**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| | |
|---|---|
| **First State Super** | |
| **FSS01QW:** | Please provide the details of any fund member briefings where it was possible to ask fund managers, executives or directors questions over the past five years. |
| **Answer:** | First State Super will hold its first annual member meeting in November 2020.<br><br>We offer regular seminars to members where they are able to ask questions about superannuation and investments.<br><br>Approximately 300 public seminars are held each year, of which two (each year) are investment seminars where members have the opportunity to ask our senior fund managers questions.<br><br>In addition, up to 1,000 workplace events are held each year for members of specific organisations. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| | |
|---|---|
| **First State Super** | |
| **FSS02QW:** | Details of all ASIC fines and infringement notices incurred over the past five years. |
| **Answer:** | As confirmed by the ASIC Credit and ASIC ACT infringements notices register[1], First State Super has not received any ASIC fines or notices over the five years to 30 June 2019. |

[1] https://asic.gov.au/online-services/search-asics-registers/additional-searches/credit-and-asic-act-infringements-notices-register/

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS03QW:** | The name and company of your auditor for the past five years. |
| **Answer:** | First State Super's auditor for the five years ended 30 June 2019 was Deloitte.<br><br>The audit partner was:<br>• For the years ended 30 June 2015, 2016 and 2017 – Philip Hardy<br>• For the years ended 30 June 2018 and 2019 – Joanne Gorton |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS04QW:** | For the past five years the total value in dollars and as a percentage of the total value of a fund:<br>a. Listed investments<br>b. Unlisted investments<br>c. Total investments |
| **Answer:** | a. Listed investments |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $46.5b | $46.8b | $52.2b | $58.7b | $60.0b |
| % | 87% | 83% | 81% | 81% | 76% |

b. Unlisted investments

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $6.9b | $9.8b | $12.2b | $13.8b | $19.0b |
| % | 13% | 17% | 19% | 19% | 24% |

c. Total investments

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $53.4b | $56.6b | $64.4b | $72.5b | $79.0b |
| % | 100% | 100% | 100% | 100% | 100% |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS05QW:** | For the past five years the total value in dollars and as a percentage of the total return of a fund:<br>a. Listed investments<br>b. Unlisted investments<br>c. Total investments |
| **Answer:** | Please see tables below. |

a. Listed investments

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $46.5b | $46.8b | $52.2b | $58.7b | $60.0b |
| Absolute return | 10.04% | 0.99% | 12.37% | 10.28% | 7.70% |
| Contrib to net return | 8.54% | 0.85% | 10.27% | 8.35% | 5.93% |

b. Unlisted investments

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $6.9b | $9.8b | $12.2b | $13.8b | $19.0b |
| Absolute return | 9.48% | 7.58% | 13.44% | 12.01% | 10.35% |
| Contrib to net return | 1.42% | 1.06% | 2.28% | 2.26% | 2.37% |

c. Total investments

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $53.4b | $56.6b | $64.4b | $72.5b | $79.0b |
| Net return | 9.96% | 1.91% | 12.55% | 10.61% | 8.31% |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS06QW:** | A copy of your asset valuation policy (covering amongst other things independence of valuation, managing conflicts of interest, frequency of valuation, publication of latest valuation timings to members etc). |
| **Answer:** | Please see attached Valuation Policy (September 2019). |

# Valuation Policy

First State Superannuation Scheme:

Accumulation (**Accumulation Division**)

Defined Benefit (**DB Division**)

StatePlus Retirement Scheme (**SPR Fund**)

StatePlus Fixed Term Pension Plan (**SPFTP Plan**)

StatePlus Investment Fund (SPI Fund)

collectively **"the Funds"**

# Contents

## Revision History

| Version | Reasons for amendment | Date approved | Approving Committee/Board |
|---|---|---|---|
| November 2015 | Original | 19 November 2015 | Investment Committee/ Board |
| August 2016 | Annual review – incorporates accounting standard change from AAS 25 to AASB 1056 | 3 August 2016 | Investment Committee |
| February 2017 | Amend membership of VWG to include Manager – Investment Operations | 8 February 2017 | Investment Committee |
| November 2017 | Include reference to the impact of counterparty/Fund credit risk on the valuation of OTC derivative contracts; include treatment of construction assets; include credit valuation methodology. | 22 November 2017 | Investment Committee |
| April 2018 | Change name from Valuation Working Group to Valuation Committee; inclusion of all StatePlus funds. | 4 April 2018 | Investment Committee |
| September 2019 | Change of approval body for this policy from Investment Committee to Audit, Risk and Compliance Committee; amend membership of Valuation Committee. | 17 September 2019 | Audit, Risk and Compliance Committee |

# 1 Introduction

This Valuation Policy (the **Policy**) establishes the methodology for valuing all investments of:

1. First State Super Trustee Corporation (**FTC**); and
2. State Super Financial Services Australia Limited, trading as StatePlus (**StatePlus**),

including all investments that are managed by FTC, or externally managed on behalf of FTC and StatePlus.

Although StatePlus has no requirement to maintain a valuation policy under its Australian Financial Services Licence (**AFSL**), as responsible fiduciaries, the FTC Board of Trustees (**the Trustee** or **the Board**) and the StatePlus Board of Directors (**Directors**) need to have appropriate arrangements and processes to ensure that investment values are measured reliably, and risks associated with investment measurement and monitoring are adequately managed for the Funds. As a result, they need to consider and address valuation risk prior to investing and on an ongoing basis.

## 1.1 Purpose

The purpose of this Policy is to establish the approach taken to measure the fair value of all investments held by the Funds so that valuation risk can be adequately managed and thereby:

- ensure equitable value attribution to members entering, continuing or exiting the Funds at different times by delivering the foundation of the Unit Pricing Policy;
- ensure any calculations based on the Funds' valuations (for example, administration fees) are correct; and
- produce financial statements that represent a true and fair view of the Funds' financial positions.

## 1.2 Governing Legislation and Regulatory Requirements

This Policy has been written taking into account the following regulatory requirements and guidance:

- The SIS Act s.52(6)(iv) and 'SPS 530 - Investment Governance' requires RSE licensees to consider the availability of reliable asset valuation information when formulating, implementing and reviewing an investment strategy. 'SPG 531 – Valuation' also provides guidance on investment risk management assessment and measurement tools that might be relevant when developing RSE licensees' valuation governance arrangements for the valuation of investments (e.g. establishing valuation policies and procedures, and adopting valuation methodologies), with a specific focus on unlisted investments.

- ASFA's best practice paper No. 34 (July 2009) – 'Trustee Guidance - Valuation and Liquidity of Unlisted Investments' including APRA's letter 'Valuation of Unlisted Assets – general principles for trustees'.

- AASB 1056 – Superannuation Entities, which replaced AAS 25[1] from 1 July 2016. The Funds' valuation practices are consistent with AASB 1056 as required for regulated superannuation funds. Under AASB 1056, FTC is required to hold its assets at 'fair value', which is defined as the price that would be received when disposing of an asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. Notably:

    - The price used to measure the fair value of the asset or liability does not need to be adjusted for transaction costs. Rather, transaction costs are to be accounted for in accordance with other Australian Accounting Standards. (AASB 13 – *Fair Value Measurement*[2]).

    - Fair value changes are recognised in the income statement. AASB 9 *Financial Instruments*, which requires some financial assets to be measured at amortised cost or fair value through other comprehensive income, does not apply.

## 1.3 Delegations, Responsibilities and Accountability

This Policy applies to all FTC Board members, all First State Super Executive Managers, all First State Super Investment Control and Fund Operation team members and all officers of the Funds and their appointed agents operating under the delegated authority of the FTC Board.

The FTC Board has established an Audit, Risk and Compliance Committee which oversees the Funds' Valuation Policy via the Valuation Committee (**VC**) and has the ultimate responsibility for the integrity of the balance sheet assets. Details of these delegations are set out in the relevant committee charters and the *Consolidated Board Delegations Manual*.

The VC may allocate specific responsibilities to senior members of the Investment Control and Fund Operation teams in order to ensure the processes described in this Policy are conducted effectively. Those responsibilities, and the person, or team responsible for them, are outlined in Schedule A.

StatePlus has delegated responsibility for management of valuation matters to FTC.

## 1.4 Review

This Policy will be reviewed annually, and more frequently if deemed appropriate.

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[1] AAS 25 was the Australian Accounting Board Standard for Financial Reporting by Superannuation Plans, applicable from 30 June 1993.

[2] AASB 13 is the Australian Accounting Standards Board standard for Fair Value Measurement and Disclosure, applicable from 1 January 2013.

Internal audit periodically reviews the FTC control environment supporting the valuation process and adherence to the Valuation Policy. They assess the availability and reliability of the information or evidence used in the valuation process.

As part of the overall annual audit and the balance sheet substantiation process, the Funds' external auditors review the Custodian's internal control report. They perform their own tests on assets to obtain sufficient comfort, at an appropriate materiality level, on the existence and valuation of assets. The external auditor also reviews independent valuations on a selective basis as part of its consideration of the valuation of assets.

# 2 Valuation Approach

This Policy separates the approach to valuation into two key parts:

- the method of valuation to be used (an application of the fair value hierarchy to that method) including who conducts the valuation; and
- the frequency with which valuations are conducted.

Sections 3-5 below and Schedule B outline the method of valuation. Section 6 and Schedule C outline the frequency of those valuations.

# 3 Valuation Methodology Categories

The Funds comprise a broad range of investments, often with multiple sources of evidence available for the determination of fair value.

For many categories of investments, industry-standard approaches or methodologies exist for the determination of fair value. These have been set out in Schedule B.

The valuation methodologies outlined in Schedule B will be applied to all of the Funds' investments in determining fair value and will use the highest level of inputs available from the hierarchy as outlined in Section 4.

With all valuations, a risk-based approach is adopted to ensure that investments are being valued appropriately.

The VC is a management committee that reviews and recommends methodologies, practices and policies relating to the valuation of the Funds' assets; decides on the appropriate valuation of the Funds' assets; and reports to the Audit, Risk and Compliance Committee. Any material departure from the valuation methodologies outlined in Schedule B will be reviewed by the VC and approved by the Audit, Risk and Compliance Committee and communicated to the Investment Committee prior to its implementation.

# 4 Hierarchy of Fair Value

As outlined above, fair value is an estimate of the price that would be received on the selling of an asset in an orderly transaction between market participants. This estimate can be obtained through a variety of approaches which may draw on information from various sources. The reliability or quality of this information, as inputs into the process of estimating fair value, has been categorised into a hierarchy under AASB 13: *Fair Value Measurement*. It is on this basis that unit prices are calculated for the fund.

This hierarchy of inputs, in descending order, is set out below. The inputs used in estimating the fair value of the Funds' investments will be from the highest possible level of hierarchy.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3. These are based on the degree to which the inputs to the fair value measurement are observable, and the significance of the inputs to the fair value measurement in their entirety. The hierarchies are described as follows:

<u>Level 1</u> fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

<u>Level 2</u> fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

<u>Level 3</u> fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The best evidence of fair value comes from quoted prices in active markets i.e. where transactions occur at a frequency and in such volume to provide pricing information on an ongoing basis.

Other market-observable inputs include, but are not limited to: interest rates, implied volatilities, credit spreads and pricing for comparable investments trading in active markets.

Unobservable inputs represent the least reliable information in determining fair value due to their subjectivity. Their use will be limited to assets where reliable market information is not available.

# 5 Independent Third-Party Valuers

The Trustee may engage an independent valuer to value (i) its unlisted direct investments and (ii) externally managed unlisted investments, pooled investments or OTC derivatives where the relevant investment management agreement permits. The appointment of independent third-party valuers may be in relation to determining an asset's fair value and/or its tax cost base (or other duties). Where the internal Portfolio Manager has knowledge that would make them question a valuation received from an investment manager, their starting point to resolving this difference of opinion will be with the investment manager themselves. If the difference of opinions about value is not resolved and the variance is significant, then the Portfolio Manager should refer the matter to the VC, which may obtain an independent valuation.

A panel of pre-qualified valuers may be established by the VC.

Prior to engagement, the valuer must be assessed for suitability in a number of areas including, but not limited to: relevant qualifications, experience, capacity to undertake the work, reputation and independence from FTC.

If independent valuers are engaged directly, they will:

- be assessed by the lead Portfolio Managers and presented for review to the VC prior to engagement;
- be assessed for rotation, at a minimum, every three years; and
- prepare independent valuations in line with the relevant accounting standards and legislation.

# 6 Frequency of Valuations

All fair values will be updated as frequently as reasonably practical, allowing for any restrictions in the availability of data and any other constraints (for example, the engagement of independent third-party valuers can only be practically carried out periodically due to the expense and complexity of the work involved). A risk-based approach will be applied in determining how often an investment is revalued (i.e. more stable/less risky investments may require less frequent revaluation than more volatile/riskier investments). Investment capital flows (such as the provision of funding to an investment or the return of capital) will be reflected in the fair value of an investment immediately upon occurrence in the Custodian's accounting systems until the next required valuation is provided by the investment manager. The minimum frequency of valuation for the Funds' main categories of investments is provided in Schedule C. Any material departure from the frequencies outlined will be reviewed by the VC and approved by the Audit, Risk and Compliance Committee and communicated to the Investment Committee prior to its implementation.

Regardless of the valuation approach, any evidence of a material change in the fair value of an investment will be investigated immediately and, if required, the fair value will be updated as soon as a value can be reasonably determined. Evidence of a material change that may have occurred includes but is not limited to: financial difficulty of the investee, the disappearance of an active market, obsolescence or damage to an asset as a result of environmental events, corporate action, firm offers to buy an asset or sale of a parcel.

A review of the fair value of any investment can be reasonably requested by the VC or Audit, Risk and Compliance Committee at any time throughout the financial year. If such a request is made, the valuation approach outlined in this Policy will be followed and any change to the fair value of the investment will be made as soon as it can be robustly determined.

Financial statements will reflect the hard-close unit price adjusted for any estimate of disposal costs (in accordance with AASB 1056). However, where valuations are received post the hard-close being struck, the combined impact of any difference from the hard-close price will be assessed by the Fund Operations team for materiality, and the financial statements only adjusted where the change is greater than 5% of the aggregate amount of 'Changes in fair value of investments' in the Income Statement.

# 7 Consistency of Application

This valuation methodology will be applied consistently across all investments with similar characteristics wherever possible.

A change in the valuation approach will only be made if it results in a value measurement that is equally or more representative of fair value. This might be the case if, for example, new information becomes available, or information previously used in the valuation process is no longer relevant. Changing the valuation approach must be balanced by taking into account the cost of establishing the new valuation

# 8 Reporting and Approvals

Schedule D outlines the matters that must be reported to the Audit, Risk and Compliance Committee, which includes:

- any material changes in applicable Financial Reporting Standards that affect the valuation of the Funds' investments; and

- any breach of this Policy.

As outlined in Schedule D, any material change to this Policy must be recommended to the Audit, Risk and Compliance Committee for approval.

In addition, asset valuations will be reviewed by:

- the Direct Asset Committee (for direct assets only[3]), as part of their performance monitoring;
- SPV Board(s) (for internally managed SPVs only) as part of their accounting reviews.

Where there is a divergence of views regarding a valuation at the Direct Assets Committee, SPV Board(s) or the Audit, Risk and Compliance Committee, the Valuation Committee will liaise with the relevant committee to resolve the matter. The Audit, Risk and Compliance Committee will be the final arbiter.

[3] Direct assets are defined as an investment for which the due diligence, as well as either the asset management or governance responsibility, primarily sits with FSS. For clarity, direct assets exclude:
- Investments (including co-investments) that are primarily managed externally by an investment manager; and
- Internally managed portfolios governed by Internally Managed Portfolio Guidelines.

# Schedule A: Responsibilities

| | |
|---|---|
| **Senior Manager - Portfolio Administration** will: | • Ensure this Policy is kept current and relevant to the activities being undertaken (including Schedules A – D).<br>• Recommend material changes to the schedules of this Policy to the Audit, Risk and Compliance Committee for approval. |
| **Chair of the Valuation Committee** will: | • Ensure the VC reviews the methodologies, practices and policies relating to the valuation of investments held by the Funds and reports the findings bi-annually (or as required) to the Audit, Risk and Compliance Committee.<br>• Refer to the Charter of the VC. |
| **Custodian** will: | • Act as valuation agent for the provision of financial reporting.<br>• Provide their valuation and pricing policy (for review by the VC).<br>• Apply agreed escalation processes to resolve price discrepancies or missing prices.<br>• Ensure the application of the agreed valuation policy to provide the required valuations as per the service level agreement.<br>• Ensure the internal controls over valuations are specifically reviewed on an annual basis by the Custodian's external auditors as part of the review of the Custodian's internal controls. |
| **External Investment Managers** will: | • Ensure they have best practice valuation policies and procedures that are consistent with FTC's Valuation Policy and support the delivery of accurate and timely prices to the Custodian - particularly for unlisted assets.<br>• Provide valuation policies for review by FTC to support ongoing monitoring requirements.<br>• Work with FTC and the Custodian to resolve material pricing differences in the event of queries or issues relating to delivery or accuracy of pricing.<br>• Complete our annual disclosure reporting requirements that form part of our Operational Due Diligence monitoring program, including the provision of the GS007 or equivalent report. |
| **First State Super Portfolio Managers** will: | • Present to the VC for review any valuation for which they are responsible as required. This includes conducting a review of valuations received from external sources (managers, external independent valuers) including challenging valuations/assumptions & seeking potential adjustments/corrections where necessary and otherwise opining on valuations received.<br>• Prepare and review internal models/valuations where appropriate and required in line with this Policy, including obtaining the latest possible market data to assist with objective comparable pricing.<br>• Advise the Investment Operation and Finance teams of any changes in the investment environment or in the investments themselves which may impact fair value.<br>• Act as the primary point of contact and liaison with external valuers.<br>• If they become aware of any changes to an investment manager's valuation policy, inform the Due Diligence Specialist and VC. |

| | |
|---|---|
| **Operational Due Diligence Specialists/Investment Risk will:** | • Review external investment managers' valuation policies and processes as part of the pre-appointment operational due diligence review to ensure their valuation policies are in line with this Policy and are appropriate for the investments under consideration.<br>• Monitor updates to external investment managers' valuation policies and procedures as part of the annual disclosure reporting to ensure continued compliance with this Policy. |

# Schedule B: Valuation Methodology Categories

The table below outlines the valuation methodologies used for the main categories of products/assets in which the Funds invest.

For several investment categories, there is more than one possible valuation methodology. The methodology to be adopted is further clarified in the text below the table.

| Investment Category | Prices sourced by Custodian | Counterparty-provided pricing | Valuation provided by Manager/ Administrator | Third-party valuation obtained | Third-party validation of FTC model/ valuation | Cost or Recent Transaction |
|---|---|---|---|---|---|---|
| Listed or exchange-traded instruments | x | | | | | |
| OTC derivatives | x | x | | | | |
| Pooled Investments | x | | x | | | |
| Externally Managed Unlisted Investments | | | x | X (extraordinary circumstances only) | | |
| Direct Unlisted Investments | | | | x | x | x |

## Listed or exchange-traded instruments

Listed or exchange-traded instruments have an observable/quoted market price and are traded on regulated exchanges or via centralised clearing agents. They typically include equities, certain fixed income instruments, listed trusts/companies, futures and options. This category also includes pooled investments where the underlying assets are all listed or exchange-traded instruments.

For these instruments, fair value is obtained by our Custodian and will be determined by reference to quoted prices i.e. “Level 1” inputs as outlined in the hierarchy in Section 4. At the close of business each day in the relevant marketplace, the Custodian receives daily exchange-traded security prices from independent data vendors (e.g. IDC, Bloomberg and Reuters) and values each security according to their security pricing policy.

In the event that no updated valuation is available when it falls due, the latest available price will be used as the best estimate of an updated price valuation. However, where an asset on an exchange or an exchange itself experiences a force majeure or material market event such that the exchange is closed or the asset is suspended, and the flow on impact to the unit price may be greater than 2 basis points, then the VC will be convened to opine on the prevailing price. Once decided, Fund Operations will instruct the Custodian to value the asset accordingly.

## OTC Derivatives

Over-the-counter (**OTC**) derivative instruments are financial products whose value is derived from an underlying instrument. OTC derivative instruments are not listed on an exchange; rather they are typically an off-market transaction between two contracting parties. OTCs can include bespoke arrangements but typically take the form of either interest rate swaps, credit default swaps, total return swaps, OTC options and FX forward contracts.

Fair value, where possible, will be obtained for OTC derivatives by our Custodian either from independent, industry-recognised, pricing sources (e.g. Markit) or via a manual pricing process using “Level 2” and/or “Level 3” inputs as outlined in the hierarchy in Section 4.

If neither option is available and all other viable options have been exhausted, pricing will be obtained on an exceptions basis from the counterparty to the trade and reviewed before being applied. The VC will review and, if acceptable, recommend for approval all instances where counterparty-provided pricing is used. The lead Portfolio Manager will conduct due diligence on counterparty pricing in sufficient detail for them to gain comfort with the valuation, and, when relevant, against comparative trades with other counterparties, and present their findings to the VC for consideration.

The impact of counterparty credit risk on the valuation of OTC derivative contracts is generally not reflected in the market value of the security, although is required under IFRS 13 and current Australian Accounting Standards (AASB139/AASB13). In order to manage the impact of this risk on the valuation of the Funds, most OTC derivatives are collateralised daily, as a required by CPS 226.

## Pooled Investments (e.g. co-mingled unit trusts/ partnerships or Special Purpose Vehicles (SPVs))

Pooled investments include investments in hedge funds, private equity funds, SPVs and other collective investment vehicles that comprise some or all unlisted assets. Rather than holding the investment directly, FTC/StatePlus has an interest in the relevant investment vehicle which typically reflects a minority pro-rata share of the underlying investments. The holding could be in the form of units in a unit trust, or an interest in a limited partnership.

Pooled investments are valued based on the last price per unit (or other appropriate measure such as a capital account statement) of the investment as provided by the investment manager to the Custodian. This price/value will be based on the fair value of the underlying net assets of the vehicle.

The fair value of the underlying net assets can be determined using a variety of methods including reference to quoted prices, independent valuation agents, valuation models based on the price of recent investments, earnings multiples, or discounted cashflows. The inputs used in determining fair value would therefore be classified as either "Level 1", "Level 2" and/or "Level 3" inputs as outlined in the hierarchy in Section 4. These prices are typically supported by an annual independent audit of the pooled investment's valuation processes and financial statements.

## Externally Managed Unlisted Investments

Externally managed unlisted investments comprise investments that are externally managed on behalf of the Funds, are not listed on an exchange and are not pooled investments. They include single investor unit trusts/SPVs and those where FTC/StatePlus has a majority or controlling ownership. FTC and StatePlus generally hold externally managed unlisted investments such as private equity, credit, real assets, property and infrastructure in unit trusts or SPVs.

Managers must ensure that their standards, systems and procedures for keeping their books of account and transaction records at all times comply with generally accepted accounting practice. As noted below, the inputs used in determining fair value would therefore be classified as either "Level 2" and/or "Level 3" inputs as outlined in the hierarchy Section 4.

| Size of Investment | Valuation Approach |
|---|---|
| =/>0.5% of NAV | Third party valuation obtained |
| 0.01%-<0.5% of NAV | A variety of objective methods |
| <0.01% | Booked at cost |

For individual investments, or multiple investments in the same underlying business or assets, with a cost or latest available valuation of greater than or equal to 0.5% of the Funds' net asset value (NAV), fair value will be determined by independent third-party valuation as arranged by the investment manager.

For individual investments, or multiple investments in the same underlying business or assets, with a cost or latest available valuation of greater than or equal to 0.01% and less than 0.5% of the Funds' NAV, the fair value will be provided by the investment manager and can be determined using a variety of objective methods including independent valuation, valuation models based on the price of recent investments (either directly in the relevant asset or comparable assets), earnings multiples, or discounted cash flows. Where the relevant investment management agreement permits, the valuation methodology will also be validated (see Direct Unlisted Investments section below).

For individual investments, or multiple investments in the same underlying business or assets, that comprise less than 0.01% of the Funds' NAV, the value may be booked at cost and will be subject to periodic review for reasonableness and testing for impairment.

## Direct Unlisted Investments

Direct unlisted investments include investments which are not listed on any exchange and are not externally managed on behalf of the Funds. It may include related party assets.

For unlisted investments that are not held within a pooled investment structure (i.e. held directly), the fair value must be estimated by FTC, either directly or via an external party. Cost, or the price observed from a recent transaction of an investment (e.g. a sale of a co-investor's equity interest), can be the best estimate of fair value, provided:

a) the relevant transaction occurred sufficiently close to the measurement date (within no more than 1 year), and such a transaction is not reasonably considered to be an outlier (and thereby unrepresentative of where subsequent transactions may be valued); and

b) there has been no evidence of any subsequent significant change in value (such as a change in the immediate investment environment or in the investment itself) as assessed by the VC.

In the context of the hierarchy outlined in Section 4, this would constitute a "market-observable input" to a valuation ("Level 2").

In the absence of a recent transaction in the relevant investment providing a reliable estimate, the fair value of established unlisted direct investments will be determined as follows, based on cost or latest available valuation as a percentage of the Funds' NAV:

| Size of Investment | Valuation Approach |
|---|---|
| =/>0.5% of NAV | Third party valuation obtained |
| 0.1%-<0.5% of NAV | Third party validation of FTC model/valuation |
| 0.01%-<0.1% of NAV | FTC internal valuation |
| <0.01% | Booked at cost |

As noted below, the inputs used in determining fair value in these cases would therefore be classified as either "Level 2" and/or "Level 3" inputs as outlined in the hierarchy Section 4.

Third party valuations of investments, or multiple investments in the same underlying business or assets, with values of greater than or equal to 0.5% of the Funds NAV will be reviewed in detail by the lead Portfolio Manager and presented to the VC for review.

FTC will appoint an independent external valuer to work with FTC in determining an appropriate valuation methodology. Fair value can be determined using a variety of objective methods including valuation models based on the price of recent investments (either directly in the relevant asset or comparable assets), earnings multiples, or discounted cash flows. Information generally provided to the valuer will include the latest updated financial model, budget, audited financial statements and management accounts. Generally, the midpoint is adopted as the valuation value, but the Trustee may adopt a different point estimate at its discretion based on supporting information provided to the VC.

Wherever possible FTC aims to ensure valuations are staggered to reduce the risk of a concentration valuations at any one point throughout the year to minimise arbitrage opportunities and enhance member equity.

Third party validations of investments, or multiple investments in the same underlying business or assets, with values of greater than or equal to 0.1% and less than 0.5% of the Funds NAV will involve, at a minimum, an external independent review of the following aspects driven by the relevant Portfolio Manager: the mechanics of the valuation model, confirmation of the key variables, confirmation of the appropriateness of the valuation methodology chosen and a reasonableness-check of the output. A summary of the key variables and the output, along with the validation report from the third-party advisor, will be presented to the VC for review.

Internal valuations of investments, or multiple investments in the same underlying business or assets, with values of greater than or equal to 0.01% and less than 0.1% of the Funds NAV will be calculated using valuation models/valuations and methods maintained by the lead Portfolio Manager. The model/valuation will be reviewed by another member of the Investment team who is independent from the management of the relevant investment. In addition, a summary of the key variables and the output will be presented to the VC for review.

For individual investments or multiple investments in the same underlying business or assets that comprise less than 0.01% of the Funds NAV the value may be booked at cost and will be subject to periodic review for reasonableness and testing for impairment.

The valuation approach adopted is based on the last calculated value of the investment even if on the current period interim valuation the investment changes category. The change in valuation approach will apply at the next formally scheduled valuation unless the VC or Audit, Risk and Compliance Committee request an out-of-sequence formal valuation.

Independent third-party valuations can also be obtained for any investment, irrespective of size, at the request of the lead Portfolio Manager and/or CIO, VC, Direct Asset Committee or Audit, Risk and Compliance Committee, if it is felt that the internal valuation models/valuations are not adequate or if the VC considers that FTC lacks the appropriate internal resource to develop and maintain the valuation models/valuations. The outcome of such valuations will be reported in accordance with the requirements outlined in Schedule D.

# Schedule C: Frequency of Valuations

## Listed or exchange-traded instruments

The fair value of listed or exchange-traded instruments with quoted market prices will be updated at least daily, including pooled investments where the underlying investments are listed or exchange-traded instruments, where available.

## OTC Derivatives

The fair value of OTC derivative instruments will be updated as frequently as possible, allowing for restrictions in the availability of data. At the very least, fair values will be updated monthly.

## Pooled Investments (co-mingled unit trusts or SPVs)

The fair value of pooled investments will be updated based on the most recent statement/unit price received from the manager:

- For unit trusts with underlying investments that are predominantly listed or exchange-traded instruments (i.e. fund-of-fund hedge funds), investment managers will typically provide unit prices daily.

- For vehicles with predominantly or solely unlisted underlying investments, statements will usually be received from the manager monthly or quarterly. The timeframes for manager reporting can vary considerably and, at measurement date, a valuation can be up to six months old. FTC will seek to obtain valuations at a frequency that has regard to the nature of the asset, the frequency of valuation reporting by the manager and the volatility of those values and key inputs.

## Externally Managed Unlisted Investments

The fair value of externally managed unlisted investments, as determined either by a third-party valuation or provided by the managers themselves, will be adopted as frequently as possible, in line with industry standards, and, at a minimum, annually. Reinsurance contracts, for example, can be modelled and priced daily, whilst other managed physical investments may only be priced bi-annually or annually due to the complexity and expense involved. FTC will seek to obtain valuations at a frequency that has regard to the nature of the asset, the frequency of valuation reporting by the manager and the volatility of those values and key inputs. If values are reported to FTC less frequently than quarterly, then in respect of the specific investment, the VC may either accept the reported values or authorise interim estimates based on a roll forward methodology, which are adjusted when statements are received.

The lead Portfolio Managers will provide bi-annual updates to the VC on the value of their externally managed unlisted investments. These updates will cover whether the Portfolio Managers are aware of factors specific to the investments which may significantly alter their value, including but not limited to:

- updated trading results from the investment;

- material changes in the key assumptions behind valuations (i.e. material changes to the debt structure or loan covenants);

- change in the ownership of the asset;
- material changes to the regulatory environment in which the asset operates; or
- major changes to the value of listed market equivalents.

If there is an indication of a significant change in value of the investment, a full valuation (in line with this Policy's requirements, based on the size of the valuation) will be requested from the investment manager and the results reviewed by the VC. Any change in the fair value will then be appropriately reflected in the Funds.

## Direct Unlisted Investments

The fair value of direct unlisted investments, as determined by a third-party valuation, third-party validation of an FTC model/valuation, internal model/valuation or at cost, will be adopted at least annually. Interim values may be obtained between formal valuations based on a "roll forward" of the adopted valuation methodology. The interim valuation will incorporate any material changes (i.e. cash flows) and information about the underlying investments and financial market conditions since the previous formal valuation. The "roll-forward" estimate must be reset with the revised assumptions following the formal annual valuation.

The lead Portfolio Managers will provide bi-annual updates to the VC on their direct unlisted investments. These updates will cover whether the Portfolio Managers are aware of factors specific to the investments which may significantly alter their value, including but not limited to:

- updated trading results from the investment;
- material changes in the key assumptions behind valuations (ie. material changes to the debt structure or loan covenants);
- change in the ownership of the asset;
- material changes to the regulatory environment in which the asset operates; or
- sustained major changes to the value of listed market equivalents.

In the event there are indicators of a significant change in the value of an investment, a full valuation (internal or external, in line with this Policy's requirements for the size of the valuation) will be considered and reviewed by the VC and any change in the fair value will be appropriately reflected in the Funds.

### *Construction Projects*

For *direct equity investments into infrastructure construction projects*, the following additional principles apply, unless approved otherwise:

- Discount rates should be progressively decreased throughout construction, depending on milestones reached/percentage completions and project-specific factors. In selecting the appropriate discount rate, macroeconomic market conditions should also be considered (e.g. if the project is on track but market equity risk premiums for similar assets have increased, then the discount rate should be increased). All other things being equal, the adjustment of the discount rate addresses the development risk reduction as the project nears completion.

- Valuations should not be based on the lowest operational phase brownfield discount rate on construction completion. Instead, a small premium should be left, and once it is qualitatively assessed that an operational steady-state is achieved, the discount rate should be dropped to the lowest potential brownfield discount rate. This will allow for any residual operational risk that may surface within the first year or so of operations.
- In the absence of internal independent experts outside the Investment team, the discount rate reduction should only be undertaken by an independent valuer.

- If there are issues with a construction project and equity could reasonably be impaired, the cashflows will be stress tested based on the probability of losses. In these circumstances, the discount rate should be maintained.

*All other construction projects* are valued at cost or as otherwise appropriate until completion.

# Schedule D: Reporting and Approval Framework

| Report/Approval | Frequency and to Whom | Minimum Information Required |
|---|---|---|
| Valuation Committee report on unlisted investment valuations | Reported bi-annually to the Audit, Risk and Compliance Committee. | Summary of investment valuations reviewed with detail on directly held unlisted investments.<br><br>In addition, asset valuations may be reviewed by:<br>• the Direct Asset Committee (for direct assets only), as part of their performance monitoring;<br>• SPV Board(s) (for internally managed SPVs only) as part of their accounting reviews. |
| Material changes to this Policy | Approved annually (as well as ad hoc if required) by the Audit, Risk and Compliance Committee. | Details and reason for change. |
| Breach of this Policy | Reported immediately to Audit, Risk and Compliance Committee. | Details of breach and remedial action taken. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS07QW:** | Details of each individual asset currently held at a value other than available listed market prices (an unlisted asset) wholly owned by the fund or funds under your control, including:<br>a. The asset name and location.<br>b. The frequency of the revaluation of the asset.<br>c. The most recent valuation.<br>d. A copy of that valuation.<br>e. The methodology used for its valuation.<br>f. Whether the valuation was completed internally or externally.<br>g. The details of any external party involved in the valuation. |
| **Answer:** | a. First State Super invests in a range of unlisted assets including private equity funds, infrastructure, property and credit. The table on the next page sets out a sample of unlisted assets as disclosed on our website at https://firststatesuper.com.au/investment-and-performance/investments/investment-types<br><br>b. Direct and/or unlisted assets are revalued regularly (at least every 12 months) in line with our Valuation Policy, or as underlying vehicles are revalued, capital calls made, or distributions sent.<br><br>c. The majority of assets were revalued as at 31 December 2019 plus any calls and distributions made since then.<br><br>d. Disclosing valuations could undermine members' interests when it comes to the eventual sale of an asset by better informing the prospective buyer of the carrying value of unlisted assets.<br><br>e. Refer to the Valuation Policy.<br><br>f. As at 30 June 2019, the vast majority of the wholly owned portfolio was valued externally, in line with the Valuation Policy, either by the investment manager or by an independent valuer, and approved by the First State Super Valuations Committee which provides a review independent of the investment team. The appointment of external valuers is reassessed on an individual and periodic basis against a combination of qualitative and quantitative criteria including asset classification, tenure of the current external valuer's appointment, current relevant qualifications of the external valuer, and any changes in the interest in the investment held, amongst other criteria. Valuer appointments and adopted valuations fall within the scope of items over which the First State Super Valuations |

| | |
|---|---|
| | Committee provides oversight. The Valuations Committee reports through to the Trustee Audit, Risk and Compliance Committee.<br><br>g. External valuers include KPMG, Deloitte, PricewaterhouseCoopers, Ernst & Young, BDO, CBRE, JLL and Colliers. |

| Asset | Location of asset | Ownership |
|---|---|---|
| Bankstown & Camden airports | Australia | Wholly owned |
| Barangaroo International Office Towers 1, 2 & 3 | Australia | Partially owned |
| Bendigo Hospital | Australia | Partially owned |
| Blackbird Ventures | Australia | Partially owned |
| Darling Square | Australia | Partially owned |
| Forth Ports | UK | Partially owned |
| FSS Almond Orchards | Australia | Wholly owned |
| Global Health Opportunities Capital Fund | Europe | Partially owned |
| GO NSW Equity Fund (Jobs for NSW) | Australia | Partially owned |
| International Convention Centre | Australia | Partially owned |
| Land Registry Services NSW | Australia | Partially owned |
| Land Registry Services VIC | Australia | Wholly owned |
| Oak Tree Retirement Villages | Australia | Partially owned |
| Quotient Sciences | UK | Partially owned |
| Snowtown 2 | Australia | Partially owned |
| Sunshine Coast University Hospital | Australia | Partially owned |
| Two Melbourne Quarter | Australia | Partially owned |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS08QW:** | Details of each individual asset currently held at a value other than available listed market prices (an unlisted asset) partly owned by the fund or funds under your control, including:<br>a. The asset name and location.<br>b. The frequency of the revaluation of the asset.<br>c. The most recent valuation.<br>d. A copy of that valuation.<br>e. The methodology used for its valuation.<br>f. Whether the valuation was completed internally or externally. |
| **Answer:** | a. First State Super invests in a range of unlisted assets including private equity funds, infrastructure, property and credit. The table on the next page sets out a sample of unlisted assets as disclosed on our website at https://firststatesuper.com.au/investment-and-performance/investments/investment-types<br><br>b. Assets are revalued regularly in line with our Valuation Policy or as underlying vehicles are revalued, capital calls made or distributions sent.<br><br>c. The majority of assets were revalued at 31 December 2019 plus any calls and distributions made since then.<br><br>d. Disclosing valuations could undermine members' interests when it comes to the eventual sale of an asset by better informing the prospective buyer of the carrying value of unlisted assets.<br><br>e. Refer to the Valuation Policy.<br><br>f. As at 30 June 2019, the vast majority of the partially owned portfolio was valued externally, in line with the Valuation Policy, either by the investment manager or by an independent valuer, which provides a review independent of the investment team. |

| Asset | Location of asset | Ownership |
|---|---|---|
| Bankstown & Camden airports | Australia | Wholly owned |
| Barangaroo International Office Towers 1, 2 & 3 | Australia | Partially owned |
| Bendigo Hospital | Australia | Partially owned |
| Blackbird Ventures | Australia | Partially owned |
| Darling Square | Australia | Partially owned |
| Forth Ports | UK | Partially owned |
| FSS Almond Orchards | Australia | Wholly owned |
| Global Health Opportunities Capital Fund | Europe | Partially owned |
| GO NSW Equity Fund (Jobs for NSW) | Australia | Partially owned |
| International Convention Centre | Australia | Partially owned |
| Land Registry Services NSW | Australia | Partially owned |
| Land Registry Services VIC | Australia | Wholly owned |
| Oak Tree Retirement Villages | Australia | Partially owned |
| Quotient Sciences | UK | Partially owned |
| Snowtown 2 | Australia | Partially owned |
| Sunshine Coast University Hospital | Australia | Partially owned |
| Two Melbourne Quarter | Australia | Partially owned |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

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|---|---|
| **First State Super** | |
| **FSS09QW:** | Details of arrangements for the temporary or permanent use for corporate venue hire (including corporate boxes), including additional non-hire costs such as catering, at sporting venues over the past five years. |
| **Answer:** | During the five years to 30 June 2019, there have been two occasions where First State Super has temporarily hired facilities at sporting venues as follows:<br><br>i. Lunch with employers and business chamber stakeholders at Higher Mark at GMHBA Stadium in Geelong on 31 July 2017. Total venue and catering spend of $3,895. No sporting event was on at the time.<br><br>ii. Lunch with employers and business chamber stakeholders at Higher Mark at GMHBA Stadium in Geelong on 10 April 2018. Total venue and catering spend of $3,965. No sporting event was on at the time. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

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|---|---|
| **First State Super** | |
| **FSS10QW:** | Details of sponsorship or sponsorship-like arrangements, marketing or marketing-like or in-kind arrangements for the past five years. |
| **Answer:** | For the five years ended 30 June 2019, First State Super participated in a range of partnership agreements, sponsored, attended and presented at conferences, events, awards nights and trade stalls, and provided merchandise for 60-75 organisations, including employer associations, employers, unions and community groups predominantly in the health, education and public service sectors.<br><br>The total spend incurred during this timeframe is set out below. |

| Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|
| $1.1m | $1.0m | $1.3m | $0.9m | $1.1m |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS11QW:** | Details of costs for advertising campaigns for the past five years, including:<br>a. The companies invited to tender for all or parts of any advertising campaign.<br>b. The companies awarded campaigns.<br>c. The total cost of each campaign.<br>d. The cost of the campaign's development.<br>e. Broadcasting (television, radio and internet) and publishing costs.<br>f. Assessment reports of the efficacy of campaigns in either retaining or gaining new members. |
| **Answer:** | For the five years ended 30 June 2019, three advertising campaigns have been run.<br><br>i. "We do everything as if you are here" campaign (launched in FY16). A tender was run between Twelfth Window and Yonder Creative, with Twelfth Window being appointed.<br><br>The total cost of the campaign including creative, production and media was $2m in FY16 and $1.3m in FY17, with the cost of creative development and production totalling $186k in FY16 and $26k in FY17.<br><br>The cost to display on office buildings, out-of-home large and small format transit, press and trade/industry publications totalled $1.84m in FY16 and $1.2m in FY17.<br><br>The campaign objective was to drive awareness of the fund's "members first" philosophy. Prompted brand awareness was 39% in September 2015 and rose to 42% by June 2016.<br><br>ii. "Feel future ready" campaign (launched in FY17). A tender was run between Twelfth Window and Yonder Creative, with Twelfth Window being appointed.<br><br>The total cost of the campaign including creative, production and media was $2m in FY17 and $906k in FY18, with the cost of creative development and production totalling $308k in FY17 and $109k in FY18.<br><br>The cost to broadcast on television (traffic report), online video, cinema, outdoor, search, digital, trade/industry publications and affiliates was $1.73m in FY17 and $797k in FY18. |

| | |
|---|---|
| | The campaign objective was to drive awareness of the fund. Prompted brand awareness rose from 42% to 50%.<br><br>iii. "Right support and advice" campaign (launched in FY18). An extensive market scan of the creative agency market was conducted from July to October 2017 with the following agencies invited to tender: Twelfth Window, Richard Rose, The Works, J Walter Thompson and VML Digital, with The Works being appointed.<br><br>The total cost of the campaign, including creative, production and media was \$4.7m in FY18 and \$5.4m in FY19, with the cost of the creative development and production totalling \$1.6m in FY18 and \$675k in FY19.<br><br>The cost to broadcast on television (traffic report), online video, cinema, outdoor, search, digital, trade/industry publications, affiliates, social media was \$2.95m in FY18 and \$4.76m in FY19.<br><br>The campaign objective was to drive awareness of the fund. Prompted brand awareness rose from 50% to 57% over two years. The campaign also generated the following activity: over 249k visits to the website with 157k being unique visits.<br><br>In addition, a media buying tender was run in FY16 between Densu Mitchell and StarCom with StarCom being appointed and subsequently retained in FY18. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS12QW:** | Over the last five financial years:<br>a. What is the total budget for all costs associated with the fund?<br>b. What were the total assets under management?<br>c. What are the total number of employees?<br>d. What are the total number of contractors?<br>e. What are the total number of externally hired contracts, and their value? |
| Answer: | a. Please see table below.<br>b. Please see table below.<br>c. Please see table below. Employees are permanent employees paid directly by the fund.<br>d. Please see table below. Contractors have been defined as people on fixed term arrangements paid directly by the fund.<br>e. Please see table below. Externally hired contracts have been defined as people paid via third parties. We can identify the agencies and vendors paid, but cannot easily identify the number of externally hired individuals. The first number represents the number of people and the second the value of the contracts. |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| a. | $113m | $155m | $155m | $166m | $152m |
| b. | $54b | $57b | $66b | $75b | $85b |
| c. | 347 | 447 | 501 | 549 | 464 |
| d. | 8 | 30 | 118 | 84 | 111 |
| e. | <5 | 15-20 | 25-35 | 30-50 | >50 |
| | $0.4m | $1.7m | $4.2m | $5.5m | $4.0m |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS13QW:** | Over the last five financial years:<br>a. What is the total number of member accounts?<br>b. What is the total increase in the number of members as a result of the fund's default status?<br>c. What is the total increase in the number of members through voluntary adoption or switching?<br>d. What was the average member balance?<br>e. What was the average dollar amount deducted in insurance fees per member, across all fund products in dollar terms and as a share of a member account?<br>f. What was the total number of inactive accounts? (Please use the APRA definition: no contributions for two years.) |
| **Answer:** | Please see the table below, noting:<br>c. The numbers in the table below reflect new accounts only. Switching by itself does not create a new account. Regulations require that existing super monies can only be rolled into a complying super fund which requires that an account be created first.<br>e. The table below shows the average premium deducted per member, calculated based on members who hold insurance, not all members of the fund.<br>f. The table below shows the number of members who had not made a contribution for two years. |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| a. Member accounts | 752,282 | 759,497 | 773,270 | 768,436 | 761,700 |
| b. Default net increase | 21,632 | 24,982 | 29,002 | 32,094 | 37,177 |
| c. Voluntary adoption | 2,089 | 2,140 | 2,376 | 3,982 | 4,359 |
| d. Av. Member Bal | $69,568 | $71,282 | $80,700 | $91,103 | $100,471 |
| e. Av. Insurance prem | $348 | $355 | $365 | $388 | $378 |
| e. Total premium | $192m | $196m | $205m | $218m | $209m |
| e. Insurance as % | 0.50% | 0.48% | 0.44% | 0.43% | 0.37% |
| f. Inactive accounts | 156,555 | 156,134 | 159,422 | 154,478 | 144,244 |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS14QW:** | Please provide the one, five and ten year net return after fees, costs and taxes for the primary default MySuper balanced product. |
| **Answer:** | The tables below shows the net returns as at 30 June 2019 which reflect the returns published by SuperRatings.<br><br>There are two Life Cycle options available to members:<br>• Growth for members under 60 years old (75:25 Growth: Income)<br>• Balanced Growth for members aged 60 years and over (55:45 Growth: Income) |

| | **1 Year** | **5 Year** | **10 Year** |
|---|---|---|---|
| Growth – Accumulation | 7.71% | 8.30% | 8.77% |
| SuperRatings – Top Quartile | 7.52% | 8.36% | 9.03% |
| Quartile Rank | 1 | 2 | 2 |

| | **1 Year** | **5 Year** | **10 Year** |
|---|---|---|---|
| Balanced Growth - Accumulation | 7.14% | 7.12% | 7.64% |
| SuperRatings – Top Quartile | 7.02% | 6.90% | 7.64% |
| Quartile Rank | 1 | 1 | 1 |

Each member also pays an administration fee of 0.15% plus $52 per year. Please see FSS28QW and FSS29QW for the dollar and percentage fees for members with a balance of $6,000, $50,000 and $150,000.

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS15QW:** | Over the last five financial years:<br>a. What was the average dollar amount deducted for administration and asset management fees per member across all fund products? (please do not include insurance fees)<br>b. What was the cost (%) of fund administration expenses as a proportion of funds under management?<br>c. What was the total cost of in-house administration expenses?<br>d. What was the cost of in-house administration expenses as a proportion of funds under management?<br>e. What was the total cost of any external administration expenses?<br>f. What was the cost of any external administration expenses as a proportion of funds under management?<br>g. What was the total cost of any external administration expenses to Related Parties?<br>h. What was the cost of any external administration expenses to Related Parties as a proportion of funds under management?<br>i. How many staff are employed in roles considered part of the administrative cost? |
| **Answer:** | Please see the table below, noting:<br><br>c. The cost of in-house operations includes everything aside from investment related costs and costs of external member administration.<br><br>The increase in these costs largely relates to headcount increases which have been required to build out capability in Operations, Technology, Finance and Member Growth, including system upgrades. This period also coincides with increased regulatory reporting requirements that have required additional resources.<br><br>i. The staff represented in the table include all roles aside from investment related roles. |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| a. Av. admin fee ($) | $143 | $183 | $191 | $218 | $209 |
| a. Av. asset mgt fee ($) | $179 | $224 | $269 | $359 | $439 |
| b. % admin/FUM | 0.18% | 0.22% | 0.20% | 0.22% | 0.17% |
| c. In-house admin ($) | $58.9m | $85.3m | $85.6m | $115.0m | $95.8m |
| d. In-house admin (%) | 0.11% | 0.13% | 0.13% | 0.15% | 0.11% |
| e. External admin ($) | $39.8m | $41.8m | $45.0m | $47.2m | $46.6m |
| f. External admin (%) | 0.07% | 0.07% | 0.07% | 0.06% | 0.05% |
| g. Related party ($) | n/a | n/a | n/a | n/a | n/a |
| h. Related party (%) | n/a | n/a | n/a | n/a | n/a |
| i. Staff | 317 | 405 | 446 | 478 | 389 |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| | |
|---|---|
| **First State Super** | |
| **FSS16QW:** | What is the total number of statutory fines over the past five years? |
| **Answer:** | No statutory fines have been paid for the five years ended 30 June 2019. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| | |
|---|---|
| **First State Super** | |
| **FSS17QW:** | Over the last five financial years:<br>a. The number of rollover request that the fund did not pay out to another fund for each year?<br>b. The average dollar value of a rollover for each fund?<br>c. The value of any clawback accounts and/or funds held that is used to hold funds between financial years? |
| **Answer:** | a. Complete and accurate rollover requests are processed by the trustee. Rollovers may be rejected where:<br>i. There is insufficient information received to identify the member.<br>ii. The member has already exited the fund.<br>iii. The member has an insufficient or no balance to meet the request.<br><br>b. Please see table below, showing rollovers into, and out of, First State Super respectively. |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| In | $71,998 | $56,580 | $25,667 | $23,902 | $24,357 |
| Out | $45,372 | $42,248 | $43,565 | $48,173 | $45,758 |

c. Not applicable. First State Super does not maintain any accounts of this nature.

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

<table>
<tr><td>First State Super</td><td></td></tr>
<tr><td>FSS18QW:</td><td>a. Does the fund maintain a reserve at least partially funded through insurance premiums, rebates from an insurance company (such as profit share arrangements) or tax benefits that have arisen from insurance?<br>b. The total value of that reserve?<br>c. The total value of tax rebates received from the ATO on insurance premiums?</td></tr>
<tr><td>Answer:</td><td>a. First State Super maintains an Insurance Reserve that is funded by payments received from the fund’s insurer. These amounts return a portion of premium payments to the fund where the actual claims experience is lower than the insurer expected when pricing the group life insurance policy.<br><br>The Insurance Reserve has been established in accordance with APRA Prudential Practice Guide SPG 222 – Management of Reserves and in accordance with the fund’s Insurance Reserve Policy. The Policy anticipates that distributions from the reserve may be used for things such as reducing premiums for relevant members or fund related insurance projects.<br><br>b. As at 30 June 2019, the value of the Insurance Reserve was $10m.<br><br>c. The fund receives a tax deduction on insurance premiums paid. Every month, the fund credits members who paid insurance premiums with a rebate equal to the value of the tax deduction for the premium they paid.</td></tr>
</table>

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS19QW:** | The number of trusts or investment vehicles the fund controls in each of the low tax regions, including but not limited to Andorra, the Bahamas, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands, the Cook Islands, Hong Kong, the Isle of Man, Mauritius, Lichtenstein, Luxembourg, Monaco, Panama, St Kitts and Nevis? Or tax efficient arrangements such as a 'double Dutch sandwich'? |
| **Answer:** | Many external international fund managers make use of offshore investment vehicles, including those established in low tax regions. These vehicles are usually used by the fund manager for the purposes of pooling capital from other Australian and global institutional investors and are a common part of offshore investment structures for most institutional investors. Using these vehicles also allows First State Super to pool its investments together to enable efficient management by a fund manager. The investment remains taxable in the underlying source country and in Australia.<br><br>*Control*<br><br>Under standard accounting definitions, First State Super does not control any investment vehicles (including trusts) domiciled in low tax regions.<br><br>However, control may also be defined as holding 50% or more of the equity interests in an entity. Under this alternate definition, First State Super holds an equity interest in three Cayman Islands exempted limited partnerships of 50% or more. Each of these vehicles are set up and managed by an external fund manager. First State Super pays tax on the income derived from these investments in Australia.<br><br>We note that the Cayman Islands vehicles are not treated as flow-through for Australian tax purposes; therefore, First State Super is not able to claim the benefit of any foreign income tax offsets against tax payable in Australia for any foreign tax paid in the underlying jurisdictions.<br><br>*Tax efficient arrangements*<br><br>First State Super uses commercially reasonable efforts to enquire about the underlying investment structures of its investment managers. Based on this information, First State Super does not hold any 'double Dutch sandwich' arrangements or other similar arrangements. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS20QW:** | a. The number of accounts that have been transferred to the ATO as a result of 'Protecting Your Super' legislation?<br>b. The value of the money that will be paid to the ATO as a result of "Protecting Your Super' legislation?<br>c. The number of accounts that have been transferred into an eligible rollover fund in the 2019 financial year?<br>d. The value of the money that has been transferred into an eligible rollover fund in the 2019 financial year? |
| **Answer:** | a. 16,562 accounts were transferred in October 2019.<br><br>b. $38.1m was transferred in October 2019.<br><br>c. 30 - all initiated by the member or as a family law payment split. The fund has not routinely transferred accounts to eligible rollover funds since the introduction of MySuper.<br><br>d. $1.82m |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

<table>
<tr><td>First State Super</td><td></td></tr>
<tr><td>FSS21QW:</td><td>Have you ever made a donation and/or subscription fee to the ACTU Member Connect and/or ACTU Superannuation Partnerships program, and if so, to what value over the past five years?</td></tr>
<tr><td>Answer:</td><td>First State Super has subscribed to the ACTU Member Connect and the former Superannuation Partnerships Program for the purpose of gaining access to shared data, research and policy support about superannuation matters. This ensures we are promoting our members’ best interests, for better retirement outcomes. This collaboration addresses issues like the gender super gap and other important issues to our members that we can access and leverage for the benefit of our members.<br><br>This partnership also supports workplace marketing activities to inform and engage members in the workplace on superannuation, financial services and other related benefits.<br><br>Finally, it provides the fund the opportunity to attend forums and conferences on priority issues and strategies for industry, profit to member & government super funds such as adequacy of retirement outcomes, nation building, gender equality, governance and sustainability.<br><br>
<table>
<tr><th></th><th>Year to Jun 15</th><th>Year to Jun 16</th><th>Year to Jun 17</th><th>Year to Jun 18</th><th>Year to Jun 19</th></tr>
<tr><td>Member Connect</td><td>n/a</td><td>n/a</td><td>n/a</td><td>$60k</td><td>$62.5k</td></tr>
<tr><td>Superannuation Partnerships Program</td><td>$55k</td><td>$60k</td><td>$60k</td><td>n/a</td><td>n/a</td></tr>
</table>
</td></tr>
</table>

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS22QW:** | Does the fund pay any external consultants for any advocacy and communication services, and if so, can you please name them and the costs incurred over the past five years? |
| **Answer:** | During the five years ended 30 June 2019, the fund used the services of the following consultancies, predominantly for communications services:<br><br>i. GRA Cosway<br>ii. Civic Group<br>iii. Cox Inall Change<br><br>The costs incurred during this timeframe are set out below. |

| Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|
| $9.5k | $8.7k | $33.0k | $149.5k | $230.6k |

The increase in the years ended 30 June 2018 and 2019 is attributable to communications assistance with the Hayne Royal Commission and fund mergers.

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS23QW:** | a. How many staff are employed for the purpose of policy research or analysis?<br>b. How much was spent on engaging external policy and data analysis consultants?<br>c. How much was spent on membership of industry advocacy organisations that provide policy and data analysis service to member funds? |
| **Answer:** | a. Please see table below. |

| Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|
| 1 | 1.2 | 1.6 | 1.6 | 1.6 |

b. In the year ended 30 June 2017 we paid $60,000 for two contract consultants to assist with policy work.

c. We paid annual membership subscriptions to industry peak bodies as follows:

| Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|
| $86k | $100k | $110k | $154k | $161k |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

<table>
<tr><td>First State Super</td><td></td></tr>
<tr><td>FSS24QW:</td><td>In the context of building investments:<br>a. Have you completed assessments of the prevalence of flammable cladding across some properties?<br>b. Have you completed assessments of the prevalence of flammable cladding across all properties?<br>c. Have you taken any remediation to reduce your exposure to risk to identify flammable cladding, and if so, what?<br>d. Have you taken any remediation to reduce your exposure to risk to remove flammable cladding, and if so, what?<br>e. Do you hold any properties where insurance has been refused or are uninsured due to defective building construction such as cladding?</td></tr>
<tr><td>Answer:</td><td>First State Super’s property exposure is comprised of either pooled fund investments, bespoke investment mandates, joint ventures or internally managed investments.<br><br>Our property fund managers track and manage this risk across their portfolios including both assessing and undertaking remediation.<br><br>First State Super has greatest influence and governance rights to direct risk management and remediation programs for mandates, joint ventures and internally managed investments. For our pooled fund investments (wholesale trusts), we review and monitor the use of aluminium composite panel external cladding through our role in investor committees and/or regular investment reporting.<br><br>Our property fund managers have informed us that there are no properties where insurance has been refused due to defective building construction such as cladding.</td></tr>
</table>

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS25QW:** | a. What external parties manage your investments, if any?<br>b. What are the fee structures per member from external management? |
| **Answer:** | a. Please see pages 18-19 of the 2018-2019 FSS Annual Report (attached) and here: https://firststatesuper.com.au/about/governance-and-policies/company-reports-and-audit<br><br>b. External investment manager fees are charged on a cost recovery basis (i.e. they are costs, not fees). The cost structure per member depends on which investment option they have selected.<br><br>For the year ended 30 June 2019, the following external investment management costs for each investment option were as follows: |

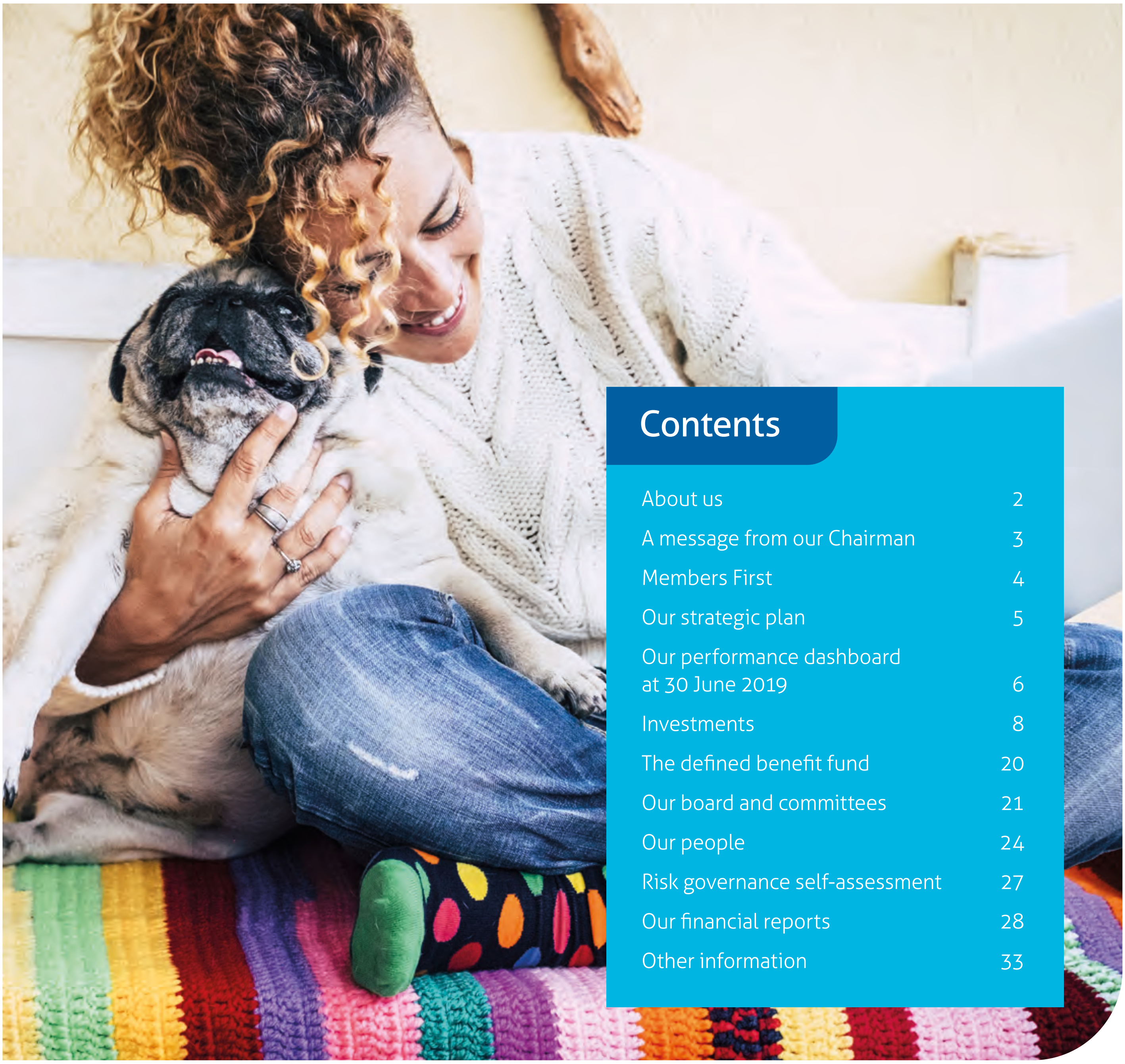
| FSS INVESTMENT OPTION | EXTERNAL MANAGER COSTS |
|---|---|
| HIGH GROWTH ACCUMULATION | 0.3175% |
| GROWTH ACCUMULATION | 0.2950% |
| BALANCED GROWTH ACCUMULATION | 0.2465% |
| CONSERVATIVE GROWTH ACCUMULATION | 0.2083% |
| DIVERSIFIED SRI ACCUMULATION | 0.2446% |
| | |
| AUSTRALIAN EQUITIES ACCUMULATION | 0.0202% |
| AUSTRALIAN SOCIALLY RESPONSIBLE ACCUMULATION | 0.1435% |
| INTERNATIONAL EQUITIES ACCUMULATION | 0.0262% |
| PROPERTY ACCUMULATION | 0.4274% |
| AUSTRALIAN FIXED INTEREST ACCUMULATION | 0.0217% |
| INTERNATIONAL FIXED INTEREST ACCUMULATION | 0.0408% |
| CASH ACCUMULATION | 0.0012% |
| | |
| HIGH GROWTH PENSION | 0.3190% |
| GROWTH PENSION | 0.2956% |
| BALANCED GROWTH PENSION | 0.2466% |
| CONSERVATIVE GROWTH PENSION | 0.2080% |
| DIVERSIFIED SRI PENSION | 0.2445% |
| | |

| | |
|---|---|
| AUSTRALIAN EQUITIES PENSION | 0.0202% |
| AUSTRALIAN SOCIALLY RESPONSIBLE PENSION | 0.1436% |
| INTERNATIONAL EQUITIES PENSION | 0.0258% |
| PROPERTY PENSION | 0.4265% |
| AUSTRALIAN FIXED INTEREST PENSION | 0.0218% |
| INTERNATIONAL FIXED INTEREST PENSION | 0.0408% |
| CASH PENSION | 0.0012% |

first state super

# Annual REPORT

TO 30 JUNE 2019



## Contents



# About us

## Choose well for you and your world

Choosing the right super fund will help you secure your financial independence.

At First State Super we deliver strong performance, keep our fees low and provide the quality advice and guidance to help you feel confident about your future – and everyone else's.

## You benefit, everyone gains

We're an industry super fund that's been run for the benefit of our members since 1992. We serve you alone - investing for your success in accordance with your values.

As one of Australia's largest super funds, we exercise our ability to have a positive impact on the world. Generating returns for members creates jobs and funding hospitals builds healthy member account balances. Overall, we actively support the businesses we invest in, to embrace sustainable, ethical practices.

## We're open to everyone

You don't have to be part of any specific industry to join us. Our members are united by their desire to secure a better future for themselves in a way that's good for everyone.


Prepared and issued by FSS Trustee Corporation ABN 11 118 202 672, AFSL 293340 Level 21, 83 Clarence St Sydney NSW 2000 as trustee of the First State Superannuation Scheme ABN 53 226 460 365. Unique Superannuation Identifier (USI) 53 226 460 365 001, MySuper Authorisation Number 53 226 460 365 073. When members receive advice, they receive it under our financial planning business' own AFS licence. Our financial planning business is wholly owned by FSS Trustee Corporation as trustee of the fund. You should read the Financial Services Guide before making a decision. For more information call 1300 650 873.

Issued Monday 23 December 2019

# A message from our Chairman

On behalf of the First State Super board, executive and staff, I would like to thank you for trusting our team to look after your superannuation, retirement and financial planning needs over the past year.

It's been an eventful 12 months for First State Super and the wider superannuation industry. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its recommendations for reform that will affect both the superannuation and financial planning industries. While most have not been legislated, we strongly support any initiative that leads to better transparency, and gives members and clients greater confidence and security.

The Productivity Commission also released its final report on the efficiency and competitiveness of superannuation. The government has said it will implement the Commission's recommendation to review the retirement incomes system. We look forward to participating in the review and advocating for policies that deliver better outcomes for our members.

Equity markets were strong, as record low interest rates encouraged investors to seek better yields from shares, pushing up prices in the process. Our flagship investment options, the Growth and Balanced Growth options, returned 7.72% and 7.10% respectively for the year, well ahead of the industry averages[1]. It was pleasing to see research company Chant West name First State Super in the top 10 performing growth funds for the 2018-19 financial year[1].

The **Growth** and **Balanced Growth options, returned 7.72% and 7.10%** respectively for the year, well ahead of the industry averages[1]

We entered merger discussions earlier this year with Victorian-based super fund VicSuper. The two funds share a common heritage looking after the savings and retirement needs of public sector employees. If the merger proceeds, the combined entity will be Australia's second largest superannuation fund, managing over $120 billion on behalf of more than 1.1 million members. By increasing our scale, we can continue to expand and improve our member services, and invest in ways that positively influence the economy and the environment.

In an industry first, First State Super and VicSuper were jointly awarded Best Fund: Integrity by Chant West. This award speaks to the type of funds we are and acknowledges our very genuine commitment to delivering better outcomes for members.

The availability of affordable rental housing is a growing challenge for the community. Our investment team is working closely with governments, developers and community housing providers to address the lack of affordable housing. We have recently added two properties to our growing affordable housing portfolio – investments that align very well with our goal of supporting the communities in which our members live, work and retire, while also providing our members with competitive investment returns.

The integration of our advice business, StatePlus, was finalised during the period. Being a trusted source of financial advice and retirement expertise is central to our corporate strategy. We believe the advice and support services offered by StatePlus represent a true competitive advantage for our fund and are a valuable service for our members.

We also introduced some really useful enhancements to our member services. Our new mobile app, aged care seminars and advice, improved account consolidation service and specialist estate planning service are just some of the features introduced during the period.

We welcomed new board members Roslyn Ramwell and Mark Morey. Roslyn was appointed by the NSW Government and brings valuable experience from her time on the boards of StatePlus and State Super. Mark was appointed by Unions NSW and he is the Secretary of Unions NSW. He also has experience as a superannuation fund director. We farewelled directors Philippa Smith and Mark Lennon. Both Philippa and Mark have made a huge contribution to the fund having served on the board and several sub-committees for 12 years and nine years respectively. We will miss them both.

Our long serving CEO, Michael Dwyer, retired at the end of November 2018. His contribution to the superannuation industry, our fund and lives of our members is immeasurable. He has laid a sure foundation based on values driven by our commitment to always put our members first and to be a force for good in the community. We're extraordinarily fortunate that Deanne Stewart is our new CEO, and her leadership, integrity and vision will enable us to continue to serve you well.

I hope you find the annual report interesting and informative. If you have any questions, please see our contact details on the back page.

Best wishes

**Neil Cochrane** | Chairman

[1] Source: Chant West

# Members First

Our members are the reason our business exists. They are the reason we all come to work each day and the reason we are proud to work for First State Super. Our members are the 'glue' that keeps us all together, and helps guide everything we do, not only today but into the future.


## Our values

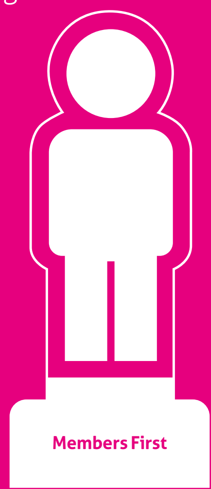
### Members First
Our members are the spirit and heart of our organisation. They are our reason for being.

### Deliver Honourably
We are united, trusted and operate with the highest integrity. We take ownership and are focused on delivering high quality outcomes.

### Care Deeply
We care deeply about our people, members and stakeholders. We are inclusive, open and transparent.

### Lead Bravely
We step forward, we lead, we are focused on continuous improvement, efficiency and simplicity in everything we do.

The inclusion of the character 'Sam' in our logo is a symbol of putting the member at the heart of everything we do. 'Sam' reminds us of the importance of delivering value to members every day. 'Sam' is physically present in meeting rooms in our offices around the country.




first state super

# Our strategic plan

Our strategic plan is the roadmap that helps us deliver for our members, and responds to changes in our complex environment. In 2019 we sharpened our strategy to provide additional clarity about our purpose and vision. Our nine strategic pillars define what we want to be known for, the critical components of our success and the enablers that underpin our delivery.

### Who we serve

Our target market is all Australians, particularly those that are community minded

This includes educators, health care workers, aged care and child care, public sector and police and emergency workers

### Our purpose

To be a force for good in super and retirement, shaping the best outcomes for our members, their families and communities, and our industry

### Our vision

We are the most trusted choice for super, retirement and advice

We earn trust every day by the way we invest and provide the right help and advice

## Nine pillars outline our four-year strategy

### Differentiators

What we are known for

**Best advice and guidance**

Our distinctive advice and guidance ensures members obtain the help they need, at the right time to achieve their best possible futures

**Go-to for retirement**

Make retiring easier and help members get the most out of their retirement

**Responsible ownership**

Investment improves members retirement outcomes through both strong returns and positive impact on society

**Support 'beyond super'**

We add value and stand out to our core sectors by providing relevant support beyond super

### Foundations

Critical components of our success

**Relative scale**

Grow to achieve top fund status and leverage scale to achieve cost efficiencies and fee reductions

**Simplified experience for members and employers**

Members and employers love their interactions with us because it is easy, simple and helpful

### Enablers

Underpin delivery of our vision

**Members First**

Our Member First principles are at the heart of every action and every decision we take

**Best place to work**

A dynamic workplace where our culture and values attract and retain talented people to achieve our purpose

**Data driven**

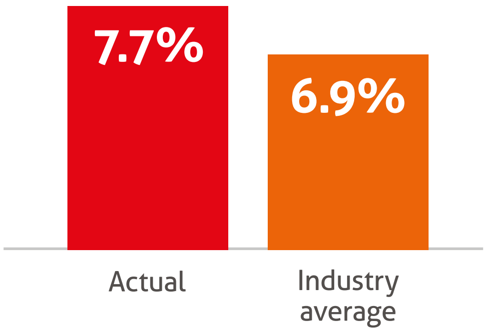
Insight into our data is a competitive advantage, driving better decisions by our people and our members

# Our performance dashboard

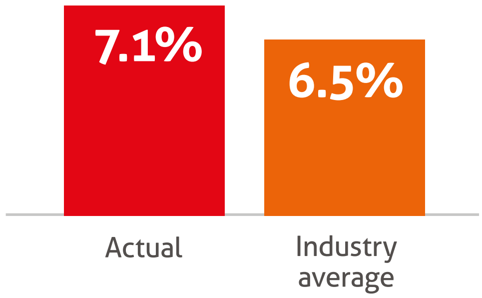
## at 30 June 2019

## Investment returns for 12 months[1]

### Growth




### Balanced Growth




## Member accounts

**First State Super**

| | |
|---|---|
| Superannuation | 726,465 |
| Income Stream | 28,473 |
| Defined benefit, Lifetime pension | 6,762 |

**StatePlus[2]**

| | |
|---|---|
| Superannuation | 19,772 |
| Income Stream | 57,992 |
| Investment (non-super) | 9,707 |

## Funds under management

**First State Super**

| | |
|---|---|
| Superannuation | $68.3bn |
| Income stream | $8.2bn |
| Defined benefit, Lifetime pension[3] | $1.2bn |
| TOTAL | **$77.7bn** |

**StatePlus**

| | |
|---|---|
| Superannuation | $2.96bn |
| Income stream | $15.69bn |
| Investment (non-super) | $1.39bn |
| TOTAL StatePlus | **$20.04bn** |

## Average account balance[4]

Superannuation

**$93,996**

Income stream

**$289,537**

## Gender split[4]

Female

**67%**

Male

**33%**

## Contributions[4]

Total annual contributions

**$4.72bn**

Contributing members

**550,131**

Average contribution per member

**$8,522**

Contributing employers

**53,590**

[1] First State Super accumulation default options. Industry average returns from SuperRatings Fund Crediting Rate Survey June 2019
[2] Some StatePlus clients are included in more than one category
[3] Balance at 30 June 2019
[4] Numbers are for First State Super

# Investments

Our investment approach is founded on the principle of Responsible Ownership. Responsible Ownership for us is actively considering environmental, social and corporate governance (ESG) factors within investment decision making and ownership practices. But at First State Super it's more than integration; as a responsible owner we have the opportunity to make a real difference. What we invest in, to deliver long-term returns to members will impact the environment, the community and our members' retirement savings.

Other factors that drive our approach include our belief that:

- getting the allocation to the different asset sectors right is the main driver of returns
- high-quality research underpins and improves our investment decisions
- there are niche or unique opportunities that we have access to that others don't.

Most importantly, we want to use our influence as a large investor to improve the world our members retire into. We're very conscious of the legacy we leave for future generations.

## Growing your superannuation

Our responsibility is to grow the value of your superannuation by delivering competitive returns while managing investment risk and volatility. As one of Australia's largest superannuation funds, we face a significant challenge generating competitive risk-adjusted returns. To meet this challenge, we focus on:

- offering a mix of growth and income-generating investments
- choosing investment managers who understand the importance of balancing the need for competitive returns with the need to invest sustainably.

## ESG Integration

We're committed to better ESG practices across all asset classes. Our ESG team reviews and considers the long-term sustainability of our investments. This means considering investments that:

- create long-term value
- promote stewardship of our natural resources
- have a positive impact on the communities in which our members retire.

Over the last year, the team has:

- actively reviewed our external managers' approach to integrating ESG
- engaged with companies we invest in
- exercised our voting rights
- researched issues such as executive remuneration, worker safety, climate change risks and opportunities, and long-term value creation.

## Climate change

Our Climate Change Adaptation Plan outlines how we build climate change resilience into our portfolio. We have reviewed our portfolio to assess exposure to the physical impacts of climate change risk and identified investments to actively engage with in terms of building resilience into those assets. We continue to engage with companies on reducing emissions and other climate-related risks. We're also invested in renewable energy and related technologies, including wind projects in Brazil.

## Engagement

As an active owner we engage with companies to improve ESG practices. Over the year, engagement took place with over 55 listed Australian companies on executive remuneration, climate change, workers' rights and supply chain management, conduct and culture issues, board composition and diversity, and public disclosure.

## Voting

We view voting as an important part of our ownership of both domestic and international companies. We continue to actively exercise our voting rights. While usually supporting resolutions, we occasionally vote against, for example on issues relating to remuneration, equity grants and director elections.

## Policy advocacy

We participate in regulatory processes, industry working groups and public debate. We continue to advocate for better disclosure of climate-related information, diversity on corporate boards and the importance of culture in creating long-term value.

## Sustainable investments

We look for investments that not only offer good returns, but are sustainable, generate jobs, foster innovation and contribute to a more productive economy. Our recent investments in the Sunshine Coast and Bendigo hospitals are good examples.

## The year to 30 June 2019 in review

Global economic growth was fairly stable over the first half of the financial year but increasing trade tension between the US and China took its toll on share markets. With business and consumer confidence falling, many central banks reduced their cash rate, providing greater support for the economy and financial markets. Shares responded positively, reaching new highs, while bond yields followed cash rates lower.

On average, global share markets rose over the past 12 months, although there were several periods of heightened market volatility.

The US market was strong, rising 10.4%, and analysts there expect earnings to grow 8% to 9% in the year ahead. This is potentially optimistic given the ongoing negative impact of the escalating trade war.

Europe's fragile economic recovery was caught up in the slowdown in global trade, prompting the European Central Bank to pledge further stimulus, pushing European shares up 6.5% in the process.

The UK was (and still is) in turmoil over Brexit, but a large component of the FTSE Index is in global companies so UK shares have been less affected, rising 1.6%.

Japan lagged other markets, falling 8.2% for the year. A stronger currency had a negative impact on exporters, despite better corporate capital spending.

Australian shares had a strong year, rising 11.5%. The best performing sectors were those with higher yields, as investors sought income-producing shares to compensate for lower interest rates.

Australia has experienced the most severe fall in house prices in 10 years, with prices nationally coming down 15% from their 2017 peak. The impact has been partially offset by an increase in government spending on infrastructure. A boom in iron ore prices due to supply interruptions in Brazil boosted the resources sector.

Responding to persistently low inflation, the Reserve Bank of Australia (RBA) cut the cash rate to a new low of 1.0% in July to support growth, reduce the unemployment rate, and improve falling business and consumer confidence. The market anticipates two further rate cuts before March 2020.

**Australian shares had a strong year, rising 11.5%.** Best performing sectors were those with higher yields, as investors sought income-producing shares to compensate for lower interest rates.

There is a global shift in interest rate expectations, with around four interest rate cuts in the US expected over the next 12 months. Cash returns remain in low single digits and are likely to fall lower as central banks ease interest rates lower to promote growth.

The yield on Australian government bonds has also come down considerably, falling a little over 1% to finish the year with returns of 9.6%. We're not alone. Global bond yields have fallen as investors factor in weaker growth and the likelihood that interest rates will have to stay lower for longer.

The Australian dollar declined against the US dollar, euro, yen and British pound over the past 12 months. One factor that contributes to exchange rates is the relative attractiveness of interest rates, so with the RBA moving to cut rates, our currency looks relatively less appealing to overseas investors. That said, another driver is commodity prices, which have been reasonably strong and helped anchor the Australian dollar towards the high side of $US 0.60c.

### Looking ahead

Global inflation has been persistently low and in response most central banks are cutting cash rates. Financial markets are not pricing in higher inflation but, if expectations change, we could see shares and bonds come under more pressure.

Tensions between the US and China are likely to continue and we expect markets will be volatile for some time. We see more downside risks for global growth, but central banks are ready to steady some of these concerns by cutting rates and lowering the cost of finance.

In Australia, house prices have stabilised, and with tax cuts and lower mortgage rates coming through, we're expecting a boost to growth from increased consumption.

# Objectives and performance at 30 June 2019

This section shows the objectives, asset allocation and returns for our accumulation and income stream investment options. The investment objectives for the income stream options are slightly higher than the accumulation options because there is no tax payable on investment earnings for income streams. For the same reason, the net returns for the income stream options shown in the graphs are slightly higher than the returns for the accumulation options.

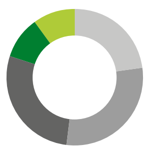
| | **High Growth** | **Growth** (Life Cycle[5] option for members up to and including age 59) |
|---|---|---|
| **Investment objective[1]** | Accumulation and Transition to Retirement Income Stream: CPI + 4.0% pa over rolling 10-year periods net of tax and fees.<br>Retirement Income Stream: CPI + 4.5% pa over rolling 10-year periods net of tax and fees. | Accumulation and Transition to Retirement Income Stream: CPI + 3.75% pa over rolling 10-year periods net of tax and fees.<br>Retirement Income Stream: CPI + 4.25% pa over rolling 10-year periods net of tax and fees. |
| **Investment profile** | Seeking higher growth over the longer term and are willing to accept significant fluctuations in returns and the possibility of negative returns over the short term. | Seeking higher growth over the medium to long term and are willing to accept fluctuations in returns and the possibility of negative returns over the short term. |
| **Risk label[2]** | High (Band 6) | High (Band 6) |
| **Expected frequency of negative returns[2]** | Accumulation and Transition to Retirement Income Stream: Approximately 5.2 times every 20 years<br>Retirement Income Stream: Approximately 5.1 times every 20 years | Accumulation and Transition to Retirement Income Stream: Approximately 4.7 times every 20 years<br>Retirement Income Stream: Approximately 4.5 times every 20 years |
| **Growth/income asset allocation** | Growth assets 95%<br>Income assets 5% | Growth assets 75%<br>Income assets 25% |

**Strategic asset allocation (SAA) and range[3]**

High Growth

| | SAA | Range |
|---|---|---|
| Australian equities | 30% | 20% – 40% |
| International equities | 37% | 27% – 47% |
| Alternatives | 28% | 18% – 38% |
| Fixed income | 0% | 0% – 10% |
| Cash | 5% | 1% – 15% |

Growth

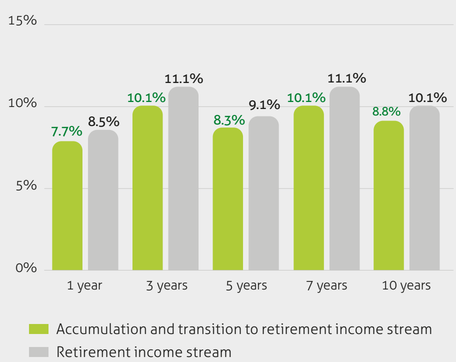


| | Target | Range |
|---|---|---|
| Australian equities | 23% | 13% – 33% |
| International equities | 29% | 19% – 39% |
| Alternatives | 28% | 8%–48% |
| Fixed income | 10% | 1% – 20% |
| Cash | 10% | 1% – 45% |

**Net investment returns[4]**

High Growth


Growth

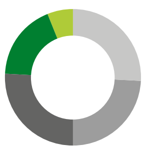



[1] The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.
[2] See page 17 for an explanation of risk label and expected frequency of negative returns.
[3] The trustee may vary the asset allocation for an investment option from time to time. Each of the asset classes may include small cash balances for portfolio management purposes. Alternatives can include both income and growth assets. Refer to our website for the latest asset allocations.
[4] The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.
[5] For accumulation members, this is called the MySuper Life Cycle option.

| | Diversified Socially Responsible Investment | Balanced Growth (Life Cycle[5] option for members aged 60 and over) |
|---|---|---|
| **Investment objective[1]** | Accumulation and Transition to Retirement Income Stream: CPI + 3.25% pa (from 1 Oct 2018, previously +3.75%) over rolling 10-year periods net of tax and fees.<br>Retirement Income Stream: CPI + 3.75% pa (from 1 Oct 2018, previously +4.25%) over rolling 10-year periods net of tax and fees. | Accumulation and Transition to Retirement Income Stream: CPI + 2.75% pa over rolling 10-year periods net of tax and fees.<br>Retirement Income Stream: CPI + 3.25% pa over rolling 10-year periods net of tax and fees. |
| **Investment profile** | Seeking higher growth over the medium to long term from socially responsible investments and are willing to accept fluctuations in returns and the possibility of negative returns over the short term. | Seeking a balance of growth and income investments that are expected to deliver moderate returns over the medium term. |
| **Risk label[2]** | High (Band 6) | Accumulation and Transition to Retirement Income Stream: High (Band 6) from 1 Oct 2018 (previously Medium-high (Band 5))<br>Retirement Income Stream: Medium-high (Band 5) |
| **Expected frequency of negative returns[2]** | Accumulation and Transition to Retirement Income Stream: Approximately 4.6 times every 20 years<br>Retirement Income Stream: Approximately 4.5 times every 20 years | Accumulation and Transition to Retirement Income Stream: Approximately 4.0 times every 20 years<br>Retirement Income Stream: Approximately 3.8 times every 20 years |
| **Growth/income asset allocation** | Growth assets 76%<br>Income assets 24% | Growth assets 55%<br>Income assets 45% |

**Strategic asset allocation (SAA) and range[3]**

Diversified Socially Responsible Investment

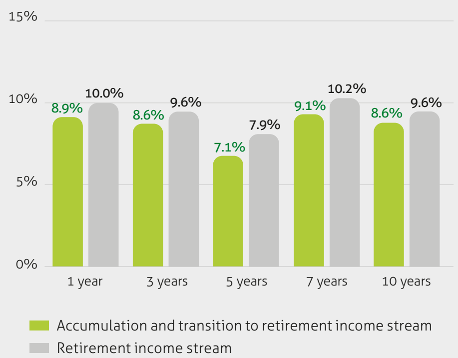


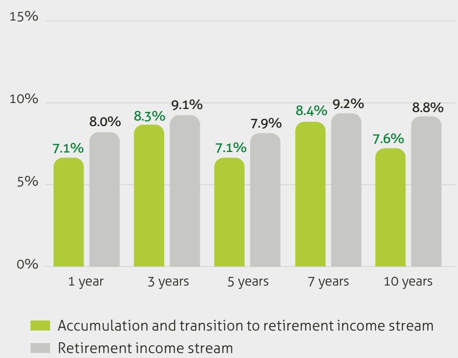
| | SAA | Range |
|---|---|---|
| Australian equities | 26% | 16% – 36% |
| International equities | 24% | 14% – 34% |
| Alternatives | 26% | 6% – 46% |
| Fixed income | 18% | 8% – 28% |
| Cash | 6% | 1% – 36% |

Balanced Growth

| | Target | Range |
|---|---|---|
| Australian equities | 16% | 6% – 26% |
| International equities | 21% | 11% – 31% |
| Alternatives | 28% | 8%–48% |
| Fixed income | 20% | 5% – 35% |
| Cash | 15% | 1% – 60% |

**Net investment returns[4]**




1 The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.
2 See page 17 for an explanation of risk label and expected frequency of negative returns.
3 The trustee may vary the asset allocation for an investment option from time to time. Each of the asset classes may include small cash balances for portfolio management purposes. Alternatives can include both income and growth assets. Refer to our website for the latest asset allocations.
4 The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.
5 For accumulation members, this is called the MySuper Life Cycle option.

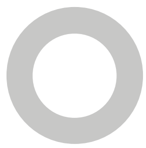
| | Conservative Growth | Australian Equities |
|---|---|---|
| Investment objective[1] | Accumulation and Transition to Retirement Income Stream: CPI + 1.0% pa over rolling 10-year periods net of tax and fees.<br>Retirement Income Stream: CPI + 1.5% pa over rolling 10-year periods net of tax and fees. | To track the S&P/ASX 300 Index (dividends reinvested), after fees. |
| Investment profile | Seeking an investment with a low to medium risk of capital loss over the short to medium term, and modest capital growth over the longer term. | Seeking growth above inflation (being a combination of capital and income) over the longer term from a passively managed portfolio of Australian shares, and are willing to accept significant fluctuations in returns and the possibility of negative returns over the short term. |
| Risk label[2] | Accumulation and Transition to Retirement Income Stream: Low-medium (Band 3)<br>Retirement Income Stream: Medium (Band 4) from 1 Oct 2018 (previously Low-medium (Band 3)) | Very high (Band 7) |
| Expected frequency of negative returns[2] | Accumulation and Transition to Retirement Income Stream: Approximately 1.9 times every 20 years<br>Retirement income stream: Approximately 2.0 times every 20 years | Accumulation and Transition to Retirement Income Stream: Approximately 6.7 times every 20 years<br>Retirement Income Stream: Approximately 6.6 times every 20 years |
| Growth/income asset allocation | Growth assets 30%<br>Income assets 70% | |

**Strategic asset allocation (SAA) and range[3]**

Conservative Growth

| | SAA | Range |
|---|---|---|
| Australian equities | 6% | 1% – 13% |
| International equities | 7% | 2% – 12% |
| Alternatives | 29% | 14% – 44% |
| Fixed income | 20% | 5% – 35% |
| Cash | 38% | 1% – 85% |

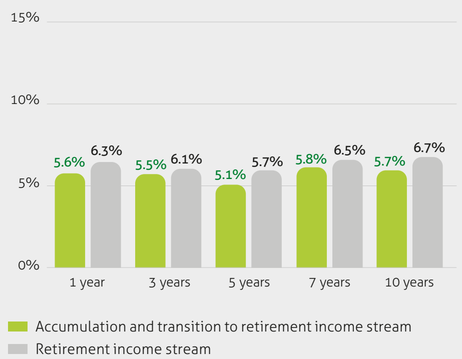
Australian Equities



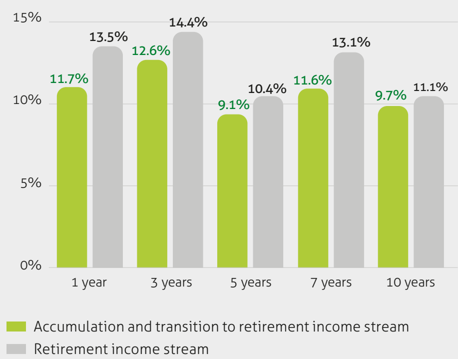
| | |
|---|---|
| Australian equities | 100% |

**Net investment returns[4]**

Conservative Growth




Australian Equities




[1] The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.

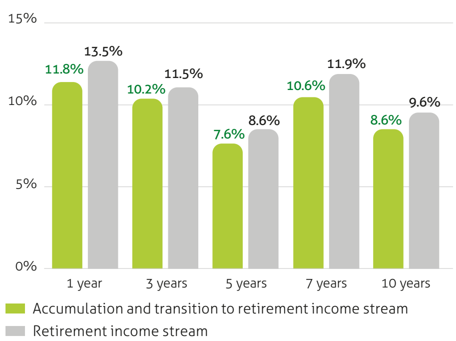
[2] See page 17 for an explanation of risk label and expected frequency of negative returns.

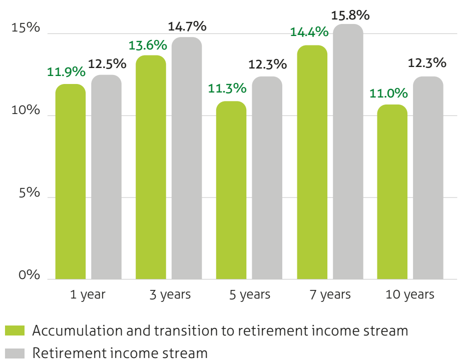
[3] The trustee may vary the asset allocation for an investment option from time to time. Each of the asset classes may include small cash balances for portfolio management purposes. Alternatives can include both income and growth assets. Refer to our website for the latest asset allocations.

[4] The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

| | Australian Equities Socially Responsible Investment | International Equities |
|---|---|---|
| **Investment objective**[1] | To outperform the S&P/ASX 200 Index (dividends reinvested), over rolling 5 years, after fees. | To track the MSCI World Index ex-Australia Net Dividends Reinvested (unhedged in Australian dollars) after fees. |
| **Investment profile** | Seeking growth above inflation (being a combination of capital and income) over the longer term from socially responsible Australian shares and are willing to accept significant fluctuations in returns and the possibility of negative returns over the short term. | Seeking growth above inflation (being a combination of capital and income) over the longer term from a passively managed portfolio of international shares and are willing to accept significant fluctuations in returns and the possibility of negative returns over the short term. |
| **Risk label**[2] | Very high (Band 7) | Very high (Band 7) |
| **Expected frequency of negative returns**[2] | Accumulation and Transition to Retirement Income Stream: Approximately 6.7 times every 20 years<br>Retirement Income Stream: Approximately 6.6 times every 20 years | Accumulation and Transition to Retirement Income Stream: Approximately 6.5 times every 20 years<br>Retirement Income Stream: Approximately 6.5 times every 20 years |
| **Strategic asset allocation (SAA) and range** | <br>Australian equities 100% | <br>International equities 100% |

**Net investment returns**[3]




[1] The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.
[2] See page 17 for an explanation of risk label and expected frequency of negative returns.
[3] The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

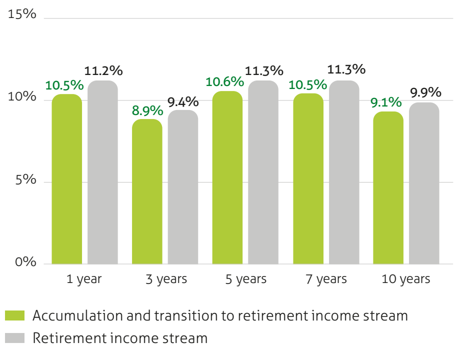
| | Property | Australian Fixed Interest |
|---|---|---|
| Investment objective[1] | To outperform a combined index, namely the FTSE EPRA/NAREIT Developed Rental Index (hedged) and CPI + 5% over rolling 5 years, after fees. | To track the Bloomberg AusBond Composite 0 + Yr Index, after fees. |
| Investment profile | Seeking high growth above inflation over the medium to long term from property investments and are willing to accept fluctuations in returns and the possibility of negative returns over the short term. | Seeking returns that keep pace with inflation in the long term from a portfolio of Australian bonds and are willing to accept fluctuations in returns and the possibility of negative returns over the shorter term. |
| Risk label[2] | High (Band 6) | High (Band 6) |
| Expected frequency of negative returns[2] | Approximately 5.0 times every 20 years | Approximately 5.3 times every 20 years |

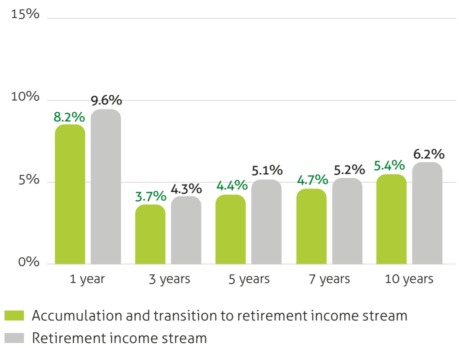
**Strategic asset allocation (SAA) and range**

Property 100%

Australian bonds 100%

**Net investment returns[3]**




1 The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.

2 See page 17 for an explanation of risk label and expected frequency of negative returns.

3 The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

| | International Fixed Interest | Cash |
|---|---|---|
| **Investment objective**[1] | To track the Bloomberg Barclays Global Aggregate Float Adjusted Index fully hedged to Australian dollars, after fees. | To track the Bloomberg AusBond Bank Bill Index, after fees. |
| **Investment profile** | Seeking returns that keep pace with inflation in the long term from a diversified portfolio of global bonds and are willing to accept fluctuations in returns and the possibility of negative returns over the shorter term. | Seeking a very low-risk short-term investment with very stable but low expected returns. |
| **Risk label**[2] | High (Band 6) from 1 October 2018 (previously High (Band 5)) | Very low (Band 1) |
| **Expected frequency of negative returns**[2] | Approximately 4.4 times every 20 years | Approximately 0.3 times every 20 years |

**Strategic asset allocation (SAA) and range**

International Fixed Interest

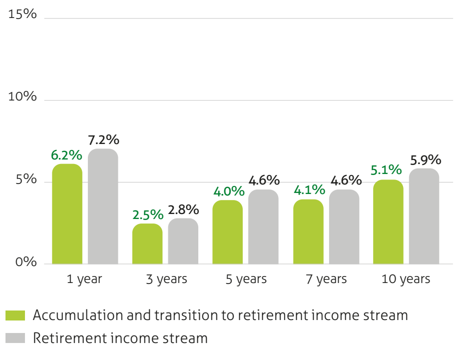
International bonds 100%

Cash

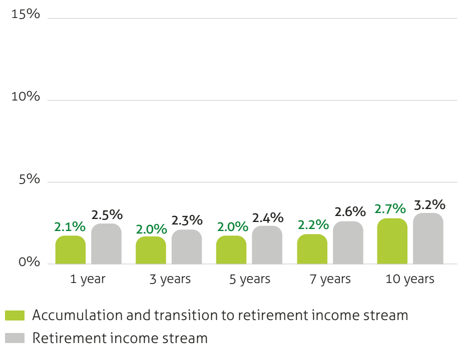
Cash 100%

**Net investment returns**[3]

International Fixed Interest




Cash




[1] The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.
[2] See page 17 for an explanation of risk label and expected frequency of negative returns.
[3] The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

## Investment fees

Investment fees reflect a broad range of fees and costs associated with the purchase/sale and ongoing management of investments of the fund and underlying investment vehicles. This includes fees paid to investment managers, as well as amounts paid to a variety of third parties such as our custodian, brokers and government authorities. These amounts are paid from the assets of the investment option before we calculate the unit price and aren't deducted directly from your account.

The investment fees for each of the pre-mixed investment options (i.e. the High Growth, Growth, Diversified SRI, Balanced Growth and Conservative Growth investment options) also include the trustee's charge of 0.04% per year. This is a component of 'Other fees and costs'.

Investment fees may vary from year to year and cannot be precisely calculated in advance.

**Important:** the investment fees shown below are indicative only and are based on the fees and costs for each investment option for the 12 months to 30 June 2019, including several components which are estimates only. The actual amount you'll pay in future years will depend on the actual fees, costs and taxes incurred by the trustee in managing the investment option.

### Estimated investment fees (% per year) (Accumulation and transition to retirement income stream)

| Investment option | Investment management costs | Performance-related costs | Transaction costs[1] | Other fees and costs | Total investment fees |
|---|---|---|---|---|---|
| High Growth | 0.35% | 0.26% | 0.11% | 0.13% | **0.85%** |
| Growth[2] | 0.33% | 0.25% | 0.10% | 0.12% | **0.80%** |
| Diversified SRI | 0.28% | 0.10% | 0.08% | 0.13% | **0.59%** |
| Balanced Growth[2] | 0.28% | 0.18% | 0.08% | 0.11% | **0.65%** |
| Conservative Growth | 0.24% | 0.14% | 0.05% | 0.11% | **0.54%** |
| Australian Equities | 0.05% | 0.00% | 0.00% | 0.04% | **0.09%** |
| Australian Equities SRI | 0.18% | 0.00% | 0.04% | 0.05% | **0.27%** |
| International Equities | 0.06% | 0.00% | 0.00% | 0.03% | **0.09%** |
| Property | 0.46% | 0.27% | 0.15% | 0.12% | **1.00%** |
| Australian Fixed Interest | 0.05% | 0.00% | 0.00% | 0.03% | **0.08%** |
| International Fixed Interest | 0.07% | 0.00% | 0.00% | 0.12% | **0.19%** |
| Cash | 0.03% | 0.00% | 0.00% | 0.01% | **0.04%** |

[1] The amounts shown above reflect an estimate of explicit transaction costs only. An estimate of implicit transaction costs, borrowing and property operating costs is available on our website and from customer service.

[2] The fees shown are the same for MySuper and Choice members.

### Estimated investment fees (% per year) (Retirement income stream)

| Investment option | Investment management costs | Performance-related costs | Transaction costs[1] | Other fees and costs | Total investment fees |
|---|---|---|---|---|---|
| High Growth | 0.35% | 0.27% | 0.11% | 0.15% | **0.88%** |
| Growth | 0.33% | 0.25% | 0.10% | 0.13% | **0.81%** |
| Diversified SRI | 0.28% | 0.09% | 0.08% | 0.15% | **0.60%** |
| Balanced Growth | 0.28% | 0.18% | 0.08% | 0.11% | **0.65%** |
| Conservative Growth | 0.24% | 0.14% | 0.05% | 0.11% | **0.54%** |
| Australian Equities | 0.04% | 0.00% | 0.00% | 0.06% | **0.10%** |
| Australian Equities SRI | 0.16% | 0.00% | 0.04% | 0.09% | **0.29%** |
| International Equities | 0.04% | 0.00% | 0.00% | 0.06% | **0.10%** |
| Property | 0.44% | 0.29% | 0.15% | 0.16% | **1.04%** |
| Australian Fixed Interest | 0.04% | 0.00% | 0.00% | 0.05% | **0.09%** |
| International Fixed Interest | 0.06% | 0.00% | 0.00% | 0.23% | **0.29%** |
| Cash | 0.02% | 0.00% | 0.00% | 0.01% | **0.03%** |

[1] The amounts shown above reflect an estimate of explicit transaction costs only. An estimate of implicit transaction costs, borrowing and property operating costs is available on our website and from customer service.

## Investment reserves

We have determined that no investment earnings will be placed in an investment reserve to smooth the member investment returns. All investment earnings or losses in the various investment options, after providing for taxes and investment expenses, are reflected in our current unit prices.

## Hedging

When investing in overseas assets such as international equities or fixed interest, returns reflect both changes in the value of the underlying investments, as well as currency movements. We may hedge some of the currency exposure back to Australian dollars to manage risk or enhance returns.

The targeted level of foreign currency exposure, as well as the minimum and maximum exposure levels, is defined for each investment option as part of the Strategic Asset Allocation process. As an example, our international fixed income investments will typically be 100% hedged, which means they are protected against the impact of currency fluctuations on investment returns.

We may change the currency exposure over time with the intention of improving the investment option's ability to meet its performance and risk objectives.

The level of foreign currency exposure in each investment option is monitored on an ongoing basis, and hedges are rebalanced when the estimated foreign currency position drifts away from its target.

## Use of derivatives

Derivatives are investment products whose value is derived from other assets, liabilities or indices (the underlying asset). They include a number of instruments such as futures, options, swaps, forwards, warrants and other related instruments.

At First State Super, we do not consider the use of derivatives in isolation but rather as part of the overall investment strategy of the fund and investment options.

Derivatives may be used:

- to manage risk (e.g. hedge against changes in foreign currency)
- for asset allocation purposes
- as a way to implement investment positions efficiently.

The derivatives charge ratio did not exceed 5% of the total market value of the fund's assets at any time during the reporting period.

## Consultants

We appoint asset consultants to advise on appropriate asset allocation for each of the investment options and provide research on managers in each of the asset sectors, including an evaluation of the manager's investment style and its suitability to complement other current and potential managers.

We also engage specialist consultants as required to assist in providing the trustee board with specific advice relating to various asset sectors.

## Custodian

State Street Australia Limited is our custodian. It values the fund's investments each business day and monitor each investment manager's daily activity.

## Risk label

For each investment option we assign a risk band, risk label and estimated number of negative annual returns over any 20-year period. This is known as the Standard Risk Measure, or SRM, and is based on a methodology developed by the industry so consumers can compare investment options within and across funds. The risk measures range from Band 1 (being the lowest risk) to Band 7 (being the highest risk). The SRM of an investment option depends on the risk profile of the asset classes and investments that make up the option.

Additional information regarding the application of the standard risk measure is available on our website **firststatesuper.com.au/investmentandrisk.**

## How are the returns calculated?

Investment returns can be positive or negative depending on the performance of investment markets, which is reflected in unit price movements. At the end of each NSW business day (with the exception of the NSW Bank Holiday), we value the assets in each of the investment options. Tax and investment fees (but not administration fees) are deducted which gives us the net value for each investment option. This figure is divided by the number of units issued for that investment option, which gives us the unit price. We multiply the number of units you have by that day's unit price to determine the daily value of your account.

The value of your account goes up and down depending on whether the unit price has gone up or down that day. You can view the current and historical unit prices for all the fund's investment options on the Unit prices page under **Investments and performance/Performance/Unit prices** on our website.

## Holdings over 5% of total fund assets

At 30 June 2019, our exposure to the Commonwealth Bank of Australia (including a combination of ordinary shares, cash and other short-term deposits, and fixed income securities from subsidiaries) represented 5.91% of total fund assets. In addition, our exposure to the Commonwealth of Australia (including a combination of fixed income securities from subsidiaries, for example Australia Post) represented 5.29% of total fund assets.

## More information

Our Member Booklet Supplement: Investments (for accumulation members) and the Member Booklets (for income stream members) have more information about the risk profile for each option. These documents are available on our website under **Forms & publications** or you can call us on 1300 650 873 for a paper copy free of charge.

We do not guarantee the performance of the investment options and the value of your account balance can go up or down. Past performance is not a reliable indicator nor is it a guarantee of future performance.

## Who manages your super?

In addition to partnering with external managers, our in-house investment team manages investments in cash, Australian equities, infrastructure, credit income, unlisted property and private equity. The team also performs a cash flow and portfolio re-balancing function for the pre-mixed investment options to help make sure each option is invested as closely as possible in line with the target asset allocations. The table shows our investment partners as at 30 June 2019.

Please note, this list has changed since 30 June 2019. See our website for the most up to date list of our investment partners.

### Australian shares

**Pre-mixed options (excluding Diversified Socially Responsible Investment (SRI))**

Airlie Funds Management Pty Ltd
Eley Griffiths Group Pty Ltd
First State Super Trustee Corporation
Hyperion Asset Management Ltd
Northcape Capital Pty Ltd
Selector Funds Management Limited
Vanguard Investments Australia Limited
Vinva Investment Management Ltd

**Diversified SRI**

Redpoint Investment Management Pty Ltd

**Australian Equities single asset class option**

Vanguard Investments Australia Limited

**Australian Equities SRI single asset class option**

Redpoint Investment Management Pty Ltd

### International shares

**Pre-mixed options (excluding Diversified Socially Responsible Investment (SRI))**

Ardevora Asset Management LLP
Baillie Gifford Overseas Ltd
EAM Global Investors LLC
Neo-Criterion Capital Limited
Neuberger Berman Australia Pty Ltd
Sanders Capital LLC
Southeastern Asset Management, Inc.
Vanguard Investments Australia Ltd
Veritas Asset Management LLP

**Diversified SRI option**

Hermes Investment Management Ltd

**International Equities single asset class option**

Vanguard Investments Australia Ltd

### Fixed income

**Pre-mixed options (excluding Diversified Socially Responsible Investment (SRI))**

Amundi Asset Management Australia Ltd
Ardea Investment Management
Vanguard Investments Australia Ltd

**Diversified SRI option**

Amundi Asset Management Australia Ltd

**Australian Fixed Interest single asset class option**

Vanguard Investments Australia Ltd

**International Fixed Interest single asset class option**

Vanguard Investments Australia Ltd

### Property

Altis Property Partners
Brookfield Asset Management Inc
First State Super Trustee Corporation
Franklin Templeton Investments Australia Ltd
Goodman Funds Management Australia Limited
GPT Funds Management Limited
Hillwood Investment Properties
Lend Lease Investment Management (Australia) Pty Ltd
Resolution Capital Limited

### Private Equity

Adamantem Capital
AE Industrial Partners
Allegro Funds
Blackbird Ventures
Bridgepoint Advisers
Castik Capital Partners
Continuity Capital Partners
Crescent Capital Partners
First State Super Trustee Corporation
Foundry Group Next
FTV Management Company
GHO Capital Partners
Kohlberg Kravis Roberts (KKR)
New 2ND Capital
Nexus Point Partners
Northlane Capital Partners
Odyssey Private Equity
Openspace Ventures
Parallax Capital Partners

Potentia Capital
Searchlight Capital Partners
Solace Capital Partners
StepStone Group LP
Sterling Capital Partners
Updata Partners
Warburg Pincus
Webster Capital Management
Wilshire Australia

## Infrastructure and real assets

Blue Sky Water Pty Limited[1]
Brookfield Asset Management Inc
Capella Capital[1]
Equis Funds Pty Ltd
First State Super Trustee Corporation[1]
Morgan Stanley Investment Management Ltd
Orion Energy Partners LLC
ROC Capital Pty Ltd[1]
StepStone Group Real Assets[1]

## Credit income

Bain Capital Credit, LP
First State Super Trustee Corporation
Intermediate Capital Group (ICG)
Quadrant Real Estate Advisors LLC
Westbourne Credit Management Ltd

## Other alternatives

Bridgewater Associates, Inc.
Darby Servtec Energia GP, LLC[1]
GMO LLC[1]
Insight Investment Management (Global) Ltd
ROC Capital Pty Ltd[1]
Schroder Investment Management Australia Limited

## Cash

Colonial First State Asset Management (Australia) Ltd
First State Super Trustee Corporation

## Currency management

State Street Global Advisors, Australia, Limited

[1] Indicates managers that are applicable to the Diversified Socially Responsible Investment (SRI) option for the relevant asset class.

# The defined benefit fund

## Actuarial review

We're required to maintain the defined benefit fund in a satisfactory financial position. The fund's defined benefit asset value must be at a level sufficient to cover the value of vested benefit liabilities of members as they fall due.

At least once a year, our actuary reviews the financial position of our defined benefit fund and makes a recommendation about the required level of future employer contributions. The fund is considered to be in a satisfactory financial position if the fund's defined benefit asset value is at least 100% of vested benefit liabilities.

We have set the shortfall limit at 98% because we expect a shortfall of this amount can be recovered through normal market movements within one year. However, if the defined benefit asset value of the fund falls below the 98% shortfall limit, we will notify members and set out a restoration plan to return the fund to a satisfactory financial position. We received the actuarial report for the year to 30 June 2019 on 15 August 2019. The report shows that the fund was in a satisfactory financial position.

The defined benefit fund position with assets of $1,174.4 million exceeding the vested benefits liabilities by $103 million (8%). The actuary also found that current employer contribution rates meet the recommended level for the defined benefit fund.

## Investment objectives and strategy

The investment objectives for the defined benefit fund are to:

- maintain a ratio of assets to vested benefit liabilities at a minimum target level of 110% over the long term
- maintain a balance between reducing the long-term cost of the benefits and reducing the volatility of the required employer contribution rate
- generate sufficient liquidity to provide for the cash flow requirements of the fund.

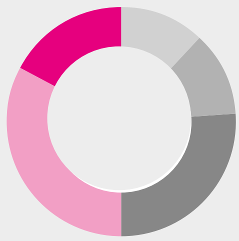
## Investment returns for defined and deferred benefit members

Member benefit entitlements are determined by a formula in the trust deed based on salary and length of service and as such, investment returns do not generally affect a defined benefit entitlement. There are some limited instances where benefit entitlements are calculated with reference to investment returns. Members should refer to the explanatory notes in their 2018-19 annual statement pack for information about returns that may be relevant to their benefits. Employers bear the risk of negative investment performance affecting the financial position of the fund.

## How the defined benefit pension grows

We adjust the defined benefit lifetime pension and (pre-1988) transition to retirement pension twice a year in accordance with movements in the Consumer Price Index (CPI). The update is reflected in the first pension payment in June and December each year. The defined benefit lifetime pension and (pre-1988) transition to retirement pension do not have investment returns allocated to them in the same way as other superannuation products, which are based on the performance of the underlying assets in which the product is invested.

**Strategic asset allocation at 30 June 2019**



| | |
|---|---|
| 12% | Australian equities |
| 12% | International equities |
| 26% | Alternatives* |
| 33% | Fixed income |
| 17% | Cash |

* Alternatives can include both defensive and growth assets

# Our board and committees

## Our strong governance

To safeguard the benefits of our members and clients, we aim to achieve best practice in all areas of governance. To achieve best practice, we have developed and apply a governance framework that is highly regarded by all our stakeholders and, most importantly, the industry regulators.

Our governance framework meets all requirements of the primary industry regulator, the Australian Prudential Regulation Authority (APRA). The framework includes policies and procedures that ensure our board has the appropriate skills, structure and composition to properly oversee and exercise its authority in relation to the activities of the fund. FSS Trustee Corporation is the trustee of the First State Superannuation Scheme. The board of the trustee consists of an independent chairman, Neil Cochrane, together with six employer representative directors and six member representative directors. The board is the highest governance body at First State Super and its responsibilities are outlined in the First State Superannuation Scheme Trust Deed and Rules and the constitution of FSS Trustee Corporation.

## Board appointments

Nominating entities representing both employers and employees must consider the requirements of our Fit and Proper Policy when assessing a person's eligibility for appointment as a director to the board. This board–approved policy determines the skills and qualities a person must possess to hold the position of director.

## Indemnity

The fund, the trustee and the directors and officers of the trustee are covered by professional indemnity insurance. The trustee holds all fund assets in trust and is required by law to act in the best interests of members.

## Disclosure

Legislation requires super funds to disclose certain information on their website, including how directors are appointed and removed, board meeting attendance and the remuneration details of their directors and executive officers. This information can be found on our website at **firststatesuper.com.au/about/people**.

## Committees

The board has set up a number of committees to review and implement policy decisions.

| Board committee | Members during the year to 30 June 2019 |
|---|---|
| Investments Committee | Dr Rosemary Kelly (Chair), Glenn Bunney, Neil Cochrane, Jocelyn Furlan, Ralph Kelly, Michael Cole (Non-FTC Director) |
| Member Services Committee | Bob Lipscombe (Chair), Pip Carew, Jocelyn Furlan, Mark Morey, Naomi Steer, Tom Symondson |
| Disputes Committee | Philippa Smith (Chair), Lisa Fitzpatrick, Jocelyn Furlan, Dr Rosemary Kelly |
| Audit, Risk and Compliance Committee | Sue Carter (Chair), Glenn Bunney, Ralph Kelly, Bob Lipscombe, Roslyn Ramwell |
| Remuneration and Human Resources Committee | Rod Harty (Chair), Pip Carew, Naomi Steer, Tom Symondson |
| Governance and Nominations Committee | Neil Cochrane (Chair), Rod Harty, Dr Rosemary Kelly, Mark Morey, Tom Symondson |

> To achieve best practice, we apply a governance framework that is highly regarded by all our stakeholders and, most importantly, the industry regulators.

## Our board at 30 June 2019

**Neil Cochrane**
Independent director and chairman of the board

Appointed by the employer and employee board representatives.

**Sue Carter**
Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.

**Jocelyn Furlan**
Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.

**Rod Harty**
Member representative

Appointed by Unions NSW.

**Dr Rosemary Kelly**
Member representative

Appointed by Health Services Union.

**Mark Morey**
Member representative

Appointed by Unions NSW.

**Glenn Bunney**
Employer representative

Appointed by Leading Age Services Australia.

**Pip Carew**
Member representative

Appointed by the Australian Nursing and Midwifery Federation (ANMF) – Victorian Branch.

**Bob Lipscombe**
Member representative

Appointed by Unions NSW.

**Roslyn Ramwell**
Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.

**Ralph Kelly**
Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.

**Tom Symondson**
Employer representative

Appointed by the Victorian Healthcare Association.

**Naomi Steer**
Member representative

Appointed by Unions NSW.

# Our people

## Helping our employees put members first

Developing and supporting our people is a very important part of our members first spirit. Here's a snapshot of the things we're doing to provide an amazing employee experience and keep our team productive and engaged.


## Alignment to purpose and values

### Our values

Relaunched in 2019, our values were created to align the intrinsic motivators of our employees with our organisational purpose. Through a process that involved workshops with over 130 of our people, our employees overwhelmingly expressed a desire to deliver real positive change for Australians in their retirement. Our three values of deliver honourably, lead bravely and care deeply unite the First State Super family to come into work every day to truly put members first.

### Talent management

Human Resources commenced the rollout of the endorsed Talent Management and Succession framework across the business. This allows our team to identify the performance and potential of our employees so that we can focus on retaining and developing our employees. It also allows us to build clear succession plans across the business.

### CEO transition

During the month of October 2018, we officially welcomed our new Chief Executive Officer (CEO), Deanne Stewart, to the First State Super business. To support the transition between the incoming and outgoing CEO, a detailed transition plan was implemented that ensured our employees, members and key stakeholders had an opportunity to celebrate and farewell former CEO, Michael Dwyer AM, while providing Deanne a warm welcome.

## Accountable and recognised

We have taken saying 'thank you' to the next level with recent improvements to our formal Star! employee reward and recognition program. In December 2018, we re-launched Star! and one month after the program re-launched, over 80% of employees had logged in to recognize a fellow employee.

Recognition is very important at First State Super and to our people. Research shows that timely and frequent recognition increases both employee engagement and productivity. We see evidence of this not only in our engagement survey results, but in the overwhelmingly positive response of our employees to the Star! program.

## Community and social connection

In June, it was announced that all employees would be granted 1 day per year of volunteering / community leave. This goes right to the heart of our employees' desires to be a force of good and assist the community.

We are also proud to continue to support the CareerSeekers program as part of our ongoing relationship with CareerSeekers and their 'New Australian Refugee and Asylum-Seeker Internship' program. Our involvement in these initiatives supports refugees and asylum-seekers seeking to get a foothold in the Australian workplace. We welcomed our first CareerSeekers intern in 2016 – Ibrahim Kubba – who is now a full-time member of our team.

We cultivate an environment that focuses on the community and employee wellbeing by supporting our employee involvement in a number of initiatives including:

- **RUOK? Day:** Highlights the importance of addressing mental health in the workplace.
- **Elimination of Violence against Women day:** Focuses on the topic of family violence. We provide special leave for our employees of up to ten days a year for anyone experiencing family violence.

## Recognising the whole person, being inclusive and caring

### WGEA citation award, three years running

First State Super has again been awarded the Employer of Choice for Gender Equality (EOCGE) citation for 2019 by the Workplace Gender Equality Agency (WGEA). This is the third year in a row we have been awarded this citation and is clear recognition of our commitment to gender equality.

The EOCGE citation is a leading practice recognition program which encourages, recognises and promotes active commitment to achieving gender equality in Australian workplaces. The criteria for this citation includes gender equality practices in leadership, learning and development, remuneration, flexible working and prevention of sex-based discrimination. This citation is not only a formal and public recognition of First State Super's inclusive culture, it also helps to build our reputation as an employer of choice, supporting our brand in the market.

### Diversity and inclusion

Our diversity and inclusion (D&I) practices must ensure fairness, transparency and opportunities for all employees. Diversity of people and perspectives is the best way to ensure we maintain our inclusive culture. Our employee D&I council and strategy currently focuses on three areas: recruitment practices, flexible work practices, and education and communication. Our ongoing focus on fair and equitable D&I practices has been strongly endorsed by our Board, executive and leadership teams.

Our Diversity & Inclusion Council has supported many events this year from International Women's Day to Wear it Purple Day.

## Growth and development

### Lunch 'n' learn series

Our regular 'lunch 'n' learn' sessions have focussed on the importance of advice and financial education and keep our teams informed about the changing ways people use and manage money and improve their financial fitness. We cover topics like budgeting, borrowing, investing, retirement planning and even legislative proposals that affect super. The more we understand about these topics the better the quality of conversation we can have with our members.

We have also been partnering with some of the largest employers of our members to deliver training sessions to their people, our members, on topics such as leadership, resilience and coping with change.

We are passionate about increasing the knowledge and capability of not just our people but our members as well.

## Health and wellbeing

Our employees' wellbeing is a huge part of our employee experiences. Wellbeing initiatives include fitness reimbursement, RUOK Day, return to work support policies, our employee assistance program and training on managing situations of mental health and domestic violence. We have also introduced new strategies and education to ensure a safe and healthy workplace for all.

### Our future workplace

As at June, the final design sketch plans for our new Sydney CBD office at 388 George Street have been presented to the Executive Team and we plan to be relocating all of our Sydney-based employees, including our member service centres, in July 2020. In addition to this, the new Gosford office has been established and new office leases are being negotiated in Wollongong, Brisbane, Perth and Bendigo – all with a focus on providing the best possible environment for our members and our employees.

# Risk governance self-assessment

Following a number of high-profile incidents that damaged the reputation and financial standing of the Commonwealth Bank of Australia (CBA), the Australian Prudential Regulation Authority (APRA) conducted a prudential inquiry into CBA. In April 2018, APRA released its report that identified several shortcomings in the banking group's governance and accountability frameworks and processes. The report also highlighted cultural issues within the leadership team that created an environment where significant missteps were allowed to occur.

Further to the CBA enquiry, APRA required 36 regulated entities, including First State Super, to conduct a self-assessment to determine whether similar issues exist and, where appropriate, identify opportunities for better practice.

The self-assessment was conducted by our Regulatory and Governance Risk team with independent oversight by KPMG. The self-assessment revealed that we have an effective and engaged Board and management, which is delivering strong outcomes to members. The Board and management have a good understanding of, and proactively manage, risks and issues.

Our self-assessment did not highlight any need for urgent review or remedy. However, it did identify five areas where current processes and practices could be enhanced.

## 1. Board governance

While we have a highly engaged Board with a diverse skill set, a recent external Board assessment presented a timely opportunity to review Board effectiveness. The Board assessment specifically investigated:

- whether the Board agenda could be enhanced to ensure important and strategic issues receive appropriate attention and levels of discussion
- the optimal timing and frequency of Board and Committee meetings
- additional mechanisms to enhance communication between Board Committees
- whether the 'Director Skills Matrix' is still aligned to our evolving needs.

## 2. Our strong members first culture

The self-assessment review highlighted our strong members first culture at both Board and executive levels. However, some areas for improvement included:

- improving the internal complaints resolution and escalation process
- analysis of complaint causes and reporting with a greater focus on data
- enhancing our internal disputes resolution committee
- tightening timeframes for resolution of complaints.

## 3. A strong risk management function

We're a rapidly growing business that requires an agile risk function. Over 2019, we further embedded our three lines of defence risk model, expanded risk resources into business units, and improved risk and incident reporting.

## 4. Risk culture

Risk management is a high priority and while the self-assessment review found our risk culture to be sound, we're further developing the role of the Executive Risk Group by increasing executive responsibilities for risk assessment and risk reporting.

## 5. Accountability

Our accountability framework increases alignment between corporate strategy, business unit objectives and individual outcomes and accountabilities. Planned enhancements include lifting the level of visibility, focus and accountability for resolution of incidents at Executive and Board meetings.

### Next steps

The self-assessment report was submitted by the Board to APRA in December 2018. The Board remains responsible for reviewing and approving the recommendations contained within the report. A plan for addressing each enhancement opportunity has been developed, with regular updates on progress tabled and discussed at Board meetings.

# Our financial reports

The tables contain information extracted from the fund's audited financial statements. You can view a copy of the audited financial statements on our website under **About the fund/Reporting**. A hard copy can be obtained free of charge by calling us on 1300 650 873.

## Statement of financial position as at 30 June 2019

| | 2019 $m | 2018 $m |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 489 | 442 |
| Receivables | 1,098 | 595 |
| Financial assets | 101,312 | 73,932 |
| Plant and equipment | 1 | 4 |
| Deferred tax assets | 237 | 230 |
| Total assets | 103,137 | 75,203 |
| **Liabilities** | | |
| Benefits payable | 76 | 67 |
| Accounts payable | 1,245 | 342 |
| Financial liabilities | 3,090 | 1,774 |
| Income tax payable | – | 81 |
| Deferred tax liabilities | 1,776 | 1,468 |
| **Total liabilities excluding member benefits** | **6,187** | 3,732 |
| **Net assets available for member benefits** | 96,950 | 71,471 |
| Defined contribution member liabilities | 95,158 | 69,956 |
| Defined benefit member liabilities | 1,066 | 1,082 |
| **Total member liabilities** | 96,224 | 71,038 |
| **Net assets** | **726** | 433 |
| **Equity** | | |
| Reserves | 635 | 363 |
| Defined benefit surplus | 91 | 70 |
| **Total equity** | **726** | 433 |

## Income statement for the year ended 30 June 2019

| | 2019 $m | 2018 $m |
|---|---|---|
| **Investment revenue** | | |
| Interest – investments carried at fair value | 533 | 461 |
| Interest – bank deposits | 6 | 5 |
| Dividends | 1,662 | 1,005 |
| Distributions from unit trusts | 987 | 842 |
| Securities lending income | 25 | 21 |
| Other income | 12 | 18 |
| Changes in fair value of investments | 2,792 | 4,510 |
| **Total revenue** | **6,017** | 6,862 |
| Investment expenses | (323) | (268) |
| Administration expenses | (154) | (163) |
| **Total expenses** | **(477)** | (431) |
| **Operating result before income tax expense** | **5,540** | 6,431 |
| Income tax benefit/(expense) | (160) | (477) |
| **Operating result after income tax expense** | **5,380** | 5,954 |
| Net benefits allocated to defined contribution member accounts | (5,090) | (5,876) |
| Net change in defined benefit member accounts | (80) | (102) |
| **Operating result** | **210** | (24) |

## Statement of changes in member benefits

| | Defined contribution member benefits $m | Defined benefit member benefits $m | Total $m |
|---|---|---|---|
| Opening balances as at 1 July 2017 | 62,291 | 1,097 | 63,388 |
| Employer contributions | 3,946 | 19 | 3,965 |
| Member contributions | 1,006 | – | 1,006 |
| Transfers from other superannuation funds | 1,278 | – | 1,278 |
| Superannuation co-contributions | 24 | – | 24 |
| Income tax on contributions | (546) | (2) | (548) |
| **Net after tax contributions** | **5,708** | **17** | **5,725** |
| Benefits to members | (3,598) | (108) | (3,706) |
| Insurance premiums charged to members' accounts | (321) | – | (321) |
| Transfer (to)/from reserves | – | – | – |
| Net benefits allocated to members | 5,876 | 102 | 5,978 |
| Net change in member defined benefits | – | (26) | (26) |
| **Closing balances as at 30 June 2018** | **69,956** | **1,082** | **71,038** |
| Opening balances as at 1 July 2018 | 69,956 | 1,082 | 71,038 |
| Employer contributions | 4,146 | 16 | 4,162 |
| Member contributions | 996 | – | 996 |
| Transfer from StatePlus Retirement Fund | 18,653 | – | 18,653 |
| Transfers from other superannuation funds | 1,583 | – | 1,583 |
| Superannuation co-contributions | 25 | – | 25 |
| Income tax on contributions | (583) | (1) | (584) |
| **Net after tax contributions** | **24,820** | **15** | **24,835** |
| Benefits to members | (4,384) | (90) | (4,474) |
| Insurance premiums charged to members' accounts | (324) | – | (324) |
| Transfer (to)/from reserves | – | – | – |
| Net benefits allocated to members | 5,090 | 80 | 5,170 |
| Net change in member defined benefits | – | (21) | (21) |
| **Closing balances as at 30 June 2019** | **95,158** | **1,066** | **96,224** |

## Statement of changes in equity/reserves

| | Unallocated income $m | Operational risk financial requirement reserve[1] $m | Insurance reserve[2] $m | Administration reserve[3] $m | Total $m |
|---|---|---|---|---|---|
| Opening balances as at 1 July 2016 | 23 | 142 | – | 54 | 219 |
| Operating result | 89 | 18 | – | 61 | 168 |
| Transfer to defined contribution member accounts | – | – | – | – | – |
| Transfer to defined benefit member accounts | – | – | – | – | – |
| **Closing balances as at 30 June 2017** | **112** | **160** | **–** | **115** | **387** |
| Opening balances as at 1 July 2017 | 112 | 160 | – | 115 | 387 |
| Operating result | (88) | 18 | 10 | 36 | (24) |
| Transfer to defined contribution member accounts | – | – | – | – | – |
| Transfer to defined benefit member accounts | – | – | – | – | – |
| **Closing balances as at 30 June 2018** | **24** | **178** | **10** | **151** | **363** |
| Opening balances as at 1 July 2018 | 24 | 178 | 10 | 151 | 363 |
| Operating result | 142 | 16 | – | 52 | 210 |
| Transfer to defined contribution member accounts | – | – | – | – | – |
| Transfer to defined benefit member accounts | – | – | – | – | – |
| Transfer from StatePlus Retirement Fund | – | 46 | – | 16 | 62 |
| **Closing balances as at 30 June 2019** | **166** | **240** | **10** | **219** | **635** |

[1] The Operational Risk Financial Requirement Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the requirements of Superannuation Prudential Standard 114 Operational Risk Financial Requirement and the Fund's Operational Risk Financial Requirement Reserving Policy.

[2] The Insurance Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Insurance Reserve Policy.

[3] The Administration Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Trust Deed.

## Statement of cash flows for the year ended 30 June 2019

| | 2019 $m | 2018 $m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Investment income | 3,220 | 2,333 |
| Investment expenses | (321) | (268) |
| Administration expenses | (136) | (120) |
| Income tax paid | (38) | (301) |
| **Net inflows from operating activities** | **2,727** | 1,644 |
| **Cash flows from investing activities** | | |
| Purchase of investments | (97,388) | (67,140) |
| Proceeds from sale of investments | 93,337 | 63,629 |
| **Net outflows from investing activities** | **(4,051)** | (3,511) |
| **Cash flows from financing activities** | | |
| Contributions received | 6,160 | 5,897 |
| Benefits paid | (4,465) | (3,692) |
| Insurance premiums paid | (324) | (322) |
| **Net inflows from financing activities** | **1,371** | 1,883 |
| **Net increase/(decrease) in cash held** | **47** | 16 |
| **Cash at the beginning of the financial year** | **442** | 426 |
| **Cash at the end of the financial year** | **489** | 442 |

# Other information

## Unclaimed super is paid to the ATO

Under the superannuation rules, we must report and pay unclaimed super money to the Australian Tax Office (ATO). Unclaimed super money includes the following.

- An account balance under $6,000 held by a member who is uncontactable. You are 'uncontactable' if we can't contact you by mail or email at the address(es) we hold for you and you haven't been in contact with us or contributed in the last 12 months.
- An inactive low-balance account under $6,000 held by a member under age 65. This applies if we haven't received any contributions or rollovers for you in the last 16 months or more, and you haven't notified us that you want to remain in the fund.
- An inactive account held by a member who is 65 years of age or more. This applies if we haven't received any contributions or rollovers for you in the last two years and it's been five years or more since you last contacted us and we're unable to make contact with you. Once you reach 65, you can start an income stream or access your benefit in cash at any time.

Benefits for the following people may also be transferred to the ATO:

- members with inactive low-balance accounts with a balance less than $6,000 after 16 months of inactivity, such as not receiving a contribution or rollover
- lost or uncontactable members
- former temporary resident members who have departed Australia
- deceased members whose benefits cannot be paid following death
- a spouse who is entitled to a benefit split under the Family Law Act and cannot be paid.

In most circumstances, simply contacting us will avoid the possibility of your account being transferred to the ATO. If your account is transferred to the ATO, any insurance cover you may have will cease. You can claim the money from the ATO at any time. Generally, you will need to meet a condition of release to have this money paid to you in cash. Otherwise, it will need to be transferred to an eligible superannuation fund, such as First State Super. Interest may also be payable by the ATO at the time the money is claimed. To find out how to keep your First State Super account active, visit **firststatesuper.com.au/pys**.

## Insurance

Death, total and permanent disablement (TPD) and income protection insurance cover offered to First State Super personal and employer-sponsored members is provided under insurance policies issued to the trustee by TAL Life Limited.

## Temporary residents

If you are a temporary resident, you can usually receive your super when you leave Australia and your visa expires or is cancelled. If you intend to claim your superannuation benefit directly from us, when you depart, you should request a port and date stamp for your passport from Australian Customs, otherwise you can apply online through the Australian government. For more information on how to claim your super in these circumstances, see the factsheet Departing Australia Superannuation Payment on our website at **firststatesuper.com.au/factsheets**.

Six months after your temporary residence visa has expired, the Australian Taxation Office (ATO) may require us to transfer your super to them as unclaimed monies. We are not obliged to notify a member who was a temporary resident if we transfer their superannuation to the ATO following their departure from Australia.

## Administrator

Mercer Administration Services (Australia) Pty Limited is responsible for overseeing the daily operations of the fund. Mercer manages the processing of member and employer contributions, maintaining member records, and paying benefits. Mercer is also the custodian for the fund's Australian trust bank accounts.

## Compliance

The First State Superannuation Scheme (ABN 53 226 460 365) is a resident regulated superannuation fund within the meaning of the *Superannuation Industry (Supervision) Act (SIS)* and a complying superannuation fund for the purposes of the Income Tax Assessment Act.

We can accept transfers and rollovers under First State Super's trust deed and rules, and the fund is authorised under MySuper legislation. Upon receipt of the transfers and rollovers, we'll maintain and preserve the benefits in First State Super to the extent required by SIS and its regulations.

## Surcharge

The contributions surcharge tax, which was payable by high-income earners on employer contributions and termination payments, was abolished from 1 July 2005. We may be able to receive further assessments for the 2004-05 financial year and earlier years if a member has rolled over money into First State Super before the surcharge was deducted in the member's previous super fund. Any surcharge will be debited from the member's superannuation account.

## Tax file numbers

### How to provide your TFN

You can provide your TFN online in the secure member login and directly to the trustee by contacting customer service and following the TFN prompts or completing the section in your application or member details form. You can also download and complete the *Tax file number collection* form from our website. Your completed form should be sent to First State Super, PO Box 1229, Wollongong NSW 2500.

Alternatively, you can quote your TFN to your employer when starting employment and it will automatically be taken to be quoted for superannuation purposes. Your employer is obliged to give your TFN to the superannuation fund within 14 days of the TFN being quoted. You can check if your employer has provided your TFN by referring to your welcome letter or most recent benefit statement by logging into your account online, or by calling us.

### What can we do with your TFN?

Under the *Superannuation Industry (Supervision) Act 1993*, the fund is authorised to collect your TFN, which we will only use for lawful purposes in the administration of your superannuation benefit. These purposes may change in the future as a result of legislative change.

We may disclose your TFN to another superannuation provider when your benefits are being transferred, unless you request in writing that your TFN is not to be disclosed to any other superannuation provider. We may also disclose your TFN to our administrator and the Commissioner of Taxation to provide all of the services required in the administration of your account.

We may also use your TFN to identify multiple accounts within the fund and consolidate them when permitted under law.

You don't have to provide your TFN, but there are advantages if you do.

- The fund will be able to accept all types of contributions to your account (including superannuation guarantee contributions, and any before-tax and after-tax contributions).
- The tax on contributions to your account will not be increased.
- No additional tax (that is, beyond that which ordinarily may apply) will be deducted when you start drawing down on your superannuation benefits.
- It will make it easier to trace different superannuation accounts in your name and match your accounts in the fund so you receive all of your superannuation benefits when you retire.

For more information about the tax that may apply to super, visit the Australian Tax Office (ATO) website, ato.gov.au. Our fact sheet *Super taxes, caps, payments, thresholds and rebates* also has information on tax and super.

# Contact us

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**Fax** 1300 722 072
**Email** enquiries@firststatesuper.com.au
**Web** firststatesuper.com.au
**Post** PO Box 1229, Wollongong NSW 2500



FSS_ARH_11/19

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

**First State Super**

**FSS26QW:**

Governance:

a. How many trustee board members did the fund have?
b. What was the total salary of all trustee board members?
c. What was the average salary of all trustee board members?
d. Are there any performance-based assessments that determine trustee board remuneration, and if so what are they?
e. What was the salary of the trustee board chair?
f. What was the average length of service of all trustee board members?
g. What is the length of service of the longest serving trustee board member?
h. Are trustee board members asked whether they have conflicts of interest at each meeting, and if not, why not?
i. What is the conflict of interest policy for trustee board members?
j. Does your fund have a policy on gender diversity and/or balance for listed companies?
k. Does your board have gender balance?

**Answer:**

| | Year ended 30 Jun 2015 | Year ended 30 Jun 2016 | Year ended 30 Jun 2017 | Year ended 30 Jun 2018 | Year ended 30 Jun 2019 |
|---|---|---|---|---|---|
| a. | 13 | 13 | 13 | 13 | 13 |
| b. | $1.28m | $1.62m | $1.57m | $1.75m | $1.57m |
| c. | $98k | $124k | $121k | $135k | $121k |

d. The board conducts performance-based assessments but they are not linked to remuneration, as board members do not receive bonuses or other incentives.

| | Year ended 30 Jun 2015 | Year ended 30 Jun 2016 | Year ended 30 Jun 2017 | Year ended 30 Jun 2018 | Year ended 30 Jun 2019 |
|---|---|---|---|---|---|
| e. | $183k | $231k | $197k | $252k | $247k |

f. As at 30 June 2019, the average length of service of all trustee board members was 4 years.

g. As at 30 June 2019, the longest serving trustee board member had served for 8 years, 4 months.

h. Yes

i. The Conflicts of Interest Policy is attached and can also be found here:

| | |
|---|---|
| | https://firststatesuper.com.au/about/governance-and-policies/policies<br><br>j. First State Super's Responsible Investment: Environmental, Social & Corporate Governance (ESG) Policy is attached. The policy shows that we consider diversity as an ESG issue when assessing companies and this will form part of our engagement with companies to ensure they have a diversity policy in their organisation and at the board level (refer page 2).<br><br>https://firststatesuper.com.au/content/dam/ftc/digital/pdfs/about/policies/RI-ESG-policy.pdf<br><br>In addition, First State Super subscribes to the ACSI Governance Guidelines and Proxy Voting Policy – Gender Diversity in the ASX300 (attached).<br><br>https://acsi.org.au/wp-content/uploads/2020/01/ACSI-Governance-Guidelines-2019.pdf<br><br>https://acsi.org.au/wp-content/uploads/2020/02/2019-Voting-Policy-gender-diversity.pdf<br><br>k. Yes. As at 30 June 2019, the ratio was 46% (six female directors and seven male directors). |

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# Conflicts of Interest Policy

## **Prepared by:** Ian Pendleton

## **Position Title:** General Counsel and Company Secretary

13 February 2019

Issued by FSS Trustee Corporation ABN 11 118 202 672 AFSL 293340

## Revision history

| Version | Reasons for amendment | Date approved | Approving Committee/Board |
|---|---|---|---|
| 1 | New Policy | 6 February 2013 | FTC Board |
| 2 | Revised | 30 July 2014 | FTC Board |
| 3 | Revised | 23 September 2015 | FTC Board |
| 4 | Revised | 7 December 2016 | FTC Board |

| | | | |
|---|---|---|---|
| 5 | Annual Review and Revisions to Policy | 4 December 2018 | Governance and Nominations Committee |
| 6 | Annual Review and Revisions to Policy | 13 February 2019 | FTC Board |

# 1 Introduction

FSS Trustee Corporation (FTC) is the Trustee for the First State Superannuation Scheme (the Fund).

FTC is the Registrable Superannuation Entity licensee (RSE licensee) for the Fund.

By this Policy, the Trustee acknowledges its obligation to identify and manage any conflicts of interest and duty that may arise in the course of administering the Fund in the best interests of its members.

This Policy has been approved by the FTC Board of Directors.

# 2 Purpose

This Board approved Policy has been designed to ensure that FTC identifies, takes all reasonably practical actions to avoid, or prudently manage, all potential and actual conflicts in the business operations of FTC.

The Conflicts Management Framework comprises:

1. this Policy;
2. the FTC Conflicts Guidelines through which FTC determines how conflicts are to be assessed and recorded;
3. the FTC Register of Relevant Duties (master register);
4. the FTC Register of Relevant Interests and Relevant Duties (public register);
5. the FTC Conflicts of Interest Register; and
6. the FTC Register of Gifts.

The FTC Conflicts Guidelines will assist Responsible Persons and employees to consistently avoid or prudently manage risks in accordance with the Policy. The Guidelines will help FTC management assess those identified relevant interests and duties that require entering on the FTC Registers.

This Policy should be read in conjunction with the Code of Conduct for First State Super Staff Members, in particular, the sections relating to managing conflicts of interests and gifts.

The FTC Board is ultimately responsible for the development and maintenance of FTC's Conflicts Management Framework. The Board will undertake all reasonable steps to ensure that all Responsible Persons (as defined in the FTC's Fit and Proper Policy) and employees clearly understand:

1. the need to identify all potential conflicts;
2. the circumstances that might give rise to a conflict;
3. the content and purpose of FTC's Conflicts Management Framework; and
4. their obligations as an FTC Responsible Person or FTC employee.

The FTC Board has in place appointment procedures which, among other things, require incoming Responsible Persons and employees to disclose all relevant duties and relevant interests on taking up the appointment (e.g. by way of disclosure in the Responsible Person Conflict of Interest Declaration).

The FTC Board is responsible for the development and maintenance of the FTC Conflicts Management Framework, of which this Policy is part.

# 3 Legislation and Regulation

This Policy is made by the FTC Board reflecting:

1. the APRA Prudential Standard SPS 521 – Conflicts of Interest;
2. Part 6 of the Superannuation Industry (Supervision) Act 1993;
3. relevant provisions of the Corporations Act 2001;
4. the Superannuation Industry (Supervision) Act 1993 generally; and
5. any other applicable legislation.

For the purposes of this Policy:

1. a relevant duty refers to any duty owed by FTC, a FTC Responsible Person or an FTC employee to beneficiaries or to any other person; and
2. a relevant interest of FTC, an associate of FTC, a FTC Responsible Person or an FTC employee refers to any interest, gift, emolument or benefit, whether pecuniary or non-pecuniary, directly or indirectly held by FTC, the associate, the Responsible Person or an FTC employee that FTC has determined to be material within the terms of this Policy. For the purposes of this Policy the term 'associate' is as defined in the Corporations Act 2001.

For the purposes of this Policy, a reference to a conflict is a reference to a conflict:

1. between the duties owed by FTC, or a FTC Responsible Person, to beneficiaries and the duties owed by them to any other person;
2. between the interests of beneficiaries and the duties owed by FTC, or a FTC Responsible Person, to any person;
3. between an interest of FTC, an associate of a FTC, a Responsible Person or an FTC employee and their duties to beneficiaries; and
4. between an interest of FTC, an associate of FTC, a FTC Responsible Person or an FTC employee and the interests of beneficiaries.

For the purposes of this Policy, a reference to beneficiaries is a reference to "beneficiaries of FTC within FTC's business operations" and "FTC's business operations" includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee and its duties as an Australian Financial Service licensee) and all other activities of the Trustee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

# 4 Policy

## 4.1 Identifying and Monitoring all Potential Actual Conflicts

A conflict of interest refers to situations in which personal, occupational or financial considerations may affect, or appear to affect, the objectivity, judgment or ability of a Responsible Person or an FTC employee to act in the best interests of FTC, the Fund or beneficiaries when carrying out his/her duties as a Responsible Person or FTC employee.

A conflict of interest between personal interest and official duty (whether real or apparent) may arise, for example, from:

1. other directorships, committee memberships or employment – these could compromise the integrity of a Responsible Person or employee and FTC;
2. professional and business interests and associations of a Responsible Person or employee e.g. with a service provider;
3. financial interests in a matter FTC deals with, or having friends or relatives with such interests e.g. financial interests in service providers or products offered by service providers. These could include real estate, shares, debts, gifts, business interests and investments; or
4. personal relationships with people with whom FTC is dealing that go beyond the level of a professional working relationship e.g. with third party service providers.

A Responsible Person or employee may often be the only person aware of the potential for a conflict to arise. It is therefore that person's responsibility to avoid any financial or other interest that could compromise the independent and impartial performance of their duties and disclose any potential, perceived or actual conflicts of interests to the Chairman of the FTC Board or Company Secretary as soon as they become aware of it, who will then assess the impact and decide on the appropriate management strategy.

The relationship between a Responsible Person or employee and an existing or prospective service provider may give rise to conflicts that must be managed in accordance with this Policy. Relationships with service providers which may give rise to conflicts will be monitored through regular and thorough review of the Conflicts of Interest Register, which should include all actual and potential conflicts of interest and corresponding controls that have been reported to the Company Secretary.

A close personal relationship as described in the Code of Conduct for First State Super Staff Members may give rise to a perceived or potential conflict of interest and should be disclosed to a Human Resources representative in accordance with that Code.

A breach of this Policy will be referred to the FTC Chairman (in relation to a breach by a Director), or to the FTC CEO (in relation to FTC employees) to determine whether disciplinary action is required. The approval of the FTC Board will be obtained for the application of any disciplinary action in relation to a Director. Directors and employees may also take action under FTC's Whistleblowing Policy where there has been a breach, or apparent breach, of this Policy.

## 4.2 Avoiding Conflict

In the first instance, all potential conflicts should be avoided. Those that cannot be avoided are required to be managed in accordance with Section 4.3 below.

To enable the assessment of conflicts which cannot be avoided (in order to determine any conflicts that are to be managed) Responsible Persons, officers[1] and employees are required to:

1. at the time of appointment as:

    a. a Responsible Person, disclose in writing to the Chairman of the FTC Board and the Company Secretary (and in their Conflict of Interest Declaration);
    b. an officer, disclose in writing to the Chairman of the FTC Board and the Company Secretary; and

[1] "Officers" has the meaning given to that term in section 9 of the Corporations Act and includes a director or secretary of a corporation or a person (i) who makes or participates in making, decisions that affect the whole or a substantial part of the business of the corporation; or (ii) who has the capacity to affect significantly the corporation's financial standing; or (iii) in accordance with whose instructions or wishes of the directors of the corporation are accustomed to act (excluding advice given by a person as a professional adviser).

c. an employee disclose in writing to Human Resources,
all relevant duties and relevant interests which may give rise to any potential, real or perceived conflicts of interest;

2. on an ongoing basis, disclose to:

    a. for a Responsible Person or officer: the Chairman of the FTC Board and the Company Secretary,
    b. for employees: to Human Resources, and will be referred to the Company Secretary;

    as soon as he/she becomes aware of changes to any external relevant interests or relevant duties which may give rise to a real or perceived conflict of interest; and

3. at each Board and Committee meeting, advise any changes to previously made disclosures relating to relevant interests and relevant duties, and the possible conflicts of interest or potential conflicts of interest in relation to any financial or other interests a Responsible Person may have or appear to have.

For the avoidance of doubt, the matters to disclose in accordance with the above procedure include, but are not limited to, those matters set out in the example conflicts of interest set out in paragraph 4.1 above.

## 4.3 Managing Conflicts

FTC will take all reasonably practical steps to ensure that any real, perceived or potential conflicts are managed in accordance with the requirement to give priority to the duties to, and interests of, beneficiaries.

Each employee who reports directly to a FTC executive is responsible for ensuring all actual or potential conflicts of interest relevant to their business area along with corresponding controls are reported to the Company Secretary to include in the Conflicts of Interest Register. They will also be required to provide regular attestations as to the completeness of the Conflicts of Interest Register relating to their business area.

In the event of a Responsible Person or employee having declared a relevant interest or relevant duty that may give rise to a conflict or potential or perceived conflict, the Chairman (of the Board or relevant Committee, if the disclosure is made at the time of a Committee meeting), and the Company Secretary and for employees –The Company Secretary will consider whether:

1. the conflict can be managed in a manner that does not impact on the performance of the Responsible Person's or employees duties. The Responsible Person or employee may be authorised to continue his or her duties in the area, because, for example, the potential for conflict is perceived but not real, is minimal or can be eliminated by full and proper disclosure; or
2. the conflict can be managed by the Responsible Person not taking part in Board or Committee discussions or decisions involving the conflicted subject matter. In this circumstance, a Director who is a Responsible Person will not receive any relevant Board or Committee papers in respect of the matter and will absent himself/herself from the meeting room when any discussion or vote is taking place. The Company Secretary is to confirm with the Chairman prior to relevant Board or Committee meetings, whether the papers contain any matters which might give rise to a conflict or perceived conflict of interest as recorded in the Register of Relevant Duties and Register of Relevant Interests. The Chairman will determine whether papers are to be withheld from any Director. Such occurrence will also be recorded in the Board or Committee Minutes. For Responsible Persons and employees who are not Directors, he/she will not take part in any management decision making process relating to the interest or issue; or
3. the Responsible Person or employee should consider divesting himself or herself of the relevant interest or relevant duty, or take such other action as is considered appropriate under the circumstances; or
4. the conflict may require the Director who is a Responsible Person, to resign from the Board or Committee, or other Responsible Person or employee to resign from the FTC appointed position.

Section 5 of the Conflicts of Interest Guidelines contains further detail on the management of conflicts during Board and Committee meetings.

## 4.4 Record Keeping

The minutes of all Board, Committee, and other relevant meetings will include details of each conflict identified and the action taken to avoid or manage this conflict. A Register of Conflicts of Interest is also maintained by the Company Secretary. This records all potential and actual conflicts of interest involving FTC, Responsible Persons and employees, and actions taken or controls that are in place to ensure that the conflicts are or will be appropriately managed.

## 4.5 Registers

Responsible Persons and employees will be required to disclose all relevant duties and all direct and indirect relevant interests to the Company Secretary who will determine which conflicted duties and interests require entering on a Register. Disclosures made will be recorded in a Register of Relevant Duties and Relevant Interests, and made publicly available on the FTC website. The Register of Relevant Duties and Register of Relevant Interests will be maintained by the Company Secretary. Officers will also be required to provide all relevant duties and relevant interests to the Company Secretary who will determine whether to include them in the relevant Register.

A relevant duty or relevant interest is one which might reasonably be considered to have the potential to have a significant impact on the Responsible Person or employee's ability to act in the best interests of beneficiaries. At a minimum, relevant interests with a value exceeding $250 are considered material and will be disclosed.

Responsible Persons who have declared a conflict or perceived or potential conflict of interest with an entity with which FTC may have or is considering entering into, a contractual relationship, are strongly encouraged to refuse to accept any gift or other benefit from that entity.

Gifts or other benefits in excess of the above stated amount may be seen as having the potential to impact on the capacity of the Responsible Person to act in the best interests of beneficiaries and should generally be declined. Gifts of cash may never be accepted. A prize won in an employment associated raffle or contest is not considered to be a gift or other benefit under this Policy and does not need to be reported to the Company Secretary.

# 5 Roles and Responsibilities

| Position | Responsibilities |
|---|---|
| Responsible Persons, officers and employees | To provide initial and ongoing disclosure of relevant duties and relevant interests; to vigilantly identify areas of possible conflict prior to or as they arise. |
| Company Secretary | To maintain the Register of Relevant Interests and RelevantDuties, and ensure that it is publicly available via the FTC website as required by this policy and the FTC Conflicts Guidelines; to ensure that all Board and Committee meetings provide an opportunity for Responsible Persons to identify possible conflicts and update disclosure on relevant duties and relevant interests for reporting at Board and Committee meetings.<br><br>Compliance with the Conflicts Management Framework will be reviewed annually and results will be reported to the FTC Board. |

| | |
|---|---|
| Chairman of the FTC Board and Company Secretary | To consider disclosures by Responsible Persons and officers and the impact on responsibilities of the Board, Committees and management decision making processes. |
| Human Resources | To assess disclosures by employees |
| Risk & Compliance | Monitor compliance with the Conflicts Management Framework |
| Independent Assessor | The Conflicts Management Framework will be independently comprehensively reviewed to ensure its appropriateness, effectiveness and adequacy at least every three years.<br><br>Reviews will assess:<br><br>1. whether all relevant duties and all relevant interests have been identified and are being addressed in accordance with FTC's Conflicts Management Framework;<br>2. the level of compliance with the Conflicts of Interest Policy, including reporting on the registers of relevant duties and relevant interests; and<br><br>any non-compliance with the Conflicts of Interest Policy, including steps taken to return to, and improve, ongoing compliance. |
| Each employee who reports directly to a FTC Executive | Each employee who reports directly to a FTC Executive is responsible for ensuring all actual or potential conflicts of interest relevant to their business area along with corresponding controls are reported to the Company Secretary to include in the Conflicts of Interest Register. They will also be required to provide regular attestations as to the completeness of the Conflicts of Interest Register relating to their business area. |

# 6 Supporting Procedures

FTC's training procedures require that Responsible Persons and staff are regularly made aware of and comply with the Policy. Compliance with the Conflicts Management Framework will be monitored by Risk and Compliance through compliance obligations reporting.

# 7 Review

Compliance with the Conflicts Management Framework will be reviewed annually. It will also be independently reviewed every three years. In addition to this, the Conflicts Management Framework will be reviewed where the Trustee becomes aware that:

1. legislative changes or rulings by the Regulator require a review of the Policy;
2. the Policy is no longer appropriate; or

3. there are reasons to believe that this Policy has failed, or may fail, to support the compliance and/or operational obligations of the Trustee.

# 8. Attachments

1. Conflicts of Interest Guidelines
2. Conflict of Interest Declaration and Disclosure of Relevant Duties, Relevant Interests and Gifts form for Responsible Persons
3. FTC Conflicts of Interest Register

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# Conflicts of Interest Guidelines

## For all FTC Responsible Persons and employees

13 February 2019

Issued by FSS Trustee Corporation ABN 11 118 202 672 AFSL 293340

# Section 1: Introduction

These Guidelines are to assist FTC Responsible Persons and employees to comply with FTC's Conflicts Management Framework. The Guidelines should be read in conjunction with FTC's Conflicts of Interest Policy (the **Policy**) (a copy of which is available in the BoardBooks Resource Centre, the FSS intranet or from Company Secretariat), the Code of Conduct for First State Super Staff Members, and the FTC Code of Conduct and Ethics for Directors of First State Super and its Wholly Owned Companies.

These Guidelines reflect what should be reported **at a minimum**. They should be read expansively, keeping in mind that the Policy requires Responsible Persons and employees to exercise prudent judgement in respect of the management of conflicts.

***If in doubt, it would normally be prudent to report.***

The Guidelines cover:

(a) Timing for reporting
(b) Duties and interests that must be reported
(c) Process for reporting
(d) Disclosure of conflicts arising during a Board/Committee meeting

These guidelines may change from time to time. Generally, you will be notified of any material change. Even so, it is recommended that you review the guidelines from time to time to maintain familiarity.

# Section 2: Timing

Responsible Persons and employees must report all matters covered by the Policy and these Guidelines:

(a) as soon as reasonably practicable after any change in any matter previously reported so as to ensure that the relevant register is as up to date as reasonably possible. Ordinarily, it would be expected that Responsible Persons and employees would disclose any material change within 7 days of the change and any other change within 90 days of the change.

A material change occurs in respect of:
(i) in respect of a duty, if a new duty to a third party (as described below) comes into existence; and
(ii) an interest if the value of the interest increases or decreases by 30% or more since the last reporting of that asset,

(b) in respect of any gifts, rewards, entertainment and similar items, within 14 days of receipt of the gift, reward, entertainment or similar item.

Responsible Persons will be required by the FTC Company Secretary to confirm their interests held and duties owed twice a year for the periods ended 30 June and 31 December.

# Section 3: Items that must be reported

***Duties***

Each Responsible Person and employee must report any duty (for example, as an employee, agent or trustee or under a contract) that he/she has to any organisation or person (other than FTC or its related entities) in circumstances where that organisation or person has a connection, directly or indirectly, with FTC or its related companies and the existence of that duty affects or influences, or could potentially affect or influence or could reasonably be perceived as affecting or influencing the discharge by the Responsible Person or employee of his/her duties to FTC or the beneficiaries of First State Super or both.

***Interests***

A relevant interest of a FTC Responsible Person or an FTC employee refers to any interest, gift, emolument or benefit, whether pecuniary or non-pecuniary, directly or indirectly held by FTC, the associate, the Responsible Person or an FTC employee that FTC has determined to be material within the terms of the Conflicts of Interest Policy.

***Gifts***

The Code of Conduct for First State Super Staff Members and the FTC Code of Conduct and Ethics for Directors of First State Super and its Wholly Owned Companies and the Conflict of Interest Policy provide for the reporting of all gifts, rewards, entertainment or similar items received by the Responsible Person, or Associates of the Responsible Person, or employee in connection with the discharge of duties to FTC or to the beneficiaries of First State Super or both.

Gifts valued over the threshold amount set by the Conflict of Interest Policy will be recorded in the Gift Register and reported to the Board of Directors at the next meeting.

For this purpose, gifts, rewards, entertainment and similar items exclude:

(a) gifts, rewards (including salary), entertainment or similar items provided by FTC or its related parties;
(b) frequent flyer points or similar rewards;
(c) business meals.

On no account should cash gifts be received other than where provided by FTC or its related parties.

# Section 4: Process

All reporting must be marked confidential and sent to the Company Secretary.
The complete register of duties and interests will be held on a secure site accessible only by Company Secretariat.

The Company Secretary will determine in accordance with APRA's Superannuation Prudential Standards and FTC's Conflicts Management Framework (including the Policy and these Guidelines) which interests and duties are to be entered onto the publicly available Register of Relevant Interests and Relevant Duties (RRIRD).

Monthly updates of relevant duties will be provided and reported in monthly board meeting papers.

Gifts, rewards, entertainment or similar items that are reported to Company Secretariat and which have a value of $250 or more will be entered onto the RRIRD.  The values of these items are cumulative in relation to each gift-giver (including where the gift is given under an arrangement with another gift-giver).  The totals will be reset to $0 each 30 June.

The following items will be reported on the RRIRD:

(a) subject to paragraph (b) in relation to listed securities, all assets of Responsible Persons that must be reported to Company Secretariat and which have a value in excess of $100,000;
(b) all listed securities of Responsible Persons that must be reported to Company Secretariat and which have a value in excess of $50,000;
(c) interests of Responsible Persons and their Associates in the FSS Superannuation Scheme;
(d) interests of Associates of Responsible Persons where:
    (i) the relationship between the Responsible Person and the Associate is considered by the Company Secretariat to be such that the interest held by the Associate could have a significant impact on the capacity of the Responsible Person to act consistently with the best interests of FSS beneficiaries; and
    ii) if the interest was held by the Responsible Person, it would have to be disclosed.

    In those circumstances, the value thresholds expressed in paragraphs (a) and (b) apply. Examples of this item would be assets held by the trustee of a family trust or SMSF of which the Responsible Person is a beneficiary.

The RRIRD will disclose that a Responsible Person and/or his/her Associate holds a material interest in an asset, but will not disclose actual dollar amounts. (The RRIRD will footnote the various asset thresholds.)

# Section 5: Conflict management in a Board/Committee meeting

From time to time, a conflict or potential for conflict may arise or become relevant during the course of a meeting. The Board/Committee will discuss and determine the appropriate response to a conflict raised or identified during a meeting. The Director who has the conflict should leave the meeting while the discussion occurs to determine the appropriate response. The Minutes of the meeting will record which of the responses was applied.

Potential strategies to manage (graded from lightest impact, to most onerous impact) are listed below. Legal advice may be sought to assist with the determination of the applicability of the more onerous responses.

Conflict is identified and noted in the minutes and:

1. no further action is required (this is likely to be applied when no approvals are being sought, or where the conflict is trivial);
2. Director to abstain from voting on the relevant resolution (to be considered for conflicts that are minor);
3. Director is not to take part in any discussion and to abstain from voting on relevant resolution (may be applied when there is moderate potential for the conflict to cloud judgement);
4. Director leaves the room for the duration of the discussion and vote. May be a restriction on relevant papers (considered for direct and significant conflicts);
5. Director leaves the room for the rest of the meeting and takes no part in any further part of the meeting (conflict very significant and likely to impair judgement across multiple issues);
6. Director leaves the room for the rest of the meeting and is asked to divest themselves of the duty or interest giving rise to the conflict before able to join any future meeting (for serious conflicts that are unable to be managed while the interest or duty continues to be held);

7. Director resignation sought from the Board and/or Committee (potentially applicable to the most serious conflicts, or where Director unwilling to divest themselves of the conflicted interest of duty);
8. Appointing entity contacted to seek revocation of Director appointment (most extreme response applicable where relationship has broken down between conflicted Director and Board).

## Definitions

For the purpose of these Guidelines and the Policy:

*Associate* means an Associate as defined by the Superannuation Industry (Supervision) Act 1993 (which cross refers to the Corporations Act, with some modifications). It may include:

(a) the trustee of a trust in relation to which the Responsible Person benefits or is capable of benefiting; and

(b) a person, such as a spouse, relative, business partner or family company with whom the Responsible Person is, or proposes to become, associated, whether formally or informally in respect of the asset or other interest (eg gifts) under consideration.

*Excluded Assets* means any real estate, cash at bank (including term deposits), risk only life and general insurances, motor vehicles, house contents and personal use assets such as jewellery and clothing.

**FSS TRUSTEE CORPORATION ("FTC") RESPONSIBLE PERSON**

**CONFLICT OF INTEREST DECLARATION**
**AND**
**DISCLOSURE OF RELEVANT DUTIES, RELEVANT INTERESTS AND GIFTS**

**CURRENT AS AT (DAY MONTH YEAR)**

**1. ________________________ Name:**

Please review the FTC Conflicts of Interest Guidelines (located in the Boardbooks Resource Centre) before you complete this form.

When completing this form use the most recent available information that you hold (no more than 12 months old)

This form will ask you to disclose details of your:

2. Relevant assets
3. Superannuation Fund accounts
4. Associate held relevant assets
5. Relevant duties and
6. Gifts received in relation to your role with FTC

Please note that

a) all interests in the First State Superannuation Scheme;
b) all **listed** securities which have a value in excess of $50,000;
c) any other asset with a value in excess of $100,000; and
d) assets of Associates that may detract from your ability to act in the best interest of FSS members and which have the values detailed above,

will be published on the FTC web-site on the Register of Relevant Interests and Relevant Duties (**RRIRD**) without the dollar values being stated. **The above amounts should be used to determine whether your interest is material for your Section 1, 2 and 3 disclosures.** Every effort will be made to confirm with you any of your information that will appear on the RRIRD before it is published.

## 1 Relevant assets

You should include details of all assets here, *except for any real estate, cash at bank (including term deposits), risk only life and general insurance, motor vehicles, house contents and personal use assets such as jewellery and clothing.*

Relevant assets will most commonly include shares and units in managed investment arrangements.

| Organisation/ Investment Name | Material Interest Y/N | Purchase Date | Date Purchase Advised | Sale Date | Date Sale Advised |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Add more rows as necessary

## 2 Superannuation fund accounts

Interests in all superannuation funds should be disclosed, including FSS and any SMSFs.

| Fund name | Material Interest (Y/N) |
|---|---|
| | |
| | |
| | |

| | |
|---|---|
| | |
| | |

Add more rows as necessary

## 3 Associate held assets

This section seeks details of assets you indirectly hold.

If you do have an interest in any assets held by Associates (eg a partner or spouse) you should review the definition of Associate in the Conflicts of Interest Guidelines.

You should include details of any proportional interests you might have in the assets of your Associates. This will include family trusts, self-managed superannuation funds and assets of family members in which you have an interest, or over which you have control or where you have an arrangement or common purpose.

| Organisation/Investment Name | Material Interest Y/N | Purchase Date | Date Purchase Advised | Sale Date | Date Sale Advised |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Add more rows as necessary

## 4 Relevant duties

Only disclose your roles which may have a connection to FTC or which may influence your judgment as a FTC responsible person. Consider disclosing any role you have as a director, office holder, employee, agent or trustee.

Relevant duties will be published on the FTC web-site on the Register of Relevant Interests and Relevant Duties.

| Organisation | Position | Appointment Date | Termination Date | Notes |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Add more rows as necessary

## 5 Gifts

Only disclose gifts received in your capacity as a FTC responsible person.

If you have not previously provided the information to the Company's Secretariat, please list all gifts, rewards, entertainment and similar items *except for items provided by FTC, frequent flyer or similar rewards and business meals*.

Please note that items (or multiple items from a giver) with a value of $250 or more will be published on the FTC web-site on the Register of Relevant Interests and Relevant Duties.

| Organisation | Description | Date received | Value |
|---|---|---|---|
| | | | |
| | | | |

- Add more rows as necessary

## 6 Declarations

I declare this to be a complete list of my Relevant Interests, Relevant Duties and gifts received as at the current date. I undertake to advise the FTC Company Secretary of any material change to this list.

Signed: …………………………………………

Date: …………………………………………

# Responsible Investment: Environmental, Social & Corporate Governance Policy

First State Superannuation Scheme:

Accumulation (**Accumulation Division**)

Defined Benefit Section (**DB Division**) collectively **"the Funds"**

StatePlus Section (**StatePlus Division**)

# Contents

# Revision History

| Version | Reasons for amendment | Date Approved | Approving Committee/Board |
|---|---|---|---|
| May 2014 | Original policy | 14 May 2014 | Investment Committee |
| August 2015 | Annual review | 5 August 2015 | Investment Committee |
| August 2016 | Annual review & update | 3 August 2016 | Investment Committee |
| August 2017 | Annual review | 16 August 2017 | Investment Committee |
| April 2018 | Merge of FTC Responsible Investment, Proxy Voting and Tobacco Policies and alignment with StatePlus Environmental, Social and Governance Policy. Inclusion of class action policy; change tobacco exposure requirement so that if it exceeds 0.1% of NAV it is then reported to the IC rather than reported at each meeting. | FSS: 14 February 2018<br>StatePlus: 10 May 2018 | Investment Committee |
| July 2019 | Annual review | FSS: 12 June 2019 | Investment Committee |

# 1 Introduction

## 1.1 Purpose

### 1.1.1 Accumulation Division, DB Division and SPR Fund, (collectively, the Funds)

This document outlines the key elements of the Policy for the:

- First State Superannuation Scheme - Accumulation Division (**Accumulation Division**) and Defined Benefit Division (**DB Division**); and
- StatePlus Retirement Fund (**SPR Fund**).

The purpose of this Policy is to support the Trustee's Investment Policy Statement (**IPS**), and set out a high-level overview of the Funds' approach to managing ESG issues.

The principal objective of the Policy is to ensure that ESG risks and opportunities are adequately considered and managed as an integral part of the Funds' investment process.

## 1.2 Governing Legislation and Regulatory Requirements

Apart from some limited requirement around disclosure[1], the RSE licensee law does not set minimum standards or provide guidance on ESG issues.

The 'sole purpose test' arising from the Superannuation Industry (Supervision) Act 1993 (**SIS Act**) requires a trustee to pursue activities relevant to the provision of retirement income to members. These legal requirements are expressed in reasonably broad terms.

The SIS Act imposes a set of key covenants on a trustee, including:

- to ensure the trustee's duties and powers are performed and exercised in the best financial interests of the beneficiaries; and
- to formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the fund, including (among other things) the risk involved in making, holding and realising, and the likely return from, the fund's investments having regard to its investments and expected cash flow requirements.

Where the Trustee has analysed the overall costs, risk and return profile of an investment, which may include consideration of ESG risks, the Trustee reasonably believes that it will have properly discharged its legal obligations under the SIS Act.

## 1.3 Delegations, Responsibilities and Accountability

The Trustee is at all times responsible for the Funds' investments.

The Trustee has delegated responsibility for management of ESG matters, including proxy voting decisions and collaborations on ESG initiatives, to its Investment Committee (**IC**) and the IC has further delegated these responsibilities to the Funds' Chief Investment Officer (**CIO**). The CIO has further delegated these responsibilities to the Head of Responsible Investment. The Trustee has delegated responsibility for class actions to its IC and the IC has further delegated this responsibility to the Management Investment Committee (**MIC**). However, contentious class action decisions must be reported to the IC for approval. Details of these

[1] For example, Corporations Regulations, Reg. 7.9.14C.

delegations are set out in Schedule A, the relevant committee charters and the *Consolidated Board Delegations Manual*.

## 1.4 Review

This Policy will be reviewed annually, and more frequently if deemed appropriate.

Any changes to the Policy will be provided to the IC for its review and approval.

# 2 What is ESG?

ESG is an acronym for Environmental, Social and Governance. The Trustee believes that these are material investment issues and should be considered as part of the investment process. ESG covers a broad range of factors, examples of which are shown below:

| | |
|---|---|
| **Environmental Issues** | • Climate change and its potential impact on investments, including:<br>○ exposure to carbon pricing and regulation to reduce carbon emissions<br>○ exposure to the physical impacts of climate change, such as potential sea-level rises, and increased frequency and intensity of severe weather events<br>○ stranded asset risk<br>• The availability or over supply of water, and competition for the use of water<br>• Pollution and disposal of waste products<br>• The impact that a company and its operations have on the local environment<br>• Future liability risk, arising from activities such as the disposal or spillage of toxic substances, or from contamination of areas or populations |
| **Social Issues** | • The effectiveness of a company in maintaining its ‘licence to operate’ – in other words, how well it manages its relationship with the community and civil society<br>• A company’s effectiveness in constructively managing labour relations with its workforce<br>• The extent to which a company effectively manages and provides transparency on the safety of its workforce<br>• Adherence to international conventions (such as those specified by the International Labour Organisation, the UN Declaration of Human Rights, and the OECD Guidelines for Multinationals)<br>• Modern slavery/forced labour in company operations and supply chains, particularly for companies with significant offshoring<br>• Workforce diversity, including gender diversity at senior levels within companies and on governing boards |

| | |
|---|---|
| **Governance Issues** | • The structure and composition of the board of directors, including an adequate number of directors who are independent from management, and the fitness and propriety of directors<br>• The structure and quantum of remuneration for directors and executives<br>• The provision of adequate transparency about the company's operations, and a governance structure that demonstrates appropriate accountabilities<br>• The attitude and actions taken by a company to ensure that its officers are not involved in bribery or corrupt practices |

# 3 Why is ESG Important?

ESG factors are important because FTC believes that an investee asset or company's approach to managing ESG risks, impacts and opportunities, has a meaningful impact on their long-term viability and success. That is, assets and companies that act in a responsible way are likely to perform better over time.

Assets and companies that are unwilling or unable to take ESG issues into consideration may:

- put the asset/company's reputation at risk;
- cause loss of market opportunities;
- diminish asset/company value; and
- adversely affect other assets/companies in which the Trustee has invested.

The Trustee believes that identifying and managing ESG factors helps in finding new opportunities, steering capital towards more attractive areas, and managing long-term investment risks. As a result, it is expected that returns will be higher, and downside risks lower, over the long term. These benefits arise from avoiding the poor performance and enterprise failures that can arise from lax governance, and weak environmental and social practices. Managing ESG risk is a source of opportunity and a way to control for longer-term risks. Assessing ESG risks in the investment process is consistent with the Funds' objectives as long-term investors, and also the Trustee's fiduciary duties and responsibilities to members.

# 4 Implementation of ESG

Poor management of long-term ESG related risks by a company not only impacts our investments but can potentially harm the broader community and environment as well. Managing ESG risks implies that we must behave as the owners of assets rather than just investors in various securities. It is also important to ensure that the Funds' agents, be they investment managers, boards, or company executives, act in our interests and are seeking to maximise the long-term returns on behalf of the Funds.

ESG considerations are therefore integrated into the Funds' investment activities (as they relate to the diversified and single asset class investment options), from investment selection and due diligence to ownership activities such as monitoring our internal and external investment managers, exercising our voting rights and engaging with companies to improve their ESG policies and practices.

## 4.1 ESG Integration in the Investment Process

In accordance with the investment objectives and strategy of the Funds, FTC invests in a range of asset classes, including Australian and global:

- shares;
- fixed income;
- property (listed & unlisted); and
- alternatives, such as infrastructure, private equity and other real assets.

FTC is committed to integrating consideration of ESG issues into its investment decision making processes when allocating to new managers (external or internal) and assets, and performing subsequent reviews.

FTC is also committed to considering investments which provide positive social and environmental benefits for members in addition to the required financial return.

### 4.1.1 Investment Selection

FTC has established an assessment framework to review internal and external investment managers and direct assets. This forms an integrated part of the initial due diligence process as outlined in the *Externally Managed Investments – Investment Due Diligence, Monitoring and Termination/Divestment Processes* and *Direct Assets – Investment Due Diligence, Monitoring and Sale Processes* documents.

Potential internal or external investment managers are rated (positive, neutral, negative) on their:

- stage of ESG policy development;
- level of ESG integration in investment analysis and decision-making processes;
- stewardship (voting, engagement and stock lending practices);
- resources available to incorporate ESG in investment analysis and be involved in engagement activities;
- transparency; and
- alignment with FTC.

All else being the same, FTC prefers investment managers and assets that demonstrate sound ESG practices, and requires any newly appointed investment managers to monitor ESG risks that relate to the Funds' investments.

### 4.1.2 Monitoring

Once an internal or external investment manager or direct asset is assigned an internal rating (positive, neutral, negative), it is used to encourage improvements in ESG practices on an ongoing basis.

In addition, each investment manager who manages money on behalf of members is required to report at agreed intervals to the Trustee about:

- improvements to the integration of ESG considerations in its investment analysis and decision-making processes;
- how they exercised their voting rights (if any); and
- their ESG engagement activities with companies and how they intend to progress ESG issues with them.

Any internal or external investment managers or direct assets that have not undergone an initial assessment in accordance with this Policy will be reviewed over the next two years.

#### 4.1.4 Climate Change

As a global long-term investor and a signatory to the Principles for Responsible Investment (PRI), the Trustee acknowledges that climate change may affect the performance of the Funds to varying degrees across companies, sectors, regions, asset classes and through time because of regulatory change and the physical and social impacts of climate change.

The majority of scientific opinion supports the view that the climate is warming, that the warming is being caused by significant increases in the levels of carbon dioxide ($CO_2$) in the atmosphere, and that the increased levels of $CO_2$ causing the warming are a result of human activity.

Global warming is expected to have a wide range of consequences, many of which may impact the Funds' investments. The severity and type of consequences will ultimately depend on the level of warming that occurs, but examples of these consequences include:

- changes to policy settings and regulation as Governments around the world move to limit the amount of $CO_2$ being released into the atmosphere;
- more frequent extreme weather events (for example, storms and floods);
- changes to rainfall patterns and increases in drought; and
- increases in sea-level.

From an investment perspective, global warming will lead to both risks and opportunities. The Trustee addresses these risks and opportunities by working with its external investment managers and with the listed companies in which it invests to encourage them to incorporate climate change risks and opportunities into their investment processes. Climate change is but one component of the Funds' ESG considerations, however, climate change is one of the largest economic challenges facing investors today, and FTC is committed to improving its understanding of its exposure to material climate change risks.

Where practicable and over time FTC (or agents on its behalf) aims to:

- incorporate climate change into the consideration of its investments across asset classes, whether managed internally or externally;
- request disclosure of investment managers' policies on climate change, and a demonstration of their approach to incorporating climate change considerations into their investment process;
- through engagement activities (see Section 4.2.2 below)
    - encourage improvement in the level of disclosure by companies of material climate change impacts through initiatives such as the Carbon Disclosure Project, Task Force on Climate-Related Financial Disclosures and other relevant activities; and
    - support reasonable shareholder proposals to disclose a company's approach to climate change and/or greenhouse gas emissions;
- share knowledge and increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives.

## 4.2 Active Ownership

As an asset owner, the Trustee believes that it has an obligation to seek to ensure that the companies and other assets it invests in are governed and managed in an appropriate way that will enhance performance over the longer term, and thereby produce the best financial outcome for members. For this reason, the Funds take an active interest in the ESG practices of the companies and assets in which they invest, and seek to exert influence on their governance, policies, practices and management through share voting, engagement and advocacy.

### 4.2.1 Voting Shares

The Funds have a significant exposure to listed share investments. Exercising the voting rights attached to shares held in public companies is something we regard as being integral to active ownership. Share voting is an important tool for engaging with companies. Voting is an effective way for the Trustee and other investors to publicly express its views on what a company is doing right, and what a company needs to improve.

The Trustee is ultimately responsible for voting decisions and has the right to override the recommendations put forward by its corporate governance advisors and its investment managers. Further details on the Funds' proxy voting guiding principles and procedures can be found in the *Proxy Voting Guidelines* document.

<u>Voting on Australian Shares</u>

The Funds have appointed a proxy voting specialist, Australian Council of Superannuation Investors (ACSI), to provide voting advice in relation to resolutions of a corporate governance nature for companies in the ASX300 Index.

External and internal investment managers are expected to actively consider their position on company resolutions put to Annual General Meetings.

- Where voting is not contentious (defined as cases where both ACSI and the investment manager(s) support a company resolution), the Funds vote in favour of the resolution.
- Where voting is contentious (defined as cases where either ACSI or the investment manager(s) do not support a company sponsored resolution), the Head of Responsible Investment will consider each resolution on a case-by-case basis. Inputs to the decision-making process will include ACSI's proxy voting advice, the views of the investment manager(s) and, if relevant/required, and time permitting, a third-party report.

The Funds are unable to execute the voting rights on Australian shares that are on loan as part of their securities lending programs, unless the shares are recalled. If a share is on loan during a period in which the Funds wish to exercise a contentious vote, the custodians will be instructed to recall the share from loan so that the Funds can exercise their voting rights.

<u>Voting on Global Shares</u>

For international holdings, voting is achieved through a proxy voting specialist, CGI Glass Lewis, and with investment managers.

- CGI Glass Lewis provides proxy voting research and implements vote recommendations for the Vanguard international equities portfolios. In addition to the standard detailed analysis, CGI Glass Lewis conducts an additional level of analysis to ensure consistency with the governance guidelines of ACSI.
- Other international shareholdings are voted by the investment managers in line with their proxy voting agency or their own internal voting guidelines. We retain the right to instruct voting decision on the shares we own.

The Funds expect the international equities investment managers who hold voting responsibility to:

- exercise their voting responsibility actively; and
- report to the Funds on voting activity, highlighting where a vote is made in a manner that is inconsistent with their internal voting guidelines.

The Funds are unable to execute the voting rights on global shares that are on loan as part of their securities lending program, unless the shares are recalled. If a share is on loan during a period in which the Funds wish to exercise a contentious vote, the custodian will be instructed to recall the share from loan so that the Funds can exercise their voting rights.

#### 4.2.2 Engagement and Advocacy

This involves engaging on ESG issues with companies and our investment managers.

The objective of the engagement is to improve the ESG performance of the company and thereby protect or increase its economic value. This will generally occur when the Investment team or its agents have identified that the company's ESG policies or practices are deficient relative to standards established by government, regulators, industry, peers or society at large, or that their conduct threatens their reputation and value.

For Australian listed investments, the Investment team has established an internal Corporate Engagement Framework. The Corporate Engagement Framework documents FTC's engagement approach, including the:

- principles;
- methods (i.e. direct, collaborative, facilitated[2]);
- screening processes; and
- prioritisation framework.

The Investment team prioritises which companies it will engage with based on a screening process, thematic research (ie. climate change, worker safety) and the materiality of the risk (including reputational risks). More specifically, priority and materiality includes an assessment of potential losses, the likelihood that engagement will effect change, and whether the Funds' Australian engagement partner, the Australian Council of Superannuation Investors (ACSI), are already engaging on the same issue. FTC has partnered with ACSI to enhance company engagement and advocacy for listed companies in Australia.

For international listed investments, engagement is primarily conducted by the Funds' investment managers. In addition, the Funds may, from time-to-time, participate in joint engagement in conjunction with the PRI and other collaborative initiatives.

Where companies have not responded to engagement or engagement is unlikely to be effective, the Trustee may, in certain cases, decide to exclude companies.

#### 4.2.3 Stakeholder Engagement

In keeping with the principles of universal ownership. FTC views itself as a responsible owner of assets that may come to the market *via* a privatisation process. This view is underpinned by our place as a long-term provider of superannuation and retirement services to members across NSW, Victoria, ACT and other states.

As a responsible owner, FTC seeks to treat its employees and the employees of any organisation that it owns with fairness and in line with industrial agreements, legislation and other relevant requirements and recognises the role of unions in this process.

[2] *Direct*: FSS identifies a material engagement opportunity and directly engages with an investment manager and/or company. This can be heavy (meetings and active engagement) or light (letters and passive engagement/ watchlist).

*Collaborative*: FSS has partnered with ACSI or other groups and uses the collective weight of these organisations' members, their funds under management and their expertise on research, engagement & policy advocacy.

*Facilitated*: FSS identifies and joins with other asset owners and collectively engages directly with companies with the benefit of an expert facilitator to convene and assist with the engagement.

#### 4.2.4 Class Actions

Class actions are a way that shareholders, as a collective group can claim for losses against a company or regulator where a reasonable case can be made that the loss occurred due to breaches of corporate regulations.

FTC uses class actions as:

- a last resort governance mechanism, when other forms of advocacy and engagement have failed;
- a cost-effective way to recover member losses caused by a company's misleading and deceptive conduct; and
- a mechanism to improve general governance standards in the market.

As a general rule, the Trustee will participate in class actions as a class member where:

- it has been determined that there is a genuine allegation of a breach of law;
- this breach has resulted in a large financial loss for the Funds;
- a reliable and reasonable assessment that there are low (and reasonable) costs associated with the litigation has been made;
- it has been assessed that there are no significant reputational risks to FTC and that all relevant strategic issues as a result of participating are considered, including a qualitative assessment of the implications of joining a class action; and
- it has been confirmed that participation is in the best interest of members.

#### 4.2.5 Exclusions

The integration of ESG in the investment process does not mean the exclusion of particular companies on ethical grounds. Rather, integration of ESG requires that the impact of ESG issues on the value of a company is included in the valuation process. FTC's investment approach has generally not been to exclude particular companies or sectors, but rather to use engagement and proxy voting to influence the behaviour of investee companies.

However, there are some circumstances in which it is appropriate to consider exclusions of a sector or a specific stock. These circumstances include:

- if the Trustee consider that an investment is inappropriate for the Funds to the extent that it may have a negative impact on the reputation of the Funds;
- if the investment would lead to contravention of international treaties or conventions; or
- if it is not deemed possible to influence a company through engagement or proxy voting.

FTC has approved the divestment from, and the exclusion of, direct investments in companies involved in the manufacture of cigarettes and other tobacco products (as defined by the MSCI GICS Sector 302030 or other index classification as deemed appropriate).

Notwithstanding the above, for practical reasons, FTC allows the ongoing indirect exposure (typically via pooled funds and/or derivatives) to companies involved in the manufacture of tobacco and cigarettes with the requirement that the IC be notified should the exposure exceed 0.1% of the total Net Asset Value (NAV) of the First State Superannuation Scheme and/or the SPR Fund.

The Trustee considers that there are substantial longer-term risks to the tobacco sector such that exclusion will positively impact members' risk-adjusted return targets. Further, the Trustee believes this investment decision is in members' best interests and consistent with its Investment Beliefs.

# 5 Collaborations

The Trustee takes its responsibilities on ESG matters seriously and actively supports a number of collaborations on ESG initiatives. The Trustee's involvement in these organisations assists it in adopting a more systematic approach to managing ESG risks for the Funds.

## 5.1 Principles for Responsible Investment (PRI)

In constructing this Policy, the Trustee has considered (amongst other things) the PRI.

The First State Superannuation Scheme is a signatory to the PRI. The PRI is a set of six aspirational principles designed to encourage and assist investors to integrate ESG considerations into their investment processes. The Trustee reasonably believes that the PRI provides an important universal framework for signatories to work together, learn from each other and provide a collective voice on ESG issues. The Trustee also believes that the PRI will continue to grow as a framework for investors to communicate their expectations on ESG issues to their investee companies.

Briefly, the principles are:

| | | |
|---|---|---|
| 1 | **Integration** | Incorporate ESG issues into investment analysis and decision-making processes. |
| 2 | **Ownership** | Be active owners and incorporate ESG issues into the Funds' ownership policies and practices. |
| 3 | **Disclosure** | Seek appropriate disclosure on ESG issues by the entities in which the Funds invest. |
| 4 | **Best Practice** | Promote acceptance and implementation of the Principles within the investment industry. |
| 5 | **Collaboration** | Work together to enhance the Funds' effectiveness in implementing these principles. |
| 6 | **Communication** | Report on the Funds' activities and progress towards implementing these principles. |

While not an explicit factor in recommending new managers, the Investment team will investigate whether investment managers are signatories as part of the review process. They will also consider the PRI principles when reviewing their existing investment managers and will monitor them to ensure the PRI principles are taken into consideration.

## 5.2 Other Collaborations

The Trustee reasonably believes that collaboration with other parts of the investment industry may increase the extent to which the ESG program can benefit members. We do not have the resources to undertake all of the necessary work alone – and nor could we do it as well without the help and support of other organisations. FTC will, therefore, be active participants in collaborations that can help us to integrate ESG issues into the investment processes and to implement this Policy.

The Trustee will identify and assess opportunities to work with others, formally through collaborative initiatives, or informally, to increase the effectiveness of its ESG program. Information on the formal collaborative initiatives in which the Funds participate are outlined below.

FTC has joined some initiatives that it believes can help us to deliver on its ESG promises:

- Regnan – Governance Research & Engagement (**Regnan**): investigates ESG related sources of risk and value for long-term shareholders in Australian companies. Regnan provides the Funds with company analysis.
- Australian Council of Superannuation Investors (**ACSI**): exists to provide a strong, collective voice on ESG issues on behalf of its members. ACSI provides the Funds independent research, engagement, advocacy and voting advice on Australian listed equities included in the ASX 300 Index.

- Hermes Eos: helps long-term institutional investors around the world to meet their fiduciary responsibilities and become active owners of international public companies. Their team of engagement and voting specialists monitors the investments of their clients in global companies and intervenes where necessary with the aim of improving performance and sustainability.
- Responsible Investment Association of Australasia (**RIAA**): a regional industry association that promotes a more responsible approach to investing via education and professional development.
- ESG Research Australia: a collaboration of super funds, investment managers and asset consultants which aims to increase the amount and quality of stock broker research in Australia that includes the consideration of ESG issues.
- The Investor Group on Climate Change: aims to raise awareness of the impact that climate change has on the investment industry and encourages best practice approaches in managing the impact of climate change.
- Carbon Disclosure Project: a global initiative aimed at requiring the largest companies to disclose information on their greenhouse gas emissions.
- Water Disclosure Project: a program that helps businesses and investors to understand the risks and opportunities associated with water-related issues around the world.

Involvement in collaborative initiatives involves the expenditure of resources – financial resources, human resources, or both. The Trustee’s decision on whether to participate or continue to participate in a collaborative initiative will be based on an assessment of whether the benefits to members outweigh the costs.

# 6 Reporting and Disclosure

| Report/Approval | Frequency and to Whom | Minimum Information Required |
|---|---|---|
| **ESG Implementation Update** | Reported bi-annually to the IC. | Summary of the Funds’ ESG activities, including integration, research projects, proxy voting exceptions, engagement activities, achievements, challenges and future priorities. |
| **PRI Report on Progress** | Reported annually to the IC | Provision of report to PRI which is subsequently published on their website and the FTC website. |
| **Tobacco Exposure** | Reported to the IC, if exposure exceeds 0.1% of total NAV of each Scheme. | Total (direct/indirect) tobacco exposure of the Funds. |
| **Class Actions** | Approved by MIC (non-contentious) or IC (contentious) as required.<br>Reported periodically to the MIC and IC. | Class actions – approved and declined. |
| **Material Changes to this Policy** | Approved annually (as well as ad hoc if required) by the IC. | Details and reason for change. |

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| **Breach of this Policy** | Reported immediately to IC. | Details of breach and remedial action taken. |

The First State Superannuation Scheme reports publicly on the First State Super website:

- a copy of this Policy;
- proxy voting behaviour for Australian and international listed equities annually; and
- engagement and advocacy activities undertaken by ACSI.

FTC will also meet any external reporting requirements that arise through involvement in collaborative initiatives. In particular, FTC will report on the implementation of the PRI through the annual PRI Reporting and Assessment Tool and make our report publicly available on the PRI and FTC websites.

# Schedule A: Roles and Responsibilities

| Role | Responsibility |
|---|---|
| **Investment Committee** will: | • Review and approve this Policy.<br>• Review and note the results of the ESG Implementation Report and PRI Report on Progress<br>• Determine the course of action should the tobacco exposure of the First State Superannuation Scheme and SPR Fund exceed 0.1% of NAV.<br>• Approve contentious class action decisions. |
| **Senior Manager – Governance & Due Diligence** will: | • Ensure this policy is kept current and relevant to the activities being undertaken.<br>• Recommend material changes to this Policy to the IC for approval.<br>• Ensure tobacco reporting requirements are met under this Policy. |
| **Chief Investment Officer** will: | • Oversee the implementation of this Policy. |
| **Management Investment Committee will:** | • Approve all non-contentious class action decisions.<br>• Recommend for approval to the IC all contentious class action decisions. |
| **Head of Responsible Investment** will: | • Ensure ESG issues are integrated in the Funds' investment process.<br>• Approve all proxy voting decisions.<br>• Manage the engagement and advocacy program.<br>• Manage the relationships with all key 'responsible investment' service providers, including adherence to PRI and other collaborations and their continuing relevance to members.<br>• Ensure all reporting and disclosure requirements are met under this Policy (with the exception of tobacco and class action reporting). |
| **Manager, Investment Operations, Investments** will: | • Manage the implementation of all class actions.<br>• Ensure reporting of class action decisions to the MIC and IC. |
| **Manager, Investment Operations, Investments** and **Liquidity, Fixed Income & Markets team** will: | • Recall shares from the securities lending program if requested by the Head of Responsible Investment. |

Australian Council of Superannuation Investors

# ACSI GOVERNANCE GUIDELINES

A guide to investor expectations of listed Australian companies

October 2019

# ABOUT ACSI

Established in 2001, the Australian Council of Superannuation Investors (ACSI) exists to provide a strong, collective voice on environmental, social and governance (ESG) issues on behalf of our members.

Our members include 39 Australian and international asset owners and institutional investors. Collectively, they manage over $2.2 trillion in assets and own on average 10 per cent of every ASX200 company.

Our members believe that ESG risks and opportunities can have a material impact on investment outcomes. As fiduciary investors, they have a responsibility to act to enhance the long-term value of the savings entrusted to them.

Through ACSI, our members collaborate to achieve genuine, measurable and permanent improvements in the ESG practices and performance of the companies in which they invest.

Our staff undertake a year-round program of research, company engagement, voting advice and advocacy:

- Research
  We identify the most significant ESG issues for long-term investors.
- Company engagement
  We engage directly with the boards of ASX listed companies to discuss, understand and improve ESG management on behalf of our members.
- Voting advice
  We provide our members with voting recommendations on how to vote their shares consistent with the principles set out in these Guidelines.
- Policy advocacy
  We engage with government, regulators and other system-wide market participants to ensure markets are focused on the long term and best serve our members' beneficiaries.

These activities provide a solid basis for our members to exercise their ownership rights.

Further details about us, our publications, policy positions and membership are available on our website at *www.acsi.org.au.*


**If you are a company representative seeking to engage with ACSI or would like to request a copy of our voting advice relating to your company:**

**Phone:** +61 (0)3 8677 3890 **Email:** info@acsi.org.au

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# INTRODUCTION

ACSI's Governance Guidelines (Guidelines) are a clear statement of our members' expectations about the governance practices of the companies in which they invest.

Positively influencing the way business is conducted by providing guidance to companies on how to cultivate policies and practices that enshrine good governance is one way our members maximise investment outcomes for their beneficiaries.

The purpose of these Guidelines is to provide insights about governance issues which are of material concern to our members. The Guidelines articulate the issues that we focus on in our engagement work with companies and the factors we take into consideration when determining our voting recommendations.

The Guidelines assume that companies are aware of, and are complying with, all relevant aspects of Australian corporate law, including the *Corporations Act 2001* (Cth), the ASX Listing Rules and the ASX Corporate Governance Council's *Principles and Recommendations*. These Guidelines build upon rather than duplicate these requirements.

Each chapter takes a topic and begins by discussing the key overarching principles followed by more specific guidance on good governance practices. Where relevant, the Guidelines include 'break out' boxes that highlight the factors we take into account when determining our voting recommendations.

These Guidelines are updated every two years in consultation with our members and a broad group of stakeholders, to reflect the evolving regulatory and governance landscape.

Trust in corporate Australia has deteriorated in recent times. We see an opportunity to restore that trust through better governance and better management of ESG risks and opportunities.

One principle underpins everything we do. We are focussed on financially material ESG risks and opportunities over the long-term, to protect and enhance the retirement savings that are entrusted to our members.

## CORE PRINCIPLES

The following core principles underpin the Guidelines:

### Board oversight of all material risks

Good governance requires boards to consider and manage all material risks facing their company, including ESG risks.

### Sustainable, long-term value creation

Effective board governance contributes to shareholder value and creates the conditions in which sustainable long-term investment can prosper.

### Active ownership

Active ownership seeks to use ownership rights to influence the governance, policies, practices and management of the investee entity, in order to improve investment outcomes. Material ESG factors form part of our members' analysis in deciding whether to invest in a company and when deciding how to exercise their ownership rights.

### Transparency

Companies should properly disclose their performance in relation to material ESG factors which could impact shareholder value. Companies are more likely to attract long-term capital if they disclose sufficient information to give investors confidence in the identification and management of key ESG risks.

### Social licence to operate

Companies rely on a range of stakeholders to operate and succeed, including: governments, employees, communities, investors, consumers and suppliers. Effectively engaging with stakeholders is key to maintaining this social licence to operate.

## ACSI'S APPROACH TO COMPANY ENGAGEMENT AND VOTING ADVICE

We do not approach ESG with a 'one-size-fits-all' mindset, nor do we regard ESG monitoring as a 'box ticking' exercise.

We recognise that every company is different, and we expect that each board will have considered and adopted the most appropriate policies and practices and clearly articulate its rationale for doing so.

We take a pragmatic and commercial approach that considers the specific circumstances of each company on a case-by-case basis. We have around 250 meetings with directors from ASX300 companies each year, in addition to other ad hoc meetings where required.

When assessing a company's performance against these Guidelines to determine our voting advice, we take into account a broad range of factors including the materiality of the issue, the context in which the issue arises and the size of the company. We also consider the length of time over which any shortcomings have occurred, any history of dialogue with the company on the issue, and whether there have been any improvements in company behaviour.

We are transparent about our voting advice. In addition to publishing these Guidelines:

- We engage with the company's board to understand the company's position before providing voting advice.
- A company can request a copy of our voting advice after we have distributed it to our members.
- We notify companies of 'against' voting recommendations.

## REFERENCE TO OTHER STANDARDS

We recognise that there is a range of principles and frameworks that investors have regard to when considering governance and broader ESG issues. Common examples of other initiatives and organisations that Australian asset-owners may have regard to include:

- The United Nations supported *Principles for Responsible Investment* (PRI)
- *International Corporate Governance Network* (ICGN)
- *Investor Group on Climate Change* (IGCC)
- *Australian Securities Exchange (ASX) Corporate Governance Council*
- *Australian Institute of Company Directors* (AICD).

## WHAT'S NEW IN THIS EDITION OF THE GUIDELINES?

In our ninth edition of the Guidelines, we have kept the existing format and provided further guidance on contemporary issues.

In this edition, we address some of the themes and recommendations from the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, as we believe the Final Report contains lessons for all entities. Other updates are in response to issues we see across the market or observations made through our engagement work.

The themes underpinning the key updates to the Guidelines are outlined below. While the information is divided into sections (for the purpose of clarity), we encourage companies to consider their practices holistically and assess impact overall. In the words of Justice Hayne:

*Culture, governance and remuneration march together. Improvements in one area will reinforce improvements in others; inaction in one area will undermine progress in others.*[1]

### Accountability

We have included updates to reinforce the importance of the board demonstrating accountability (section 1). Accountability promotes ongoing effectiveness, encourages performance and instils confidence and trust.

### Risk Management

We have added focus on ensuring ESG risks are incorporated into risk frameworks, including risk appetite, and updates to highlight the board's role in ensuring management is operating within the risk profile (sections 1.1 and 5.1).

### Culture

We have updated the Guidelines to reflect the importance of corporate culture, including highlighting that companies should articulate and disclose their values to underpin their desired culture, and form a basis to demonstrate alignment between expected and actual behaviour. We also emphasise the board's role in overseeing the company's culture (sections 1.2 and 5.5).

### Social Licence to operate

We reinforce our view that acting in the best interests of the company requires considering the interests of a broad range of stakeholders, and we ask companies to articulate how they do so (section 5.1 and 5.2).

### Diversity

We state our view that companies should set a time frame within which they will achieve gender balance on their boards (section 2.2).

### Remuneration

One of the key issues is the apparent disconnect between how investors and some companies consider variable remuneration. We query whether payment for performance 'at target' is genuinely at risk. While we have no preference for one particular structure over another, we do expect that remuneration arrangements are explained fully and fairly, are reasonable overall and implemented appropriately.

We note the trends on combined incentive plans, as well as the broader dialogue on whether incentive plans are actually effective. Against this backdrop, we outline the principles we use to consider these issues holistically, with a focus on assessing 'reasonableness', within each company's particular circumstances (section 3.1).

We outline our views that boards should regularly assess the effectiveness of remuneration structures and make meaningful disclosures regarding the assessment (section 3.1 and 3.3).

We emphasise that remuneration reports provide an opportunity for the company to explain its approach to the link between remuneration, strategy, and culture (section 3.3).

[1] Justice Hayne in Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 Page 412.

# 1. DIRECTOR RESPONSIBILITIES

Corporate governance describes 'the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account'.[2]

The influence of individual directors is central to achieving high standards of corporate governance and delivering improved shareholder returns. The existence of policies and procedures for good corporate conduct is necessary but not sufficient. The leadership of directors on the importance of governance issues for the company is fundamental.

We do not recommend or encourage the adoption of a single set of governance standards or templates for companies. We encourage directors to be innovative in their approach, recognising that each company will necessarily differ on the details. What we do expect is for directors to explain why their company's approach to governance is the most suitable in the circumstances.

An integral responsibility of the board is to review, ratify and oversee the implementation of the company's business strategies. The board must maintain oversight of the Chief Executive Officer (CEO) and senior management. As such, the board is as accountable for the strategy as the CEO and executives. The selection, appointment and performance management of non-executive directors must, therefore, be aligned and relevant to company strategy.

Directors must have the requisite experience, skills, capacity, ethics and independence of mind to provide effective leadership and stewardship.

Directors are elected by shareholders to act in the best interests of the company. Shareholders are a diverse group whose interests may not always align, and to whom directors should be responsive. As Justice Hayne outlined:

*The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk.*[3]

We believe that directors will make decisions in the best interests of the company where decisions emphasise long-term financial sustainability.

## Board accountability

Accountability promotes ongoing effectiveness, encourages performance and instils confidence and trust. A demonstration of corporate accountability acknowledges responsibility for actions and decisions and the importance of stakeholder views.

Boards must demonstrate accountability for their organisations. This includes a preparedness to seek the right information, the character, confidence and strength to challenge management, and take appropriate remedial action when things go wrong. Directors must be adequately informed about key business issues and properly equipped to oversee management's delivery of the company strategy.

Our view is that annual director elections drive better accountability and allow a regular and timely opportunity for boards and investors to consider director performance. We believe that annual director election assists in furthering the culture of engagement with investors and promotes responsiveness.

This chapter focuses on the individual responsibilities of directors as board members. The following chapter focuses on board composition factors.

[2] Justice Owen in the HIH Royal Commission, The Failure of HIH Insurance Volume 1: A Corporate Collapse and its Lessons, Commonwealth of Australia, April 2003 at page xxxiv.
[3] Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 at page 403.

## 1.1. DIRECTOR RESPONSIBILITIES

Directors are entrusted to oversee the company's business and to formulate, in conjunction with management, the company's strategies and policies. Directors must therefore ensure they are adequately informed about key business issues and are properly equipped to encourage management to optimise the delivery of company strategy.

In discharging these duties, directors must critically analyse the advice of management and external advisers. This responsibility was highlighted by Justice Middleton in the *Centro Case:*

*What each director is expected to do is to take a diligent and intelligent interest in the information available to him or her, to understand that information, and apply an enquiring mind to the responsibilities placed upon him or her.*[4]

In practice, this means that directors must not blindly follow the advice of experts and should critically assess all matters put before them. Although there is long-standing law and guidance for directors, evidence persists that this approach is not always implemented in practice, and that continued vigilance is required. As Justice Hayne observed:

*The evidence before the Commission showed that too often, boards did not get the right information about emerging non-financial risks; did not do enough to seek further or better information where what they had was clearly deficient; and did not do enough with the information they had to oversee and challenge management's approach to these risks.*[5]

Some responsibilities of a director include:

- exercising independent judgement over the company's business strategy, performance, financial statements, resources, standard of conduct and ethics
- the selection, appointment and performance management of the CEO and other senior executives
- determining appropriate remuneration arrangements for the CEO and relevant executives
- determining appropriate authorities of the CEO and relevant executives
- maintaining CEO succession plans
- reviewing the company's accounts and certifying that they comply with Australian accounting standards and represent a true and fair view of the affairs of the company
- setting the company's risk appetite and seeking assurance that management is operating within that risk appetite, including in respect of ESG risks
- ensuring the maintenance of financial integrity, including the approval of budgets
- overseeing the company's commitment to environmental and social standards
- establishing and reviewing key performance benchmarks
- overseeing the company's system of internal controls and disclosure
- ensuring that proper accountability mechanisms and systems are in place, and that shareholders and stakeholders are informed in accordance with continuous disclosure obligations
- involvement and participation in board subcommittees.

4 ASIC v Healey & Ors [2011] FCA 717 at 20.
5 Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 at page 395.

## ASSESSING DIRECTOR ELECTION OR RE-ELECTION PROPOSALS

When we assess director election or re-election proposals, we consider factors relating to the performance and accountability of the individual candidate, along with factors that relate to overall board composition. Both sets of considerations impact the appropriateness of the individual's candidacy.

In relation to the individual, we consider:

- skills, qualifications and experience
- performance of the director on the company's board or other boards (as evidence of their skills and experience)
- engagement with shareholders on material governance issues
- evidence of the exercise of independent judgement
- the director's attendance at board and committee meetings
- capacity and workload
- the length of the director's tenure on the company's board, in light of average overall board tenure
- any relevant, publicly-known conduct of the director.

In relation to board composition, we consider:

- performance of the company under the incumbent board and its committees
- oversight of management process and remuneration arrangements
- how the director fits within the board's skills matrix and diversity considerations (for example, gender)
- the proportion of independent non-executive directors
- how the board undertook the process to identify and select new board members.

These issues are not considered in isolation. In all cases, our recommendation will be made on the basis of what we believe will produce the best outcome for the company.

## 1.2. PROMOTING GOOD GOVERNANCE

Investors expect the board of directors to formulate and apply high standards of governance. To this end, directors should:

- articulate the company's commitment to governance by developing a publicly-disclosed charter, or code, on governance and ethics (including compliance with all relevant laws, regulations, listing rules and generally accepted practices and standards). This charter should be subject to regular review
- establish a process to ensure that governance issues and risks are properly and regularly identified, evaluated and managed by the company and integrated into its strategy
- articulate and disclose the company's values to underpin the desired culture and demonstrate alignment between expected and actual behaviour
- ensure that the constitution, which is a significant governing document, does not include any features or proposed changes that may diminish or impinge upon the rights of shareholders
- provide opportunities for shareholder engagement at regular intervals throughout the year, not only at Annual General Meetings (AGMs), and adequately address shareholder questions. This applies particularly to non-executive directors.

## 1.3. INVESTOR EXPECTATIONS OF NON-EXECUTIVE DIRECTORS

Directors should ensure that they are personally familiar with the company's operations and do not rely solely on information provided by executives or external advisers.

With regard to director capacity, we expect that:

- each director should devote sufficient time and effort to their duties as a director
- the board should convey to prospective and current directors their expectations about the workload associated with a directorship on the board
- prospective or current directors should inform the board of any external commitments which may impact on their capacity to properly fulfil board responsibilities. The board must review the workload of their directors as part of their appointment and in annual performance assessment processes. A director's capacity to properly discharge their responsibilities will be assessed by investors on a case-by-case basis
- the board, when appointing a director, should ultimately have due regard to the reasonable expectations and commercial interests of the company. It must determine whether a prospective or existing director is capable of discharging their duties to the company, in light of any other directorships they hold. This will involve considerations such as time constraints, work complexity and workload
- the nature of any legal proceedings (past, present or anticipated) that the director is involved in or otherwise implicated should be disclosed. This disclosure should occur prior to appointment or when the board becomes aware of such an issue
- a serving CEO of a listed company may add value as a non-executive director of another listed company board, subject to their ability to manage their primary responsibilities as an executive. This can also enhance their understanding and insight into directors' duties and board responsibilities of the company where they serve as an executive.

We assess the independence of directors according to the factors discussed in section 2.1.

## 1.4. ROLE OF THE BOARD CHAIR

The chair must ensure that the board functions effectively and should provide leadership to all directors in the governance of the company. The chair also ensures that appropriate board procedures and structures are in place, so that all relevant issues are considered by the board.

### Separation of the chair from CEO or executive director roles

The chair should be selected from the pool of independent non-executive directors on the board.

Combining the roles of chair with CEO or executive director positions generally creates an unacceptable concentration of power and diminishes the degree of accountability that would usually result from a separation of the two roles. Therefore, the roles of chair, CEO and executive director should be separated.

Where the chair is an affiliated or executive director, the independent non-executive directors should nominate a lead independent non-executive director, or equivalent, to perform the chair's responsibilities where there are real or perceived conflicts arising from the chair's position as an affiliated or executive director.

### Chair workload and capacity

The chair's role is more time intensive than any other board position. To ensure the chair has adequate capacity to do the job, the board should consider:

- limiting the number of chair roles to a single listed entity
- limiting the number of overall board positions held by the chair
- any other commitments that may compromise the chair's capacity to fully engage in periods of high workload (such as significant corporate action).

We will consider, on a case-by-case basis, the capacity of a chair in light of the above considerations.

## 1.5. RISK MANAGEMENT

Risk oversight is a critical responsibility of the board. We will engage with companies about the company's risk framework, including its risk appetite, and the processes for identification, monitoring and oversight of all material risks, whether current or emerging. Our focus is ensuring that the board has effective oversight of ESG risks and opportunities. We expect the board to demonstrate effective management through corporate reporting and public disclosure. Chapter 5 discusses the oversight of ESG risks and opportunities in more detail.

## 1.6. BOARD OVERSIGHT OF RELATED-PARTY TRANSACTIONS

Oversight of related-party transactions is a critical role of the board. The board should disclose its policy for managing potential related-party transactions and may need to form specific committees to assess related-party transactions.

The actions taken to manage all material related-party transactions should be disclosed by the company. This includes disclosing the means by which the relevant director(s) managed any conflict(s) of interest during the board's consideration and decision making relating to the transaction. Investors are entitled to seek an explanation in order to satisfy themselves that the board's decision in the matter was made in the best interests of the company.

Rather than a legalistic and narrow interpretation of what constitutes a related-party, the board should not only observe the law but also its underlying purpose. Transparency around these transactions is critical, even where transactions are conducted on arm's length terms.

# 2. BOARD COMPOSITION AND PROCESSES

The board should be comprised of individuals who are able to work together effectively to steer a viable, profitable, efficient and sustainable company.

A properly structured board should include a diverse range of appropriately skilled and experienced directors who bring diversity of thought to board decision making. This is more likely to occur when directors are drawn from sufficiently diverse backgrounds which take into account gender, ethnicity and age, in addition to core skills and experience.

A board should consist of a majority of independent non-executive directors who are sufficiently motivated and skilled to provide independent oversight of the company's activities.

Boards must ensure that the following factors are considered in director appointment, succession and nomination processes:

- any skill gaps and the experience of current directors relevant to the company and its strategy
- the size of the board should be sufficient to ensure that there is an adequate number of skilled and independent non-executive directors, without being so large as to be unworkable
- ensure sufficient overlap in director succession so that gaps in skills, experience, subject matter expertise or corporate memory do not occur.

The board should disclose its processes for renewal and composition, including its skills matrix. We encourage entities to provide meaningful information on the mix of skills and experience the board has, and is looking to achieve, along with how the board's composition aligns to the company's strategy and key risks, including material ESG risks.

## 2.1. INDEPENDENCE

The board fulfils its supervisory and advisory functions by bringing an independent perspective to bear. A person who is regarded as an independent non-executive director is expected to be able to make decisions in the best interests of the company, and in a manner that is independent of management and free of any business (or other) relationships that could materially interfere with their judgement. This is particularly the case where there is a potential conflict of interest arising in a board decision, be it actual or perceived.

### Assessment of independence

Investors recognise that independence is determined predominantly by an individual's character and integrity. While independence indicators are useful to highlight potential constraints to a director acting in the best interests of the company over the long-term, written guidelines will not always address particular circumstances. For example, a director may not meet strict independence guidelines but may have a proven record of exercising independent judgement. In such cases, they should not be deemed inappropriate to serve on the board, however the board should explain why they are an appropriate candidate.

We encourage companies to disclose how potential conflicts of interest or affiliations are mitigated by the board. Investors cannot make informed judgements on these issues without adequate company disclosure. As a guide, the following table outlines some circumstances where directors would be considered to be affiliated and non-independent. We evaluate each factor on a case-by-case basis.

| A non-executive director should be independent… | Factors that may compromise independence |
|---|---|
| … of executives and advisers | Employment within the company in the past three years. |
| | Senior employment by a significant professional adviser in the past three years. |
| | Concurrent service between a non-executive director and executive or adviser. |
| … of substantial shareholders | Ownership of more than five per cent of the voting rights in the company's shares. |
| | Being, or having been, an officer, director, representative or employee of such a shareholder. |
| … of customers, suppliers and other service providers | Being a major supplier or customer to the company (or their representative or executive). |
| | Having a material contractual relationship with the company. |
| | Receiving fees for services to the company at a level indicative of either significant involvement in a company's affairs, or significant in relation to the salaries received by directors. |
| … of relationships which may impact decision-making | Relationships (including other directorships past or present). |
| | Benefiting from a related-party transaction. |
| … of incentive pay | Participation in performance incentive schemes, including options that are also granted to executives. |
| … from a relationship with a related-party | Being a spouse, de facto spouse, parent or child of affiliated directors, executive directors, senior executives or advisers. |
| … in a takeover bid | Participating in the bid for the counterparty (either as buyer or seller). |
| …which may be affected by length of tenure | Where the director has served for a significant period on the board, independence may be affected. Individual tenure will be considered in light of broader board renewal. |
| Any other factor that we may consider as materially affecting independence having regard to the specific circumstances of the board's composition, the company and the individual director concerned. | |

## Independence and substantial shareholders

Substantial or founding shareholders who are members of a board or nominate specific persons as directors may perform an important role in the oversight of a company and can make important contributions.

To provide evidence that all shareholder interests are considered, the following is generally expected of the board:

- that it clearly articulates the checks and balances in place
- where potential conflicts of interest arise at the board level, directors with material conflicts of interest should be excluded from decision making and independent non-executive directors should be assigned the lead. This process is particularly important when the board considers related-party transactions
- that it has the character, confidence and strength to question matters raised by substantial shareholders and not merely 'rubber stamp' proposals.

## 2.2. DIVERSITY

Companies are likely to be most successful when they harness collective intelligence and approach problems with cognitive diversity. Diversity of thought assists boards to set and challenge company strategy and to better understand the markets in which they operate.

In selecting directors, the board should consider a range of diversity factors that could add value to board decision making by bringing different perspectives to bear, such as:

- Gender
- Age
- Education and professional experience
- Ethnicity
- Overall board tenure.

The board should also recognise that the benefits of diversity only flow when diverse views are properly heard and considered.

### Gender Diversity

Gender diversity has been a major challenge for Australian boards. We strongly support efforts to improve gender diversity on boards and in management teams.

Our members have endorsed a gender diversity target and expect that at least 30 per cent of the board positions in ASX-listed companies be occupied by women. In addition, companies should set a time frame within which they will achieve gender balance (40:40:20)[6] on their boards.

We work with companies to understand their plans to meet their targets. Our preference is for companies to reform their board's composition in line with the target on a voluntary basis.

Our members are also taking action by voting against the election of directors in companies that have made no progress to improve board gender diversity.

Our gender diversity voting policy is updated periodically and available on our website at *www.acsi.org.au*.

[6] Gender balance typically refers to a minimum of 40 per cent of either gender, with 20 per cent unallocated to allow flexibility for appropriate renewal.

## 2.3. BOARD PROCESSES

### Board evaluation

A process for evaluating the board should be established and a formal board evaluation should be conducted to evaluate group and individual performance, with key findings disclosed.

Board evaluation should:

- assess the board's ability to provide strategic direction and objectives for the company
- determine effectiveness and composition of the board
- identify gaps in skills and experience to promote overall board effectiveness and company performance over the long term
- evaluate performance in managing shareholder and stakeholder expectations.

As a guide, the company should consider using external facilitators to conduct board evaluations periodically (e.g. every two years).

### Director skills and performance assessment

The assessment of director skills and performance should:

- contribute to the effective and cohesive operation of the board
- be relevant and aligned to the company strategy, including the material risks
- be robust and independent. Directors should not be solely responsible for assessing their own skills
- be communicated to shareholders (a skills matrix is an effective tool to demonstrate to shareholders how skills across the boardroom link to the oversight of company operations and strategy).

### Board succession

Board succession should be planned and ongoing. Robust succession processes ensure that boards are regularly renewed with new expertise and thinking.

As part of the succession process:

- There should be sufficient overlap in director succession so that gaps in skills, experience, subject matter expertise or corporate memory do not occur.
- Any future skill gaps should be identified by the board evaluation process.
- When considering a director who holds, or has held, other directorships, the past performance of the director at those companies should be considered.
- On appointment, directors should receive an outline of their rights and obligations arising out of their service contract, the company's constitution, law, rules, regulations and other relevant instruments.
- Directors should communicate their intentions to retire from the board as soon as possible, to assist with succession.
- Directors should disclose their involvement in any legal proceedings (past, present or anticipated).
- The board should not limit the ability of shareholders to nominate and elect additional directors.

### Length of service as a director

We believe that a mix of directors with varying lengths of tenure improves board decision making.

The fact that a director has served on a board for a substantial period does not necessarily mean that she or he has become too close to be considered independent. Many boards consider the impact on independence where a director has served a period of 10 years or more – a standard also reflected in the ASX Corporate Governance Council's *Principles and Recommendations*.

Where a company has long serving directors, we encourage the board to disclose the board renewal process.

### Board committees

The board should ensure that it establishes audit, risk, remuneration and nomination committees, and any other committees as appropriate for the nature of its business.

The board should develop terms of reference outlining the scope and responsibilities of each committee. This includes a policy regarding board expectations about the number of meetings that should occur each year and the obligations on each director to attend. This information should be disclosed in annual reports and revised periodically.

Board committees perform an important role in dealing with matters where executive directors could face a conflict of interest. In general, the following expectations apply:

- A committee should be a reasonable size taking into account the size of the board but should not be so large that it comprises a majority of the board.
- The chair of any board committee should be an independent non-executive director other than the board chair.
- Committees should be majority independent, except the audit committee which should have only independent directors.
- Although it may be appropriate for committees to invite executives and executive directors to be present at meetings, committees should meet regularly without executives present.
- Committees should have the opportunity to select their own service providers and advisers, at a reasonable cost to the company.
- Companies are encouraged to disclose which material service providers the board and/or committees have appointed, the types of services those service providers have supplied, and the types of services supplied by the same service providers to other parts of the company.
- During takeovers and related-party transactions, all committees formed should only comprise directors that are not associated with the counterparty to the transaction.

## Existence of controlling shareholders

Where companies have controlling shareholders, adequate safeguards for minority and non-controlling shareholders should be built into board structures and the company constitution as follows:

- There should be disclosure in the annual report and accounts of all connections and relationships (past and present) between directors and controlling shareholders.
- The existence of any relationship agreements between a company and its controlling shareholder should be disclosed.
- The chair should not have any connection to the controlling shareholder.

Where the controlling shareholder owns or controls, singly or jointly, more than 50 per cent of the voting rights, the controlling shareholder should abstain from voting on the election of any director related to the controlling shareholder.

# 3. REMUNERATION

Executive remuneration should be aligned to the delivery of company strategy, company values, the desired company culture and the company's risk appetite. Executive remuneration should be designed to promote sustainable long-term performance and shareholder value creation.

In setting remuneration structures, the board should identify the long-term value drivers for the company and how these can be best reflected in the remuneration structure and performance hurdles. We support companies taking a bespoke approach that suits the specific needs of the company.

The board should make minimal adjustments, which are consistent over time, in measuring performance outcomes. The board should regularly assess the effectiveness of their remuneration structures, including in respect of managing risk, promoting the desired culture, and reducing the risk of misconduct.

The overall quantum of remuneration should be reasonable and not excessive. Excessive pay, persistently high variable reward outcomes, and lack of alignment with shareholders can each adversely affect a company's reputation and social licence to operate. The board is encouraged to consider internal pay relativities, as unfair treatment can negatively affect employee engagement. Companies should regularly assess gender pay parity and meaningfully disclose findings and action taken.

We support disclosure of the CEO's pay ratio to that of their Australian workforce's median, 25th and 75th percentile pay, with accompanying explanation of any changes over time, along with why the ratios are reasonable (including considering how the ratio is consistent with company's values, strategy and culture).

The manner in which executives are remunerated can provide investors with an insight into the relationship between the board and executives. Shareholders expect remuneration arrangements to be cost effective for the company and outcomes should be the result of bona fide commercial negotiations between the board and key executives.

The board, through the remuneration committee, has a responsibility to develop, implement, monitor and evaluate remuneration processes and outcomes. While the board may seek input from external advisers, the responsibility for remuneration structures, and an assessment of the overall reasonableness of outcomes, remains with the board. To encourage robust oversight of remuneration policy, a remuneration committee should be comprised of only independent non-executive directors of the company, and the committee should actively seek investors' views.

We support the use of 'non-financial' measures. Like financial measures, the hurdles must be objective, transparent, measurable and truly at risk. We refer to 'non-financial' measures as it is a generally understood term, even though we agree with the APRA Capability Review which stated "This Review is careful not to make the distinction between financial and non-financial risks common in discussion of governance, culture and accountability (GCA). Weaknesses in GCA frameworks feed directly into financial safety and stability. Failures of GCA have often been at the heart of financial failures and systemic instability."

We believe that the vote on the remuneration report and the two strikes rule should be supplemented with a binding vote on pay policy every three years. We recognise the importance of the board retaining discretion (and the accompanying accountability) to formulate a pay policy that is appropriate to their company. Nonetheless a company's pay policy should describe certain components so that investors have appropriate information to form a view on how the policy might work in practice, and potential outcomes. The current vote on remuneration outcomes remains important to provide feedback to a company's board on how the pay policy is implemented and we would continue undertaking a careful review to assess implementation and outcomes.

Investors seek information on the rationale underpinning companies' remuneration practices. The board should be ready to justify why remuneration is fair and commercially reasonable having regard to company performance and be able to clearly explain, in plain language, why particular remuneration metrics were considered suitable.

## 3.1. EXECUTIVE REMUNERATION

We do not prefer one particular remuneration structure over another, rather we focus on how the remuneration structures support long-term success. The reasonableness of executive pay will be a function of structure, quantum and application in practice.

We will assess each company's remuneration practice on the information available.

As fixed and variable remuneration are commonly used across different remuneration structures, our expectations are outlined below.

### Fixed remuneration

Once the amount is set, fixed remuneration is paid without a direct link to individual or company performance. Fixed remuneration should be set at a level that is reasonable and reflect an executive's core duties. Companies should explain why fixed remuneration amounts are appropriate.

Increases in fixed remuneration have the potential to significantly inflate total remuneration, particularly where other components of pay are determined as a ratio to fixed remuneration. For example, a fixed pay increase may also increase respective variable remuneration sizes, termination entitlements and superannuation contributions.

Companies should avoid creating perverse incentives for executives by linking fixed pay to company size or simply following benchmarks provided by external advisers. A clear rationale should be provided for any material increase in fixed remuneration.

### Variable remuneration

Variable remuneration may include short-term incentives (such as an annual payment in cash or shares) and long-term incentives (such as share options or share-based incentives).

When using variable remuneration, companies need to clearly explain:

- the purpose of the variable component(s)
- the relevant performance indicators or hurdles, including the use of gateways where applicable
- the rationale and expectations for payment at the relevant levels of performance (such as threshold, target, and exceptional performance or their equivalent measures)
- the proportion of the variable component that is genuinely at risk (for example where 'at target' performance achieves an 80 per cent pay out of maximum variable opportunity, that would suggest that only the remainder of the opportunity is a true 'bonus' component for outperformance and only that 'bonus' component is genuinely at risk)
- the minimum and maximum payment amounts
- how the variable pay component(s) is aligned with the company's strategy and values and the interests of long-term investors.

We see evidence in the market of short-term incentives being paid for performance 'at target'. Payment for performance 'at target' can be considered similar to fixed pay – on the basis that it is reasonable to expect 'at target' performance. While we recognise that different models can be appropriate in different circumstances for different companies, they must be reasonable and accurately disclosed.

We expect companies to explain the rationale for their choice of remuneration practice and explain how the short-term incentive is at risk. We expect to see fluctuation in pay out from year to year, in particular in respect of payment for true outperformance. There should also be genuine potential for zero outcomes, (including for the 'at target' component) where performance indicates that this is appropriate.

Quantum should be assessed and benchmarked based on the expected pay for 'at target' performance (whether or not this includes some short-term incentive component).

Notably, vesting of incentives should not commence when performance is below the median percentile of its peer group.

## ASSESSING REMUNERATION ARRANGEMENTS

The need for alignment between remuneration and the delivery of company strategy means that we will consider whether remuneration practices are designed to reward sustainable long-term performance and shareholder value creation. We will consider the reasonableness of remuneration arrangements holistically, with no single element taking priority over another, by assessing:

- Benchmarking: This should take into account remuneration 'at target' (or equivalent), including both fixed and variable components (along with other benefits) where relevant. Pay for 'at target' performance may simply be fixed pay but could also include any variable pay component that is payable for performance at target. Regardless of structure, quantum should be reasonable.
- Board discretion: The board's record over time of applying its discretion is relevant in assessing remuneration proposals as persistently high variable remuneration outcomes imply either performance hurdles are not sufficiently demanding or the board is reluctant to use its discretion. The board is encouraged to apply discretion in pay outcomes, in particular during periods of poor performance or in other circumstances where a perverse outcome would eventuate.
- Quantum: The fixed pay, expected pay for 'at target' performance and the maximum total pay (both actual and potential) should be reasonable. Beyond benchmarking, pay quantum should be set with consideration to the company's sector, peer group, industrial obligations, the ratio to the company's median Australian worker, employee engagement, community expectations and reputational implications. There should also be evidence of arm's-length negotiation and pay should reflect the degree of complexity of the company's operations.
- Alignment: The remuneration structure as a whole (as well as each component) should align with company strategy, values, risk appetite and the interests of long-term investors. This should include continued alignment for a period after the executive has departed the organisation, in respect of decisions made during the executive's tenure.
- Disclosure of performance hurdles: Performance hurdles are thresholds above which variable remuneration vests for executives. We will consider what constitutes sufficiently demanding hurdles on a case-by-case basis. Companies need to explain how performance thresholds operate and why they are appropriate. Variability in outcomes over time suggests that incentives are genuinely at risk and hurdles are appropriate. As a first principle, performance hurdles should be disclosed. Where a board believes that commercial confidentiality applies, companies should disclose a detailed summary of the performance conditions adopted during the financial year for variable remuneration arrangements and disclose the relevant performance conditions retrospectively.
- Long-term incentives (LTIs): Grants of long-term incentive instruments should incorporate stretch performance hurdles that are appropriate to the company and its strategy. Hurdles should minimise the potential for perverse incentives for executives and incorporate a performance measurement period that is aligned with business strategy and cycle with a minimum of at least three years, and longer performance periods encouraged. Rather than adopting what is seen as an 'acceptable' measure, boards should aim to select the most appropriate hurdles for the company.
- 'Combined' incentive plans: Combined incentive plans need to strike an appropriate balance between simplicity and encouraging performance over the long-term. If performance targets are measured over a shorter period, then the deferral period should be longer, to act as a balance and encourage long-term performance. Quantum should be adjusted to reflect any reduction in risk to the executive.
- Use financial and other appropriate measures: Companies should consider how to incentivise executive performance across a range of material business areas. Financial measures should be supplemented by 'non-financial' measures which, while not directly measured in short-term financial accounts or share price metrics, can be material drivers for long-term financial performance. Some examples include strategic or project-based targets, safety performance, customer satisfaction, employee turnover and achievement of ESG performance targets. 'Non-financial' measures should be quantitative and objective.

- Re-testing of performance hurdles: Where performance conditions or hurdles have not been met at the vesting date, we are opposed to the re-testing of performance hurdles without a good reason to do so.
- Cash and equity mix: Companies should minimise cash payments and seek to deliver the bulk of executive pay in equity that vests over time, based on the achievement of demanding performance targets. Deferred equity should also be considered for the delivery of annual variable remuneration.
- Complexity: Companies should clearly explain their remuneration arrangements so that investors can assess how remuneration is encouraging performance over the long-term. If this is not possible, companies should consider whether their remuneration arrangements are too complex.
- Shareholder approval for equity grants: Any use of equity in senior executive or director remuneration should only occur with prior approval from shareholders. This includes shares purchased on-market for the remuneration of directors (outside of salary sacrifice). Equity grants should be put to shareholders for consideration on an annual basis. Companies should respect the views of the majority of their shareholders' wishes and avoid settling awards (in cash or via on-market purchase of securities) if a grant has not been approved.
- Claw-back mechanisms: While not appropriate to all incentive schemes, the board should be able to claw back all variable pay in the event of poor performance or excessive risk-taking.
- Variable remuneration deferral: If suitably structured, the deferral of variable remuneration can increase the company's alignment with shareholders and retention of executives.
- Sign-on awards: Generous sign-on awards to new executives should be avoided. In assessing sign-on awards, we will consider the evidence of a bona fide negotiation to secure the executive, the weighting of the grant to long-term performance-based components, and the quantum of the grant.

## REMUNERATION PRACTICES WE OPPOSE

We generally oppose the following practices:

- incentive pay, including options, for non-executive directors
- the payment of incentives for making acquisitions, rather than as a measure of the value delivered to shareholders over time
- fixed pay increases which simply represent a 'catch up' for executives in cases where a pay freeze has been applied
- the use of normalised or adjusted, earnings figures in incentive plans which shield executives from costs incurred by the company. We will assess the board's rationale for adjustment on a case-by-case basis, including whether adjustments are applied consistently over time and transparently disclosed
- the payment of dividends to executives on unvested (and therefore unearned) incentive shares
- retention payments made without a clear and robust rationale
- waiving of performance requirements and time conditions on a change of control. We are, however, prepared to consider vesting pro-rata for the length of the performance period completed
- long-term incentives without performance hurdles (tenure is not considered an appropriate hurdle), even where the grant includes options with a premium exercise price. These will be assessed on a case-by-case basis, taking into account the company's particular circumstances.

## Termination payments

We do not support termination pay outcomes that can be regarded as a reward for mediocre performance or failure. Termination benefits awarded must be consistent with the termination benefits previously disclosed by the company.

We do not support guaranteed termination payments that exceed 12 months' fixed pay. We will assess other termination payments in light of the surrounding circumstances.

## ASSESSING TERMINATION PAY RESOLUTIONS

We will consider the terms of all termination benefits or long-term incentives, which exceed the statutory threshold of 12 months' fixed pay, on a case-by-case basis. Termination payments are a cost to the company. The board should therefore seek to limit termination payments – particularly in cases where an executive is terminated for poor performance.

Where approval is being sought for the continuation of long-term incentives for 'good leavers' on termination or genuine retirement, our general expectation is that incentives will be tested on a pro-rata basis with the board maintaining discretion to reduce or cancel incentives, depending on the circumstances.

## Two strikes

The introduction of the 'two strikes' rule has been successful in increasing engagement between Australian boards and their shareholders on issues of executive remuneration.

We support the 'two strikes' rule as a mechanism to assist shareholders to hold the board and/or individual directors accountable for remuneration decisions and general company performance where a company has received substantial 'against' votes on remuneration reports in consecutive years.

We expect all companies that have received a first strike, or a high vote against (but falling short of a strike), to respond to investor concerns by engaging with investors to address material remuneration issues. We will assess remuneration reports independently of board spill resolutions at companies which have received a first strike.

## ASSESSING BOARD SPILL RESOLUTIONS

We consider each board spill resolution on a case-by-case basis. We will assess board spill resolutions with regard to:

- company performance and the performance of the board and management
- shareholder engagement and changes made by the board to address investor concerns
- the materiality of underlying remuneration issues at the company.

In all cases, our recommendation will be based on our assessment of what will provide the best outcome for shareholders, taking into account all known circumstances at the company.

## 3.2. NON-EXECUTIVE DIRECTOR REMUNERATION

Non-executive directors should generally be remunerated by way of reasonable fixed fees only. Remuneration in shares is acceptable but we do not support the payment of share options and other incentives which introduce leverage into non-executive remuneration.

We support policies that require non-executive directors to hold a significant amount of company shares. Such policies should also require that directors participate in capital raisings on a pro-rata basis only. Companies should disclose their policies, and compliance by directors.

## 3.3. REMUNERATION DISCLOSURE

Remuneration reports should facilitate investor understanding of a company's remuneration policies and practices. Remuneration reports provide an opportunity to explain the company's approach to remuneration and the link between remuneration, strategy and culture. Disclosure should clearly explain the company's approach to the principles set out in these Guidelines.

In addition to statutory reporting requirements, companies should use the remuneration report to explain how remuneration drives and rewards company performance and manages risk, with reference to strategic goals and returns to shareholders. Disclosure should also include information on how the board assesses the effectiveness of remuneration structures. We encourage a narrative approach to remuneration reporting, where a company explains in plain language why its remuneration practices are appropriate.

# 4. VOTING RIGHTS AND COMPANY MEETINGS

Participation in company meetings is a fundamental right of shareholders and a cornerstone of corporate governance practice.

Corporate governance structures and practices should protect and enhance the board's accountability to shareholders. Companies should not take any actions which disenfranchise shareholders or inhibit shareholder participation in company meetings.

We support a 'one share, one vote' capital structure. We do not support the existence of non-voting shares.

## 4.1. VOTING

Voting is an important means by which shareholders can hold directors accountable for their actions and the future direction of the company.

Voting is a key mechanism by which shareholders play a role in the governance of the company. Accordingly, shareholders have a legitimate expectation that companies will provide them with efficient access to the voting process.

We support company initiatives designed to overcome impediments and constraints to more active shareholder involvement.

In relation to the meeting process, we are guided by two core principles:

- Shareholders should not have to meet unduly difficult thresholds to call general meetings, propose resolutions or otherwise exercise their shareholder rights.
- We favour the use of technology to improve shareholder participation.

### Voting rights and meeting process

All directors, senior executives and the external auditor should attend AGMs and be available, when requested by the chair, to answer shareholders' questions.

We support:

- confidential shareholder voting
- voting separately where issues are unrelated – resolutions should not be bundled
- chairs exercising proxies in accordance with the way they are directed
- secure electronic voting, not paper-based voting
- the creation of an audit trail by which shareholders can receive confirmation that their votes have been processed
- shareholders having the right to vote on corporate governance decisions, such as director election or re-election, executive and director remuneration policy, appointment of external auditor and all constitutional changes
- shareholder approval for the acquisition of securities in the company by a director, unless it is under a bona fide salary sacrifice arrangement from an executive's fixed remuneration
- all votes being decided by poll. Polls should not be declared at shareholder meetings until all agenda items have been discussed and shareholders have had the opportunity to ask and receive answers to questions concerning them
- procedures to ensure votes are properly counted and recorded. If over-voting has occurred, the company should trace individual shareholder votes. If they cannot trace the source, they should disclose that a block of shares was excluded because of over-voting.

### Information disclosure

In relation to company meetings, we support:

- provision of adequate, accurate, unbiased and timely information to enable informed decisions by shareholders
- additional information regarding a general meeting item being made available upon request
- shareholders, including beneficial owners of shares, being able to receive documents directly from the company
- shareholders having reasonable access to minutes of general meetings
- detailed announcements of results within 24 hours of the closure of the meeting. This should include the total votes cast, for and against, and abstentions for each resolution. It should also include the actions that the company intends to take when a significant proportion of votes have been cast in opposition to the board's recommendation
- appropriate disclosure in relation to how undirected proxies have been voted by the chair.

### Adjournment of company meetings

Appropriate notice of shareholder meetings, including notice concerning any change in meeting date, time, and place or shareholder action, should be given to shareholders in a manner and within time frames which will ensure that shareholders have a reasonable opportunity to exercise their vote. We support the retention of a 28-day notice of general meeting for listed companies.

Companies should not adjourn a meeting for the purpose of soliciting more votes. Adjourning a meeting should only be done for compelling reasons, such as security, vote fraud, problems with the voting process or lack of a quorum. If there is evidence that a company meeting has been adjourned for improper reasons, we may recommend against the re-election of the chair and any non-executive directors up for re-election who were present at the relevant meeting.

We encourage companies to hold shareholder meetings by remote communication (i.e. electronic meetings) only as a supplement to traditional in-person shareholder meetings, and not as a substitute.

## 4.2. BOARD ACCOUNTABILITY TO SHAREHOLDERS AT COMPANY MEETINGS

Corporate governance structures and practices should protect and enhance board accountability. As such, the board should submit, for prior shareholder approval and action, any proposal that alters the fundamental relationship between shareholders and the board.

For example, major corporate changes, which in substance or effect may impact shareholder equity or erode share ownership rights, should be submitted to a vote by shareholders.

Sufficient time and information should be given to shareholders (including balanced assessment of relevant issues) to enable them to make informed judgements on these resolutions.

All director election and re-election resolutions should be decided by a majority shareholder vote. The board should not employ a 'no vacancy' policy or seek to utilise a statutory board-limit resolution where the size of the board is below the maximum size defined in the company's constitution.

## 4.3. ASSESSMENT OF SHAREHOLDER RESOLUTIONS

The ability to propose resolutions at a company meeting is an important shareholder right. In practice, shareholder resolutions often require a proposal to amend a company's constitution. This process is not the most effective means for shareholders to comment on a range of matters including governance or ESG issues.

We support the development of a right for shareholders to bring a non-binding proposals in the Australian market, subject to appropriate controls or support (such as the five per cent or 100 member rule). Such a policy change could see shareholder proposals which are not framed as constitutional amendments, and due to their non-binding nature, would not disrupt the board's role.

Any shareholder proposal approved by a majority of votes should be adopted by the board or a detailed explanation of the board's progress towards implementing the proposal included in the company's next annual report.

## ASSESSING SHAREHOLDER RESOLUTIONS

We will assess shareholder resolutions on a case-by-case basis, in the context of how they support value creation over the long term. We will generally favour proposals that result in the disclosure of information which is useful to shareholders and not overly prejudicial to the company's commercial interests.

Resolutions should be linked to improved governance or transparency within the company and promote effective management of risk over the long-term. We will judge each resolution based on what is in the best interests of shareholders over the long-term and a thorough assessment of any potential impacts on the company.

We expect the board to reasonably consider the substance of shareholder resolutions and to offer to engage with their proponents. If the board recommends an 'against' vote, we expect the board to publicly explain why its position better serves shareholders' long-term interests.

We will take the following considerations into account when evaluating shareholder proposals:

- Would adopting this proposal protect or increase long-term shareholder value or increase shareholder rights?
- Does the proposal address a material issue?
- Has the company already responded adequately to the shareholder concerns outlined in the proposal?
- Can the issue be dealt with more effectively through legislation or regulation?
- How does the company's approach to addressing the issue compare with its peers or standard industry practice?
- In instances where the proposal is seeking increased disclosure or transparency:
  - Is there already adequate information publicly available from the company?
  - Would adopting the proposal require the company to reveal commercially sensitive information?

### Stapled and externally-managed entities

Stapled and externally-managed entities should:

- Have boards that comprise a majority of directors who are independent of the external manager and are not appointed by the external manager.
- Appoint auditors who are separate from the auditors of the external manager.
- Ensure that remuneration arrangements for the external manager are aligned with shareholder interests and disclose the basis on which management fees are calculated - including the potential termination fees which would be payable.

# 5. MANAGING ESG RISKS AND OPPORTUNITIES

Companies that are well governed and effectively manage their environmental and social impact are more sustainable over the long term.

Accordingly, consideration of ESG issues and the management of these issues, alongside other risk and return factors, form part of our members' analysis when evaluating the operational performance and financial prospects of investee companies.

Companies are more likely to attract equity finance if they provide investors with accurate, timely, and relevant information that demonstrates ESG risks and opportunities material to the business are being well managed.

## 5.1. BOARD ESG OVERSIGHT

We expect the board to maintain robust oversight of all ESG issues that materially affect the business. We expect that the board will:

- ensure ESG risk is integrated into the company's risk frameworks, including ensuring that ESG risks are included in the company's risk appetite
- recognise that companies rely on a range of stakeholders to operate and succeed, including employees, communities, governments, regulators, investors, consumers and suppliers and that acting in the best interests of the company over the long-term requires considering the interests of the range of stakeholders
- clearly identify their key stakeholders and have a strategy for effective engagement
- ensure that it receives quality information to impartially identify and assess environmental and social risks and opportunities material to the company's short and long-term value. Does the board receive regular briefings or advice from internal and external topic experts? Is knowledge of ESG issues considered in the selection and training of directors?
- regularly assess the significance of current or emerging social and environmental issues relevant to the business and ensure there is adequate time to discuss ESG risks and opportunities at board meetings
- ensure the company has effective governance, oversight and management systems in place for environmental and social issues. For example, audit and performance assessment systems, as well as appropriate remuneration incentives
- ensure ESG risks are included in the board's monitoring whether management is operating within the mandated risk appetite.

## 5.2. ESG DISCLOSURE

Disclosing information on a range of ESG issues provides an opportunity for the company's board and management to demonstrate strategic thinking in relation to long-term financial sustainability beyond the achievement of short-term financial targets.

Companies are required to disclose their material ESG risks. ASX listed companies must disclose on an 'if not, why not' basis whether they have any material exposure to environmental or social risks and, if so, how they manage or intend to manage those risks.[7] Further, a company's operating and financial review should include a discussion of environmental and other sustainability risks where those risks could affect the company's achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the company and its business strategy.[8]

We believe that most listed entities will have some material ESG risks. Effective ESG disclosure should:

- identify the environmental and social issues that may have a material impact on the company's value over the short, medium and long term
- provide both data and a supporting narrative explaining why the issue is material and where the material impact occurs in the value chain
- recognise the impact that the company has on stakeholders such as employees, communities, governments, regulators, investors, consumers and suppliers and articulate how the company takes into account the views of its stakeholders

[7] ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 4th Edition, Recommendation 7.4.
[8] ASIC, *Regulatory Guide 247 'Effective disclosure in an operating and financial review'*, issued 4 March 2013.

- describe policies and procedures for managing the environmental or social impact over the short and long term and demonstrate how policies and procedures are implemented by the company
- include information about how the company evaluates whether its ESG management systems are effective, including performance against metrics and targets.

Companies should update investors regularly throughout the year on material ESG issues in engagement meetings, corporate reporting and on the company's website.

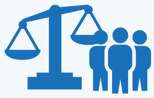
## Reference guides

ESG issues are generally company or industry specific. Every company is expected to have processes for identifying ESG issues relevant to its operations. Some leading frameworks that can help guide companies in the identification of material ESG issues for management and reporting include:

- Global Reporting Initiative's *Sustainability Reporting Standards*
- International Integrated Reporting Council's (IIRC) *International <IR> framework* for integrated corporate reporting
- guides prepared by the United Nations' *Global Compact Network Australia*, the *Sustainability Accounting Standards Board*, the *Principles for Responsible Investment*
- the *OECD Guidelines for Multinational Enterprises*
- the *Sustainable Development Goals*
- ACSI and the Financial Services Council's *ESG Reporting Guide for Companies 2015*.

On the pages that follow, we discuss four ESG issues that impact the majority of ASX200 companies. The issues are not dealt with comprehensively and are included in these Guidelines by way of example. The issues are:

Climate change



Workforce and human rights

Corporate culture


Tax practice.

## 5.3. CLIMATE CHANGE

In late 2015, Australia, along with nearly 200 other countries, signed up to the Paris Agreement, which sets out the goal of limiting global warming to well below 2°C and moving towards 1.5 °C, which will require a shift to net zero emissions by 2050.

We believe a planned transition to a low carbon economy is preferable to a disorderly transition on the basis that a planned transition will result in better economic outcomes, is better able to take account of the needs of various stakeholders, and better manage uncertainty and volatility.

Financial system participants and regulators around the world have acknowledged the significant financial risks associated with climate change.[9] There is an expectation that boards should consider the risks associated with climate change and form a view on the materiality of these risks for the company.

### Sources of investment risk and opportunity

Climate change presents financial risks and opportunities for business and investors. There are physical risks and opportunities, associated with rising mean global temperatures, rising sea levels and increased severity of extreme weather events, and transitional risks and opportunities as the economy adjusts to a lower carbon future.

| Examples of climate change risks and opportunities | Potential financial impacts |
|---|---|
| Regulatory: standards, taxes, carbon pricing. | Increased operating costs, write-offs and early retirement of assets due to policy change, impaired assets, increased insurance premiums. |
| Technology: substitution of existing products and services with lower emissions options. | Impairments and early retirement of existing assets, upfront capital investments in technology development. |
| Market: changing consumer preferences and changing capital flows. | Reduced demand for high carbon intensive products with decreasing capital availability; increased demand for low-carbon intensity products, with increasing capital availability. |
| Reputation: increased stakeholder concern or negative stakeholder feedback. | Board and management attention diverted from operational activities to respond. |
| Physical: extreme weather events, rising sea levels. | Physical damage to assets, insurability, impact on economic growth and markets. |

[9] For example, the Network for Greening the Financial System '*Climate Change as a source of financial risk*' April 2019; Australian Prudential Regulation Authority '*Information Paper: Climate Change: Awareness to Action*' March 2019; Australian Securities and Investments Commission '*Climate Risk disclosure by Australian listed companies*' Sept 2018; Mark Carney, Governor, Bank of England Speech: '*A new Horizon*' March 2019; Dr Guy Debelle; Deputy Governor Reserve Bank of Australia Speech '*Climate Change and the Economy*' March 2019

## Our expectations

We expect to understand whether a company can:

- successfully identify and manage the climate change risks and opportunities it faces
- demonstrate future viability and resilience by testing business strategy against a range of plausible but divergent climate futures, including at a minimum: a Paris-aligned scenario and a scenario equivalent to the IPCC's Representative Concentration Pathway (RCP) 8.5 physical risk scenario
- achieve cost savings through efficiencies and identify low carbon opportunities.

We recommend the risk assessment and reporting framework in the Financial Stability Board's *Taskforce on Climate-related Financial Disclosure* (TCFD). The TCFD recommends companies disclose their governance and risk management processes for identifying, assessing and managing climate-related risks and opportunities.

Where companies identify climate change risks as material, disclosures should extend to discussing the strategy, as well as metrics and targets, used to manage the risk. The TCFD also recommends that companies consider describing how related performance metrics are incorporated into remuneration policies.

We expect companies materially exposed to climate change risk to make substantive climate-related disclosures, by reference to the TCFD recommended disclosures.

The table below is extracted from the TCFD recommended disclosures from June 2017:

| Climate risk management themes | TCFD recommended disclosures |
|---|---|
| Governance | Describe the board's oversight of climate-related risks and opportunities.<br>Describe management's role in assessing and managing climate-related risks and opportunities. |
| Strategy* | Describe the climate-related risks and opportunities the company has identified over the short, medium and long term.<br>Describe the impact of climate-related risks and opportunities on the company's business, strategy and financial planning.<br>Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. |
| Risk Management | Describe the company's process for identifying and assessing climate-related risks.<br>Describe the company's processes for managing climate-related risks.<br>Describe how processes for identifying, assessing and managing climate-related risks are integrated into the company's overall risk management. |
| Metrics and targets* | Describe the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.<br>Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions, and related risks.<br>Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets. |

* Subject to a materiality assessment

Where companies are members of industry associations that advocate on climate change, we expect companies to regularly compare their views with those of the industry associations and disclose the results. We expect disclosure of any material policy differences (on an issue-by-issue basis) and how the company intends to respond to these differences.

## 5.4. WORKFORCE AND HUMAN RIGHTS

Traditionally, scrutiny of human rights issues has focused on workforce abuses such as discrimination, restrictions on freedom of association, slavery, child labour, trafficking, unfair wages or unacceptably poor or dangerous working conditions.

We expect companies to ensure that their workforce and human rights risks are mitigated, whether in the company's direct operations or in their supply chains.

We encourage companies to recognise other potentially relevant human rights impacts that can arise in complex supply chains such as rights related to displacement and resettlement, the rights of Indigenous peoples, and the right to personal safety and security.

An authoritative list of the core internationally recognised human rights is contained in the *International Bill of Human Rights* along with the International Labour Organizations' *Declaration on Fundamental Principles and Rights at Work*.

We welcome the introduction of a Modern Slavery Act in Australia to require some companies to report on the steps they are taking identify and eradicate slavery from their supply chains. The Act defines modern slavery to include eight types of serious exploitation – trafficking in persons, slavery, servitude, forced marriage, forced labour, debt bondage, the worst forms of child labour and deceptive recruiting for labour or services.

Public reporting will allow investors to consider the relevant risks and influence business action on modern slavery. We expect companies to make disclosures in the spirit of the new Act, in particular to address both the identification of modern slavery risk, along with action to address the risks identified. As reporting progresses, investors will further develop their views on what constitutes meaningful action and disclosure in relation to modern slavery risk.

Our 2019 research '*ESG Reporting by the ASX200*' has highlighted deficiencies in safety reporting. In particular, there is no requirement for companies to report workplace fatalities to the market. However, safety data is material to our members. A lack of transparency may mask the extent of tragedies and slow the identification of systemic risk. Our view is that good practice safety reporting includes reporting any fatalities to the market.

### Sources of investment risk and opportunity

| Examples of human rights risks | Potential financial impacts |
|---|---|
| Regulatory: standards, laws, exposure to litigation. | Increased costs associated with regulatory compliance; civil penalties, compensation, or criminal sanctions for workforce exploitation and human rights violations. |
| Operations: allegations of workforce exploitation or human rights abuses; serious injury or loss of life. | Increased chance of operational shut downs or disruptions; board and management attention diverted from operational activities to respond; sub-optimal productivity. |
| Reputation: greater consumer awareness and concern about workforce exploitation and human rights violations; increased shareholder scrutiny; increased pressure from concerned stakeholders. | Loss of market share as consumers move to purchase products from companies that respect human rights and that have appropriate monitoring systems in place. |
| Market: growth of global supply chains and Australia's significant economic reliance on imports from countries highly vulnerable to labour exploitation. | Increased likelihood that large companies business' inputs are implicated in forced labour through global supply chains. |

## Our expectations

We expect companies to manage material workforce and human rights risks and:

- actively engage with its employees, customers, supply chains and other relevant stakeholders to understand and assess human rights impacts
- avoid causing or contributing to adverse human rights impacts in their own operations and to address such impacts when they occur
- mitigate the risks of adverse human rights impacts in their supply chains and, where possible, use their leverage to address impacts.

We expect companies to disclose material human rights risks and impacts including:

- how the company identifies, prevents, mitigates and accounts for workforce and human rights risks in its operations and supply chains, e.g. its risk assessment process, policies and procedures.
- how the company's due diligence processes are implemented and tested for effectiveness over time. Does the company incorporate the outcomes of its risk assessment in procurement decisions? Are independent third-party audits conducted and, if so, how far down the supply chain?
- if workforce or human rights risks are identified, how does the company respond to address the impacts? What remediation processes are in place?
- what accountability standards does the company have for employees or contractors that fail to meet company standards on workforce and human rights risk management?

For example, disclosures should reference the performance of the company on workplace safety (including any workplace fatalities); modern slavery and supply chains; culture, training and development; workplace diversity and discrimination; labour relations; and whistleblowing and grievance mechanisms.

## Further references

We refer companies to:

- the United Nations *Guiding Principles on Business and Human Rights* and the United Nations *Guiding Principles Reporting Framework*.
- for extractive sector companies, the *Voluntary Principles on Security and Human Rights* are also relevant.

## 5.5. CORPORATE CULTURE

History demonstrates that corporate misconduct can have dire consequences for shareholder value. Poor corporate culture can facilitate misconduct, which can adversely affect a company's social licence to operate. In its most extreme form, misconduct can result in bankruptcy. Conversely, a robust corporate culture can contribute to the attraction and retention of talent, the development and maintenance of reputation and trust, as well as supporting the effectiveness and efficiency of operational management. All of these elements can contribute to financial strength and resilience.

### Sources of investment risk and opportunity

Corporate culture presents a set of unique (often intangible) risks and opportunities which can be challenging to identify, manage and measure. With this issue, the destruction of value is easier to demonstrate than the creation of value. Unhealthy corporate cultures can develop within departments or operational 'silos'. If high risk behaviours go unchecked, this can lead to major financial losses.

| Policies and processes which influence corporate culture | Potential financial and reputation impacts |
|---|---|
| Remuneration | Remuneration structures serve to reward what the organisation treats as important and therefore must be aligned with an entity's values, strategy, desired culture and risk appetite. Remuneration structures can create perverse incentives. For example, they can incentivise an excessive drive for sales at the expense of customer outcomes, adversely affecting value over the long-term. |
| Bribery and corruption | Increased capacity of regulators to track financial transactions and gather electronic information about potentially illegal payments to third party agents or inappropriate payments to government officials has led to a higher level of fines for Australian companies in the United States and Australia. In addition to the regulatory issues, allegations or instances of bribery or corruption cause reputational harm that can adversely affect the long-term value for investors. |
| Whistle-blowing | Weak whistle-blowing processes mean that early detection of inappropriate corporate behavior may not occur and instead inappropriate behavior persists. |

### Our expectations

We expect companies to:

- articulate and disclose their values to assist in setting the tone for behavioural expectations of employees, contractors, suppliers and other partners
- encourage a 'speak-up' culture where boards, executives, managers and employees raise concerns such that there is robust decision-making and corrective management steps where poor behaviours are detected and effectively addressed
- encourage a 'no blame' culture supported by the board and the CEO, where it is 'safe' to make mistakes and where the organisation is quick to learn.

Importantly:

- The board and senior management set the tone from the top and should monitor the drivers that shape culture and seek insights into how culture is aligned to the organisation's values. The board should oversee regular assessments of corporate culture to identify any issues or opportunities and take action accordingly. The board should take into account a wide range of measures in overseeing culture, including external inputs.
- When selecting a CEO, sufficient weight should be given to the CEO's capacity to deliver a strong culture.
- Companies should make meaningful disclosures in relation to corporate culture, for example in relation to culture assessments, action taken to promote compliance with corporate values and codes of conduct, and any material breaches and accompanying action.
- Companies should explain and disclose relevant metrics that demonstrate how they perform in managing the company's culture. These will naturally differ from company to company but may include measures of employee and customer satisfaction levels, turnover, absenteeism and regulatory and compliance measures. External and objective measures should be included.

| Corporate culture tools | Our expectations |
|---|---|
| Codes of Conduct | Companies should have a code of conduct that is tailored to the risks faced by the business. Companies should invest adequate resources into training staff and communicating about the code of conduct, to ensure that material risks are effectively managed and performance is measured.<br><br>As the business evolves, the risks included in the code and training should be revised.<br><br>Codes of conduct should be regularly reviewed, use examples, 'question and answers' or case studies and cover key topics including equal opportunity/non-discrimination, safety, gifts, environment, bribery, fraud/ corruption; conflict of interest, bullying, human rights, anti-competition/anti-trust/ anti money laundering/ counter-terrorism finance; data protection/cybercrime and fair dealing/product responsibility. |
| Bribery and corruption | Companies should have and disclose an anti-bribery and corruption policy that ensures that the board or a committee of the board is informed of breaches of the policy.<br><br>Disclosure should include action taken to promote compliance and whether there have been material breaches of the policy, and how they have been addressed.<br><br>For guidance and suggestions for the content of a policy, we refer to the ICGN's ***Guidance on Anti-Corruption Practices*** and the ASX Corporate Governance Principles and Recommendations (Recommendation 3.4). |
| Whistleblower processes | Companies should have and disclose a whistleblower policy incorporating an independent, confidential mechanism whereby an employee, supplier or other stakeholder can raise (without fear of retribution) instances of potential or suspected breaches of the company's code of ethics or relevant law, including on an anonymous basis.<br><br>Companies should design processes to investigate concerns raised by whistleblowers and take disciplinary action where appropriate. The focus should be to encourage a pro-disclosure culture with robust internal reporting. |

## 5.6. TAX PRACTICES

In a global economic landscape, the issue of adopting aggressive tax planning strategies has become a key focus area for governments, international regulators and civil society.

### Sources of investment risk

An aggressive corporate approach to tax planning is a concern for long-term investors as it has the potential to:

- create earnings risks and lead to governance problems
- damage reputation and brand value
- cause macroeconomic and societal distortions.

### Our expectations

Investors benefit from an enhanced level of corporate income tax-related disclosure addressing tax policy, governance and risk management, and performance. We encourage companies to adopt the Board of Taxation's Voluntary Tax Transparency Code.

Comprehensive disclosure about tax practices include:

- disclosure of a tax policy signed by board-level representatives outlining the company's approach to taxation and how this approach is aligned with its business and sustainability strategy
- evidence of tax governance as part of the risk oversight mandate of the board and management of the tax policy and related risks
- details of tax strategies, tax-related risks, inter-company debt balances, material tax incentives, detail on any gap between the effective tax rate and the statutory tax rate, country-by-country activities and current disputes with tax authorities.

### References

We refer companies to the PRI's *Investors' recommendations on corporate income tax disclosures* for elaboration on the above points.

# 6. FINANCIAL INTEGRITY

Companies must provide an accurate and true representation of their financial management, performance and reporting in line with relevant legal and accounting standards.

As Justice Middleton held in the *Centro Case*:

*All directors must carefully read and understand financial statements before they form the opinions which are to be expressed in the declaration required... Such a reading and understanding would require the director to consider whether the financial statements were consistent with his or her own knowledge of the company's financial position. This accumulated knowledge arises from a number of responsibilities a director has in carrying out the role and function of a director.*[10]

The audit committee and auditors execute many of the responsibilities regarding financial integrity. However, the full board remains ultimately responsible for the oversight of a company's financial integrity. Where there is a material failure in oversight of financial integrity, we will consider recommending a vote against the re-election of relevant directors.

## 6.1. AUDIT COMMITTEE

### Role

The audit committee's role is to assist the board to discharge its responsibilities in connection with the financial management, performance and financial reporting of the company.

### Composition

Our composition requirements include:

- ensuring adequate technical expertise to maintain diligent independent oversight and scrutiny
- all audit committee members be independent directors, notwithstanding that the ASX Corporate Governance Principles require only a majority of the audit committee members be independent directors
- ensuring discussions with external and internal auditors can occur without executives and executive directors present.

## 6.2. AUDITOR RESPONSIBILITIES

Auditors play a key role in assisting the audit committee to discharge its responsibilities and so must meet appropriate, ongoing competency requirements established by the audit committee.

Auditors must provide reports of their activities to the audit committee and must be present at AGMs to answer shareholders' questions.

## 6.3. AUDITOR INDEPENDENCE

### General requirement

External auditors (including the firm and individual members of the audit team) must be, and be perceived to be, independent of the company (including its directors and executives as individuals).

To be independent, there should be no significant financial, business or employment relationship (defined below) between the company and the audit partner or the audit firm:

- financial relationships arise where the auditor:
  - directly invests in the company
  - has a material indirect investment in the company
  - is involved in loans to or from the company.
- business relationships arise where the auditor has a business relationship with the company that is not insignificant to the auditor
- employment relationships arise where the company employs:
  - current or former partners or employees of an auditor
  - an immediate family member of one of the auditors who can affect the audit.

The law requires auditors to provide an annual statement of independence detailing whether there were any circumstances that may affect independence. If there are such circumstances, an assurance should be provided that the audit has not been materially compromised.

[10] ASIC v Healey & Ors [2011] FCA 717.

## Non-audit services

An audit firm can provide a limited range of non-auditing services. The law requires listed companies to disclose fees paid to an audit firm for non-audit services and the level and nature of the non-audit services performed. Auditors must provide reports to the audit committee outlining the provision and quantum of non-audit services. The audit committee must approve these.

The ratio of audit to non-audit fees is a useful metric in assessing whether the provision of non-auditing services affects independence. Boards should ensure that this ratio always remains low to reduce potential, or perceived, conflicts of interest. Where the amount paid for non-audit services is persistently higher than 50 per cent of the total fees paid to the auditor, we expect the board to explain why this is the case. We will consider these issues when recommending on the re-election of audit committee members.

Some non-audit services should never be provided as they may compromise independence. These include:

- preparing accounting records and financial statements
- valuation services
- internal audit services
- strategic taxation advice
- services that may result in the situation where the auditor is required to audit its own work.

## Familiarity and rotation

Signing audit partners must be rotated every five years in accordance with the law. If boards decide to extend the audit partner's tenure, they should disclose their reasons for doing so.

Companies should rotate audit firms every 10 to 12 years. If the board decides not to rotate audit firms, they should disclose their reasons for not doing so.

# 7. CAPITAL STRUCTURE AND SHAREHOLDER RIGHTS

Major equity capital raisings, share buybacks and mergers and acquisitions have the potential to inequitably transfer or destroy shareholder value. They may also increase the potential for conflicts of interests between shareholders and company executives or their advisers.

It is the board's responsibility to exercise independent judgement to ensure that these major transactions are conducted in accordance with existing shareholders' interests.

## 7.1. CAPITAL RAISINGS

The board must maintain effective oversight of management and external advisers in equity capital raisings to ensure they are conducted in the best interests of shareholders.

The board should seek to minimise the costs of raising new equity, and to ensure that the fees paid to advisers, including investment banks and underwriters, reflect the actual value delivered and the risks incurred.[11]

We provide the following guidance to boards on oversight of capital raisings.

### Respecting existing shareholders' interests

Equity capital raisings have the potential to dilute shareholders' investments. As such, companies should respect the interests of existing shareholders by endeavouring to raise new equity capital in such a way that all existing shareholders have an opportunity to maintain their interest, or be compensated for the dilution of their interest. We consider that a renounceable rights issue (also known as an entitlement offer) best meets this requirement.

### Non pro-rata capital raisings

Where it is not practical to raise capital on a pro-rata basis, the participation of existing shareholders in any capital raising should be prioritised. Where equity capital is allocated without regard to existing shareholders' interests (or where no compensation has been offered for dilution, as in the case of a non-renounceable entitlement offer) companies should provide disclosure to the market of:

- how the board oversaw the capital-raising process
- how the capital raised was priced
- why it was necessary to disregard the interests of existing shareholders
- the identity of advisers and underwriters
- the fees paid to advisers and underwriters
- any differential in the fees paid to underwriters and those paid to sub-underwriters.

[11] ACSI's 2014 research report *Underwriting of Rights Issues* provides further guidance for boards on underwriting fees. Company directors "should understand the model used by the underwriter to determine its fee, the assumptions that go into this model and whether the premium (if any) is appropriate. Directors should also be aware that previous research has suggested that past relationships with underwriters are associated with higher premiums and, so, should consider offering others the opportunity to tender for underwriting" (p. 6).

## ASSESSING CAPITAL RAISING PROPOSALS

Companies should respect the interests of existing shareholders by raising new equity capital in such a way that all existing shareholders have an opportunity to maintain their interest, or be compensated for the dilution of their interest. Boards play a critical role in the governance of capital-raising processes.

Where companies seek approval for non pro-rata capital raisings, we will consider a range of issues including:

- the board's oversight of the capital-raising process to ensure existing shareholders' interests are considered
- the context and reason for the non pro-rata capital raising, particularly the need to raise capital quickly
- the ability for existing shareholders to participate in the raising process
- the price paid by subscribers and the dilution caused by the capital-raising process.

Where capital raisings, such as selective placements, do not adequately respect existing shareholders' interests, we will generally recommend voting against the capital raising in the post-facto approval process. Selective placements are unfair and dilutive to non-participating shareholders, and there is no regulatory limit on the discounts at which shares may be issued.

Where an unfair and dilutive capital raising is not put up for shareholder approval at a shareholder meeting, we will generally recommend voting against the directors present at the time the placement was agreed.

## 7.2. SHARE BUYBACKS

Similarly to capital raisings, the board must maintain effective oversight of management and external advisers to ensure any buyback is conducted in the best interests of shareholders.

Companies should generally conduct pro-rata buybacks where shareholders' ability to participate in the buyback is directly proportional to their shareholding. Where a selective buyback is proposed, the Corporations Act requires approval by special resolution of shareholders not involved in selling shares (or their associates).

## ASSESSING SELECTIVE BUYBACKS

We will evaluate whether the buyback is in the interests of shareholders not involved in selling shares. In doing so, we will consider:

- the board's oversight of the buyback to ensure all shareholders' interests are considered
- the purpose of the buyback, and whether there are valid reasons why a pro-rata buyback could not achieve that purpose
- the value of the benefit: the premium to the market price being offered to the buyback participant(s), including the potential value of franking credits.

## 7.3. MERGERS AND ACQUISITIONS

Mergers and acquisitions (M&A) have the potential to destroy shareholder value. During M&A activity, there is an increased potential for misalignment between the interests of shareholders and executives, and between shareholders and advisers.

The board is responsible for managing these possible conflicts and ensuring that executives and advisers always act in the interests of shareholders.

### Board oversight of mergers and acquisitions

The board plays a critical role during M&A activity. Accordingly, the board should establish appropriate protocols that set out the procedure to be followed if there is an offer for the company including any communication between insiders and the bidder. These protocols should include the option of establishing an independent takeover committee, its likely composition and implementation.

The establishment of an independent takeovers committee, comprised of non-conflicted directors, is critical where the executive management or directors are involved with a bidding party in a takeover.

### Transaction structures which disenfranchise shareholders

A merger should not be structured in a way which unduly disenfranchises the shareholders of one of the entities. The starting presumption is that existing shareholders will be able to vote on any company-changing transactions, particularly in cases where they will become a minority holder of the merged entity.

### WHEN MAKING VOTING RECOMMENDATIONS RELATING TO M&A ACTIVITY

We will evaluate whether the transaction is in the interests of all shareholders. In assessing the governance issues related to the M&A activity (such as a takeover or scheme of arrangement), we will consider:

- the process followed by the board to arrive at the proposal including consideration of alternative transactions.
- the risks associated with the transaction
- the governance of the proposed merged entity, including board representation, the proposed executive team, management structures and any control implications
- the proposed benefits to shareholders under the transaction, assessed against the likely consequences of the transaction being rejected
- the management of related-party risks, including any benefit accruing to related parties.
- any other issue relevant to the particular transaction.

Where shareholders do not have the opportunity to vote on an acquisition (a reverse takeover), we will consider recommending a vote against the re-election of directors who decided to commence the reverse takeover.

## 7.4. DISCLOSURE OF TRADING AND VOTING RIGHTS IN COMPANY SHARES

A company should disclose its policy on trading and voting in company securities by directors, officers and employees. The policy should set out:

- the rules that apply to directors and senior executives who enter into margin loans over the company's shares
- the requirements that such loans be made known to the company
- the policy of the company towards the disclosure of such loans to the market where the holdings or exposures are material.

In addition to any applicable regulatory requirements, we consider that disclosure should extend to:

- where shares are purchased on market to fund employee share schemes, the cash costs of these transactions should be provided within the company's cash flow statement as an operating cost
- companies disclosing on their website information about beneficial holding details (when they are obtained) within two days of receiving the information. This complements the statutory requirement for companies to make the information publicly accessible
- the board disclosing directors' and senior executives' (including the CEO's) share trading within two days
- the policies which restrict the times directors may trade shares to specific 'trading windows'. We generally support an approach that would include:
  - a director not dealing in any securities of a listed company during a 'closed period', which is a period of:
    - two months immediately preceding the preliminary announcement of the company's annual results
    - two months prior to announcement of half yearly reports
    - one month prior to announcement of quarterly results
  - a director dealing outside the closed period following receipt of clearance by the board.
  - a director not directly, or indirectly, applying to buy or sell shares of another company about which they have price-sensitive information arising from their directorship of the company.

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# ACSI Voting Policy – Gender Diversity in the ASX300

## Background

Our approach to board gender diversity in listed companies is based on the belief that boards should be comprised of individuals who are able to work together effectively, and who bring diversity of thought to board decision making, to build and maintain a viable, profitable and efficient company over the long-term.

A properly structured board should include appropriately skilled and experienced directors, drawing on a range of criteria, including gender, ethnicity and age, in addition to core skills and experience.

Companies are likely to be most successful when they harness collective intelligence, and approach problems with cognitive diversity. Diversity of thought assists boards to set and challenge company strategy, and to better understand the markets in which they operate.

In pursuit of these aims, our members have endorsed a gender diversity target, and expect that at least 30 per cent of the board positions in ASX listed companies be occupied by women.

We work with companies to understand their plans to meet this target. Our preference is for companies to reform their board's composition, in line with this target, on a voluntary basis. We recognise the value of quantitative targets to drive change.

However, our members are also taking action by voting against companies that have made no progress to improve board gender diversity.

## Gender diversity voting policy

Applying the ACSI Governance Guidelines, we will recommend our members vote against the boards of ASX200 companies with poor gender diversity, on a case-by-case basis.

Our recommendations will focus on the individual directors most accountable for board succession and composition.

For ASX200 boards with one or zero women directors, we will recommend a vote against at least one of the following (in descending order):

1. the Chair of the board
2. the Chair of the Nominations Committee
3. a member of the Nominations Committee or
4. the longest-serving director seeking re-election.

Where a company has zero women directors, we may also make recommendations to vote against any newly-appointed male directors.

In 2019, we have broadened this policy to include boards with no gender diversity in the ASX300.

New entrants to the ASX300 will be given one year before we apply our policy. As always, our voting recommendations will be combined with direct company engagement.

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS27QW:** | In the context of the ACCC's legal action and question for competition in monopoly infrastructure entities:<br>a. What are the implications for infrastructure investment returns if the ACCC is successful in its legal action?<br>b. Have you analysed your infrastructure investment portfolio to examine the risk of ACCC action to reduce anti-competitive monopoly of oligopoly pricing?<br>c. If so, can you provide details of the likely impact, and what is the project impact on revenue and income? |
| **Answer:** | a. First State Super is aware that the ACCC has taken NSW Ports to court. At this stage, we think it is too early to undertake deep analysis or to pre-empt the outcome of the case. We note that the case hinges on specific deeds in the sale agreement and it may not have flow on effects to other infrastructure assets.<br><br>b. As part of the process to identify new investment opportunities, each deal undergoes detailed due diligence which encompasses all aspects of the asset. This includes, but is not limited to identification of investment, regulatory, ESG, tax and operational elements to the deal and what effect it may have on the overall value of the asset. Regulatory considerations are, however, deal specific and are based on interpretation of the most available information at the time. Once an investment has been made, ongoing investment due diligence is conducted to understand asset valuations, the market it is operating in and the regulatory landscape which may affect the asset.<br><br>c. See response to a above. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS28QW:** | In dollar terms, for each of your superannuation products, can you please provide annual data for the past five financial years on average, for a member with a balance of $6,000, $50,000 and $150,000?<br>a. Investment fees<br>b. Administration fees<br>c. Indirect costs<br>d. Any other cost to a member which is incurred or foregone by way of a lesser return pre-unit price (but not included in the indirect cost ratio) including any other costs, charges, fees, direct or indirect benefits including any benefit by way of rebate, set-off, commission, in-kind, tax credit/offset retained, interest (or interest rebate) retained by any party involved in the management, custody, review, compliance, administration, servicing, asset consulting, valuation, operation and maintenance, financing, auditing, brokerage, execution, settlement or otherwise of the assets in the fund, or their underlying assets<br>e. An aggregate total of all fees mentioned above. |
| **Answer:** | There are three products offered by the fund:<br><br>i. Accumulation<br>ii. Transition to Retirement Income Stream (**TRIS**)<br>iii. Retirement Income Stream (**RIS**)<br><br>For the Accumulation product, we have provided the data for the MySuper Life Cycle options – Growth (75:25: growth: income assets) for members under 60 years of age, and Balanced Growth (55:45 growth: income assets) for members 60 years and over.<br><br>For both TRIS and RIS, we have provided data for the Balanced Growth investment option, which is the dominant pension investment option and is representative of the average membership.<br><br>The period of reporting coincides with introduction of the RG97 disclosure regime.<br><br>Please see attached tables. |

| | FSS Accumulation - MySuper Growth Life Cycle | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ |
| **FY19** | 61 | 48 | - | - | $109 | 127 | 400 | - | - | $527 | 277 | 1,200 | - | - | $1,477 |
| **FY18** | 61 | 48 | - | - | $109 | 127 | 400 | - | - | $527 | 277 | 1,200 | - | - | $1,477 |
| **FY17** | 61 | 40 | - | - | $101 | 127 | 330 | - | - | $457 | 277 | 990 | - | - | $1,267 |
| **FY16** | 61 | 34 | 9 | - | $104 | 127 | 285 | 75 | - | $487 | 277 | 855 | 225 | - | $1,357 |
| **FY15** | 61 | 25 | 2 | - | $89 | 127 | 210 | 20 | - | $357 | 277 | 630 | 60 | - | $967 |

| | FSS Accumulation - MySuper Balanced Growth Life Cycle | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ |
| **FY19** | 61 | 39 | - | - | $100 | 127 | 325 | - | - | $452 | 277 | 975 | - | - | $1,252 |
| **FY18** | 61 | 46 | - | - | $107 | 127 | 380 | - | - | $507 | 277 | 1,140 | - | - | $1,417 |
| **FY17** | 61 | 37 | - | - | $98 | 127 | 310 | - | - | $437 | 277 | 930 | - | - | $1,207 |
| **FY16** | 61 | 33 | 8 | - | $102 | 127 | 275 | 70 | - | $472 | 277 | 825 | 210 | - | $1,312 |
| **FY15** | 61 | 24 | 3 | - | $88 | 127 | 200 | 25 | - | $352 | 277 | 600 | 75 | - | $952 |

| | FSS Transition to Retirement Income Stream - Balanced Growth Investment Option | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ |
| **FY19** | 76 | 39 | - | - | $115 | 252 | 325 | - | - | $577 | 652 | 975 | - | - | $1,627 |
| **FY18** | 76 | 46 | - | - | $122 | 252 | 380 | - | - | $632 | 652 | 1,140 | - | - | $1,792 |
| **FY17** | 76 | 37 | - | - | $113 | 252 | 310 | - | - | $562 | 652 | 930 | - | - | $1,582 |
| **FY16** | 76 | 33 | 8 | - | $117 | 252 | 275 | 70 | - | $597 | 652 | 825 | 210 | - | $1,687 |
| **FY15** | 76 | 24 | 3 | - | $103 | 252 | 200 | 25 | - | $477 | 652 | 600 | 75 | - | $1,327 |

| | FSS Retirement Income Stream - Balanced Growth Investment Option | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ | Admin $ | Investment Fee $ | ICR $ | Other $ | Total $ |
| **FY19** | 76 | 39 | - | - | $115 | 252 | 325 | - | - | $577 | 652 | 975 | - | - | $1,627 |
| **FY18** | 76 | 45 | - | - | $121 | 252 | 375 | - | - | $627 | 652 | 1,125 | - | - | $1,777 |
| **FY17** | 76 | 37 | - | - | $113 | 252 | 310 | - | - | $562 | 652 | 930 | - | - | $1,582 |
| **FY16** | 76 | 33 | 8 | - | $117 | 252 | 275 | 70 | - | $597 | 652 | 825 | 210 | - | $1,687 |
| **FY15** | 76 | 24 | 3 | - | $103 | 252 | 200 | 25 | - | $477 | 652 | 600 | 75 | - | $1,327 |

**Administration fees comprise $52 pa plus 0.15% of assets.**

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS29QW:** | As a percentage of the value of the member account, for each of your superannuation products, can you please provide annual data for the past five financial years on average, for a member with a balance of $6,000, $50,000 and $150,000?<br>a. Investment fees<br>b. Administration fees<br>c. Indirect costs<br>d. Any other cost to a member which is incurred or foregone by way of a lesser return pre-unit price (but not included in the indirect cost ratio) including any other costs, charges, fees, direct or indirect benefits including any benefit by way of rebate, set-off, commission, in-kind, tax credit/offset retained, interest (or interest rebate) retained by any party involved in the management, custody, review, compliance, administration, servicing, asset consulting, valuation, operation and maintenance, financing, auditing, brokerage, execution, settlement, or otherwise of the assets in the fund, or their underlying assets.<br>e. An aggregate total of all fees mentioned above. |
| **Answer:** | There are three products offered by the fund:<br><br>i. Accumulation<br>ii. Transition to Retirement Income Stream (**TRIS**)<br>iii. Retirement Income Stream (**RIS**)<br><br>For the Accumulation product, we have provided the data for the MySuper Life Cycle options – Growth (75:25: growth: income assets) for members under 60 years of age, and Balanced Growth (55:45 growth: income assets) for members 60 years and over.<br><br>For both TRIS and RIS, we have provided data for the Balanced Growth investment option, which is the dominant pension investment option and is representative of the average membership.<br><br>The period of reporting coincides with introduction of the RG97 disclosure regime.<br><br>Please see attached tables. |

| | FSS Accumulation - MySuper Growth Life Cycle | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % |
| **FY19** | 1.02 | 0.80 | - | - | 1.82 | 0.25 | 0.80 | - | - | 1.05 | 0.18 | 0.80 | - | - | 0.98 |
| **FY18** | 1.02 | 0.80 | - | - | 1.82 | 0.25 | 0.80 | - | - | 1.05 | 0.18 | 0.80 | - | - | 0.98 |
| **FY17** | 1.02 | 0.66 | - | - | 1.68 | 0.25 | 0.66 | - | - | 0.91 | 0.18 | 0.66 | - | - | 0.84 |
| **FY16** | 1.02 | 0.57 | 0.15 | - | 1.74 | 0.25 | 0.57 | 0.15 | - | 0.97 | 0.18 | 0.57 | 0.15 | - | 0.90 |
| **FY15** | 1.02 | 0.42 | 0.04 | - | 1.48 | 0.25 | 0.42 | 0.04 | - | 0.71 | 0.18 | 0.42 | 0.04 | - | 0.64 |

| | FSS Accumulation - MySuper Balanced Growth Life Cycle | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % |
| | | | | | | | | | | | | | | | |
| **FY19** | 1.02 | 0.65 | - | - | 1.67 | 0.25 | 0.65 | - | - | 0.90 | 0.18 | 0.65 | - | - | 0.83 |
| **FY18** | 1.02 | 0.76 | - | - | 1.78 | 0.25 | 0.76 | - | - | 1.01 | 0.18 | 0.76 | - | - | 0.94 |
| **FY17** | 1.02 | 0.62 | - | - | 1.64 | 0.25 | 0.62 | - | - | 0.87 | 0.18 | 0.62 | - | - | 0.80 |
| **FY16** | 1.02 | 0.55 | 0.14 | - | 1.71 | 0.25 | 0.55 | 0.14 | - | 0.94 | 0.18 | 0.55 | 0.14 | - | 0.87 |
| **FY15** | 1.02 | 0.40 | 0.05 | - | 1.47 | 0.25 | 0.40 | 0.05 | - | 0.70 | 0.18 | 0.40 | 0.05 | - | 0.63 |

| | FSS Transition to Retirement Income Stream - Balanced Growth Investment Option | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % |
| **FY19** | 1.27 | 0.65 | - | - | 1.92 | 0.50 | 0.65 | - | - | 1.15 | 0.43 | 0.65 | - | - | 1.08 |
| **FY18** | 1.27 | 0.76 | - | - | 2.03 | 0.50 | 0.76 | - | - | 1.26 | 0.43 | 0.76 | - | - | 1.19 |
| **FY17** | 1.27 | 0.62 | - | - | 1.89 | 0.50 | 0.62 | - | - | 1.12 | 0.43 | 0.62 | - | - | 1.05 |
| **FY16** | 1.27 | 0.55 | 0.14 | - | 1.96 | 0.50 | 0.55 | 0.14 | - | 1.19 | 0.43 | 0.55 | 0.14 | - | 1.12 |
| **FY15** | 1.27 | 0.40 | 0.05 | - | 1.72 | 0.50 | 0.40 | 0.05 | - | 0.95 | 0.43 | 0.40 | 0.05 | - | 0.88 |

| | FSS Retirement Income Stream - Balanced Growth Investment Option | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $6,000 | | | | | $50,000 | | | | | $150,000 | | | | |
| | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % | Admin % | Investment Fee % | ICR % | Other % | Total % |
| **FY19** | 1.27 | 0.65 | - | - | 1.92 | 0.50 | 0.65 | - | - | 1.15 | 0.43 | 0.65 | - | - | 1.08 |
| **FY18** | 1.27 | 0.75 | - | - | 2.02 | 0.50 | 0.75 | - | - | 1.25 | 0.43 | 0.75 | - | - | 1.18 |
| **FY17** | 1.27 | 0.62 | - | - | 1.89 | 0.50 | 0.62 | - | - | 1.12 | 0.43 | 0.62 | - | - | 1.05 |
| **FY16** | 1.27 | 0.55 | 0.14 | - | 1.96 | 0.50 | 0.55 | 0.14 | - | 1.19 | 0.43 | 0.55 | 0.14 | - | 1.12 |
| **FY15** | 1.27 | 0.40 | 0.05 | - | 1.72 | 0.50 | 0.40 | 0.05 | - | 0.95 | 0.43 | 0.40 | 0.05 | - | 0.88 |

**Administration fees comprise $52 pa plus 0.15% of assets.**

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS30QW:** | To the extent that any of the fees and costs listed in the previous two questions are paid to a related entity or associate of the trustee, or any of their respective related entities, or associates, please set out the function performed or service provided by that person, and the amount (total quantum) paid to that entity or person at a whole-of-fund level. |
| **Answer:** | The administration fees set out in FSS28QW and FSS29QW include the cost of intra-fund advice paid to First State Super Financial Services Pty Ltd (up to 30 June 2018) and StatePlus (for the year ended 30 June 2019).<br><br>The amounts paid for intra-fund advice are set out in FSS52QW. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS31QW:** | For the past five years:<br>a. What was the total cost of all advertising and/or marketing?<br>b. What was the total cost of all advertising and/or marketing per member?<br>c. What was the total cost of all advertising per new (FY19) member?<br>d. What was the total cost of all television advertising and/or marketing?<br>e. What was the total cost of all radio advertising and/or marketing?<br>f. What was the total cost of all print advertising and/or marketing?<br>g. What was the total cost of all online advertising and/or marketing?<br>h. How many in-house staff are employed in advertising and marketing roles?<br>i. How much was spent on engaging external advertising and marketing consultants?<br>j. Do you advertise and/or directly financially contribute to the New Daily? |
| **Answer:** | a. The figures below represent the total budget allocated to the Brand and Marketing team, stakeholders and functions. |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| a. | $1.73m | $4.47m | $6.28m | $9.32m | $9.07m |
| b. | $2.31 | $5.95 | $7.92 | $11.82 | $11.72 |
| c. | | | | | $155.68 |
| d. | n/a | n/a | $83k | $1.45m | $1.68m |
| e. | n/a | n/a | n/a | n/a | $0.45m |
| f. | $0.29m | $0.51m | $0.48m | $0.24m | $0.22m |

g. Online advertising and marketing includes advertising, search, digital display and online video.

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| g. | n/a | n/a | $0.07m | $0.48m | $0.34m |
| h. | 12 | 19 | 20 | 21 | 21 |

i. The Brand and Marketing team engage various creative agencies to develop concepts for campaigns, creative development, artwork and production of assets to distribute across paid media or owned channels. The relatively high cost in FY18 reflects the development of a TV commercial and other high cost campaign assets which were then deployed in subsequent year.

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| i. | n/a | $0.17m | $0.52m | $3.00m | $0.25m |

j. No.

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS32QW:** | How much money have you spent on advertising on the following platforms in the past decade:<br>a. Google?<br>b. Facebook?<br>c. Twitter?<br>d. Instagram?<br>e. A non-Google search engine?<br>f. Any social media platform that is not mentioned in (b) – (d)? |
| **Answer:** | Over the past decade, the following amounts have been spent:<br><br>a. $366k<br><br>b. $98k<br><br>c. n/a<br><br>d. n/a<br><br>e. n/a<br><br>f. LinkedIn - $60k |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS33QW:** | Can you provide details if you have purchased the following over the past decade:<br>a. Google advertisements<br>b. Google search terms |
| **Answer:** | The fund first used Google Ad Words as part of its media buying allocation in the year ended 30 June 2017. Since then, the fund has spent $10k per month on Google Ad Words. |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS34QW:** | a. Do you use Google Ad Words, or any Google provided or supported service to advertise any of your funds or your brand in any way whatsoever?<br>b. Please list what terms you have used in Google Ad Words in the last five years to generate an impression on particular search queries. |
| **Answer:** | For the three financial years ended 30 June 2019, the fund has used Google Ad Words.<br><br>Search terms include the name of the fund, the superannuation sector, terms supporting any advertising campaigns, and industries reflecting the membership of the fund. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS35QW:** | What percentage of the return on investment from your unlisted assets can be attributed to revaluations due to falling interest rates, and capital asset pricing model market yields used as the discount rate in discounted cash flow based valuations? |
| **Answer:** | In line with our Valuation Policy, unlisted assets are valued on a regular basis at arm’s length from the trustee by independent valuers or fund managers using models aligned to the relevant accounting standards, industry guidelines and comparable market transactions.<br><br>Many factors affect the valuations of unlisted assets and it is not relevant to attribute revaluations to the factors nominated.<br><br>Discount rates by definition are a factor of market risk-free rates, market risk premiums and company risk premiums. Disclosing valuations and even discount rates could undermine members’ interests when it comes to the eventual sale of an asset by better informing the prospective buyer of the carrying value of unlisted assets. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| | |
|---|---|
| **First State Super** | |
| **FSS36QW:** | How will the overall fund performance be affected if?<br>a. The income return of unlisted assets declines?<br>b. The fund can no longer purchase unlisted assets onshore?<br>c. The fund can no longer purchase unlisted assets offshore? |
| **Answer:** | The fund undertakes scenario testing and sensitivity analysis of global macroeconomic factors on the investment portfolio on a bi-annual basis consistent with prudent risk management and relevant prudential standards, and seeks to maintain investment diversification for the benefit of its members.<br><br>a. That being said, if an income return declined on an unlisted asset, all other factors being held constant, it would be expected that the asset's value could decline. When this is evidenced, an "out of cycle" independent valuation would be undertaken. This would be expected to negatively contribute to overall fund performance.<br><br>b. We cannot define the potential impact in this scenario.<br><br>c. See response to b above. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS37QW:** | How have you structured the fund to address the writing back of the increased investment capitalised future returns? |
| **Answer:** | The above question is unclear. If relevant to valuation, please refer to the Valuation Policy (FSS06QW). |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS38QW:** | What are the projected changes in income in light of the writing back of the increased investment capitalised future returns? |
| **Answer:** | The above question is unclear. If relevant to valuation, please refer to the Valuation Policy (FSS06QW). |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS39QW:** | Valuation methodologies:<br>a. Have you compared your valuation methodologies and assumptions for unlisted assets with other superannuation funds, and if so, what are the differences?<br>b. Are you confident that your valuation methodologies and assumptions for unlisted assets reflect their value to the fund, and how often are they reviewed?<br>c. How do you compare your valuations to listed investments, including, but not limited to, whether there is a cross check to stock prices for similar assets?<br>d. Have you ever calculated whether there would be a difference between valuations if unlisted assets were listed? |
| **Answer:** | a, b, c. First State Super's valuation methodologies are set out in its Valuation Policy (FSS06QW).<br><br>The Valuation Policy has been developed with regard to regulatory requirements and guidance applicable to superannuation funds including:<br>• APRA Prudential Practice Guide SPG 531 – Valuation<br>• ASFA Best Practice Paper No. 34 Trustee Guidance – valuation and liquidity of unlisted investments<br>• AASB 1056 – Superannuation Entities<br><br>The Valuation Policy sets out the valuation methodologies used by the fund for all assets, listed and unlisted, together with the frequency of valuation. The methodologies use the expertise of external valuers who are regularly rotated and have access to the latest market practices.<br><br>A Valuation Committee, independent of the investment team, has the ultimate responsibility for the integrity of the balance sheet assets. The Valuation Committee reports through to the Audit, Risk and Compliance Committee.<br><br>d. No, see response to FSS41QW. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS40QW:** | What is the current annual average return for your unlisted assets? |
| **Answer:** | See response to FSS05QW. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| | |
|---|---|
| **First State Super** | |
| **FSS41QW:** | Given the size of your large joint investments, why are they not listed for liquidity, valuation and public disclosure purposes? |
| **Answer:** | Companies are generally listed in order to access additional capital or realise increases in capital value upon exit or partial exit of ownership.<br><br>Unlisted assets provide long term opportunities for our members that they otherwise would not be able to participate in. In addition, the lower liquidity of unlisted assets tends to attract an illiquidity premia and so for longer term investors, this can deliver better longer term returns. This must be measured against lower short term liquidity, when considering the overall risk adjusted returns. In some markets, there can be additional opportunities available in unlisted assets, delivering some diversification benefits. |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS42QW:** | a. How many unlisted assets do you hold in the fund?<br>b. What value share are unlisted assets of the fund's:<br>i. total value?<br>ii. total property value? |
| **Answer:** | a. The fund holds approximately 160 unlisted assets.<br><br>b. i. Please refer to response for question FSS04QW, noting that unlisted assets extend beyond property.<br><br>ii. The table below shows unlisted property as a percentage of unlisted assets. |

| | Year ended 30 Jun 15 | Year ended 30 Jun 16 | Year ended 30 Jun 17 | Year ended 30 Jun 18 | Year ended 30 Jun 19 |
|---|---|---|---|---|---|
| $ | $6.9b | $9.8b | $12.2b | $13.8b | $19.0b |
| % | 33.8% | 31.0% | 29.7% | 28.5% | 25.0% |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS43QW:** | Discount rates:<br>a. For unlisted assets, do you use a consistent discount rate for income across all unlisted assets, or an asset-specific discount rate?<br>b. What is the discount rate you apply to the income from unlisted assets, and has it changed over the past decade, and if so, when and why? |
| **Answer:** | Discount rates are set independently by valuers consistent with relevant accounting standards and industry best practice. Discount rates by definition are a factor of market risk-free rates, market risk premiums and company risk premiums.<br><br>Disclosing valuations and even discount rates could undermine members' interests when it comes to the eventual sale of an asset by better informing the prospective buyer of the carrying value of the unlisted assets. |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS44QW:** | Of the unlisted assets, how many have outperformed the average return on investments in superannuation over the past five years? |
| **Answer:** | As an asset class, returns on unlisted assets may perform strongly relative to other assets with a similar risk profile to compensate for the lower liquidity. On an annual basis, there are periods where listed assets may outperform unlisted assets and vice versa. Like all investments, returns on individual assets will vary over time and proactive action is taken to address any underperformance.<br><br>See response to FSS05QW for the overall average returns for unlisted assets. |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS45QW:** | Have you completed any analysis about your capacity to continue to provide returns to fund members at the current, or past rate, into the future based on the valuations of your unlisted assets? |
| **Answer:** | The trustee annually reviews the objectives of its investment options to ensure that it is confident that it can be achieved over the longer term. These are usually expressed as "CPI + x%". If changes are required, the fund will change its disclosure to members.<br><br>As long-term investors, there is ongoing assessment of how to continue to deliver long term returns to members. The key drivers are multifaceted and include influencing factors in control of the fund such as costs and efficiency. Key external factors are macroeconomic conditions and geopolitical risks, for which stress testing is performed on a bi-annual basis, including for liquidity in accordance with the fund's Liquidity Policy which contains strict guidelines on the proportion of assets that can be illiquid. This stress testing is completed by the fund's external investment consultant.<br><br>There is a strong governance process in place and the portfolio is subject to forward modelling and review by external experts. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS46QW:** | Over the past decade:<br>a. Have you ever devalued an unlisted asset?<br>b. Have you ever devalued an unlisted asset by more than $10 million?<br>c. Have you ever devalued an unlisted asset by more than $50 million?<br>d. Have you ever devalued an unlisted asset by more than $100 million?<br>e. Please advise the companies and/or individual valuers that have valued your unlisted assets. |
| **Answer:** | In line with our Valuation Policy, the trustee uses a risk based and reasonableness approach to valuing unlisted assets.<br><br>As part of this process, individual unlisted assets have been subject to periodic devaluation, according to their fair value as assessed by an independent valuer.<br><br>Valuation panels are regularly reviewed for rotation and the appointment of valuers and resulting valuations are approved by the Valuations Committee who are independent from the investment team. Valuations regularly increase and decrease subject to market and economic conditions.<br><br>Refer to FSS07QW for details of external parties involved in valuations. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS47QW:** | For each year of the past decade:<br>a. How many fund members do you have?<br>b. How many financial planners do you have in total numbers, and as a member to financial planner ratio?<br>c. How many financial advisers do you have in total numbers, and as a member to financial planner ratio? |
| **Answer:** | a. Please see table below. |

| Year ended | Members | |
|---|---|---|
| 30 Jun 2010 | 538,238 | |
| 30 Jun 2011 | 774,244 | Health Super merger 30/6 |
| 30 Jun 2012 | 745,073 | |
| 30 Jun 2013 | 775,064 | |
| 30 Jun 2014 | 779,160 | |
| 30 Jun 2015 | 748,616 | |
| 30 Jun 2016 | 756,311 | |
| 30 Jun 2017 | 762,029 | |
| 30 Jun 2018 | 747,020 | |
| 30 Jun 2019 | 735,843 | |

b. Please see table below. During the decade to 30 June 2019, there have been numerous organisational restructures, resulting in fluctuating numbers of planners being employed by the fund, or otherwise available to provide advice to members under the licence of third or related parties.

Advice was originally provided under an arrangement with the licensee QInvest Limited (**QInvest**).

On 30 June 2011, the licensee Health Super Financial Planning Pty Ltd was acquired and subsequently renamed First State Super Financial Services Pty Ltd (**FSS FS**). The arrangement with QInvest ceased in September 2011.

In May 2016, the licensee State Super Financial Services Australia Limited (**SSFSA**) was acquired and in the second half of 2018, planners were progressively moved from the FSS FS licence to the SSFSA licence.

| Year ended | QInvest | FSS FS | SSFSA | Total | Ratio |
|---|---|---|---|---|---|
| 30 June 2010 | 2 | | | 2 | 269,119 |
| 30 June 2011 | 2 | | | 2 | 387,122 |
| 30 June 2012 | 2 | 18 | | 20 | 37,804 |
| 30 June 2013 | | 25 | | 25 | 31,003 |
| 30 June 2014 | | 41 | | 41 | 19,004 |
| 30 June 2015 | | 41 | | 41 | 18,259 |
| 30 June 2016 | | 50 | 134 | 184 | 4,110 |
| 30 June 2017 | | 50 | 158 | 208 | 3,664 |
| 30 June 2018 | | 52 | 162 | 214 | 3,491 |
| 30 June 2019 | | | 217 | 217 | 3,391 |

c. See response to b above. First State Super does not distinguish between financial planners and financial advisers.

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS48QW:** | For each year of the past decade:<br>a. How much is charged for financial planning annually to fund members, and what is the average per fund member?<br>b. How much is charged for financial planning annually to funds, and what is the average per fund member?<br>c. How much is charged for financial advice annually to fund members, and what is the average per fund member?<br>d. How much is charged for financial advice annually to funds, and what is the average per fund member? |
| **Answer:** | a. Members who engage with the fund for the provision of comprehensive (not intra-fund) advice are charged a fee commensurate with the cost of providing that service. This does vary depending upon the complexity of the advice but the average fee charged to the member for the provision of that advice is approximately $2,500.<br><br>b. Since the introduction of MySuper and the definition of intra-fund advice, the cost of this service is collectively charged to the fund. Prior to the introduction of MySuper, the fund had a modest number (2) of full time planners providing limited service to members, the cost of which was partially met by members engaging the service and partly by the fund.<br><br>c. See response to a above. First State Super does not distinguish between financial planning and financial advice.<br><br>d. See response to b above. First State Super does not distinguish between financial planning and financial advice. |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS49QW:** | For each year of the past decade:<br>a. What is the cost of general advice annually, and what is the average per fund member?<br>b. What are the aggregate value of bonuses provided for general advice, and what is the average per adviser? |
| **Answer:** | a. Given the significant scope of comprehensive and intra-fund advice offered by First State Super, minimal general advice is provided. General advice is primarily provided by our Member Service Centre via a telephone service. This service centre predominantly provides simple enquiry and change request services, that are not considered to be general advice (such as change of address, change of beneficiary or pension withdrawal). Given the integrated nature of the member services provided, we have not had reason to separately account for this service where it does involve general advice. The trustee reviews the cost of providing a well operated and good member experience call centre and ensures appropriate resourcing is in place. It would be misleading to present the overall cost of this service in response to this question.<br><br>b. Personnel involved in the activity do not currently participate in any bonus arrangements. Historically, prior to the merger of HealthSuper with First State Super in 2012, all staff of HealthSuper, including the call centre, participated in a modest (10% maximum) bonus arrangement based on 3 to 4 organisational goals, with an individual behaviour factor applied. |

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**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS50QW:** | For each year of the past decade:<br>a. What is the cost of scaled advice annually, and what is the average per fund member?<br>b. What are the aggregate value of bonuses provided for scaled advice, and what is the average per adviser? |
| **Answer:** | See response to FSS51QW. First State Super considers scaled advice a limited form of comprehensive advice and does not differentiate between the two. |

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS51QW:** | For each year of the past decade:<br>a. What is the cost of comprehensive advice annually, and what is the average per fund member?<br>b. What are the aggregate value of bonuses provided for comprehensive advice, and what is the average per adviser? |
| **Answer:** | a. Since the commencement of MySuper, there has been no cost of comprehensive advice for First State Super. Comprehensive advice is provided by separate licenced entities and members pay those entities for the cost of comprehensive advice.<br><br>b. Prior to 2014 and during the year ended 30 June 2019, planners provided advice under a separate legal entity that holds the arrangements including incentive payments. Between 2014 and 2019, planners were employed by the fund with bonuses set out in the table below. |

| Year ended | Aggregate | Average per adviser |
|---|---|---|
| 30 Jun 2014 | $305,857 | $8,266 |
| 30 Jun 2015 | $656,556 | $15,269 |
| 30 Jun 2016 | $960,027 | $20,001 |
| 30 Jun 2017 | $1,194,404 | $24,883 |
| 30 Jun 2018 | $1,714,987 | $34,300 |
| 30 Jun 2019 | $495,823 | $24,791 |

From 2015, the fund embarked on a significant expansion of the availability of advice to members including the introduction of regional access. This continued until December 2018 by which time all planners transferred employment to StatePlus.

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| **First State Super** | |
|---|---|
| **FSS52QW:** | For each year of the past decade:<br>a. What is the cost of intra-fund advice annually, and what is the average per fund member?<br>b. What are the aggregate value of bonuses provided for intra-fund advice, and what is the average per adviser? |
| **Answer:** | a. Please see table below, noting that prior to February 2014, it is not possible to separate the costs of intra-fund advice from the costs of comprehensive advice. |

| Year ended 30 June | Total annual cost | Average per member |
|---|---|---|
| 2014 | $1.2m | $0.002 |
| 2015 | $3.8m | $0.005 |
| 2016 | $3.2m | $0.004 |
| 2017 | $2.6m | $0.003 |
| 2018 | $2.0m | $0.003 |
| 2019 | $1.9m | $0.003 |

The increased costs from 2015 reflect the rollout of regional offices throughout NSW and Victoria to provide members with walk-in capability to assist with routine administration of their superannuation. The specific amount for intra-fund advice would be less than the amounts in the table above.

b. Please see table below, noting that:
   i. not every planner in the team receives a bonus each year; and
   ii. the team was transitioned out of the fund to another licenced entity from July 2018, so there are no bonuses paid by the fund for 2019.

| Year ended 30 June | Total bonus cost | Average per planner |
|---|---|---|
| 2014 | $27,142 | $3,393 |
| 2015 | $2,727 | $2,727 |
| 2016 | $6,364 | $3,182 |
| 2017 | $7,273 | $2,424 |
| 2018 | $3,636 | $3,636 |

In 2014, planners provided a combination of comprehensive and intra-fund advice, so 8 people qualified for a bonus that year. The team was

| | |
|---|---|
| | subsequently split and the above table reflects bonuses paid to members of the intra-fund advice team. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

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|---|---|
| **First State Super** | |
| **FSS53QW:** | How many employees does the fund have? |
| **Answer:** | Please see response to FSS12QW. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

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|---|---|
| **First State Super** | |
| **FSS54QW:** | How do you define employee misconduct? |
| **Answer:** | First State Super has a Code of Conduct for its workforce which broadly outlines the personal and professional behaviour expected of its workforce, including that they are not to engage in conduct that is:<br>• unconscionable, misleading or deceptive;<br>• is likely to mislead or deceive<br>• involves making false or misleading representations;<br>• is not consistent with First State Super's policies or employment contracts;<br>• is contrary to law.<br><br>The Code of Conduct is supported by a range of policies that set out the expectations of appropriate behaviour in the workplace. These include but are not limited to the Drug and Alcohol Policy, Disciplinary Policy, Diversity and Inclusion, Employee Grievance and Complaints Policy, and Performance Review and Development Guide.<br><br>In addition, employee misconduct is defined in the fund's risk framework to be the "systematic occurrence of inappropriate, unethical, unlawful behaviours or those not consistent with our values, impacting on our ability to deliver a healthy and safe culture to attract and retain employees or deliver on strategic outcomes". |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS55QW:** | Over the past five years:<br>a. How many employees have been cautioned for misconduct?<br>b. How many employees have had a penalty (such as, but not limited to, loss of bonus) for misconduct?<br>c. How many employees have been terminated for misconduct?<br>d. How many employees have been cautioned for misconduct, as a share of all employees over that timeframe?<br>e. How many employees have had a penalty (such as, but not limited to, loss of bonus, as a share of all employees over that timeframe?<br>f. How many employees have been terminated for misconduct, as a share of all employees over that timeframe? |
| **Answer:** | Over the five years to 30 June 2019:<br><br>a. 25 employees have been cautioned for misconduct (as defined in FSS54QW).<br><br>b. 0 employees had a direct financial penalty for misconduct. Such behaviour would be considered as part of the annual remuneration review.<br><br>c. 11 employees were terminated for misconduct.<br><br>d. On average across the past five years to 30 June 2019, 1.1% of employees have been cautioned for misconduct.<br><br>e. Not applicable.<br><br>f. On average across the past five years to 30 June 2019, 0.49% of employees have been terminated for misconduct. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS56QW:** | Do you support current Corporations Law provisions for the disclosure of corporate remuneration? |
| **Answer:** | First State Super supports compliance with all the provisions of applicable State and Commonwealth law, including the Corporations Law provisions for the disclosure of corporate remuneration. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

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| **First State Super** | |
| **FSS57QW:** | Of the twenty highest remunerated employees over the past decade, please provide the number whose total remuneration in a financial year (including all forms of remuneration, including but not limited to, base salary, regularised and deferred bonuses and incentives including, but not limited to, shares) falls within these brackets? |
| **Answer:** | |

| **Total remuneration package value** | **Number** |
|---|---|
| <$1,000,000 | 19 employees |
| $1,000,001 - $2,000,000 | 1 employee |
| $2,000,001 - $3,000,000 | |
| $3,000,001 - $4,000,000 | |
| $4,000,001 - $5,000,000 | |
| $5,000,001 - $6,000,000 | |
| $6,000,001 - $7,000,000 | |
| $7,000,001 - $8,000,000 | |
| $8,000,001 - $9,000,000 | |
| $9,000,001 - $10,000,000 | |
| $10,000,001 - $11,000,000 | |
| $11,000,001 - $12,000,000 | |
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| $13,000,001 - $14,000,000 | |
| $14,000,001 - $15,000,000 | |
| $15,000,001 - $16,000,000 | |
| $16,000,001 - $17,000,000 | |
| $17,000,001 - $18,000,000 | |
| $18,000,001 - $19,000,000 | |
| $19,000,001 - $20,000,000 | |
| $20,000,001 - $25,000,000 | |
| $25,000,001 - $30,000,000 | |
| $30,000,001 - $35,000,000 | |
| $35,000,001 - $40,000,000 | |
| $40,000,001 - $45,000,000 | |
| $45,000,001 - $50,000,000 | |
| >$50,000,000 | |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS**
**SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS58QW:** | Of the twenty highest incentive bonuses paid over the past decade, please provide the number that fall within these brackets? |
| **Answer:** | First State Super does not distinguish between incentive bonuses and performance bonuses. Please see response to FSS59QW. |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

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|---|---|
| **First State Super** | |
| **FSS59QW:** | Of the twenty highest performance bonuses paid over the past decade, please provide the number that fall within these brackets? |
| **Answer:** | |

| Total performance bonuses value | Number |
|---|---|
| <$1,000,000 | 20 employees |
| $1,000,001 - $2,000,000 | |
| $2,000,001 - $3,000,000 | |
| $3,000,001 - $4,000,000 | |
| $4,000,001 - $5,000,000 | |
| $5,000,001 - $6,000,000 | |
| $6,000,001 - $7,000,000 | |
| $7,000,001 - $8,000,000 | |
| $8,000,001 - $9,000,000 | |
| $9,000,001 - $10,000,000 | |
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| $25,000,001 - $30,000,000 | |
| $30,000,001 - $35,000,000 | |
| $35,000,001 - $40,000,000 | |
| $40,000,001 - $45,000,000 | |
| $45,000,001 - $50,000,000 | |
| >$50,000,000 | |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS60QW:** | Of the twenty highest severance packages of the past decade, please provide the number whose total package (including all forms of accumulated severance package, including but limited to, base salary, regularised and deferred bonuses and incentives including, but not limited to, shares) falls within these brackets? |
| **Answer:** | "Severance packages" have been interpreted as ex gratia payments made upon a resignation, excluding statutory leave entitlements. |

| **Total severance package value** | **Number** |
|---|---|
| <$1,000,000 | 20 employees |
| $1,000,001 - $2,000,000 | |
| $2,000,001 - $3,000,000 | |
| $3,000,001 - $4,000,000 | |
| $4,000,001 - $5,000,000 | |
| $5,000,001 - $6,000,000 | |
| $6,000,001 - $7,000,000 | |
| $7,000,001 - $8,000,000 | |
| $8,000,001 - $9,000,000 | |
| $9,000,001 - $10,000,000 | |
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| $25,000,001 - $30,000,000 | |
| $30,000,001 - $35,000,000 | |
| $35,000,001 - $40,000,000 | |
| $40,000,001 - $45,000,000 | |
| $45,000,001 - $50,000,000 | |
| >$50,000,000 | |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

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|---|---|
| **First State Super** | |
| **FSS61QW:** | Of the twenty highest termination payments over the past decade, please provide the number whose total package (including all forms of accumulated termination package, including but not limited to, base salary, regularised and deferred bonuses and incentives including, but not limited to, shares) falls within these brackets? |
| **Answer:** | "Termination payments" have been interpreted as payments made upon a termination excluding resignations and redundancies, and excluding statutory leave entitlements. |

| Total termination package value | Number |
|---|---|
| <$1,000,000 | 20 employees |
| $1,000,001 - $2,000,000 | |
| $2,000,001 - $3,000,000 | |
| $3,000,001 - $4,000,000 | |
| $4,000,001 - $5,000,000 | |
| $5,000,001 - $6,000,000 | |
| $6,000,001 - $7,000,000 | |
| $7,000,001 - $8,000,000 | |
| $8,000,001 - $9,000,000 | |
| $9,000,001 - $10,000,000 | |
| $10,000,001 - $11,000,000 | |
| $11,000,001 - $12,000,000 | |
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| $14,000,001 - $15,000,000 | |
| $15,000,001 - $16,000,000 | |
| $16,000,001 - $17,000,000 | |
| $17,000,001 - $18,000,000 | |
| $18,000,001 - $19,000,000 | |
| $19,000,001 - $20,000,000 | |
| $20,000,001 - $25,000,000 | |
| $25,000,001 - $30,000,000 | |
| $30,000,001 - $35,000,000 | |
| $35,000,001 - $40,000,000 | |
| $40,000,001 - $45,000,000 | |
| $45,000,001 - $50,000,000 | |
| >$50,000,000 | |

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR**

| **First State Super** | |
|---|---|
| **FSS62QW:** | Of the twenty highest redundancy payments over the past decade, please provide the number whose total package (including all forms of accumulated redundancy package, including but not limited to, base salary, regularised and deferred bonuses and incentives including, but not limited to, shares) falls within these brackets? |
| **Answer:** | "Redundancy payments" have been interpreted as payments made upon a role being made redundant, excluding statutory leave entitlements. |

| **Total redundancy package value** | **Number** |
|---|---|
| <$1,000,000 | 20 employees |
| $1,000,001 - $2,000,000 | |
| $2,000,001 - $3,000,000 | |
| $3,000,001 - $4,000,000 | |
| $4,000,001 - $5,000,000 | |
| $5,000,001 - $6,000,000 | |
| $6,000,001 - $7,000,000 | |
| $7,000,001 - $8,000,000 | |
| $8,000,001 - $9,000,000 | |
| $9,000,001 - $10,000,000 | |
| $10,000,001 - $11,000,000 | |
| $11,000,001 - $12,000,000 | |
| $12,000,001 - $13,000,000 | |
| $13,000,001 - $14,000,000 | |
| $14,000,001 - $15,000,000 | |
| $15,000,001 - $16,000,000 | |
| $16,000,001 - $17,000,000 | |
| $17,000,001 - $18,000,000 | |
| $18,000,001 - $19,000,000 | |
| $19,000,001 - $20,000,000 | |
| $20,000,001 - $25,000,000 | |
| $25,000,001 - $30,000,000 | |
| $30,000,001 - $35,000,000 | |
| $35,000,001 - $40,000,000 | |
| $40,000,001 - $45,000,000 | |
| $45,000,001 - $50,000,000 | |
| >$50,000,000 | |