

# Colonial First State Asset Management (Australia) Limited

## Form ADV Part 2A - The Brochure

A Guide to Our Services  
September 2013

**This brochure provides information about the qualifications and business practices of Colonial First State Asset Management (Australia) Limited ABN 89 114 194 311.**

**The information in this brochure has not been approved or verified by The United States Securities and Exchange Commission ("SEC") or by any State securities authority.**

**Colonial First State Asset Management (Australia) Limited is registered as an investment adviser with the SEC. Registration as an investment adviser with the SEC does not imply any certain level of skill or training.**

**If you have any questions about the contents of this brochure or about Colonial First State Asset Management (Australia) Limited in general, please contact us on (612) 9303-3000.**

**Additional information is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Colonial First State Asset Management (Australia)  
Ground Floor Tower 1  
201 Sussex Street  
Sydney, New South Wales, 2000  
Australia  
[www.cfsgam.com.au](http://www.cfsgam.com.au)**

**September 2013**

## Item 2 - Material Changes

There have been no material changes to our disclosures since our last update.

**Item 3 - Table of Contents**

<b>Section</b>	<b>Description</b>	<b>Page</b>
1.	Cover page	1
2.	Material changes	2
3.	Table of contents	3
4.	Advisory business	4
5.	Fees and compensation	5
6.	Performance based fees and side by side management	6
7.	Types of clients	7
8.	Methods of analysis, investment strategies and risk of loss	8
9.	Disciplinary information	12
10.	Other financial industry activities and affiliations	13
11.	Code of ethics	15
12.	Brokerage practices	17
13.	Review of accounts	20
14.	Client referrals and other compensation	21
15.	Custody	22
16.	Investment discretion	23
17.	Voting client securities	24
18.	Financial information	25

### Item 4 - Advisory Business Overview

Colonial First State Asset Management (Australia) Limited ("CFSAMA") ABN 89 114 194 311, an investment adviser registered with the SEC, was registered with the Australian Securities and Investments Commission on the 10<sup>th</sup> of May 2005 to provide portfolio construction and investment management services to wholesale investors. We invest in a number of asset classes including equities, fixed interest, credit and cash securities.

CFSAMA is a wholly owned subsidiary of Colonial First State Group Limited ("CFSGL"), which is, in turn, a wholly owned subsidiary of the Commonwealth Bank of Australia ("CBA Group") (ABN 48 123 123 124). The CBA Group is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services.

In Australia, CFSAMA is the holder of an Australian Financial Services License (AFSL 289017). CFSAMA operates under the registered business name of Colonial First State Global Asset Management ("CFSGAM").

Where we provide discretionary investment management services through a separate account we agree upon the investment objectives with the client and they may specify investment restrictions which would be set out in their investment management agreement with CFSAMA. We may tailor the advisory services and fees charged to clients and the type of reporting they receive.

The guidelines typically describe the investment parameters and types of securities that are eligible for (or prohibited from) the account.

CFSAMA does not participate in any wrap fee programs or act as a custodian.

As of June 30, 2013, CFSAMA assets under management were as follows:

<b>Discretionary:</b>	\$ 84,680,320,257
<b>Non-Discretionary:</b>	Nil
<b>Total:</b>	<b>\$84,680,320,257</b>

### Management Services

Each client account is designed to meet a particular investment goal. Through discussions with the client, the client's goals and objectives are established and once the account has been funded, it will be managed in accordance with the objectives, investment guidelines and restrictions. The client retains ownership of the securities which comprise the account or appoints a third party custodian to retain ownership of the securities which comprise the account on their behalf.

In order to ensure that the account remains suitable to the client's financial circumstances, CFSAMA will maintain client suitability information in the client's file. On an annual basis, CFSAMA will notify its clients whose accounts are managed on a discretionary basis in writing to request updated information regarding the client's investment objectives and whether the client wishes to impose or modify the existing investment restrictions.

CFSAMA will monitor accounts at least quarterly and rebalance these accounts as needed. If CFSAMA believes that a particular investment is performing inadequately, or if CFSAMA believes that a different investment is more suitable for the account's goal, then CFSAMA will reallocate or reinvest the client's assets in accordance with the authority granted by the client.

### Item 5 - Fees and Compensation

Fees and compensation are negotiated on a case by case basis with our clients. We either charge an advisory fee based on a percentage of funds under management or clients may choose to pay a fee consisting of a combination of a percentage of funds under management and a performance based advisory fee.

Clients pay advisory fees quarterly in arrears and performance based fees are calculated in accordance with the agreed formula and paid annually in arrears.

We invoice clients directly for the fees they have incurred. We will not deduct our fees directly from your account however you may instruct your custodian to pay us out of the assets in your account once you have reviewed and accepted the fee calculation.

In addition to CFSAMA's advisory fee, clients may incur other fees and expenses charged by third parties in relation to your account, including, for example custody fees, brokerage, foreign exchange fees and other transaction costs.

Account termination provisions are specified in the individual client agreements; however, generally the client may terminate the agreement by providing us with written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

### Item 6 - Performance Based Fees and Side-by-Side Management

#### Performance Fees

In certain instances as described above, CFSAMA or an affiliate may be compensated under performance-based fee arrangements. All such compensation will be in compliance with Rule 205-3 of the rules and regulations promulgated by the SEC under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"). Whilst CFSAMA may receive performance based fees, no supervised person of CFSAMA accepts performance based fees from specific client accounts.

CFSAMA may provide concurrent advisory services to clients that are not charged a performance-based fee and clients that are charged such a fee. Thus, the potential for us to receive greater fees from performance-based accounts itself creates a potential conflict of interest regarding the allocation of investment opportunities, as there is potential that we may have an incentive to direct the best investment ideas to, or to allocate investments in favour of, the account that pays a performance fee.

To minimise potential conflicts, allocation of commitments and decisions to invest in investment opportunities made by CFSAMA for all discretionary clients with capital available for investment in the relevant strategy of the opportunity at such time will be in accordance with CFSAMA investment allocation process. The CFSAMA allocation process takes into account multiple criteria, including; specific and individual account objectives, account size and capital available for investment, the stage of development of an account's portfolio, the existing investment mix of an account, the diversification needs of the account, the size of the investment opportunity and the criteria for investment set out in the agreed investment disciplines.

#### Side by Side Management

CFSAMA may manage different types of accounts having different investment arrangements. Side-by-side management of institutional accounts may give rise to potential conflicts of interest. Potential conflicts may arise where the actions taken on behalf of one account may impact other similar or different accounts (e.g., because such accounts have the same or similar investment styles or otherwise compete for investment opportunities, have potentially conflicting investments or investment styles, or have differing abilities to engage in short sales and similar types of transactions).

To acknowledge this conflict, CFSAMA have established policies and procedures that seek to provide assurance in that investment decisions are made in accordance with the fiduciary duties owed to such accounts.

Item 12 (Brokerage Practices) of this brochure describes our policy on allocating trades fairly, which is designed to allocate trades to clients in a fair and equitable manner over time, taking into consideration the interests of each client.

## Item 7 - Types of Clients

We provide investment advice to institutional investors and accredited investors including:

- Pension plans
- Investment companies
- Other pooled investment vehicles (exempt from registration)
- Endowments
- State and Municipal organisations
- Charitable organisations

CFSAMA typically requires a minimum account size of US\$50 million for a separate account. Clients are generally “qualified purchasers” as defined in section 2(a)(51)(A) of the Investment Company Act of 1940.

### Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

#### Introduction

CFSAMA manages funds across a diverse range of domestic and global asset classes, including Australian and global equities, cash, fixed interest and credit, property securities, listed infrastructure and property.

#### Investment Approach

Being a separate and dedicated funds management business allows us to focus on our key strengths in asset management, while developing a performance culture to better position us to attract and retain quality personnel that will underpin the performance of our clients' investments.

We aspire to be a world class asset manager, delivering superior investment performance to our clients in Australia and around the world. More than just outperforming benchmarks and peers, this means exceeding our clients' investment objectives and their expectations of service, accountability and initiative. To achieve this, we ensure that our interests are aligned with those of our clients and uphold a culture of always acting in our clients' best interests.

#### Key Strategies

##### ***Global Listed Infrastructure***

The investment process utilises an active, bottom-up security selection process that aims to exploit market inefficiencies. We target undervalued securities where the market underestimates the level and quality of sustainable free cash flows. We seek to earn excess returns by integrating a rigorous stock selection process, leading to high conviction stock positions with strict portfolio management risk controls.

The strategies invest in infrastructure and utility securities which control assets with monopoly characteristics. The assets in which we invest should have high barriers to entry, strong pricing power, sustainable growth and predictable cash flow. We look for companies with robust business models and strong management execution.

##### ***Global Resources***

The investment process uses a bottom-up stock selection process, where the quality of the company, its management team, an analysis of the quality of underlying resource asset/s and long-term cash flow potential, rather than a short term commodity price view, is key to the investment decision.

As 'bottom-up' stock pickers, we regard our first-hand knowledge of companies as a strategic advantage. Our preparedness to conduct such in-depth analysis also enables us to identify small emerging companies that tend not to be researched by the broader broking community. This sector of the global resources market provides us with significant opportunities to add value.

The high level of training in the sciences of geology, physics and chemistry, as well as financial skills, provides a unique combination of expertise.

##### ***Global Property Securities***

The investment process is primarily focused on bottom-up stock research. We focus on undervalued real estate securities with sound qualitative attributes and sustainable earnings growth. Securities are then ranked within each region according to valuation and qualitative measures.

The investment team of regional specialists undertakes rigorous research process and proprietary valuation techniques identifying mispriced opportunities in a risk-adjusted framework in order to achieve outperformance objectives. Focused research effort in real estate markets that are under-researched provides further opportunities to



add value to portfolios. A great deal of emphasis is placed on meetings with individual companies in order to help identify undervalued securities.

### Material Risks for Investment Strategies

As with any investment, loss of principal is a risk of investing with any of the investment strategies described above. The strategies described above also are subject to the risks summarised below. However, the following list of risk factors does not purport to be a complete explanation of the risks involved in an investment strategy. Prospective clients are encouraged to consult their own financial advisors, legal and tax professionals on an initial and continuous basis in connection with selecting and engaging the services of CFSAMA for a particular strategy. In addition, due to the dynamic nature of investments and markets, strategies may be subject to additional and different risk factors not discussed herein.

Investments in portfolios are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, entity or person. Past results are not predictive of future results, clients should also refer to portfolio guidelines as well as to each portfolio's governing documents for further information on methods of analysis, investment strategies and risks specific to their portfolio investment.

### General Risks

**Market risk** - Investment returns are influenced by the performance of the market as a whole. This means that your investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes you invest in.

**Security and investment-specific risk** - Within each asset class and each option, individual securities like mortgages, shares, fixed interest securities or hybrid securities can be affected by risks that are specific to that investment or that security. For example, the value of a company's shares can be influenced by changes in company management, its business environment or profitability. These risks can also impact on the company's ability to repay its debt.

**Liquidity risk** - Liquidity risk refers to the difficulty in selling an asset for cash quickly without an adverse impact on the price received. Assets such as shares in large listed companies are generally considered liquid, while 'real' assets such as direct property and infrastructure are generally considered illiquid.

Under abnormal or difficult market conditions, some normally liquid assets may become illiquid, restricting the ability to sell them and to make withdrawal payments or process switches for investors without a potentially significant delay or discount to value.

**Counterparty risk** - This is the risk that a party to a transaction such as a swap or foreign currency forward fails to meet its obligations such as delivering a borrowed security or settling obligations under a financial contract.

**Non-Diversification Risk** - Non-diversification of investments means a portfolio may invest a large percentage of its assets in securities represented by a small number of issuers. As a result, the portfolio's performance may depend on the performance of a small number of issuers.

**Concentration Risk** - Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, and industry or asset class. A portfolio concentrating in a single jurisdiction is subject to greater risk of adverse economic conditions and regulatory changes than a portfolio with broader geographical diversification.

**Derivatives Risk** - Certain of the portfolios may use derivatives, specifically options, index options, interest rate caps, collars, futures contracts, options on futures contracts, and forward currency exchange contracts, to manage various types of risk, enhance a portfolio's return, reduce transaction costs, maintain full market exposure, manage cash flows, preserve capital or hedge against adverse movements in currency exchange rates.

The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives, and

changes in the value of the derivative, may not correspond, as intended, with changes in the value of the underlying asset, index or rate.

These risks are heightened when the adviser uses derivatives to enhance a fund's return or as a substitute for a position or security, rather than solely to hedge (or offset) the risk of a position or security held by the portfolio. In addition, when the portfolios invest in certain derivative securities, there is the possibility that they are effectively leveraging their investments, which could result in exaggerated changes in the net asset value of the portfolios' shares and can result in losses that exceed the amount originally invested.

**Deflation Risk** — Deflation risk is the risk that prices throughout the economy decline over time, which may have an adverse effect on the market valuation of companies, their assets and revenues. In addition, deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of a portfolio.

**Inflation Risk** — Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of an account and distributions can decline.

**Management Risk** - The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.

**Political and Economic Risks** — International investing is subject to the risk of political, regulatory, social, or economic instability in the country of the issuer of a security, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, and nationalization of assets.

**Asset Allocation Strategy Risk** - Asset allocation strategies do not assure profit and do not protect against loss.

**Force Majeure Risk** - Force majeure is the term generally used to refer to an event beyond the control of any party, including acts of God, fires, floods, earthquakes, wars, strikes and acts of terrorism. Some force majeure risks are uninsurable and, if such events occur, they may adversely affect the value of a security.

**Preferred Security Risk** - Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments.

**Potential Environmental Risk** - The portfolio may hold securities in an issuer who may be liable for the costs of removal or remediation of hazardous or toxic substances. The costs of any required remediation or removal of such substances may be substantial. The presence of such substances, or the failure to remediate such substances properly and any regulatory penalties may adversely affect the value of the securities causing a loss.

**Style-Specific Risk** - Different types of stocks tend to shift in and out of favour depending on market and economic conditions. To the extent a portfolio emphasizes a value style of investing, it runs the risk that undervalued companies' valuations will never improve.

**Currency risk** - Returns from offshore investments can be impacted by foreign exchange movements. Currency hedges are, therefore, established to ensure that foreign exchange movements do not have a meaningful influence on performance. These facilities are reviewed on an on-going basis.

**Underlying Asset Currency Risk** - The assets of a company may be held in a country other than where the security is issued. This has the potential to create an additional underlying currency risk for that security.

**Changes to laws and regulatory risk** - A government or governmental agency in a country in which the a security is issued or asset held may amend, repeal, enact or promulgate a new law or regulation, or a government authority or a court may issue a new interpretation of existing law or regulation that could substantially affect the security resulting in a loss. In addition changes in legal, tax and regulatory regimes within the jurisdictions of investments may occur which may materially affect the performance of a security.

**Company specific risk** - This is the risk that a company in which CFSAMA invests does not perform as successfully as anticipated. While it is impossible to completely eliminate this risk, the effect of such a situation on the value of the investment can be reduced through diversification. This implies that unless returns of individual securities are

perfectly positively correlated, a negative return from one security will be somewhat offset by better returns in others. This principle of diversification acts to reduce risk and reduce the return volatility of our portfolios.

### Specific Strategy Risks – Global Listed Infrastructure

**Interest rate risks** - Owing to the stable nature of cash flows, many securities with an exposure to infrastructure assets are able to be relatively highly geared. Consequently, they may be exposed to movements in interest rates and to contractual repayment obligations with financiers. Movements in interest rates may also affect the discount rates used in the valuation of these long duration assets. We seek to minimise interest rate risk by identifying assets with strong market positions, sustainable growth opportunities, inflation protected income and relatively low or hedged debt levels.

**Exogenous risks** – Securities with an exposure to infrastructure assets may be impacted by exogenous events. For example, the essential nature of infrastructure assets may increase the risk of terrorist attacks while their capital intensity may increase the risk stemming from natural disasters. While these events are difficult to predict, we seek to minimise exogenous risks through portfolio diversification.

**Operating risk** - The investment strategies will ultimately be exposed to the operating risk of the underlying businesses. Specialist skills are required in running an infrastructure business such as an airport or power station. An operating failure may adversely affect the profitability of the business and therefore the return of the investment. We seek to minimise the operating risks through portfolio diversification and detailed fundamental analysis. We aim for deep understanding of industry drivers, detailed analysis of company financials, regular meetings with management to understand and assess company strategy and execution, plus effective reviews of environmental, social and governance issues.

**Demand risk** - The level of demand, usage or patronage for the service provided by an infrastructure asset may fall below expectations and adversely affect the performance of the investment.

**Personnel risks** – The performance of a security which derives income from infrastructure assets may be impacted by the loss of key asset management personnel. We seek to minimise personnel risks by allocating significant resources to the investments. Remuneration is competitive and directly linked to the performance of the investment. Teams are mandated to grow funds under management and are backed by internal resources, including product development, information technology, trading and distribution.

### Specific Strategy Risks – Global Property Securities

**Property market risk - demand and supply** - The movement of capital in and out of both direct property and listed property securities can have a major impact on valuations. Consideration is given to the level of property investment sophistication and historic volatility of capital inflows/outflows before establishing an investment in a particular region.

Oversupply may develop in a particular region or segment of the property market as vacancy levels increase, rental demand declines or as new supply is added. Such an occurrence may result in downward pressure on valuations, possibly leading to declining trust distributions and capital values. This risk is partially mitigated by ensuring that there is a diversified spread of holdings by region and sector and by type of security held.

### Specific Strategy Risks – Global Resources

**Short Selling** – Selling a stock short involves selling borrowed securities in anticipation of replacing the borrowed securities at a lower price. If the value of the stocks held short increases, the account would have to pay more to replace the borrowed securities. The value of the stocks held “long” could decline, or could decline at the same time that the value of the stocks held short could increase, resulting in greater losses. The potential exists that short positions may not be able to be closed out at an advantageous time or at a favourable price. Unlike stocks held long, the potential of loss on stocks sold short is unlimited.

**Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our company or the integrity of our management. At the present time, CFSAMA does not have any material legal, financial or other disciplinary items to report.

### Item 10 - Other Financial Industry Activities and Affirmations

CFSAMA as part of the CBA Group which is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. In some cases, CFSAMA has business arrangements with related persons/companies to the CFSAMA advisory business or to their clients. In some cases, these business arrangements may create potential conflicts of interest, or the appearance of a conflict of interest between CFSAMA and a client. Recognised conflicts of interest are discussed in Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) of this Brochure.

#### **Affiliated Broker Dealer**

Commonwealth Australia Securities LLC ("CAS") is a U.S. registered broker-dealer and is a member of the self – regulatory organization, the Financial Industry Regulatory Authority ("FINRA"). It is subject to the securities laws and rules of the U.S. It is regulated by the Securities and Exchange Commission and FINRA.

If permitted by applicable law, CFSAMA will on an arm's length basis, utilise the services of CAS as broker dealer pursuant to the terms of a services agreement. CFSAMA will execute client transactions through CAS only when consistent with its duty to place the interests of clients first and to seek best execution (please see Item 12 – Brokerage Practices).

Certain employees of CFSAMA will also be employees and registered representatives of CAS (the "dual-hatted employees"). The dual-hatted employees, in addition to marketing CFSAMA's investment advisory services, will provide U.S. marketing and solicitation services for funds managed by CFSAMA. The dual-hatted employees must comply with the legal and regulatory requirements and policies of both CFSAMA as investment adviser and CAS as broker-dealer.

To address possible conflicts of interest that may arise (for example, possible "front running" or other misuse of non-public information related to client trades), an information barrier is maintained between the activities of the dual-hatted employees and CAS' securities trading activity. All employees of CFSAMA and CAS also are subject to the confidentiality and information security policies and procedures of their respective firms.

Neither CFSAMA nor CAS or any of its management persons is registered as a registered futures commission merchant, commodity pool operator or commodity-trading advisor.

#### **Associated Investment Adviser**

First State Investment International Limited is a registered investment adviser and is an associate of CFSAMA. First State Investments International Limited ("FSII") was incorporated in 1982. FSII is a wholly owned subsidiary of the CBA Group and is part of First State Investments, the business name by which Colonial First State Global Asset Management is known outside of Australia.

FSII is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. FSII predominantly specialises in investing in Asia Pacific and Global Emerging markets.

FSII has appointed CFSAMA to act as a sub-adviser and provide discretionary investment management services to private funds managed by FSII.

#### **Associated Investment Adviser**

First State Investments Singapore is a registered investment adviser and is an associate of CFSAMA. First State Investments Singapore ("FSIS") was incorporated in 1969. FSIS is a wholly owned subsidiary of the CBA Group and

## Colonial First State Asset Management (Australia)

is part of First State Investments, the business name by which Colonial First State Global Asset Management is known outside of Australia.

FSIS is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. FSIS predominantly specialises in investing in Asia Pacific and Global Emerging markets.

CFSAMA and FSIS mutually act as sub investment managers, providing discretionary investment management services in respect of several funds.

### **Associated Broker**

Commonwealth Securities Limited ("CSL") is an Australian registered broker within the CBA Group and is a General Participant of the Australian Securities Exchange ("ASX") and a Member of ASX24. It is subject to the securities laws and rules of Australia and is regulated by the Australia Securities and Investments Commission ("ASIC").

If permitted by applicable law, CFSAMA will on an arm's length basis, utilise the services of CSL as broker pursuant to the terms of a services agreement. CFSAMA will execute client transactions through CSL only when consistent with its duty to place the interests of clients first and to seek best execution (please see Item 12 – Brokerage Practices).

### Item 11 - Code of Ethics, Participation or Interests in Client Transactions and Personal Trading

CFSAMA has adopted a Code of Ethics (“the Code”) that requires all CFSAMA supervised persons to:

1. act with integrity, competence and in an ethical and professional manner;
2. always act in the best interests of clients;
3. comply with applicable U.S. federal securities laws, as well as all other applicable laws, rules and regulations; and
4. promptly report violations of the Code of Ethics.

All supervised persons are required to certify at least annually that they have read and understood the Code. A copy of the Code is available to clients and prospective clients upon request.

The Code includes:

- **Protection of Non-Public Information:** Summaries of policies and procedures designed to secure client information and prevent and detect the misuse of material non-public information. These policies and procedures train supervised persons in their obligations and impose controls which include, but are not limited to data security, information being made available on a “need to know” basis and physical security controls. If a supervised person believes they may come into possession of material non-public information then they are required to immediately notify the Chief Compliance Officer (“CCO”). Under no circumstances whatsoever may a supervised person, directly or indirectly, obtain any form of benefit from the use of material non-public information.
- **Personal Investing:** The personal investing activities of supervised persons are governed by the CFSGAM Global Personal Dealing Policy. In summary, with certain minor exemptions, such as the immaterial transaction exemption, transactions by supervised persons must be pre-approved. Additional restrictions apply to supervised persons with access to non-public information relating to current or imminent fund/client transactions, investment recommendations or fund portfolio holdings (“Access Persons”). Access Persons generally may not effect securities transactions for their own account when any investment advisory account is transacting in the issuer in question. All such Access Persons must report their securities transactions on a quarterly basis and disclose their holdings when they first become an Access Person and annually thereafter. Access Persons must obtain pre-approval to participate in an Initial Public Offering or Limited Offering. These restrictions also apply to the Access Person’s immediate household members. Additional restrictions and reporting also apply, including blackout periods on personal investing and a ban on short-term trading.
- **Gifts and Entertainment:** The CFSGAM Gifts & Entertaining Policy prohibits staff in the giving and acceptance of gifts or entertainment that is excessive, repetitive, inappropriate or extravagant. Procedures include:
  - Periodical reporting requirements
  - Limits on gifts that can be accepted from any one source during a calendar year, and
  - Pre-approval requirements dependent on value.
- **Political Contributions** - In the majority of jurisdictions gifts to a public official are generally illegal and these cannot be made. Permissible gifts may only be made after obtaining appropriate approval at the CBA Group level.
- **Conflicts of Interest** – In the discharge of its fiduciary duties to clients, CFSAMA has in place policies and procedures to manage conflicts of interest. In summary conflicts are managed by:
  - Control - controlling conflicts by putting in place arrangements to ensure the impact of the actual or potential conflict is reduced to an acceptable level; and/or

- Disclosure - disclosing all material facts concerning any actual or potential conflict that may arise with respect to any client; or
- Avoidance – if an actual or potential conflict cannot be effectively managed by disclosure and/or control, or by using other means, then the situation giving rise to the conflict must be avoided:

CFSAMA may from time to time invest in the same securities that FSII is also currently invested. Portfolio management and security recommendations are undertaken at an investment strategy level and each investment team managing these strategies is organised separately. Information barriers and other controls exist between investment teams to manage any potential conflicts that may arise.

You can request a copy of our Code of Ethics by writing to Colonial First State Asset Management Australia Limited, Ground Floor, Tower 1, 201 Sussex Street, Sydney 2000 Australia, Chief Compliance Officer.



### Item 12 - Brokerage Practices

#### Counterparty Selection

CFSAMA has a rigorous counterparty approval process to ensure that we use suitable, reliable counterparties (brokers) when dealing on behalf of clients. In order to ensure that they are suitable and reliable we have adopted an approved list of counterparties which have been reviewed and considered to be appropriate for us to deal with on behalf of our clients.

In selecting brokers to execute transactions for our client accounts CFSAMA considers the following factors:

- Financial Strength;
- Trading expertise — broker's ability to execute the trade with the minimum impact on the market price (i.e., get the best price);
- Technology and trading platforms — the efficiency of the broker's technology and trading platforms including ease of use and speed of execution;
- Broker's support in setting trading strategy;
- Efficiency of trade settlement;
- Research received either directly from the broker (proprietary research) or made available by the broker from third-parties (third-party research); and
- Commission and settlement costs.

CFSAMA maintains a list of approved brokers for both equity (stock) and fixed income (bond) trading. Brokers must meet financial strength requirements and provide basic service capabilities. We rate brokers quarterly on trade execution, broker support, operational accuracy and efficiency, and quality of research. Based on our evaluations, we establish guidelines for allocating trades to brokers. Portfolio managers have discretion to direct trades to a particular broker considering their research and trading expertise.

CFSAMA conducts a rolling programme of assessment and each counterparty is reviewed at least annually.

#### Use of Dealing Commissions

CFSAMA's policy is that all externally provided execution and research services are paid for as a part of an agreed commission with the broker. This may include situations where the dealing commission on a particular trade or series of trades is shared, such that a portion of the commission paid for third-party research or execution services. Such arrangements may be entered into in order to more efficiently implement our commission targeting policy, particularly in increasing the diversity of our use of providers of research, and to allow maximum flexibility in the selection of execution counterparties, including where a research service provider does not also provide an execution service.

This research may include any of the following:

- Analytical reports on specific companies or industries
- Current and historical statistical information on companies, industries or economic conditions
- Information on federal and state legislative developments
- Information on accounting practices
- Meetings either in person or electronically with corporate managements, industry experts, economists and other experts
- Meetings either in person or electronically with research analysts with expertise in specific companies and industries

- General investment information useful in identifying investment opportunities and developing investment strategies
- Statistical information useful in evaluating comparative investment performance
- Technical measurement services

Other services that may be received from brokers include trade settlement.

The research and other services are paid for by commissions generated by client trades. This is long standing industry practice. The Securities Exchange Act of 1934 established criteria for “qualified” brokerage and research services. We believe that the research and services received for client commission’s fall within the definition of “qualified” brokerage or research service.

The use of client commissions for research and services is a potential conflict of interest. We may have an incentive to allocate trades to a particular broker to obtain research services rather than to the broker who would be expected to provide the best combination of commission and price. Absent the availability of commissions to compensate brokers, some of these services would need to be acquired by direct purchase out of our resources. At this time, many research services are not available for direct purchase.

No arrangements regarding the use of dealing commission may be entered into that could compromise our ability to seek best execution for our customers.

### **Counterparty commission targeting & allocation**

Each team within our broader business is responsible for managing their target allocation of commission for research services to counterparties, within the broad principles established below.

On a regular basis, each team meets to review the services of counterparties used by that team and to plan an appropriate targeted allocation of commission to each counterparty. The system is designed to rank brokers in terms of their access to company management, quality research, sales coverage, access to IPO’s and dealing (including execution and settlement services).

The equity dealing desk is responsible for agreeing the commission rates, whether full service or execution only, with each broker across each market. CFSAMA’s standard practice is to adopt fixed full service rates per market, with commission allocated via the targeting process being used to manage the level of commission payment made for research services to that broker.

### **Commission sharing arrangements**

As part of their regular commission targeting process, which includes an evaluation of the research used by each team in their overall investment process, each team decides which of their research services received they would like to separately allocate commission in addition to the allocation of execution services (which is done with the input of dealers on the basis of best execution).

Each research service that meets the regulatory criteria outlined above will then be included in the allocation for each team for use of commission sharing. The investment operations team reviews non-executing providers of research services and maintains a list of approved research services providers. Following the decisions reached by each investment team on the allocation of payments for research services, the investment operations team calculates the resultant commission target required to be paid through commission sharing and provides this to the equity dealing desk, for subsequent generation from a panel of approved commission sharing brokers, the individual selection of which is by the equity dealing desk on the basis of best execution.

The achievement by the dealing desk of commission targets is monitored regularly both to ensure team commission targets are achieved, and that sufficient amounts of commission sharing research services credits are generated appropriately per desk to meet the services required by each team.

### Directed Commission

There are different procedures for dealing with any directed commissions. Where we utilise commission sharing arrangements, we are seeking to pay for services for which we have contracted out of commission generated on our clients' accounts in accordance with the rules. In the case of directed commission we are instructed by the client to generate commission on the clients' account to pay for a service for which the client has contracted.

CFSAMA generally discourages the entering into of such arrangements if we believe they will add complexity to the management of dealing commission and where they may conflict with our obligations regarding best execution. We must ensure that where such directed commission arrangements are entered into, we are satisfied that such commissions can be generated in the client's account within a normal amount of turnover without allowing that client to benefit from services received and paid for from our other clients. There must be sufficient free, undirected business to ensure that the client is paying towards the research and other services which we obtain from brokers to manage the account. We will not enter into such arrangements unless the liability for payment for the services which the client has purchased remains with the client and does not become a liability of CFSAMA.

### Cross Transactions

Where an internal crossing or "put-through" is undertaken, where one internal fund/client is selling and another is buying, the equity dealer must ensure the price is fair to both customers. Our standard approach in all such cases is to transact through a broker as a net trade, rather than to cross internally: this creates a clear audit trail with an external party and ensures all regulatory reporting is conducted. Crosses are executed only with client authorization and only for clients that are not plans, trusts or retirement accounts governed by the Employee Retirement Income Security Act of 1974, as amended. Such transactions are only entered into when CFSAMA deems the transaction to be in the best interest of both clients and at a price CFSAMA has determined by reference to independent market source.

Neither CFSAMA nor any related party receives any compensation as a consequence of such 'cross' transactions.

### Aggregation and Allocation of Orders

CFSAMA seeks to aggregate and allocate trade orders in a manner that is consistent with its duty to: (1) seek best execution of client orders; (2) treat all clients fairly and equitably over time; and (3) not systematically advantage or disadvantage any single client or group of clients.

CFSAMA follows policies and procedures pursuant to which it may combine or aggregate purchase or sale orders for the same security for multiple client accounts (also known as a bunched order) so that the orders can be executed at the same time. CFSAMA aggregates orders when CFSAMA considers doing so appropriate and in the interests of its clients. CFSAMA's client accounts may be included in the aggregated orders with clients of CFSAMA's affiliated advisers.

When orders are aggregated, the orders may be placed with one or more brokers for execution. When a bunched order is filled, CFSAMA generally will allocate the securities purchased or proceeds of sale pro rata among the participating client accounts based on the pre-trade allocation. Adjustments or changes may be made under certain circumstances, such as to avoid small allocations or to satisfy cash flows and guidelines. If an order at a particular broker is filled at several different prices, through multiple trades, generally all participating client accounts will receive the average price.

Although allocating orders among CFSAMA clients may create potential conflicts of interest because CFSAMA may receive greater fees or overall compensation from some clients than received from other clients, allocation decisions will not be made based on such greater fees or compensation. When an investment opportunity is suitable for two or more clients, allocations will be made in a fair and equitable manner, and will take the following factors, among others, into consideration: the relative size of the client account, available cash for investment, investment objectives and restrictions, liquidity considerations, legal and regulatory restrictions, portfolio risk/return objectives, investment horizons, and client instruction.

### Item 13 - Review of Accounts

CFSAMA regularly reviews client accounts. The frequency of that review is determined by the requirements of the client and the nature of the mandate and includes periodic reviews of performance, investment activity and outlook. Normally these reviews would be carried out by the named portfolio managers, other qualified members of the investment team, together with the relationship manager, or in some cases, by the relationship manager directly. The named portfolio manager or senior member of the investment team and the primary relationship manager will meet with the client on at least an annual basis.

Periodic written data, including valuations and transaction information, is usually provided on a quarterly basis and may be supplied to the client or the client's designated representative for accounting, taxation or reconciliation purposes.

If CFSAMA considers a major market dislocation, or similar event has occurred, then client accounts would be reviewed and appropriate action and/or communication promptly taken.

**Item 14 - Client Referral and Other Compensation**

CFSAMA does not receive any additional compensation or economic benefits from third parties for providing investment advisory services to its clients and does not compensate anyone for client referrals.

CFSAMA's clients and prospective clients may utilise the services of investment consultants and similar experts to evaluate and recommend investment advisers and their services.

From time to time, CFSAMA or its affiliates may either provide investment advisory services to these consultants or their affiliates, or may separately use them for services unrelated to the client's account.

### Item 15 - Custody

CFSAMA does not maintain custody of the assets of our clients with separately managed accounts or funds or undertake any form of custody services. Instructions to facilitate portfolio management trading, payment of fees, etc. are instructed by the client through the client's or fund's custodian.

All clients should receive account statements directly from the broker-dealers, banks, trustees, or other qualified custodians with which they have accounts. We strongly urge all clients to compare the reports they receive from CFSAMA to the statements they receive from their broker-dealers, banks, trustees or custodians. Any issues or discrepancies should be communicated to us promptly.

**Item 16 - Investment Discretion**

CFSAMA accepts discretionary authority to manage securities accounts on behalf of clients through the negotiation, agreement and execution of an Investment Management Agreement which sets out the investment objectives of the client and any limits that the client may wish to impose on our discretionary authority.

For instance, clients may restrict the type of securities that may be included in the portfolio, or place limits on borrowing, underwriting or limit investment in particular securities.

Item 17 - Voting Client Securities

As a major institutional investment manager CFSAMA believes in the benefits and importance of sound corporate governance disclosures. CFSAMA believes that transparent and well-executed corporate governance is vital to the health and efficient operation of financial markets and companies. Corporate governance disclosures assist investors in determining the quality and the fair value of entities.

CFSAMA has in place a comprehensive corporate governance policy that describes how we vote on various issues. Subject to specific client directions, we will exercise every vote in accordance with that policy. Occasionally exceptions arise. The key criteria for how we vote is what we consider to be the best interests of our clients.

The authority and responsibility for exercising proxy votes will be defined within the investment management agreement executed between CFSAMA and each discrete mandate client. However, CFSAMA may still receive proxy voting instructions from each discrete mandate client on a case by case basis (provided CFSAMA is notified in a timely manner) or alternatively, the discrete mandate client may instruct their custodian directly.

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

Proxy voting policies and procedures or additional information regarding how we voted your securities by writing to: Colonial First State Asset Management (Australia) Limited, Ground Floor, Tower 1, 201 Sussex Street, Sydney 2000 Australia, Attention: Chief Compliance Officer.



**Item 18 - Financial Information**

CFSAMA does not require prepayment of any advisory fees.

Presently, CFSAMA has no financial commitments or obligations that would interfere with our obligations to our clients. CFSAMA has never filed for bankruptcy protection.