

Our commitment to the United Nations Principles for Responsible Investment

In March 2007, First State Investments became a signatory to the United Nations Principles for Responsible Investment (PRI).
What does this mean for our clients?

First State
Investments

*Expert teams
A specialist approach*

The PRI provides a framework for incorporating environmental, social and governance (ESG) issues in investment decisions. It is a set of global best practice investment principles, developed in 2005 by a United Nations led working group. As at December 2007, there were more than 280 signatories to the PRI representing over US\$10 trillion in assets under management. Signatories represent asset owners, investment managers and professional service partners. The PRI is a voluntary, aspirational scheme which requires First State Investments as a signatory to ask the question of the companies in which we invest:

‘What are you doing about environmental, social and corporate governance issues?’

The UN Principles for Responsible Investment

- **We will incorporate ESG issues into investment analysis and decision making processes.**
- **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- **We will promote acceptance and implementation of the Principles within the investment industry.**
- **We will work together to enhance our effectiveness in implementing the Principles.**
- **We will each report on our activities and progress towards implementing the Principles.**

What is responsible investing?

Investment decision making that gives full consideration to environmental, social and governance (ESG) issues is deemed to be ‘Responsible Investing’. This includes engagement with companies for disclosure of their ESG practices to identify sustainable business investments.

Why did we become a signatory?

On 1 March 2007, First State Investments became a signatory to the United Nations Principles for Responsible Investment. We took this important step for a number of reasons.

Good business sense

There is growing evidence¹ to suggest that companies that manage ESG issues well are more likely to enhance earnings and shareholder value than those that do not. This is achieved through reduced risk, innovation, lower operating costs, improved market access, enhanced reputation, capturing emerging opportunities such as carbon trading and attracting the best talent. Furthermore, there is growing demand from our clients for the integration of ESG issues into investment processes. We already consider ESG issues in varying degrees across First State Investments. The PRI simply provides a formal framework to integrate these considerations into our investment processes in a more uniform manner. Signing these principles demonstrates our commitment to implementing responsible investment practices across all of the asset classes in which our business invests.

¹ For example, a recent study by Goldman Sachs has found that companies that are leaders in ESG performance have outperformed the MSCI World index by 25% since August 2005. Furthermore, 72% of the companies have outperformed their peers over the same period. (Source: Goldman Sachs, July 2007)

Greater transparency

By encouraging the companies in which we invest to look at their own ESG practices, we are encouraging higher levels of transparency and responsibility from the business community.

Providing a consistent framework

Our investment teams already undertake rigorous research when making investment decisions. The PRI simply provides a more formal framework which will be common and consistent across the business.

Our commitment to active management

Signing these principles complements our commitment and active role to corporate governance in the equity markets in which we invest globally.

How are we going to implement it?

Across all asset classes

Our resolve in becoming a signatory is to embed ESG considerations in a formal and uniform manner into the research, analysis, investment and management decisions of each asset team within First State Investments.

Through executive driven implementation

We have a senior executive led Steering Group responsible for driving the development of policy and directing the implementation across all individual asset divisions and teams.

To become mainstream in our investment process

For our investment process, implementing the PRI will mean:

- Integrating ESG issues into the mainstream of our investment process, ownership and engagement policies;
- Assessing and understanding ESG issues and how companies are managing them;
- Encouraging the entities in which we invest to improve their ESG performance and disclosure.

In our own business practices

For our own business, we will continue to enhance our own ESG practices in line with best practice worldwide.

Without making 'ethical' judgements

Adopting PRI does not mean that we are adopting Socially Responsible Investing (SRI) across all asset classes. SRI generally involves the exclusion of companies based on an ethical assessment of their business operations, such as those engaged in the alcohol, tobacco and gambling industries. While we see a place in the market for funds based on an ethical investment premise, we do not aim to reduce the investment universe for our funds through ethical screening. Rather, we rather seek to play a more constructive role with all companies through the ongoing development and measurement of ESG practices.

Verified through reporting

We will report back on our implementation progress by adopting an ESG performance reporting system, and additionally, undertaking to report on ESG matters.

What is the value to investors?

ESG issues are becoming more significant as factors that may place business value at risk. The failure to consider these factors would be to the detriment of the investments we hold on behalf of our clients. Through engagement on ESG issues, we are better able to identify hidden and potential risks and opportunities in companies and therefore better able to determine which of those matters are material and what is being done to manage them.

By implementing the PRI into our investment process, our fund managers will potentially be better informed to make long-term investment decisions. Ultimately, we believe this will lead to enhanced risk/return outcomes for our funds and in turn, improve long-term returns for our clients.

Additionally, all signatories to the PRI are part of a network, which creates opportunities to pool resources, lowering the costs of research and active ownership practices. This allows us to work with other investment managers and asset owners to address a range of systemic problems that, if remedied, may lead to more transparent, accountable and profitable market conditions overall.

*Issued by First State
Investments (UK) Limited.
Authorised and regulated by
the Financial Services Authority
and a member of IMA.
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For more detailed information on the PRI, visit
www.unpri.org