



**Colonial First State Asset Management (Australia)
Limited
ACN 114 194 311**

**GUIDELINES AND PRINCIPLES FOR
CORPORATE GOVERNANCE**

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1. INTRODUCTION

Corporate governance is concerned with the way corporate entities are governed, as distinct from the way businesses within those companies are managed on a day to day basis.

Corporate governance addresses the issues facing boards of directors, such as:

- Strategy, financial policies, disclosure, legal issues and standards of corporate behaviour
- the interaction with top management,
- relationships with the shareholders and other stakeholders interested in the affairs of the company (such as fund managers, creditors, debt financiers, analysts, auditors and corporate regulators) and
- corporate performance.

Colonial First State Asset Management (Australia) Limited (“CFSAMA”) is in a position to influence the corporate governance of companies via discussions with management or the board of directors and through the exercising of proxy votes. The exercising of the voting rights must be in the best interests of our unitholders and clients.

CFSAMA follows the Investment and Financial Services Association (IFSA) guidelines on corporate governance (see Appendix A). The guidelines cover four key areas: communication, voting, proxy voting policy & procedures and reporting to clients.

2. COMMUNICATION

As a major investor, CFSAMA believes in having direct contact with the management and / or directors of companies. This contact might include constructive communication about performance, corporate governance or other matters affecting stakeholder interests.

As a shareholder, CFSAMA is entitled to receive reports and accounts and other explanatory circulars from companies which are required by law or regulatory authorities. We also have the right to attend company meetings and raise questions about the affairs of the company. While these formal bases for communication are necessary, they may not be sufficient to allow companies and shareholders to gain full understanding of each others’ aims and requirements.

Direct dialogue will give CFSAMA a better appreciation of a company’s objectives, its potential problems and the quality of its management, while making the company aware of our expectations and requirements as a shareholder.

As the intent of this dialogue is not to make CFSAMA an insider in view of the insider trading provisions of the Corporations Act care must be taken when communicating directly with the board of directors and management of companies. CFSAMA has an Insider Trading Policy in place which outlines protocols should inside information come into our possession.

3. VOTING

CFSAMA will vote on **all** issues at company meetings where it has the authority to do so. Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, shareholders’ ability to influence management depends on shareholders’ willingness to exercise those rights.

CFSAMA generally supports boards by positive use of its voting power unless there is good reason for doing otherwise. Where a board has received steady support over a period of time, it should become a matter of concern for that board if support is not forthcoming on a

particular matter. When CFSAMA intends to vote against a proposal, we may choose to make representations to a company prior to the vote so that appropriate consultation may take place with a view to achieving a satisfactory solution.

Where a satisfactory outcome cannot be achieved on an important issue, it may be desirable for the relevant fund manager or delegate to attend the relevant meeting of the company and to explain why the proposal is being opposed. In such cases a poll may be requested to ensure that the vote is duly recorded.

All votes must be made in the best interest of the unitholders and clients. It is acknowledged that our goal is to apply our corporate governance guidelines and principles in a consistent manner. However, on rare occasions CFSAMA may deem it in the best interests of unitholders and clients to exercise its proxy vote in a manner that is not consistent on certain occasions, as a degree of subjectivity may be required. For example, it may be acceptable for a non-executive director to hold six Board positions and provide a meaningful contribution, while for another director six Board positions may be too demanding and result in a less meaningful contribution. Following are examples of voting issues and our current position:-

- **Directors / Non-Executive Directors** – we consider independence of a non-executive director to mean that they have not been former executives of the relevant company for a minimum of 5 years.
- **Audit & remuneration committees** – membership of the audit committee should be non-executive. Members of both committees should be listed in annual reports and identified on the notice of re-election of directors. It is preferred that only non executive directors sit as members of the remuneration committee.
- **New directors** - there should be a formal and transparent procedure for the appointment of new directors to a board. The Chairman and a majority of the members of the Nomination Committee should be non-executive directors.
- **Number of board appointments** – non-executive directors must balance their number of board appointments with their personal ability to provide a meaningful contribution to each board. Similarly, executive directors who have outside directorships need to ensure that their contribution to their current employer is not diminished.
- **Removal of directors** – we will not support changes to company constitutions that weaken the position of non-executive directors on the board.
- **Retirement by rotation** – with the exception of the Chief Executive, we expect all directors to seek re-election, with one third seeking election each year. For directors over the age of 72, and provided that the constitution of the company permits re-election, the usual assessment criteria for selecting directors will apply.
- **Division of roles** – in most cases the role of Chairman and Chief Executive should be split. We consider that board changes involving the Chief Executive becoming Chairman or executive directors becoming non-executive is acceptable only if there is a clear majority of independent directors.
- **Hostile takeovers** – CFSAMA will meet both parties at least once before making a decision. Any decision made will be in the best interests of unit / share holders.
- **Political donations** – CFSAMA supports the notion that companies should seek a mandate from shareholders before making political donations. Such mandates should last for no longer than three years. Justification of political donations should be provided at the annual general meeting or in the annual report.
- **Remuneration** – we support the principle that there should be full disclosure of directors' total remuneration packages, including share options, fringe benefits and

retirement benefits. We expect appropriate justification for levels of remuneration from the Chairman of the Remuneration Committee.

- **Termination payments** – we believe that payments on termination of executive directors' contracts should not be excessive. In the case of poor performance a statement of justification should be given. We may write to the Chairman of the Remuneration Committee to ask for details of compensation payments to departing executive directors, if they are not published. Disclosure of any contingent liabilities should be made.
- **Long term incentive schemes** – we support the introduction of share-based incentive schemes as a means of aligning the longer-term interests of management and shareholders. These schemes should be subject to shareholder approval and have reasonably demanding performance targets. We prefer that no awards vest at, or below, median performance with an appropriate comparator universe.
- **Options for non-executive directors** – we are of the view that these should not be granted. We support the notion that non-executive directors can be paid in the stock of the company.

4. PROXY VOTING POLICY AND PROCEDURES

CFSAMA is advised of corporate actions such as proxy voting by its custodian. The Head of each asset class or their authorised signatory is responsible for ensuring that **all** company resolutions are reviewed and an appropriate and consistent recommendation is made in line with the corporate governance guidelines and principles as outlined in this document. Each resolution is to be stated and the voting intention with supporting views is to be confirmed in writing by the Head of the asset class or their authorised signatory. In cases where the resolution may be contentious in nature, a more detailed explanation as to the reasons for the voting intention is to be outlined. Examples of contentious issues are executive remuneration packages or the appointment of non-independent directors.

Once the proxy voting intentions have been confirmed by the Head of asset class or their authorised signatory, they must communicate the decision to the Investment Management Support unit in an agreed format by the pre-advised cut-off. The Investment Management Support unit has sole responsibility for instructing the relevant custodian of the proxy voting instruction, and whether there is any necessity for a member of the Investment team to attend the meeting and vote the shares or call a poll in person. The Investment Management Support unit will maintain records of all proxy voting decisions in a format which will allow the dissemination of this data to the relevant clients.

CFSAMA will only vote in the best interests of its unitholders and clients. It is CFSAMA's duty to put any other unit / share holder relationship or interest to one side when deciding how to vote on behalf of unitholders and clients.

5. REPORTING TO CLIENTS

Wherever a discrete mandate client delegates responsibility for exercising proxy votes, CFSAMA will report back to the client how votes were cast on their behalf, if requested by the client.

The authority and responsibility for exercising proxy votes will be defined within the investment management agreement executed between CFSAMA and each discrete mandate client. However, CFSAMA may still receive proxy voting instructions from each discrete mandate client on a case by case basis or alternatively the discrete mandate client may instruct their custodian directly. The frequency and content of any reporting to a client is provided for in the Investment Management Agreement.

Where the client's discrete portfolio contains Commonwealth Bank of Australia (CBA) shares, it will be explained to the client that CFSAMA is unable to vote these shares due to the nature of the ASIC exemption allowing us to purchase CBA shares for our funds. The Investment Management Support unit will provide details of the resolutions to be voted on at the meeting to the Investments team for their information only. The Investment Management Support unit will also provide details of the agenda to the Distribution team who will ensure that any clients holding CBA shares are provided with a copy of the agenda and advised of the deadline for advising the voting instruction to apply to their holdings. The Distribution team will pass these voting instructions back to the Investment Management Support unit who will be responsible for ensuring that the relevant custodians are provided with instructions on how to exercise the proxies.

6. EXTERNAL MANAGERS

In relation to all securities in the investment mandates, the External Manager is free to exercise or refrain from exercising any voting rights (or direct the Custodian to do so) as it sees fit.

For the avoidance of doubt, CFSAMA is not permitted to issue any Instruction in respect of, or which in any way influences, the voting powers of the External Manager and the External Manager is entitled to ignore any such Instruction.

APPENDIX A

A summary of the Investment & Financial Services Association (IFSA) Guidelines

IFSA Guideline

- **Guideline 1: Communication**
Investment Managers should encourage direct contact with companies including constructive communication with both senior management and board members about performance, corporate governance and other matters affecting shareholder interests.
- **Guideline 2: Voting**
Investment Managers should vote on all material issues at all Australian company meetings where they have voting authority and responsibility to do so.
- **Guideline 3: Proxy Voting Policy and Procedures**
Investment Managers should have a written policy on the exercising of proxy votes that is approved by their board and formal internal procedures to ensure that policy is applied consistently.
- **Guideline 4: Reporting to Clients**
Wherever a client delegates responsibility for exercising proxy votes, the Investment Manager should report back to the client when votes are cast (including abstentions) on investment owned by the client. Reporting on voting should be part of the regular reporting process to each client. The Manager should report back to clients whether or not the votes are cast. The report should include a positive statement that the Investment Manager has complied with its obligation to exercise voting rights in the client's interests only. If an Investment Manager is unable to make the statement without qualification, the report should include an explanation.