

**Report on 2021  
Compliance with the  
AIST Governance Code**





# Introduction

In April 2017, AIST established its Governance Code to provide a standardized mechanism for improved transparency and accountability in governance processes in the profit-to-member sector. In July 2018, AIST member funds submitted their first compliance reports to an independent Governance Code Monitoring Panel (the Panel). Now in its fifth year, the Governance Code is a firmly established compliance reporting model ensuring accountability on key governance metrics and best practice processes.

The Panel provides both individual fund feedback on compliance with the Governance Code as well as commentary relevant for the continuous improvement of the sector.

The Panel is comprised of three independent members, details of which are provided in Appendix 4 of this report.

The purpose of the AIST Governance Code is to:

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

The principles-based Governance Code extends beyond regulatory requirements, embedding a high benchmark of governance practice in Australia.

The Governance Code consists of 8 principles and 21 requirements (some of which include sub-elements) which aim to protect and improve outcomes for superannuation fund members.

Funds are required to report on an *'if not why not'* basis against all 21 requirements. Where a requirement is not met, the fund must provide an explanation to the Panel for adopting an alternative approach to that requirement.

Each year, the Panel assesses the reports submitted by AIST's Australian-based member funds against the Governance Code.

This document reports on the Panel's analysis for fiscal year ending 30 June 2021, the third year of reporting under the Code.

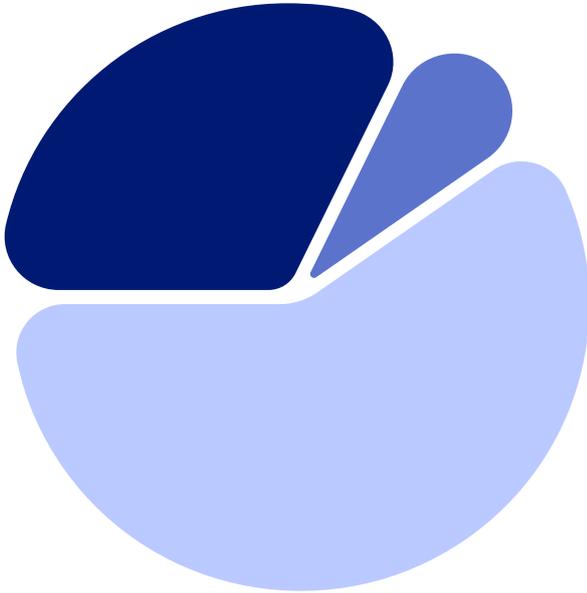
# Characteristics: Pool of reporters in FY21

**Table 1: Number of reporting funds per financial year**

	Number of reporting funds
Financial Year 21 (FY21)	37
Financial Year 20 (FY20)	41
Financial Year 19 (FY19)	45
Financial Year 18 (FY18)	11* pilot launch

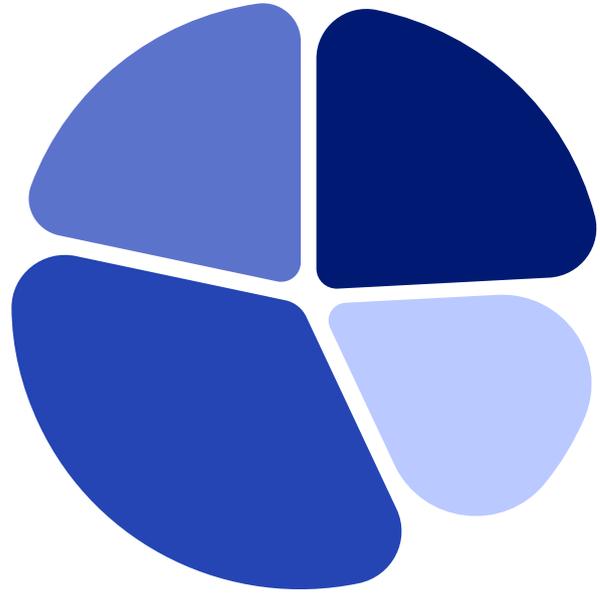
Funds that merged in 2021 did not submit a report. These funds were MTAA Super, Energy Super, Media Super, Club Plus Super. The same number of public sector and corporate funds reported in FY21 as in FY20.

**CHART 1**  
**REPORTERS BY FUND-TYPE**  
 Number of funds



● Corporate . . . . .	3
● Industry. . . . .	22
● Public Sector . . . . .	12

**CHART 2**  
**REPORTERS BY FUNDS UNDER MANAGEMENT**  
 Number of funds



● Micro (<\$5bn) . . . . .	10
● Small (\$5-\$12.5bn) . . . . .	14
● Medium (\$12.5-\$30bn). . . . .	6
● Large (>\$30bn). . . . .	11

Superannuation assets have continued to grow in FY21 and individual funds along with it.

In terms of funds under management (FUM) in FY21 there were:

- Two additional funds reporting with over \$30 billion FUM compared to FY20 (13 funds in FY20 compared to 11 funds in FY20).
- The inclusion of one additional medium-sized fund (defined as funds with \$12.5 billion to \$30 billion FUM) in FY21 compared to FY20.
- Seventeen funds reporting with FUM of less than \$12.5 billion in FY21 compared to 24 in FY20.

# Executive Summary

Governance practices are robust amongst AIST members. This is demonstrated by the fact that reporting funds fully met almost 91 per cent of Code requirements. The Panel confirmed that 12 funds met all the requirements in FY21 compared to 10 funds in FY20.

The Panel acknowledges that COVID-19 restrictions, regulatory change, and competitive pressures provided an increased challenge to achieve compliance with the Governance Code. Despite these challenges, improvements were seen in almost all reporting funds, indicating an ongoing commitment to leading practice governance and transparency.

## Areas of strength

AIST members have demonstrated commitment to the Code in their FY2021 reporting and overall improvement in compliance. The Panel notes that 125 improvement activities were undertaken during the year, there was support within the industry for sharing good practice and improved public disclosure. Funds have shown a willingness to engage with the Secretariat, use the 'if not why not' option and provide clearer explanations of how they are meeting the Code requirements.

There are a range of areas where AIST member funds have showed strength in compliance governance areas:

1. Risk management;
2. Investment; and
3. Financial integrity.

The detail of this is set out at section 3 and 4 of this report.

## Areas for improvement

Although 18 funds reported that they met all the requirements, the Panel's independent findings concluded that 12 funds were fully compliant. The Panel encourages funds to continue improving governance practices in light of rising industry standards and community expectations.

The Panel identified four key requirements for improvement across funds at varying levels. These were:

1. Maintaining and disclosing a skills matrix;
2. Maintaining a written diversity policy with measurable objectives; and
3. Performance evaluation of the board with a summary disclosure of the process.
4. Have a documented process for evaluating senior management and disclose that the process was undertaken.

## Model Responses

Funds provided copies of comprehensive documentation demonstrating leading practice or compliance against the Code requirements. These included copies of:

- Skills matrices with clearly defined skills, experience and subskills, links among them and multi-level grading of skills;
- Diversity and inclusion policies with clearly defined areas of what diversity characteristics can be including gender, identification as Aboriginal Torres Strait Islander, LGBTIQ+ representation, and target board compositions;
- A commitment to diversity, talent and succession management plans that recognised diversity, and developmental pathways to leadership;
- Board charters including board structure, diversity, independence and clearly defined roles and responsibilities of chairpersons and directors;
- Comprehensive and publicly available board training policies;
- Conflicts of interest policies including mechanisms for recording, managing, and mitigating conflicts.
- Board governance frameworks establishing roles and responsibilities, and codes of conduct; and
- Summary procedures for Board performance assessments.

# 1. Introduction and overview of the reporting process

The Panel's assessment considers whether each of the reporting requirements were:

1. Fully met;
2. Partially met; or
3. Not met / could not be met.

The Panel requires funds to provide an explanation or evidence to substantiate their self-assessment against each requirement.

AIST's membership includes 12 public sector funds some of which were established under their own specific Acts of Parliament. This operating structure prevents them from fully meeting some of the Code's reporting requirements.

In instances where a public sector fund has been established by an Act of Parliament, some aspects of governance are prescribed by the enacting legislation, such as board appointment processes and compositions.

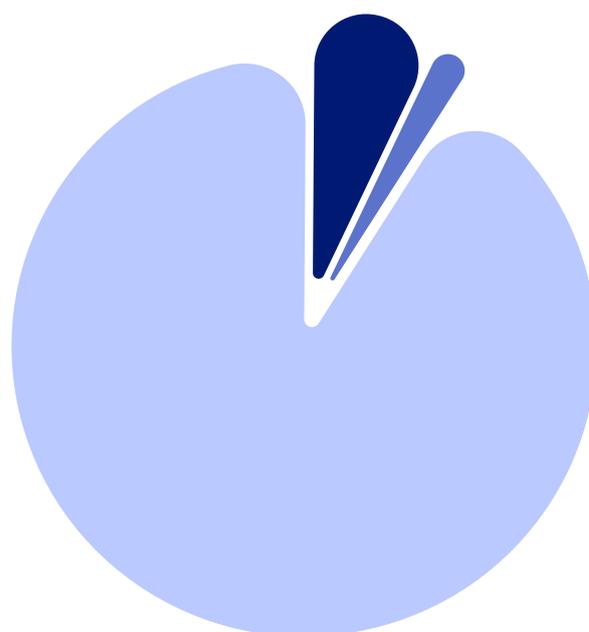
Workplace policies may also be prescribed by some industry sectors. In these situations, AIST's public sector funds typically seek to meet the spirit of the Governance Code requirements in line with their legislative obligations.

## 2. Compliance with the Code

### Reported compliance

Funds reported that they fully met 90.9 per cent of requirements in FY21, a slight increase on the 90.3 per cent figure in FY20 and 84.9 per cent in FY19.

**CHART 3**  
**REPORTED COMPLIANCE LEVELS IN FY21**  
Per cent of total



● Corporate . . . . .	90.9%
● Partial. . . . .	7.2%
● Does or cannot meet. . . . .	1.9%

## Assessments and results

**Table 2: Self-assessment by funds**

Reported by funds	2021	2020	2019
Fully met	90.9	90.3	84.9
Partially met	7.2	7.6	12.1
Not met	1.9	2.1	3.0

In analysing the reports, the Panel found the following:

- Comprehensive responses or evidence of compliance were provided in 94.5 per cent of cases, ensuring the Panel could verify the level of compliance reported against each requirement.
- Only 5.5 per cent of responses were not sufficient to allow the Panel to assess if the fund met the requirement. This is an improvement on FY20 when the figure was 7.6 per cent.

**Table 3: Assessment by the Panel**

Per cent of total reporting requirements, 2020 – 2021

Assessed by Panel	2021	2020
Fully met	87	84.3
Partially met	6.0	n/a
Not met	1.4	n/a

## Reported versus Panel assessed results

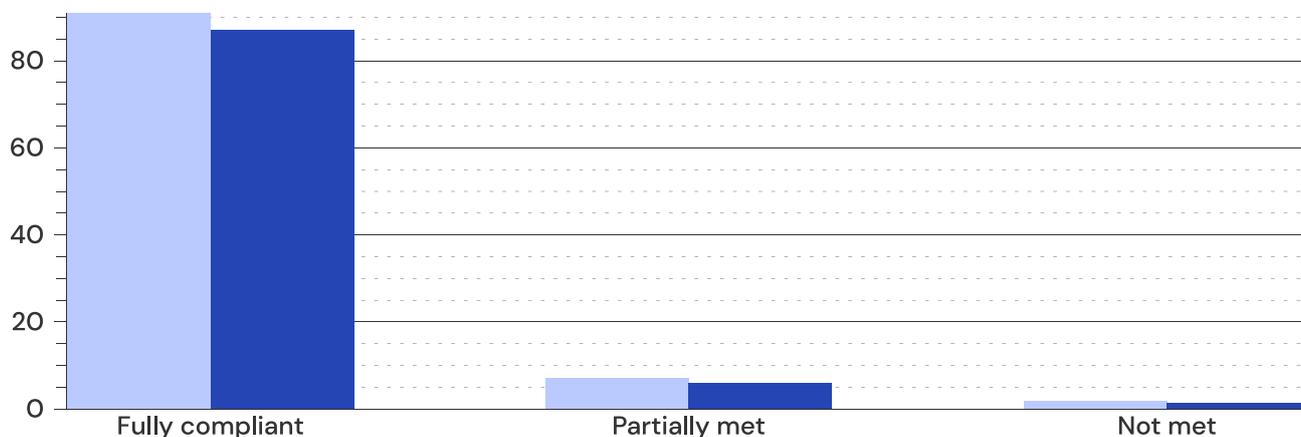
The results for the FY21 indicate that the self-assessment by profit-to-member funds are closely aligned with the Panel's assessment.

This indicates that profit-to-member funds:

- Understand the principles espoused within the Governance Code;
- Actively apply the Governance Code within their organisation; and
- Can confidently apply the principles under the Governance Code to self-assess fund compliance.

#### CHART 4: SELF-ASSESSMENT VS PANEL ASSESSMENT

Per cent of total



Fully compliant	Partially met	Not met
90.9	7.2	1.9
87	6	1.4

● Fund assessed ● Panel assessed

### Results by fund type

Table 4 below demonstrates that:

- Industry, public sector and corporate funds all somewhat overstated where requirements were fully met when the Panel considered them to be either partially or not met. Industry and public sector funds were only marginally overstated with industry out by 3.7 per cent and public sector funds at 2.7 per cent compared to the Panel's assessment.
- Corporate sector assessment of fully met requirements (88.7 per cent) against the Panel's assessment (77.8 per cent) indicates room for improvement in self-assessing against the key requirements, however, the overall results for the Sector (which included only three funds) were influenced by a lack of explanations provided by only one fund.

#### Table 4: Compliance levels Panel assessment by fund type

Per cent of total requirements

	Reported as fully meeting	Panel Assessed as fully meeting	Reported as partially meeting	Panel assessed as partially meeting	Reported as Does Not Meet	Panel assessed as does not meet
Industry	96.1	92.4	3.0	3.0	0.9	0.2
Public Sector	81.7	79.0	15.5	12.3	2.8	2.8
Corporate	88.7	77.8	4.8	3.2	6.5	4.8
Weighted average	90.9	87	7.2	6.0	1.9	1.4

Note: the 'Panel Assessed' figures across sectors adds less than 100% with the difference being where the Panel did not find sufficient commentary or supporting evidence to concur with the level of assessment reported by a fund.

### 3. Break down of reporting by Governance Code Requirement

Chart 5 provides a comparison of both the Panel's and profit-to-member assessment of reported full compliance against each Governance Code. The areas in which funds demonstrated the greatest overall compliance include:

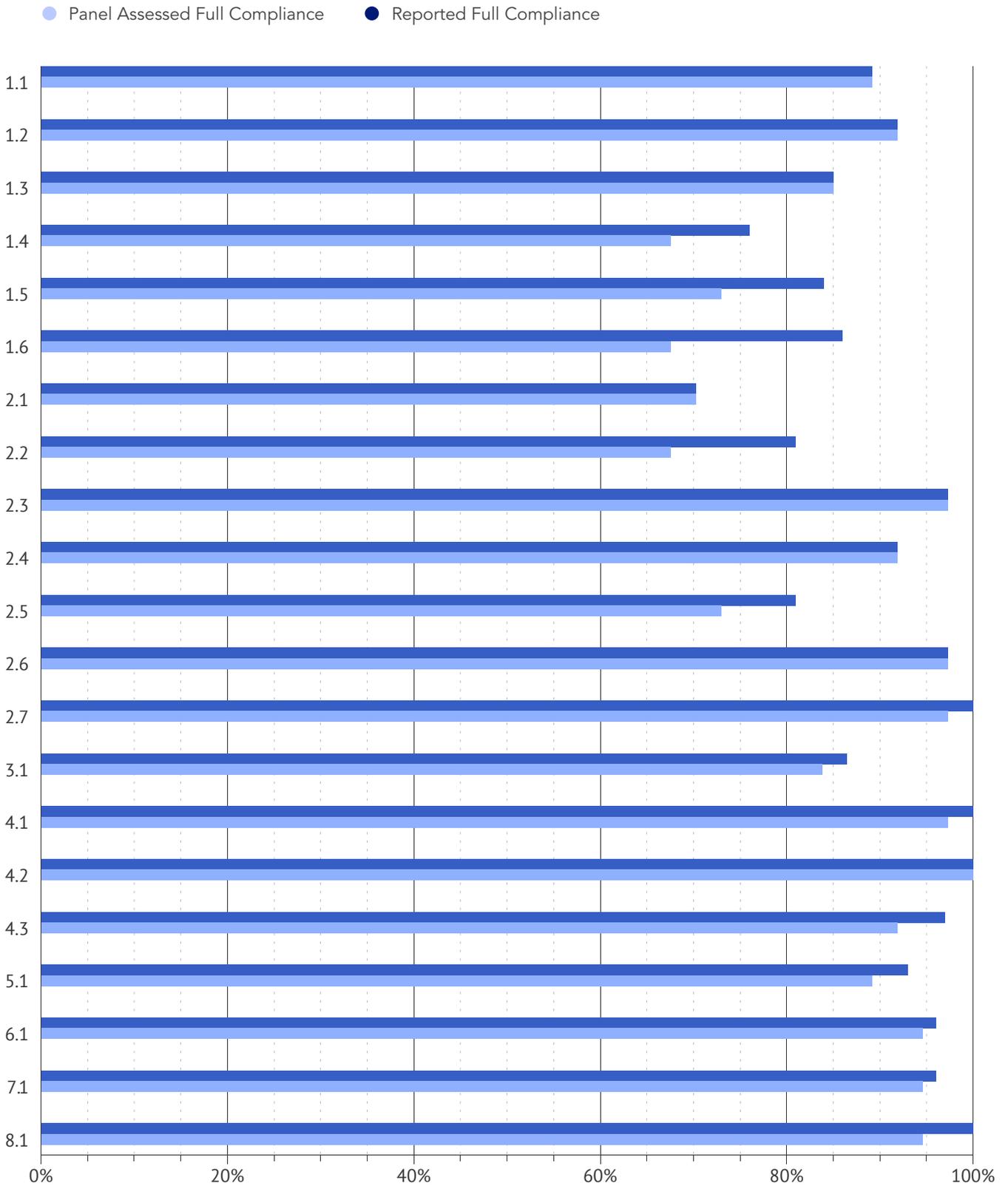
#### 100 per cent fully met compliance:

- **Requirement 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.

#### 97 – 99 per cent fully met compliance:

- **Requirement 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.
- **Requirement 2.6:** The CEO must not be a director of the fund.
- **Requirement 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.
- **Requirement 4.1:** The Board of a profit-to-member superannuation fund must ensure the financial integrity of both the fund and the trustee entity.

**CHART 5: PANEL AND FUND ASSESSMENT PER GOVERNANCE CODE REQUIREMENT**  
 Full Compliance by Governance Code Requirement



# 4. Areas of strength and opportunities for improvement

## Areas of strength

Three other key requirements that AIST member funds showed strength in compliance were:

**Requirement 6.1:** 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.

The Panel continues to encourage funds to articulate how the risk management framework addresses factors that can erode member first culture as this was not always as clear as could be expected.

**Strong responses to this requirement included:**

- Rewarding staff who display an understanding of risk in their role, identify risks and controls, and promote a strong risk culture;
- Encouraging new staff to identify risks and play a role in risk management;
- Periodic surveys issued to assess risk culture of the Board and senior staff;
- Comprehensive review of risk management framework and risk culture performed periodically involving auditors and;
- Risk appetites are clearly defined, documented and communicated to ensure organisational awareness when approaching risk. The risk appetite is reviewed regularly.

**Requirement 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.

**Strong responses to this requirement included:**

- Remuneration policies overseen by an established remuneration committee;
- Remuneration framework specifies values, and accountability as important elements; and
- A remuneration framework that recognises and rewards individual and collective achievements.

**Requirement 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.

**Strong responses to this requirement included:**

- Documented investment policy statements outlining investment objectives and processes to achieve those objectives. This document works in synergy with an investment governance framework that specifies the systems, structures and resources to fulfill trustee obligations;
- Periodic review of documentation by a committee and approved by the board including demographics, scenario analysis, liquidity analysis and stress testing; and
- Disclosure of the return and risk objectives of investment options are identifiable and easily accessible on websites.

## Areas for improvement

The Panel identified four requirements where compliance with governance practice and reporting can improve for some funds.

**Requirement 1.4:** Demonstrate a written diversity policy setting out measurable objectives with annual reporting to ensure the broadest talent pool is tapped.

**Strong responses to this requirement included:**

- A written diversity and inclusion policy which aligns with a board structure that represents diversity in skills, culture, background, age, and experience;
- Fair and equitable remuneration and flexible work practices;
- Documented recruitment processes that focusses on equity; and
- Succession plans and leadership pathway programs which promote diversity.

**Requirement 1.5:** Annually evaluate performance of the collective board and individual trustees; disclose the process and confirm annual implementation.

**Strong responses to this requirement included:**

- Board performance and individual director performance assessed annually either internally or externally by an independent third party;
- External consultant formally reviews corporate governance every two years; and
- Annual reviews which consider granular detail such as individual directors conscientiously contributing to meetings.

**Requirement 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.

**Strong responses to this requirement included:**

- Annual senior staff performance reviews are documented and assessed against measurable objectives;
- The process flow for how senior management are assessed and by who is documented and disclosed clearly; and
- The process for assessment is publicly available on a fund's website for transparency.

**Requirement 2.2:** Maintain a matrix showing skills, experience and diversity which acknowledges gaps the board will fill to fulfill its strategic plan; disclose a representation of the matrix.

**Strong responses to this requirement included:**

- Skills matrix made publicly available on the fund's website;
- Training policies align with the skills matrix;
- Senior staff must complete an annual attestation of relevant skills. Gaps are identified by the remuneration committee to capture upskilling requirements; and
- Skill and subskill competencies required are clearly defined and are directly applicable to the discharging of duties.

## Previous year's comparisons

In FY21, there was noticeable and commendable improvements in reporting on Requirement 2.5 (demonstrate that the Chair is appointed by the board and satisfies the skill and experience profile in the fund's skills matrix) when compared with the previous financial year.

In reviewing the reports, the Panel also noted the following:

**Requirement 1.1:** The best reports contain explanations of what the fund does when the nominating directors do not have all the desired skills and experience. It is good practice for funds to specifically address what they do when gaps are identified.

**Requirement 1.3:** The company secretary should not report through the CEO to the board. As the role of Company Secretary involves providing governance advice to the board, the role should ideally directly report to the board.

**Requirement 1.4:** Some funds suggested that the board should reflect the composition of the fund membership. This may be an appropriate approach when the fund's membership is diverse and not homogenous. A key rationale for diversity is the benefit derived from the diversity of thought which improves governance and outcomes.

## 5. Leading practice and planned improvement activities

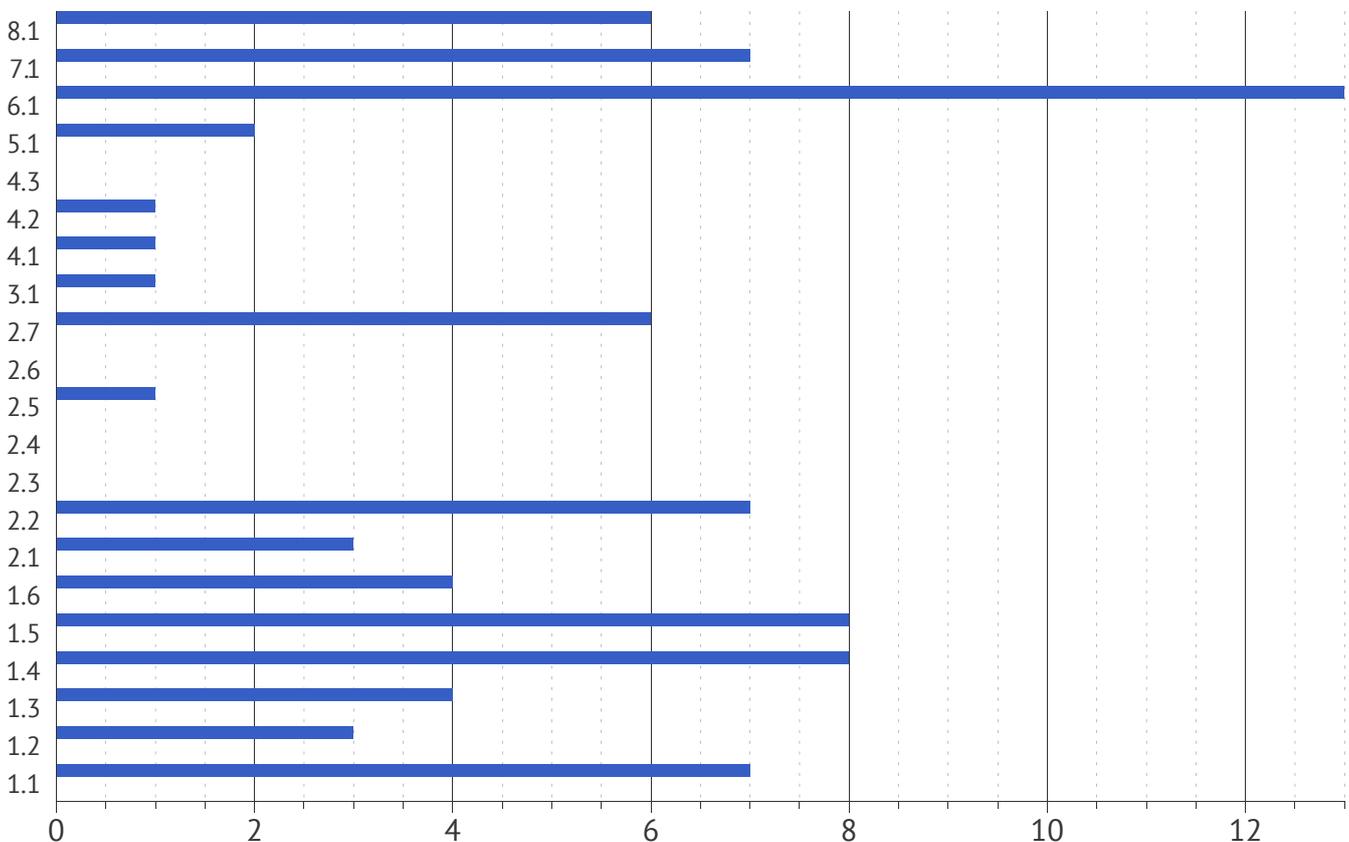
Several funds had very thorough, and well documented reports supported by a strong narrative, relevant policy and board documents. In addition, some funds referred to compliance with the AIST Code on their website either by publishing their full or part of their report. At least five funds have disclosed their reports on their website.

Appendix 3 offers leading practice examples from a range of funds that reported in FY19 to FY21.

Funds continue to plan activities to improve governance, with 82 planned activities reported for 2022 across the 21 Code requirements. The three most significant areas of planned improvement are as follows:

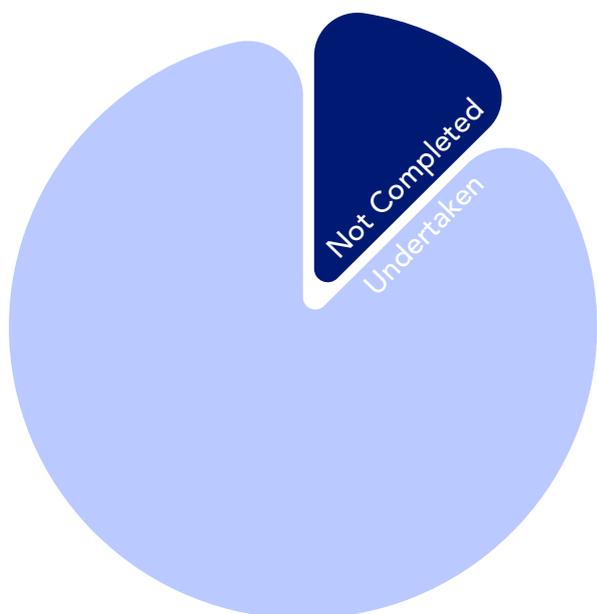
- Thirteen funds plan to continue to improve risk governance including the risk management framework, board oversight of material risks and risk culture (Requirement 6.1).
- Eight funds indicated plans to continue to improve the approach to diversity including their diversity policy, setting measurable objectives and undertaking annual reporting to members and the board (Requirement 1.4).
- Eight funds intend to continue to improve their procedures for evaluating the performance of the board and individual trustee directors. This includes disclosing both a summary of the process and confirming that evaluations have taken place each year (Requirement 1.5).

**CHART 6: NUMBER OF FUNDS WITH PLANNED IMPROVEMENT ACTIVITIES**  
Reported by Code Requirement



In FY20, funds reported that they planned 143 improvement activities for FY21, of these 125 (87.4 per cent) were completed.

**CHART 7:  
NUMBER AND PROPORTION OF PLANNED IMPROVEMENT ACTIVITIES  
UNDERTAKEN / NOT COMPLETED IN 2021**



● 18 Actions . . . . .	12.6%
● 125 Actions. . . . .	84.7%

## 6. Verification and sample validation

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 requirements of the Code, or, where relevant, explaining why they have not fulfilled certain requirements.*

In October and November 2021, the Panel Secretariat engaged with more than five funds to understand and clarify a range of their responses. In response to this engagement, funds provided additional explanation and documentation to support the answers that had been signed off by the Board. This improved understanding of different fund governance models.

## 7. Next Steps

### 1. FY22 Reporting and report disclosure

In FY22, funds will have another year of reporting against the 2017 version of the Code. Reports will be due on 30 September 2022.

### 2. Review of the Governance Code

The review of the Governance Code commenced in January 2022. AIST will present a revised code to the AIST Board by July 2022. A consultation process is underway with funds and key stakeholders.

### 3. Planned 2022 engagement with funds

The Panel and the Secretariat will undertake further engagement with funds in 2022 on the requirements that most challenge governance and reporting. A session will be held with funds in 2022 where the Panel will discuss learnings from FY21 reporting and views on how funds might improve their reporting in FY2022.

AIST will also engage with funds on the content for a revised Code to become effective after it has been approved by the AIST Board.

# 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 FY2020

As of November 2020, AIST had 45 Australian fund members, two of which reported against the Code for the first time in 2020 (GESB and ElectricSuper). There were 4 funds which did not report. Two funds (VicSuper and WA Super) were in the process of merging with AwareSuper and therefore did not report given their governance structures were in a state of transformation. One fund which did not

submit a FY20 report is considering their continued AIST membership. Finally, there was one member which indicated that it was focusing the resources of its small administration team on managing its COVID response and implementing changes to superannuation regulation. This is considered a satisfactory level of reporting.

### Industry Funds:

1. Australian Catholic Superannuation Retirement Fund
2. AustralianSuper
3. BUSSQ Building Super
4. CareSuper
5. CBUS
6. Christian Super
7. First Super
8. HESTA
9. Hostplus
10. Legal Super
11. LUCRF Super
12. Maritime Super
13. Mine Super
14. NGS Super
15. REI Super
16. Rest
17. Spirit Super
18. Statewide Super
19. SunSuper
20. TWU Super
21. UniSuper

### Public Sector Funds:

22. Aware Super
23. ElectricSuper
24. EISS Super
25. ESSSuper
26. Fire and Emergency Services Superannuation Fund
27. First State Super
28. GESB
29. LGIASuper
30. Local Government Super
31. Qsuper
32. State Super
33. Super SA
34. Vision Super

### Corporate Sector Funds:

35. Willis Towers Watson
36. Mercy Super
37. TelstraSuper

# Appendix 3: Leading Practice Commentary

## BY FUND TYPE AND SIZE

Requirement	Commentary
<p><b>1.1 Due diligence on trustee director qualifications and engagement with sponsoring organisations</b></p> <p><i>Example from small industry fund</i></p>	<p>Guidelines for Sponsoring Organisations set out specific and broad competencies required for current appointments to the Board; for alternative directors, directors nominate candidates there is an 8-step process to determine if they are the right fit (including using the Assessment Guidelines, the Fit and Proper Policy, the Board Role Statements, the Skills Matrix, and the Conflict-of-Interest Management Framework and the Propriety Assessment).</p> <p>Before appointing a person as a trustee director:</p> <ul style="list-style-type: none"> <li>- Discussions are held between the Board Chair and nominating body.</li> <li>- 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).</li> <li>- The nominating body is required to send through a CV including 2 references This is presented to the Remuneration and Nomination Committee.</li> <li>- The Remuneration and Nomination Committee reviews the nominated Director’s CV and carries out a preliminary Fit and a Proper assessment.</li> <li>- The Board reviews and approves the appointment (subject to qualifications being met or agreement that skills gaps can be closed).</li> </ul> <p>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.</p> <p>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.</p> <p>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.</p>
<p><b>1.4 Diversity Policy, targets, annual reporting</b></p> <p><i>Example from medium sized public sector fund</i></p>	<p>The fund has established a network of LGBTIQ+ colleagues and allies committed to a safe and welcoming work environment, an Aboriginal and Torres Strait Islander Graduate Program, leave provisions and inclusion policies for colleagues that identify as LGBTIQ+, development of technology to support flexible working for all, development of career development pathways in areas of the business where there is a lower population of women in leadership roles.</p> <p>The Diversity Policy was approved in September 2018 following review and consultation through our People and Culture Committee. It contains an aspirational target of 50% representation of women across the Board, Executive and Senior Leadership team, and is committed to programmes supporting diversity across all levels of the organisation. These programmes have been in operation across the year and include guest speakers, conversations, and recruitment considerations.</p> <p>The Policy is supported by a Diversity and Inclusion action plan which covers recruitment, remuneration, performance management, career development and flexible working arrangements.</p> <p>It is the responsibility of the People and Culture Committee to review the Fund’s progress in achieving these objectives on an annual basis.</p>
<p><b>1.5 Annually evaluate performance of the board</b></p>	<p>See Mine Super’s <a href="#">Board Performance Assessment Program</a>.</p>

Requirement	Commentary
<p><b>2.2 Skills Matrix</b></p> <p><i>Example from large industry fund</i></p>	<p>A granular set of subskills helps with recruitment and training of directors and where skill gaps are identified, Board and Committees considers measures to address the gaps. 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 Skills Matrix is regularly updated as changes arise and reviewed by the Board annually. Information contained in the Skills Matrix is provided initially by Directors on appointment via their completion of the Skills Matrix Questionnaire.</p> <p>The current collective Board Skills and Experience Matrix is set out in the Appendix to the following publicly available document: <a href="https://www.hesta.com.au/content/dam/hesta/Documents/Relevant-disclosures.pdf">https://www.hesta.com.au/content/dam/hesta/Documents/Relevant-disclosures.pdf</a></p>
<p><b>2.5 Chair is appointed by the board and satisfies chair skills / experience requirements</b></p>	<p><i>Example from large industry fund:</i></p> <p>The Chair is appointed by the Board and in accordance with the Trustee's Constitution. The Trustee's Fit and Proper Policy includes specific (leadership and other) skills and experience requirements for the role of the Chair. In FY19 the Chair satisfied all the skill and experience requirements identified in the Chair Skills Matrix.</p> <p><i>Small industry fund example</i></p> <p>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.</p> <p>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.</p>
<p><b>2.7 Trustee Director Induction and on-going training</b></p> <p><i>Example from medium sized public sector fund</i></p>	<p>The Fund is reviewing and updating its Director Mentoring Framework and the implementation of the Framework to better support new directors.</p> <p>As stated in the fund's Board Renewal Policy, an induction program is in place for new Directors. Part of the induction program is Directors receive an Induction Handbook that includes relevant policies, constitution, annual Report, Product Disclosure Statements (PDS), Shareholder's Agreement, Meeting dates, last two sets of board meeting minutes, and last two sets of Committee meeting minutes (for the Committee they have been appointed to).</p> <p>The new Director attends a meeting with the Chairman, a meeting with the CEO and an introduction session where each Executive Team member gives an overview of the roles and responsibilities of their business unit. This includes at a minimum information regarding:</p> <ul style="list-style-type: none"> <li>- the mission, vision and values of the fund;</li> <li>- the legal and regulatory framework;</li> <li>- governance principles and expectations of the director;</li> <li>- the fund's strategic objectives and long-term aspirations;</li> <li>- the investment philosophy of the fund;</li> <li>- the risk management framework; and</li> <li>- the fund's history.</li> </ul> <p>The new Director also meets with either the Investment Committee Chair or the Audit &amp; Governance Committee Chair.</p> <p>The new Director is also given training on how to use the board portal where they can access all board and committee papers, policies, and other relevant documentation. On completion of the induction, an attestation is signed by the new Director.</p>

Requirement	Commentary
<p><b>4.2 Due Process and Related Party Due Diligence</b></p> <p><i>Large industry fund example</i></p>	<p>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.</p> <p>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.</p> <p>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</p> <p>The summary of the Trustee’s conflicts management and policy is also publicly available on the Trustee’s website - link provided</p>
<p><b>5.1 Implement a stakeholder engagement program</b></p> <p><i>Large industry fund example</i></p>	<p>The fund will have annual member meetings in both Melbourne and Sydney providing opportunities for fund members to ask relevant questions to both directors and senior management of the Trustee. Please note that due to the COVID19 both meetings will be performed virtually / online for 2020.</p>
<p><b>6.1 Fund’s risk management framework explicitly addresses factors that may erode the member-first culture</b></p> <p><i>Small Fund Example</i></p>	<p>The fund has revised the risk culture questions in the annual survey, risk culture is recognised in the fund’s scorecard and a standalone risk culture survey was rolled out in FY21 which will be used to uplift risk management activities.</p> <p>Quarterly and annual risk awards to encourage staff to identify risks that might otherwise be undetected or not detected as early.</p> <p>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.</p>
<p><b>8.1 Strong investment governance practices having regard to demographics</b></p> <p><i>Small Fund Example</i></p>	<p>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.</p> <p>Reference: to fund website, description of investment options</p> <p>Documents provided: Investment Governance Framework and Investment Policy Statement including how investment strategy and liquidity position will take account of Fund demographics.</p>

## Appendix 4: Governance Code Monitoring Panel

The Governance Code Monitoring Panel is responsible for monitoring, engagement, reporting and other related activities in relation to the Governance Code. Terms of Reference detail the Panel's responsibilities and obligations. The Panel is comprised of three members.

### Panel Members

**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 2011-2016 and helped develop governance prudential standards and guidance.

**Maree O'Halloran AM** – Maree has considerable experience as a director of profit-to-member funds including her most recent role as an employer-representative director of HESTA, which concluded in 2015. Ms O'Halloran is a former recipient of AIST's Trustee of the Year award. In 2011, Ms O'Halloran was awarded a Member of the Order of Australia (AM) in recognition of a range of representative roles in industrial relations and education.

**Michelle Wright** – Michelle has nearly a decade 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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