

Proxy voting and engagement update

Second half of 2010



Contents

Introduction	1
Governance review	2
Proxy voting	3
Aggregate voting	4
Director elections and re-elections	6
Executive remuneration	8
Non-executive remuneration voting history	10
Remuneration reports	11
Company engagement	13
Contact us	17

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Introduction

Welcome to the Colonial First State Global Asset Management (CFSGAM) proxy voting and engagement update for the period 1 July – 31 December 2010.

CFSGAM had more than US\$82.3 billion invested in Australian and global equities at 31 December 2010. As one of Australia's largest investment managers, CFSGAM is a major shareholder in many listed companies around the world.

Active ownership and company engagement are amongst CFSGAM's top priorities as an investment manager and shareholder. CFSGAM believes there is a correlation between companies with good corporate governance and strong, sustainable shareholder returns. Consequently, CFSGAM seeks to positively influence companies, through voting and engagement, towards best-practice corporate governance for the ultimate benefit of investors.

CFSGAM holds shares in companies globally and places the same emphasis on active ownership wherever the investment is held.

For the first time, this report includes information on proxy voting for all of CFSGAM's global shareholdings. Previously CFSGAM has reported only on its Australian shareholdings, so Australian-only votes continue to be included in tables to allow for comparison to previous reporting periods.

The second half of 2010 saw a continuation of the long-term trend towards improving corporate governance standards globally. Investors maintained their focus on good corporate governance practices, as the value and importance of strong corporate governance within companies becomes increasingly evident, especially in the wake of the global financial crisis.

The increased focus in recent times towards best practice corporate governance has been more as a result of increased investor expectations following corporate collapses and lost shareholder value, rather than as a result of legislative or regulatory changes. However, there were a number of regulatory changes globally during the period.

In response to concerns regarding potential conflicts of interest with the Australian Securities Exchange (ASX) acting as both a publicly-listed entity and as market supervisor, certain supervisory functions were transferred from the ASX to the Australian Securities and Investments Commission (ASIC) in August 2010. ASIC's new regulatory powers relate to breaches of market integrity, including allegations of insider trading and market manipulation. ASIC now acts as both supervisor and prosecutor for related issues.

In December 2010, the Australian Government released the exposure draft of the Corporations Amendment Bill 2011, which constitutes the government's legislative response to the Productivity Commission's report on executive remuneration. Also in December 2010, the Government released a discussion paper on a proposal to introduce a 'claw back requirement' in Australia, where remuneration paid to company directors and executives is recovered where a company's financial statements are materially misstated.

In the UK, boards were seen to place greater emphasis on oversight and risk management, especially regarding executive remuneration practices. The major change to corporate governance was the implementation of the revised UK Corporate Governance Code, formally introduced in late May 2010. The revised Code included expanded executive compensation requirements for firms governed by the Code and the Financial Services Authority.

Another revision to this Code was the recommendation that all directors of the UK's top 350 companies are to stand for election annually in an attempt to make boards more accountable to shareholders. Other changes to the Code addressed board diversity and reduced payouts for departing executives.

Another important development was the introduction of the Stewardship Code, which is a set of principles released in July 2010 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

CFSGAM has closely followed developments to the Code, and has taken the decision not to sign it at this time. CFSGAM believes the Code represents a 'business as usual' approach and does not challenge investment managers who have signed the United Nations Principles for Responsible Investment (PRI), to change their practices in any material way. In reviewing other managers' 'Statements of Compliance' we have found this to be the case, as many of the managers that have signed the Code have simply referenced existing activities.

CFSGAM will continuously consider our view on the need to sign the Code and will continue to monitor its development and implementation across the investment management industry. First State Investments (as CFSGAM is known outside of Australia and New Zealand) has released a Stewardship Statement in response to the Code.

It is encouraging to see companies improving their corporate governance practices, although this is a gradual, cultural shift that will take place over a number of years. One of the drivers behind this shift is not only that investor expectations have lifted, but listed companies are becoming increasingly responsive to shareholder concerns, especially with regard to appropriate remuneration policies, board composition and disclosure.

As improvements in corporate governance practices continue to evolve, CFSGAM expects companies to provide enhanced disclosure of internal practices, additional sources of director accountability and modifications to existing remuneration practices, all of which should be for the ultimate benefit of shareholders.

Proxy voting

Proxy voting rights are an important part of shareholder responsibility, and CFSGAM seeks to vote on all possible resolutions at company meetings.

Prior to voting, the relevant investment manager and company equity analyst carefully consider each resolution, with guidance provided by the 'Guidelines and principles for corporate engagement on governance, environment and social issues'. Recommendations from a selection of independent corporate governance research houses are also sought.

CFSGAM will always seek to relay concerns to company management prior to voting against a resolution. This engagement conveys to companies the rationale behind a decision not to support a resolution and can assist in improving future governance standards.

CFSGAM is restricted from voting for the approval of share issues where it has participated in the placement, and these resolutions are recorded as 'No action'. The majority of abstentions result from non-binding resolutions on companies' remuneration reports and financial accounts.

Aggregate voting

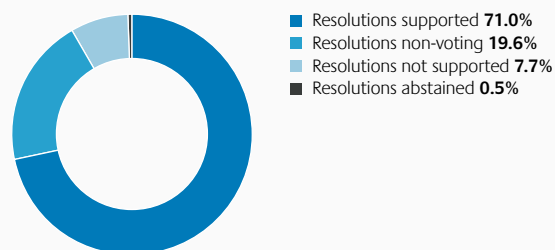
Global activity¹

The large majority of shareholder resolutions in the UK and the US take place in the first half of the year, while most Australian companies hold their AGMs in the second half of the year. Following the global financial crisis, the regularity of shareholder proposals has increased globally, with CFSGAM voting on 4476 resolutions at 620 company meetings in the second half of 2010. Of these resolutions, 71.0% were supported.

Aggregate voting summary (Global)

	2H10
Number of company meetings	620
Number of resolutions voted on	4476

Chart 1: Aggregate voting breakdown



Source: CFSGAM.

Categories of resolutions

CFSGAM maintains a focus on executive remuneration and board composition to ensure they are appropriate and in the best interests of the company and its shareholders.

'Non-voting resolutions' relate to Financial Statement resolutions and proposals at company meetings that do not require a vote.

Breakdown by issue code

	Total number	Percent
Director election	1409	31.4
All Other Proposals	914	20.3
Non-Voting	880	19.6
Remuneration Report	269	6.0
Executive remuneration	235	5.2
Appoint/Reappoint Auditor	179	4.0
Constitution/articles of association change	171	3.8
Issue of new shares	155	3.5
Non-executive remuneration	142	3.2
Takeover or merger acquisition	68	1.5
Financial scheme/ reconstruction of capital	31	0.7
Shareholder proposal	12	0.3
Shareholder proposal – Environment	5	0.1
Shareholder proposal – Social	6	0.1

Resolutions not supported

ISSUE CODE BREAKDOWN	Raw Number	Percent
Director election	152	3.4
All Other Proposals	91	2.0
Remuneration Report	43	1.0
Executive remuneration	33	0.7
Constitution/articles of association change	9	0.2
Appoint/Reappoint Auditor	8	0.2
Non-executive remuneration	8	0.2
Issue of new shares	3	0.1
Shareholder proposal – Environment	3	0.1
Shareholder proposal – Social	6	0.1
Non-Voting	0	0.0
Financial scheme/ reconstruction of capital	1	0.0
Takeover or merger acquisition	1	0.0
Shareholder proposal	2	0.0

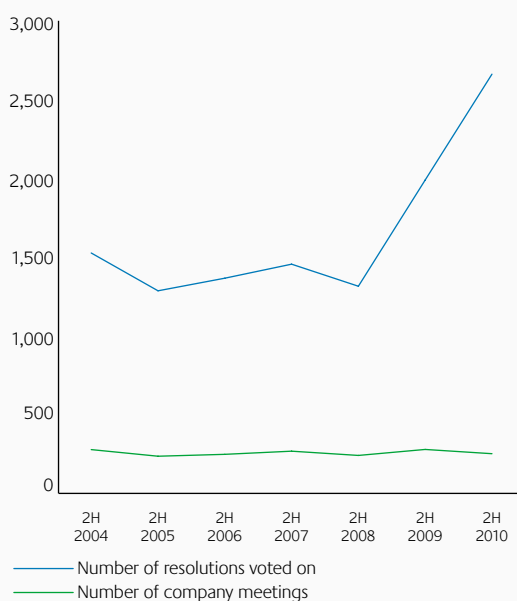
Note:

1. For the first time, this report includes information on proxy voting for all of CFSGAM's global shareholdings (including Australia).

Australian activity²

In Australia, CFSGAM voted on 2,661 resolutions during the second half of 2010 which was a record high and represented an increase on the previous corresponding period of 34% and was more than double the number of resolutions of just five years ago. As shown in Chart 2, while the total number of company meetings remained steady, the number of resolutions continues to rise in the wake of corporate activity following the global financial crisis. CFSGAM supported 74% of these resolutions, up from 64% in the previous corresponding period.

Chart 2: Company resolutions versus company meetings 2004 to 2010 (Australia only)



Source: CFSGAM.

Aggregate voting summary (Australia only)

	2H10	2H09	2H08	2H07	2H06	2H05	2H04
Number of company meetings	252	279	241	268	248	236	278
Number of resolutions voted on	2661	1989	1315	1455	1366	1286	1526
Resolutions supported (%)	74	64	84	87	90	83	86
Resolutions against (%)	8	7	10	7	8	8	9
Resolutions abstained (%)	1	1	2	6	2	5	5
Non-voting resolutions (%)*	17	27	4	-	-	-	-

* From the second half 2008 non-voting resolutions have been calculated separately. 'Non-voting resolutions' relate to Financial Statement resolutions and proposals at company meetings that don't require a vote.

Note:

2. Previously, CFSGAM has reported only on its Australian shareholdings, so Australian-only votes continue to be included in tables to allow for comparison to previous reporting periods.

Director elections and re-elections

An effective board of directors is vital to ensure best practice corporate governance. CFSGAM supports board structures that drive company performance, create shareholder value and display effective leadership for the companies they represent. All directorship nominees are examined within the context of other board members to determine whether the individual is a suitable candidate given their industry experience, skills, background and responsibilities.

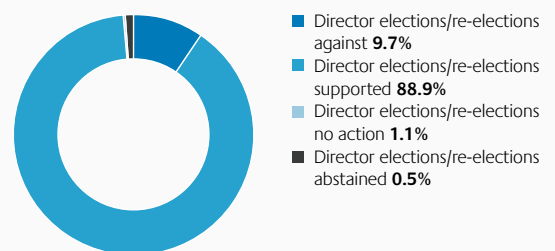
Director election and re-election resolutions make up around one third of all shareholder resolutions and a similar proportion of 'against' votes. CFSGAM monitors director elections/re-elections closely to ensure best practice board composition, and will vote against nominations which will result in boards with insufficient representation from independent directors. CFSGAM emphasises board independence, a breadth and depth of experience and a proven track record of performance. CFSGAM is of the view that a board should hold a majority of independent directors, with an independent director acting as chairman.

Global activity

Director elections and re-elections voting summary

	2H10
Number of company meetings involving director elections/re-elections	438
Company meetings (%)	70.6
Number of resolutions involving director elections/re-elections	1409

Chart 3: Director election/re-election voting breakdown



Source: CFSGAM.

Australian activity

Executive Remuneration voting summary (Australia only)

	2H 10	2H 09	2H 08	2H07	2H 06
Number of company meetings involving director elections/re-elections	216	267	214	224	214
Company meetings (%)	86	87	89	84	86
Number of resolutions involving director elections/re-elections	520	584	541	529	543
Director elections/re-elections supported (%)	91	90	89	94	94
Director elections/re-elections against (%)	9	9	9	6	4
Director elections/re-elections abstained (%)	0.2	1	2	0	1
Director elections/re-elections no action (%)*	0	0	0	0	1

* Does not include voting on remuneration reports. CFSGAM reports on these resolutions separately. See page XX for more detail on remuneration report voting.

Where CFSGAM voted against: director election/re-election

Below are examples of why director election/re-election resolutions were not supported during the second half of 2010.

Cabcharge Australia Taxi-related services company, ASX Director re-election

The vote against the re-election of a number of directors was made in the interests of board accountability following the Australian Competition and Consumer Commission proceedings against Cabcharge, resulting in costs and penalties of A\$15 million. Additionally the board did not meet independence requirements.

Centamin Egypt Mineral exploration, development and mining company, LSE Director election

A director nominated for election was the executive chairman of an insurance broking service that received premiums for Centamin. Ideally, Centamin should not be conducting business with a director's company.

Mineral Deposits Mining company, ASX Director re-election

The board was not a majority independent with only three out of eight of its directors being classified as independent. The vote against was made for board composition reasons only, and not because of the candidate's abilities as a director.

Mount Gibson Iron Mining company, ASX Director election

The candidate was an affiliated non-executive director on the board where only four of nine directors are independent. He was also one of four directors associated with the company's largest shareholders and customers.

Jardine Matheson Holdings Holding company, SGX Director election

All members of the audit committee were executives of the company or affiliates, which is not the preferred composition of the audit committee. Furthermore, the company repeatedly failed to disclose the details of the fees paid to its auditors, which the audit committee should be held accountable for. A vote was made against the election of a director who was a member of the audit committee on concerns regarding the audit committee and general corporate governance issues at the company.

Executive remuneration resolutions come under close scrutiny and CFSGAM expects remuneration plans to be appropriate and aligned to the long-term interests of both management and shareholders.

CFSGAM analyses remuneration resolutions carefully to ensure any increases to base salaries or incentive payments are well justified. CFSGAM supports remuneration practices that are appropriate to the circumstances of the company and will attract and retain competent executives and motivate them to grow the company's long-term shareholder value. Full disclosure of total remuneration packages is required, together with appropriate justification in order to assess plans on their merit.

CFSGAM carefully considers the contribution of senior management to the long-term success of the business when assessing the rationale for an increase in remuneration levels. Where appropriate, active engagement is undertaken with company management to convey CFSGAM's expectations for remuneration packages. Through this engagement, CFSGAM hopes to contribute towards improving the overall standard of resolutions put forward at company meetings.

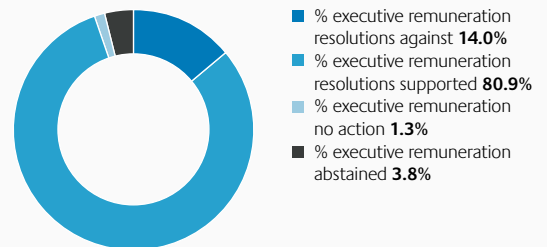
CFSGAM continues to monitor voting patterns in relation to executive remuneration packages to see if standards are improving, and whether companies where CFSGAM has previously voted against have reviewed their executive remuneration structure.

Global activity

Executive remuneration voting summary

	2H10
# company meetings involving executive remuneration	126
% company meetings	20.3
# executive remuneration resolutions voted on	235

Chart 4: Executive remuneration voting breakdown



Source: CFSGAM.

Australian activity

Executive Remuneration voting summary (Australia only)

	2H10	2H09	2H08	2H07	2H06
# company meetings involving executive remuneration	95	76	89	58	69
% company meetings	38	27	37	22	28
# executive remuneration resolutions voted on	174	126	179	166	181
% executive remuneration resolutions supported	84	87	77	90	78
% executive remuneration resolutions against	11	12	18	10	22
% executive remuneration abstained	5	0	5	0	0
% executive remuneration no action	0	1	0	0	0

* Does not include voting on remuneration reports. CFSGAM reports on these resolutions separately. See page XX for more detail on remuneration report voting.

Where CFSGAM voted against: executive remuneration

Below are examples of where executive remuneration resolutions were not supported during the second half of 2010.

DKN Financial Group

Financial services solutions provider, ASX
Equity grant

Options granted to the CEO had only a single hurdle, which was to achieve a minimum 20% share price gain from the date of granting. Given market volatility (a 20% share price gain is achievable without operating improvements) it was felt there was no real alignment or key performance indicator for business improvements. Preferred performance indicators include growth of funds under management or increase in earnings per share.

GUD Holdings

Product manufacturer, ASX
Termination payments

CFSGAM voted against the approval of termination benefits for the CEO on the basis that a significant portion of the termination benefits, primarily the 'cash payment component', would represent a payment to the CEO from which shareholders appear to derive no value or benefit.

Gujarat NRE Minerals

Mining and mineral processing, BOM
Equity grant

CFSGAM opposed the grant of options which do not have a performance hurdle or a measurable performance period. The company had not explained why Non-Executive Directors were being granted options.

Lend Lease

Integrated property solutions provider, ASX
Equity grant

The substantial increase in total remuneration, a significant shift to short term incentive from long term incentive, and lack of disclosure were three key reasons for not supporting an equity grant to the Managing Director.

RP Data

Property information provider, ASX
Equity grant

Directors' remuneration already exceeded that of similar sized companies that are growth in nature. This long term incentive was only granted on a 12 month performance basis which wasn't disclosed and, whilst it vests over a period, it did not encourage long term growth planning and performance.

SAI Global

Risk management service provider, ASX
Termination payments

The company sought approval to provide termination benefits to the CEO and other key management members which would include benefits relating to the immediate accelerated vesting of all long term incentives in certain circumstances, including retirement after reaching the age of 55 years.

Non-executive remuneration voting history

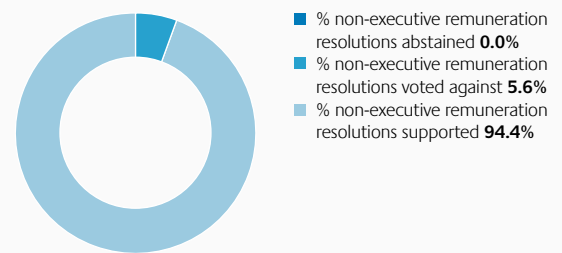
As with executive remuneration resolutions, CFSGAM expects non-executive remuneration plans to be appropriate and aligned to the long-term interests of both management and shareholders.

Global activity

Non-executive remuneration voting summary

	2H10
# company meetings	140
% company meetings	22.6
# resolutions involving non-executive remuneration	142

Chart 5: Non executive remuneration voting breakdown



Source: CFSGAM.

Australian activity

It was pleasing to see a reduction in the number of votes against non-executive remuneration, following a high proportion of votes against in the second half of 2008 and 2009. This improvement occurred within an environment of increased investor focus on company management to

ensure that fees are appropriate and justified. Companies with poor management or sub-standard financing arrangements are facing increasingly tough opposition from shareholders to have unwarranted executive remuneration increases or incentive payments approved.

Non-executive remuneration voting summary (Australia only)

	Second half 2010	Second half 2009	Second half 2008	Second half 2007	Second half 2006
# company meetings	55	42	60	95	60
% company meetings	22	15	25	35	24
# resolutions involving non-executive remuneration	55	73	76	129	70
% non-executive remuneration resolutions supported	96	82	83	95	90
% non-executive remuneration resolutions voted against	4	18	16	5	10
% non-executive remuneration resolutions abstained	0	0	1	0	0

Remuneration reports

Remuneration reports typically set out a board’s remuneration policy for employees, executives and directors. CFSGAM has high expectations for remuneration reports and requires appropriate remuneration packages, structures and full disclosure on all remuneration policies. While this proxy resolution is not binding, it must be put to vote by shareholders.

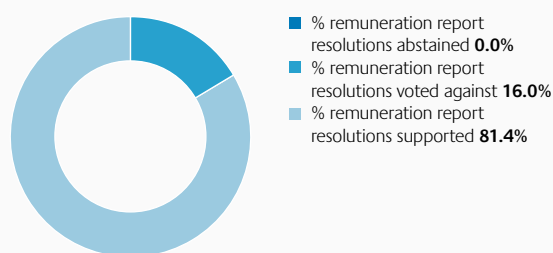
The three most common reasons for recommending against remuneration reports were poor disclosure, inadequately explained performance metrics and unexplained excessive remuneration in comparison with market cap peers.

Global activity

Remuneration report voting summary

	2H10
# company meetings involving remuneration reports	260
% company meetings	41.9
# resolutions involving remuneration reports	269

Chart 6: Remuneration report voting breakdown



Source: CFSGAM.

Australian activity

Non-executive remuneration voting summary (Australia only)

	2H10	2H09	2H08	2H07	2H06	2H05
# company meetings involving remuneration reports	211	237	201	207	196	164
% company meetings	84	85	83	78	79	70
# resolutions involving remuneration reports	211	237	201	207	196	164
% remuneration report resolutions supported	84	84	82	81	92	57
% remuneration report resolutions voted against	16	16	15	18	7	9
% remuneration report resolutions abstained	0.5	0	3	1	0.5	34

Where CFSGAM voted against: remuneration reports

Below are examples of why remuneration report resolutions were not supported during the second half of 2010.

Cabcharge Australia Taxi-related services provider, ASX Remuneration report

The executive chairperson of Cabcharge continued to receive fixed pay that represented a significant proportion of net profit. Cabcharge's remuneration report continues to provide minimal disclosure of the basis of annual bonuses which appear heavily weighted towards the executive chairperson.

Computershare Investor services provider, ASX Remuneration report

The lack of a relative Total Shareholder Return performance metric anywhere within the compensation structure was the key reason behind the negative vote.

Crane Group Building products manufacturer, ASX Remuneration report

The CEO's remuneration was very high in comparison to the company's peers. Termination benefits payable upon termination of the CEO's or CFO's service contract (and, in the case of the CEO, upon mere completion of the term of his service contract) are material in the context of the company.

FKP Property Property development and management, ASX Remuneration report

The CEO's fixed pay was significant in the context of FKP Property and is he a member of the remuneration committee. Options granted to senior executives in 2010 were subject to no hurdles other than an exercise price and continued service. CFSGAM felt this represented a poor compensation structure and inadequate performance hurdles.

CFSGAM also voted against renew the company's employee security plan, where more than half of the options issued under the plan in the most recent allocation were issued to six senior executives and are subject to no performance hurdles other than continued service and the exercise price.

Mirvac Real estate manager and developer, Australia, ASX Remuneration report

Changing the performance measure to only Total Shareholder Return was not adequate as Mirvac is a complex business and Total Shareholder Return alone is not a sufficient hurdle. Long term outperformance management should also be tested against other measures such as Return on Equity and Return on Assets.

Paperlinx Graphic solutions and packaging, ASX Remuneration report

The CEO's fixed remuneration was very high compared to other ASX listed companies. In a year when the company ran at a tax loss, Paperlinx awarded CEO a substantial bonus.

Company engagement

CFSGAM is an active shareholder through proxy voting and direct discussions with company management and directors. CFSGAM's large scale and reputation in the investment management industry provides its investment managers with the opportunity to engage in dialogue with individual companies on ESG issues.

Through company engagement, CFSGAM seeks to highlight areas for potential improvement, encourage disclosure on ESG issues, and commend companies that are making progress in this area. CFSGAM also seeks to positively influence companies towards ESG best-practice for the ultimate benefit of its investors. CFSGAM has guidelines and principles for corporate engagement which is publicly available on the company website.

Active ownership and engagement are among CFSGAM's top priorities as a fiduciary, because of the belief that there is a correlation between companies with good governance practices and strong, sustainable shareholder returns. For example, the Global Listed Infrastructure team's top-rated ESG stocks outperformed the bottom-rated stocks by more than 20% over three years to May 2010. Consequently, CFSGAM seeks to positively influence companies towards ESG best-practice to ultimately benefit investors.

Given the varying nature of the asset classes CFSGAM manages, the engagement approach is adjusted according to the asset class and the level of influence. Further, due to the autonomy of funds, one investment team may have ESG concerns about a particular stock that is a major stock holding in a different fund.

CFSGAM believes that engagement with companies is key to achieving ESG improvements. Collaborative initiatives with third-party engagement providers exist to gather necessary information to help obtain maximum value from engagement. A focus for 2010 was to improve collaboration between investment teams on engagement on controversial issues.

In keeping with CFSGAM's approach, company engagement on ESG issues will be primarily carried out on a direct basis with company management and indirectly via CFSGAM's proxy voting process.

CFSGAM will only engage companies on material issues to achieve specific outcomes, namely to ensure good ESG practices and thereby protect investor interests. In instances where management does not respond adequately to CFSGAM's engagement, this may impact

negatively on its valuation assessment and could result in CFSGAM divesting its ownership.

As an investment manager, CFSGAM will engage companies on ESG issues in the following circumstances:

Risk

Where CFSGAM's assessment shows that certain ESG factors have a material impact on company earnings or value or have the potential to do so.

Management Performance

Where, in CFSGAM's assessment, management is not adequately addressing ESG issues that could have a material impact on earnings and/or value.

Accountability

As engagement is an integral part of ownership, CFSGAM believes that company engagement is best carried out by the relevant portfolio managers and their investment teams.

Themes

CFSGAM recognises that ESG covers a wide range of issues and therefore it will concentrate efforts on material ESG issues where CFSGAM has a significant understanding and where it can exert influence towards achieving a specific outcome.

Collaboration

CFSGAM recognises the benefits of collaborative engagement and therefore may collaborate in industry initiatives and forums where appropriate.

Approach

CFSGAM's approach to engagement varies on a case-by-case basis. Engagement may take the form of:

- ESG issues being raised in a face to face company meeting with management or on a company site visit
- a telephone conversation
- a formal letter or email raising and ESG issue either for consideration or requesting formal action, or
- a joint letter with other investors through a collaborative initiative.

Company engagement

A number of initiatives were undertaken during the year to encourage transparency and disclosure on ESG issues from companies. CFSGAM sees significant benefit in collaborating with other investors and stakeholders on matters of disclosure, as everyone benefits from increased transparency on ESG issues.

CFSGAM recognises the benefit of collaborating with other investors on engagement. In the second half of 2010, CFSGAM participated in collaborative engagement on the Forest Footprint Disclosure Initiative and encouraged other investors to participate. CFSGAM also collaborated through the PRI on a Carbon Disclosure Project engagement program.

Examples of active ownership, and how these have influenced investment decisions, are outlined below.

Mining company

Health and safety

In response to a South African platinum company reporting five deaths at one of its mines, CFSGAM's Global Resources team met with the CEO to understand the cause and their subsequent actions. A roof failure was the cause of the fatalities and was known to have a fracture which was thought to have been supported by sufficient rock bolting. However, the location of the fracture was out of the rock bolting range which created the collapse. The company has hired several more geotechnical specialists to improve their understanding of this fracture to allow for the appropriate roof support in the future.

Mining company

Governance

A Mongolian mining company disappointed in terms of production volume, which was driven by a high level of harmful material in the coal. This also reduced the value of the coal. The Global Resources team felt that a better understanding of the ore body could have been achieved if the company's Board had more directors with technical experience in coal geology or mining. The team wrote a letter to the Chairman of the Board and the CEO highlighting their concerns and encouraging reinforcement of the board by adding more technical experience.

Agricultural company

Governance

An Asian agricultural company announced a discounted placement to a select group of new shareholders. The Global Resources team wrote to the company expressing their disappointment at the company's decision to selectively place shares with investors that were not on the register. The team received an

immediate response from the company, which gave them some comfort. Following significant shareholder feedback, the company has stated that it will make all future capital raisings available to all shareholders. Despite this, the team remain cautious on the company as this has impacted the company's reputation.

Healthcare company

Governance

Members of the Australian Equities, Core team engaged with the management of an Australian listed healthcare company to better understand their engagement and sustainability processes. The investment team noticed this company had a high standard of safety and corporate governance ratings, attested by external industry research reports as well as company process and statistics.

Despite this, the company did little in the form of disclosure and did not produce a sustainability report. Given the relative performance of key environmental and safety measurements, the team encouraged the company to promote and disclose this key differentiation, as the team viewed this to be a competitive advantage in their industry and also to be relatively under appreciated by the investment market.

Property

Governance

The Listed Property Securities team met with a property group's Board members to discuss the remuneration policy. The team felt that a payment was made for an acquisition where the performance had not yet been proved. Board members took note of the concern and the team will monitor how the property group remunerates executives in the future.

Industrial company

Governance

One of the key stock considerations in the investment process of the Australian Equities, Core team is the consideration of the quality of management and the standard of corporate governance practiced by the company. The team had held concerns over the corporate governance of the company for some time. A major shareholding had been held by one family and the team's perception was that the company had been heavily influenced by the stakeholder for many years. Evidence of this was that the Managing Director/CEO of the company was also the son of the founder of the major shareholding family. In addition, the Chairman was so long standing, with a tenure of more than 15 years, as to be considered an associate of the family and lacking independence.

The investment team expressed concerns about the corporate governance being below expectations of best practice for a listed company and that this was a factor in the consideration of investing in the company. The concerns were addressed to the company, the corporate broker and advisor.

The company has subsequently changed the Managing Director/CEO and the Chairman has been replaced by an independent director. The investment team has since established an investment in the company and continues to hold the investment in the portfolio.

Retailer **Environmental**

The Australian Equities, Growth team looks to encourage companies to achieve industry best practice in their approach to ESG issues. There was concern that some companies in the retail sector were lagging behind in energy and water efficiency, so the team looked to engage with companies on these issues on site visits.

A site visit with the CEO of a major supermarket chain gave the team confidence that energy usage was a priority for the company and that innovative ideas were being implemented to save costs. For example, power-down automatically took place at the time of store closing, blinds were pulled down over open chiller displays, and heat from the refrigeration and air conditioning was redeployed to other areas of the store.

Airport **Environmental**

The Global Listed Infrastructure team met with representatives from a European airport where they discussed the airport's carbon footprint and their strategy for reducing this. The airport has made significant reductions in recent years, and has committed to further reduce carbon dioxide emissions by 2030. More than 80% of the airport's carbon dioxide emissions stem from a central co-generation power plant which has been upgraded to improve efficiency. Other initiatives include the change in vehicles from diesel-powered to LPG-powered and hybrids. The engagement gave the team comfort that environmental issues were being considered appropriately.

Airport **Social**

The Global Listed Infrastructure team met with a power and infrastructure company who own the concession to a major Indian airport. Part of the land within the concession area currently contains slums where a large number of people live. As the airport continues to expand, residents of the slum will have to leave their

homes and be relocated. The team encouraged the company to consider their long-term social license to operate in the way they pursue their development plans. The team continue to monitor the situation with the company as they see this as a potentially significant social issue.

Bank **Governance**

The Global Emerging Markets team engaged with management on their decision to continue financing illegal settlements in the Occupied Territories. While the loans in question are small as a percentage of total assets, the team were surprised and concerned about what management's attitude to these loans said about the broader risk culture of the bank.

Power company **Environmental and social**

Amid reports of violence and social unrest related to the company's proposed power project, the Global Emerging Markets team wrote a formal letter to the CEO and Chairman of the company, highlighting the potential issues, and linking them to long-term shareholder returns. The team hopes to send a reminder to the company that the team expects it to do everything within its power to meet its environmental and social responsibilities, even if short-term profits may be reduced. For the team, this is not counter-intuitive. Cutting environmental and social corners creates serious long-term risks. As long-term shareholders, the team would much rather the company cut no corners and focused all its efforts on becoming India's leading clean energy provider over the next decade and more.

Electronics **Governance**

The Global Emerging Markets Team engaged with the company on their supply chain policies. The team were hopeful that the company was moving in the right direction in their consideration of ESG issues. Unfortunately however, the company had taken a large backward step in corporate governance by appointing a chairman who had previously been stepped down after being found guilty of tax evasion and breach of trust.

The team will continue to engage with the company on the message this appointment sends to investors, although it is unrealistic to expect minority shareholders in South Korea to reverse the decision in the short term. A more realistic aim for the team is to try and encourage greater external checks and balances in terms of governance and anti-corruption practices.

Energy Company Environmental and social

A site visit by members of the Global Resources team to meet with landholders and community groups in Queensland highlighted some potentially serious issues for oil and gas companies who are involved in coal seam gas developments in the region. In response, the Global Resources team conducted a follow up site visit and engaged with the relevant companies over a series of meetings. These meetings focused on the companies' efforts to address the environmental and social issues that had been raised, and provided significant comfort to the team that senior management were taking these issues seriously and responding appropriately.

Agricultural company Governance

A Singapore-listed agricultural holding company announced that it had plans to raise capital by listing one of its Indonesian subsidiaries during the quarter. The global resources team met with management to

engage with them around the purpose of the capital raising given the company did not appear to need cash for capital projects. In the team's view, the company was unable to clearly articulate the reasons why they needed additional capital nor what the capital will be used for. It appeared that the controlling shareholder interests were not aligned with minority shareholders and the team subsequently sold its position. The Indonesian subsidiary was listed, albeit at a significant discount given market conditions were quite negative, which subsequently impacted the holding company's valuation.

Engagement topics

The below table is a small selection of the topics that CFGAM engaged with companies on during the second half 2010. The 'Behavioural change or research process' column denotes whether the engagement is attempting to achieve a change in company actions or whether it is part of informing the research and investment process only.

Sector	Country	Engagement Issue	Behavioural change or research process
Soft commodity	Hong Kong	Corporate governance	Behavioural change
Retail	Australia	Community programs – store visit	Research process
Retail	Australia	Supply Chain management	Research process
Insurance	Australia	Remuneration and KPI/Management indicators and risk management	Research process
Energy company	US/Australia	Environmental and landowner issues	Research process
Uranium exploration	Australia	Corporate governance	Behavioural change
Banking	Australia	Staff satisfaction and investment, remuneration.	Research process
Manufacturing	Australia	LTI and bonus/management KPI structures plus reporting on sustainability	Behavioural change
Food and beverage	Australia	Remuneration and incentives	Research process
Uranium exploration	Australia	Corporate governance	Behavioural change
Telecommunications	Australia	Remuneration and Board Structure	Research process
Rail	Australia	Safety records and management	Research process
Banking	Australia	Board and management	Research process
Soft commodity	US	Environmental, corporate governance	Research
Engineering	Australia	Governance and management	Research process

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