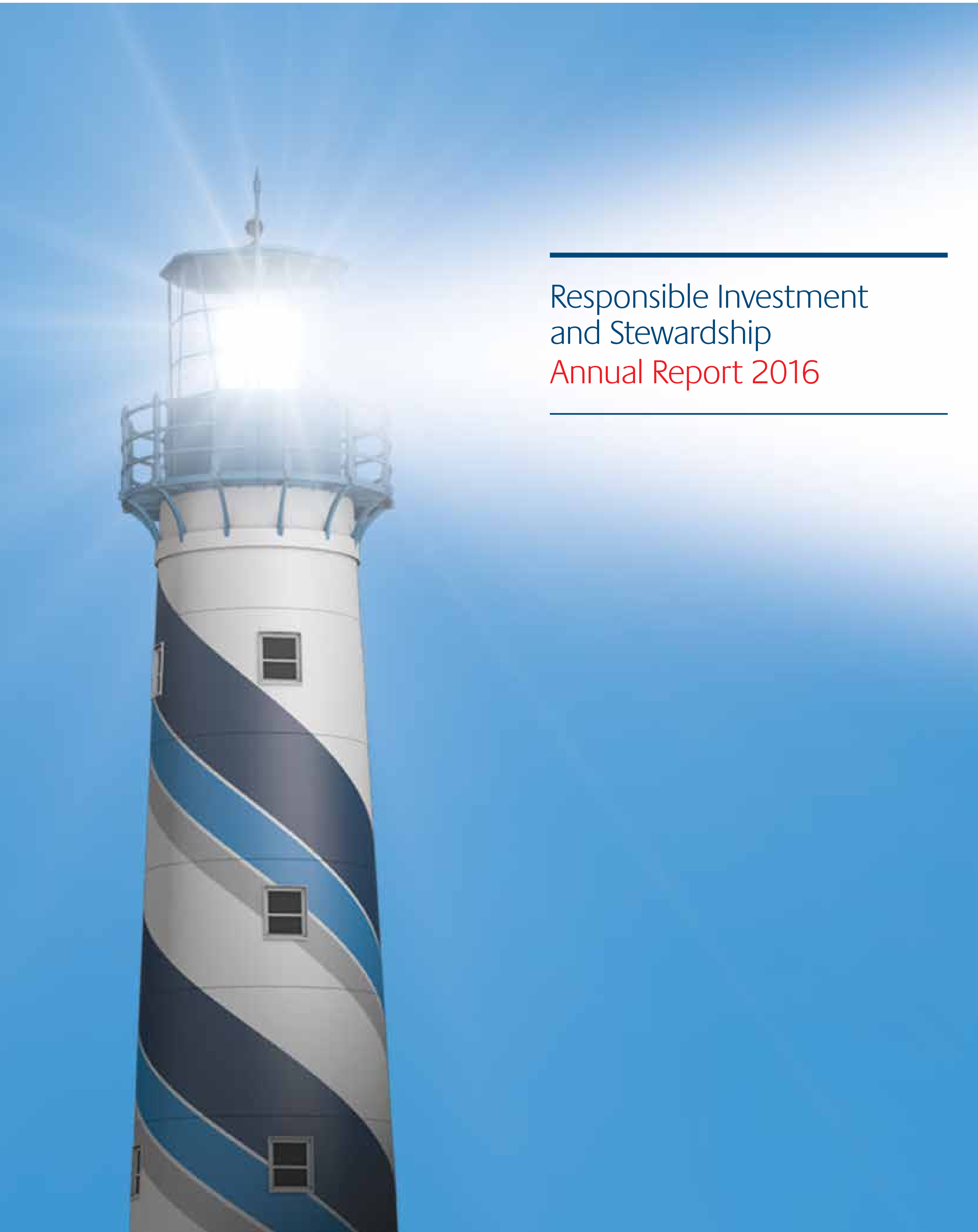
For professional/institutional clients only

First State Investments

Colonial First State
Global Asset Management



Responsible Investment and Stewardship
Annual Report 2016

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

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Foreword

"We have taken the step to integrate ESG data into our Enterprise Data Warehouse system. This means we will soon be able to easily analyse and report on the ESG ratings across our portfolios..."

"We are also pleased to report that despite a significant gender pay gap across many industries, our analysis shows that gender pay equality exists in our organisation..."

Across our global business we regularly engage with our diverse client base and industry peers.

These conversations demonstrate to us that the focus and importance placed on responsible investment (RI) and sustainability continues to grow. We have strived to be at the forefront of RI practices for many years now, and the momentum that responsible investment has built within the global investment community is very pleasing to see.

In previous reports, we have reported against our three year RI strategy and the progress that has been made as part of this initiative. While 2016 will mark the end of this three year journey, our work is by no means done. We are pleased to outline our strategy for continued improvement and growth in this report and welcome your feedback on it. 2016 marks the next chapter in our journey as we aim to consolidate and extend our position as a global leader in RI and stewardship.

Our RI governance structure has also been revamped to include a new Global RI Steering Committee which I chair, a new Environmental, Social and Governance (ESG) Risk Forum, and a more targeted mandate being provided to our ESG Committee.

We have also included ESG reporting within our Global Investment Assurance function and Global Investment Committee (GIC) to ensure we have higher quality reporting and oversight of ESG information at the highest levels of our organisation.

Consideration of ESG factors has been embedded within our investment decision-making processes for over a decade and we continue to evolve and progress in this area. Over the past few years, we have focused on enhancing our integration of third party ESG data into our front office investment systems, including Bloomberg and FactSet for use by investment analysts across the organisation. We have also developed additional tools for analysts, such as ESG Dashboards, which consolidate information from multiple sources.

We have taken the step to integrate ESG data into our Enterprise Data Warehouse system. This means we will soon be able to easily analyse and report on the ESG ratings across our portfolios, which will help with our ambition to more effectively include ESG factors in our investment governance processes and, ultimately, in our client reporting. This level of ESG integration is a significant step forward for us and is described on pages 6 and 7.

In last year's report, we highlighted the gender split within our global investment teams. While we still have much further to go to achieve our goals in this area, some of the new initiatives we are working on to close this gap include improved support for parents and a focused approach to our recruitment and development processes. We are also pleased to report that despite a significant gender pay gap across many industries, our analysis shows that gender pay equality exists in our organisation for people with similar experience and roles. More information on our approach to diversity can be found on page 10.

Looking externally, the Paris Climate Change negotiations (COP21), held in late 2015, helped bring the important topic of climate change into the mainstream. During 2015, we conducted research in Australia which highlighted that superannuation members are increasingly concerned about the investment risks associated with climate change. Our research further underlined the importance of explaining how we manage these risks on behalf of our clients. We also released two papers focusing on the outcomes of COP21 as well as outlining some of the implications of climate change from an investor's perspective.

The risk of stranded assets continues to be a developing topic as global governments mandate a reduction in fossil fuel energy production to meet emission targets. In order to improve transparency around this issue, we have provided climate risk statements from a number of our investment teams and their fossil fuel exposures. This disclosure aims to provide additional transparency with regard to how our investment teams are managing climate change-related risks.

In 2015, we were also actively involved in a number of thought leadership activities. In particular, we have been collaborating with the Cambridge Institute for Sustainability Leadership's Investment Leaders Group; exploring the topic of long-term investment.

We were fortunate enough to host HRH The Prince of Wales in Sydney in late 2015 to discuss this topic at a roundtable meeting with some of the largest asset owners in Australia.

While we remain focused on the long term, we cannot ignore that investment markets opened 2016 with significant volatility and concerns around the health of the global economy becoming more widespread. We believe that it is in conditions such as these, where the benefits of our approach to RI are most apparent. It is pleasing to note that our investment teams have continued to deliver solid investment performance for our clients during the turbulent market conditions, with 84% of all our investment funds outperforming their respective benchmarks over a rolling three year period to February 2016. We feel confident that our long-term approach to RI and stewardship has been a critical component of the value that we are able to add for our clients, and will remain so in the future.

Mark Lazberger
Chief Executive Officer

"We feel confident that our long-term approach to RI and stewardship has been a critical component of the value that we are able to add for our clients, and will remain so in the future."

Our Organisation

First State Investments (known as Colonial First State Global Asset Management in Australia) is the consolidated asset management division of the Commonwealth Bank of Australia. We are a global asset management business with experience across a range of asset classes and specialist investment sectors.

	Assets under stewardship	Total staff	Investment staff
UK, Europe and Middle East	US$42.8 billion	324	61
Asia (includes Japan)	US$15.1 billion	184	36
Australia and New Zealand	US$80.0 billion*	292	105
North America	US$4.2 billion^	28	11
Total	**US$142.1 billion**	**828**	**213**

* Assets under stewardship indicated above includes Realindex Investment which is a wholly owned investment management subsidiary of the Colonial First State group of companies.

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

Source: First State Investments as at 31 December 2015.

About us

We are stewards of over US$142.1 billion* (as at 31 December 2015) on behalf of institutional investors, pension funds, wholesale distributors and platforms, financial planners and their clients worldwide.

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

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

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

Assets under stewardship for each investment team are:

AS AT 31 DECEMBER 2015	US$ billion
Stewart Investors#	30.4
First State Stewart Asia#	21.8
Australian Equities	17.5
Global Listed Infrastructure	4.7
Global Resources and Agribusiness	1.3
Global Property Securities	2.3
Indonesian Equities	0.4
Realindex Investments (Global equities and Australian equities)*	7.4
Total Equities	**85.8**
Short-Term Investments (Cash)	32.8
Australian Fixed Income and Global Credit	15.3
Asian Fixed Income	2.1
US Fixed Income	0.1
Emerging Markets Debt	1.6
Total Fixed Income	**51.9**
Unlisted Infrastructure	4.3
Total Alternatives	**4.3**
Multi-Asset**	6.7
Total Multi-Asset Solutions	**6.7**
Interfund Holdings***	(6.6)
Total assets under stewardship	**142.1**

Effective from 1 July 2015 the First State Stewart team split to form two new teams: one primarily based in Edinburgh (Stewart Investors) and the other primarily based in Hong Kong (First State Stewart Asia). There is no change to either team's investment philosophy or primary portfolio management responsibilities. Stewart Investors is a team within First State Investments which manages a range of Asia Pacific (ex Japan), Global Emerging Markets, Worldwide and Sustainable Development equity funds. First State Stewart Asia is a team within First State Investments which manages a range of Asia Pacific equity funds.

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

** In addition to investment management service, Multi-Asset Solutions also provides investment advisory services over a further US$6.0 billion in assets.

*** Multi-Asset Solutions assets under management invested in underlying investment capabilities included above.

Source: Commonwealth Bank of Australia financials as at 31 December 2015.

Our Approach to Responsible Investment and Stewardship

Our approach to RI and stewardship

We believe that a stewardship mindset is an essential component of a strong approach to responsible investment and that embedding RI practices into the core of our investment activities is in the best long-term interests of our clients. For more than a decade we have systematically and progressively improved RI practices across our investment teams globally.

Our strategy

Our RI strategy is based upon three strategic pillars; Quality, Stewardship and Engagement. This strategy is underpinned by a strong governance framework and is supported by our specialist RI team.

The team engages the entire business to deliver the strategy which is overseen by the Responsible Investment Steering Group, chaired by the CEO and comprised of executive committee members, whose role it is to monitor, direct and champion RI practices across the organisation.

Our Global Stewardship Principles fulfil the requirements of the UK Stewardship Code and other stewardship codes around the world. The principles are underpinned by policies and processes which are overseen by the RI Steering Group. These policies include our policy on cluster munitions and anti-personnel mines, engagement policy and RI policy, all of which are available on our website.

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

Our diverse investment capabilities

We employ 15 investment teams across a range of asset classes who are specialists in their respective fields and who set their own investment philosophies and processes. Our commitment to RI and stewardship is a common thread which runs through these diverse investment capabilities.

In particular, all teams believe that ESG issues impact investment value and that as a large institutional investor we can achieve better long-term investment outcomes through active engagement with companies and by exercising the ownership rights we hold on behalf of our clients.

Each investment team's approach to incorporating these factors into their investment process has evolved over time.

We believe the diverse approaches of our individual investment teams are a key strength of our collective business as they allow us to share ideas, develop our knowledge and learn from each other's mistakes and successes. The governance of RI and the systems for cross-collaboration are critical in this regard.

What you can expect when you invest with one of our teams

While we are proud of our diverse investment capabilities, the following provides an overarching view of some of the universal expectations for all investment teams.

ESG integration

Each team has a process for identifying and assessing the relevance and materiality of ESG issues for their respective asset classes. For all active equity teams, company engagement is a key source of insights on these risks and opportunities.

These insights, coupled with the best available third party ESG research, are assessed by the relevant company analyst and incorporated into stock notes or reviews. Some teams assign specific ESG scores, while others incorporate the assessment into broader views of company management and business quality. All active equity teams hold regular team meetings to discuss company assessments, including ESG factors.

Our fixed income teams have an assessment process which flows into their view of a particular security, whether through the six-factor model used by the Emerging Markets Debt team or the ESG score and internal credit rating used by the other Fixed Income and Credit teams.

For all teams, responsibility and accountability for analysis and integration of ESG factors, investee company engagement and proxy voting rests with each investment professional and the head of the team.

Integration and engagement are mutually reinforcing; company analysis drives engagement and engagement outcomes influence the analysis. This is why we have chosen not to separate proxy voting, engagement or ESG research into specialised functions.

For our Unlisted Infrastructure team, a more bespoke approach is possible and necessary. The team has developed separate and detailed RI policies and assessment frameworks while still adhering to the organisation-wide approach.

Company engagement

Engagement with company management is a fundamental part of our equity teams' investment processes. Through company engagement, we seek to highlight areas for potential improvement and risk reduction, encourage improved disclosure on ESG issues, and commend companies which are making progress in this area. We have guidelines and principles for corporate engagement, which are available on our website.

Engagement is more difficult for fixed income investors. We have, however, effectively engaged with counterparties, semi-government and supranational issuers and continue to increase our focus on effectively engaging bond issuers.

We also engage with credit rating agencies and collaborate with other fixed income investors to improve ESG integration practices across the industry. This is an area where we intend to focus more attention and resources.

For Unlisted Infrastructure, our seats on company boards allow greater direct oversight and influence.

Given the varying nature of the asset classes we manage, the geographies in which they operate and the size of our holdings, each of our investment teams' engagement approaches are tailored to individual companies and the specific issues in question. In all cases there is a focus on material ESG issues which could impact on investment value over all periods, but particularly over the long term.

On occasions where our engagement activities with company management are unsuccessful, we may escalate the issue. This can include, for example, writing to or meeting with the chairperson or lead independent director, voting against directors who we believe are not providing appropriate oversight, or collaborating on further engagement with other like-minded investors. Ultimately, we may choose to sell down holdings in companies where we lose confidence in management following unsuccessful attempts to engage.

Proxy voting

Proxy voting rights are an important asset for listed equity investors and exercising these rights is a core part of our stewardship responsibilities. We seek to vote on all possible resolutions at company meetings. Prior to voting, the relevant investment manager and analyst carefully consider each resolution, with guidance provided by our 'Guidelines and principles for corporate engagement on governance, environment and social issues'.

Recommendations from a selection of independent corporate governance research providers are also sought. Our investment teams retain full control over their proxy voting decisions, however, and do not necessarily follow the guidance provided by third party governance research providers.

We disclose our full proxy voting record and statistics on the independence of our team's voting in the online version of this report.

All teams have an approval and escalation process for proxy votes and maintain records when they vote against management or against the recommendations of the proxy voting adviser.

Investment teams are responsible for their own voting and, from time to time, different teams may vote in different ways on the same issue. To manage this, whilst maintaining team independence, we are developing forums where teams which are voting on the same company can discuss the key issues (while always complying with regulatory requirements related to collusion or takeover provisions).

Teams not covered in this report

Our Short-Term Investment (Cash) team is captured within the Australian Fixed Income and Global Credit profile as the relevant ESG analysis and engagement is shared between the teams.

Our Stewart Investors team has rebranded following the split of the First State Stewart team into two teams. Stewart Investors will provide information independent of this report on their website and directly to clients: www.stewartinvestors.com

Three Year Strategy Review

Three year strategy review

Our three year strategy concluded at the end of 2015. Overall, we believe that we have made good progress, but further improvements can be made. We see our work to improve our RI and stewardship practices as a journey of constant evolution and refinement.

Our main achievements over the three years have been:

Governance

- RI strategy developed and implemented;
- Global RI Committee and ESG Committee established;
- RI Marketing and Communications Group established;
- Development and rollout of the Global Stewardship Principles; and
- Adoption of the CFA Institute's Asset Manager Code of Professional Conduct.

ESG integration – investment teams

- Investment team benchmarking completed;
- New ESG research providers appointed and rolled out, including integration with investment systems like Bloomberg and Factset;
- ESG Dashboard developed for investment teams using Bloomberg;
- Stranded asset risk toolkit developed;
- First beta tests of ESG Portfolio Monitor developed; and
- Improved PRI Scores – top 10% all manager signatories.

Reporting and disclosure

- Comprehensive and enhanced RI reporting;
- Online, interactive report launched in 2015;
- ESG data included in Investment Risk reporting process; and
- European Diversified Infrastructure Fund ESG Report (2014, 2015).

Thought leadership

- Partnership with Cambridge Investment Leaders Group formed;
- Australian Investment Leaders Roundtable November 2015;
- Members of Willis Towers Watson Thinking Ahead Institute; and
- Significant commitments to industry collaborations including key governance roles in Australian and pan European industry bodies.

Culture and employee engagement

- 70% of staff completed an internal RI specific survey;
- Clear message to enhance our RI agenda from staff;
- Quarterly RI update launched; and
- Diversity disclosure and programs developed.

Our new RI strategy and focus areas for 2016

Our new three year RI strategy was approved by our Executive Committee in February 2016.

The new strategy has the following objective:

"To consolidate and extend our position as a global leader in RI and stewardship."

The three strategic pillars and strong governance framework remain, with new objectives centred on strengthening the following areas.

Our strategic goals over the next three year period include:

- ESG portfolio monitoring systems and processes implemented and integrated with investment governance processes, in particular the GIC.
- Development of engagement priorities and execution plans with investment teams.
- Implement systems and processes to better capture engagement activity and outcomes.
- Establish platforms for greater collaboration on proxy voting and engagement across teams.
- Integrate data on carbon sensitivity of portfolios and risks of asset stranding into GIC processes.
- Implement a 'controversial investments' monitoring process.
- Develop and implement an ESG impact monitoring and reporting system.
- Add ESG data to Global Fixed Income and Credit investment system 'ION'.
- Improve PRI scores for all categories.

Focus areas in our new three year strategy

2015 in Review – Progress Against Our Strategic Goals

Our specific focus for 2016 is to embed the governance changes which will support these improvements. The changes to the governance structure have been designed to ensure that we:

- Continue to advance the integration of ESG factors by our investment teams.
- Implement processes to deal with specific controversial investments where there may be differing views between teams and/or we may have policy gaps.
- Develop a more consistent and stronger RI narrative within the business and with our clients and prospects.
- Engage a wider spectrum of colleagues in our RI agenda – over 40 will be actively involved across the business.

The main changes are:

- Our Global RI Committee is being dissolved and will be replaced by a new, smaller and more focused RI Steering Group comprising solely Executive Committee members.
- A new ESG Risk Forum is being introduced to monitor investments exposed to ESG-related controversies.
- Two new working groups to be formalised: 'Business Development and Client Support' and 'Human Resources/Staff Engagement'.
- The ESG Committee is being restructured to focus on key environmental, social and governance issues in greater depth. Sub-groups are being established, which in 2016 will consider executive remuneration, climate change and human rights issues with a view to developing guidance that can be used by all investment teams.

2015 in Review – progress against our strategic goals.

Below is a description of our progress during the 2015 calendar year against our strategic goals of quality, engagement and stewardship.

Quality investment processes

Information management plan

Over the course of 2015, we completed key components of our ESG Information Management Plan. As reported in previous years, we have been working on integrating our external ESG research providers, ratings and research with investment and other systems. During the course of 2015:

- We finalised the integration of Sustainalytics and MSCI Governance Ratings into Factset, a data aggregation and investment analysis system used by a number of our investment teams.
- We have developed early versions of an ESG dashboard report similar to what we have already completed in Bloomberg. By incorporating these ratings into Factset, every investment professional across the organisation has access to ratings without needing to log in to external systems.
- The Excel ESG Dashboard we reported on last year, which draws on Sustainalytics, MSCI Governance Ratings and Bloomberg ESG data, is now being used by the Global Resources and US Fixed Income Investment teams for stock notes. Rollout to other teams will continue during 2016.
- In addition to ESG ratings, recommendations and special reports from our Australian Proxy Advisor, Ownership Matters, are flowing through Factset, which provides our Australian Equities teams access to a history of reports for ASX-listed companies.

We finalised the integration of Sustainalytics and MSCI Governance Ratings into our data warehouse 'Eagle'. This is a significant step, allowing us to perform portfolio level analytics for our listed equity portfolios. This will be used to provide reporting to investment team heads, and the Global Investment Committee (GIC) and ESG risk forum. In the future it will also allow us to enhance client reporting.

Introduction of CGI Glass Lewis platform into Indonesia

In May 2015, we implemented the CGI Glass Lewis platform for our Indonesian Equities team. Market practices and corporate governance are still developing in Indonesia; accordingly, we believe it is critical that investors use their voice by voting in all company meetings and encouraging market reform. The new voting platform will help close the loop on our engagement with companies. Our long-term support of the Asian Corporate Governance Association is a key factor in encouraging improved market practices and regulation.

New investment teams and investment team changes

During 2015, a number of changes to our investment capabilities influenced our RI work.

During the year, our US-based Global Unconstrained Fixed Income team received regulatory approval to begin investing. The team has adopted various aspects of the strong ESG integration approach used by our global and Asian fixed income teams. In addition, the team's proprietary investment opinions database was rolled out across the broader Global Fixed Income team, enhancing the collaboration between the group and capturing ESG information and views for all of our bond investments.

The team provides a Q&A in this year's RI report to introduce its investment philosophy and approach to RI. From next year, its activities will be covered in the report in full.

Realindex and Multi-Asset Solutions teams' inclusion in the RI Report

This is the first year where our Realindex and Multi-Asset Solutions teams are profiled in the RI Report.

First State Stewart

On 1 July 2015 the First State Stewart team split into two new teams:
one primarily based in Edinburgh (Stewart Investors) and the other primarily based in Hong Kong (First State Stewart Asia). The split will allow the two successor teams to develop as smaller, dynamic investment groups, recognising that this has been critical to their success over the last 20 years. There is no change to either team's investment philosophy.

Stewart Investors has, in effect, become an investment division in its own right. Both teams remain part of First State Investments, reporting to the Chief Executive Officer.

Although Stewart Investors' more autonomous model means that they will no longer be covered in this report, clients and other interested parties can access information on their investment philosophy on their website www.stewartinvestors.com

First State Stewart Asia will continue to be covered by this report and the team has its first independent profile in this year's report.

Engaged people

Diversity

Last year we reported the gender diversity of our investment professionals for the first time. A lack of diversity in all its forms, and most visibly gender diversity, has been a high profile governance concern for companies for a number of years. It is appropriate that investors who are calling for more diverse boards and management should also be transparent about the diversity in their own organisations.

It stands to reason that if greater diversity in the companies we invest in will produce better corporate decision making and long-term outcomes for investors, the same must be true of diversity amongst teams of investment professionals.

The percentage of women in our investment teams remains steady at 21% from last year's report to now, which falls short of where we would like to be. We are committed to closing this gap and are implementing a new program of initiatives to focus on this.

We believe this program will, over time, enable us to attract the best people to ensure we have diversity of thought, which we see as an important success criteria for any high quality investment management firm.

Diversity Initiatives

Objective: To increase diversity of thought

Initial focus on improving the gender balance

- Attracting talented women with focused recruitment
- Retaining engaged team members on the parental leave journey
- Developing valued women

Enabling different ways of working for everyone

Leadership and Culture

We also want everyone to feel that they can be authentic and perform to their full potential in an inclusive working environment. The program includes a focus on enabling different ways of working, support for new parents, focused development for women and the establishment of a Global Diversity Committee to review our progress in this space.

Our gender diversity scorecard

Our base line scorecard for gender diversity is summarised below. We will be reporting against these figures in future years:

- 21% of our investment professionals are women.
- 25% of new hires to investment teams in 2015 were women.

Stewardship

Investment Leaders Group – Long-Term Mandates Working Group

During 2015, we continued our active investment in the Cambridge University Investment Leaders Group's (ILG). In addition, we led the Long-Term Mandates workstream. The mission of the ILG is "to shift the investment chain towards responsible, long-term value creation, such that economic, social and environmental sustainability are delivered as an outcome of the investment management process alongside robust, long-term investment returns".

The group has been working towards the development of a toolkit for asset owners who wish to design investment strategies that will make a contribution to this objective, or to assess the extent to which existing strategies contribute to it.

The Working Group will be releasing the toolkit in May along with papers for the ILG's other workstreams.

Investment Leaders Group – Australian Leaders Roundtable

In November 2015, we facilitated an Australian Investment Leaders roundtable in collaboration with the ILG. The event was hosted by HRH The Prince of Wales at Admiralty House in Sydney. The event brought together trustees and senior executives from some of Australia's largest asset owners, with an objective of discussing the challenges for implementing RI best practice within the Australian financial system. We look forward to making more announcements regarding this initiative in 2016.

Collaborative engagement

During 2015, our main collaborative engagement focused on the Australian market, where we supported the US-based Teachers Insurance and Annuity Association (TIAA) and Australian Council of Superannuation Investors (ACSI)-led engagement with 38 Australian companies to adopt poll voting, where the 'one-share one-vote' principle applies. In addition to joining the letter campaign, we have raised the issue in company meetings.

Almost two-thirds of companies improved practices in their 2015 shareholder meetings compared to 2014, with most moving to poll voting for all resolutions. We continue to assess collaborative engagement opportunities when they are of interest to our clients and when we can add value.

Investor Group on Climate Change – Disclosure Working Group

We have been following the developments in increasing levels of climate change disclosure, including changes to French law and other investor led initiatives. However, we have concerns with the way this disclosure has been provided by some investors, in particular where 'carbon footprints' have been provided without contextual information on how footprinting influences investment decision making, or around limitations with the underlying data for the footprints themselves.

For this reason, we have agreed to lead a new working group through the Australian Investor Group on Climate Change with the objective of developing best practice guidance for investor disclosures on climate change related risk. For more on our thoughts on climate change disclosure and carbon footprinting please see page 41.

Reporting improvements – climate change

Following last year's report, where we disclosed sector and country-based ESG risk exposures for some teams, this year we are disclosing our fossil fuel exposures. Each team has also made a statement regarding its approach to managing climate change-related risks.

External benchmarking

Our approach to RI and stewardship has always been client-focused and investment-driven. We also benchmark our progress against various standards and look to those standards which can help us identify areas where we can improve our practices. These standards also allow us to be more transparent about our progress.

For this reason we are pleased to be able to include for the first time our Principles for Responsible Investment (PRI) assessment results.

Every PRI signatory reports to the PRI annually on their progress. In 2013, the PRI launched a new assessment framework and in 2015 we received the first assessment report following the pilot, the results of which are shown in the table. The full report can be downloaded on our website ri.firststateinvestments.com.

We are encouraged that our results have improved from the pilot year and we will work to further improve these results where possible.

Responsible Investment Association of Australasia (RIAA) benchmark report assessment

In 2015, in a first of its kind, RIAA[1] assessed the RI practices of 76 Australian asset managers in its annual benchmark report. The assessment rated investment managers across the following areas:

- Publicly stated commitment to RI;
- RI policy;
- Commitment to transparency of processes and approach;
- Systematic process for ESG integration and evidence of how this process is applied within traditional financial analysis;
- Evidence of activity in other areas of 'Active Ownership and Stewardship' including voting and engagement;
- Membership of collaborative investor initiatives; and
- Coverage of total AUM by RI or ESG practices.

We were pleased to be among only 11 Australian fund managers who scored above 80% in the RIAA assessment.

Awards and other recognition

In 2015, we were pleased to win the ESG Strategy of the Year Award at the Financial News Awards for Excellence, Institutional Asset Management, for the second consecutive year.

In winning the award, the judges noted our decision to disclose the gender diversity of our investment professionals for the first time in our 2015 RI and Stewardship Report.

We were also the co-winner of the 'Best Application of ESG' award at the Asia Asset Management Best of the Best Awards 2015.

In addition, our 2015 RI and Stewardship Report was shortlisted in the top three entries in the 'External Publication' category of the Asia-Pacific Excellence Awards 2015. The awards attracted over 2,600 applications around the globe, so we were pleased that our report was recognised in the top three.

Formal recognition is not something we specifically seek or target; however, it provides an indication of the progress we have made and importantly highlights areas where we can improve.

PRI assessment ratings

Module	2014 level (pilot)	2015 level	Median manager
Overarching Approach	A	A	B
Listed Equity Incorporation	A	A+	A
Listed Equity Active Ownership	A	A	B
Fixed Income Corporate	A	A+	C
Fixed Income Government	B	B	E
Infrastructure	A	A	B

1 Our Head of Responsible Investment Asia Pacific is the current chair of RIAA. To avoid conflicts of interest the benchmark report is created without involvement from any of the RIAA board including the chair and is prepared in collaboration with and reviewed by Ernst and Young.

Investment Team Profiles

Introduction

This section contains profiles for each of our investment teams. More information is available in our online, interactive report including:

- The full proxy voting records for each team and relevant statistics;
- An ESG risk profile for the country and sectors the teams invest in;
- Areas where each team is looking to improve its approach in 2016;
- The largest active and total holdings for each of our equity teams;
- Additional case studies including video reports from some of our teams.

Our profiles include a number of financial and non-financial measures to more fully reflect the philosophy, processes, ESG risk profile and long-term performance of each team. To our knowledge, some of the indicators have not been used before. In addition, this year we have included a climate risk statement and the fossil fuel exposure for most teams for the first time. These statements and more information on our approach to improved climate change disclosure can be found on page 41 and in the online version of the report.

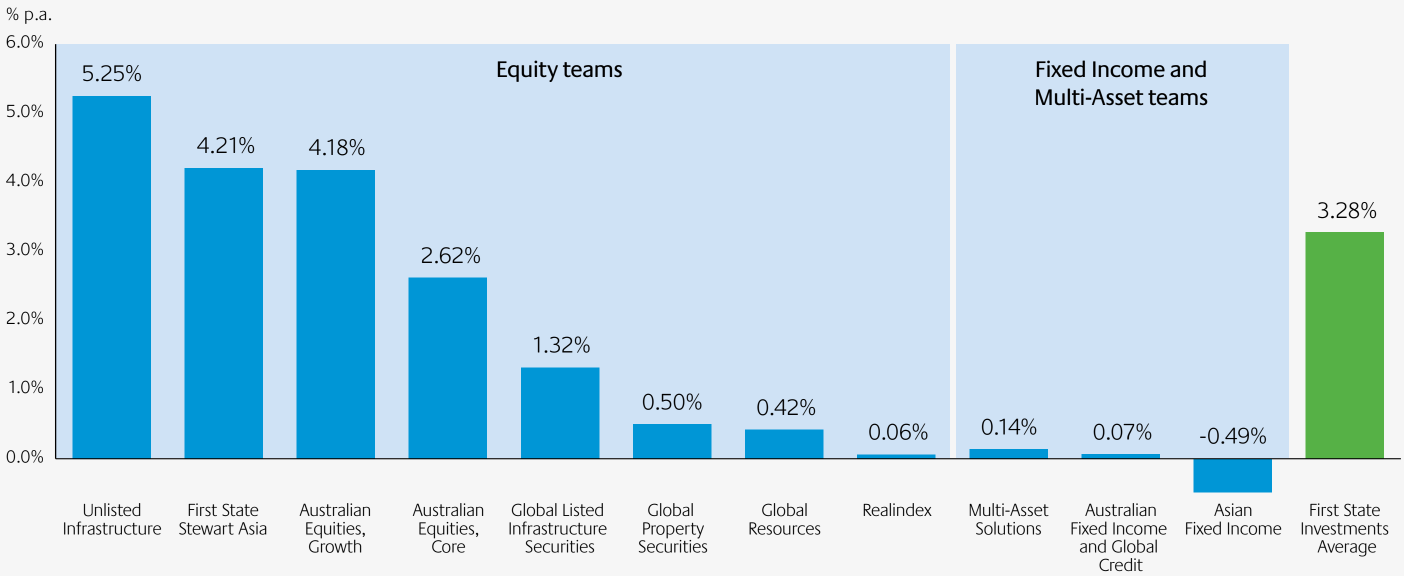
When considered together, we believe our reporting provides a full and objective view of the RI and stewardship performance of the teams and how it influences investment outcomes over time. However, there are inherit limitations with any metric and so we recommend reading the RI and stewardship measurement definitions section included in Appendix 3.

While there are many reasons to invest responsibly, we would not do it if we did not believe that it was in the long-term interests of our clients. The chart below shows the weighted average outperformance of our investment teams' portfolios over the last five years.

While isolating the contribution of each team's responsible investment and stewardship practices in these performance numbers is difficult, we hope that this report clearly demonstrates the value it has added.

The online report can be found at ri.firststateinvestments.com

Extent of outperformance by team (five years) – 31 December 2015^



^ Please refer to Appendix 3 for details of these performance statistics.

Unlisted Infrastructure

> Inception Date
1994

> Location
Sydney, Melbourne, London, Paris

> Strategies
Unlisted Infrastructure

Perry Clausen
Managing Partner, Infrastructure Investments

Niall Mills
RI Steering Group member

Volker Häussermann
ESG Committee member

Rowan Element
ESG Committee member

Investment philosophy and approach

We invest directly in infrastructure businesses with very long-life assets over a long-term investment horizon. In some instances, this is 20 years or more. Our portfolio companies offer essential or strategic infrastructure services to the communities they serve.

Our approach to investment is governed by four key factors:

1. Category of infrastructure: we select infrastructure businesses with assets that are vital to economic activity and development; such portfolio companies provide more stable and sustainable long-term returns.
2. Asset life-cycle: we invest predominantly in infrastructure businesses with brownfield assets that have a proven need and future usage expectations. We actively look for infrastructure businesses with high quality ESG performance in their core operations.
3. Geography: we invest in infrastructure businesses located in stable, developed economies which tend to offer more robust regulatory and institutional safeguards.
4. Market competition: our portfolio companies are by nature subject to little or, in some cases, no competition within their markets. We prioritise infrastructure businesses with excellent customer service and strong governance.

These infrastructure businesses require ongoing proactive management at board level. Our investment strategy is to typically manage a large enough interest, in many cases 100% ownership, to enable value-added contribution via board and board committee representation.

Through direct board-seat representation, the team provides strategic input on ESG issues, business strategy, operational and capital expenditure, capital structure and many other key drivers of value.

Stewardship and ESG integration

We believe that proactive ESG management improves long-term investment returns and that adopting a responsible investment policy across the business enables greater alignment with our clients' long-term interests, and the customers who rely upon the service being provided.

Businesses and organisations do not operate in a vacuum, and while ESG considerations apply to all, we think they are particularly relevant to infrastructure businesses due to:

- The long-term investment horizon.
- The need to deliver stable long-term risk-adjusted returns.
- The role infrastructure companies have in providing essential services to their communities.
- The significant positive impact that infrastructure businesses can have on environment and carbon reduction targets.

In addition, infrastructure businesses often operate as monopolies or quasi-monopolies and therefore good ESG practice is paramount to the long-term sustainability of the business.

Team profile

Our Unlisted Infrastructure investment team consists of 33 investment professionals with significant operational management, investment skills and experience within infrastructure businesses. Led by Perry Clausen, with 25 years of infrastructure investment experience, the team has people located in close proximity to the assets which span Europe and Australia.

The RI leads for the Infrastructure team are Volker Häussermann and Rowan Element. Volker has a strong operational background gained with over 15 years experience. Rowan has over 13 years experience in infrastructure finance and has worked closely on many of the team's projects in energy, social infrastructure, and transport.

Number in team	33
Average experience	15 years
Average years in team	7 years

Case Studies – Responsible Investment in Practice

HH Ferries

Company Industry: Transport

Country of domicile: Sweden

Issue description: Safety, Environment

In 2015, the European Diversified Infrastructure Fund (EDIF) acquired HH Ferries from Scandlines and Stena. As part of the transaction, HH Ferries also took over ownership and responsibility for the quay walls in Helsingor.

During the due diligence process, we discovered a potential risk of land subsidence within the marshalling area in the Helsingor port. Consequently, the quay walls securing the marshalling area were in need of significant repair work in order to maintain safe ferry operations into the future. The quays are also used by locals for fishing and other recreational purposes.

On our initiative, and immediately after acquiring the asset, HH Ferries started to develop a remediation program, making a significant investment into the upgrade of the berth. This work developed, using large natural boulders, provides not only improved safety around the marshalling area, but also improved wildlife conditions for fish and birds and a more visually pleasing view of the coastline (for the community). Furthermore, the chosen solution is sustainable and will significantly reduce the need for ongoing maintenance costs.

ESG implementation

High quality corporate governance and board reporting

We seek to ensure that management provides information to the board which enables the business to fully understand the approach the business is taking in managing potential risks and realising potential opportunities. Examples of the types of reporting include:

- Environmental and social risks impacting materially on corporate earnings, including contingent liabilities.
- Governance policies and procedures for assuring compliance with internal ESG policies, improving performance and mitigating risks across operations, the supply chain and products and services.
- Human capital processes, including training and development of new staff, equality analysis and focus, retention programs, workplace health and safety performance, staff turnover, succession planning and training and development programs.
- Performance reporting on measurable environmental factors, for example: carbon footprint, energy use; water usage; and greenhouse gas emissions.

Where we own less than 100% of an infrastructure business, we engage directly with our co-investment partners to ensure they understand and fully support the logic for our focus on ESG issues and we also seek to learn from their approach to this important area. We have found that our co-investment partners are very open to sharing best practice and that significant value can be generated for all parties.

Pre-investment

Prior to an investment being made in an infrastructure business, the team looks to evaluate all relevant ESG issues. No checklist can appropriately cover all possible issues, so evaluations are made on a case-by-case basis. Risk assessment tools as well as country-leading expert advisers are used to help in this analysis. These tools also provide opportunities for benchmarking against similar assets and enable us to identify the early priorities post-acquisition, ensuring that no time is lost when we acquire a new infrastructure business.

International standards for ESG management

We have seen an increasing focus by many regulators, who set the operating frameworks for our portfolio companies'. We target ISO certification or similar international accreditations and standards for all of our infrastructure businesses; safety and environmental management are always part of this.

A particular focus in the last 12 months has been on productivity, energy consumption and supply chain management. Several of our portfolio companies have delivered very significant savings in, for example minimising carbon, via reduced energy use and supply chain improvements.

Ongoing asset management

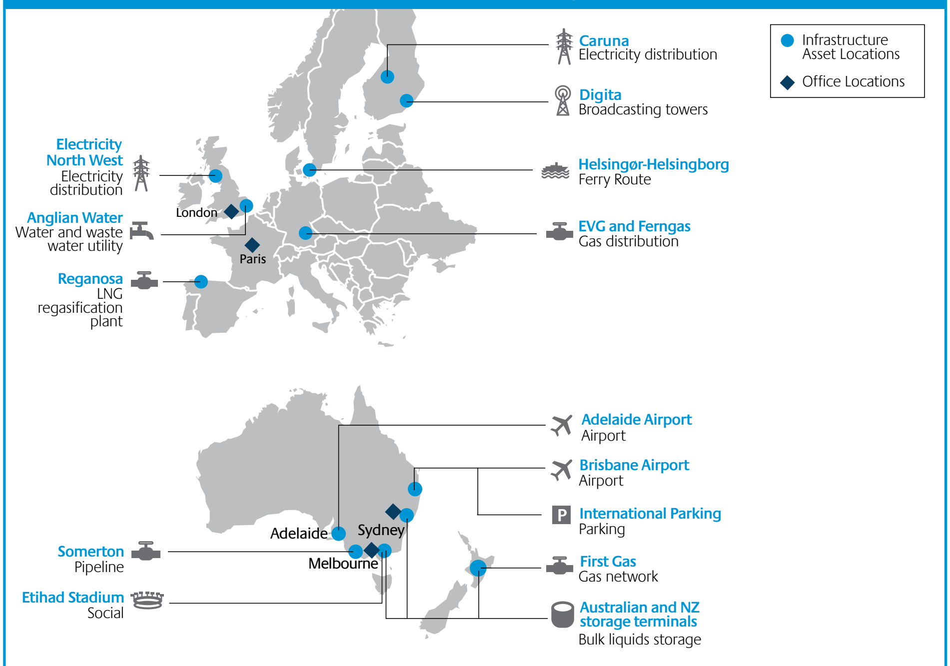
Once an infrastructure business is acquired, our team implements an ongoing process of active oversight to enhance performance and identify and manage risk. Our specialist fund managers and asset managers meet regularly with infrastructure business management teams to discuss various matters, including ESG issues.

Direct engagement through board-level representation

We have the distinct advantage of being able to engage directly with our portfolio companies via our board representation and/or workshops with management. This direct involvement provides the opportunity to drive cultural change, to set ESG KPIs, and allows an open two-way conversation between management and owners to ensure alignment on long-term value creation and protection.

We regularly convene workshops and committees to undertake deep-dive analysis and debate opportunities and new initiatives. We also visit business sites in our capacity as owner, board member and/or board committee member. Recent initiatives have, for example, included carbon reduction and energy management programs, and fuel cell technology development as part of smart networks and energy management systems.

Current assets and offices



Five year performance

Portfolios outperforming their relative benchmark over five years (FUM weighted)	100%†

We have been investing on behalf of over 50 institutional clients for over 21 years. Since inception the core assets have generated a gross internal rate of return of 13.4%.*

* For the period from September 1994 to December 2015.

† Note that the Global Diversified Infrastructure Fund was restructured with an inception date of 6 May 2015 and as such five-year data is not yet available; its successor fund (the original vehicle for the foundation assets) had five-year performance above benchmark as at 31 December 2015.

Global Listed Infrastructure

> Inception Date
2007

> Location
Sydney

> Strategies
Global Listed Infrastructure

Peter Meany
Head of Global Listed Infrastructure

Rebecca Sherlock
ESG Committee member

Investment philosophy and approach

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

Our investment process combines direct company contact with proprietary research, a consistent valuation framework and a comprehensive 25-point quality assessment. This structured process reduces bias and supports repeatable outperformance.

Stewardship and ESG integration

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

Team profile

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

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

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

The team's RI lead is Rebecca Sherlock, Senior Investment Analyst, who has 14 years of experience in infrastructure and eight years in the funds management industry.

Number in team	8
Average experience	13 years
Average years in team	6 years

Case Studies – Responsible Investment in Practice

United Utilities Group

Company industry: Water and Sewage Services

Country of domicile: UK

Holding value: US$0

Issue description: Social – Licence to Operate

United Utilities Group provides water and sewage services. The company also offers various services with relation to waste to energy consultancy. These services include engineering advisory on design, build, and operation of on-site treatment plants and rainwater harvesting and greywater recycling services.

United Utilities announced that 'low' traces of the microbial parasite *Cryptosporidium* had been found at their waterworks in Lancashire.

We engaged with company management to gain a full understanding of the implications of this discovery. We wanted to learn what was being done by the company to remedy the situation and what impact this event could have on the company's relationship with customers, its earnings profile, regulatory relationships, as well as potential fines and penalties.

Our contact with the company gave us comfort that this incident was not due to any shortcoming at the company level; that it had acted appropriately in its response to the issue and that no breach of licence had occurred.

Lingering concerns about the issue could potentially impact relationships with customers and the regulator. This type of risk was already reflected in a below-average Social quality score for this company. We will continue to monitor this risk.

We do not currently hold United Utilities in our portfolio; a relatively low Social score made it harder to justify owning it.

Pleasingly, although it was not obliged to do so, the company paid affected households between £50 and £60 depending on the length of time they were affected. This is a good example of an infrastructure company paying attention to its social licence to operate.

ESG implementation

Assessment and monitoring

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

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

Integration

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

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

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

Engagement

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	52.90%
Stock name retention	44.07%
Top five active holdings	PG&E Corporation NextEra Energy, Inc. ITC Holdings Corp. Power Assets Hldgs Ltd Eversource Energy
% of portfolio companies met with	100%

Five year performance*

Portfolios outperforming benchmark	100%
Weighted average outperformance	1.32%
Absolute return **Wholesale Global Listed Infrastructure Securities Fund**	14.76% p.a.

* Performance is quoted pre-fees and in $A hedged terms.

Case Studies – Responsible Investment in Practice

NextEra Energy

Company industry: Electricity Generation and Distribution

Country of domicile: US

Holding value: US$153,604,526

Issue description: Environmental – Renewable Energy

NextEra Energy operates as an investment holding company with interests in generating and distributing electricity. Through its subsidiaries, the company provides retail and wholesale electricity services to customers and owns generation, transmission and distribution facilities to support its services. It also produces electricity from solar facilities and owns and operates fleets of nuclear power stations in the United States.

We wanted to gain a deeper understanding of drivers influencing renewable cost curves, wind market dynamics, competitive behaviour and opportunities/threats for the renewables space. To achieve this, we initiated a meeting with several members of NextEra Energy's management team, including Armando Pimentel, CEO of NextEra Energy Resources, the world's largest generator of renewable energy. An illuminating conversation covered a wide range of topics and provided a number of valuable insights.

The costs of renewable energy continue to fall as technology progresses, leading to growing demand. Turbines are getting taller, blades are getting longer and solar panels are being installed and stacked in more effective ways. We believe that the experience of companies at the forefront of renewable development, such as NextEra Energy, will give them a significant advantage over utilities that are just starting to invest in this space.

A video case study for this company is available in the online report.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Global Property Securities

> Inception Date

1994

> Location

Sydney, London, New York, Amsterdam and Singapore

> Strategies

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

Stephen Hayes

Head of Global Property Securities

Joseph Daguio

ESG Committee member

Investment philosophy and approach

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

The efficient allocation of capital requires a very clear understanding of the current and anticipated real estate fundamentals at a local level and of the macroeconomic conditions which can influence real estate market cycles and expectations.

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

Stewardship and ESG integration

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

Corporate governance is a particular focus, where board independence, as well as respect for shareholder rights, is of paramount importance. We also consider any specific sustainability initiatives implemented by a company and the environmental impact of existing assets and developments. A company's history as a responsibly managed business is taken into account, as well as evidence of meaningful contributions it might have made to benefit society more broadly.

Team profile

Led by Stephen Hayes, team members are located across the world's major property markets with offices located in Sydney, Singapore, New York, London and Amsterdam. This gives the team a global reach, and on-the-ground local property access. Team members are experienced industry experts, focused solely on investing in publicly traded property securities.

The team's RI lead is Joseph Daguio, Senior Analyst, who has 14 years of industry experience.

Number in team	12
Average experience	15 years
Average years in team	4 years

Case Studies – Responsible Investment in Practice

Federal Realty Investment Trust

Company industry: Real Estate Investment Trust

Country of domicile: US

Holding value: US$0

Issue description: Environmental – Various

Federal Realty Investment Trust engages in the ownership, management and redevelopment of high quality retail and mixed-use properties. These assets are primarily located in densely-populated and affluent communities in the Northeast and Mid-Atlantic regions of the US.

We met with management to deepen our understanding of Federal Realty's operations. The company employs sustainability concepts and considers ESG impacts as a regular part of operations, from day-to-day activities to property development. A high ESG score was awarded, which then fed into our valuation calculations.

The company's valuation already looked attractive; a high ESG score resulted in higher discounted cashflow valuation and made the investment case even more compelling. Subsequent to taking an initial position in the stock, Federal Realty performed very strongly, producing a 17% total return from our initial entry price. Post these gains, the stock ranked in the third quartile of our expected returns for our investment universe, and we took an opportunity to sell out of the position. The company remains highly rated, and we will continue to monitor it for future buying opportunities once the valuation becomes more attractive.

Federation Centres

Company industry: Real Estate Investment Trust

Country of domicile: Australia

Holding value: US$102,935,005

Issue description: Governance – CEO removal

Federation Centres (now Vicinity Centres) engages in the development, operation, and management of shopping centres.

We wanted to understand the reasoning behind the sudden removal of the CEO and assess whether it was justifiable. We met with the Chairman and independent board members, who took us through the background and reasoning behind the decision. Following our discussion, we concluded that the board had acted with due care, and we maintained our position in the stock.

ESG implementation

Assessment and monitoring

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

Integration

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

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

Engagement

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

During our real estate investment trust (REIT)/company meetings, we will typically discuss any changes to the REIT's/company's ESG considerations. We will relay back our views on how the REIT/company rates versus its peers. In abnormal circumstances, where we believe that ESG considerations are materially below par, we will directly seek to influence change.

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	42.22%
Stock name retention	34.21%
Top five active holdings	Hudson Pacific Properties, Inc. Simon Property Group Inc General Growth Properties, Inc. SL Green Realty Corp. Essex Property Trust, Inc.
% of portfolio companies met with	100%

Five year performance*

Portfolios outperforming benchmark**	73%
Weighted average outperformance	0.50%
Absolute return **Wholesale Global Property Securities Fund**	13.77% p.a.

* Performance is quoted pre-fees and in $A hedged terms.

** The head of the investment team and most of the team changed in November 2012; figures represent management under both regimes.

Case Studies – Responsible Investment in Practice

Vonovia SE

Company industry: Residential Real Estate

Country of domicile: Germany

Holding value: US$0

Issue description: Governance, Risk Management

Vonovia SE is a holding company, which engages in the residential real estate business. The company has activities relating to residential property management, lease management, maintenance and modernisation, and tenant assistance. The company's also deals with the sale of residential buildings and commercial properties.

We held concerns about the quality of corporate governance and risk controls at Vonovia. The company was pursuing rapid growth via increasingly-risky acquisitions, funded by dilutive equity raisings. We met with management to discuss concerns about their strategy. We subsequently adjusted the company's ESG score downwards in order to reflect our view of poor corporate governance.

The company's valuation looked less attractive after a lower ESG score led to increased beta within DCF calculations. Balance sheet risk continued, with increased leverage and dilutive equity raisings. We sold the holdings when the company listed on the German DAX, providing a liquidity event.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Global Resources

> **Inception Date**
1997

> **Location**
Sydney, London

> **Strategies**
Global Resources

Dr Joanne Warner
Head of Global Resources

Tal Lomnitzer
ESG Committee member

Investment philosophy and approach

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

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

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

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

Stewardship and ESG integration

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

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

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

Team profile

Our Global Resources team is led by Dr Joanne Warner and has nine investment professionals who are amongst the most experienced in the industry. We are a technically-oriented team with backgrounds spanning multiple sectors, including mining and petroleum engineering, metallurgy, physics, chemistry and economics.

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

Tal Lomnitzer, a portfolio manager with over 17 years' investment experience, is the team's RI lead.

Number in team	9
Average experience	16 years
Average years in team	7 years

Case Studies – Responsible Investment in Practice

Samarco Mineração S.A (Samarco – a 50/50 JV between BHP Billiton and Vale)

Company industry: Mining

Country of domicile: Brazil

Holding value: US$118,389,211 (BHP)

Issue description: Social and Environmental

The Samarco operations include a three-tiered tailings dam complex. Within this complex, the Fundão dam failed, and the downstream Santarém dam was affected. This resulted in a significant release of mine tailings, flooding the community of Bento Rodrigues and impacting other communities downstream. The third dam in the complex, the Germano dam, is being monitored by Samarco. At this time, there is no confirmation of the causes of the tailings release.

Immediately following the dam failure, we held a video conference call with representatives from Vale, and subsequently BHP's CEO conducted a group conference call with investors and analysts in which we participated.

In November 2015, we met with Vale's CFO in Brazil and were assured that the company is fully committed to its remediation responsibilities. We also undertook a visit to its Carajas mining operation.

Samarco, Vale, BHP and the Brazilian authorities, including the states of Minas Gerais and Espírito Santo, signed an agreement for the compensation and restoration of environment and affected communities on 2 March 2016. This provides a compensation and remediation framework over the next 15 years ranging between US$2.4 billion and US$3.0 billion on a 100% basis. The agreement is still subject to court approval. There is still uncertainty around potential private civil claims, public civil claims and criminal charges.

The companies (BHP and Vale) have been proactive in keeping the market informed of developments as they come to hand. At this time, there is no confirmation of the causes of the tailings release. We continue to monitor the developments at the Samarco operation, which we expect to remain closed for an extended period of time.

ESG implementation

Assessment and monitoring

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

Although we use various independent ESG research tools, we find that the clearest understanding of ESG risks comes from our site visits. We have conducted more than 1,450 site visits to over 76 countries since the inception of our flagship fund. These visits enable us to use our expertise to gain a more detailed and comprehensive assessment of the magnitude of these issues and risks. For some companies, the key risks will be external and need to be considered in a regional context, for example political risk, permit challenges, lack of infrastructure.

Integration

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

Engagement

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

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	54.52%
Stock name retention	32.76%
Top five active holdings	Rio Tinto Limited Exxon Mobil Corporation Lundin Mining Corporation Enbridge Inc. Antofagasta plc
% of portfolio companies met with	100%

Five year performance*

Portfolios outperforming benchmark	100%
Weighted average outperformance	0.42%
Absolute return **Wholesale Global Resources Fund**	-12.15% p.a.

* Performance is quoted pre-fees and in $A terms.

Case Studies – Responsible Investment in Practice

OceanaGold

Company industry: Mining

Country of domicile: Australia

Holding value: US$11,607,001

Issue description: Environmental – Various

OceanaGold operates as a multinational gold producer with a portfolio of operating, developmental and exploration assets. OceanaGold operates three mines in New Zealand and owns and operates the high-grade gold-copper Didipio Mine on the island of Luzon in the Philippines.

We are a shareholder in Romarco Minerals Inc, which was the subject of a takeover bid from OceanaGold. The bid was all shares, so we stood to become an OceanaGold shareholder if the bid was successful. OceanaGold owns Reefton mine, which is scheduled for closure in 2016. We had concerns about the cost of closure and potential for the future rehabilitation liabilities.

A member of our team undertook a site visit to New Zealand to visit the Reefton mine. The mine is in a forest park and has been operating since 2008. OceanaGold and on-site management have worked closely with New Zealand's Department of Conservation to ensure minimal environmental impact.

Rehabilitation has been undertaken progressively, since production first began. It was clear from our site visit that the rehabilitation had been carefully planned and well executed. The site consists of two open pits, one of which has already been backfilled with processing tailings and the surface rehabilitated. The plan is to allow the second pit to fill with water, leaving it as a lake.

On the site visit, we saw rehabilitated areas that were indistinguishable from the surrounding natural landscape. We believe that the ongoing rehabilitation program will ensure that the entire site is left in this state. The company plans to plant 100,000 trees in 2016 and 50,000 on 2017.

Reefton is a zero-discharge site. All water on-site must be collected and processed. This will continue for at least two years after mining operations cease.

Prior to the site visit, the team was concerned that the NZ$13 million set aside for rehabilitation was not enough. However, the site visit allowed us to see the state of the operation, and the impact ongoing rehabilitation has had. We concluded that the rehabilitation liability was adequate.

After the site visit, we voted for the OceanaGold takeover of Romarco. The takeover was successful, and we became a shareholder in OceanaGold. We continue to hold shares in OceanaGold today.

A video case study for this company is available in the online report.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

First State Stewart Asia

> Inception Date

1988

> Location

Edinburgh, Hong Kong and Singapore

> Strategies

Greater China equities
China, China A, Greater China and Hong Kong

Asia Pacific equities
Asia Pacific, India and Japan

Michael Stapleton
Managing Partner, First State Stewart Asia

Martin Lau
Managing Partner, First State Stewart Asia

Gokce Bulut
ESG Committee member

Investment philosophy and approach

First State Stewart Asia's investment philosophy is founded on the concept of responsible stewardship. Most importantly, we invest our clients' capital as if it were our own. We believe that investment ought to have a social purpose, this being the efficient allocation of clients' assets to high quality companies at sensible prices.

When we make an investment, we regard ourselves as buying shares, on behalf of our clients, in a real business. This entails responsibilities as well as rights, and we engage extensively on environmental, labour and other governance issues.

We are conviction-based, bottom-up stock selectors with a strong emphasis on high quality proprietary research and direct contact with the companies in which we invest. The most significant source of investment ideas comes through country and company visits. As a team, we conduct over a thousand direct company meetings throughout the year, seeking to identify a small sub-set of companies possessing superior levels of stewardship in addition to a strong franchise and solid financials.

As a result, our asset allocation on a country and industry level is a residual of our stock selection process. Formal limits on absolute levels of exposure to individual countries and industries are prescribed for risk-control purposes to ensure that sensible diversification is maintained at all times.

We are long-term investors and prefer to invest in quality companies that we can hold on to for many years. Our investment approach adopts an absolute return mindset and is inherently conservative, focusing on capital preservation as well as capital growth. By focusing on the potential downside (not just the upside) when making an investment decision, we ensure that the risk to long-term client returns is significantly reduced.

Stewardship and ESG integration

First State Stewart Asia is a long-term investors and is focused on investing in a responsible way. We believe that ESG factors highlight the long-term sustainability of a company and can have an important impact on investment performance. Therefore, we carry out a comprehensive analysis on ESG issues and have taken steps to incorporate ESG factors as an integral part of our investment process.

Team profile

Number in team	15

Case Studies – Responsible Investment in Practice

Ryohin Keikaku

Company Industry: Retail and Food

Country of domicile: Japan

Holding Value (US$ 04/02/2016): US$6,377,295

Issue description: Social and Environment

Ryohin Keikaku is a speciality retailer selling household goods, apparel and food under the MUJI brand. The company has a focus on social responsibility, environmentally friendly products, reduced waste and quality materials.

Investment rationale: High quality retailer (MUJI) expanding into Asia from a strong base in Japan. Company focuses on simplicity in its products, by minimizing packaging and using environmentally friendly materials with the aim of minimising waste and conserving natural resources.

ESG implementation

Assessment and monitoring

ESG factors provide a set of standards that investors can use to assess investments. We are very aware of the potential risks and opportunities associated with environmental, social and governance factors, and we incorporate ESG research and analysis – no matter whether positive or negative – into our investment decision-making. Our primary source of ESG information is one-on-one meetings with companies, as well as an ESG news source subscription. An increasing amount of regulations requiring companies to disclose their ESG performance have been adopted globally. We believe it has become increasingly important for investors to understand the ESG factors of their investment portfolios.

Integration

In our view, fundamental company analysis should always include a view on ESG factors, as they are likely to have an impact on the sustainability of a company's business and share price performance. We have integrated environmental, social and governance (ESG) factors to sit alongside traditional financial analysis, as we believe that the effective integration of ESG criteria could result in better investment decisions. We use RepRisk, an ESG risk platform, which runs an online searchable database on the risk exposure of companies and projects related to ESG issues.

Engagement

We identify engagement issues through our investment research, analysts' meetings and the ESG news platform. Company engagement plays a critical role in helping to understand the business in terms of company history, culture, long-term strategy and governance structure. As long-term shareholders, we are focused on identifying companies that are driving sustainable outcomes. Through active engagement, we believe we are able to raise legitimate concerns and persuade management to address the issues at hand, thus adding to portfolio performance.

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	20.8%
Stock name retention	88.8%
Top five holdings **First State Asian Equity Plus**	Taiwan Semiconductor CK Hutchinson Holding Delta Electronics CSL Housing Development Finance
Top five holdings across portfolios	CK Hutchison Holdings Delta Electronics Taiwan Semiconductor ENN Energy Holdings China Mengniu Dairy AIA Group Ltd

Five year performance*

Portfolios outperforming benchmark	100%
Weighted average outperformance	4.21%
Absolute return **First State Asian Equity Plus Fund**	6.8% p.a.

* Performance is quoted pre-fees and in US$ terms.

Case Studies – Responsible Investment in Practice

Delta Electronics

Company Industry: Electronics

Country of domicile: Taiwan

Holding value (US$ 04/02/2016): US$538,398,271

Issue description: Environment: Energy Efficiency, Automation

Delta Electronics engages in the research and development, design, manufacture and sale of electronic control systems, industrial automation products, digital display products, energy-saving lighting application, and energy technology services.

Investment rationale: Great track record of reinventing new businesses with a focus on products that offer energy efficiency and automation. The company has a proven ability of moving up the value chain as evidenced by results and margin improvement. The balance sheet of the company is solid. The family who owns it has a good track record of looking after minority shareholders.

Vitasoy

Company Industry: Beverages

Country of domicile: Hong Kong

Holding value (US$ 04/02/2016): US$82,245,840

Issue description: Healthy Beverages and Soya Milk Drinks, Consumption of Soya Milk, Governance

Vitasoy International Holdings manufactures and sells soy-based food and beverages. The company operates in Hong Kong, China, Australia and New Zealand, North America, and Singapore. It offers its products under the brands VITASOY, VITA, SAN SUI, CALCI-PLUS, TSING SUM ZHAN, NASOYA, AZUMAYA, and UNICURD.

Investment rationale: A conservative, family-owned, professionally managed manufacturer of (mostly) health foods with a 70 year history and a dominant position in a number of markets. In the process of what feels like a successful foray into mainland China with strong cash flows backed by a very solid franchise in Hong Kong.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Indonesian Equities

> **Inception Date**
2005

> **Location**
Jakarta

> **Strategies**
Indonesian Equities

Hazrina Dewi
Head of Indonesian Equities and ESG Committee Member

Investment philosophy and approach

The three key foundations to our investment philosophy are:

Active management strategy

- Our ability to manage large amounts of information and successfully apply it to our individual security selection process gives us a competitive advantage.
- We make investment decisions based on our continual assessment of which assets are likely to maximise wealth creation. In applying this active approach, a medium-to-long-term decision-making framework has been adopted.

Invest in quality assets

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

Disciplined investment process

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

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

Stewardship and ESG integration

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

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

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

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

Team profile

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

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

Ni Made Muliartini is a Senior Equity Investment Manager who is responsible for equity analysis and portfolio management. She has worked in the Indonesian equity market since 2000.

Amica Darmawan is an Equity Investment Manager and is responsible for equity analysis and stock selection. She is also responsible for the implementation of the ESG database the team is working on. She has been working in the financial industry since 2002.

Number in team	6
Average experience	14 years
Average years in team	7 years

ESG implementation

Assessment and monitoring

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

Integration

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

Engagement

We have visited every company in our portfolio and we are in regular contact with management and/or investor relations. We collectively completed around 113 management meetings and company visits during 2015.

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

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	38.9%
Stock name retention	56.25%
Top five active holdings	Telekomunikasi Indonesia HM Sampoerna Unilever Indonesia Bank Central Asia Bank Rakyat Indonesia
% of portfolio companies met with	100%

Five year performance*

Portfolios outperforming benchmark	66.1%
Absolute return	26.99% p.a.
First State IndoEquity Sectoral Fund	

* Performance is quoted pre-fees and in IDR terms.

Case Studies – Responsible Investment in Practice

PT Indosat Tbk

Company industry: Telecommunications

Country of domicile: Indonesia

Holding value: US$0

Issue description: Governance, Treatment of Minority Shareholders

PT Indosat Tbk is a telecommunications services and network provider in Indonesia. The company offers communication services for mobile-phone users. The company also provides fixed-voice services multimedia, internet and data communication services.

The Indonesian telecoms sector has experienced a period of fierce competition which has now subsided. Within the sector, earnings growth is improving and companies have begun to deleverage their balance sheets. Increasing tariffs have resulted in companies reducing their financial risk exposure.

PT Indosat has been monitored by the team for some time, with valuations looking increasingly promising and the company seen as an attractive potential addition to our existing holding in Telekomunikasi Indonesia.

Through our monitoring process, we had increasing concerns regarding the corporate governance of the company in relation to the protection of the rights of minority shareholders. In addition, the parent company of PT Indostat announced that it would charge the company royalties for the use of a brand, that in our view, had little commercial value. These issues have triggered an engagement process with the company so we can fully understand the impact that these issues may have on our view of the company as a long-term investment opportunity.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Australian Equities, Growth

> Inception Date
1989

> Location
Sydney

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

Marcus Fanning
Head of Australian Equities, Growth

Alex Gallard
ESG Committee member

Investment philosophy and approach

Our Australian Equities, Growth team is one of the largest in the Australian sharemarket and has the resources to complete deep industry analysis to understand the drivers of return on invested capital. While listed companies tend to be well covered by the sell-side broker community, they are not always well researched.

Accordingly, we maintain a significant level of contact with listed companies, unlisted competitors, suppliers, customers and industry experts to identify opportunities.

Our philosophy is that:

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

Stewardship and ESG integration

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

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

Team profile

The Australian Equities, Growth team is one of the largest and most experienced in the Australian equities market. The team is led by Marcus Fanning, who has ultimate responsibility for the performance of all Australian Equities, Growth portfolios.

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

Alex Gallard, Senior Analyst, is the team's RI lead. Alex has 25 years of experience.

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

Case Studies – Responsible Investment in Practice

Crown Resorts

Company industry: Gaming and Entertainment

Country of domicile: Australia

Holding value: US$0 – we have now exited our position

Issue description: Governance – Board Independence

Crown wholly owns and operates two integrated resorts in Australia; Crown Melbourne Entertainment Complex and Crown Perth Entertainment Complex. Crown also owns and operates Crown Aspinall's casino in London. Crown holds a significant interest in Melco Crown Entertainment Limited (MCE), listed on NASDAQ, which operates casino and hotel properties in Macau.

During 2015, Crown Resorts purchased a number of non-gaming assets, including 20% of the Nobu restaurant chain for US$100 million in October and a 50% acquisition of the related-party-transaction of Packer's Ellerston Farm for $60 million in August 2015. These acquisitions raised concerns about the governance, risk appetite and independence of the board.

Post these transactions, the board announced that James Packer will be leaving the board as chairman and reducing his time spent on the core business. This has been designed to take away any further potential conflicts. Unfortunately, speculation around the privatisation of some of the Crown Resorts businesses and potentially an increase in advisory fees to James Packer and his investment company (Consolidated Press Holdings) have not improved the perception of the board.

On concerns surrounding governance and board independence, together with diversification away from its core casino business, we have now exited our position in Crown.

ESG implementation

Assessment and monitoring

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

Integration

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

Engagement

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

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	40.66%
Stock name retention	42.55%
Top five holdings	Commonwealth Bank of Australia Westpac Banking Corporation CSL Australia and New Zealand Banking Group Transurban Group Ltd
% of portfolio companies met with	100%

Five year performance*

Portfolios outperforming benchmark	100%
Weighted average outperformance	4.18%
Absolute return **Wholesale Australian Share Fund**	9.78% p.a.

* Performance is quoted pre-fees and in $A terms.

Case Studies – Responsible Investment in Practice

Sealink Travel Group

Company industry: Tourism and Transport

Country of domicile: Australia

Holding value: US$8,439,766

Issue description: Governance – Remuneration

Sealink Travel Group is a tourism and transport company. It offers ferry services, tours, packaged holidays, retail travel services and accommodation facilities in South Australia. The company's Captain Cook Cruises segment runs tourist cruises, charter cruises and ferry passenger services on Sydney Harbour.

We discussed with senior management our intention to vote against several proxy voting resolutions, most notably an equity grant suggested for a non-executive director which was dependent on company performance. We are of the view that non-executive directors should be on standard, fixed remuneration to maintain the highest possible degree of independence.

We discussed the resolution with senior management and the chairman. They listened to our concerns, and the contested resolution was subsequently removed. Sealink remains one of our favoured positions in the small caps portfolio.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Australian Equities, Core

> Inception Date

1993

> Location

Sydney

> Strategies

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

Matthew Reynolds

Head of Australian Equities, Core

Robin Balcomb

ESG Committee member

Investment philosophy and approach

Our strategies seek to protect and create long-term wealth for our investors by taking an active and disciplined approach to managing investments in the Australian equity market.

Our investment process has no persistent style bias and seeks to add value regardless of market cycles or thematics. We employ a sensible, transparent investment process, which has been unchanged for more than 20 years. Disciplined and risk-aware portfolio construction is a key feature of our style.

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

Stewardship and ESG integration

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

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

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

Team profile

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

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

The team's RI lead is Robin Balcomb, Portfolio Manager, who has 17 years of experience in the funds management industry.

Number in team	19
Average experience	15 years
Average years in team	8 years

Case Studies – Responsible Investment in Practice

Ansell

Company industry: Healthcare

Country of domicile: Australia

Holding value: US$6,078,445

Issue description: Governance, Remuneration

Ansell is a healthcare safety and protection solutions company. It develops, manufactures and markets a wide range of latex rubber surgical and industrial gloves, condoms and protective clothing.

Remuneration issues continue to attract significant attention and, at times, the consternation of investors. An example that came to light during 2015 was with Ansell, where the board proposed changes to the short term incentive (STI) metrics for members of the senior management team. These changes appeared to offset around half of the potential long term incentive payments from 2014, which were not made, as key performance metrics had not been achieved. Essentially, the board was recommending the award of STI payments even though hurdles had not been met.

The rationale for the proposal appeared to be predicated on exchange rate movements, which had worked against Ansell during the measurement period and made it more challenging for performance targets to be met, or exceeded. Whilst we recognise this, it is incongruous to adjust performance metrics lower based on adverse currency movements without similarly adjusting them higher during periods of favourable currency movements. In Ansell's case, there also appeared to be more that management could have done to help mitigate currency impacts, such as optimising its manufacturing footprint. Accordingly, we voted against this resolution.

Our stance on management remuneration is unchanged. It is critical that companies develop remuneration policies that are appropriate and which help attract and retain key management talent for the long-term benefit of shareholders. We are not against the award of potentially significant incentive payments, as long as a clear link between remuneration and performance can be demonstrated.

In all cases, we expect the chairman of the remuneration committee to be able to provide appropriate justification for levels of remuneration and the link of these to company objectives and performance. There should also be full disclosure of directors' total remuneration packages, including share options, fringe benefits and retirement benefits.

Our concerns regarding this particular issue appeared to be shared by other shareholders, as the proposal failed to be passed at the Annual General Meeting. Notwithstanding our concerns regarding remuneration policy, Ansell rates relatively well on ESG grounds. The company has demonstrated an improved focus on areas including workforce safety and energy use.

ESG implementation

Assessment and monitoring

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

Integration

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

Engagement

We engage with all companies held in our portfolios and many others in the investment universe and beyond. Issues for engagement are identified through the detailed company research and analysis described above.

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

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

Average turnover	49.89%
Stock name retention	44.44%
Top five active holdings	Commonwealth Bank of Australia Rio Tinto Limited Aristocrat Leisure Macquarie Group Suncorp Group Limited
% of portfolio companies met with	100%

Five year performance*

Portfolios outperforming benchmark	100%
Weighted average outperformance	2.62%
Absolute return **Wholesale Australian Share – Core Fund**	8.17% p.a.

* Performance is quoted pre-fees and in $A terms.
Passive portfolios are not included the outperformance calculations.

Case Studies – Responsible Investment in Practice

Alumina

Company industry: Mining

Country of domicile: Australia

Holding value: US$5,266,496

Issue description: Environmental – Pollution/Waste Management

Alumina explores and mines for nickel, alumina, copper, gold and uranium. It invests in bauxite mining, alumina refining and selected aluminium smelting operations through its subsidiary, Alcoa World Alumina and Chemicals.

The Australian Equities, Core team held investments in Alumina Limited during 2015 even though alumina refining is an intense, chemical process with significant waste streams.

Following site visits to the company's Australian operations, in our view Alumina Limited has gone to impressive lengths to meet stringent environmental requirements. No material environmental or safety problems were observed during our research trips, or have been identified in our company analysis.

Further, Alumina Limited is investing in red mud filtration technology. This is expected to further reduce the company's waste footprint, allow for better recycling of caustic and water and, potentially, result in some construction-related by-products which have value. These initiatives not only provide an opportunity for the company to reduce its environmental impact, but might also reduce sustaining capital expenditure requirements. This example highlights how sustainability issues can have a genuine impact on company financials.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Realindex Investments

> Inception Date
2008

> Location
Sydney

> Strategies
Systematic Equities Australian Large and Small Caps, Global Hedged and Unhedged and Emerging Markets

Andrew Francis
Chief Executive, Realindex Investments

Megan Ford
ESG Committee member

Investment philosophy and approach

We believe that markets are not perfectly efficient, meaning that there is mispricing of companies relative to unknown fair values. This mispricing means that there is small number of systematic factors such as Value (cheap stocks outperform expensive stocks) Momentum (stocks with strong price momentum outperform stocks with low price momentum) and Quality (low quality stocks underperform) which can lead to excess returns over and above those of the market over a long-term horizon.

We use systematic strategies targeting these factors and aimed at outperforming traditional market cap weighted indices. These strategies may vary from rules-based non-price weighted methodologies such as the Fundamental Index or Equal Weighting, to customised solutions which may target exposure to a combination of factors.

Stewardship and ESG integration

As part of our stewardship responsibilities, we exclude specific companies involved in munitions and armaments across all of our portfolios, as well as apply screens to exclude tobacco and other ESG 'red flag' companies for certain clients. In addition, we believe that voting on company resolutions is an important responsibility of any equity holder, and we vote on company resolutions using the services of CGI Glass Lewis.

Direct access to ESG ratings and data provides us with a comprehensive database of ESG scores for global companies. This has facilitated ESG research into customised client solutions, with a focus on the interaction between ESG awareness and our portfolios.

For our Fundamental Index portfolio, the systematic rules-based investment methodology does not explicitly target ESG considerations. However, attention to governance is an outcome of the investment process, as we include additional screens such as a quality score which measures the financial strength of a company providing correlation with good corporate governance.

Team profile

The Realindex team comprises seven dedicated investment professionals, with a strong background in quantitative research. The team is led by Andrew Francis, who has more than 20 years' investment experience in consulting, funds management and investment banking.

Our dedicated team of portfolio managers and analysts is responsible for research, portfolio construction and implementation. We work collaboratively to develop robust and consistent solutions which meet our client's needs and deliver value.

Megan Ford, a Portfolio Manager with over six years' industry experience, is the team's RI lead.

Number in team	19
Average experience	12 years
Average years in team	4 years

ESG implementation

Assessment and monitoring

We utilise the capabilities of two external ESG vendors, Sustainalytics and GMI Ratings in addition to CGI Glass Lewis (for proxy voting). This has enabled us to incorporate environmental, social and governance scores and underlying historical data into our research and has facilitated ESG research into customised client solutions, with a focus on the interaction between ESG awareness and Realindex portfolios. The systematic incorporation of ESG into the Realindex investment process remains an ongoing area of research for our business.

Integration

ESG research is conducted with a focus on developing customised solutions for clients. All research is designed to be implemented as systematic, rules-based overlay applied over a core portfolio and utilises data provided by GMI Ratings and Sustainalytics.

Some key examples of where we have incorporated and/or researched ESG overlays include the following:

1. The removal of cluster munitions, tobacco and other ESG 'red flag' companies from portfolios.
2. Penalising poorly ranked companies on aggregate ESG and top level Environmental, Social and Governance metrics respectively. This research found that penalising and/or excluding such companies from the portfolio did not significantly change the overall risk return profile of the portfolio despite potential sector and country biases between the different metrics. We have published our findings in a research paper for clients which can be downloaded from our website.
3. The relationship between governance and shareholder interests for closely held public companies.
4. Penalising and/or rewarding companies based on their carbon footprint and that of their suppliers.

Investment information and performance^

All information as at 31 December 2015.

Five year performance*

Portfolios outperforming benchmark	51%
Weighted average outperformance	0.06%
Absolute return **Realindex Global Share Fund**	11.97% p.a.
Top five active holdings **Realindex Global Share Fund**	Industrial and Commercial Bank of China Limited Class H PetroChina Co. Ltd. Class H Agricultural Bank of China Limited Class H Wal-Mart Stores, Inc. Nippon Telegraph and Telephone Corporation

* Performance is quoted pre-fees and in $A terms.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Australian Fixed Income and Global Credit

> Inception Date

1986

> Location

Sydney, Hong Kong, Singapore, Louisville and London

> Strategies

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

Tony Adams

Head of Australian Fixed Income and Global Credit

Yen Wong

ESG Committee member

Investment philosophy and approach

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

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

Stewardship and ESG integration

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

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

Team profile

Tony Adams is the Head of Australian Fixed Income and Global Credit. He is responsible for managing one of the largest and most experienced teams in this asset class in Australia. Tony brings 29 years of experience to his role, and is responsible for managing our suite of global credit products. Tony is also actively involved in the investment processes across all of our diverse strategies.

Yen Wong, a Credit Manager with 18 years of experience, is the team's RI lead. Yen provides support to the Head of Credit Research, Toni Spencer (25 years' experience), and together they are responsible for ensuring the consistency and quality of the outputs of the research process.

Number in team	25
Average experience	16 years
Average years in team	7 years

Case Studies – Responsible Investment in Practice

Deutsche Bank AG

Company industry: Financial Services

Country of domicile: Germany

Issue description: Governance

Deutsche Bank (DB) is a leading global investment bank with a strong and profitable private clients franchise. A leader in Germany and Europe, the Bank is continuously growing in North America, Asia and key emerging markets.

In October 2015, we downgraded our internal rating on DB following recent poor performance, due to further extraordinary charges brought against them, as well as ongoing concerns regarding poor governance and business ethics issues. Issues, amongst other allegations, included: reports of staff being remanded in custody on charges of tax evasion and fraud; a US$2.5 million fine by the US Commodity Futures Trading Commission for derivatives reporting failure under Dodd Frank; UK FCA fines for errors in reporting related to equity swaps; and a US$2.5 billion fine to US and UK authorities after admitting to LIBOR manipulation.

Capital, whilst improved, remains low relative to global banking peers and against increasing regulatory requirements. Organic capital generation is constrained by poor earnings generation/lack of cost efficiencies. Substantial fines and settlements relating to misconduct are also likely to continue to negatively impact capital. Our negative outlook reflects the strong possibility of further asset impairments, weak profitability from core banking divisions, litigation risks and the likely need for further capital to support current and new businesses. It also reflects substantial execution risks related to strategy changes under new CEO. DB has a mixed track record of delivering against targets. We continue to watch the outcome of outstanding unresolved litigation charges and whether the restructuring will produce a more sustainable business.

ESG implementation

Assessment and monitoring

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

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

Integration

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

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

Engagement

Our key engagement is with banks and counterparties to understand their ESG risks and their approach to managing those risks. For example, climate change and other environmental risks relating to the bank's loan book and financing and aspects of their lending policies.

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

We are continuing our engagement with the Australian semi-governments when meeting with senior Treasury officials. Our engagement to date has focused on the trade-offs made between the state government and different stakeholder groups and between long-term and short-term outcomes. The aim of the engagement is to assess the governance framework as well as gather insight and assurance into the capability of individual governments to make decisions which sustainably manage different stocks of capital (financial, manufactured, intellectual, human, social and natural).

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

We have broken down the team's passive vs. active strategies and the relative exposures to sovereign, corporate and securitised debt. We have also included the split between developed and emerging markets.

This breakdown is designed to give a better sense of how different aspects of the investment approach described above are relevant to the different types of the team's investments. Please note that passive funds use our internal credit rating which incorporates our ESG assessment.

Our online report includes analysis of the relationship between our ESG scores, internal credit rating and default experience.

Strategies	Sovereign, semi-government and supra-national	Corporate (financials)	Corporate (non-financial)	Securitised	Total
Passive	85.6%	9.4%	3.9%	1.0%	**100.0%**
Active (Fund)	66.2%	11.6%	20.5%	1.6%	**100.0%**

	Sovereign, semi-government and supra-national
Developed market	87.5%
Emerging market	12.5%
Total	**100.0%**

Five year performance*

Portfolios outperforming benchmark	38%
Weighted average of outperformance	0.07%
Absolute return Global Credit Income Fund	5.64%

* Performance is quoted pre-fees and in $A terms.
Passive portfolios are not included the outperformance calculations.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Volkswagen AG

Company industry: Automotive

Country of domicile: Germany

Issue description: Governance, Fraud

Volkswagen AG develops and produces passenger cars, light commercial vehicles, trucks and buses. It also produces large-bore diesel engines, turbo compressors and industrial turbines.

We downgraded the Internal Credit Rating and revised our ESG risk assessment following Volkswagen's admission in Sep 2015 that it had deliberately defrauded the US EPA on the emissions testing of its diesel-engine vehicles. The total costs from reputational damage, brand image, litigation and regulatory penalties are difficult to quantify, but are likely to be in the billions of dollars.

Prior to the downgrade, our internal rating on Volkswagen was already lower than the agencies' ratings, reflecting our assessment of high ESG risk from weak corporate governance, the complex group structure and business ethics controversies. The scandal was particularly difficult to predict, even with a robust ESG risk assessment framework. This issue highlights the importance of portfolio diversification, which recognises that some risk events are beyond an analyst's frame of reference, and helps mitigate the impact on portfolios should such events occur.

Emerging Markets Debt

> Inception Date
2011

> Location
London

> Strategies
Emerging Markets Debt – Hard and Local Currency

Helene Williamson

Head of Emerging Markets Debt

Manuel Cañas

ESG Committee member

Investment philosophy and approach

The team believes that:

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

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

The investment process has three distinct stages:

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

Stewardship and ESG integration

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

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

Team profile

The team comprises nine investment professionals and is led by Helene Williamson, who has 20 years investment management experience. Manuel Cañas, Deputy Team Head, is the team's RI lead and has 16 years of experience.

Number in team	9
Average experience	13 years
Location	London

Case Studies – Responsible Investment in Practice

Paraguay sovereign

In the context of an otherwise promising macro improvement situation, we find that very low levels of Human Development translate into considerable contingent liabilities which could impair, or derail, Paraguay's long-term development.

Our Country Research Paper produced in June 2015 reflects our concerns about the poor state of human development in Paraguay and it weighs negatively on our assessment of the country. The rate of potential growth is limited by few prospects of improvement in labour productivity and contingent liabilities.

It takes decades to improve the levels of human development, but we look for early signals of any prospective improvements. The Paraguayan economy has been growing faster than peers, and thus acting as an enabler of change. But the United Nations Human Development Index for Paraguay has remained stable at low levels.

Costa Rica sovereign

In our ESG analysis, Costa Rica scores relatively high when compared to other peers. That said, its worst ranking is in the Government Effectiveness Index. In addition, our Momentum indicator is pointing to rapid deterioration (-13%). At the core of this problem lies the inaction of the government to introduce much-needed fiscal reforms to support the return to a sustainable fiscal path. During a visit to Costa Rica, we took the opportunity to raise our concerns regarding the lack of progress.

Since our engagement, there has been no material progress on fiscal reform and subsequently Costa Rica lost its investment-grade credit rating.

ESG implementation

Assessment and monitoring

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

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

Integration

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

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

Engagement

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

However, a great deal can also be gauged simply by observing the surrounding environment.

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

We have broken down the team's passive vs. active strategies and the relative exposures to sovereign, corporate and securitised debt. We have also reported the split between investment grade and high yield debt as this is a factor when investing in emerging markets, both in terms of risk and return and the challenges of integrating ESG factors.

This breakdown is designed to give a better sense of how different aspects of the investment approach described above are relevant to the different types of the team's investments.

Strategies	Sovereign, semi-government and supra-national	Corporate (financials)	Corporate (non-financial)	Securitised	Total
Active (Fund)	95.2%	2.1%	2.7%	0.0%	**100.0%**

	Corporate (financials)	Corporate (non-financial)
Investment grade	56.2%	59.3%
High-yield securities	43.8%	40.7%
Total	**100.0%**	**100.0%**

Three year performance*

Portfolios outperforming benchmark	71%
Weighted average outperformance	0.04%
Absolute return **First State Emerging Markets Bond Fund (VCC)**	14.95% p.a.

* Performance quoted is pre-fees and in US$ terms. Three year performance has been provided as the team has not been in place for five years.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Asian Fixed Income

> Inception Date
2014

> Location
Hong Kong, Singapore and Indonesia

> Strategies
Asian Fixed Income

Jamie Grant
Head of Asian Fixed Income and ESG Committee member

Investment philosophy and approach

We seek attractive, risk-adjusted returns through an active approach to managing investments in the Asia region.

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

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

Stewardship and ESG integration

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

Our analysis focuses on the factors we believe drive outcomes in AFI which, in our experience, are the main drivers of investment returns for Asian currency rates, credit and foreign exchange as well as US dollar credit. These are: Valuations, Technicals, Market Sentiment, the Political Environment and the Macro Outlook.

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

Team profile

The team, managed by Jamie Grant, comprises of eight highly-experienced investment professionals based in Hong Kong, Singapore and Indonesia. Jamie has more than 20 years' industry experience specialising in corporate credit.

Number in team	8
Average experience	16 years
Average years in team	6 years

Case Studies – Responsible Investment in Practice

Citic Securities Company

Company industry: Finance

Country of domicile: China

Issue description: Governance, Corruption

Our outlook for Citic Securities was revised to negative from stable, due to a large number of senior executives being arrested by Chinese authorities in relation to illegal trading in equity markets during the July/August 2015 equity market drop. Citic Securities is also being investigated by the Chinese Securities Regulatory Commission in relation to potential insider trading and falsification of official documents. While this is not isolated to Citic Securities, it is the most affected securities firm in China.

As the largest securities firm in China and a state-owned enterprise, the company is less affected in comparison to the executives personally. We have since seen some of the executives released and have returned to work. We have factored into the internal rating of BBB- since initially rated in October 2014 a 'very high' ESG risk. Internal controls and risk management practices of this firm have been weak. We believe the current situation is an eventuation of these weaknesses.

Ping An Life Insurance Co of China

Company industry: Finance

Country of domicile: China

Issue description: Governance, Board Structure

The BBB+ internal rating was initially given in January 2016. This rating takes into account China's current active anti-corruption investigation into the financial sector, which is exposing firms in the sector to increased risks. Rated as an 'industry laggard' in its governance practices, this reflects, amongst other things, the company's weak board structure. The internal rating is rated one-notch lower than it would otherwise be rated, given its strong credit metric and good market growth potential in the Chinese life insurance sector.

ESG implementation

The Australian Fixed Income and Global Credit team and the Asian Fixed Income team share analyst resources and the same ESG implementation process.

Assessment and monitoring

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

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

Integration

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

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

Engagement

Issues for engagement are identified following our thorough company research.

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

Investment information and performance^

All information as at 31 December 2015.

Investment characteristics

We have broken down the team's passive vs. active strategies and the relative exposures to sovereign, corporate and securitised debt. We have also included the split between developed and emerging markets.

This breakdown is designed to give a better sense of how different aspects of the investment approach described above are relevant to the different types of the team's investments.

Strategies	Sovereign, semi-government and supra-national	Corporate (financials)	Corporate (non-financial)	Securitised	Total
Active (Fund)	41.2%	32.9%	25.8%	0.2%	**100.0%**

	Sovereign, semi-government and supranational
Developed market	50.0%
Emerging market	50.0%
Total	**100.0%**

Five year performance*

Portfolios outperforming benchmark	0%
Weighted average outperformance	-0.49%
Absolute return **Global Credit Income Fund**	4.3%

* Performance is quoted pre-fees and in US$ terms.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Multi-Asset Solutions

> Inception Date
2012

> Location
Singapore, Sydney and London

> Strategies
Traditional balanced, Objective-based, Implemented solutions and Advisory services

Epco van der Lende
Head of Multi-Asset Solutions

Andrew Harman
ESG Committee member

Investment philosophy and approach

Our Multi-Asset Solutions team investment philosophy is based on the following beliefs:

- In the long term, fundamental valuations will assert themselves and be the most important driver of returns.
- In the short term, markets are not completely and globally efficient due to a variety of clientele effects (liquidity requirements, regulatory constraints, mandatory hedging and even simple home biases), providing an opportunity to protect and enhance returns.
- Investment decisions should be taken with respect to the overall portfolio's objective.

Therefore, we believe a global multi-asset investment process can deliver on objectives and consistently add value by:

- Designing the asset allocation to reflect economic climate expectations and responsively adjusting to market developments.
- Systematically exploiting market inefficiencies by focusing on key fundamental drivers of returns (Value, Momentum, Carry, Fundamental, and Market Structure).
- Blending disciplined quantitative underpinnings with qualitative experience and expertise across the broadest possible opportunity set of markets and financial instruments.

We base these views on research (both academic- and market-based) and our experience delivering on client objectives. For our research related to these topics, please refer to our website.

Stewardship and ESG integration

We partner with our clients to provide solutions that maximise the probability that they can meet their investment objectives. We assess our client needs based on three key criteria being: risk tolerance, investment horizon and return ambition level. We utilise third party monitoring services for our direct holdings.

As part of our stewardship responsibilities, we exclude specific companies involved in munitions and armaments across all of our portfolios. We can also apply screens to exclude, for example, tobacco and other ESG 'red flag' companies for certain clients. In addition, we believe that voting on company resolutions is an important responsibility of any equity holder and we vote on company resolutions using the advice and services of CGI Glass Lewis.

Direct access to ESG ratings and data provides us with a comprehensive database of ESG scores for global companies. This allows us to replicate the intended equity market exposures and remove the poorly rated ESG companies, which we use as a negative indicator, within their sector classifications. Over time, this is expected to add value to the portfolio by avoiding negative investment outcomes.

Team profile

The Multi-Asset Solutions team provides a range of services to institutional clients around the world in the fields of portfolio management, asset allocation, asset/liability management, portfolio construction and risk management. We are a highly experienced and cohesive team of eight investment professionals located in Singapore, Sydney and London.

Our dedicated team of portfolio managers and analysts is responsible for research, portfolio construction and implementation. We work collaboratively with our clients to develop robust and consistent investment solutions which maximise the likelihood that our clients will meet their stated investment objectives.

Andrew Harman, a Portfolio Manager with over eight years' industry experience, is the team's RI lead.

Number in team	8
Average experience	13 years
Average years in team	4 years

ESG implementation

Assessment and monitoring

ESG research is currently conducted by the Multi-Asset Solutions team with a focus on developing customised solutions for clients. All research is designed to be implemented systematically using data provided by MSCI Governance Research and Sustainalytics.

Integration

As part of our stewardship responsibilities, we exclude specific companies involved in munitions and armaments across all of our portfolios, as well as apply screens to exclude tobacco and other ESG 'red flag' companies for certain clients. In addition, we believe that voting on company resolutions is an important responsibility of any equity holder and we vote on all company resolutions where we can. Due to the top-down investment process, we do not normally directly meet with company management.

Investment information and performance^

All information as at 31 December 2015.

Five year performance*

Portfolios outperforming benchmark	74%
Weighted average outperformance	0.14%
Absolute return **CFS Wholesale Balanced Fund**	6.63%

* Performance is quoted pre-fees and in $A terms.

^ Figures are representative of all team portfolios. Please see Appendix 3 for important information on the calculation and use of the metrics provided.

Unconstrained Global Fixed Income

Stephen Johnson
Head of Unconstrained Global Fixed Income

Our newest investment team is our Unconstrained Global Fixed Income team based in Louisville, Kentucky. In order to provide some insights into the process and ESG approach, we have included a Q&A discussion with the Head of the team, Stephen Johnson. From next year, the report will include a dedicated profile on this team.

Please tell us about the history of the team

Most members have worked together for over 20 years. We have operated the same basic investment process, inspired by a durable investment philosophy, at two prior firms. Our shared history includes the leadership of two large fixed income managers, offering a wide range of investment products, managing a range of retail and institutional offerings, tailored to an extensive range of clients across the globe.

We are client-led, striving to align with our clients at all times, providing them with innovative solutions, as opposed to being product-led. This stewardship mindset binds our team and underpins how we have evolved and grown over the years.

Please summarise investment process and philosophy

Perhaps the team's most important accomplishment has been the design of a unique investment process. Our process includes some core principles and features which allow us to achieve sustainable long-term investment outcomes for clients. These include:

- Breaking down the portfolio manager role into a series of smaller, manageable and measurable tasks and in doing so, removing key person risk in addition to isolating and attributing outcomes to the various contributions to the product.
- Our process also defines and treats the management of investment risks as everyone's responsibility. As fund failures are most commonly associated with the failures of risk management and control, this approach makes the risk management process more transparent and elevates its status across the team.
- We have developed an investment opinions database and workflow system called the Investment Opinion Network (ION) to support this approach.
- ION also systematises our research and investment view elements of our process, which are the building blocks for any portfolio we manage. The system captures and measures research and formalises its linkage to our portfolios. This naturally elevates the importance of our research, and creates a process for reflection and improvement.

ESG factors have long been used in equity and direct investments to add value, with strong evidence to that effect. Why do you think it has been more difficult for fixed income investors?

When we think of ESG in our investment process, we tend to think of investing in companies that build sustainable products or related services. Green funds, i.e. funds that make private and public equity investments in environmentally friendly products, are perhaps the most well-known examples in the US.

We invest in public bonds. The universe of potential investments for public bond funds is the public debt of large companies, debt of sovereigns, and debt issued by government-related or sponsored entities such as Fannie Mae or Freddie Mac. Virtually all of these entities create products or provide services that are not explicitly focused on sustainability factors.

In our process, we view the comparison of ESG policies and the practices of bond issuers as a risk management exercise, making the ESG risk-assessment an integral part of our security selection process. Provided that the ESG analysis is future-focused, the benefits to investors will show up over time.

How have you overcome some of these challenges when establishing your investment process?

We have accepted this reality, with the plan to reshape it over time. Our research process requires ESG factors for the issuers we follow, so for now, we have a method for registering our ESG assessments and considering these assessments as part of our portfolio management process. Over time, we will be able to demonstrate the effectiveness of these assessments and the impact and relationship of ESG practices to bond returns and default risk.

You have a global database called ION which allows teams across our fixed income capabilities to share information and ideas. How important is this system to fully integrate ESG factors into your investment process?

ION will help us integrate ESG factors on a number of levels. To start, ION will help register ESG assessments for the issuers we follow. It will also help us measure our ESG ratings and understand how ESG assessments influence returns. It will help in designing ESG 'sensitive' products and help to control that these products are managed according to the fund's design.

Finally, ION will help improve collaboration and demonstrate how our process works, including how we use ESG to manage risk, build products and refine our views. ION will be central to our ESG capabilities.

Over the last couple of years there seems to have been a real shift with large US managers and pension funds adopting responsible investment practices. How do you see this developing from here?

The shift toward responsible investing has been fairly dramatic over the past five years and we would expect this trend to continue. The team in Louisville designed and operated an ESG 'sensitive' absolute return bond product at our prior employer and the product received a surprisingly cool reception. At that time, many of the large asset owners were only concerned with return and they saw ESG as something more likely to constrain opportunity, therefore potentially undermining returns. This view has proven to be short-sighted, but still has some advocates.

What changed? A number of things changed and contributed to the growth in interest. First, a number of high profile asset owners publicly declared their allegiance to RI and ESG principles. This coincided with consultants changing their practices, adding ESG-related consulting services to the other services they provide. Perhaps the most important reason was, and continues to be, a number of high profile corporate events and collapses, most of which should be identified as ESG-related problems. Examples include BP, Tesco and Volkswagen. These high profile failures remain the best advertisement for an ESG integrated investment process.

Improving Our Climate Risk Reporting

We fundamentally accept the science of climate change and that a transition to a low carbon global economy is underway. We understand this will impact different assets in different ways, both in relation to their contribution to climate change in the form of greenhouse gas emissions, and also their exposure to the physical impacts of climate change. In addition, many companies are well-positioned to provide the solutions needed to reduce emissions and adapt to a changing climate. Our Global Listed Infrastructure team's case study on NextEra Energy is a good example of this.

We also accept that as allocators of capital, stewards and shareholders, the individual and collective decisions investors make will influence the nature of the transition. The wicked challenge of climate change is that no individual or group are solely responsible, but without good faith efforts by governments, companies, investors and individuals, the best solutions will come too slowly to mitigate the worst impacts.

This shared responsibility requires transparency from all stakeholders so that each group can see and gain confidence in the actions of others. In this light, we have been following the growing trend towards improved climate change disclosure, including for example, the changes to French law.

However, as a relatively new form of investor disclosure we have been concerned with the way it has been provided by some investors, in particular the focus on carbon footprinting. We believe that carbon footprinting without contextual information on how carbon emission intensity influences investment decision making, or around limitations with the footprints themselves can be misleading.

For this reason, we are not disclosing a carbon footprint at this time and have instead elected to have a number of our teams provide an additional statement on their approach to climate change and their exposure to fossil fuel companies. When considered alongside the substantial disclosure we already provide on ESG integration and engagement, we believe this provides the appropriate context clients and other stakeholders require.

Limitations of Carbon Footprinting

We currently see the following limitations with carbon footprinting and therefore disclosures which do not provide sufficient contextual information:

- **Data quality and availability issues –** These can be split into the quality and timeliness of collection by providers, the number and quality of company disclosures, and the quality of the processes which providers use to estimate emissions for non-disclosing companies. As a result of these issues, reports from different providers can provide significantly different results.

  We believe investors must adopt disclosure practices which avoid the risk of some investors 'forum shopping' for the provider that calculates the lowest emissions for their portfolio.
- **Emissions over revenue is not always the best intensity measure –** Revenue is the standard intensity measure used to normalise emissions so comparisons can be made between companies of different sizes. However, it is not always the most relevant. For example, revenue can be significantly affected by commodity prices for resources companies even though the carbon efficiency of the company is better determined by tonnes of output. Similarly for office-based enterprises, the number of employees or square metres of office space are more useful than revenue to determine relative efficiency.
- **Stranded asset risk not captured –** The term 'stranded assets' refers to assets which carry a value today but which are at risk of being heavily written down or written off due to market or other changes. For fossil fuels, this has been focused on resource reserves, which carry a value but which may not be extracted due to a shift away from carbon-intensive energy sources. Stranded assets can also be used to describe electricity generators, ports, pipelines and other supporting infrastructure. These risks are not covered by carbon footprints.

  One way to consider this from an investment perspective is that carbon footprinting only covers actual emissions relevant to the profit and loss (if including a cost of carbon), but does not capture stranded asset risks which are more relevant to the balance sheet. For some sectors, stranded asset risks are as important as carbon intensity.
- **Other risks not captured –** Footprinting does not capture risks to industries where the carbon emissions occur up or downstream. Examples include auto manufacturers who will be impacted by vehicle emission standards and shifts towards alternative fuels, even though the emissions being targeted occur in the products' use phase rather than during the manufacturing process. Carbon footprinting also does not capture geographic and structural issues, for example the costs and, ability to be substituted, which vary between countries and activities. An example of this is the difference between thermal coal used for electricity generation and metallurgical coal used for steel making, where the former is far easier to substitute with low emission alternatives than the latter.

For these reasons, we are concentrating on building the contextual base for our disclosure and will only include our carbon footprint once we believe it can be assessed in context. We expect this will be within the next two years and in the interim are happy to discuss issues related to climate change with our clients and other interested stakeholders.

Team Climate Change Statements

Introduction

We have asked each team to make a climate change statement in terms of how they see and manage the issue. We are also disclosing our active equity team's exposure to companies with a significant proportion of revenues reliant on fossil fuels.

A sample of these disclosures can be found below with the remainder available in our online report.

The fossil fuel exposures are provided at a team level for the active equity teams where we were confident we could obtain good quality data. It captures companies who extract, use and transport fossil fuels. The methodology we used is described in appendix three.

The reporting is at a team level because we want to highlight the overall exposure, regardless of the fund, on the basis that the greater the overall exposure to climate change risks (of which fossil fuels is only one), the more sophisticated the thinking and deeper the analysis should be.

We don't see high exposure as necessarily negative as often this is driven by the sectors invested in. For example our Global Resources team and Global Listed Infrastructure teams have significant numbers of companies in their investment universes with fossil fuel exposure and have developed processes to consider and manage carbon risks.

This expertise benefits other teams, for example our Global Resources team made a significant contribution to the development of the Stranded Assets Tool kit which we described in last year's report.

Global Listed Infrastructure

A company's carbon exposure is taken account of in various ways. For example, our quality score includes an environmental assessment of each company that considers the carbon intensity of that company. This means that companies with higher levels of carbon exposure are naturally discounted more than those with cleaner generation portfolios.

We also take account of carbon risk within our financial models, to the extent that it has direct implications for the earnings potential of a business. For example, due to the evolution of shale gas in the US, coupled with the reduced cost curves and tax incentives for renewables, we have seen the amount of coal used decline rapidly. Since the volume of coal hauled is explicitly modelled within our freight rail volume numbers, we adjust those accordingly to account for the structural change that we have seen in the market.

Holdings in companies with material fossil fuel revenues

	No. of Companies %	% of FUM
Predominantly Gas	13.7	10.3
Other Fossil Fuels	9.8	11.4
Non-Fossil Fuel	76.5	78.3

Global Property Securities

Carbon emissions from REITs are generated by the combustion of fossil fuels providing heating, cooling and lighting and powering of appliances and equipment. The effective management of carbon emissions through energy efficiency measures provides real estate companies with the ability to lower their energy costs. It also enables them to reduce their carbon footprints.

Our team has a focus on REITs with clear initiatives in place to reduce their property portfolios' carbon footprints through energy efficient practices. We also have a focus on REITs that are improving their overall portfolio quality and reducing obsolescence via the development of new properties with sustainable and renewable design features.

REITs with the above characteristics receive a better rating during our ESG assessment of the company, resulting in a positive impact on our valuation assumptions for those stocks. In contrast, those that do not follow the above approach receive a lower ESG rating, resulting in a negative impact on our valuation assumptions.

Holdings in companies with material fossil fuel revenues

	No. of Companies %	% of FUM
Predominantly Gas	0.0	0.0
Other Fossil Fuels	0.0	0.0
Non-Fossil Fuel	0.0	0.0

Global Resources

As investment managers, we encourage all of our companies to lower their carbon footprint. We do invest in the producers of oil, gas and coal, as we believe that the market for these commodities will continue to be relevant to global energy requirements for some time. It is our belief that the transparency and reporting requirements demanded by the shareholders of a publiclly listed company provide an incentive to be responsible operators.

In their absence, the demand for these products would otherwise be met by less regulated private operators, often with lower standards of safety and environmental practices. Our approach of investing in companies with low costs and strong balance sheet ensures that the companies in which our client's money is invested should be the most capable of adapting to the ever changing regulatory environment. In addition, we are seeking investment opportunities in listed alternative and renewable energy companies as this sector offers attractive growth prospects for our clients.

Holdings in companies with material fossil fuel revenues

	No. of Companies %	% of FUM
Predominantly Gas	4.2	3.6
Other Fossil Fuels	22.0	41.2
Non-Fossil Fuel	73.9	55.2

Australian Equities, Core

The Australian Equities, Core research process assesses every potential investment on sustainability factors. Carbon risk is one of the key environmental factors considered when analysts form a sustainability rating. One illustrative example is the team's current investment view on AGL Energy. AGL is one of the largest carbon emitters in Australia. The company's brown coal-fired power generation facility at Loy Yang creates a substantial risk that those assets might be 'stranded' in the long term. However, this negative is offset by the fact that AGL has access to one of the largest portfolios of renewable generation in the market. The company also has a large bank of renewable energy credits that are dramatically 'in the money'. Much of AGL's business, as a result, benefits from the effects of rising renewables costs. Balancing these two factors currently results in AGL Energy being rated 'neutral' from a sustainability perspective by the team.

Holdings in companies with material fossil fuel revenues

	No. of Companies %	% of FUM
Predominantly Gas	2.7	1.8
Other Fossil Fuels	5.4	13.0
Non-Fossil Fuel	91.6	85.3

Industry Collaboration

Each year we conduct a review of the various initiatives that we have been involved with to ensure we can continue to effectively contribute and that the purpose aligns with our clients' interests. We have reduced the overall number of initiatives to ensure focused attention and to ensure we are able to provide sufficient resources to support each initiative.

The initiatives that we remain actively supportive of and engaged with are listed below and are current at 31 December 2015.

Global initiatives

Cambridge University Investment Leaders Group

- Founder member
- Chair of Long-Term Mandates Working Group

Towers Watson – Thinking Ahead Institute

- Founder member

Integrated Reporting

- Business Reporting Leaders Forum (Australia)

PRI

- Reporting Framework Advisory Group

Asia Pacific

Financial Services Council

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

Responsible Investment Association Australasia

- Chair
- Member of Governance Committee

Infrastructure Sustainability Council of Australia

- Member

ESG Research Australia

- Research Evaluation Committee member

Investor Group on Climate Change

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

EMEA

Institutional Investor Group on Climate Change

- Member

UK Sustainable Investment Forum

- Board Member
- Chair, Nominations Committee

EUROSIF

- President

Institute Chartered Accounts in England and Wales

- Member of the Corporate Governance Committee

Appendix 1 – Companies Subject to the Cluster Munitions Policy

In May 2013, First State Investments (First State) became a signatory to the Cluster Munitions Exclusions List. This gives an explicit commitment not to invest in companies across the globe involved in the production and sale of anti-personnel mines and cluster munitions. For First State, this is the only example where we have applied a blanket ban or negative screen to investment decision making. Our approach has always been centred on engagement rather than divestment or exclusion.

Background

As the Convention on Cluster Munitions (see below) outlines:

Cluster munitions are unacceptable as they have wide area effects and are unable to distinguish between civilians and combatants and leave behind large numbers of dangerous unexploded ordnance, which kill and injure civilians, obstruct economic and social development, and have other severe consequences that persist for years and decades after use.

Singapore Engineering Technologies ceases involvement in cluster munitions

Singapore Engineering Technologies (STE), one of the largest arms producers in Asia, announced last November that it "is now no longer in the business of designing, producing and selling of anti-personnel mines and cluster munitions or any related components thereof."

As such and following the annual review of companies affected by our Policy on Investment in Cluster Munitions and Anti-personnel Mines, we have been informed by Eumedion and Sustainalytics (who are tasked with identifying such companies for the purposes of the Dutch Financial Regulation on this issue), securities in STE became permitted investments effective from 1 February 2016.

The list of companies subject to this Policy effective from 1 February are:

- Aeroteh SA
- Hanwha Corporation
- Orbital ATK, Inc
- Poongsan Corporation
- Textron, Inc
- Motovilikha Plants JSC

The list will next be reviewed in January 2017 and will be published in next year's RI and Stewardship Report.

Convention on Cluster Munitions

The Convention on Cluster Munitions (CCM) is an international treaty that addresses the humanitarian consequences and unacceptable harm to civilians caused by cluster munitions, through a categorical prohibition and a framework for action. It was adopted on 30 May 2008 in Dublin, Ireland, signed on 3-4 December 2008 in Oslo, Norway, and entered into force on 1 August 2010. As of 1 October 2015, a total of 118 states have joined the Convention, 98 as state parties and 20 as signatories.

The Convention prohibits all use, production, transfer and stockpiling of cluster munitions and establishes a framework for cooperation and assistance to ensure care and rehabilitation to survivors and their communities, clearance of contaminated areas, risk reduction education and destruction of stockpiles.

Appendix 2 – RI and ESG Committees

RI Steering Group

	Name	Title	Location
Chair	Mark Lazberger	Chief Executive Officer	Sydney
Members	Chris Turpin	Managing Director, EMEA	London
	Kanesh Lakhani	Managing Director Distribution, EMEA and Asia	London
	Paul Griffiths	Chief Investment Officer, Fixed Income and Multi-Asset Solutions	London
	David Dixon	Chief Investment Officer, Equities	Sydney
	Joe Fernandes	Regional Managing Director, Asia	Singapore
	Michael Stapleton	Managing Partner, First State Stewart Asia	Hong Kong
	James Twiss	Managing Director, Americas	New York
	Perry Clausen/Niall Mills	Head of Global Infrastructure Investments	Sydney/London
Ex Officio	Will Oulton	Global Head, Responsible Investment	London
	Pablo Berrutti	Head of Responsible Investment, Asia Pacific	Sydney
Co-ordinator	Lorna Tweedie	Executive Manager	Sydney

ESG Risks Forum

	Name	Title	Location
Chair	Will Oulton	Global Head, Responsible Investment	London
Members	Paul Griffiths	Chief Investment Officer, Fixed Income and Multi-Asset Solutions	London
	David Dixon	Chief Investment Officer, Equities	Sydney
	Clare Wood	Head of Investment Assurance	Edinburgh
	Adrian Hilderly	Head of EMEA Risk and Compliance	London
	Pablo Berrutti	Head of Responsible Investment, Asia Pacific	Sydney
Co-ordinator	Lorna Tweedie	Executive Manager	Sydney

ESG Committee

	Name	Title	Location
Chair	Rotates between members		
Members	Tal Lomnitzer	Portfolio Manager	Sydney
	Manuel Canas	Deputy Head of Global Emerging Market Debt	London
	Rebecca Sherlock	Senior Analyst	Sydney
	Joseph Daguio	Investment Analyst	Sydney
	Yen Wong	Manager Credit	Sydney
	Hazrina Dewi	Head of Equity	Jakarta
	Gokce Bulut	Investment Analyst	Hong Kong
	Robin Balcomb	Senior Portfolio Manager, Structured Equities	Sydney
	Alex Gallard	Senior Investment Analyst	Sydney
	Jamie Grant	Head of Asian Fixed Income	Hong Kong
	Andrew Harman	Portfolio Manager	London
	Michael Arnold	Senior Credit Analyst	Louisville
	Toni Spencer	Head of Credit Research	Sydney
	Volker Häussermann	Director, Infrastructure Asset Management	London
	Rowan Element	Investment Analyst	Sydney
Co-ordinator	Pablo Berrutti	Head of Responsible Investment, Asia Pacific	Sydney

Appendix 2 –
RI and ESG Committees (cont.)

Marketing/Communications Group

	Name	Title	Location
Chair	Will Oulton	Global Head, Responsible Investment	London
Members	Pablo Berrutti	Head of Responsible Investment, Asia Pacific	Sydney
	Heidi Sutton	Global Head of Marketing	Singapore
	Simone Dunn	Global Head of Communications	London
	Giles Starkey	Head of Marketing, EMEA	London
	Tracy Brown	Senior Manager, Marketing and Communications	Sydney
	Una Clarke	European Marketing and Communications Manager	London
	James Molony	Investment Writer	London
	Sarah Mahomed Ross	European Marketing and Communications Manager	London
	Sabrina Leung	Head of Marketing, Asia and Global Marketing Projects	Hong Kong
	Brodie Neader	Online Marketing Manager EMEA	London
	Rodney Dickson	Global Head of Digital and Head of Marketing ANZ	Sydney
Co-ordinator	Elizabeth Dourof	Team Assistant, Responsible Investment	London

Business and Client Support Group

	Name	Title	Location
Chair	Will Oulton	Global Head, Responsible Investment	London
Members	Harry Moore	Head of Business Development, ANZ	Sydney
	Frank Glennon	Business Development Director	London
	Marc Bishop	Sales Director	London
	Clare Wood	Head of Investment Assurance	Edinburgh
	Hajime Kobayashi	General Manager, Japan Business Development	Sydney
	Lauren Prendiville	Head of Distribution, South East Asia	Singapore
	Vivian Tang	Head of Distribution, North Asia	Hong Kong
	Ryan Felsman	Investment Manager, Global Resources	Sydney
	Daniel Bristow	Head of Client Relationships and Service	Sydney
	Hugh Tancred	Relationship Manager	New York
	Chris Gower	Head of Client and Consultant Relations, Europe	London
	Rebecca Sherlock	Senior Analyst	Sydney
Co-ordinator	Lorna Tweedie	Executive Manager	Sydney

HR and Employee Engagement Group

	Name	Title	Location
Chair	Delia Harris	Organisational Development Manager	Sydney
Members	Will Oulton	Global Head, Responsible Investment	London
	Pablo Berrutti	Head of Responsible Investment, Asia Pacific	Sydney
	James Twiss	Managing Director, Americas	New York
	Chris Turpin	Managing Director, EMEA	London
	Joe Fernandes	Regional Managing Director, Asia	Singapore
Co-ordinator	Elizabeth Dourof	Team Assistant, Responsible Investment	London

Appendix 3 – RI and Stewardship Measures

Limitations and qualifications

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

For the information to be relevant it is important to note its context and limitations of the information. In particular:

Team level reporting

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

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

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

We hope clients will find this approach useful for seeing their investments with us in context and how they are influenced by the relevant team's approach to RI and stewardship.

New measures

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

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

On the following page is the list of indicators, what they mean, why we believe they are important and any specific limitations.

Appendix 3 –
RI and Stewardship Measures (cont.)

Indicator	Why it is important	Definition and methodology	Limitations
Team profile	Shows the number and experience of people managing client funds.	–	–
Top five holdings	Shows largest investment by the team by economic value.	–	Some teams have an absolute return mindset and so over/under weight vs benchmark may not be the best indicator for conviction. We have provided both for most teams. Top five holdings shows the largest economic exposure which should translate into increased engagement.
Top five active holdings	Shows highest conviction investments.	Five highest overweight securities in flagship fund.	Some teams have an absolute return mindset and so over/under weight vs benchmark may not be the best indicator for conviction.
Returns % of portfolio ahead of relevant benchmark over five years (FUM-weighted)	Shows proportion of funds under management which have exceeded benchmarks and so added value. RI and stewardship practices are one aspect of our team's investment processes which allow for this performance.	% of funds ahead of benchmark weighted by FUM. Returns calculated using the global investment performance standards (GIPS).	Different asset classes and sectors will perform differently at different times. Benchmarks are inherently blunt and not always reflective of the style or objectives investors are trying to achieve. Therefore they should not be looked at in isolation. Past performance is not indicative of future performance.
Weighted average of outperformance (five years annualised)	Shows weighted average of value added by team over five year period against benchmark. RI and stewardship practices are one aspect of our team's investment processes which allow for this performance.	Weighted average of total excess performance vs benchmark, annualised. Returns calculated using GIPS standards.	As above.
Absolute return over five years (Flagship fund)	Shows absolute return achieved annually by team on their flagship fund. Absolute returns represent actual outcomes for clients as opposed to relative performance which may be positive despite clients losing money in down markets.	Returns calculated using GIPS standards.	
Portfolio turnover (five years annualised)	Shows team culture towards trading over extended period of time. Should be used in conjunction with name retention for fuller view.	Total purchase OR total sales (whichever is less) for the fund over the period/total net asset value. Annualised.	Simple measure, does not account for different market conditions in different countries/sectors.
Name retention (five years)	Shows importance of stewardship mindset as long-term holders of companies and the potential benefits of engagement. Should be used in conjunction with turnover for fuller view.	Compares the portfolio at two different points in time. For example, if there are 50 stocks in the portfolio at point one and 40 of named stocks are still the same at point two you get a retention ratio of 80%.	Does not cover instances where a company is owned, completely divested and then rebought. However, the importance of long-term stewardship mind set remains as engagement can occur throughout.
Climate change statement and fossil fuel exposure. Number of companies and percentage of funds.	Climate change poses many risks and opportunities for investors. It is important for our clients to understand how these risks are being managed so they can more effectively engage with their asset managers. This is our first attempt at this form of disclosure and we intend to improve the breadth, depth and reliability over time.	Companies with greater than 30% revenue (or generation capacity) were included. As were transport companies (mostly rail) with greater than 30% of volume. Oil, gas and some mining services companies were also included, as were oil and gas pipelines and storage companies. We also separated out predominantly gas companies from coal and oil given its lower carbon intensity. The list was developed with reference to multiple sources and refined in collaboration with each investment team.	Revenue segment and product disclosure is inconsistent. For some teams we found the data too unreliable to use. Companies in different countries will be impacted differently as will companies with different costs of production, our approach does not account for this. The most significant fossil fuel exposure remains with nation states, which distorts the overall impact of the transition on listed companies.

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