- Including new sections in the team profile including team, fund and performance information;
- Providing a full proxy voting record and relevant statistics; and
- Improving the presentation and interactivity of the RI Report on our website.

These improvements follow greater transparency in our Proxy Voting and Corporate Governance report and new client reporting for the European Diversified Infrastructure Fund. We hope that these enhancements will engage our clients and consultants to a greater degree and provide a deeper understanding of the strengths of our investment teams.

We welcome feedback and further suggestions for improvement as we continue our reporting journey.

Australian Stewardship Code

As a member of the Investment Committee of the Australian Financial Services Council (FSC), our Chief Investment Officer for equities was involved in the FSC working group which developed the soon-to-be launched FSC Stewardship code.

In working on the code, we advocated for high standards and believe we have achieved a world class disclosure standard for asset managers, both in relation to their internal governance and stewardship practices. We congratulate the FSC and the other members of the working group on the outcome.

Responsible Investment and Stewardship in Practice

The following pages contain profiles for each of our investment teams. In this year's profiles, we have included a number of new sections and metrics to more fully reflect the philosophy, processes and performance of each team.

Our website has also been enhanced for a more detailed and interactive experience.

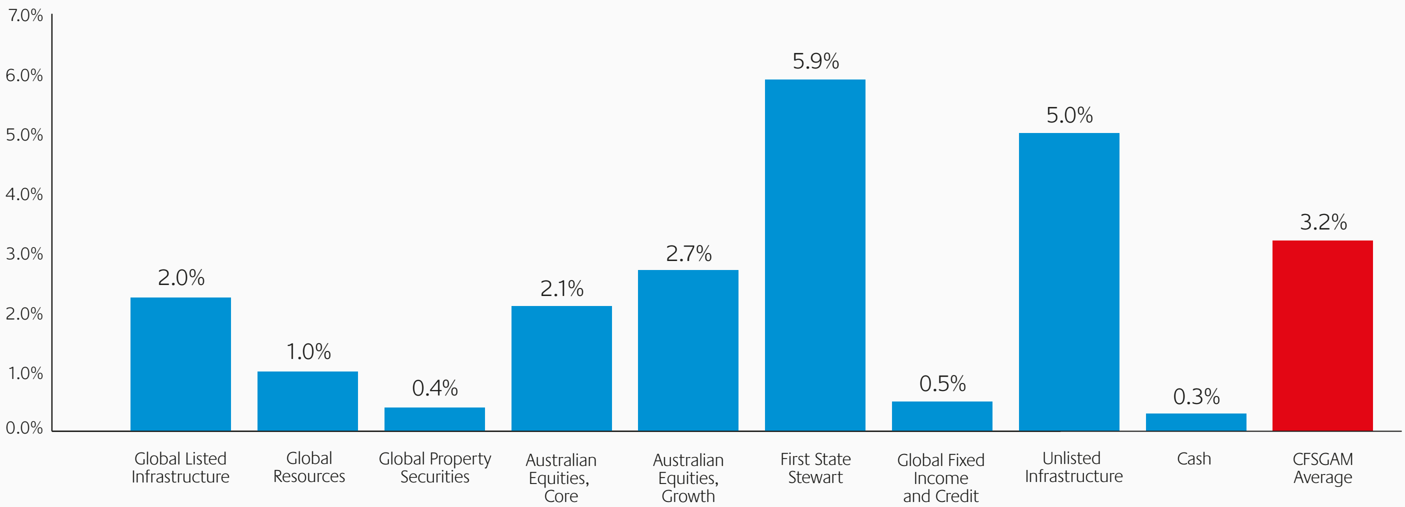
Many of the indicators are new and to our knowledge have not been used in this way before. There are inherent limitations with some of the metrics we have provided and so in order to understand them in their appropriate context, please read the general qualifications and limitations provided in Appendix 1.

In addition, we are providing additional contextual information for each team on our website including country and sector characteristics as relevant to the team's investment universe. The online version of the report also includes additional case studies and proxy voting information.

When taken in aggregate, we believe that these new measures provide a fuller and more objective view of the RI and stewardship performance of the teams and how they influence investment outcomes over time.

While there are many reasons to invest responsibly, we could not do it if we did not believe that it was in the long-term interests of our clients. The chart below shows the weighted average outperformance of our investment teams over the last five years. While separating out the contribution of our responsible investment and stewardship practices in these numbers is difficult, we hope that this report clearly demonstrates the value it adds.

Extent of outperformance by team (5 years) – 31 December 2014^



^ Please refer Appendix 1 for details of these performance statistics.

Global Listed Infrastructure

> Inception Date
2007

> Location
Sydney

> Strategies
Global Listed Infrastructure

Peter Meany
Head of Global Listed Infrastructure

Rebecca Sherlock
ESG Committee member

Investment philosophy and approach

We are conservative investors. We believe investing in long-dated assets requires a long-term view, and recognise that capital preservation is critical to achieving long-term capital growth. We are active managers of our clients' capital. Our investment approach is primarily bottom-up, with a sensible consideration of macroeconomic risks.

Our investment process combines direct company contact with proprietary research, a consistent valuation framework and a comprehensive 25-point quality assessment.

This structured process reduces bias and supports repeatable outperformance.

Stewardship and ESG integration

ESG issues are fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate. We therefore believe ESG issues should be fully integrated into an investment process. We do not screen companies on ESG criteria but seek to understand the risks and capture them in our proprietary quality ranking.

Team profile

Led by Peter Meany, our investment team consists of seven infrastructure specialists with complementary skills and experience in both infrastructure and equities markets.

This experience is enhanced by over 500 company visits each year. We meet with company management, competitors, suppliers, customers, regulators, government officials and industry bodies. The information and insights gleaned from these meetings are our most important sources of idea generation and risk management.

Stock coverage is split by sector to maximise the team's specialist knowledge and to identify global best practice. Team members are encouraged to contribute views on all stocks, not just those under direct coverage, and all stock calls are openly discussed and debated on an ongoing basis.

Rebecca Sherlock, a Senior Investment Analyst with 13 years' experience, is the team's RI Representative.

Number in Team	7
Average experience	13 years
Average years in team	6 years

AusNet Services

Governance and capital management

Australian regulated utility AusNet Services owns and operates electricity transmission and electricity and gas distribution networks in Victoria. The company recently proposed that it should be granted the authority to issue significant amounts of additional equity – up to the equivalent of 15% of shares on issue – without shareholder approval.

As shareholders, we wanted to better understand the reasoning behind this proposal so that we could decide whether or not to support it. We were concerned that our clients' money could be used for non-shareholder friendly activities such as dilutive acquisitions or transactions.

During engagement with the company, it explained that this authority would give it the ability – if necessary – to secure accretive deals within a short timeframe. It also assured us that were it ever to exercise this authority, the new shares would be priced at a minimal 1% discount to the current market price.

Whilst we understood the reasoning behind its argument, we did not believe that it would be prudent to vote in favour of this motion. As stewards of our clients' capital, we feel that it is crucial for us to retain the ability to express our views to the companies we invest in, and to vote against any potential acquisitions or transactions that we do not believe are in shareholders' best interests.

ESG implementation

Assessment and monitoring

Infrastructure companies are assessed on a broad range of ESG-related factors. All three categories are relevant for every company we look at. Some notable examples include:

- Environmental issues are key drivers for electric utilities, energy infrastructure (oil and gas pipelines and storage) and railways.
- Social issues are particularly important to utility companies as they have obligations to the communities to which they provide essential services.
- We consider governance issues to be important performance drivers for all infrastructure stocks. Board composition and alignment of interests are considered to be so important that they are rated separately in our ESG scoring process.

Integration

ESG analysis is integrated into our investment process through our quality assessment and ranking model.

This model consists of 25 criteria that influence stock returns in general and infrastructure securities in particular. A score is assigned to each criterion; where a lower quality score makes it harder for a stock to be included within the overall portfolio. ESG criteria account for 20% of the overall quality score.

Incorporating ESG considerations into the investment process in this way helps to inform our decisions of whether or not to hold shares in a specific company.

Engagement

We look to positively influence companies towards ESG best practice. Through company engagement, we seek to highlight areas for potential improvement, encourage disclosure on ESG issues, and commend companies that are making progress in this area. We typically engage companies on material issues to achieve specific outcomes, namely to ensure good ESG practices and thereby protect investor interests.

Proxy voting statistics, voting records and additional case studies are available on our website.

Duke Energy

Environment and social, pollution and spills

Duke Energy is one of the largest regulated utility companies in the US, operating primarily in the Carolinas, Indiana and Florida.

In February 2014, a storm water pipe burst beneath a coal ash pond at Duke's retired Dan River Power Station in North Carolina. This led to coal ash waste being released into the river.

We wanted to review the measures Duke had taken to ensure an incident like this does not re-occur; and to understand what impact this spill could have on company earnings in the medium and longterm.

After the spill, the company carried out a comprehensive risk assessment of all its coal ash basins in North Carolina, which determined that four of its basins were deemed high risk. The company then presented a number of solutions. The solutions ranged from full excavation for all basins, to excavating the four 'at risk' basins and putting a hybrid cap in place on the others. A hybrid cap involves draining the basin and putting a liner inside it to avert the possibility of future spills.

It is expected that by the end of 2015, the Department of Environment and Natural Resources (DENR) will categorise the basins, determine which solution is required and set the timeframe that should apply. Until a decision is made, the company will be unable to assign a more accurate cost estimate against this plan. The company is confident that it will be able to recover any associated costs through rate base growth. The legislator made no comment on cost recovery, implying that it will be treated as any other rate base investment.

We will monitor this issue on an ongoing basis. The decision from the DENR is expected to have industry-wide rather than merely company-specific ramifications. Environmental risk factors such as this one were already reflected in the quality score for this company. As a result, no change was needed post our engagement.

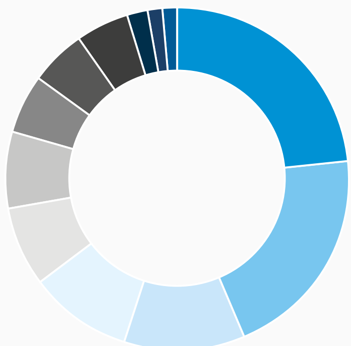
Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	20.4%
Stock retention	52.4%
Top five holdings	Transurban Group Vinci SA Scottish and Southern Energy PLC East Japan Railway Atlantia SPA
% of companies met with	100%

Industry split



- Electric Utilities **23.34%**
- Highways & Railtracks **20.41%**
- Railroads **11.28%**
- Multi-Utilities **9.95%**
- Gas Utilities **7.32%**
- Oil & Gas Storage & Transportation **7.20%**
- Airport Services **5.62%**
- Marine Ports & Services **5.36%**
- Specialised REITs **4.90%**
- Cable & Satellite **1.91%**
- Water Utilities **1.59%**
- Wireless Telecommunication Services **1.13%**

Five-year performance

Portfolios outperforming benchmarks	100%
Weighted average outperformance	2.0%
Absolute return Wholesale Global Listed Infrastructure Securities Fund	16.9% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Global Resources

> **Inception Date**
1997

> **Location**
Sydney, London

> **Strategies**
Global Resources
Global Agribusiness (known as Global Soft Commodities in Australia)

Dr Joanne Warner
Head of Global Resources

Tal Lomnitzer
ESG Committee member

Investment philosophy and approach

We invest for the long-term in a diversified portfolio of high quality and growing energy, metals, mining and agribusiness companies from around the world.

Our portfolios are actively managed using a fundamental, bottom-up stock selection process. The team's investment philosophy is consistent across each of the global resources and agribusiness portfolios that it manages.

We construct a diverse portfolio, that displays the characteristics of larger-than-average margins and resilient balance sheets combined with exploration and development stage companies with strong growth potential.

Our experience since 1997 (the time of inception of our Global Resources flagship strategy) is that this approach delivers positive returns over the full commodity price cycle without taking on excessive risk.

Stewardship and ESG integration

By engaging on ESG issues with the companies in which we invest, we believe that we are able to identify potential risks and opportunities in companies, determine the materiality of those risks, and what is being done to manage them.

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

An assessment of companies' commitment to sustainability, the integration of governance policies in the organisation and the adoption of appropriate disclosure practices provides an additional view of management quality.

Team profile

Our Global Resources team, led by Dr Joanne Warner, consists of 11 investment professionals and is one of the most experienced in the industry.

We are a technically-oriented team with backgrounds spanning multiple sectors, including mining and petroleum engineering, metallurgy, physics, agriculture, economics and chemistry.

We operate in a collegiate environment and sector responsibilities are allocated to each team member, in addition to their portfolio management roles. All members of the team understand the key reasons for investing in every stock in the portfolio and are aware of any stock specific catalysts for share price movement.

Tal Lomnitzer, a portfolio manager with over 16 years' investment experience, is the team's RI Representative.

Number in team	11
Average experience	15 years
Average years in team	7 years

Petroleo Brasileiro (Petrobras)

Governance, related party transactions and corruption

In September 2010, Brazilian oil company Petrobras undertook one of the largest capitalisations in corporate history by raising BRL120.2 billion to fund the acquisition of 5 billion barrels of oil equivalent from the Brazilian government to help plug a funding gap estimated at US$58 billion, as part of the company's five year plan to commercialise the vast resources it had discovered in 2006-2010 in the pre-salt of Brazil's deep water.

However, as part of the transaction, the government acquired BRL80 billion of the total funds raised. Petrobras subsequently used BRL75 billion to purchase the barrels from the government in a deal called the 'Transfer of Rights' (ToR). The net effect was to increase the government's stake in Petrobras from 40% to 52%. In effect, minority shareholders were being asked to give up more control of the company and pay for barrels of oil which had, at the time, not even been proven to exist.

In our view this sent a clear message that minority shareholders would not be treated on an equal footing. As part of the deal with the government there would also be a re-evaluation of the price paid for the undiscovered barrels, which in all probability carried a significant risk of being revised upwards in favour of the government. Therefore, Petrobras could potentially be required to make an additional material cash payment to the government or forgo future production from the assets acquired in the ToR. This situation resulted in a material risk that minority shareholders would be further diluted in the future.

In response to the above concerns identified in 2010, the team's Senior Energy Analyst met with Petrobras' management team at their offices in February 2011 with follow up meetings in London in 2012. This due diligence resulted in the divestment of all our holdings in Petrobras.

We have continued to monitor developments at the company over the past few years, despite retaining our zero-weighting in this stock, and remain concerned about the company's corporate governance.

Petrobras has changed its accounting measures over the last two years. The company also failed to submit its full audited accounts for Q3 14 and has since applied for an extension with its creditors. Corruption allegations against Petrobras have been widely reported in the media, including in 2014, a major corruption scandal emerged centred around the former head of Petrobras' downstream division, Mr Paulo Roberto Costa, which engulfed company management and prominent Brazilian politicians.

ESG implementation

Assessment and monitoring

Rigorous analysis of ESG factors and risks has been a core part of our investment process and philosophy since the flagship fund's inception in 1997. The framework is focused on better understanding the risks related to health and safety, industrial relations, community, environmental performance, board structure, compensation and the alignment of all stakeholders.

Although we use various independent ESG research tools, we find that the clearest understanding of ESG risks comes from our site visits. We have conducted over 1,400 site visits across 70 countries since the inception of our flagship fund. These visits enable us to use our expertise to gain a more detailed and comprehensive insight into the magnitude of these issues and risks. For some companies the key risks will be external and need to be considered in a regional context, eg political risk, permit challenges, lack of infrastructure etc.

Integration

ESG assessment forms an integral part of the formal stock review process. These reviews are undertaken annually and are supplemented by ongoing monitoring of company announcements and meetings. We believe that this will lead to better risk/return outcomes for our funds and deliver improved long-term returns for our clients.

Engagement

Engagement on ESG issues is primarily carried out directly with company management and indirectly through our proxy voting process. Where company management does not respond adequately to our engagement, it may impact negatively on its valuation assessment and could result in the team divesting its holding of the particular company.

As a result of being part of a large and highly regarded organisation, we find that we tend to get good access to management. In general we prefer to engage in a constructive two-way dialogue with key decision-makers in a company. This way our opinions are taken into consideration and we are able to develop a deeper understanding of the issues and the constraints.

Proxy voting statistics, voting records and additional case studies are available on our website.

WH Group

Governance, capital management

Hong Kong-based meat producer WH Group participated in an IPO in July 2014, raising US$2.4 billion. We reduced our holding in the company when the private equity firm, CDH Investments, sold down its position via a pledge, which was a way of monetising a portion of their holding that theoretically was in escrow (common directors in CDH Investments and WH Group).

Subsequently, its China business reported a poor result that surprised the market. We contacted the company to arrange a telephone conference immediately and were told that management was too busy to engage with us as they were travelling on a marketing roadshow. Following a lengthy exchange of emails we were asked to submit our questions. We have not received a response despite our persistence. We exited our holding of this name.

Areas for development

We utilise the capabilities of new ESG service providers, GMI and Sustainalytics, and incorporate their data into our tailored ESG framework that is fed by data supplier Bloomberg. It is not uncommon for our first hand assessment to differ significantly from that of the ESG research providers, which tend to be based upon company supplied information and media reports.

Whilst the quality of this external data has its limitations, it can be a useful tool to assess trends over successive years of 35 ESG factors – including energy consumption, CO_2 emissions, accidents and environmental incidents. In general we find that large companies tend to allocate more resources to this kind of ESG reporting and their results tend to be better represented and more extensive than small to medium sized companies.

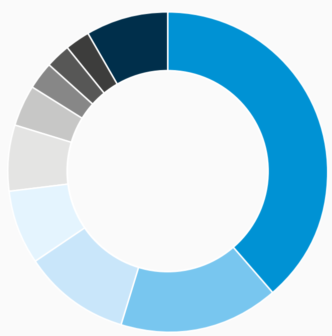
Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	42.6%
Stock retention	36.2%
Top five holdings **Wholesale Global Resources Fund**	BHP Billiton Rio Tinto Exxon Mobil Glencore Vale
% of companies met with	100%

Industry split



Five-year performance

Portfolios outperforming benchmarks	100%
Weighted average outperformance	1.0%
Absolute return **Wholesale Global Resources Fund**	−3.6% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Global Property Securities

> Inception Date

1994

> Location

Sydney, London, Amsterdam, New York and Singapore

> Strategies

Global Property Securities, Asia Pacific Property Securities and Australian Property Securities

Stephen Hayes
Head of Global Listed Property Securities

Joseph Daguio
ESG Committee member

Investment philosophy and approach

We believe that real estate security returns are driven by a combination of local real estate fundamentals and capital market conditions.

To allocate capital efficiently requires a very clear understanding of the current and anticipated real estate fundamentals at a local level, and of the macroeconomic conditions which can influence real estate market cycles and expectations.

The investment process is driven by active stock selection based on stock specific factors. These factors include the quality of the assets, management expertise, strength of the company's capital structure and access to capital markets.

Stewardship and ESG integration

We have implemented sustainability considerations into our investment process. We believe the consideration of ESG issues will lead to better risk return outcomes, which will ultimately improve long-term returns for clients.

Corporate governance is a particular focus, where board independence as well as respect for shareholder rights is of paramount importance.

We also consider any specific sustainability initiatives implemented by a company and the environmental impact of existing assets and developments. A company's history as a good corporate citizen is taken into account as well as evidence of any meaningful contributions it might have made which benefit society as a whole.

Team profile

Led by Stephen Hayes, the team members are located across the world's major property markets with offices located in Sydney, Singapore, New York, London and Amsterdam. This gives the team a truly global reach and on the ground local property access.

Team members are experienced industry experts, focused solely on investing in publicly traded property securities.

Joseph Daguio, Senior Analyst with 13 years' experience, is the team's RI Representative.

Number in team	12
Average experience	14 years
Average years in team	4 years

Areas for development

- The integration of third party ESG research scores into ESG valuation models.
- The development and implementation of an ESG tracker across global teams which will track company specific ESG related issues and engagements.

Westfield

Governance, board independence, related party transactions and treatment of minority shareholders

In December 2013, Westfield Group and Westfield Retail Trust announced their intention to merge Westfield Retail Trust with Westfield Group's Australian and New Zealand business. We were positive on the long-term strategic merits of the restructure proposal, which will see Westfield Group spin out its Australian and New Zealand Portfolio and Management Platform to merge with Westfield Retail Trust, creating a new entity named Scentre Group.

However, we had concerns relating to the terms of the restructure. Specifically we had concerns in relation to the calculation of the merger ratios of 51.4% and 48.6%, being Westfield Retail Trust's and Westfield Group's ownership interest in Scentre Group respectively. We also had issues with the very high leverage of Westfield Group's Australian and New Zealand business that had been proposed to be merged with Westfield Retail Trust.

We met with the CEO and Independent Directors of Westfield Retail Trust several times to communicate our concerns with the restructure, and to gain further clarity on the details of the proposed deal. We also met with the Chairman and CEO of Westfield Group.

Subsequent to these meetings, Westfield Group and Westfield Retail Trust announced in early May 2014 their intention to improve the merger terms, by reducing the net debt contributed by Westfield Group's Australian and New Zealand business. Although the $300 million reduction improved the deal terms to Westfield Retail Trust's unit holders, in our view it did little to address the price being paid for Westfield Group's Management Platform or reduce the leverage of Westfield Group's Australian and New Zealand business to prudent levels.

Even after taking into account the marginally improved restructure terms outlined in early May, from our engagements with management of both companies, as well as through our review of the security holder booklets and their supplements, we could not find any material new information that justified the price being paid by Westfield Retail Trust shareholders for the debt-laden Australian and New Zealand assets of Westfield Group. For these reasons, we voted against the merger proposal at the deferred meeting. However, there were not enough votes against the restructure proposal and the motion was passed with a 76.1% approval from shareholders, just above the 75% needed.

ESG implementation

Assessment and monitoring

We have developed a tailored ESG framework that is part of the stock review process. When an analyst reviews a property company, an ESG review will also be done. While the primary source of ESG information is company dialogue, the team also utilises Sustainalytics and GMI to streamline the sourcing of data and information. Despite sourcing third party research, in-house research remains the most important source of reference when integrating ESG considerations into the investment process.

Integration

We approach ESG issues in a two pronged approach. Firstly, ESG considerations have been implemented into the investment process as a variable in the initial screen to determine our defined investible universe. A low ESG score (in combination with low scores on other factors) can lead to a stock being excluded from the investment universe.

Secondly, each company in our universe is rated on specific ESG factors which are used in determining the beta in the capital asset pricing model which directly impacts our valuation of a stock. The higher the team rates a company's ESG profile, the lower the beta which leads to a higher valuation, this makes it more likely that we will invest in the stock.

Engagement

We are firm believers in investor rights and take a pro-active stance on ESG issues, especially with regard to corporate governance. Communication with CEOs and board members is undertaken where it is deemed appropriate in order to influence and to enforce change.

Also during our company meetings, as an agenda item, we will discuss any changes to the company's ESG considerations. We will relay back our views on how the company rates versus its peers. In abnormal circumstances, where we believe that ESG considerations are materially below par, we will directly seek to influence change.

Proxy voting statistics and voting records are available on our website.

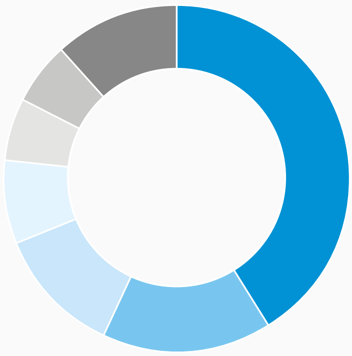
Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	43%
Stock retention	50%
Top five active holdings	Equinix Hongkong Land Brookdale Senior Living Hyatt Hotels American Campus Communities
% of companies met with	100%

Industry split



- Retail REITs **41.12%**
- Diversified REITs **15.97%**
- Office REITs **11.85%**
- Industrial REITs **7.81%**
- Real Estate Operating Companies **5.93%**
- Residential REITs **5.76%**
- Other REITs **11.55%**

Five-year performance

Portfolios outperforming benchmarks*	82%
Weighted average outperformance	0.4%
Absolute return Wholesale Global Property Securities Fund	17.2% pa

* The portfolios were restructured after being taken over by the current team in November 2012.

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Australian Equities, Core

> Inception Date
1993

> Location
Sydney

> Strategies
Australian Equities, Tax Aware, Equity Income, Geared, Indexed, Small Companies and Small Companies Long Short

Matthew Reynolds
Head of Australian Equities, Core

Robin Balcomb
ESG Committee member

Investment philosophy and approach

Our strategies seek to create wealth for our investors by taking an active and disciplined approach to managing investments in the domestic equity market.

Our investment process has no persistent style bias and seeks to add value regardless of market cycles or thematics. We employ a sensible, transparent investment process, which has been unchanged for more than 15 years. Disciplined and risk-aware portfolio construction is a key feature of the team's style.

The business has been built on people with sound judgement. The experience of working through multiple business cycles over the years provides the team with the knowledge and expertise to outperform in a range of market conditions.

Stewardship and ESG integration

An assessment of companies' commitment to sustainability, the integration of governance policies in the organisation and the adoption of appropriate disclosure practices provides an additional view of management quality.

By engaging on ESG issues with the companies in which we invest, we believe we are able to identify potential risks and opportunities in companies, determine which of those risks are material, and what is being done to manage them.

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

Team profile

Led by Matthew Reynolds, the team is highly experienced and has a mix of complementary skills. Specialist investors within the team manage a range of Australian equity strategies, including active large and small cap, equity income and passive.

Our incentive structures are directly aligned to the results we deliver to our investors. We believe this promotes commitment and intellectual engagement, aligning our interests and success with those of our clients.

Robin Balcomb, Portfolio Manager, has 15 years of experience in the funds management industry and is the team's RI Representative.

Number in team	19
Average experience	14 years
Average years in team	7 years

Areas for development

We are seeking to improve the integration of ESG data and information into our systems to assist decision-making.

Wesfarmers

Governance, sustainability disclosure and strategy

As long-term investors, we were pleased to hear about Wesfarmers' intention to improve the quality and transparency of its reporting around ESG issues during a management meeting in 2014. As a recognised expert in RI in the Australian funds management industry, we were invited to provide feedback on the new report.

An improved and more comprehensive Sustainability Report was published by Wesfarmers in November 2014. The company has identified 10 principles, which provide a framework for its approach to sustainability. As well as covering traditional ESG factors such as water usage, community engagement and corporate governance, we were pleased to see that relationships with suppliers are also explicitly included within the new principles. Wesfarmers has experienced some issues with supplier-sourcing in its Coles supermarkets business, which were acknowledged by the Chairman at the 2014 AGM.

From a shareholder perspective, it is imperative that companies maintain strong and respectful relationships with their suppliers. It is also pleasing to see Wesfarmers striving to source products in a more responsible manner and using its influence to encourage suppliers to improve their own social and environmental practices.

Members of the Australian Equities, Core team have since met with Wesfarmers in order to provide formal feedback on the report and suggest areas where it could be further improved to meet global best practice standards. We applaud Wesfarmers' initiative in improving its reporting of sustainability issues but believe further improvements can be made, particularly around sourcing and relationships with suppliers. We look forward to seeing these improvements incorporated in future reports.

ESG implementation

Assessment and monitoring

We have adopted a bottom-up approach to identifying key ESG risks. Our internal analysis is supplemented by company disclosures, media and external research. Analysts consider ESG and sustainability issues as one of six factors in the stock research and selection process. A consideration of a company's sustainability and governance policies and practices is therefore an explicit part of the stock research process, and has been in place since 2007.

Integration

Where ESG and sustainability factors are determined to have a material impact on profitability, they are quantified and implied in all other factors; most directly in the valuation and financials of the stock.

Engagement

We engage with all companies held in our portfolios and many others in the investment universe and beyond. We collectively completed more than 1,500 company visits during 2014.

Issues for engagement are identified through the detailed company research and analysis described above.

Progress on ESG issues is monitored by analysts through a review of the company visits historical record. Subsequent meetings with management provide opportunities to monitor progress on particular topics of concern.

Engagement activities are designed to improve our understanding of the policies and practices of companies and assess their effectiveness in managing ESG risks. The outcomes of our engagement with companies flows through to proxy voting decisions and, ultimately, investment decisions.

Proxy voting statistics, voting records and additional case studies are available on our website.

Transurban Group

Governance, executive remuneration

The Australian Equities, Core team has been a long-term shareholder in Transurban Group, which operates a high quality portfolio of toll roads in Australia and overseas.

In our view, Transurban Group recognises the importance of sustainability issues and is at an advanced stage of ESG policy development and implementation. The company is also utilising technology to monitor accident rates and has implemented measures to reduce accidents, including preventative accident/driver warning systems. We have discussed these issues with the company on several occasions.

During 2014, Transurban Group was part of a consortium that acquired Queensland Motorways Group. Following the completion of this transaction, we met with the company to understand that appropriate performance hurdles remained in place for members of the senior management team. Following this meeting, we were satisfied that the acquisition would not impact the company's FY15 long term incentive growth hurdle rate and that Transurban's performance hurdles provided robust stretch targets that are aligned with shareholder interests.

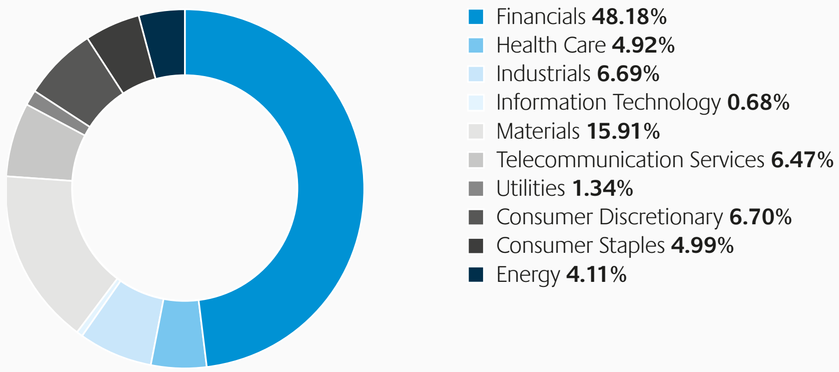
Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	Large cap 52% Small cap 97%
Stock retention	Large cap 48% Small cap 10%
Top five active holdings	National Australia Bank Medibank Private Twenty-First Century Fox GPT Group Rio Tinto
% of companies met with	100%

Industry split



Five-year performance

Portfolios outperforming benchmark	100%
Weighted average outperformance	2.1%
Absolute return **Wholesale Australian Share, Core Fund**	8.1% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Australian Equities, Growth

> Inception Date

1989

> Location

Sydney

> Strategies

Australian Equities, Imputation, Concentrated Equities, Industrials, Geared, Small-mid Caps and Micro Caps

Marcus Fanning
Head of Australian Equities, Growth

Alex Gallard
ESG Committee member

Investment philosophy and approach

Our team is one of the largest in the Australian sharemarket and has the resources to complete deep industry analysis to understand the drivers of return on invested capital. While listed companies tend to be well covered by the sell-side broker community, they are not well researched. Accordingly, we maintain a significant level of contact with listed companies, unlisted competitors, suppliers, customers and industry experts.

Our philosophy is that:

- Growing companies which generate consistent long-term returns and can reinvest above their cost of capital provide the greatest shareholder value;
- Changes to company returns on invested capital have high explanatory power for stock outperformance; and
- Understanding industry drivers is critical to understanding what drives stock performance.

Stewardship and ESG integration

ESG risks are factors that may place business value at risk. Companies at risk are identified using both external providers and our own internally driven research, which is based on a systematic company meeting program. Company meetings provide us with the opportunity to engage on ESG issues and gain greater insight into potential risks. It also provides us with the opportunity to positively influence companies towards ESG best practice where appropriate.

Identified ESG risk factors are used to assist in developing the quantitative and qualitative assumptions used by analysts in their assessment of industries and stocks. This analysis is vigorously stress tested and screened under a peer review process. This process seeks to highlight the analyst's and team's conviction in the target price and buy/sell recommendation.

Team profile

The team is one of the largest and most experienced in the Australian market, with 16 members. Current members each have an average industry experience of more than 18 years.

The team is led by Marcus Fanning, who has ultimate responsibility for the performance of all portfolios.

The team is organised into four sub-groups; large caps, small caps, dealers and investment systems.

Alex Gallard, Senior Analyst, is the team's RI Representative. Alex has 24 years of experience.

Number in team	16
Average experience	18 years
Average years in team	10 years

Areas for development

- We are in the process of implementing a database of company engagements to better capture the outcome of individual and collaborative engagements.
- We are streamlining our proxy voting system by moving from a manual to an automated process.

Sino Gas and Energy

Governance, board composition and conflicts of interest

Imdex was a founding shareholder in Sino Gas and Energy. In late 2013, it sold around half of its shareholding, realising $24 million, and retained approximately a 10% holding in Sino.

The CEO of Imdex was a Director on the Sino board. We believed it was unsatisfactory that this Director remained on the Sino board while running another public company. We thought in the best interests of Sino shareholders that the Director should leave the Sino board. Our dissatisfaction with the board composition was communicated to the Chairman on a number of occasions.

Our team conducted a site visit to China in May 2014 and was able to meet and discuss our issues with a potential new director, Phil Bainbridge, ex-Oil Search. Mr Bainbridge impressed us on the trip and gave us the confidence that he would join the board and provide much needed expertise, while the issue with the board structure was resolved (Mr Bainbridge is not affiliated with CFSGAM).

Ultimately, Imdex sold out their remaining holding. While the Director remains on the board, we were able to assist in instituting board improvement by communicating our concerns regarding the existing structure. Mr Bainbridge is now Chairman and as such our assessment of the company's governance and management has improved significantly.

ESG implementation

Assessment and monitoring

ESG risks are primarily identified by the team's own internally-driven research, which is based on a rigorous company engagement program. Analysts assess how companies are managing ESG issues and encourage the entities in which they invest to improve their ESG performance and disclosure.

Integration

ESG considerations are used to help develop quantitative and qualitative risk assumptions in analysts' assessment of industries and stocks, and are overlayed in target price and stock recommendations.

Engagement

We have active dialogue with many Chairpersons and/or senior company management on material ESG issues which we identify through our consideration of ESG risks. We try to gain comfort that the company's senior management and board are aware of, and accountable for, the management of material issues.

Where we feel material issues are not being appropriately addressed it can ultimately flow into our proxy voting and investment decisions.

Proxy voting statistics, voting records and additional case studies are available on our website.

Origin Energy

Governance, strategy, environment, climate change and renewable energy

Over the past year, we have been actively engaging with senior management from Origin Energy, including the CEO and CFO, regarding our view on the need to take a more active position in the renewable generation space. Origin, to date, has primarily relied on traditional generation (albeit with a higher tilt towards gas fired generation than the broader market) when the main gains in generation share have occurred with rooftop solar where Origin's positioning is weak.

Given the cost reduction in solar generation, combined with advances in battery storage technology, traditional generation looks set to become increasingly marginalised. We feel, and have communicated strongly, that Origin needs to carve out a position in this market rather than just defend an incumbent traditional generation position that is being competed away. We are seeing the first tentative steps from them into the renewable space by offering domestic customers a rooftop solar solution, plus Origin is also looking at utility-scale renewable projects.

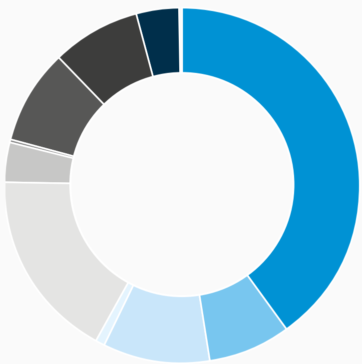
Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	Large Cap: 44% Small Cap: 44%
Stock retention	Large Cap: 44% Small Cap: 15%
Top five active holdings Wholesale Australian Share Fund	CSL Ltd Transurban Group Twenty-First Century Fox James Hardie Industries Henderson Group
% of companies met with	100%

Industry split



- Financials **40.06%**
- Health Care **7.58%**
- Industrials **9.74%**
- Information Technology **0.76%**
- Materials **17.30%**
- Telecommunication Services **3.73%**
- Utilities **0.05%**
- Consumer Discretionary **8.77%**
- Consumer Staples **7.87%**
- Energy **4.15%**

Five-year performance

Portfolios outperforming benchmark	92%
Weighted average outperformance	2.7%
Absolute return Wholesale Australian Share Fund	8.3% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Indonesian Equities

> Inception Date
2005

> Location
Jakarta

> Strategies
Indonesian Equities

Hazrina Dewi
Head of Indonesian Equities and ESG Committee Member

Investment philosophy and approach

The three key foundations to our investment philosophy are:

1. Active management strategy

Our ability to manage large amounts of information and successfully apply it to our individual security selection process gives us a competitive advantage.

We make investment decisions based on our continual assessment of which assets are likely to maximise wealth creation. In applying this active approach, a medium-to-long-term decision-making framework has been adopted.

2. Invest in quality assets

We believe in buying good assets at sensible prices rather than mediocre assets at perceived bargain prices. To identify quality assets we combine solid research with sound investment judgement.

3. Disciplined investment process

We continuously monitor and control various investment risks. As a professional investment manager, our role is not to avoid risks, but rather to understand the relationship between risk and return, and to manage risk appropriately. Our disciplined methodology also conveys our practice of not relying on short-term predictions in our decision-making process. Instead, we focus on the medium-to-long-term ones.

We place strong emphasis on high quality proprietary research and direct contacts with the companies in which we invest.

Stewardship and ESG integration

In a fast growing and volatile environment, such as Indonesia, we believe that companies with a good understanding and management of ESG risks and opportunities are more likely to succeed over the long-term.

The consideration of ESG factors from both an investor and corporate perspective is still fairly new in Indonesia, with standards lower than in more developed economies. While this means that we must be flexible in our consideration of ESG factors, we believe that as the understanding and adoption of leading approaches to ESG issues grow, the market will adopt higher standards.

In this regard we appreciate companies that communicate openly with investors and who carry out their business plans as disclosed.

We have incorporated our ESG scores with companies' financial forecasts and also used them to influence the discount or premium of company valuations. However, given the depth of the Indonesian equity market, we are limited in how fully we can integrate this method. We do use our understanding of a company's ESG risks as a flag to monitor the company more closely.

Team profile

Our investment team has a balanced composition of both senior and younger members that allows marrying deep knowledge and experience in the market with the energy and vigour to deliver outperformance.

Hazrina Ratna Dewi is the Head of Indonesian Equities and is responsible for equity analysis, strategy, and portfolio management as well as sector and stock selection. She has been working in the financial industry since 1993 and she has experienced several economic cycles, including the Asian financial crisis in 1998.

The team is based in Jakarta, Indonesia.

Number in team	6
Average experience	13 years
Average years in team	6 years

Areas for development

Implementing CGI Glass Lewis' proxy voting platform to allow for the efficient voting of stock.

Holcim Indonesia (SMCB)

Governance, investor engagement and transparency

The company has a poor investor relation function and management has a lack of willingness to meet with investors, which has resulted, in our view, in very low earnings feasibility. As a result, our internal valuation on the company used a lower multiple compared to its peers and we also have a sell recommendation. The issue so far has resulted in no investment in the stock. Performance of the stock in the last 12 months was lower than its peers and the index.

ESG implementation

Assessment and monitoring

We tailor our ESG analysis to the individual stock. Our analysts write a separate ESG report to supplement the company report and our internal analysis is supplemented by company disclosures, media and external research. We are highly focused on corporate governance as we believe this is still the main concern when investing in Indonesia. Consideration of ESG issues is still a relatively new concept for Indonesian investors; however, we believe it will soon be adopted more broadly.

Integration

We use ESG analysis to determine whether a stock valuation should be discounted as a result of a higher risk. If the ESG and sustainability factors can be quantified and have a material impact on profitability, we will integrate the numbers into our forecast.

Engagement

We have visited every company in our portfolio and we are in regular contact with management and/or investor relations. We collectively completed around 100 management meetings and company visits during 2014.

Issues for engagement are identified through the detailed company research and analysis. Progress on ESG issues is monitored by analysts through a review of the company visits record. Subsequent meetings with management provide the opportunity to monitor progress on particular topics of concern.

Engagement activities are designed to improve our understanding of the policies and practices of companies.

Up to now, we have not utilised our proxy voting; however, we intend to start using the rights in 2015.

Sri Rejeki Isman (SRIL)

Governance, capital management and transparency

On 15 April 2014, SRIL issued a five-year, USD bond amounting to US$200 million at coupon of 9%. Even though the bond received a rating of B1 from Moody's and BB- from S&P, the purpose of this issuance remains unclear. We believe the company did not really need to refinance its existing Rupiah-denominated debt with USD bond as it will put the company at risk due to stretching the balance sheet and will result in greater earnings volatility due to currency movement.

As a result of this transaction, the company changed the stated usage of its IPO proceeds without the consent of minority shareholders and aggressively increased its debt and related transaction. In our view, these issues raised doubts as to management's ability to run the company in a prudent manner. In response we voted against the management on this transaction and lost, following which we sold our holding.

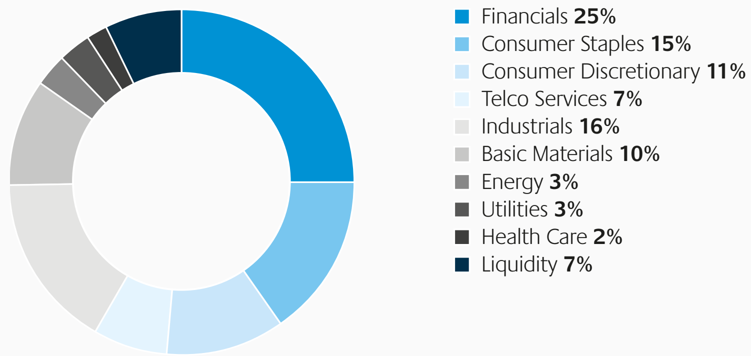
Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	43.2%
Stock retention	42.3%
Top five active holdings	Telekomunikasi Indonesia Bank Central Asia Unilever Indonesia Bank Mandiri Bank Rakyat Indonesia
% of companies met with	100%

Industry split



Five year performance

Portfolios outperforming benchmarks	0%
Absolute return **First State IndoEquity Sectoral Fund**	19.1% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

First State Stewart

> **Inception Date**
> 1988

> **Location**
> Edinburgh, London, Hong Kong and Singapore

> **Strategies**
> Asia Pacific ex-Japan, Emerging Markets, Frontier, Greater China, India, Latin America, Worldwide, Sustainability (Asia, India, Emerging Markets and Worldwide)

Investment philosophy and approach

We believe our job is to entrust our clients' capital to good quality companies with strong management teams and sound long-term growth prospects.

Each investment is a decision to purchase, not a piece of paper or an electronic Bloomberg ticker, but part of a real business with all the rights and responsibilities that go with this 'share' of the ownership of the company. We take these rights and responsibilities seriously. We also believe the way we behave as investment professionals and the role we play in the broader industry are important for our own sustainability.

Stewardship and ESG integration

Since the launch of the Asia Pacific and Emerging Markets team's first product in 1988, sustainable investment has always been an integral part of the team's investment philosophy and stock-picking process. All the First State Stewart investment strategies strive to integrate ESG considerations into every investment decision. Our sustainability strategies take this one step further by focusing on long-term sustainability themes as a key driver of the investment process. At the heart of this philosophy is the principle of stewardship.

Team profile

Number in investment team	35
Average years in team	We have a mix of highly experienced leaders who have been with the team since inception, however, most analysts have been with the team for 3-5 years as the team has expanded significantly in that time.
Location	Edinburgh, London, Hong Kong and Singapore

Areas for development

We are always looking for ways to deepen our understanding of ESG issues. We find the best way to do this is through meetings and researching companies. On occasion we also commission external research by experts; some previous examples include a Shipping report by Sustainalytics on Industry Emissions, and Steel and Aluminium Sector reports by Trucost.

Investment information and performance^

As at 31 December 2014

Investment characteristics

Average turnover	All strategies	24%
	Asia Pacific	24%
	Asia	17%
	Sustainability	22%
	Frontier	27%
	GEM	23%
	Worldwide	44%*
	China	18%
% of companies met with	100%	

* The Worldwide portfolios were restructured after being taken over by the current team.

Five-year performance

Portfolios outperforming benchmarks	99%
Weighted average outperformance	5.9%

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information

Top five holdings

All strategies
Oversea-Chinese Banking Corp
Taiwan Semiconductor Manufacture
CSL Ltd
Unilever PLC
Cheung Kong Holdings Ltd

Guaranty Trust Bank

Governance and business ethics

Company description: A Nigerian deposit-funded, commercial bank.

Investment rationale: GT Bank is an entrepreneurial bank with high levels of integrity. Its culture is conservative, risk aware, has successfully transitioned past the first generation management team and survived the Nigerian banking crisis of 2008/09 which demonstrated very clearly who was lending well, who was lending badly and who was still engaged in corruption. GT Bank passed with flying colours.

ESG implementation

Assessment and monitoring

ESG issues are identified through a bottom-up company research process. When we consider the quality of management, financials and franchise, we think about the impact ESG could have on the business and how management is addressing risks and opportunities. The primary source of ESG related information is one-on-one meetings with senior management. We are particularly interested in companies which embrace the underlying spirit of ESG, rather than simply taking a compliance driven, box-ticking approach. The assessment of ESG issues is incorporated as part of the bottom-up research process.

Integration

Sustainable investment has always been an integral part of the First State Stewart team's investment philosophy and stock picking process. ESG analysis is used as a qualitative tool to assess the risks and/or opportunities a company might face. A company's approach to ESG issues is often a proxy for its quality in other areas; for example, franchise quality is impacted by operational efficiency and the environmental efficiency provided by its products.

We are fortunate enough to be able to make the decision to not own a company because of its approach to governance or sustainability issues, as we do not consider or reference the benchmark when constructing portfolios.

Our sustainability strategies take the process one step further by focusing on long-term sustainability themes as a key driver of the investment process. We classify potential investment opportunities into one of three 'sustainability sectors': sustainable goods and services, responsible finance and required infrastructure.

Engagement

We engage on a wide range of issues including strategy, governance, alignment of interests and reputation. Engagement issues are identified through the research process and through alerts received from RepRisk, our controversy monitoring service.

We engage for two primary reasons. Firstly, because we believe that the purchase of a share in a business comes with both rights and responsibilities. Should one of the companies fail to meet international best practices on the environment, human rights or social issues, we believe that we have a responsibility to engage with senior management to persuade them to address the issue, rather than to walk away from the problem.

Second, ESG issues are investment issues. Positive engagement on ESG issues becomes a powerful tool in driving shareholder value and protecting and enhancing the long-term value of portfolios. Engagement takes place through face-to-face meetings, informal emails and formal written correspondence. In order to facilitate effective engagement the team spend a great deal of time building relationships with company management.

As long-term shareholders, we are active owners of the companies in which we invest and aim to vote on all resolutions at annual and extraordinary general meetings. The types of things that we find ourselves voting against most frequently include:

- Executive remuneration packages where there is a lack of alignment or the incentives are too short term;
- Directors' elections when the candidate does not have the right character or skills for the board, or they have not been turning up to board meetings;
- Resolutions that give the board totally unfettered rights.

We rarely see environmental or social issues appear on the ballot papers in emerging markets.

Proxy voting statistics and voting records are available on our website.

Giant Manufacturing

Environment, low carbon transport, social, health and wellbeing

Company description: Established in 1972, Giant is one of the world's largest bike manufacturers in terms of revenue. It has the number one position in China and is one of the top three brands in Europe and the US. Giant operates manufacturing bases in Taiwan, China and the Netherlands, manufacturing under the Giant brand but also for Trek and Specialized.

Investment rationale: Excellent track record of execution both in its original equipment manufacturing business and development of its own brand, a good history of paying dividends and long-term backing from the Liu family. We also see long-term opportunities for bikes as people opt for healthier lifestyles and commuting (Giant is also leading in the development of electric bikes).

China Mengniu

Social, product safety

Company description: China Mengniu is the country's largest dairy company, producing branded liquid milk, yoghurt, ice cream and milk formula products.

Investment rationale: Following the melamine scandal in 2008, a respected state-owned consumer group, COFCO, stepped in. Since then, the management team has been changed and there has been a concerted effort to improve health and safety standards and milk inspection procedures to global best practice. Europeans with decades of expertise in food safety and branding in the dairy industry, including Danone and Arla, have been integrated closely as equity investors. The company has been consolidating and integrating its supply chain in order to guarantee the quality of its liquid milk supplies. A cash generative franchise with significant room for margin expansion, Mengniu is focusing on strengthening its branding, cost control, and on promoting value-added dairy products like yogurt. We as a minority shareholder are aligned with the state and other equity holders in improving safety standards in the Chinese dairy industry, and hope to benefit from long-term increases in Chinese dairy consumption.

Global Fixed Income and Credit

> Inception Date
1986

> Location
Sydney, Hong Kong, Singapore, Jakarta and London

> Strategies
Global Credit, Global Fixed Income, Australian Fixed Income, Inflation-Linked Bonds, Asset/Liability Management and Indexed Fixed Income

Tony Adams
Head of Global Fixed Income and Credit

Yen Wong
ESG Committee member

Investment philosophy and approach

The key to our investment philosophy is 'Value for Risk'. We believe that fixed income and credit markets are sometimes inefficient, as market participants approach investing with different timeframes and different motivations. By adopting a longer-term viewpoint, we are able to take advantage of shorter-term price movements to generate value for our clients. We know that, to generate returns, we need to take on a degree of risk. As a result, we evaluate and measure risks carefully to make sure our investors are compensated.

For our credit-based strategies, we also believe that returns are asymmetric over the medium term and that avoiding the losers is more important than picking the winners. For this reason, we construct a highly diversified, benchmark-unaware portfolio that seeks to balance returns with lower tail risk.

Stewardship and ESG integration

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

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

Aurizon Holdings Ltd

Environmental and governance

Aurizon's ESG risk was reassessed to high after a review which was triggered following news of a draft proposal for regulated revenue determination. Even though the business is largely exposed to take-or-pay contracts, ie no volume risk, with large investment grade counterparties, the bulk of its revenue and cash flow is exposed to the coal sector, which faces risk of 'stranding' by policy changes which limit their use or where their investment value takes a huge hit if the world increasingly limits carbon emissions and moves to alternative energy sources. The internal rating reflects the high ESG risk and is below the rating by the rating agencies.

Green bonds

Over the past year, we have seen an increased issuance and also inquiry, by both banks and investors, for green and social bonds. In addition to purchasing the two Australian dollar issued bonds for our index funds, we also conducted an extensive research project on green bonds with the goal of better understanding this growing sector.

Our research has found that liquidity, the size of the market and investor understanding remain challenges for mainstream funds investing in green bonds. We believe that a consistent and robust framework to evaluate green bonds will aid the growth of the currently small market. As a result, we voiced support for the Green Bond Principles published in January 2014 by signing the Statement of Investor Expectations for the Green Bond Market. Strong standards and clear disclosure will be important for the further development of this area, especially with the strong growth in corporate green bond issuance. Refer to the Ceres website for further information.

Team profile

Tony Adams is the Head of Global Fixed Income and Credit. He is responsible for managing one of the largest and most experienced teams in this asset class in Australia. Tony brings 27 years of experience to his role, and is responsible for managing our suite of global credit products. Tony is also actively involved in the investment processes across all of our diverse strategies.

Yen Wong, a Credit Manager with 17 years of experience, is the team's RI Representative. Yen provides support to the Head of Credit Research, and together they are responsible for ensuring the consistency and quality of the inputs into the research process.

Number in team	29
Average experience	15 years
Average years in team	7 years

Areas for development

This year, we are focused on streamlining the semi-government assessment process for engagement. This includes making sure that our engagement is able to add worthwhile insights. To this end, we have talked to non-governmental organisations (NGOs) to discuss either using their research or the possibility of collaboration. We have also submitted a case study to the PRI to encourage other investors to engage with these important bond issuers.

ESG implementation

Assessment and monitoring

Analysts identify ESG risks during their bottom-up credit research. We use customised ESG rankings as a starting point for assessments. Analysts consider these alongside their own research with reference to a variety of other external sources.

By analysing and assessing ESG issues within a company, we can identify sources of non-financial risk. In line with our credit philosophy of avoiding the losers, we are able to identify companies with a higher default risk than the balance sheet implies. This gives us greater insight than that offered by a rating from a traditional credit agency.

Integration

The team assigns a proprietary internal credit rating (ICR) to every bond we review. The ICR is a forward-looking measure of default risk and is one of the key outputs of our research process. It reflects all risks relevant for that issuer, including ESG risk. Our ICR is on the same scale as ratings assigned by the ratings agencies but is often materially different for individual issuers.

The ICR is also used by the credit portfolio managers when making their decision to buy or sell bonds and to determine position size for the funds that we manage. The Head of Credit Research is responsible for ensuring the consistency and quality of the ESG inputs.

Also see the case study of ESG and Corporate bonds on page 30 for further evidence of this.

Engagement

The team's key engagement is with banks and counterparties to understand their ESG risks and their approach to managing those risks; for example, climate change and other environmental risks relating to the banks' loan books and financing, and aspects of their lending policies.

A challenge for responsible credit investors has been effective ESG engagement with issuers. This is in part due to the contractual nature of bond investments and the fact that a majority of securities are purchased on secondary markets. We do actively incorporate questions into meetings with primary issuers. Our brokers are aware of our ESG focus and facilitate ESG discussions where possible.

We are increasingly conducting targeted engagements and recently undertook a pilot study to engage with semi-government bond issuers in Australia, including conducting our own research to assess the ESG risks faced. This assessment is an input to investment decisions.

Petroleo Brasileiro (Petrobras)

Governance, corruption and business ethics

Our initial review on Petrobras, majority owned by the Brazilian Government, revealed a high level of ESG risk from oil spills, as well as poor health and safety standards and human rights violations; none of which led to weaker economic or financial performance for the issuer initially, but the company's ESG risk was a drag on our credit assessment for the issuer. The weakening of ESG performance, together with the company's aggressive capital program and production targets, led to a downgrade of the internal rating to below investment grade in early 2014. The growing negative influence by the Government on the company's operations, including poor transparency on fuel subsidies, was a red flag that led to that revision. After our downgrade, the news stories and scandals grew, including the announcement that Brazilian police and prosecutors were investigating former senior executives, as well as the country's ruling Worker's Party, for siphoning off funds from Petrobras contracts. In the media, it has been reported that more than two dozen executives from six large construction companies were arrested for inflating bids for Petrobras' contracts and paying bribes to members of parliament. In late 2014, PricewaterhouseCoopers, the company's independent auditor, refused to sign off the third quarter 2014 results because they did not adequately quantify the material impact these scandals had on the financial statements.

Investment information and performance^

As at 31 December 2014

Investment characteristics

Portfolio breakdown by bond types	Government	56.2%
	Corporate	30.0%
	Other	13.9%

Five-year performance

Portfolios outperforming benchmarks	34%
Global Credit portfolio outperformance	100%
Weighted average outperformance	0.5%
Absolute return **Wholesale Global Credit Income Fund**	7.2% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Asian Fixed Income

> Inception Date
2014

> Location
Hong Kong, Singapore and Indonesia

> Strategies
Asian Fixed Income

Jamie Grant
Head of Asian Fixed Income and ESG Committee member

Investment philosophy and approach

Our team seeks attractive risk-adjusted returns through an active approach to managing investments in the region.

The investment philosophy is that an active approach to managing Asian Fixed Income (AFI) is best delivered through a factor-based assessment of the drivers of credit spreads, foreign exchange (FX) and local government yields.

At the heart of our philosophy is a disciplined risk management approach designed and supported by a team of highly experienced people. AFI has experienced many challenging market cycles in recent decades. The experience gained through these challenging cycles provides the team with the experience and understanding of the factors that drive markets in the region.

Stewardship and ESG integration

Our approach to investing is driven by a commitment to providing the best possible outcomes over the long-term for our investors.

Our analysis focuses on the factors that we believe drive outcomes in AFI, which, in our experience, are the main drivers of investment returns for Asian currency rates, credit and FX, as well as USD credit. These are: valuations, technicals, market sentiment, the political environment and the macro outlook.

ESG issues are identified and considered in the course of the team's credit analysis. ESG factors are integrated into the process for assigning an internal credit score. ESG assessment has been extremely beneficial in highlighting those non-financial risks that could become financial and negatively impact the credit quality of the issuer.

Team profile

The Asian Fixed Income team, led by Jamie Grant, comprises a total of seven highly experienced investment professionals based locally in Hong Kong, Singapore and Jakarta. Jamie has more than 14 years' industry experience specialising in corporate credit.

Number in team	7
Average experience	18 years
Average years in team	5 years

Times Property Holdings

Governance and business ethics

A Chinese property developer, Times Property Holdings, issued US$280 million of five year bonds at 11.6% yield on 2 March 2015. We assigned a 'very high' ESG risk to the company given the current anti-corruption campaign initiated by China's central government, against the property sector and the short listing history of the company. Despite the attractive yield, we did not participate in the new bond issue. Times Property's bond price has fallen approximately two points since it launched. On 8 March 2015, the company announced the resignation of the Chief Financial Officer, which is normally considered a negative credit event by the market.

Areas for development

This year, our aim will be to improve our notes and record keeping on companies' ESG actions.

Investment information and performance

The Asian Fixed Income team was established in 2014 and so there is insufficient history available to provide this information.

ESG implementation

Assessment and monitoring

The credit assessment process is shared by the Global fixed income and credit team and the AFI team.

Analysts identify ESG risks during their bottom-up credit research. We use customised ESG rankings as a starting point for assessments. Analysts consider these alongside their own research with reference to a variety of other external sources.

By analysing and assessing ESG issues within a company, we can identify sources of non-financial risk. In line with our credit philosophy of avoiding the losers, we are able to identify companies with a higher default risk than the balance sheet implies. This gives us greater insight than that offered by a rating from a traditional credit agency.

Integration

The team assigns a proprietary internal credit rating (ICR) to every bond we review. The ICR is a forward-looking measure of default risk and is one of the key outputs of our research process. It reflects all risks relevant for that issuer, including ESG risk. Our ICR is on the same scale as ratings assigned by the ratings agencies but is often materially different for individual issuers.

The ICR is also used by the credit portfolio managers when making their decision to buy or sell bonds and to determine position size for the funds that we manage. The Head of Credit Research is responsible for ensuring the consistency and quality of the ESG inputs.

Also see the case study of ESG and Corporate bonds on pages 30 and 31 for further evidence of this.

Engagement

Issues for engagement are identified following our thorough company research.

A challenge for responsible credit investors has been effective ESG engagement with issuers. This is in part due to the contractual nature of bond investments and the fact that a majority of securities are purchased on secondary markets. We do actively incorporate questions into meetings with primary issuers. Our brokers are aware of our ESG focus and facilitate ESG discussions where possible. We will continue to build on this program of engagement over time.

Agile Property Holdings Limited

Governance and business ethics

ESG risk is an integral part of our investment decision-making in the AFI team. In the midst of the current anti-corruption campaign initiated by China's central government against the property sector, we considered the ESG risk 'very high' in the high yield Chinese property sector. In October 2014, Agile Property Holdings Limited's Chairman and an Executive Director were detained by authorities in the Yunan province, which caused us to reduce our investment in this company. Although the two individuals involved were later released, we have avoided further investment.

Lodha Developments

Governance, transparency and capital management

An Indian property developer, Lodha Developments, issued US$200 million of five-year bonds at 12% on 5 March 2015. This is the second attempt at a bond issuance by the company since it first launched the transaction in December 2014. We have concluded a 'very high' ESG risk following a credit review and management meeting, based on the company's debt restructuring history and our concerns over transparency and disclosure given the company is not listed. In 2007, Lodha defaulted on the pre-IPO Deutsche Bank-led US$ debt, which was finally paid in 2012 following many years of a restructuring process. It was reported that there were many alleged irregularities in this process.

We also have concerns about business dynamics in the Indian property sector, which is highly vulnerable to legal and regulatory risks. Despite an attractive yield of 12%, we have not participated in the new bond issue. Lodha's bond price has fallen approximately three points since it launched.

"By comparing our internal credit ratings to the rating agency ratings, we can illustrate the influence that ESG factors have on credit ratings."

Case study – ESG factors and corporate bonds

One of the challenges for responsible investors has been quantifying the contribution of ESG factor integration to investment outcomes. While many studies have looked at this issue, they have mostly focused on either socially responsible investment (SRI) funds or specific ESG factors rather than broad ESG information integration approaches.

The challenge of demonstrating the contribution of ESG information integration has mostly related to:

- The idiosyncratic nature of different ESG risks for different companies depending on their industry, countries of operation and conduct;
- The 'integration' of ESG considerations, by its very nature, makes it difficult to isolate the influence of ESG issues from other factors;
- The differing time frames over which the issues can have a financial impact; and
- The inconsistency of available data which could support measuring investment outcomes.

Notwithstanding these challenges, our Global Fixed Income and Credit team and our Asian Fixed Income team, (who share the research process for analysing corporate bond issuers) wanted to test the relationship between the consideration of ESG factors and the teams' greatest concern – defaults. In order to do this we first needed to identify the influence that ESG factors have on credit analysis.

Within our teams, we assign an internal credit rating to every issuer. This internal credit rating incorporates an ESG risk assessment, which can influence the credit rating according to the materiality of those risks. We were able to compare our internal credit ratings to the ratings of credit rating agencies, which typically do not consider ESG factors. By comparing our internal credit ratings to the rating agency ratings (which are on the same scale), we can illustrate the influence that ESG factors have on credit ratings.

Chart 1 below shows how our internal credit ratings differ from the credit rating agencies (which don't typically consider ESG factors).

Chart 2 shows the relationship between these differences and our ESG ratings.

As bondholders, our focus is on identifying the negative risks in companies, risks that may impair a company's ability to meet its obligations or contribute to default risk. These charts illustrate that our assessment of ESG risk is more likely to be a factor contributing to a lower internal rating rather than a higher one when compared to credit rating agency ratings. The converse is less apparent because while strong ESG practices are to be encouraged among corporates, it is not a benefit which bondholders often get rewarded for, unlike shareholders.

Chart 1: Aggregate internal credit rating vs Standard & Poors or Moody's

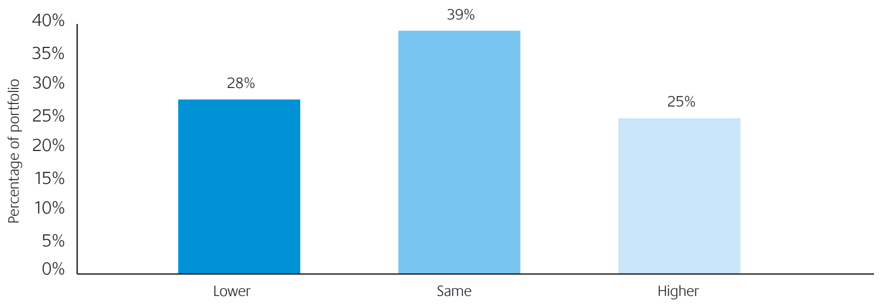
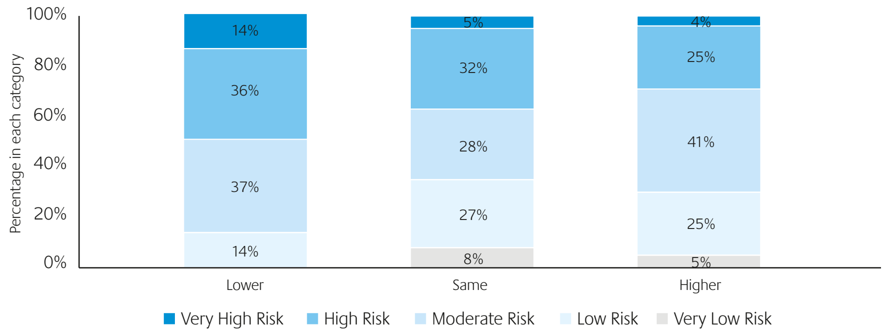


Chart 2: Aggregate internal credit rating vs Standard & Poors or Moody's split by ESG risk



Note: 8% of securities in portfolio are not rated by S&P or Moody's or the ratings by S&P and Moody's are split with the ICR higher than one and lower than the other.

In addition to the companies we do assess and rate, there are many which we do not. There are a variety of reasons for this, including ESG factors. Companies without ratings cannot be invested in.

By establishing that ESG factors have an influence over our internal credit ratings, we can then look at how these factors also influence investment outcomes. For us, this can be inferred because our internal credit ratings define the risk constraints to which our portfolios must be managed and it influences the return expectations of portfolio managers given that higher returns are required for accepting additional levels of risk.

Chart 3 shows the default experience through time of our Global Credit Income Fund vs Moody's and Standard and Poor's rated companies. The superior default experience is one aspect of assessing the role of ESG factors in investment outcomes. Given that portfolio managers have the opportunity to sell out of securities prior to default, it is also important to consider instances where losses were incurred selling securities at distressed levels before their ultimate default. Chart 4 shows the loss experienced by the fund against what would be expected based on the default rates.

While our ESG assessment is only one part of a multi-factor risk assessment, we believe that the superior default and loss experience of the Global Credit Income Fund is at least in part attributable to the integration of ESG considerations into our research process. When taken together, the influence of ESG factors on our internal credit ratings and the default experience of the fund demonstrate the benefits of robust ESG integration.

"Our assessment of ESG risk is more likely to be a factor contributing to a lower internal rating rather than a higher one when compared to credit rating agency ratings."

"The superior default and loss experience of the Global Credit Income Fund is at least in part, attributable to the integration of ESG factor considerations into our research process."

Chart 3: Global Credit Income Fund (GCIF) defaults vs. ratings agencies*

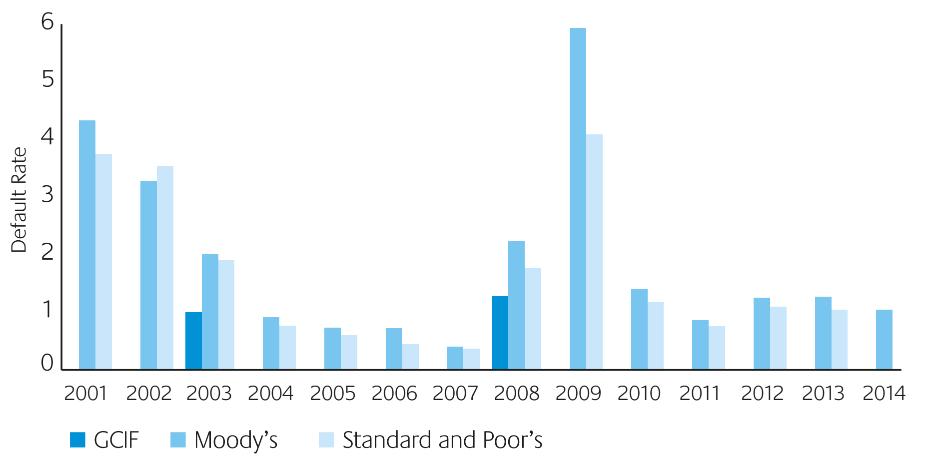
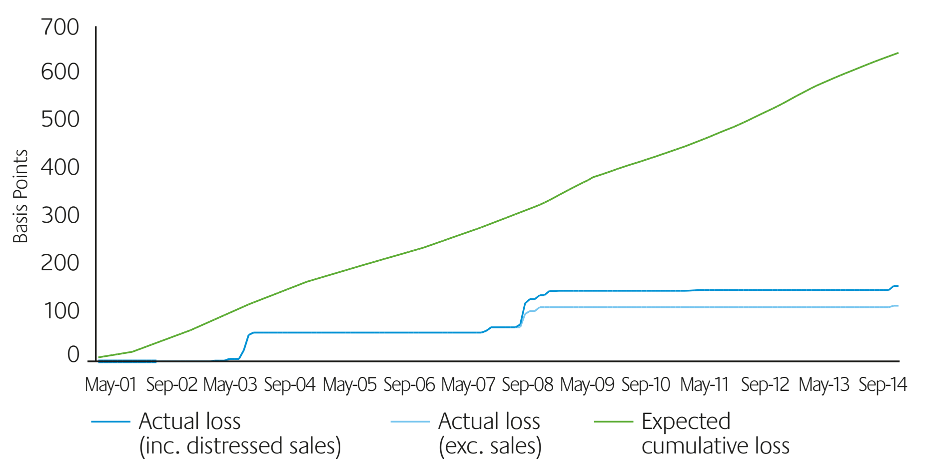


Chart 4: Cumulative loss data for the GCIF – actual vs expected (bps)



Source: Colonial First State Global Asset Management.
* Moody's and S&P annual default studies, based on number of issuer defaults.

Emerging Markets Debt

> **Inception Date**
2011

> **Location**
London

> **Strategies**
Emerging Markets Debt – Hard and Local Currency

Helene Williamson
Head of Emerging Markets Debt

Manuel Cañas
ESG Committee member

Investment philosophy and approach

The team believes that:

- Emerging markets are inefficient and slow to price in developments; and
- Experience and strong networks are essential for adding value.

We use a disciplined and risk-controlled investment approach based on our Key Factor Model (KFM). This forms the basis for our investment decision and is designed to produce risk-adjusted outperformance.

The investment process has three stages:

1. An assessment and forecast of the market environment and individual emerging markets.
2. Portfolio construction and implementation.
3. Portfolio monitoring and ongoing adjustment.

Stewardship and ESG integration

Our approach to investing is driven by a commitment to providing the best possible outcomes over the long term for our clients.

Our analysis of countries focuses on six factors, which, in our experience, are the main drivers of investment returns. These are: politics, structural reforms, fiscal policy, monetary policy, the external sector and technicals. Three of these factors are intimately related to RI and stewardship: fiscal policy, politics, and structural reform.

Team profile

The nine person Emerging Markets Debt (EMD) team is led by Helene Williamson, who has 20 years investment management experience.

Manuel Cañas is the team's RI Representative and deputy head of the team with 16 years of experience.

Number in team	9
Average experience	12 years

Peru

Social, governance, transparency and environment

Peru is an economy that relies heavily on its mining sector. The sector is important both for the Government (14% of fiscal revenue), and for the country (62% of exports).

Our analysis, based on the key factor model, will capture these facts on the fiscal and external sector factors.

In the assessment of Peru's creditworthiness and balance of payment stability, the sustainability of mining as a source of income for the Government and a source of hard currency for the country is crucial. The ability of the Government to attract the necessary capital to explore and develop the mining resources is one part of the puzzle. The other one is ensuring that the interests of the local communities residing in the affected areas are taken care of. The frequency of public demonstrations and legal initiatives seeking to challenge the industry's compliance with national and local regulations are palpable manifestations of the discontent of the local communities and are vital in assessing the likelihood of success of the projects.

In our last visit to Lima, we met senior government officers, and we took the opportunity to raise the question of how they were balancing the risk that any deterioration in environmental conditions for the local communities could impact support in other regions where local communities may oppose the granting of exploration rights. We also suggested that increasing the transparency of the process by which permissions were granted could go a long way in addressing public concerns, and hence increase the chances of securing the sustainability of the mining sector as an economic driver for Peru.

Areas for development

One area of ongoing development is an effort to be more explicit and articulate in laying out how ESG principles are embedded in our investment process.

Secondly, we will revisit our engagements with policy makers in our country visits. Although we take these opportunities to address ESG issues, we realise we could be more explicit in the engagement and when reporting our findings internally.

Assessment and monitoring

ESG issues are identified and considered in the course of the team's investment analysis. At the core of the process is the KFM, which is comprised of six factors, from which we approach the analysis of the issues in our investment universe.

One of the key factors in our country analysis is politics. In emerging countries, where democracies are relatively fragile and young, it is not uncommon for elections to be highly polarised. The political spectrum can be quite broad, and so is the range of possible outcomes when key elections are held. In this context, we try to gauge social cohesion, to ensure that whatever the election outcome, the government will enjoy a broad and diverse base of support. To the extent that it may not be the case, the willingness to service its debt by the incoming government could be challenged or questioned.

Integration

ESG issues are complex, and while the issues of fiscal policy, politics and structural reform are systematically assessed through the KFM, the approach to incorporating ESG factors is still evolving. Areas where we recognise the relevance and are working to incorporate ESG factors into our investment process include managing natural resources, social issues and structural reform.

The World Bank produces the Worldwide Governance Indicators. Of the six indices (Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption), we found that Government Effectiveness is statistically significant in explaining the level of country spreads. Although the indices are computed on an annual basis, they still provide us with a range of reference for what the spreads should be for each country.

Engagement

We believe it is important for the analysts to spend time on the ground and observe country conditions first-hand to verify whether the statistics or the news are giving the full picture. This time spent on the ground can include meetings with government officials where ESG issues can be raised. However, a great deal can also be gauged simply by observing the surrounding environment.

The team recognises the evolving nature of RI and stewardship for fixed income investments, and in particular for sovereign issuers. In order to develop our own understanding as well as to contribute to improvements in industry practice we have been involved in the United Nations Environmental Programme Finance Initiatives E-RISC project phase 2, which is developing methods for investors to incorporate environmental factors into the assessment of sovereign issuers.

Top 10 countries invested in

1. Turkey
2. Mexico
3. Hungary
4. Indonesia
5. Argentina
6. Colombia
7. Croatia
8. South Africa
9. Kazakhstan
10. Dominican Republic

Company Example

At a recent investor roadshow by an Asian company in preparation for the issuance of new bonds, a range of questions were asked of senior management regarding the business, corporate governance and transparency. Some of the answers provided were considered superficial. It was explained to senior management that there had been recent corporate governance concerns within the region for similarly owned companies, and for this reason investors required a higher level of transparency. It was suggested that it was to the company's benefit to be more forthcoming to address these concerns, or alternatively it should expect to pay higher premiums for its new bonds in consideration for these risks. The company acknowledged this view and confirmed that it was working to improve its transparency and corporate governance. These concerns were a material reason why the new bond was not purchased.

Investment information and performance^

As at 31 December 2014

Investment characteristics

Breakdown of holdings	Hard currency	86.3%
	Local currency	2.8%
	Corporate debt	10.8%
Country visits in the last year	22	

Performance

Portfolios outperforming benchmarks	100%
Absolute return **First State Emerging Markets Bond Fund (VCC)**	7.7% pa

^ Figures are representative of all team portfolios. Refer to Appendix 1 for all definitions and further important information.

Unlisted Infrastructure

> Inception Date
1994

> Location
Sydney, Melbourne, London, Paris

> Strategies
Unlisted Infrastructure

Perry Clausen
Managing Partner, Unlisted Infrastructure Investments

Mark Rogers
ESG Committee Chair

Niall Mills
GRIC member

Investment philosophy and approach

We invest directly in very long-lived assets over a very long-term investment horizon (typically longer than 20 years) in a diversified portfolio of critical infrastructure providing essential services to the broader community.

Our approach to investment is governed by four key asset characteristics which are considered with every asset purchase:

1. Category of infrastructure: we select assets that are vital to economic activity and development; such assets provide more stable, long-term returns;
2. Asset life-cycle: we invest in brownfield assets that have a proven need and future usage expectations;
3. Geography: we invest in assets located in stable, developed economies which tend to offer more robust regulatory and institutional safeguards;
4. Market competition: assets within our portfolio are by nature subject to little or no competition within their markets.

These assets require active management at board level. Our investment strategy is to typically manage a large enough interest in each individual business to enable value-added contribution via board and board committee representation.

Through such representation, the team provides strategic input on ESG issues, business strategy, capital expenditure, capital structure and other key drivers of value.

Stewardship and ESG integration

Our approach to responsible investment and stewardship recognises that managing a significant interest in an infrastructure business results in an obligation to ensure that the right policies and procedures are in place to effectively manage ESG issues. There is potentially significant value to be added, and an opportunity to reduce risk, by managing ESG issues effectively.

The incorporation of ESG issues in the investment process requires a detailed value attribution process to help quantify ESG risks. However, a qualitative approach also helps put the issues on the table. Integration of ESG factors into everyday business processes (capital delivery programs, procurement processes, business case development, risk reviews etc) provides a valuable foundation for creating additional value in our companies.

This approach gives ownership of ESG performance to every individual in a company, a critical component of effective management of ESG risks and opportunities.

Team profile

Our unlisted infrastructure investment team consists of 32 individuals with significant operational management, investment skills and experience within infrastructure businesses. Led by Perry Clausen, who has over 20 years of infrastructure experience, the team has people located in countries in close proximity to the assets which span Australia and Europe.

The RI Representative for the Infrastructure team is Mark Rogers. Mark has over 17 years' experience in the infrastructure sector and has worked on significant projects in the energy and transportation sectors. He holds directorships on the boards of four of the team's assets and is deputy chair of the Infrastructure Sustainability Council of Australia (ISCA).

Number in team	32
Average experience	12 years
Average years in team	5 years

The Australian Clean Energy Infrastructure Fund

Environment, renewable energy and climate change

In 2014, we established a new clean energy infrastructure fund with cornerstone backing from the Clean Energy Finance Corporation (CEFC) for institutional investors to gain access to renewable energy investments such as wind generation and commercial embedded solar generation.

Perry Clausen, Head of Unlisted Infrastructure at CFSGAM said "Australian superannuation funds and other institutional investors have expressed interest in finding an attractive way to invest directly into low carbon energy infrastructure."

The CEFC cornerstone investment is a first step in establishing a unique clean energy platform and working with those institutional investors in achieving their investment objectives.

Performance*

Portfolio outperformance	100%
We have been investing for over 20 years. Since inception the core assets have generated a gross internal rate of return of 13.5% on behalf of over 50 institutional clients.*	

* For the period from September 1994 to December 2014.

ESG implementation

Assessment and monitoring Pre-investment

Prior to an investment being made in an asset, the team aims to consider all the relevant ESG issues for the asset. No checklist can appropriately cover all the possible issues, so considerations are made on a case-by-case basis.

Risk assessment tools are used to help in this analysis. These tools also provide opportunities for benchmarking against similar assets. One example of such a tool is the ISCA IS Tool. This Tool provides a risk and opportunity assessment and benchmarking framework across relevant ESG issues.

Ongoing asset management

Once an acquisition is made, the team undertakes ongoing active asset management as part of a continuous improvement process to value-add to asset performance and effectively manage risk. Our specialist fund managers and asset managers meet regularly with infrastructure business management teams to discuss various matters, including ESG issues. They also visit business sites in their capacity as shareholder, board member and/or board committee member.

In addition, we seek to ensure that management provides an appropriate level of information to the board to ensure that the approach management takes in managing potential risks and realising opportunities is understood by the board.

Integration

Our company boards are now well attuned to ESG risk and opportunity, with ESG considerations now included in standard business case development. ESG considerations are now also integrated into our supply chain and contract management procedures to ensure that we are pushing our contractors to innovate in the ESG space and find ways to do business better and more cleanly.

Valuation

Appropriate management of ESG considerations is undertaken as part of the ongoing valuation of assets and is a consideration in decisions whether to divest an investment. Notably in the appointment of a valuation panel, its ability to include ESG factors into valuations is a key consideration.

Engagement

We have the distinct advantage of being able to engage directly with our companies via our board representation. This direct involvement drives cultural change and provides focus for ESG management and allows a two-way conversation between management and investors to ensure long-term alignment on value creation and protection. We also engage directly with our co-investment partners to ensure that they understand the logic for our focus on ESG issues and to also learn from their approaches to these issues.

Adelaide Airport

Governance, sustainability tools and assessment

Adelaide is already a sector leader in sustainability, being the first airport in Australia to be recognised by Airports Council International (ACI) for effectively managing carbon emissions. Airport Carbon Accreditation is an independently assessed global program that recognises airports' efforts to manage and reduce their CO_2 emissions.

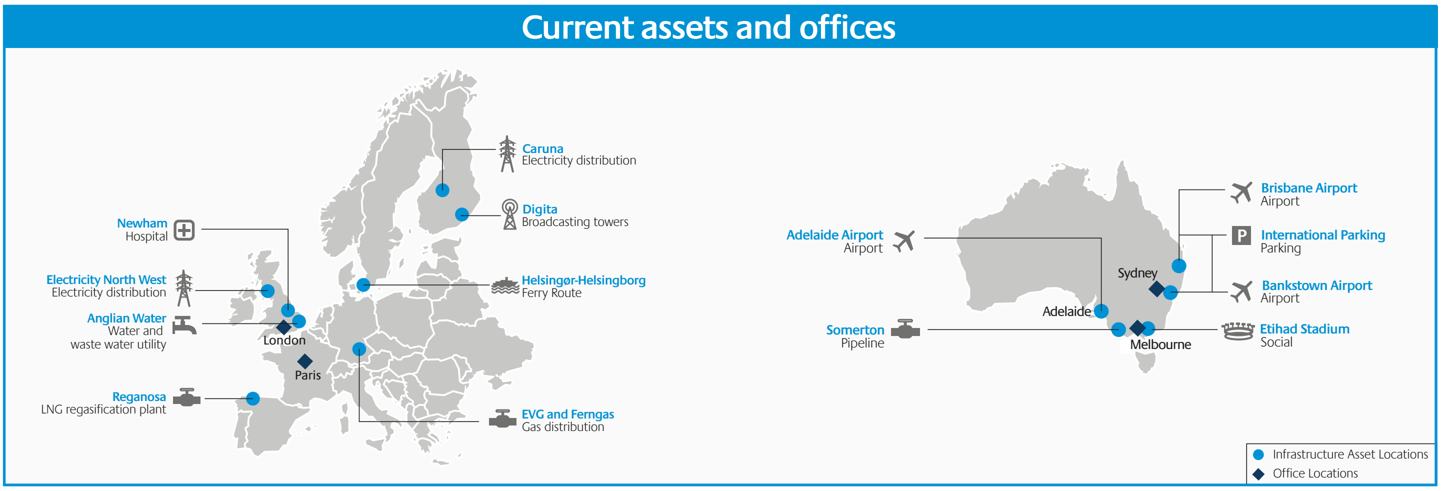
The Airport has a comprehensive and publicly available sustainability master plan and has worked hard to reduce resource consumption, stormwater pollution and bird strikes, among other relevant ESG issues.

In 2014, at the request of our director representatives, the Airport commenced a trial of the operational component of the ISCA IS Tool. The trial will assess various ESG components of the operating business and will provide the business with benchmarked insight into how the business is performing against these ESG criteria.

Investment information and performance

As at 31 December 2014

Investment characteristics



Responsible Investment and Stewardship in Focus

Managing the risk from exposure to potential stranded assets

The Stranded Assets Working Group (SAWG) was formed in December 2013 and is comprised of investment professionals from the ESG Committee to assess risks associated with potential fossil fuel asset stranding. The purpose of the group was to provide guidance and tools for investment teams to integrate the assessment of these risks into their investment decision-making and ownership practices.

The SAWG assessment of the issues concluded that the risks are real, complex and potentially material to long-term investment value. However, the SAWG also recognised that there are a number of related and sometimes competing forces which will manifest themselves in different ways for individual companies. This makes blanket top-down approaches ill-equipped to predict or manage the extent to and speed by which these factors may impact individual fossil fuel (or related) investments.

In such situations, there are a number of ways for investors to manage the risks and opportunities this complex dynamic presents. For example, it is possible to identify and reassess the investment case for those companies which would be least resilient to changes in regulation or market demand.

This would include companies who sit further up the cost curve and/or which lack the flexibility to transition their businesses to grow in a changing environment.

Stranded assets toolkit

To assist investment teams, the SAWG developed a framework for assessing company exposure to the issues and documented our assessment of best practice management based on a series of questions sent to a number of our fossil fuel holdings. Lastly, we considered potential avenues and issues for engagement.

A key question for investors is 'which companies and assets will perform best over time?'

Our view is that the lowest cost operators with the most operational and strategic flexibility are likely to be the most resilient.

In considering the likelihood and impact of these risks to the value of different fossil fuel assets, the SAWG developed a risk assessment toolkit to help analysts identify companies which are most exposed. The assessment process includes:

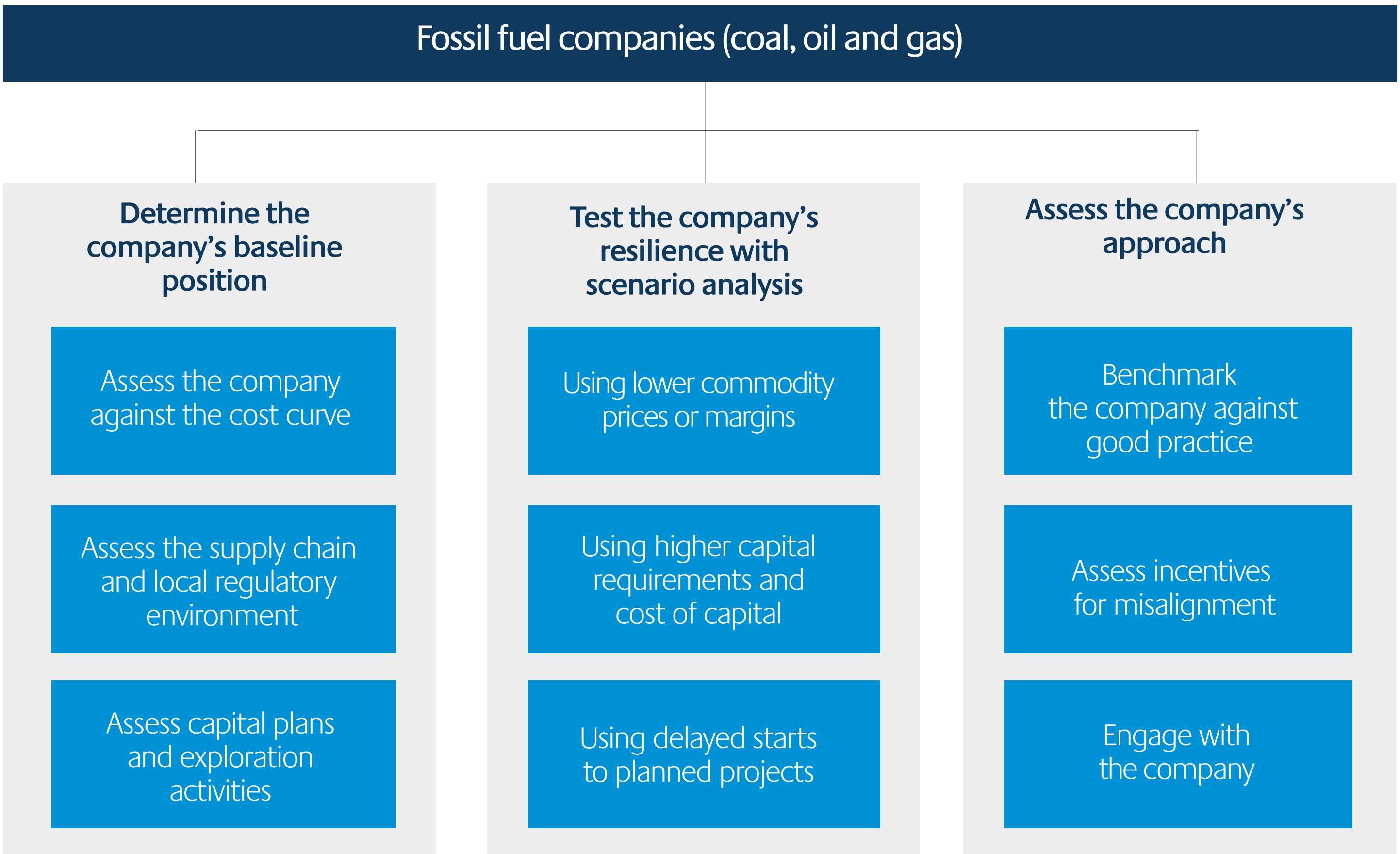
– Determination of the company's baseline position both on the cost curve and in terms of relevant market and regulatory dynamics;

– Use of scenario analysis to test the company's resilience to different emissions regimes by flexing commodity prices, costs and timelines;

– Assessment of the company's approach relative to peers, including strategic management, capital allocation and incentives.

The different elements of the toolkit are highlighted in the diagram. Climate change and related issues will influence energy demand and use for decades to come. As stewards of our clients' assets, we have a duty to manage the risks and opportunities associated with these changes while deploying capital in line with our mandates. We believe the toolkit provides a good framework which, as the name suggests, can be incorporated in part or in full to strengthen existing investment processes.

We will continue to monitor this issue through the ESG Committee will update the toolkit as the issue evolves.



Australian Equities, Core – Santos Limited

In this case study, the Australian Equities, Core team has sought to describe:

- The key ESG risks associated with coal seam gas projects operated by Santos;
- How the team incorporated these risks in our investment decision-making process;
- How the team engaged with the company to understand the management of these ESG risks.

Like all extractive industries, coal seam gas is highly exposed to a number of ESG factors that have the potential to materially affect financial returns and timelines for key projects. The Australian Equities, Core team evaluates every investment on sustainability (ESG) factors and actively considers these in its investment process. In the case of Santos, the research process has included multiple site visits, multiple meetings with management, meetings with competitors and suppliers, and meetings with communities, lawyers, and government officials.

The key environmental risks posed by coal seam gas arise from the collection, treatment, storage, and release of water and, to some extent, fugitive gases. The first stage in producing coal seam gas is the removal of large volumes of water that are naturally present in coal seams. This water is then typically treated through reverse osmosis and released for use by agriculture, livestock or humans. This process generates a by-product of brine, which is then stored in large on-site ponds.

Through direct visits to Santos' operations in Queensland, New South Wales and South Australia over multiple years, the team has developed a detailed understanding of the company's operations. In general, the team believes the company spends considerable effort complying with both state and federal environmental standards, as well as industry best practice.

The key social risks associated with the current coal seam gas operations involve local community relations and labour relations. We recognise that coal seam gas operations do have an impact on the local community through increased use of roads and infrastructure, and access required to private and public property.

We have undertaken a number of visits to local communities surrounding operations, which give us some sense of the balance of benefits and costs, as viewed by residents. On balance, we believe that most of these communities are quite pragmatic in their approach to development and see the knock-on economic benefit that comes from increased employment, rental payments, and increased property values as more than sufficient to offset the costs associated with the issues of these projects.

As a result, we assume continued community support for the Queensland projects. In New South Wales, where there is a more substantial groundswell of opposition to fossil fuels and development broadly, and coal seam gas specifically, we believe there will likely be material delays to the ultimate development of coal seam gas.

Environmental and social concerns increase regulatory risk as politicians respond to community opposition to projects. An example of this was the exclusion zones introduced by the New South Wales Government in October 2013. A track record for reactive policy changes such as this introduces increased uncertainty for investors.

In addition to the environmental and social risks described above, there are a number of material governance issues that we monitor with this investment, especially regarding management compensation and capital structure. None of these are specifically related to coal seam gas.

As investors in Santos, we regularly balance the material risks we have identified in our investment decisions. The magnitude of the risks causes us to take a more prudent approach to valuation. That is, we demand a higher discount in order to have a positive view on valuation. In addition, through the past year a deteriorating view relating to the ESG factors has been one of, but not the only, consideration causing us to sell from a material overweight to a material underweight position.

Finally, although we do not believe the Queensland operations will be affected, we have factored a combination of possible delays and materially higher costs into our thinking related to the New South Wales assets as we form our views about the value of the entire entity.

We have an active and ongoing program of engagement with company management including the Chairman, Chief Executive Officer, Chief Financial Officer, operational management, and ESG specialists. We make our active commitment to ESG issues a cornerstone of those conversations and feed any learning back into our investment process.

An extended version of this case study is available on our website.

Appendix 1 – RI and Stewardship Measures

Limitations and qualifications

Some of the additional information has only been provided for listed equity teams (eg turnover), as it is more relevant to them. As we further develop these enhanced reporting measures (in consultation with our clients and their consultants), we will progressively include more extensive information for our fixed income and unlisted infrastructure capabilities.

For the information to be relevant, it is important to note the context and limitations of the information, which are discussed in the following section.

Team level reporting

Our RI report is at the team level and therefore will not fully reflect the experience of clients at the portfolio level. This is because team level reporting includes a number of different strategies run by each team.

We believe that team level reporting is appropriate because the purpose of this report is to highlight the culture and approach of each team, which we believe will translate into portfolio outcomes over time. Measures like five-year average turnover at the team level therefore are intended to highlight the general attitude to trading, not to provide portfolio-specific outcomes.

The other reason we use team level reporting is that we manage hundreds of funds and so we are conscious not to overwhelm readers of the report with information that lacks insight or descriptive power. Over time we believe that we can achieve the benefits of both strategy level and team level reporting through use of interactivity on our website.

We hope that clients who are familiar with their own funds will find this approach useful for seeing their fund in context and how they are influenced by the relevant team's approach to RI and stewardship.

New measures

We are including a number of new measures which we believe help show the influence of each team's RI and stewardship practices on the long-term performance of the team. As far as we are aware, these measures have not been used before at a team level.

We hope that publishing them sets new standards within the industry on how we can provide better quality and more insightful reporting. If this occurs, it may turn out that we find better measures which we can adopt in future. To aid in this conversation, we have made the measures simple and are disclosing the methodology for each in this appendix.

Below is a list of indicators used in the team profiles, what they mean, why we believe they are important and any specific limitations.

Indicator	Why it is important
Average turnover (five years annualised)	Shows team culture towards trading (and associated cost generation) over extended periods of time. Should be used in conjunction with name retention for fuller view.
Stock retention (five years)	Shows importance of an investment-led mindset as long-term holders of companies and the potential benefits of engagement. Should be used in conjunction with turnover for fuller view.
Team profile	Shows the number and experience of people managing client funds.
Top five holdings Top five active holdings	Shows the highest conviction investments.
Portfolios outperforming benchmarks	Shows proportion of funds under stewardship which have exceeded benchmarks and so added value. RI and stewardship practices are one aspect of our team's investment processes which contribute to this performance.
Weighted average outperformance	Shows weighted average value added by a team over the five year period to 31 December 2014 against benchmark. RI and stewardship practices are one aspect of our team's investment processes which contribute to this performance.
Absolute return	Shows absolute return achieved annually by the team on its flagship fund over the last five years (to 31 December 2014). These returns are quoted pre-fees and tax and in $A terms, with the following exceptions: – Wholesale Global Listed Infrastructure and Wholesale Global Property Securities Fund, where returns are quoted in $A hedged terms – First State IndoEquity Sectoral Fund, where returns are post-fees and in IDR; – First State Emerging Markets Bond Fund (VCC) where returns are in USD. Absolute returns represent actual outcomes for clients as opposed to relative performance, which may be positive despite clients losing money in down markets.
Other things to note	The team that manages the First State Emerging Markets Bond Fund has only been in place since September 2011; therefore the return only reflects this period. For Global Property Securities, the investment team Head and most of the team changed in November 2012, so performance represents management under both regimes. Government bonds includes supra and semi-government debt. The inclusion of the industry split charts is relevant because the industry (and country) a company operates in carry inherent ESG risks and opportunities. We have provided an industry breakdown for the team's holdings to give a sense of these risks. Additional industry and country information is available on our website.

Definition and methodology	Limitations
Due to differing standards in global regions, turnover has been calculated differently for some teams. The teams below have been calculated using the SEC methodology which is: Total purchase OR total sales (whichever is less) for the fund over the period / total net asset value. – First State Stewart – Indonesian Equities The following teams have funds available in both the UK and Australia: – Global Resources – Global Listed Infrastructure The funds offered from the UK have turnover measured using the SEC method quoted above, whilst the Australian-based funds have turnover measured as per the standard methodology quoted below. All other teams have been calculated using the standard methodology used in Australia which is: (purchases + sales – absolute return (contributions – withdrawals))*0.5)/ average fund market value. In future years we will calculate turnover in a consistent manner for all teams.	Simple measure, does not account for different market conditions in different countries / sectors. Does not account for inflow/outflows from funds which force trading.
Compares the portfolio at two different points in time (from December 2009 to December 2014). For example, if there are 50 stocks in the portfolio at point one and 40 of named stocks are still the same at point two you get a retention ratio of 80%.	Does not cover instances where a company is owned, completely divested and then re-bought. However, the importance of stewardship in an investment-led long-term mindset remains, as engagement can occur throughout.
–	–
Five highest overweight securities in flagship fund or the five largest holdings across the team.	Some teams have an absolute return mindset, and so the over/underweight vs benchmark may not be the best indicator for conviction for these teams we have provided the top five holdings.
% of funds ahead of benchmark weighted by funds under stewardship. Returns calculated using the global investment performance standards (GIPS).	Different asset classes and sectors will perform differently at different times. Quantitative easing and loose monetary policy has resulted in asset price inflation in a number of markets which may not be reflective of underlying value. Benchmarks are inherently blunt and not always reflective of the style or objectives investors are trying to achieve. Therefore they should not be looked at in isolation. Past performance is not indicative of future performance.
Weighted average of total excess performance vs benchmark, annualised. Returns calculated using GIPS.	As above.
Returns calculated using GIPS.	

Appendix 2 – Industry Collaboration

During 2014, we reviewed the range of industry initiatives that we were involved with. The purpose of this review was to ensure that any initiatives we committed to supporting met a number of criteria. These criteria are based upon the interests of and long-term value to our clients and our ability to provide sufficient resources to effectively support such initiatives. The initiatives that we remain supportive of and engaged with are listed below.

Industry body memberships/ Supported initiatives

Global initiatives

Principles of responsible investing (PRI)

- PRI Country Network Steering Committee (Australia)
- Reporting Framework Advisory Group

Cambridge Investment Leaders Programme

- Founder member
- Chair of the Long-Term Mandates working group

Integrated Reporting

- Business Reporting Leaders Forum (Aust)

Towers Watson – Thinking Ahead Institute

- Founder member

Asia Pacific

Financial Services Council

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

Responsible Investment Association Australasia

- Chair
- Member of Governance Committee

Infrastructure Sustainability Council of Australia

- First Deputy Chair and Director

ESG Research Australia

- Management Committee member

Investor Group on Climate Change

- Member of the Committee of Management
- Chair of the Research Working Group
- Member of the Water Working Group

Europe/Middle East/America

Institutional Investor Group on Climate Change

- Member

UK Sustainable Investment Forum

- Board member

EUROSIF

- Board member

Appendix 3 – Progress Against Goals Reported in the 2014 RI Report

Goal as disclosed in the 2014 RI Report	Progress in 2014	Next steps
Complete an RI policy review and update	See page 6	See page 6
Incorporate RI principles into the new product development process	Early stages of scoping	During the course of 2014, reporting lines changed for both the Product and the Responsible Investment teams, whereby both now report to the Head of Global Investment Solutions. Subsequent to which, the strategy has been refined, with a much greater focus on collaboration between Product, RI, Product Specialists and Investment Assurance. These changes have focused all areas of the Global Investment Solutions Group on the quality and relevance of our product offerings, and we expect to see formal integration of RI principles into the Product Development and Investment Assurance functions during 2015.
Finalise HR and Culture plan and implement plan to agree and set short-term targets	Significant progress: – RI Report and Stewardship Principles provided to all new hires; – RI and Stewardship Principles highlighted with all job advertisements; – Detailed planning for the integration of RI and stewardship into onboarding processes, training programs and behaviour assessments for implementation in 2015.	Through the strategic review process, the GRIC has prioritised a number of HR and Culture elements of the RI strategy, including integrating stewardship principles into all employee behaviour assessments.
Finalise and implement ESG information management plan which will include: – Integration of ESG research services with Bloomberg, Capital IQ and proprietary research systems; – Enhancement of intranet site to become an ESG information hub for investment professionals; – Enhancement systems and processes to better capture company engagements from across equity teams in a consistent and reliable format.	Significant progress – Sustainalytics and GMI data integrated with Bloomberg and available to all Bloomberg users; – Bloomberg ESG 'Launchpad' developed, which combines data from Sustainalytics, GMI and Bloomberg; – Excel-based ESG dashboard developed which draws on Sustainalytics, GMI and Bloomberg; – Sustainalytics and GMI data integrated with the Australian Equities, Growth team's proprietary database; – GMI data available through Factset. Negotiations underway to integrate Sustainalytics data; – Planning underway for the inclusion of Sustainalytics and GMI data with our data warehouse, which will allow for more sophisticated portfolio level reporting.	The next phase of the information management project is to: – Integrate Sustainalytics and GMI ratings with Factset and developed dashboard templates similar to what has been developed for Bloomberg users; – Incorporate Sustainalytics and GMI ratings with our data warehouse; – Develop portfolio, team and firm level reporting from our data warehouse for internal reporting purposes; and – Develop reporting for the investment assurance functions.
Continue our involvement and support of the Cambridge Investment Leaders Programme. Lead workstream on investment timeframes and long-term mandates.	Ongoing Will Oulton, our Global Head of RI, is chairing the Long-Term Mandates Working Group.	None
Complete a strategic review of current collaborative initiatives.	Complete – We have withdrawn from selected initiatives and joined the Towers Watson Thinking Ahead Institute.	None

Appendix 4 – Companies Subject to the Cluster Munitions Policy

Cluster Munitions and Anti-Personnel Mines Policy

During 2013, we launched our policy on cluster munitions and anti-personnel mines. This policy states that we will not invest our clients' money in securities, whether equity or debt, issued by companies that are involved in the manufacture of cluster munitions or anti-personnel mines.

This policy is applied globally across all our asset classes, including index strategies.

The list of companies, as published by Eumedion, and endorsed by the Dutch Authority for Financial Markets, has been adopted as our starting point for the purposes of the exclusion policy. Changes in the companies on the exclusion list between December 2013 and December 2014 are described below.

The following companies have been **removed** from the list and will be available for investment:

- Aryt Industries;
- Ashot Ashkelon;
- Kaman Corp;
- Lockheed Martin;
- Norinco;
- Splav State Research.

The following companies remain involved in these activities and will **continue** to be subject to investment restriction:

- Aeroteh SA;
- Alliant Techsystems;
- Hanwha Corporation;
- Poongsan Corporation;
- Singapore Technologies;
- Textron;
- Motovilikha Plants JSC.

Appendix 5 –
GRIC and ESG Committees

Global Responsible Investment Committee

Mark Lazberger	Committee Chairman and Chief Executive Officer
Alexis Ng	Managing Director, South East Asia and Head of Distribution, Asia
Chris Turpin	Managing Director, EMEA
David Dixon	Chief Investment Officer, Equities
David Gait	First State Stewart
Hario Soeprobo	President Director, Indonesia
Harry Moore	Head of Sales, Australia and New Zealand
Joe Fernandes	Head of Global Investment Solutions Group
Kanesh Lakhani	Head of Global Consultant Relationships and Head of Distribution, EMEA
Mark Rogers	Director, Unlisted Infrastructure Investments
Martin Lau	First State Stewart
Niall Mills	Partner, Unlisted Infrastructure Investments
Pablo Berrutti	Head of Responsible Investment, Asia Pacific
Paul Griffiths	Chief Investment Officer, Fixed Income and Multi-Asset Solutions
Stephen Deane	First State Stewart
Toni Spencer	Head of Credit Research
Will Oulton	Global Head, Responsible Investment

ESG Committee

Name	Title	Location
Robin Balcomb	Portfolio Manager, Structured Equities, Australian Equities, Core	Sydney
Pablo Berrutti	Head of Responsible Investment, Asia Pacific	Sydney
Gokce Bulut	First State Stewart	Edinburgh
Manuel Cañas	Senior Portfolio Manager, Emerging Market Debt	London
Joseph Daguio	Investment Analyst, Global Property Securities	Sydney
Hazrina Dewi	Head of Indonesian Equities	Jakarta
Alex Gallard	Senior Investment Analyst, Australian Equities, Growth	Sydney
Tal Lomnitzer	Portfolio Manager, Global Resources	London
Will Oulton	Global Head, Responsible Investment	London
Mark Rogers (Chairman)	Director, Unlisted Infrastructure Investments	Sydney
Rebecca Sherlock	Senior Investment Analyst, Global Listed Infrastructure	Sydney
Yen Wong	Manager, Fixed Income and Credit	Sydney

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