GCMP | GOVERNANCE CODE MONITORING PANEL

Report on 2020 Compliance with the AIST Governance Code

Governance Code Monitoring Panel Report

December 2020

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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 in Australia. The Code, which consists of 8 principles and 21 requirements (some of which include sub-elements) aims to protect and improve outcomes for superannuation fund members. Reporting is undertaken on an 'if not why not' basis. That is, if a fund cannot meet a requirement (or a sub-element), it is asked to explain why. In practice, supporting narratives are required irrespective of fully meeting, partially meeting, or not meeting a requirement. Funds report using a template provided by AIST.

The independent Governance Code Monitoring Panel has the responsibility of monitoring AIST member fund compliance with the AIST Governance Code. The Panel's Terms of Reference require that it prepare a report to the Board and a public report.

Fiscal year 2020 (ending 30 June 2020) was the second year of reporting and 41 funds submitted self-assessments which included explanations of how they met requirements and planned improvement activities against the Code.

The data on reporters by fund type and size are illustrated in Charts 1 and 2.

This report represents the Governance Code Monitoring Panel's assessment of the 41 fund compliance reports from the perspective of the standard of accountability, transparency, and overall governance structure as well as demonstration of commitment to continuous improvement.

CHART 1
REPORTERS BY FUND-TYPE
Number of funds

Corporate	**3**
Industry	**26**
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**

Executive Summary

This report analyses 41 AIST member compliance reports submitted to the Governance Code Monitoring Panel for the fiscal year ending 30 June 2020. It finds that the funds have improved their level of compliance since FY19. Evidence is presented which demonstrates that funds have continued to focus on ensuring the maintenance of good governance practice and continuous improvement where possible despite the challenges of COVID-19.

Overall, funds reported that they fully comply with 90.3 per cent of requirements, an increase from 84.9 per cent in FY19. While the Panel agrees that funds fully met more requirements in FY20 than in FY19, the Panel assessed that 84.3 per cent of requirements were fully met. The difference in reported versus Panel-assessed compliance occurred because some explanations provided by funds to support the reported level of compliance were not clear or sufficient to address all elements of the reporting requirement.

Funds reported partial compliance with 7.6 per cent (compared to 12.1 per cent in FY19) and not meeting 2.1 per cent of requirements (compared to 3 per cent in FY19). The Panel found less than one per cent of reported partial compliance lacked sufficient explanations to support the reported compliance level. In the cases where funds reported that they did not or could not meet a requirement, the Panel concurred.

The Panel identified five areas where governance practice and reporting can improve the most:

- 1.4 Demonstrate a written diversity policy setting out measurable objectives with annual reporting to ensure broadest talent pool is tapped;
- 2.5 Demonstrate that the chair is appointed by the board and satisfies skill and experience profile in fund's skills matrix;
- 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;
- 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;
- 1.5 Annually evaluate performance of collective board and individual trustees; disclose the process and confirm annual implementation.

The Panel also found that a small number of funds have a lack of separation of duties between the fund secretary and the CEO. In some cases, this is on account of a very small number of staff, however, it presents risks to good governance. Finally, given that a key strength of AIST members is their member-first culture, the Panel believes that this could also be better articulated in reporting in FY21.

The Panel encourages funds to continue improving governance practices in light of rising industry standards and community expectations. It believes that the gap between reported full compliance by funds and the Panel's assessment of the level of full compliance can be closed with improved narratives and better public disclosure in 2021. It was encouraging to see more funds disclose their full reports against the AIST Governance Code in FY20 as this disclosure helps to demonstrate good governance practice as well principles of transparency, accountability, and responsibility.

1. Introduction and overview of reporting process

The Panel is pleased with the overall improvement in governance standards reported in FY2020 and would like to acknowledge the effort and level of commitment and cooperation demonstrated by funds in a COVID-19 challenged year. The results demonstrate that funds are taking reporting seriously and are committed to improvement.

Most funds submitted their reports by the 30 September 2020 deadline and all reports except for two 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 compliance and/or explanations in lieu of compliance.

2. Reported compliance with the Code

Overall results

Funds reported that they fully met 90.3 per cent of the 21 requirements of the Code in FY20 compared to 84.9 per cent in FY19. While the Panel agrees that funds fully met more requirements in FY20 than in FY19, the Panel assessed that 84.3 per cent of requirements were fully met in FY20. The difference in reported versus Panel-assessed compliance occurred because some explanations provided by funds to support the reported level of compliance were not clear or sufficient to address all elements of the reporting requirement or some of the disclosures required under the Code (for example, procedures for Board evaluation) had not been made.

Ten funds (24.4 per cent) reported meeting all requirements and the Panel agree in each of these cases.

Funds reported that they partially met 7.6 per cent and did not (or could not) meet 2.1 per cent of Code requirements (Table 1). This compares to 12.1 per cent and 3 per cent in FY19 respectively.

The Panel found less than one per cent of reported partial compliance lacked sufficient explanations to support the reported compliance level. In the cases where funds reported that they did not or could not meet a requirement, the Panel concurred. Appendix 4 contains a table of the differences in reported versus Panel assessed by requirement.

Results by fund type

The Panel assessed that industry and corporate funds had almost the same level of conformance with a (rounded) full compliance level of 89 per cent of requirements. Industry funds were judged to partially comply with 3.7 per cent of requirements and did not or could not meet 1.1 per cent of requirements (Table 1). Corporate funds were assessed to partially and not meet 1.6 and 3.2 per cent of requirements respectively. Public sector funds were assessed to fully meet 72.2 per cent, partially meet 12.7 per cent and not meet or cannot meet 3.6 per cent of requirements.

Table 1: Compliance levels (as assessed by the Panel) by fund type

Per cent of total reporting 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	94.5	88.8	4.0	3.7	1.1	1.1
Public Sector	79.4	72.2	16.7	12.7	4.0	3.6
Corporate	95.2	88.9	1.6	1.6	3.2	3.2

It is not possible for exempt public sector funds to meet all the requirements of the Code because of restrictions in their governing legislation. However, most public sector reports were good 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.

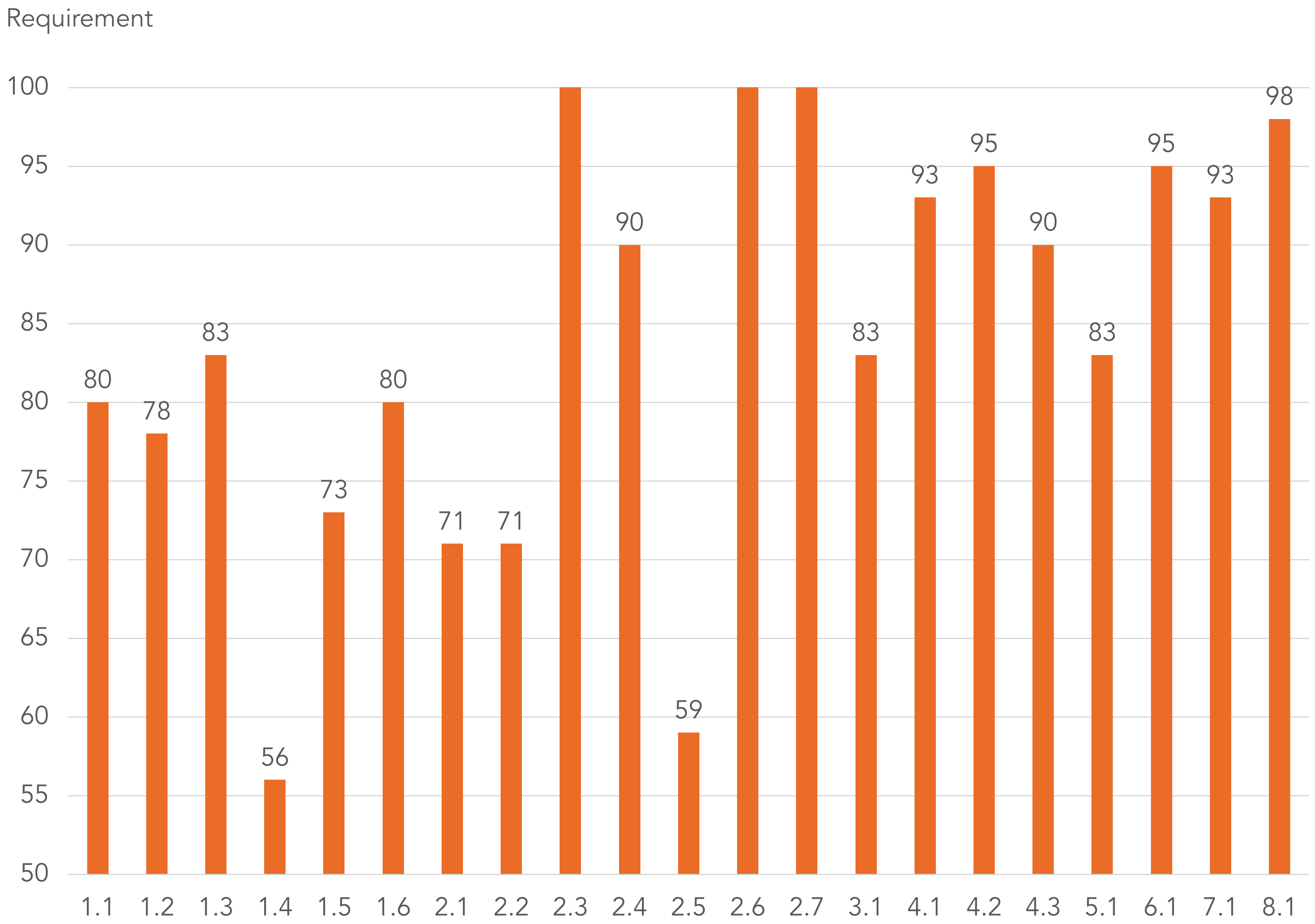
Detailed Panel Assessment of Full Compliance

The Panel's assessment of the percentage of funds fully complying with each of the requirements is represented in Chart 3. Three requirements were judged to be fully met: 2.3 (disclose names of directors, nominating entities and if they are a non-representative member); 2.6 (demonstrate that the CEO is not a trustee director) and 2.7 (demonstrate an induction program for new trustees and on-going professional development and training for all directors). There were seven requirements where 90 to 98 per cent of funds fully met the requirements and six requirements where 78 to 83 per cent of funds fully met the requirements.

The five requirements where full compliance levels were the lowest were:

- 1.4 Demonstrate a written diversity policy setting out measurable objectives with annual reporting to ensure broadest talent pool is tapped;
- 2.5 Demonstrate that the chair is appointed by the board and satisfies skill and experience profile in fund's skills matrix;
- 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;
- 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;
- 1.5 Annually evaluate performance of collective board and individual trustees; disclose the process and confirm annual implementation.

CHART 3
PERCENTAGE OF FUNDS FULLY MEETING REQUIREMENTS



Summary of requirement (full text is in Appendix 1)	
1.1	Conduct enquiries to ensure trustees have appropriate skills/experience before appointment and engage sponsoring organisations.
1.2	Demonstrate written agreements with each trustee and senior manager setting out terms of appointment.
1.3	Demonstrate that there is a company secretary who is accountable directly to the board via the chair who is not the CEO.
1.4	Demonstrate a written diversity policy setting out measurable objectives with annual reporting to ensure broadest talent pool is tapped.
1.5	Annually evaluate performance of collective board and individual trustees; disclose the process and confirm annual implementation.
1.6	Disclose a documented process for senior management performance and confirm annual implementation.
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.
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.
2.3	Disclose names of directors, nominating entities and if they are a non-representative member.

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.
2.5	Demonstrate that the chair is appointed by the board and satisfies skill and experience profile in fund's skills matrix.
2.6	Demonstrate that the CEO is not a trustee director.
2.7	Demonstrate an induction program for new trustees and on-going professional development and training for all directors.
3.1	Demonstrate that the fund has a code of conduct for the board, management and employees and disclose the code or a summary.
4.1	Demonstrate the fund ensures financial integrity of the fund and the trustee entity.
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.
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.
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.
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.
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.
8.1	Demonstrate that the fund designs and manages appropriate investment strategies having regard to member demographics and circumstances during accumulation and decumulation phases.

The five areas of greatest challenge in FY20 are the same as in FY19.

3. Opportunities for improvement in narratives

Overall assessment

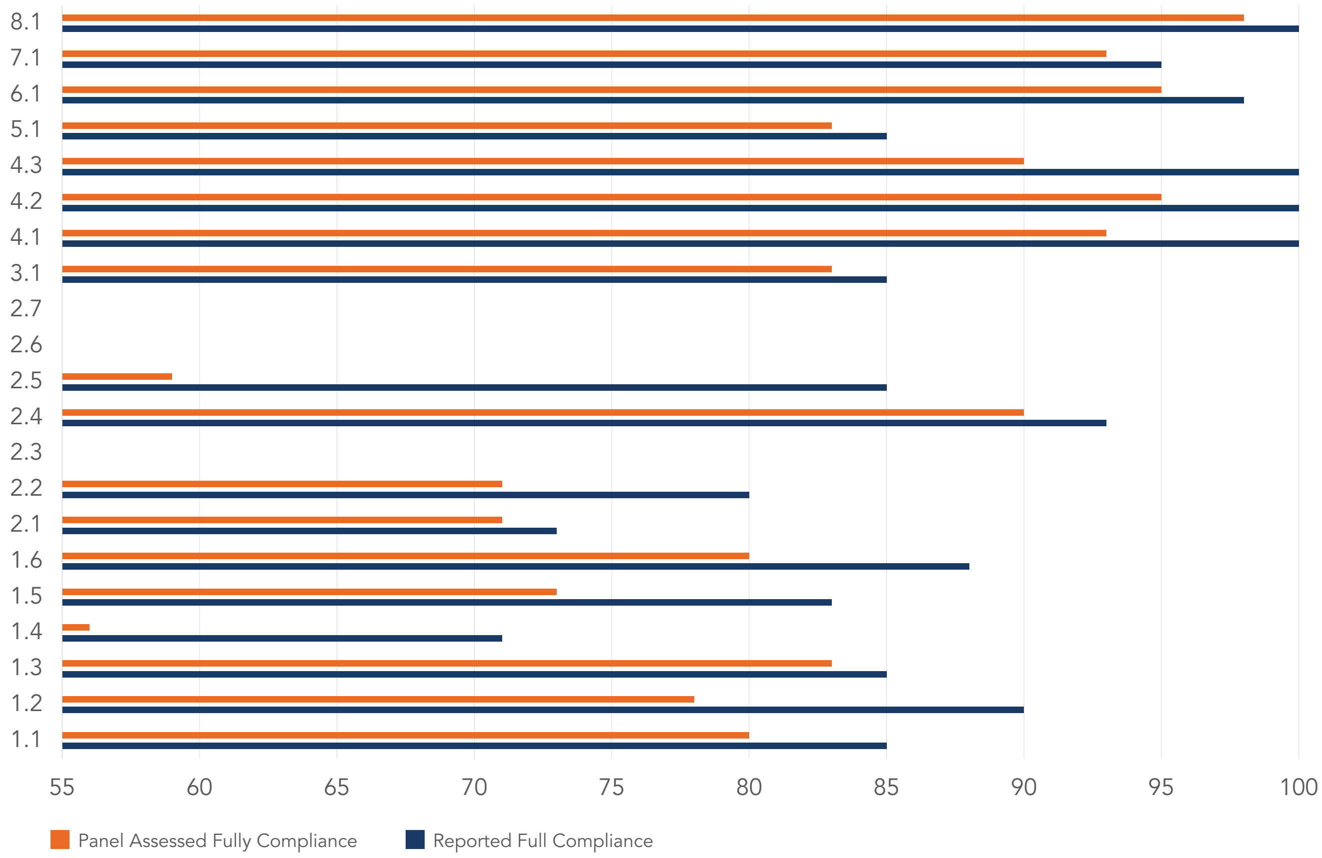
In the March 2020 public Report, the Panel reflected on the first year of reporting, highlighting where improvements could be made. In addition to taking steps of improving governance practices, the Panel flagged the importance of providing a narrative for each requirement. The narrative enables the Panel to understand the fund and the rationale for its governance practices.

In May 2020 the Panel and the Secretariat hosted a well-attended virtual meeting with funds to outline practical steps that could be taken to improve the quality reporting. Funds were asked to explain how a policy is used and/or what actions have been taken during the year to implement a requirement. The availability of a 2020 reporting template, leading practice document and other tools were shared.

Chart 4 illustrates the difference between the percentage of funds reporting full compliance and the Panel's assessment. Where there is no data, the Panel concurred with the fund's assessment on that requirement. The Panel found the explanations for requirements 1.4 (demonstrate a written diversity policy setting out measurable objectives with annual reporting to ensure broadest talent pool is tapped) and 2.5 (demonstrate that the chair is appointed by the board and satisfies skill and experience profile in fund's skills matrix) to be the most problematic.

The Panel believes that these gaps can be closed in the next reporting cycle as funds more fully understand the requirements and are able to more clearly articulate how they may be meeting the requirement.

CHART 4
PANEL ASSESSED VS REPORTED – PER CENT OF FUNDS FULLY MEETING REQUIREMENTS



Leading practice

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

Appendix 3 offers leading practice examples from a range of funds that reported in FY20 and FY19 and provides leading practice on the requirements where funds had the most difficulty reporting.

4. Planned improvement activities

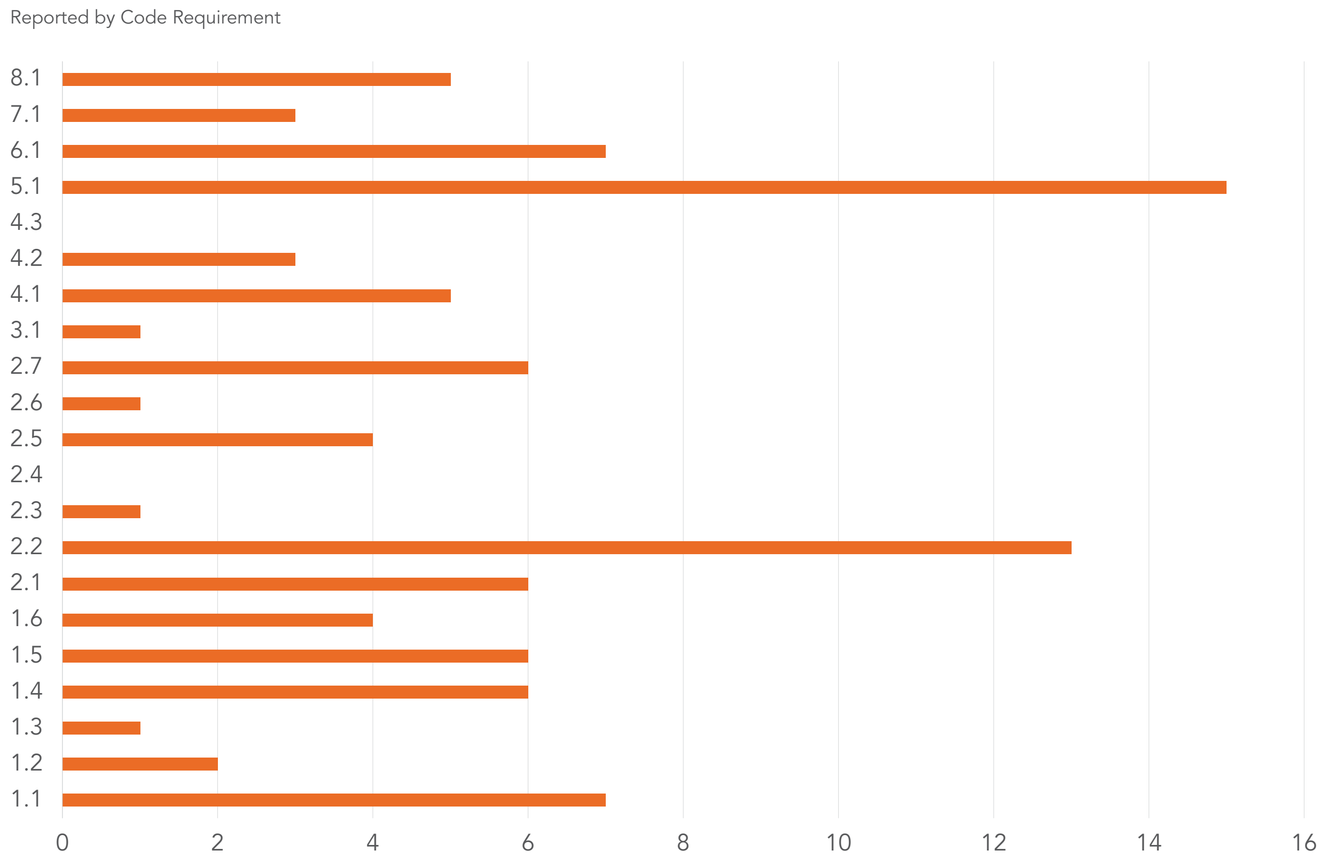
In FY19 funds were asked to indicate where they had planned improvement activities in the reporting template and they responded in a fulsome manner. In total there were 143 planned improvement activities reported across 20 of the 21 Code requirements and most of these were intended to be completed in FY20. In FY20 Funds were asked to indicate what actions they had undertaken during the year and what they had planned for FY21.

Based on the reporting, it appears that a total of 92 per cent of planned improvement activities were undertaken. Some funds reported that they were not able to follow through for reasons including COVID-19 and other imperatives. The Panel remarked that it was good to see funds forthcoming about where they had not met expectations that they had set for themselves.

Funds reported that they have 96 planned improvement activities in FY21 (Chart 5). The most significant areas of planned improvement are as follows:

- Fifteen funds plan to improve their stakeholder engagement activity between the board, senior management and members (requirement 5.1);
- Thirteen funds indicated plans to improve their board skills, experience and diversity matrix and associated disclosure (requirement 2.2);
- Seven funds plan to improve their risk culture with board oversight of material risks and to ensure that the risk framework to explicitly addresses factors that may erode a member-first culture; and
- Seven funds intend to conduct enquiries and engage sponsoring organisations to ensure trustees have appropriate skills and experience before appointment.

CHART 5
NUMBER OF FUNDS WITH IMPROVEMENT ACTIVITIES



5. 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 2020, the Panel Secretariat engaged more than ten funds to understand and clarify a range of their responses. The funds usually 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 and the impact of fund size on governance.

6. Next Steps

Disclosure of fund reports is encouraged

One of the aims of the Code is to improve accountability and transparency. The Panel encourages all funds to disclose their compliance reports. This is recommended, but not required by the Code. At least four funds have done this with their FY20 reports.

Code revision process and timing

The current version of the Code was published in 2017 and the terms of reference call for it to be reviewed on a triennial basis to ensure that it remains relevant as a leading practice document.

There are a range of Royal Commission-related governance changes planned for 2020 which have been delayed because of COVID19. The changes will likely impact on the content of a revised Governance Code. In August 2020, the AIST Board decided that these changes would make revision of the Code difficult before June 2021 and concluded that a postponement of the triennial review of the Governance Code was necessary and it would not occur until late calendar year 2021.

FY21 Reporting

Funds will be required to report by 30 September 2021 on their compliance with 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.

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. Club Plus Super
8. EnergySuper
9. First Super
10. HESTA
11. Hostplus
12. Legal Super
13. LUCRF Super
14. Maritime Super
15. Media Super
16. Mine Super
17. MTAA Super
18. NGS Super
19. REI Super
20. Rest
21. Statewide Super
22. SunSuper
23. Tasplan Super
24. TWU Super
25. UniSuper

Public Sector Funds:

26. 26. Aware Super
27. 27. ElectricSuper
28. 28. EISS Super
29. 29. ESSSuper
30. 30. Fire and Emergency Services Superannuation Fund
31. 31. First State Super
32. 32. GESB
33. 33. LGIAsuper
34. 34. Local Government Super
35. 35. Qsuper
36. 36. State Super
37. 37. Super SA
38. 38. Vision Super

Corporate Sector Funds:

39. 39. ANZ Staff Super
40. 40. Mercy Super
41. 41. TelstraSuper

Appendix 3: Leading Practice Commentary

BY FUND TYPE AND SIZE

Requirement	Commentary
1.1 Due diligence on trustee director qualifications and engagement with sponsoring organisations *Example from small industry fund*	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.
1.4 Diversity Policy, targets, annual reporting *Example from medium sized public sector fund*	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. The Policy is supported by a Diversity and Inclusion action plan which covers recruitment, remuneration, performance management, career development and flexible working arrangements. It is the responsibility of the People and Culture Committee to review the Fund's progress in achieving these objectives on an annual basis.
1.5 Annually evaluate performance of the board	See Mine Super's Board Performance Assessment Program.
2.2 Skills Matrix *Example from large industry fund*	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. The 2020 collective Board Skills and Experience Matrix is set out in the Appendix: HESTA Aug 2020 Governance Disclosure.
2.5 Chair is appointed by the board and satisfies chair skills / experience requirements	*Example from large industry fund:* 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. *Small industry fund example* 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.

Requirement	Commentary
2.7 Trustee Director Induction and on-going training *Example from medium sized public sector fund*	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). 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: • the mission, vision and values of the fund; • the legal and regulatory framework; • governance principles and expectations of the director; • the fund's strategic objectives and long-term aspirations; • the investment philosophy of the fund; • the risk management framework; and • the fund's history. The new Director also meets with either the Investment Committee Chair or the Audit & Governance Committee Chair. 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.
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. The summary of the Trustee's conflicts and related party management and policy is publicly available here.
5.1 Implement a stakeholder engagement program *Large industry fund example*	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.
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.

Requirement	Commentary
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: Differences in Reported vs Panel Assessments

BY CODE REQUIREMENT ACROSS 41 REPORTING FUNDS

Requirement	Reported as fully met	Panel assessed as fully met	Difference	Reported as partially met	Panel assessed as partially met	Difference
1.1	35	33	2	5	5	-
1.2	37	32	5	3	2	1
1.3	35	34	1	3	1	2
1.4	29	23	6	7	6	1
1.5	34	30	4	7	7	-
1.6	36	33	3	5	5	-
2.1	30	29	1	6	5	1
2.2	33	29	4	8	8	-
2.3	41	41	-	0	0	-
2.4	38	37	1	3	3	-
2.5	35	24	11	4	4	-
2.6	41	41	-	0	0	-
2.7	41	41	-	0	0	-
3.1	35	34	1	6	6	-
4.1	41	38	3	0	0	-
4.2	41	39	2	0	0	-
4.3	41	37	4	0	0	-
5.1	35	34	1	5	4	1
6.1	40	39	1	1	1	-
7.1	39	38	1	2	2	-
8.1	41	40	1	0	0	-

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