Carbon Finance and Responsible Investing – Responding to the ‘carbon challenge’

Presentation to UNEPFI conference

June 2008

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Head of Sustainability and Responsible Investment
Presentation outline

- About CFSGAM
- Our approach to Responsible Investment
- Responding to the ‘carbon challenge’
  - Understanding the policy setting (and contributing to the debate)
  - Understanding the potential profitability impacts
  - Understanding the potential investment opportunities
- Conclusions
Colonial First State Global Asset Management

Global operation with significant investment experience

<table>
<thead>
<tr>
<th>Region</th>
<th>FUM (AUD billion)</th>
<th>Investment staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK/Europe</td>
<td>21.2</td>
<td>41 (198 total)</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia/NZ</td>
<td>124.7</td>
<td>154 (1,015 total)</td>
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<tr>
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</tbody>
</table>

AUD billion*

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL FUM</td>
<td>157.1</td>
</tr>
<tr>
<td>Australian Equities</td>
<td>31.6</td>
</tr>
<tr>
<td>International Equities</td>
<td>38.4</td>
</tr>
<tr>
<td>Total Equities</td>
<td>70.0</td>
</tr>
<tr>
<td>Fixed Interest &amp; Credit</td>
<td>26.2</td>
</tr>
<tr>
<td>Money Market</td>
<td>37.1</td>
</tr>
<tr>
<td>Total Debt</td>
<td>63.3</td>
</tr>
<tr>
<td>Listed &amp; Direct Property</td>
<td>19.4</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>0.1</td>
</tr>
<tr>
<td>Total Alternatives</td>
<td>21.5</td>
</tr>
<tr>
<td>Other (Multi-Sector)</td>
<td>2.3</td>
</tr>
<tr>
<td>Total other</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Funds under management shown as source of funds
Total global investment staff 219 (1,326 total, including 628 Colonial First State Property Management staff)
*All figures as at 31 May 2008
Source: Colonial First State Global Asset Management

FUM AUD 11.6 billion
Investment staff 22 (109 total)
Our business

Colonial First State Global Asset Management

Traditional Investments
- Global Resources
- Global Equities
- Australian Equities
- Listed Property Securities
- Listed Infrastructure Securities
- Fixed Interest
- Credit
- Short Term Investments
- Enhanced Yield

Property and Alternative Investments
- Infrastructure
- Direct Property
- Colonial First State Property Management
- Joint Venture: Sandalwood

First State Investments
- UK Equities
- Global Equities
- Global Emerging Markets and Asia Pacific
- Credit
- Fixed Interest

Joint Ventures:
- First State Media Group
- First State Cinda
Responsible Investment
– our journey to May ’08

- Signatory to the United Nations Principles for Responsible Investment since 1 March 2007

- A commitment to integrate a consideration of Environmental, Social and Governance (ESG) factors across all investments

- Strong governance process in place to support integration including:
  - RI Steering Committee and two implementation committees with internal reporting requirements (listed equities and unlisted assets)
  - Responsible Investment (RI) policy statement
  - ESG voting and engagement policy
  - Climate Change statement
  - Dedicated Head of Sustainability and Responsible Investment

- A number of initiatives to support our efforts including:
Climate change a hot topic for big money

Fiona Buffini

Australia’s 100 largest listed companies have until the end of June to say how they plan to deal with climate change, or risk lower valuations by some of their biggest investors.

About 46 companies have already disclosed their greenhouse gas emissions and reduction strategies to the Carbon Disclosure Project, which represents 211 investors with $31 trillion under management.

The project was extended to Australian companies for the first time.

Climate change ‘underestimated’ threat

Climate change expert Ilies Ilies

Climate change expert Nicholas Kelly says he underestimated the threat of global warming in his interim report to the British Treasury in 2006.

His comments echo Ross Garnaut’s warning in his interim report for the Government on climate change in February that the world is moving towards a “hot house” world.

Climate change ‘overarches all’: PM

A Carbon Crunch is Coming

Counting Corporate Climate Change Commitments

The 2007 ETS: not all parts of the world have a ‘credit crunch’
The policy setting

- Some emissions trading at the State level: committed to role into the Federal scheme
- Renewable energy targets at the State and Federal level: expected to be extended at the Federal level
- Expected ‘cap and trade’ scheme at the Federal level that will:
  - Broad sector coverage (cover all sectors except waste and agriculture)
  - Mixture or permit auctioning and free allocation
  - Possibility of agricultural off-sets and CDM’s to meet liabilities
- Mixed bag of our ‘supporting’ mechanisms: low emissions technology funds and other various government grants and rebates.
- Considerable ‘reporting frameworks’ for companies: of limited use to investors to date

In summary - mostly still theoretical!
Investor Group on Climate Change Analysis

<table>
<thead>
<tr>
<th>Possible Scenarios</th>
<th>Emissions covered</th>
<th>Permit Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100%</td>
<td>100% auctioned</td>
</tr>
<tr>
<td>2</td>
<td>Process emissions excluded</td>
<td>100% auctioned</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
<td>90% free</td>
</tr>
</tbody>
</table>
Impact of carbon price – Total cost to steel sector

Source: Investor Group on Climate Change
Also opportunities: Power station of the future?
Perhaps some issues with harnessing
Property: Future proofing assets
Not the carbon price signal – the electricity price!

![Future Contract Prices - Baseload Cal09](chart.png)
Conclusions

- Many Australian Asset Managers have recognised the need to respond to the ‘carbon challenge’
- Contributing to policy formulation
- The potential materiality of profitability impacts on the down side still unclear
- Initiatives are still being undertaken and opportunities realised but ‘voluntary’ or driven by the electricity price
- Once the price signal is given – the market will respond
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