GCMP | GOVERNANCE CODE MONITORING PANEL

Report on 2019 Compliance with the AIST Governance Code

Governance Code Monitoring Panel Report

March 2020

Contents

Introduction

In April 2017 AIST published the Governance Code to:

- Promote continuous improvement of governance in the profit-to-member super sector;
- Ensure the culture of the profit-to-members concept is fully supported by governance structures; and
- Improve accountability and transparency.

The Governance Code is a principles-based framework which goes beyond current regulatory requirements cementing a high benchmark of governance practice in Australia. The Code, which consists of 8 principles and 21 requirements aims to protect and improve outcomes for superannuation fund members.

The independent Governance Code Monitoring Panel is responsible for monitoring AIST member fund reporting on the AIST Governance Code. There are three Panel members and their biographies are included in Appendix 4. Panel members are appointed for three-year terms and their current appointment runs to April 2021.

The Panel's Terms of Reference require that it prepare a public report which assesses whether, and to what extent, each AIST member meets the reporting requirements of the Code, including an assessment of the reasonableness of fund's explanations of how they have met or why that have not met the requirements.

Fiscal year 2019 (ending 30 June 2019) was the first year in which all funds were asked to report. The data on reporters by fund type and size are illustrated in Charts 1 and 2.

CHART 1
REPORTERS BY FUND-TYPE
Number of funds

Corporate	4
Industry	26
Public Sector	11

CHART 2
REPORTERS BY FUNDS UNDER MANAGEMENT
Number of funds

Small	15
Micro	11
Medium (12.5-30bn)	5
Large (>30bn)	10

This report represents the Governance Code Monitoring Panel's assessment of the 41 fund reports from the perspective of understanding and honouring both the spirit and the substance of the Code's governance principles and reporting requirements, transparency and commitment to continuous improvement.

Executive Summary

This report analyses the 41 AIST member fund reports for fiscal year 2019 which were submitted to the Governance Code Monitoring Panel. It finds that the funds as a group are committed to good governance, are taking the responsibility to report against the Code seriously and are committed to continuous improvement in good governance.

Reporting against the Code is on an 'if not, why not' basis, meaning that where a requirement is not met a rationale is to be provided.

Overall, funds reported that they fully met 84.9% of reporting requirements, a high level for the first full year of reporting. Funds partially met 12.1% and did not meet 3% of reporting requirements. Funds self-reported 143 actions that they have planned to further enhance governance. This demonstrates a strong commitment to improvement.

Industry funds reported the highest level of fully meeting the requirements, meeting 90.8% of reporting requirements. Most corporate sector funds also reported a strong level of fully meeting the requirements. On average, three out of four corporate funds met 82.5% of reporting requirements. Across all four corporate funds an average of 71.1% of reporting requirements were met.

It is not possible for exempt public sector funds to meeting all the requirements of AIST's Governance Code as a result of restrictions in their governing legislation. Accordingly, public sector funds reported a lower level of meeting the requirements – 75.8%, partially meeting 18.6% and not meeting 5.6% of reporting requirements. Most public sector reports were of high quality, effectively making use of 'if not why not' explanations. Several demonstrated that they met the 'spirit' of Code principles even if legislation meant that they could not formally meet the 'letter' of a particular requirement. The first AIST member to publish their report was a public sector fund.

The Panel assessed the explanations provided by funds for each reporting requirement. Overall, the Panel found that 91.8% of all explanations provided by funds were clearly written.

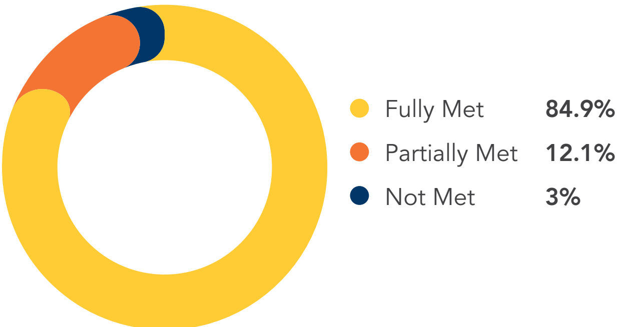
The Panel identified several areas where governance practice and reporting can improve further. These include reporting requirements for:

- a diversity policy with clear objectives and annual reporting to the board and members (requirement 1.4);
- a skills, experience and diversity matrix with annual disclosure which acknowledges gaps the fund is seeking to fill in order to meet its strategic plan (requirement 2.2); and
- more clearly documented reporting requirements for the fund chair to have additional leadership skills beyond those of other Board members, and for the chair to be appointed by the board (requirement 2.5).

In the reports funds indicated that they have a total of 143 planned improvement activities. Almost 78% of funds (31 funds) reported one or more improvement activities. The Panel was very impressed by the plans and believes the number of improvement activities shows the Governance Code is achieving its objective of improving governance standards.

The Panel encourages all funds to disclose their reports against the AIST Governance Code. Disclosure of self-assessment reports is consistent with the good governance principles of transparency, accountability and responsibility. As Graeme Samuel said at AIST Governance Symposium in October 2019, "self-assessments that are publicly disclosed are the best form of regulation and allow stakeholders to judge whether institutions 'gild the lily'."

FUNDS REPORTED FULLY MEETING 84.9% OF REQUIREMENTS



PANEL FINDINGS

91.8%

OF EXPLANATIONS CLEARLY WRITTEN

1. Introduction and overview of reporting process

The Panel is pleased with the overall standard of reporting and would like to acknowledge the effort and level of commitment and cooperation demonstrated by funds in the first full year of reporting against the AIST Governance Code. The results demonstrate that funds are taking reporting seriously and are committed to continuous improvement.

Most funds submitted their reports by the 30 September 2019 deadline and all reports were approved by the fund trustee board before submission. In October and November, the Secretariat analysed the reports and engaged funds to resolve queries and seek additional documentation to verify their responses.

2. Assessment methodology

The Panel's Terms of Reference provide that:

[The Panel may] on a light sample basis, engage with AIST member funds to test the basis on which they have made declarations about meeting the reporting requirements of the Code, or, where relevant, explaining why they have not fulfilled certain reporting requirements.

In October and November 2019, the Panel Secretariat engaged a number of funds to understand a range of their responses. A total of 128 actions were taken including calling, emailing and meeting with funds. The funds usually provided additional explanation and documentation to support the answers that had been signed off by the Board.

This improved the Panel's understanding of different fund governance models and the impact of fund size on governance. For example, some small and medium sized funds do not have a CFO and instead have a finance manager who signs a letter of representation. Two industry funds have an explicit policy that the full board undertakes board renewal instead of having a committee do the work, as they place a very high priority on this task. The Panel thought that this practice was consistent with compliance on an 'if not why not basis'.

Funds received letters from the Panel in December which provided individualised feedback on their reports. Where relevant, the letters included guidance on how to improve reports for fiscal year 2020. Included in the letters was a detailed table with information on the Panel's assessment of the 21 reporting requirements for each fund (with funds deidentified and divided into a public sector category and others). The latter allowed funds to compare their reporting to peers.

3. Reported alignment with the Code

Overall results

Funds reported that they fully met 84.9% of the 21 reporting requirements of the Code. They reported that they partially met 12.1% and did not (or could not) meet 3% of Code reporting requirements (Table 1).

Six funds reported meeting all reporting requirements.

The greatest challenges came with the following reporting requirements:

- **Diversity** – have a diversity policy, with measurable objectives and annual reporting to the Board and members (reporting requirement 1.4);
- **Board evaluation** – have a procedure to evaluate the performance of the board and its individual members at least annually; disclose a summary of the procedures and confirm it has taken place (reporting requirement 1.5);
- **Board renewal committee** – have a committee with at least three members that meets annually and has a disclosed charter and annually reports meeting attendance (reporting requirement 2.1);
- **Skills matrix** – maintain a skills, experience, and diversity matrix which identifies any gaps to fill to fulfil the strategic plan; annually disclose a summary (reporting requirement 2.2);
- **Chair appointment** – the Chair is appointed by the board and fulfils skills/experience requirements set out in the fund skills matrix (reporting requirement 2.5); and
- **Stakeholder engagement program** - implement a stakeholder engagement program which provides opportunities for stakeholders to directly communicate with directors and senior management (reporting requirement 5.1).

Results by fund type and size

Industry funds reported the highest level of conformance, with 90.8% of requirements met, partially meeting 8.4% of reporting requirements and did not, or could not, meet 0.7% of reporting requirements (Table 1).

Corporate sector fund reporting also indicated quite a strong ability to meet the reporting requirements, except for one fund. Excluding that fund corporate funds met 82.5% of reporting requirements, including it 71.1% of reporting requirements were met.

Public sector funds reported 75.8% of reporting requirements being fully met, partial adherence to 18.6% and not meeting 5.6% of the reporting requirements. This difference in meeting requirements is discussed in detail at the end of this section.

As measured by funds under management (FUM), large and small funds reported the highest level of fully meeting the reporting requirements. While medium and micro funds reported a lower level of fully meeting reporting requirements, they still indicated that they fully met 72.4% and 80.4%. Based on the data in Table 1, we can conclude that the size of the fund is not related to the degree of reported fulfilment of Code reporting requirements.

Table 1: Category of Responses to Code Reporting Requirements

Per cent of total reporting requirements

By Fund Type	Full	Partial	Does not or cannot meet
Industry	90.8	8.4	0.7
Public Sector	75.8	18.6	5.6
Corporate[1]	71.1	18.1	10.8
By Fund Size (FUM)	**Full**	**Partial**	**Does not or cannot meet**
Large (>30 bn)	88.6	9.5	1.9
Medium (12.5-30 bn)	72.4	21.0	6.7
Small (5-12.5 bn)	89.8	9.2	1.0
Micro (<5 bn)	80.4	14.3	5.2
Average over 21 reporting requirements	**84.9**	**12.1**	**3.0**

Table 2 shows, on average, how the 41 funds self-assessed against each of the 21 reporting requirements. It illustrates that funds reported the highest levels of partial or not meeting reporting requirements on:

- diversity (reporting requirement 1.4),
- having a committee responsible for board renewal (reporting requirement 2.1),
- having a skills and experience matrix (reporting requirement 2.2) and
- undertaking a stakeholder engagement program with direct engagement between stakeholders, directors and senior management (reporting requirement 5.1).

[1] Excluding the one outlining fund, the corporate sector reported full compliance with 82.5% of requirements, partial compliance with 14.3% and does not or cannot meet with 3.2% of requirements.

Table 2: Fund Self-assessment by Principle and Reporting Requirements

Average over 41 funds

Principles	Summary of requirement (full text is in Appendix 1)	Full %	Partial %	Does not meet %
1. Lay solid foundations for management and oversight	1.1 Conduct enquiries to ensure trustees have appropriate skills/experience before appointment and engage sponsoring organisations.	85.4	9.8	4.9
	1.2 Demonstrate written agreements with each trustee and senior manager setting out terms of appointment.	80.5	14.6	4.9
	1.3 Demonstrate that there is a company secretary who is accountable directly to the board via the chair who is not the CEO.	78.0	19.5	2.4
	1.4 Demonstrate a written diversity policy setting out measurable objectives with annual reporting to ensure broadest talent pool is tapped.	63.4	26.8	9.8
	1.5 Annually evaluate performance of collective board and individual trustees individually; disclose the process and confirm annual implementation.	75.6	24.4	0
	1.6 Disclose a documented process for senior management performance and confirm annual implementation.	80.5	17.1	0
	Principle 1 Average compliance	77.2	18.7	3.3
2. Structure the board to add value	2.1 Demonstrate that there is a committee responsible for board renewal with at least three members that meet at least annually; disclose the charter, members and annual attendance records.	63.4	22.0	14.6
	2.2 Maintain a matrix showing skills, experience and diversity which acknowledges gaps the board will fill to fulfil its strategic plan. Disclose a representation of the matrix.	68.3	31.7	0.0%
	2.3 Disclose names of directors, nominating entities and if they are a non-representative member.	97.6	0	2.4
	2.4 Disclose that voting rights of trustees are equal and that the voting majority is no less than two-thirds of all trustee directors.	92.7	7.3	0
	2.5 Demonstrate that the chair is appointed by the board and satisfies skill and experience profile in fund's skills matrix.	78.0	14.6	7.3
	2.6 Demonstrate that the CEO is not a trustee director.	95.1	2.4	2.4
	2.7 Demonstrate an induction program for new trustees and on-going professional development and training for all directors.	100	0	0
	Principle 2 Average compliance	85.0	11.1	3.8
3. Act ethically and responsibly	3.1 Demonstrate that the fund has a code of conduct for the board, management and employees and disclose the code or a summary.	80.5	19.5	0

Principles	Summary of requirement (full text is in Appendix 1)	Full %	Partial %	Does not meet %
4. Safeguard financial integrity	4.1 Demonstrate the fund ensures financial integrity of the fund and the trustee entity.	97.6	2.4	0.0
	4.2 Demonstrate that the fund ensures due process in all transactions and that any related party transactions are conducted under market conditions with full transparency and disclosure.	97.6	2.4	0
	4.3 Demonstrate that the fund's CEO and CFO annually attest that the accounts are true and accurate, that financial records are properly maintained before approving financial statements. Appoint an independent auditor (as per SPS 510) who meets is fit and proper standards (SPS 520) who issues their opinion on financial statements to the trustee and members.	97.6	0	2.4
	Principle 4 Average compliance	97.6	1.6	0.8
5. Respect the rights of scheme participants	5.1 Implement a stakeholder engagement program for effective disclosure of relevant and material issues which offers direct interaction between directors, senior management and stakeholders.	56.1	31.7	12.2
6. Recognise and manage risk	6.1 Demonstrate a strong risk culture with robust board oversight of material risks and that the risk framework explicitly addresses factors that may erode member-first culture.	100	0	0
7. Remunerate fairly and responsibly	7.1 Demonstrate policies and practices to attract and retain highly competent people assessed relative to fund size, nature and complexity; policies and practices must be consistent with responsibilities for maximising member outcomes and encouraging and rewarding ethical practices and behaviours.	95.1	4.9	0
8. Strong investment governance practices	8.1 Demonstrate that the fund designs and manages appropriate investment strategies having regard to member demographics and circumstances during accumulation and decumulation phases.	97.6	2.4	0
Average over 21 reporting requirements		84.9	12.1	3

Funds not reporting

As at November 2019, AIST had 48 Australian fund members. There were seven funds that did not report. One of these became a member in late 2019 and is not required to report until fiscal year 2020. Four funds were in the process of merger activity, and given that their governance structures were in transition, it was agreed that they would report as the new merged entity in fiscal year 2020. One fund submitted a resignation from AIST effective end December 2019. Finally, one micro fund with a particularly small staff indicated that it needed to prioritise staff resources on implementing the Protecting Your Super, Putting Members First and other changes to superannuation regulation. While it is disappointing that one member was not able to report in the first year of Code implementation, AIST will offer support to facilitate 2020 reporting with an expectation that this will be achieved. Overall, 41 reports is a good level of reporting given the amount of change in the sector.

4. Opportunities for improved narratives

Overall assessment

In the March 2019 public report, the Panel reflected on the pilot phase undertaken in fiscal year 2018. As a result, the Secretariat was encouraged to communicate to funds the importance of including a narrative for each requirement. The narrative assists the Panel in understanding the fund and the rationale for its governance practices.

In preparing a report, funds are asked to explain how a policy is used and/or what actions were undertaken to give effect to the governance principle and relevant reporting requirement. This can include examples of actions taken during the reporting period. The Panel Secretariat communicated to funds that best practice is to provide a policy or reference a document with additional commentary.

As reports were assessed in October and November 2019, the Panel Secretariat contacted many funds to seek clarification and/or discuss the content of their report. Many funds provided additional written commentary as well as copies of documents to support the answers provided.

The Panel found that 91.8% of all explanations (791 explanations out of a possible 861 – calculated by 41 funds multiplied by 21 reporting requirements) were clearly written. The Panel assessed that this overall result was good given that fiscal year 2019 was the first year of full reporting. The Panel also commented that funds have made a significant effort to assess and report on meeting the code requirements and that, overall, the Code is workable for the sector.

Improvement opportunities

In order to identify areas for improvement, the Panel reviewed which requirements had less comprehensive explanations and/or supporting documentation overall.

The reporting requirement which gave funds the most difficulty specifies the fund chair is to have additional leadership skills beyond those of other members and is to be appointed by the board (reporting requirement 2.5). Eleven funds did not provide enough evidence or commentary on how this reporting requirement was being met. This was not a reflection on the actual skills of the chair, but that the reporting requirement was not fully developed.

The diversity-related reporting requirement (1.4) also provided a challenge to funds. It requires a diversity policy setting out clear objectives (which can be processes and/or specific targets to enable the fund to tap into the broadest talent pool) and annual reporting to the board and members. Feedback to the nine funds with less comprehensive explanations urged members to put in place proactive steps to ensure that a diversity policy with clear objectives is evidenced in the next reporting round.

Finally, funds must maintain and annually disclose a collective skills, experience and diversity matrix for the board, identifying gaps it needs to fill to meet its strategic plan (reporting requirement 2.2). Seven funds did not provide enough evidence or commentary on how this requirement was being met.

Leading practice

A number of funds had thorough, complete and well-documented reports, supported by a strong narrative and relevant policy and board documents. In addition, some funds referred to meeting the requirements of the AIST Code on their website, publishing their report either partially or in full. At least three funds disclosed their reports on their website.

Appendix 3 offers examples from a range of funds and provides leading practice on the reporting requirements some funds had the most difficulty reporting against.

5. Planned improvement activities

In the reporting template, funds were asked to indicate where they planned improvement activities and they responded comprehensively. In total, 143 planned improvement activities were reported across 20 of the 21 Code reporting requirements and most of these are intended to be complete in fiscal year 2020.

Almost 78% of funds (31 funds) reported one or more improvement activities. The Panel was very impressed by the plans and believes the number of improvement activities shows the Governance Code is achieving its objective of improving governance standards. On average 4.6 improvement activities were reported by the 31 funds. One fund had 14 planned improvement activities.

The most significant areas of planned improvement are:

- Half of the funds have plans in place to hold direct engagement between directors and senior management and members. This is on the back new requirement contained on both the Improving Accountability and Member Outcomes Legislation and the Governance Code.
- 17 funds (43%) intend to improve their board skills, experience and diversity matrix and associated disclosure.
- 14 funds (35%) plan to strengthen their committee responsible for board renewal.
- 13 funds (33%) have intentions to improve board evaluation processes and related disclosure.

6. Next Steps

Disclosure of fund reports is encouraged

One of the aims of the Code is to improve accountability and transparency and the Panel encourages all funds to disclose their reports. This is recommended, but not required in by the Code. At least three funds have done this with their fiscal year 2019 reports.

"Transparency is fundamentally important. It is a remarkable discipline from which you can never escape. It is the greatest form of regulation that you will ever get".

GRAEME SAMUEL, PROFESSORIAL FELLOW, MONASH UNIVERSITY BUSINESS SCHOOL AND SCHOOL OF PUBLIC HEALTH AND PREVENTATIVE MEDICINE

Graeme Samuel, the chairman of the APRA capability review and a panel member of the 2018 Commonwealth Bank prudential inquiry, concurs with this approach. Mr. Samuel spoke about the effectiveness of transparency in terms self-discipline at AIST's October 2019 Governance Symposium. He said that self-assessments that are publicly disclosed allow stakeholders to assess whether institutions 'gild the lily'. He rejects the argument that disclosing APRA governance and culture reviews risks damaging to an institution's reputation.

Code revision process and timing

The current Code was drafted in 2016 and the terms of reference call for it to be reviewed on a triennial basis.

AIST plans for Code revision work to begin in 2020. Given the volume of legislative change arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the Panel suggests that revision of the Code not occur before 2021. In line with its terms of reference, the Panel has suggestions for AIST as part of the consultation process. These include revisions to 5.1 to split it into two parts: "scheme-participants" and "other stakeholders", deleting reporting requirements which duplicate APRA requirements and including points related to culture, similar to those in the February 2019 edition of the ASX Corporate Governance Principles.

As per usual AIST practice, there will be a thorough consultation process with members.

Fiscal year 2020 reporting

The set of tools developed in 2019, including leading practice examples and a reporting template will refreshed and will be available on the AIST web site in 2020.

Funds will be required to report by 30 September 2020 against the 2017 version of the Code. Again, the Panel Secretariat will offer support to funds in their reporting efforts and engage funds about their reports.

[2] The Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019 introduces annual members' meetings to provide an avenue for members to 'directly engage with the trustee and ask questions' – a way for trustees and funds to identify and respond to issues that are of interest to their members.

Appendix 1: AIST Governance Code Principles and Reporting Requirements

PRINCIPLE 1: Lay solid foundations for management and oversight

A profit-to-member superannuation fund must determine the respective roles and necessary skill profile of the Board and management and set these out in writing. They must also determine how the respective performance of the Board and management will be measured and evaluated.

REQUIREMENTS

1.1 A profit-to-member superannuation Board must conduct all appropriate enquiries to ensure that nominees have the appropriate skills and experience before appointing a person as a trustee director. For the appointment of representative directors in particular, this includes engagement with sponsoring organisations.

1.2 A profit-to-member superannuation fund must have a written agreement with each trustee director and senior executive setting out the terms of their appointment.

1.3 The fund's company secretary is accountable directly to the Board, through the Chair, on all matters concerning effective Board operations and must provide every assistance to the Board to fulfil their obligations in acting in the best interests of members. The Chief Executive Officer must not be the company secretary.

1.4 Profit-to-member superannuation funds must have a written diversity policy, appropriate to the circumstances of the fund, which sets out clear and measurable objectives and provides for annual reporting to the Board and members. This policy must establish objectives concerning gender balance as a minimum, with other forms of diversity considered by the fund as appropriate. Objectives must relate to processes, which may, but do not necessarily, include targets for participation at Board and management levels, to ensure that the fund taps the broadest talent pool and is responsive to the needs of all its members.

1.5 In accordance with SPS 510, profit-to-member superannuation funds must have procedures to evaluate the performance of the Board and individual trustee directors at least annually. The fund must disclose a summary of those procedures and confirm annually that the performance evaluations were undertaken during the reporting period.

1.6 The Board of a profit-to-member superannuation fund must have a documented process for evaluating the performance of the senior management. The fund should disclose whether such a performance evaluation was undertaken during the reporting period.

PRINCIPLE 2:
STRUCTURE THE BOARD TO ADD VALUE

A profit-to-member superannuation fund must have a diverse Board composed of highly competent and committed directors. Representation of member and employer interests must be ensured, and the Board should be of an appropriate size, composition and have the skills to be able to discharge their duties effectively.

REQUIREMENTS

2.1 The Board of a profit-to-member superannuation fund must have a committee responsible for Board renewal that has at least three members. The committee must have a charter that is disclosed and it should meet at least annually. For each reporting period the fund must disclose the members of the Board renewal committee and attendance records for any meetings during that period.

2.2 A profit-to-member superannuation fund must maintain a matrix showing the skills, relevant experience and diversity the Board currently has and acknowledge gaps it is looking to fill in order to effectively fulfil its strategic plan. It must disclose annually a representation of the existing collective skills, experience and diversity of the Board.

2.3 In disclosing the names of its directors, a profit-to-member superannuation fund must identify for each director whether they are a member representative, an employer representative or a non-representative member. In each instance, the name of the nominating body must also be disclosed.

2.4 The voting rights of all trustee directors on the Board must be equal, regardless of their status as a member or employer representative director, or non-representative director. The voting majority for any Board decision should be no less than two-thirds of all trustee directors.

2.5 The Chair of a profit-to-member superannuation fund Board must be appointed by the Board, and must satisfy all the requirements of skill and experience identified in the fund's skills matrix for the role of Chair.

2.6 The CEO must not be a director of the fund.

2.7 A profit-to-member fund must have an induction program for new trustee directors and provide appropriate ongoing professional development and training opportunities to continuously enhance their skills and knowledge.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

A profit-to-member superannuation fund must act ethically and responsibly.

REQUIREMENTS

3.1 A profit-to-member superannuation fund must have a code of conduct for its Board, senior management and employees. This code, or a summary of it, must be disclosed.

PRINCIPLE 4: SAFEGUARD FINANCIAL INTEGRITY

A profit-to-member superannuation fund must have appropriate and rigorous processes for financial governance.

REQUIREMENTS

4.1 The Board of a profit-to-member superannuation fund must ensure the financial integrity of both the fund and the trustee entity.

4.2 A profit-to-member superannuation fund must ensure due process in all transactions, and ensure that any related party transactions are conducted under market conditions with full transparency and disclosure.

4.3 The Board of a profit-to-member superannuation fund must receive an attestation from the fund's CEO and CFO that the fund's accounts are a true and accurate reflection of the fund's financial position and that the financial records have been properly maintained, before approving the financial statements. In accordance with SPS 510 an independent auditor must be appointed. The auditor must be fit and proper pursuant to SPS 520 and must issue their opinion on the financial statements to the trustee and members of the fund.

PRINCIPLE 5: RESPECT THE RIGHTS OF SCHEME PARTICIPANTS

A profit-to-member superannuation fund must respect the rights of stakeholders. These scheme participants must be provided with open and transparent disclosure as well as opportunities to participate in dialogue with the fund's Board and management.

REQUIREMENTS

5.1 A profit-to-member superannuation fund must develop and implement a stakeholder engagement program, for effective disclosure of relevant and material issues. The program must provide opportunities for directors and senior management to communicate directly with stakeholders and for stakeholders to ask questions of them.

PRINCIPLE 6: RECOGNISE AND MANAGE RISK

In accordance with SPS 220, a profit-to-member superannuation fund must establish a robust risk management framework, monitor and regularly review the effectiveness and continuing appropriateness of that framework. The risk management framework must consider the maintenance and prioritisation of a member-first culture

REQUIREMENTS

6.1 A profit-to-member superannuation fund must have a strong risk culture with a Board that provides robust oversight of the fund's material risks. The risk management framework must explicitly address factors that may erode the fund's members-first culture.

PRINCIPLE 7: REMUNERATE FAIRLY AND RESPONSIBLY

A profit-to-member superannuation fund must establish a remuneration policy for its trustee directors and staff in alignment with the best interests of the members of the fund that complies with SPS 510 and SPG 511.

REQUIREMENTS

7.1 A profit-to-member superannuation fund must have policies and practices in place to attract and retain highly competent people, assessed relative to the size, nature and complexity of the fund. These policies and practices must be consistent with its responsibilities for maximising members' retirement outcomes and encouraging and rewarding ethical practices and behaviour.

PRINCIPLE 8: STRONG INVESTMENT GOVERNANCE PRACTICES

A profit-to-member superannuation fund must establish an investment framework to deliver appropriate retirement outcomes for its members and continually monitor and review the effectiveness and continuing appropriateness of that framework.

REQUIREMENTS

8.1 A profit-to-member superannuation fund must design and manage appropriate investment strategies having regard to member demographics and circumstances during both the accumulation and decumulation phases.

Appendix 2: List of AIST Members Reporting in Fiscal Year 2019

Industry Funds:

1. Australian Catholic Super
2. AustralianSuper
3. BussQ
4. Care Super
5. CBUS
6. Christian Super
7. Club Plus Super
8. EISS Super
9. Energy Super
10. First Super
11. HESTA
12. Hostplus
13. Legal Super
14. LUCRF Super
15. Maritime Super
16. Media Super
17. Mine Super
18. MTAA
19. NGS Super
20. REI Super
21. Rest Super
22. Statewide Super
23. SunSuper
24. Tasplan
25. TWU Super
26. UniSuper

Public Sector Funds:

27. ESSSuper
28. Fire and Emergency Services Superannuation Fund
29. First State Super
30. LGIAsuper
31. Local Government Super
32. Qsuper
33. State Super
34. Super SA
35. Vic Super
36. Vision Super
37. WA Super

Corporate Sector Funds:

38. ANZ Staff Super
39. Mercy Super
40. Telstra Super
41. Towers Watson Super

Appendix 3: Leading Practice Commentary By Fund Type and Size

<table>
<tr><th>Requirement</th><th>Commentary</th></tr>
<tr><td>1.1 Due diligence on trustee director qualifications and engagement with sponsoring organisations

Example from small industry fund</td><td>Before appointing a person as a trustee director:
- Discussions are held between the Board Chair and nominating body;
- A formal letter from the Chair is forwarded to the nominating body which outlines the skills and experience required (as identified in the annual skills assessment);
- The nominating body is required to send through a CV including 2 references. This is presented to the Remuneration and Nomination Committee;
- The Remuneration and Nomination Committee reviews the nominated Director’s CV and carries out a preliminary Fit and a Proper assessment; and
- The Board reviews and approves the appointment (subject to qualifications being met or agreement that skills gaps can be closed).
Pursuant to the Fund’s Fit and Proper Policy members of the Board must collectively have qualifications, skills, knowledge or expertise in 13 key areas.
The Board may conclude that a person nominated as a Director does not meet the fitness standard if, following that person’s appointment, the Board would fail to collectively meet this standard.
If a person is not deemed to meet the fitness standard, the Chair will go back to the nominating body to discuss other potential nominees. If the nominating body fails to make an appointment to fill a vacancy within the time prescribed (90 days), the Board may make such appointment to fill the vacancy.</td></tr>
<tr><td>1.4 Diversity Policy, targets, annual reporting

Example from medium sized public sector fund</td><td>The Trustee has approved a Board Diversity Policy which includes the establishment of measurable objectives. The Fund recognises the benefits of having a diverse Board including facilitating a broad range of opinions in decision-making and enhancing Board performance.
The Board will use its best endeavours to comprise at least 40% of each gender on the board by 2020.
Details of gender balance are provided in the Annual Report to members. The Fund’s business plan includes annual initiatives to support gender equality. These include:
A. Talent and succession management plans, identifying women with potential and setting targeted development activities.
B. Annual pay equity analysis
C. Continued development of technology to support flexible work</td></tr>
<tr><td>2.2 Skills Matrix

Example from large industry fund</td><td>The Trustee maintains a Directors Skills Matrix which outlines the skills the Board believes it needs collectively to ensure its effective and prudent operation. The Matrix also records the skills individual Directors have and whether they have acquired those skills through qualifications, training or experience. The Skills Matrix is regularly updated as changes arise and reviewed by the Board annually to ensure the Board maintains the relevant experience and diversity needed to effectively fulfill its strategic plan.
The Directors Skills Matrix is set out as an Appendix to the Governance Disclosures document which is a publicly available document on the Trustee’s website.
Information on individual Directors, their qualifications and experience is disclosed on the Trustee’s website. Detail on the Board’s diversity is disclosed in the Fund’s 2018/19 Annual Report.</td></tr>
<tr><td>2.5 Chair is appointed by the board and satisfies chair skills / experience requirements

Example from small industry fund</td><td>The Chair is appointed by the other directors and must satisfy skill and experience requirements identified in the skills matrix for the role of Chair.
Fund supplied a copy Board minute evidencing appointment of current Chair by the Board with the Fit and Proper Policy (where the skills matrix and competency requirements of the Chair are set out) and a report to Audit, Risk and Compliance Committee on annual competency review.</td></tr>
</table>

Requirement	Commentary
4.2 Due Process and Related Party Due Diligence Large industry fund example	The Trustee's relationships with related parties are ultimately approved by the Board. Where a Trustee's relationship with a related party includes a relevant interest or duty, such interests or duties are disclosed. Related party transactions are entered into from time to time and are only done so in the best interests of the Fund's beneficiaries. To ensure the Trustee treats related parties with consideration as to any potential conflicts, any consideration of an engagement will also consider all factors relevant to a full arm's length review of a service provider relationship under the fund's internal policy and due diligence frameworks. Related party investments or transactions and the register of relevant interests are disclosed in the Relevant Disclosures document which is publicly available on the Trustee's website – link provided The summary of the Trustee's conflicts management and policy is also publicly available on the Trustee's website - link provided
6.1 Fund's risk management framework explicitly addresses factors that may erode the member-first culture Small Fund Example	The fund has had in place a robust risk management framework and risk management plan in place since the fund's inception, when it was formed as the result of a merger. This RMF is oversighted by the Board's Audit and Risk Committee and is discussed at each Board meeting. This includes assessing and testing the Board's risk appetite. Over the past two years, the Board has undertaken a root and branch review of the funds risk management program to ensure that it continued to align with APRA's prudential standard 220. As a result, an updated risk management framework was put in place effective from November 2018. In 2017, the fund designed, tested and incorporated a "members' best interest scorecard" which is at front of mind in any decision-making by the Board, its committees and is used by the fund's executive to explicitly address factors that might erode the fund's 'members-first' culture.
8.1 Strong investment governance practices having regard to demographics Small Fund Example	The Trustee designs and monitors investment strategies and options that are appropriate to the Fund's demographics in both the accumulation and decumulation (pension) divisions. As well as reviewing its Investment Governance Framework and other investment-related policies annually, the Trustee conducts a three yearly demographic review with the assistance of an actuary that allows it to measure the appropriateness of the current investment offerings with the age and demographic profile of its membership. Reference: to fund website, description of investment options Documents provided: Investment Governance Framework and Investment Policy Statement including how investment strategy and liquidity position will take account of Fund demographics.

Appendix 4: Governance Code Monitoring Panel Members Biographies

Greg Brunner (Chair) – Greg has more than 20 years' experience working for the World Bank and the Australian Prudential Regulation Authority (APRA). Mr Brunner was the chair of APRA's Superannuation Industry Working Group from 2011-16 and helped develop governance prudential standards and guidance.

Maree O'Halloran – Maree has over 15 years' experience as a director including for two profit-to-member funds. Her last role as a director in superannuation was at HESTA and it concluded in 2015. She currently serves on the Board of a mutual bank and a member-owner health fund. Ms O'Halloran is a former recipient of the AIST's Trustee of the Year award.

Michelle Wright – Michelle has 15 years of experience as a non-executive director across a range of financial service organisations and has experience serving on ethical standards boards in the healthcare sector.

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