

Proxy voting and engagement update

First half of 2011



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Welcome to the Colonial First State Global Asset Management and First State Investments proxy voting and engagement update for the period 1 January – 30 June 2011.

In Australia and New Zealand, the investment management business operates under the name of Colonial First State Global Asset Management (CFSGAM). Outside of Australia and New Zealand, the business is known as First State Investments (FSI). The entire business is collectively referred to as CFSGAM in this report.

CFSGAM had more than US\$82.8 billion invested in Australian and global equities at 30 June 2011. 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. CFSGAM started reporting on its global proxy voting for the first time in the second half of 2010. Previously CFSGAM has reported only on its Australian shareholdings, so Australian-only votes continue to be separately reported on to allow for comparison to previous reporting periods.

When comparing global votes from the second half of 2010 with the first half of 2011, it should be noted that most shareholder resolutions in the US and UK take place in the first half of the year, while most shareholder resolutions in Australia take place in the second half of the year.

Governance review

The first half of 2011 continued to see 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 during uncertain and volatile times.

The increased focus towards best practice corporate governance has been both as a result of increased investor expectations together with a number of legislative or regulatory changes. A key development in Australia during the period was the introduction in June 2011 of the 'two-strikes' rule on executive remuneration. CFSGAM expects this to enhance communication and understanding between companies and shareholders on the topic of executive remuneration, and strengthen the link between pay and performance.

Europe continues to focus on harmonisation of corporate governance practices, while emerging markets continue to develop their corporate governance frameworks, with varying degrees of success. India is strong in certain areas, however CFSGAM's Asia Pacific ex Japan and Global Emerging Market (APGEM) team note that the language used in resolutions is often too long and complex to readily understand.

Another issue in emerging markets is appropriate timing for review or consideration of resolutions put forward by companies. The APGEM team are often given very little time to respond to resolutions, which can be problematic if the team is undecided about a particular resolution, or doesn't have the necessary research readily available.

Given the focus on executive remuneration, it is likely that legislation will only increase in this area. Setting limits on executive remuneration, increasing alignment between performance and pay, and giving shareholders greater input on remuneration packages are some of the likely themes surrounding new legislation globally.

The 'comply or explain' approach is gaining traction, especially in Europe, Australia and the US. The UK's strong corporate governance framework is built around the 'comply or explain' principle, which requires companies to disclose their compliance against set criteria and justify any deviations from best practice. The US is gradually adopting the 'comply or explain' approach, while in Europe it is providing a flexible framework which allows for harmonisation of corporate governance regulation across borders.

An issue noted by CFSGAM's investment teams globally, including emerging markets, was an increasing number of capital raising resolutions without shareholder approval.

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

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 CFSGAM's '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. We emphasise that our investment teams retain full control over their proxy voting decisions and do not necessarily follow the guidance provided by third party governance research houses. Data provided by third party service providers is used only as an additional source of information that our teams use when making their voting decisions.

CFSGAM will typically 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'.

Aggregate voting

Issue code breakdown – Global

	Total resolutions		Resolutions not supported ¹	
	Number	%	Number	%
Non-voting ²	1586	13.6	0	0.0
Director election	4547	38.9	319	2.7
Executive remuneration	162	1.4	35	0.3
Non-executive remuneration	285	2.4	11	0.1
Issue of new shares	152	1.3	21	0.2
Remuneration report	320	2.7	65	0.6
Financial scheme/reconstruction of capital	34	0.3	2	0.0
Constitution/articles of association change	393	3.4	42	0.4
Appoint/reappoint auditor	658	5.6	29	0.2
Takeover or merger acquisition	47	0.4	3	0.0
Shareholder proposals (SHP)	76	0.6	35	0.3
SHP – Environment	20	0.2	5	0.0
SHP – Social	39	0.3	7	0.1
All Other Proposals	3374	28.9	528	4.5
Total	11,693	100	1,102	9.4

Resolutions breakdown – Global

	Second half 2010		First half 2011	
	Number	%	Number	%
Company Meetings	620	–	977	–
Resolutions voted on	5,911	–	11,693	–
Resolutions supported	4,191	70.9	8,880	75.9
Resolutions against	471	8.0	1,102	9.4
Resolutions abstained	29	0.5	48	0.4
Resolutions non-voting	1,160	19.6	1,586	13.6

Resolutions breakdown – Australia only

	First half 2005	First half 2006	First half 2007	First half 2008	First half 2009	First half 2010	First half 2011
Company meetings	68	78	93	75	68	89	97
Resolutions voted on	289	394	457	442	369	543	933
Resolutions supported (%)	79	87	96	87	84	87	72.0
Resolutions against (%)	5	9	2	9	10	10	9.4
Resolutions abstained (%)	16	4	2	4	1	3	1.2
Resolutions non-voting (%)	n/a	n/a	n/a	n/a	5	35	17.4

Note:

1. These figures include abstentions (0.4% of total votes). The majority of abstentions result from non-binding resolutions on companies' remuneration reports and financial accounts.

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

Season overview

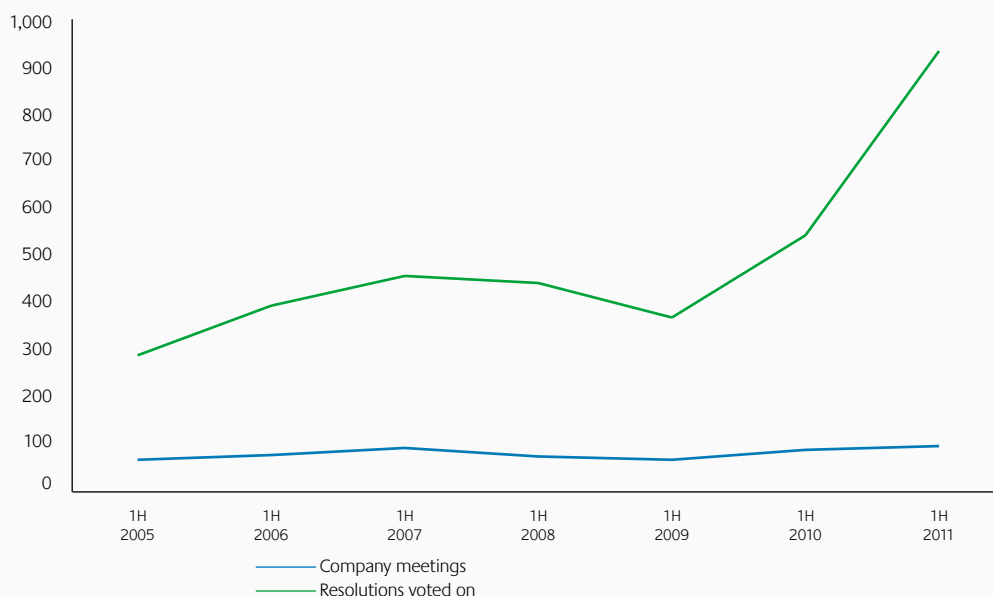
During the first six-months of 2011, CFSGAM voted globally at 977 company meetings on 11,693 resolutions. At these meetings, 75.9% of resolutions were supported, 9.0% were opposed and 0.4% were abstained³. The majority of abstentions are of a technical nature, for example CFSGAM is restricted from voting for the approval of share issues when CFSGAM has participated in the placement. Other abstentions may result from non-binding resolutions on companies' financial accounts. 13.6% of resolutions were Financial Statement resolutions and proposals at company meetings that did not require a vote.

In Australia, CFSGAM voted on 933 resolutions during the first half of 2011. This number was a record high, up from 543 the year before. At 9.4%, the number of resolutions opposed remained broadly in line with recent previous corresponding periods.

Number of resolutions at company meetings

As shown in the chart below, the total number of company meetings remained steady, while the number of resolutions continues to rise sharply in the wake of corporate activity following the global financial crisis and increased shareholder scrutiny.

Chart 1: Company resolutions versus company meetings 2004 to 2010 (Australia only)



Source: CFSGAM.

3. Figures do not sum to 100% due to a new proposal type, Say When on Pay. For these proposals, the accepted votes are 1, 2 or 3 years. Consequently, they are not calculated in to the tallies.

Director elections and re-elections

Director elections and re-elections voting summary (Global)

	2H 10	1H 11
Number of company meetings involving director elections/re-elections	438	716
Company meetings (%)	70.6	73.3
Number of resolutions involving director elections/re-elections	1409	4547
Director elections/re-elections supported (%)	88.9	92.7
Director elections/re-elections against (%)	9.7	7.1
Director elections/re-elections abstained (%)	0.2	0.2
Director elections/re-elections no action (%)	1.1	0

Director elections and re-elections voting summary (Australia only)

	1H 06	1H 07	1H 08	1H 09	1H 10	1H 11
Number of company meetings involving director elections/re-elections	52	56	54	49	52	61
Number of resolutions involving director elections/re-elections	130	148	160	149	136	302
Director elections/re-elections supported (%)	97	98	81	94	86	92.7
Director elections/re-elections against (%)	3	0	16	6	11	7.3
Director elections/re-elections abstained (%)	0	2	3	0	4	0

Season overview

Director elections and re-elections are the most common type of resolution on which CFSGAM votes, with 4,547 resolutions globally during the first half of 2011, representing almost 40% of all votes cast. CFSGAM supported 92.7% of these, and voted against or abstained on 7.3% of resolutions. This is a slight improvement in percentage terms on the second half of 2010, where 9.7% of resolutions were opposed.

CFSGAM has corporate governance principles regarding the number of executive directors versus non-executive directors and the overall board composition and responsibilities. During the analysis process, CFSGAM examined what other board or executive commitments the nominee has. While it is acknowledged that it is common to have more than one directorship, CFSGAM recognises that increasing demands for a director's time can limit the level of responsibility they can effectively take on. One way to assess a director's performance is to examine the number of board meetings attended over the year. If attendance is low, it suggests the director has too many commitments and re-election would be voted against. The APGEM team noted an increase in discussions with management around poor attendance of directors at board meetings, and the subsequent casting of against votes.

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.

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.

Reasons for voting against the election or re-election of directors during the period included:

- other responsibilities were too demanding to allow appropriate time for new board duties
- inappropriate board structure, and
- previous poor performance or inappropriate experience of the director in question.

Director elections and re-elections

continued

Resolutions opposed: director election/re-election

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

Brisa

Portuguese-based toll road operator

The re-appointment of all directors was voted against due to an inability to vote for directors individually. One shareholder wanted to increase their representation on the board from one to three which would be disproportionate to their holding.

First Energy

US integrated utility

The re-appointment of five directors was voted against due to a lack of disclosure around related party transactions

Macquarie Atlas Roads Group

Australia-based toll road operator

The nominee was an executive of the external manager, Macquarie, and is one of three directors of the six across the Macquarie Atlas Roads Group boards associated with Macquarie.

Austar United Communications

Australia-based television services

Both directors up for re-election were affiliated with Liberty. Austar United Communications does not have an independent chairman or a majority of independent directors on the board.

Executive remuneration

Executive remuneration voting summary (Global)

	2H 2010	1H 2011
Company meetings involving executive remuneration	126	79
Company meetings (%)	20.3	8.1
Executive remuneration resolutions voted on	235	162
Executive remuneration resolutions supported (%)	80.9	78.4
Executive remuneration resolutions against (%)	14	21.6
Executive remuneration abstained (%)	3.8	0
Executive remuneration no action (%)	1.3	0

Executive Remuneration voting summary (Australia only)

	1H 06	1H 07	1H 08	1H 09	1H 10	1H 11
Company meetings involving executive remuneration	15	21	39	21	32	38
Executive remuneration resolutions voted on	38	79	86	31	48	98
Executive remuneration resolutions supported (%)	95	85	87	71	94	74.5
Executive remuneration resolutions against (%)	5	15	12	29	6	25.5
Executive remuneration abstained (%)	0	0	1	0	0	0

Season overview

Amid market volatility and investor uncertainty in equity markets globally, there has been an increased focus on executive remuneration, especially where remuneration paid to executives has not been commensurate with performance. Over time, it has become apparent that the correlation between returns to shareholders and executive pay has widened. CEO remuneration has quadrupled in the 12 years to 2011 among the UK's FTSE constituents, while share prices have remained effectively flat⁴. CFSGAM expects remuneration plans to be appropriate and aligned to the long-term interests of both management and shareholders.

Recent changes to pay disclosure requirements have provided shareholders with more influence on remuneration practices at their companies. A key aspect of the Dodd-Frank Act in the US relates to executive remuneration. A non-binding 'say on pay' vote must now be offered to shareholders of large US companies every three years.

The prospect of a public rebuke from shareholders on executive remuneration—for example through 'say on pay' in the US or 'two strikes rule' in Australia – is encouraging directors to propose remuneration packages with greater accountability and transparency. Much legislation around executive remuneration has recently been introduced, and CFSGAM expects it to become increasingly effective over time as shareholders and companies adjust to the new environment of increased transparency, accountability and engagement.

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.

Reasons for CFSGAM not supporting executive remuneration plans during the period included:

- lack of performance hurdles for the long-term incentive plan, and
- inappropriate performance hurdles that are not linked to total shareholder return.

Note:
4. Manifest and MM&K Total Remuneration Survey, 2011.

Resolutions opposed: executive remuneration

Below are examples of where executive remuneration resolutions were not supported during the first half of 2011.

Aurora Oil & Gas **Australia-based oil and gas company**

The proposed options to be granted to the Finance Director were subject to no hurdles other than an exercise price and continued service.

Another resolution was opposed which sought to gain approval to grant options to a non-executive director. The Australian Equities, Core team does not typically support equity grants to non executive directors, who, the team believes, should have the same equity exposure as ordinary shareholders. The award of equity grants can compromise the independent judgement of non executive directors and can result in potential conflicts of interest.

Intrepid Mines **Australia-based miner**

The company was seeking approval that the automatic vesting of options and shares rights on redundancy are carved out from the statutory cap on termination benefits of 12 months base remuneration. It was not apparent from the information provided by the company what value or benefit shareholders would derive from approving termination benefits associated with the automatic vesting of options and share rights on redundancy.

Atlantia **Italy-based toll road operator**

The long term incentive plans proposed by Atlantia were not supported due to a lack of performance targets or vesting hurdles being set within the plan.

Non-executive remuneration

Non-executive remuneration voting summary – global

	2H 2010	1H 2011
Company meetings	140	237
Company meetings (%)	22.6	24.3
Resolutions involving non-executive remuneration	142	285
Non-executive remuneration resolutions supported (%)	94.4	96.1
Non-executive remuneration resolutions voted against (%)	5.6	3.2
Non-executive remuneration resolutions abstained (%)	0	0.7

Executive Remuneration voting summary (Australia only)

	First half 2006	First half 2007	First half 2008	First half 2009	First half 2010	First half 2011
Company meetings	14	21	24	9	21	11
Company meetings (%)	18	23	32	13	24	11.3
Resolutions involving non-executive remuneration	22	25	24	16	48	18
Non-executive remuneration resolutions supported (%)	91	96	96	44	87	100
Non-executive remuneration resolutions voted against (%)	9	4	0	56	13	0
Non-executive remuneration resolutions abstained (%)	0	0	4	0	0	0

Season overview

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.

Of the 285 resolutions globally on non-executive remuneration, CFSGAM supported 96.1% of resolutions. This was a slight increase on the second half of 2010, where 94.4% of resolutions were supported. In Australia, it was pleasing to see 100% of non-executive remuneration proposals supported. CFSGAM will monitor trends in remuneration voting to see whether the 'two strikes' rule increases the percentage of proposals that are supported, due to increased engagement around remuneration between companies and their shareholders.

It was pleasing to see a reduction in the number of votes against non-executive remuneration. 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.

CFSGAM recognises that board responsibilities are becoming more complex and increasingly time consuming, and directors need to be rewarded accordingly. Adequate compensation is required to attract and retain high quality board members. At the same time CFSGAM is active in voting against increases where we believe the increase is excessive, the board has performed poorly, there is no justification for the increase or where there is poor board composition. CFSGAM is also of the view that options should not be granted for non-executive directors.

Remuneration report voting summary – Global

	Second half 2010	First half 2011
# company meetings involving remuneration reports	260	256
% company meetings	41.9	26.2
# resolutions involving remuneration reports	269	320
% remuneration report resolutions supported	81.4	79.7
% remuneration report resolutions voted against	18.6	20.3
% remuneration report resolutions abstained	0	0

Remuneration report voting summary – Australia only

	First half 2006	First half 2007	First half 2008	First half 2009	First half 2010	First half 2011
Company meetings involving remuneration reports	39	47	43	43	42	49
Company meetings (%)	50	51	57	63	47	50.5
Resolutions involving remuneration reports	39	48	43	43	42	93
Remuneration report resolutions supported (%)	77	94	90	81	74	80.7
Remuneration report resolutions voted against (%)	13	2	5	19	21	19.4
Remuneration report resolutions abstained (%)	10	4	5	0	2	0

Season overview

The remuneration report sets out the board's remuneration policy for employees, executives and directors. The proxy resolution is not binding, but must be put to vote by shareholders.

Since 2005, when the remuneration report resolution was introduced, CFSGAM has closely monitored the quality of these reports. The disclosure standards that CFSGAM expects of these reports has consistently risen since their introduction. We expect appropriate remuneration packages, policies and structures, and full disclosure on all remuneration policies.

Globally, there was a slight increase in the number of remuneration reports not supported by CFSGAM, with 20% voted against in the first half of 2011 compared to 16% in the second half of 2010.

In Australia the percentage of against votes remained broadly consistent with the two previous corresponding periods, however the number of resolutions involving remuneration reports rose sharply, up to 93 from 42 in the previous year.

The three most common reasons for recommending against remuneration reports were:

- poor disclosure
- inadequately explained performance metrics, and
- unexplained excessive remuneration in comparison with performance and market cap peers.

While remuneration report votes are non-binding, any significant dissent sends a strong signal to the board on pay issues. Where shareholder dissent is ignored, shareholders may in the future oppose the election or re-election of individual members of the Remuneration Committee, meaning this type of resolution can have influence.

Two strikes rule

An important development in Australia in the first half of 2011 was the introduction of the 'two strikes rule'. Effective from June 2011, if a remuneration report receives an against vote of 25% or more in two consecutive years, shareholders vote at the same AGM to determine whether the directors will need to stand for re-election. If this spill resolution is supported by more than half of shareholders, a separate meeting at which directors must stand for re-election must be held within 90 days.

At present, the CEO is not required to stand for re-election in Australia, and the remaining directors stand for re-election typically every three years. The spill vote is therefore seen as a means of escalating dissenting views by potentially removing some board members, and is most likely to be focused on members of the remuneration committee.

CFSGAM noted an increase in engagement from Australian companies on remuneration reports prior to the upcoming voting season, which is likely as a result of the two strikes rule. Some nervousness amongst

directors has also seen the withdrawal of potentially contentious resolutions such as grants of options, and boards are keen to stress that 'nothing has changed' where they have had the previous remuneration report approved.

Through engagement and collaboration, companies are looking to ensure that their remuneration reports will be supported. CFSGAM welcomes this increased level of engagement.

Where CFSGAM voted against: remuneration reports

Below are examples of why remuneration report resolutions were not supported during the first half of 2011.

Macquarie Atlas Roads Group **Australia-based toll road company**

Macquarie Atlas Roads Group accrued a substantial performance fee payable to its external manager, a Macquarie subsidiary, despite being listed for only five months of the performance fee year. The fee was accrued after the substantial underperformance of the previous entity (Macquarie Infrastructure Group) was 'wiped clean' as part of the restructure which created Macquarie Atlas Roads Group.

Aurora Oil & Gas **Australia-based oil and gas company**

The Australian Equities, Core team did not support the remuneration report as it did not appropriate sufficient performance hurdles. Hurdles based on share price performance can be affected by market movements rather than company performance.

Westfield Group **Australia-based global property group**

The team voted against the remuneration report because the performance hurdles were measured only against one year. The remuneration report didn't give the maximum amount or percentage of the short-term incentive and equity-based incentives and the team would like to see a better explanation of internal targets used for bonuses. The CEO received \$7 million in short-term incentives but zero in equity-based incentives, which the team viewed as a poor alignment of interest.

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. 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.

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.

Company engagement examples

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. Some examples of active ownership, and how these have influenced investment decisions, are outlined below. Companies have not been identified where there were sensitivities around the engagement.

Australia-based steel makers and suppliers

There was a great deal of attention in the first half of 2011 on the proposed introduction of a carbon price in Australia. A carbon price will have implications for a wide range of Australian companies, particularly those in the energy, mining and manufacturing sectors. For some time, political uncertainty made it reasonably difficult to ascertain the likely impact of the new tax on individual companies.

Investment teams across CFSGAM closely assessed the earnings implications of the tax on individual companies, as well as the likelihood of exemptions and assistance packages offered by the government. Teams had ongoing dialogue with a number of steel companies to keep abreast of the concessions which are being negotiated. Steel companies are expected to qualify for substantial exemptions from the tax, but the earnings impact on other companies could be much greater, affecting the viability of some business models.

Oil Search

A company's management of many and varied stakeholder interests is often most important when investments require both governmental and community approvals. Investor attention tends to be focused on these risks and on company behaviour during periods of development or expansion. However, insufficient focus on governance and sustainability issues over the longer term can result in delays, cost blow-outs and, in some cases, jeopardise not only the start, but the completion of projects.

The liquefied natural gas project being developed by Oil Search and operated by partner ExxonMobil in Papua New Guinea is a good example of the need for a company to have a long-term focus on sustainability issues to ensure a social licence to operate. The construction of the project began in March 2010 and is expected to be completed in 2014 at a cost of around US\$15 billion. The development will unlock an energy reserve which is the equivalent of more than 500 million barrels of oil. Oil Search has been operating in PNG for many years and successfully managed the political and landowner environment to enable the profitable export of oil. This long-term relationship and community involvement is integral to the current project.

As an active investor in the company, the Australian Equities, Core team and the APGEM team have spent considerable time with the Oil Search management team, including visits to the operations in Papua New Guinea. It is important that the teams maintain a level of comfort that the project will be delivered both on time and on budget.

As well as being constructed on geographically challenging terrain, the 700 kilometre pipeline passes through villages of differing landowner groups. The financial and social benefits flowing to the PNG landowners has been an increasing focus for Oil Search, which is trying to balance stakeholders and aims for an equitable distribution of the financial rewards of the project to the communities of PNG. We believe that the management of Oil Search have a focus on the sustainability of its business in PNG. Oil Search has won the practical and financial support of global health and wildlife organisations because of its programs in the community. The progress of the LNG project relies on continuing good relationships with stakeholders and the successful management of any conflicts arising. Monitoring the risks associated with the project, as well as the progress of the construction itself, is a key part of our dialogue with Oil Search management.

Australian-listed healthcare company

Members of the Australian Equities, Core team engaged with management of an Australian listed healthcare company to better understand its engagement and sustainability processes. The 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 does little in the way of disclosure and does not produce a Sustainability Report. Given the relative performance on key environmental and safety measurements, we encouraged the company to promote and disclose this key differentiation, as we

viewed this competitive advantage in the industry to be relatively under-appreciated by the market.

Canada-based oil and gas exploration and production company

One of the most significant issues faced by oil companies that purchase assets previously managed by state run enterprises are the potential social and environmental liabilities that are inherited.

The Global Resources team engaged the company with regard to its environmental and social responsibilities within Albania, where the company is focused on developing oil reserves. The company has shown both in its reporting and, as witnessed on a site visit, the desire to improve the environment and local health and safety beyond that obligated by its operating licence. This provides an investment opportunity where ESG issues are clearly being managed in a way that mitigates ESG risk and improves the overall risk profile of the company.

Queensland coal seam gas

A recent site visit by the Global Resources investment team to Queensland to meet with landholders and community groups 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 comfort to the Global Resources team that senior management were taking these issues seriously and responding appropriately.

Ayala Group

Philippine-based holding company

The APGEM team continued to follow up their engagement on the use of non-voting shares to raise capital while not diluting control. Having written to this company and the stock exchange, the APGEM team have now identified a supporter on the board with whom they have raised the issue. This board member promised to raise it on the team's behalf with the rest of the board. The APGEM team are also continuing to look for ways to engage the Philippines Stock Exchange on the issue as it is relevant for all Filipino companies.

International Power

UK based power company

The Global Equities investment team discussed compensation of indigenous people affected by construction of a dam in Brazil. The challenge for this company is differentiating between genuine claimants and opportunists

Hawaiian Electric Industries

US-based utilities company

The Global Equities team discussed the outlook for nuclear power following Japanese earthquake and the likely environmental implications given the growing power needs of the world. In Hawaii this means more wind power. Hawaii is one of the few places where wind power is cost effective and doesn't require subsidies.

Southern Company

US-based public utility company

The Global Listed Infrastructure team met with Southern Company who owns numerous coal plants in the south east of the US to better understand the implications of the proposed clean air rules (HAPS MACT) on its fleet in particular and for the industry as a whole. Southern Company views the current proposal as stringent and the time frame for compliance too short. The team continue to monitor this situation and await a final ruling.

CityCon

Finland-based retail property investment

Citycon has a majority shareholder (Gazit Globe) and, through this, Gazit occupy a number of board seats on Citycon. These board members receive a travel allowance of €600,000 for travel expenses to attend board meetings. This allowance is not extended to non Gazit Board members and is deemed excessive. The Global Equities team actively engaged with Citycon to have this reduced.

US-based REIT

Prior to purchasing the stock the investment team met with the company's former CEO. They expressed concern about the company's poor capital allocation, but left the meeting convinced that the company would take more aggressive actions to improve its share price. Based on this assessment and the fact that the shares were then trading at a 30% discount from net asset value, the team added a position in the company at that time. Within weeks the board took the positive step of replacing the company's CEO and CFO. Subsequently, the team spoke with the new CEO. The team agreed with the new CEO's strategy to increase cash earnings per share by selling non-income generating assets (primarily developments and land), increasing portfolio occupancy, and refinancing expensive preferred equity on the balance sheet.

Appendix A

Engagement topics

The below table is a selection of the topics that CFSGAM engaged with companies on during the first half of 2011. 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	Complete/ ongoing	Behavioural change/ research process
Agriculture				
	Australia	Welfare environment and animal sustainability	Complete	Process
	Indonesia	Palm oil	Ongoing	Research process
	Norway	Sustainable fish farming techniques and concerns over adequate regulation and use of antibiotics within the fish farming industry	Complete	Research process
	Great Britain	Implications of fraudulent claims of child labour.	Complete	Behavioural change
	Brazil	Quality control systems and in particular the reporting lines within the company	Complete	Behavioural change
Banking				
	Tunisia	ESG risk management in financing	Complete	Research
	Australia	Staff and community engagement	Ongoing	Research
	Australia	Off shore staffing hubs	Ongoing	Research process
	India	Disclosure on approach to ESG, human capital and risk exposure	Complete	Behavioural change
Building				
	Australia	Carbon pricing and emissions	Complete	Research process
Bulk storage				
	Netherlands	Governance – anti takeover devices	On-going	Research process
Childcare				
	Australia	Board Renewal Programme	Complete	Process
Coal				
	UK	UK environment impacts of coal plants	On-going	Research process
	Australia	Impact of Carbon Tax	Ongoing	Research Process
Defence				
	USA	Company's exposure to cluster munitions.	Complete	Behavioural change
Energy				
	Canada	Concerns over training and safety	Complete	Behavioural
	US	Environmental – Nuclear Strategy	On-going	Research process
	Australia	Social strategy for rising power prices	On-going	Research process
	Australia	Carbon tax – negotiations and management of risks	Ongoing	Research

Sector	Country	Engagement Issue	Complete/ ongoing	Behavioural change/ research process
Engineering				
	Australia	Safety and indigenous skills training	Ongoing	Research
	India	Disclosure on human capital and environmental operational performance	Complete	Behavioural change
	Canada	Operations in Libya and safety of personnel.	Complete	Research process
Gaming				
	Australia	Risks and management of gaming	Ongoing	Research
Healthcare				
	India	Food safety standards	Ongoing	
			Complete	Research process
Manufacturing				
	Australia	Safety management issues	Ongoing	Process
	USA	Management succession plan	Complete	Research process
Media				
	Australia	Board and Management structure	Complete	Process
	Australia	Management/Board Discussion on Debt	Ongoing	Both
Mining				
	Australia	Extractive Industries Transparency Initiative	Complete	Behavioural change/ research process
	Egypt	Treatment and support of local and expat workers during the Egyptian uprising	Complete	Research
	Australia	Carbon Disclosure Project (CDP), emissions reduction, and legal action	Complete	Behavioural change/ research process
	Australia	Extractive Industries Transparency Initiative participation	Ongoing	Behavioural change
	Malaysia/ Australia	Review of Rare Earths Plant	Ongoing	Behavioural change
	Malaysia/ Australia	Sale of asset – conflict of interests	complete	Behavioural change
Oil and gas				
	Canada	Managing inherited environmental liabilities in Albania	Ongoing	Research
	PNG	Community relations	Ongoing	Stronger rel. With Exxon
	Australia/ PNG	Engagement local stakeholders/sustainability	Ongoing	Process
	Australia	Coal seam gas project – effects on the water table	Ongoing	Research Process

Sector	Country	Engagement Issue	Complete/ ongoing	Behavioural change/ research process
Packaging				
	Australia	Alternative packaging materials	Complete	Research process
Pharmaceutical				
	Australia	Corporate Governance and Board	Ongoing	Process
	USA	Emerging markets growth	Ongoing	Behavioural change
	Brazil	Use of cash and incentive structures	Complete	Research process
	India	Disclosure on human capital, environmental operational performance and risk exposure	Complete	Behavioural change
Property				
	Singapore	Discussion with management about Singapore Government incentives offered for green building developments	Complete	behavioural
	Australia	Continued discussion on management of listed REITs and related party transactions	Ongoing	Behavioural
	Hong Kong	Site visit to see recently upgraded green building features	Complete	Research process
	Australia	Corporate governance issues within the listed REITs	Ongoing	Behavioural change
Retail				
	Australia	Staff engagement – flood response	Complete	Process
	Australia	Second Strike pay discussions – low hurdle	Ongoing	Behavioural change
Technology				
	USA	Management compensation & retention	Complete	Research process
Transport				
	Australia	Governance – senior management remuneration	On-going	Research process
Utilities				
	US	Environmental – nuclear strategy	On-going	Research process
	Australia	Carbon Disclosure Project and governance	Complete	Research process
Vehicle manufacturing				
	Germany	Relevance of electric vehicles to consumers lives and the engineering challenges they bring.	Complete	Behavioural change
	Germany	Electric vehicle propulsion systems and the Company's strategy for participating in the move to new energy sources.	Ongoing	Behavioural change

Abbreviations

CEO	Chief Executive Officer
CDP	Carbon Disclosure Project
CFO	Chief Financial Officer
CFSGAM	Colonial First State Global Asset Management
ESG	Environmental, social and governance
FSI	First State Investments
APGEM	Asia Pacific ex Japan and Global Emerging Market
LTI	Long term incentives
SHP	Shareholder proposals
STI	Short term incentives

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