GCMP | GOVERNANCE CODE MONITORING PANEL

Financial Year 21-22 Compliance with AIST Governance Code

AIST

Contents

Executive Summary

The AIST Governance Code's purpose is to promote continuous improvement in governance in the profit-to-member superannuation sector. The Code is based on eight principles, it has 21 requirements and was adopted by Australian-based AIST members in 2017. Thirty-one funds reported on their compliance for the year ending 30 June 2022 compared to 37 in FY21. The reduced number of reports reflected merger activity in the sector. The independent Governance Code Monitoring Panel has assessed the reports and this is a document of the analysis.

The Panel concluded that funds are continuing to uplift their governance practices with more funds able to report full compliance with requirements than in previous years. There are, however, some requirements which are still challenging for some funds. For example, some requirements include the need for public disclosure and the Panel is looking to ensure that all funds meet the public disclosure requirements. The Panel acknowledges that funds were under pressure on several fronts in FY22 due to significant regulatory change and increased regulation as well as merger activity. In broad terms, the Panel was pleased to see improvement in FY22 and looks forward generally to more planned improvement activities by the funds to ensure continual uplift in governance best practice.

From a transparency perspective, the Panel noted that ten funds disclosed their AIST Governance Code report on their website in 2022. The Panel encourages all funds to disclose their reports as transparency encourages better rigour in reporting and governance performance.

Funds reported that they fully met 92 per cent of requirements in FY22, up from 90.9 per cent in FY21. They reported partially meeting 5.8 per cent of requirements (compared to 7.2 per cent in FY21) and 2.2 per cent of requirements were reported as not met (or could not be met) compared to 1.9 per cent in the previous year. Fifteen funds reported that they met all the requirements in FY22 (compared to twelve in FY21).

The Panel assessed that, collectively, funds fully met 87.5 per cent of the requirements (compared to 87 per cent in FY21). Similarly, the Panel assessed that 5.0 per cent of funds as partially meeting the requirements (compared to 5.8 per cent reported by funds). 1.7 per cent of requirements did not have sufficient supporting evidence (or explanations were not clear) for the Panel to agree with funds' explanations of why they did not (or could not meet) requirements (compared to 2.2 per cent reported by funds).

The Panel acknowledges that improvements have been made in a range of areas, including diversity policies and practices. It has identified five requirements where governance practice and/or reporting can improve:

- Diversity: Demonstrate a written diversity policy setting out measurable objectives with annual reporting to the Board and members to ensure the broadest talent pool is tapped (Requirement 1.4).
- Board Evaluation: Annually evaluate performance of the collective board and individual trustees; disclose the process and annual implementation (Requirement 1.5).
- Evaluation of Senior Management: 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 (Requirement 1.6).
- Skills Matrix: 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 (Requirement 2.2); and
- Chair Skills and Experience: 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 (Requirement 2.5).

The Panel understands the legislative constraints for exempt public sector funds and noted that some funds achieved standards beyond legislative requirements. The Panel encourages all exempt public sector funds to continue their journey towards better governance practices to meet their circumstances.

Background: The Governance Code and its Monitoring Panel

The AIST Governance Code's purpose is to promote continuous improvement in governance in the profit-to-member superannuation sector. This includes ensuring the culture of the profit-to-members concept is supported by excellence in governance, accountability and transparency in AIST's industry, exempt public sector and corporate fund members.

The principles-based Code goes beyond regulatory requirements. The Code, which consists of eight principles and 21 requirements (some of which include sub-elements) aims to protect and improve outcomes for superannuation fund members. Reporting is on an 'if not, why not' basis. That is, if a fund cannot meet a requirement (or a sub-element), it is required to explain why. In practice, supporting narratives and/or evidence are required irrespective of fully, partially, or not meeting a requirement. Each year, the independent Governance Code Monitoring Panel assesses the reports submitted by AIST's Australian-based member funds and this document reports on the Panel's analysis for the fiscal year ending 30 June 2022, the fourth year of reporting under the Code.

The three-person 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 AIST Board and a public report. In addition, 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 2022, the Panel Secretariat engaged more than eight 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.

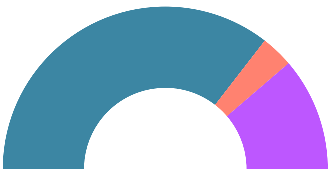
Characteristics of the pool of reporters in FY2022

In FY22 31 funds reported compared to 37 in FY21. The consolidation of funds in the industry sector was evidenced in the reporting pool in FY22: There were 6 fewer industry funds reporting on account of merger activity.

There were two new funds reporting because of merger activity – Australian Retirement Fund (formerly QSuper and Sunsuper), and Togethr (formerly Equip Super and Catholic Super). In this report public sector funds are defined as exempt public sector funds whereas previously some funds which had merged with exempt public sector funds were included in the public sector category even though they had elected to become APRA regulated superannuation funds. Where this has occurred, they are now classified as either industry fund or corporate fund. This means direct comparisons of last year's results are not relevant to make in all cases.

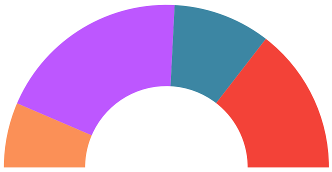
Chart 1 below shows the total number of funds reporting by Fund type, with industry superannuation funds continuing to comprise most reporting funds.

CHART 1
REPORTERS BY FUND-TYPE
Number of funds



**The reference in this graph to public sector relates to exempt public sector schemes, and not those that have elected to become APRA regulated superannuation funds.*

CHART 2
REPORTERS BY FUNDS UNDER MANAGEMENT
Number of funds



In terms of funds under management (FUM) in FY22, there was one less fund reporting with over $30bn FUM compared to FY21 (12 funds in FY22 compared to 13 funds in FY21); there were two fewer medium-sized funds (defined as funds with $12.5 bn to $30 bn FUM) in FY22 compared to FY21.

There were 10 funds reporting with FUM of less than $12.5 bn in FY22 compared to 16 in FY21.

The Panel was pleased to see that many funds continued to demonstrate improvements in governance standards in FY22. This was despite some resourcing constraints and competing priorities for funds engaged in, or considering, merger activity. There were several funds that showed significant improvement and attention to detail in seeking to comply with the requirements.

Most funds submitted their reports by the 30 September deadline and all reports were approved by the fund trustee board before submission, except for one where the Chair signed off.

In October and November, the Secretariat analysed the reports and engaged funds to resolve queries and seek additional documentation to verify what has been reported. The Panel assessed each report, and each was discussed at a meeting of the Panel and the Secretariat. Individual feedback letters to fund chairs and CEOs are sent each year in December.

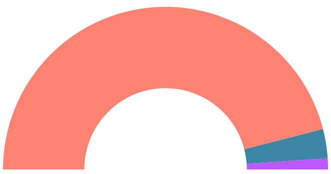
Assessment of Compliance with the Code

Reported compliance

Funds reported that they fully met 92 per cent of requirements in FY22, a noteworthy increase on the 90.9 per cent figure in FY21. This compares to 90.3 per cent in FY20.

Funds reported partially meeting 5.8 per cent of requirements (compared to 7.2 per cent in FY21) and 2.2 per cent of requirements were reported as not met (or could not be met) compared to 1.9 per cent in 2021.

CHART 3: REPORTED COMPLIANCE LEVELS IN FY22



Full	**92%**
Partial	**5.8%**
Does or cannot meet	**2.2%**

Reported versus Panel assessed results

The Panel assessed that, collectively, funds fully met 87.5 per cent of the requirements compared to 87 per cent in FY21. The Panel assessed that twelve funds fully met all requirements in FY22 (compared to twelve in FY21).

Similarly, the Panel assessed that 5.0 per cent of requirements were partially met in FY22 (compared to 5.8 per cent reported in FY21). A total of 1.7 per cent of requirements did not have sufficient supporting evidence (or explanations were not clear) for the Panel to agree with funds' explanations of why they did not (or could not) meet requirements (compared to 2.2 in FY21).

Overall, the Panel found that 5.8 per cent of explanations provided by funds to demonstrate the level of reported compliance (full, partial or did not/could not meet) were not sufficient either to allow the Panel to assess if the fund met the requirement (as reported) or the fund appeared to miss an element of what the requirement asked. This compares with 5.5 per cent in FY21. In a number of instances funds met requirements and claimed full compliance but failed to provide sufficient evidence to support the claim.

Reported by fund type

Table 1 provides data by fund type with reported compliance and Panel-assessed compliance levels by fund category. The Panel assessed that industry funds fully met 93.5 per cent of the requirements compared to a reported level of 96.1 per cent. The difference in reported versus Panel assessed compliance occurred because some explanations provided by funds to support the level of compliance were not clear or sufficient (or evidenced) to address all elements of the reporting requirement.

It is interesting to note that industry funds as a sector reported 96.1 per cent full compliance in 2021 as well. The Panel assessed that only two of the requirements that industry funds reported as partially meeting were not partially met.

Corporate funds were assessed to partially and not meet 2.4 per cent of requirements. The variance between reported partial compliance of 5.8 per cent and assessed partial compliance of 2.4 per cent is because the Panel disagreed with the reported partial compliance of one requirement (there are only two corporate funds reporting).

Exempt public sector funds were assessed to fully meet 69.4 per cent, partially meet 14.3 per cent, and either did not meet or could not meet 4.1 per cent of requirements.

It is not possible for exempt public sector funds to meet all the requirements of the Code because of restrictions in their governing legislation. Most exempt public sector fund reports were generally of good quality and effectively made 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.

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	96.1	93.5	3.0	2.2	0.9	0.9
Exempt Public Sector	78.9	69.4	14.9	14.3	6.1	4.1
Corporate	92.8	85.7	5.8	2.4	2.4	2.4
Weighted average	92	87.5	5.8	5.0	2.2	1.7

**Figures may not add to 100 due to rounding*

Opportunities for further improvement

- **Diversity:** Demonstrate a written diversity policy setting out measurable objectives with annual reporting to the Board and members to ensure the broadest talent pool is tapped (Requirement 1.4).
- **Board Evaluation:** Annually evaluate performance of the collective board and individual trustees; disclose the process and annual implementation (Requirement 1.5).
- **Evaluation of Senior Management:** 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 (Requirement 1.6).
- **Skills Matrix:** 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 (Requirement 2.2); and
- **Chair Skills and Experience:** 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 (Requirement 2.5).

Four of these five requirements (1.4, 1.5, 1.6 and 2.2) were identified as priority areas for improvement in FY21. There is further work to be done in emphasising expectations of detail required in submitted governance reports.

Regards requirement 1.4, it was observed that funds have diversity policies in place, or for example produced workplace gender reports as evidence of having a diversity strategy but were less inclined to report in their responses whether the policies had measurable objectives with annual reporting of progress against those objectives. In many instances this had to be deduced from website disclosure.

The Panel is comfortable that funds would be undertaking Executive performance evaluations as appropriate. The Panel's concern in regard to 1.6 is that not all funds are publicly disclosing as required that the performance evaluation took place.

Requirement 2.5 had comparatively low reporting on full compliance not only because some public sector boards are unable to appoint their own Chair, but also because some funds, including APRA regulated funds, have not developed a skills matrix specific for the role of Chair. One fund did not develop a skills matrix for the Chair because the Chair position rotated among directors periodically.

The timing of updating information relevant to compliance is also an issue where funds may not have updated policies held by premerger funds, but which are scheduled for updating. As merger activities continue, this is an area where it may be reasonable to focus on the previous compliance of the premerger funds with the same requirement.

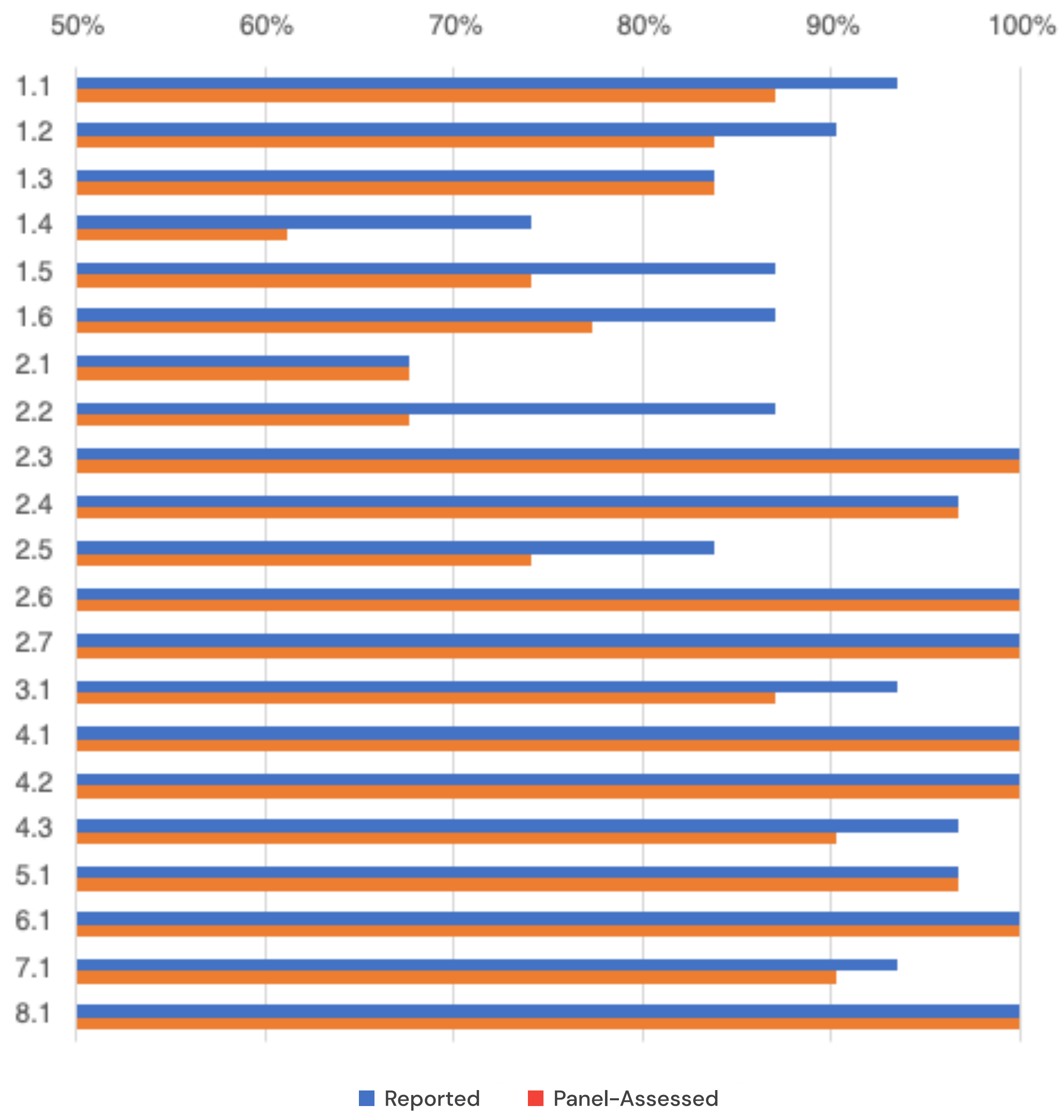
The Panel encourages funds to continue improving governance practices considering rising industry standards and community expectations. This is an issue more for exempt public sector funds than industry funds.[1]

Exempt public sector funds are subject to state-based legislation and aspire to voluntarily meet APRA regulations. Many of the funds have demonstrated in their reports that they, at a minimum, partially meet Governance Code requirements where state-based regulations do not formally require (or sometimes encourage) this. There remain opportunities for further improvement. For example, even where Board appointments are made by the Treasurer it is desirable for the fund to prepare detailed guidance about the skill requirements to guide the Treasurers' decision making. There are examples of the fund seeking to have changes made to its enabling legislation to facilitate improved governance practices. It is in the interests of the members of exempt public sector schemes that their funds have good governance and transparency aligned with the APRA regulated sector.

The Panel is encouraged that the gap between reported compliance by funds and its assessment of the level of compliance is closing and can narrow further with improved narratives and better public disclosure in 2023.

1* Twenty-four APRA regulated superannuation funds collectively provided twenty-four inadequate explanations for either full or partial compliance with the AIST Governance Code requirements, however, seven exempt public sector funds collectively provided fourteen inadequate explanations for same.

CHART 4: PANEL ASSESSED VS REPORTED COMPLIANCE LEVELS



In reviewing the reports, the Panel noted the following:

Requirement 1.1 – the best reports contain explanations of what the fund does when the nominating directors do not have the desired skills and experience. It is good practice for funds to specifically address what they do when gaps are identified. Leading practice processes included a process to address both skills gap requirements and fit and proper requirements prior to nomination, and the ability to reject nominations on this basis as part of the process (there was one fund that did this). Several funds have alternate directors. One fund indicated that the process for nomination of alternate directors was that the member representative director would appoint an alternate director, which potentially may exclude board considerations of a skills gap or fit and proper considerations.

Requirement 1.3 – One fund had a member director as company secretary. It is recommended that the fund employ a part time contractor to the role of company secretary. Part of the role of company secretary is to provide governance advice to the board. Accordingly, it is inappropriate for a company secretary of a superannuation fund to act as a board member of the same fund simultaneously.

One fund continues to retain the CEO as company secretary but has employed a deputy company secretary. One fund has employed an alternate company secretary to address single point dependency risk.

Requirement 1.4 – Some funds have used their Diversity and Inclusion plans to focus on addressing the gender representation gap. One fund focussed specifically on disability. Good practice in this area showed measurable objectives in the Diversity and Inclusion Policy accompanied by strategies with specific targets, in contrast to focussing on process. One fund decided to undertake a specific Diversity strategy each year within its overall Diversity and Inclusion Policy.

The notable disparity between reported compliance and panel-assessed compliance with this requirement is because funds usually did not provide enough information on measurable objectives even though they had a Diversity and Inclusion Policy or a strategy to deal with this issue.

Requirement 2.2 – The disparity between reported compliance and panel-assessed compliance with this requirement is largely related to whether a summary skills matrix was disclosed, not whether the matrix existed.

Leading practice and planned improvement activities

Several funds had very thorough, complete and well documented reports supported by a strong narrative, relevant policy and board documents. In addition, more than ten funds referred to compliance with the AIST Code on their web site either by publishing their full or part of their report.

Appendix 3 offers leading practice examples from a range of funds that reported in FY22 and provides leading practice on the requirements where funds had the most difficulty reporting.

Funds continue to plan activities to improve governance, with 103 planned activities reported for 2023 across the 21 Code requirements. There continues to be a general correlation between the requirements which are the most compliance-challenging and those flagged for planned improvement in the future.

The most significant areas of planned improvement are as follows:

- Twelve funds intend 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).
- Twelve funds plan to improve risk governance including the risk management framework, board oversight of material risks and risk culture (Requirement 6.1).
- Eleven funds plan to improve their maintenance of a matrix showing skills, experience and diversity which acknowledges gaps the board will address to fulfill its strategic plan, including disclosure of the skills matrix
- Eleven funds indicated plans to improve the approach to diversity including their diversity policy, setting measurable objectives and undertaking annual reporting to members and the board.

CHART 5: NUMBER OF FUNDS WITH IMPROVEMENT ACTIVITIES FOR 2023 BY CODE REQUIREMENT

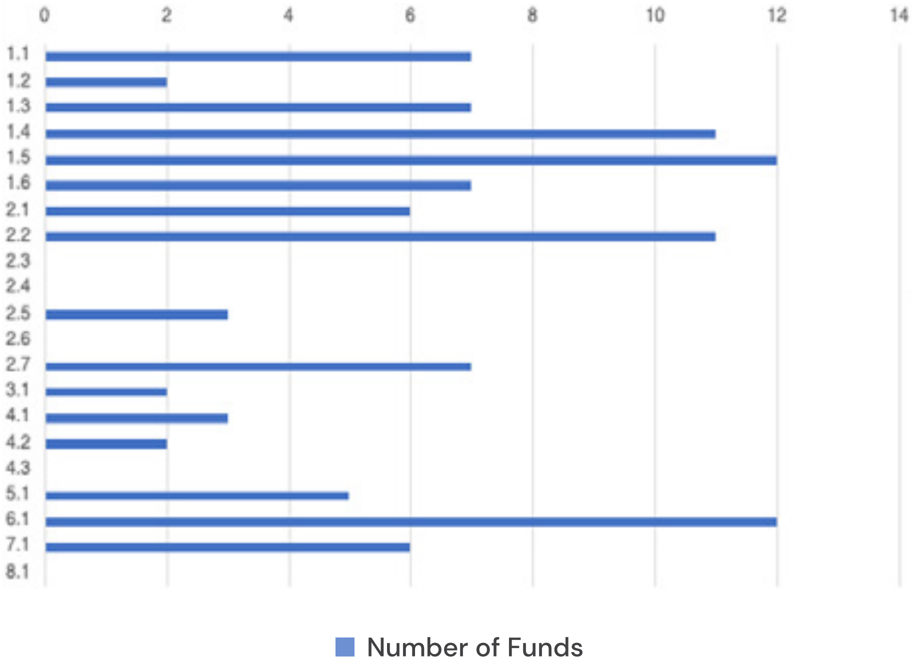
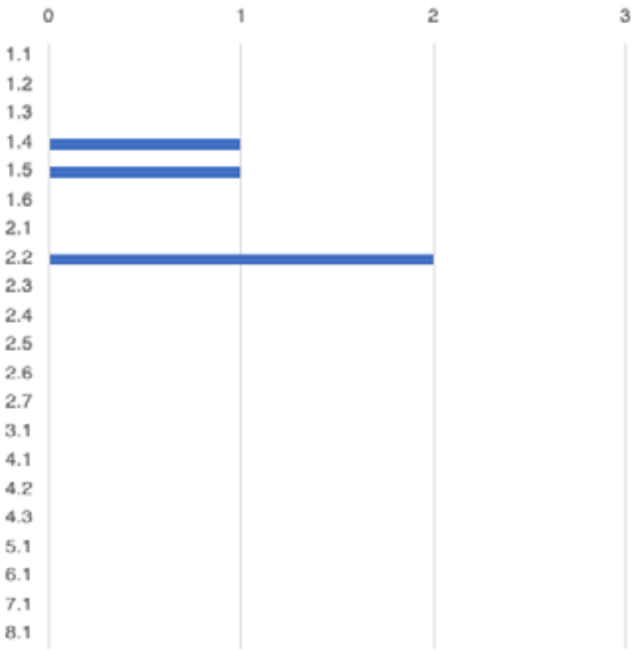


CHART 6: NUMBER OF FUNDS WITH IMPROVEMENT ACTIVITIES FOR 2022 THAT WERE NOT UNDERTAKEN (REPORTED BY CODE REQUIREMENT)



Four planned improvement activities of Funds for 2022 were not reported as having been undertaken. This is a significant improvement from 2021, where eighteen such activities were not reported as having been undertaken. This increase in implementation of improvement activities is likely a reflection on the availability of resources to undertake such actions in 2022 compared to 2021.

Next Steps

FY2023 Reporting and report disclosure

Funds will commence reporting according to the 2022 version of the Code in FY23. Reports will again be due on 30 September. AIST will issue a new Governance Code template in line with its revised Governance Code requirements.

Planned 2023 engagement with funds

The introduction of the Governance Code has facilitated improvements in governance of AIST member funds in the profit-to-member sector. Improved governance ultimately benefits Australians with superannuation savings, as maximising retirement outcomes is the focus of profit to member funds.

With the progress made on governance standards and the advent of the second version of the Governance Code, AIST will adopt a new Governance Code oversight model. The new oversight model will consist of a one-person external expert to independently review fund reports alongside AIST personnel.

AIST would like to thank the three-person Governance Code Panel for the excellent work it has achieved since its inception in 2018.

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 FY2022

As of 30 June 2022, AIST had 34 Australian based member superannuation funds. Funds that reported last year but are not reporting this year are:

- Australian Catholic Superannuation and Retirement Fund
- Christian Super
- LUCRF
- Maritime Super
- Mercy Super
- Q Super
- Sunsuper

All these funds have either merged with another fund or are currently engaged in merger activity. There were two funds that reported as the merged entities arising from the merger of four funds. Australian Retirement Trust reported in place of QSuper and Sunsuper. Togethr Trustees reported in place of Equip Super and Catholic Super. There was one member fund which indicated that it was focusing the resources of its small administration team on implementing changes to superannuation regulation. There was one member fund who reported for the first time in 2022.

FUNDS REPORTING IN 2022

Industry Funds:

1. Active Super
2. Australian Retirement Trust
3. AustralianSuper
4. Aware Super
5. Brighter Super (formerly LGIA)
6. BUSSQ
7. CareSuper
8. CBUS
9. First Super
10. HESTA
11. Hostplus
12. Legal Super
13. MIESF
14. Mine Super
15. NGS Super
16. REI Super
17. Rest
18. Spirit Super
19. Togethr
20. TWU Super
21. UniSuper
22. Vision Super

Exempt Public Sector Funds:

23. ElectricSuper
24. EISS Super
25. ESSSuper
26. Fire and Emergency Services Superannuation Fund
27. GESB
28. State Super
29. Super SA

Corporate Sector Funds:

30. Towers Watson Super Fund
31. 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 *Examples from two large industry fund and one large exempt public sector fund*	**Example 1** **Togethr Trustees** As part of Board succession planning, the Board undertakes a Board Skills Assessment, to identify specialised skills and desired experience for vacant Employer Director, Member Director or Independent Director positions. Each candidate for a director position must nominate their candidature for the specific Skills Requirement specified by the Board. The fund uses independent assessment consultants as part of the director appointment process to assess the skills and experience of candidates prior to appointment. Candidates who satisfy the eligibility criteria and skills assessment will then be eligible for nomination as an Employer Director or Member Director. The Board also appoints a Nominations Committee comprised of three Directors, to review shortlisted candidates against skills requirements and to recommend candidates to the Board for decision. Evidence: Please refer to the Board Appointment and Renewal Policy: https://www.equipsuper.com.au/about-us/fund-governance/key-governance-documents https://csf.com.au/fund-governance/key-governance-documents Member Director positions are advertised on the Fund's website. In addition, Call for Nominations are communicated to members electronically (for example through newsletter publications, social media and/or email). Employer Director positions are also advertised on the Fund's websites. Call for Nominations are also communicated electronically to the Fund's employers. The Relationship Managers also engage with the large employers of the Fund during this process. **Example 2** **CBUS** The fund has processes in place to liaise with Sponsoring Organisations prior to Director nominations being made in order to communicate any skills, experience or other desirable criteria for potential directors, while also having regard to the Board's strategic objectives, diversity goals, cultural fit and commitment to a member-first culture. Of importance, the Board and Committee Skills Matrix is provided to the Sponsoring Organisation and any skill needs are clearly highlighted. A key change made in 2021 was that the Shareholder representatives resolved to include a skills gateway in the Trustee's Articles of Association (Articles). The Articles now specify that 'the appointor has considered the existing skills and experience of the Board and the appointee demonstrates one or more skill or experience set out in the Board skills matrix'. Sponsoring Organisations and nominees also receive information on Director responsibilities and requirements, together with copies of key governance documentation, including the Fund Governance Policy, the Fit and Proper Policy and the Conflicts Management Policy.

Requirement	Commentary
1.1 Due diligence on trustee director qualifications and engagement with sponsoring organisations *Examples from two large industry fund and one large exempt public sector fund*	The Articles now specify that 'the appointor has considered the existing skills and experience of the Board and the appointee demonstrates one or more skill or experience set out in the Board skills matrix'. Sponsoring Organisations and nominees also receive information on Director responsibilities and requirements, together with copies of key governance documentation, including the Fund Governance Policy, the Fit and Proper Policy and the Conflicts Management Policy. The Director nomination and appointment process in place which involves engagement with Sponsoring Organisations are set out in the "Nomination & Appointment Process" document. Director nominations are provided to the Nominations Committee whose role is to assess the skills and experience of each nominee Director (Nominee) and make a recommendation to the Cbus Board in relation to their respective appointment as a Trustee Director. This process is captured in the Nominations Committee Charter. (https://www.cbussuper.com.au/content/dam/cbus/files/governance/board-executive/Nominations-Committee-Charter.pdf) The composition of the Nominations Committee is determined by the Board, which includes the Fund Chair and two other members on a rotational basis dependent on the appointments being reviewed to avoid any conflict situation. The Fit and Proper Policy (updated in 2020) states that prior to the appointment of a new Director, an assessment of fitness and propriety takes place in accordance with SPS510 Fit and Proper. The assessment includes an evaluation of skills and experience. Upon the nomination of a Director, the Fund writes out to the Nominee and provides a suite of governance policies and asks the Nominee to complete a Responsible Persons Skills Assessment form. This information informs the papers for the Nominations Committee and if they are appointed is then incorporated into the Fund's Board Skills Matrix. Further, training is provided on an as needs basis for individual directors in the event that it is assessed that additional training is required in order for the skills component of the assessment to be met. In the event that it is assessed that the Nominee may not meet any other aspect of the Fit and Proper Policy, the Chair and CEO meet with the Sponsoring Organisation (and in the case of an independent director, that individual) to discuss the issues and determine whether further evidence and investigation is required and whether another nominee will be sought. **Example 3** **GESB** Although there is no direct responsibility, in practice the Board, through the chair, liaises with the Treasurer and Unions WA (the sponsors) regarding suitable nominees to ensure that candidates have appropriate skill sets and experience. The liaison between the Board and its sponsors includes consultation and meetings and a selection questionnaire prior to the selection of a nominee(s). In addition to the questionnaire, GESB provides its sponsors with information regarding the skills set and experience that would complement the current board or close any existing gaps

Requirement	Commentary
1.4 Diversity Policy, targets, annual reporting *Example from two large industry funds and a medium sized corporate fund*	**Example 1** **CBUS** CBUS has a Diversity & Inclusion Policy for the Fund more broadly which currently focuses on three target areas for Management and staff: • Gender and Gender-Related Matters. • Workplace Flexibility; and • Cultural Diversity. There is a Diversity Action Plan contained within the Policy which sets out targets and timeframes accordingly. The Fund has also set a gender diversity target for the organisation, which breaks down gender equity targets of the Board, Executive Team, Heads of, All Staff and the Investments Team. Progress against this target is reported annually in the Integrated Annual Report. The Annual Report 2021 is available here. CBUS has implemented processes to support gender diverse outcomes including using gender neutral language in job advertisements, gender balanced shortlists and selection panels. The Fund also has a 'Pathways Program' aimed at increasing the experience, skills and diversity at the Fund through recruitment of employees from overseas countries including asylum seekers, refugees and people who have come to Australia on humanitarian grounds. CBUS's Gender Equality Strategy provides the progress which has been made in the last 12 months against the gender equality targets as well as supporting measurable objectives and diversity demographics (outside of gender) collected as part of the Fund's annual Employee Engagement Survey. When the Gender Equality Strategy was developed, two-year stretch targets were established to continue to drive equality achievements across the Fund. Some of these targets have been achieved and are above the Women Gender Equality Agency (WGEA) Financial Services Benchmark.

Requirement	Commentary
1.4 Diversity Policy, targets, annual reporting *Example from two large industry funds and a medium sized corporate fund*	**Example 2** **AustralianSuper** Critical to the success of the Strategy is ensuring AustralianSuper's leaders demonstrate inclusive leadership behaviours and hold both themselves and others accountable to measurable outcomes. As part of this, people leaders are required to have gender diversity objectives in their annual performance plans. Details of gender balance at Board, Executive and Management level are provided in the Annual Report to members. Annual compliance reporting is made to the Workplace Gender Equality Agency (WGEA) under the Workplace Gender Equality Act 2012 is also available on the Fund's website. a. Establishment of a Pride network of LGBTIQ+ colleagues and allies who are committed to maintaining a safe and welcoming work environment that allows everyone to be their full and best selves b. Talent and succession management plans, identifying women with potential and setting targeted development activities c. Annual gender pay equity analysis d. Aboriginal & Torres Strait Islander Graduate Recruitment Program e. Leave provision and inclusion policies specifically for colleagues that identify as LGBTIQ+ f. Continued development of technology to support flexible work and the promotion of flexible work throughout the organisation for both women and men, which is supported by the Blended Working Policy g. Development of career pathways, particularly in areas of the business where there is a lower population of women in leadership roles with a particular focus on the Investments group h. Building partnerships and associations with organisations and networks focussed on supporting women i. Development of internal networking and coaching opportunities through the Fund's Womens Network. AustralianSuper also has a Board Diversity Policy which includes measurable objectives for achieving gender diversity on the Board. In accordance with this Policy, the initial focus for achieving diversity at Board level has been gender- based, with a target of achieving at least 40% female Board composition by 2023. On 30 June 2022, the Board had exceeded its gender diversity target with 50% of Directors being female. Also refer to the AustralianSuper Workplace Gender Equality Report and AustralianSuper's Policy on Board Diversity and Skills (go to 'How We Work' and choose Board Diversity and Skills).

Requirement	Commentary
1.4 Diversity Policy, targets, annual reporting *Example from two large industry funds and a medium sized corporate fund*	**Example 3** **Telstra Superannuation Scheme** Key objectives of the strategy include promoting awareness of diversity, increasing representation and development of women in leadership roles, strengthening retention and promoting workplace flexibility, increased awareness on LGBTIQ and Gender Transition of employees and supporting working parents. The Fund also undertakes and reports on an annual pay equity analysis of business wide remuneration from a diversity perspective. The Fund's Governance Framework sets out the Board's gender diversity objective that there will be at least four women on the Board, constituting a female gender representation among representative trustee directors, collectively, of at least 50%. Gender diversity is considered when seeking nominees for trustee directors from sponsoring organisations. The Fund currently satisfies this diversity objective, with five out of the Fund's nine directors being female.
1.5 Annually evaluate performance of the board *Example from one medium sized industry fund*	**Mine Super** **Periodic Board Performance Evaluation** The Board is committed to the ongoing development of the Board as a whole and has implemented a formal three (3) year cyclical Board Performance Assessment program. The Assessment is undertaken by an external party one (1) in every three (3) years and internally for the other two (2) years. The Board determines the process used to assess its performance, performance of the Chair, individual Directors and Committees. This assessment process may also involve the CEO and senior Management as determined by the Board and is overseen by the Secretary. The Group's Annual Remuneration Report (available on the Fund's website) includes confirmation that this has been undertaken in each financial year. The Group Boards and Committees also undertake a continuous improvement evaluation of each Board and Committee meeting. This involves one Director or Management representative (nominated in advance of the meeting) identifying and discussing one process, item, issue or activity identified during the meeting for improvement and one identified as being good practice. https://www.mine.com.au/docs/default-source/governance/corporate-governance-policy-statement-web-version.pdf?sfvrsn=6ca1f73c_12
2.2 Skills Matrix 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. *Example from large industry fund*	**HESTA** 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 current collective Board Skills and Experience Matrix is set out in the following publicly available document: https://www.hesta.com.au/content/dam/hesta/Documents/Relevant-disclosures.pdf

Requirement	Commentary
5.1 Implement a stakeholder engagement program *One large and one medium industry fund example*	**Example 1** **AustralianSuper** The fund will have its annual member meeting virtually for 2022. "The meetings are a great opportunity for members to hear from and ask questions of the Board and Senior Executives. They also provide us with your valuable feedback." (This fund has been doing Annual Member meetings for 17 years). **Example 2** **Mine Super** The Board receives information in its quarterly Group report on member, employer and other stakeholder engagement activities. Complaints are considered to be a key feedback mechanism to and from members and are viewed as an opportunity to identify improvements to processes and products. The ARCC and Board receive information on and discuss relevant aspects of member complaints as appropriate at each meeting including IDR, EDR, systemic and topical issues. The Insurance Committee also reviews information in relation to insurance-based complaints.
6.1 Fund's risk management framework explicitly addresses factors that may erode the member-first culture *Two large industry fund examples*	**Example 1** **HESTA** The fully revised and updated set of material risk categories and sub-categories that was Board approved in May 2021 included increased emphasis on the key member-first risk areas of conduct, culture, and people. This was formally operationalised in the new Risk Appetite Statement and Risk Management Framework and Strategy in FY22. (The Fund) separately reviews and adjusts the Risk Appetite Statement (RAS) as part of the annual strategic and business planning process to ensure robust oversight by the Board, particularly of emerging strategic risks. The RC together with the new Finance Audit and Compliance Committee (FACC) oversee and monitor the effectiveness of the internal controls and risk management systems considering evolving external governance requirements. In undertaking this role, the Committees review: • procedures for identifying material risks and managing their impact on the Fund including the operational effectiveness of these procedures. • processes and systems for managing budgeting, forecasting and financial reporting. • adequacy of trustee insurance coverage and fund reserves • standards and practices for detecting, reporting and preventing fraud and corruption. • procedures for ensuring compliance with relevant regulatory and legal requirements. • arrangements for the protection of information and data systems and other non-physical assets. • overseeing the adequacy of the internal controls and allocation of responsibilities for monitoring internal financial controls. **Example 2** **REST** Organisational culture, and within it, risk culture is monitored through the use of surveys, "pulse checks" and observed cultural indicators such as employee engagement, values and behaviours demonstrated. The outcomes of these measurement points are considered by Management for improvement opportunities and reports are provided to the respective Board Committee and the Board routinely.s to ensure robust oversight by the Board, particularly of emerging strategic risks.

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