

ACSI

ANNUAL REPORT

2015

2014 - 2015 Financial Year

Australian Council of Superannuation Investors

Table of contents

President’s message	4
Chief Executive Officer’s message	5
About ACSI	6
What we do	9
Key highlights	10
Looking ahead	11
Research	12
Company engagement	16
Voting	18
Advocacy	20
Collaboration and international relationships	22
Member services	23
Membership	24
ACSI governance	26
Financial report	27

President's message



"ACSI is determined, on behalf of our members who are fiduciaries for more than eight million Australians, to exercise the rights which are implicit in ownership of shares in companies. The evidence is already in that more diverse corporate boards produce better long term results."

The Australian Council of Superannuation Investors is an organisation which is very active in advancing the cause of responsible investing for our 29 Australian superannuation fund members and six major international partners.

As such, we're entitled to take some comfort in the progress to improve the governance and stakeholder awareness of the companies in which our members invest. While our track record is not perfect, I believe we're making a difference.

ACSI's annual surveys on gender diversity on boards and on chief executive pay indicate things are moving in the right direction.

During 2015, we've engaged with the majority of chairs of the 200 largest Australian listed companies. We've explained ACSI's target of having at least 30 per cent women on their boards by 2017. As CEO Louise Davidson notes opposite, we've made progress.

This is not just a 'feel good' campaign. ACSI is determined, on behalf of our members who are fiduciaries for more than eight million Australians, to exercise the rights which are implicit in ownership of shares in companies. The evidence is already in that more diverse corporate boards produce better long term results. And that means a better retirement outcome for super fund members. We've been monitoring CEO pay since ACSI was established in 2001 and pressuring boards to rein in excessive remuneration practices.

The base rate pay of CEOs has actually lagged inflation since the aftermath of the global financial crisis. Prior to 2009, the average CEO's salary of Australia's largest 100 companies was a champagne-popping 93 times average weekly earnings. Now it's down to 63 times AWE. That's better, but our survey has discovered that 'undisclosed' payments have been creeping up steadily, so there's more work to be done.

And so too may attention be needed on another blight on the corporate behavioural landscape.

It was a sorry sight to witness senior executives from Australian corporates and parent companies abroad at a Commonwealth Senate tax-shifting inquiry this year, effectively thumbing their noses at our legislators about their complex offshore tax haven practices. It suggests we, as fiduciary owners of significant portions of these companies, have some longer term challenges ahead.

This will not be an easy issue for superannuation funds to wrestle with, as it pits shorter-term benefits for individual companies at the expense of the broader social good.

This year saw the departure of ACSI's CEO Gordon Hagart, who has returned to Europe, and the appointment of Louise Davidson as CEO. Louise is well known in ESG circles both in Australia and internationally, and has been warmly welcomed by our Board, our Member Council and our members.

Finally, on a sad note, we were obliged to say farewell this year to one of ACSI's founding forces, the splendid Phil Spathis, who died in his mid 40s of a brain tumour. Phil was a significant player in the Australian and international ESG movement and his death was a blow to us all.

Yours faithfully,

Gerard Noonan
President

Chief Executive Officer's message



"The active ownership of ACSI members is contributing to solid improvements in the ESG management of Australia's largest listed companies, and, as a consequence, their lasting sustainability and profitability."

As 2015 draws to a close, we need only look around to realise afresh that 'environmental, social and governance issues' is not just a catchphrase. When ESG issues aren't properly managed, investments aren't the only thing to suffer.

Fortunately, that acknowledgement is gathering pace, both in the corporate world, and in the community at large. It is especially heartening that out of the meetings ACSI held with 125 listed companies to 30 June this year, well over half were instigated by the companies themselves. The active ownership of ACSI members is contributing to solid improvements in the ESG management of Australia's largest listed companies, and, as a consequence, their lasting sustainability and profitability. Of course, there remains much work to be done.

For example, we know skilled and diverse boards make for better governed companies and better investment outcomes over the long-term, and our campaign to increase board diversity in the ASX200 is being heard.

ACSI's 30% women on boards policy was released earlier this year and, followed by strong engagement with companies, there have been improvements. Four 'zero' women boards finally appointed at least one female director. All up, nearly 23% of the ASX100 directorships are filled by women – a steady, if painfully slow, rise. I believe momentum is growing and am optimistic we will see greater gains before we officially recommend voting against any all-male boards that still exist in 2017.

As superannuation funds grow in assets under management, so too does scrutiny from the community and the societal expectation that funds will be responsible long-term stewards of the assets they own. One manifestation of this is the proliferation of NGO activity aimed at superannuation funds, largely around ESG issues - ACSI has made it a priority to help our members respond.

My first six months at ACSI has been a busy and productive time, and I want to thank the hard working and dedicated team here at ACSI for their support. Their deep knowledge of, and commitment to, the issues of governance, sustainability and business is second to none, and it's a testament to them and those before them that such a small team can effect such large and lasting change.

Thanks also, to the ACSI Board and Member Council, led by President Gerard Noonan, both of which have provided a high level of support to me and the ACSI team.

I have met most of our members in recent months, and I look forward to working with all of you throughout 2016 to positively influence the way Australian companies do business. And in doing so, we'll be advancing our crucial and collective duty – securing and protecting the retirement savings of millions of Australians.

Yours faithfully,

Louise Davidson
Chief Executive Officer

About ACSI

ACSI provides independent research and advice to help its member superannuation funds manage environmental, social and corporate governance investment risks.

We represent 29 Australian superannuation funds and six major international pension funds, with a combined \$1.5 trillion under management. This translates to more than 10% of the average ASX200 listed company.

ACSI helps our members manage long-term investment risks, in the belief that companies with good ESG practices are, over time, more sustainable and provide better risk-adjusted returns.

We engage strongly and constructively with major listed companies on ESG issues; provide vital research, policy and voting advice for our members; and interact with the regulators to ensure markets are focused on the long term benefits of investors.

Our mission is to enhance the sustainable and enduring value of the retirement savings entrusted to our members.

Our story

ACSI was created in 2001, after Australia's largest profit-for-members super funds united to share the cost of corporate governance research and to engage collectively with major listed companies on governance issues.

In 2007 ACSI's mandate was expanded to include the management of broader ESG investment risks and opportunities by those companies.

ACSI is financed and governed by its member funds with the sole aim of assisting them in managing their ESG investment risks.



In memory of Phil Spathis

In June of this year, ACSI and our members were saddened by the passing of Phil Spathis following a lengthy illness.

Phil was a driving force behind ACSI, working alongside the late Michael O'Sullivan to establish the organisation and the sole staff member of ACSI in the early years. His determined work and leadership helped build the organisation into a recognised voice on corporate governance in Australia and internationally.

Phil's contribution to ACSI and the superannuation sector was driven by a commitment to working people and he reminded us all of the great responsibility and care that must be taken by those entrusted to manage money on behalf of others.

Phil had a unique ability to connect with people from a wide range of backgrounds and to unite them behind a common cause. Phil's quiet persistence and unassuming nature meant that he always put the issue first, which made him a modest and formidable advocate. He contributed selflessly to many of ACSI's successes and was a steady hand in numerous campaigns that lead to improved governance of corporate Australia.

In superannuation and corporate governance circles, Phil's friendship was valued as well as his expert opinion. He provided counsel and mentorship to a wide range of people. He was warm, funny and generous with his time.

He is deeply missed.





What we do

ACSI helps its members manage long-term investment risks. First we identify ways to improve ESG practices and outcomes through sound, evidence-based research and policy, then we use that information to influence major participants in the investment system.

Research

Our research supports our broader advocacy, engagement and voting programs. Full Members decide on our research areas, and have access to the insights that result.

Every year, we conduct annual longitudinal research which addresses long-term trends and captures changes in market practices and progress over time.

We also conduct thematic research on specific, material, ESG issues identified by our members. All research informs our engagement with companies and regulators.

Company engagement and voting advice

ACSI's mission is to achieve measurable improvements in the management of ESG issues by Australian listed companies to reduce risk and create and maintain long-term shareholder value. We seek to positively influence companies through constructive engagement with their boards, in most cases with the company Chair and senior non-executive directors.

The range of ESG risks we discuss include from, but are not limited to, board diversity and independence, executive pay and sustainability reporting to health and safety issues and climate change.

On the basis of our research and our engagements, we advise members how to exercise their formal ownership rights.

Engaging with regulators and other system-wide actors

ACSI cooperates with other institutional investors and organisations, both within Australia and internationally, to advance shared ESG goals.

These include the Australian Government, including Treasury and ASIC, and the ASX, among many others.

Every opportunity is taken to ensure that ESG investment and disclosure standards in Australia meet world's best practice.

Key highlights

Number of
major research
reports
released

5

125

Number of companies engaged with
(20% more than previous year)

ACSI members represent
\$1.5 trillion in
funds under
management
including more than
10% of ASX200
ownership

Percentage of ACSI
engagement targets
that improved

78%

5
Number of
submissions
made

236

ACSI 2015 Annual Conference attendees

media articles quote
ACSI research and
experts

241

328

Proxy reports
issued to members

73
companies have been reviewed in all seven of ACSI's Sustainability
Reporting research projects since 2008 and
almost 80% of these companies now report as
'Leading' or 'Detailed'.

Looking ahead

A highlight of our year has been ACSI's new Strategic Plan,
effective for three years from 1 July 2015.

The culmination of extensive member, staff and external
stakeholder consultations, the Plan was formally adopted by
the Member Council in June this year. The high point of the
consultations was a facilitated planning workshop attended
by 22 member fund representatives in September 2014.

The new Plan points the way to the future by outlining new
priorities, detailing our core beliefs and revealing the strength
of consensus about ACSI's core mandate.

Building on this solid foundation, the new priorities for
2015-2018 are as follows:

Key Priorities – ACSI 2015-18 Strategic Plan

Market Specialisation

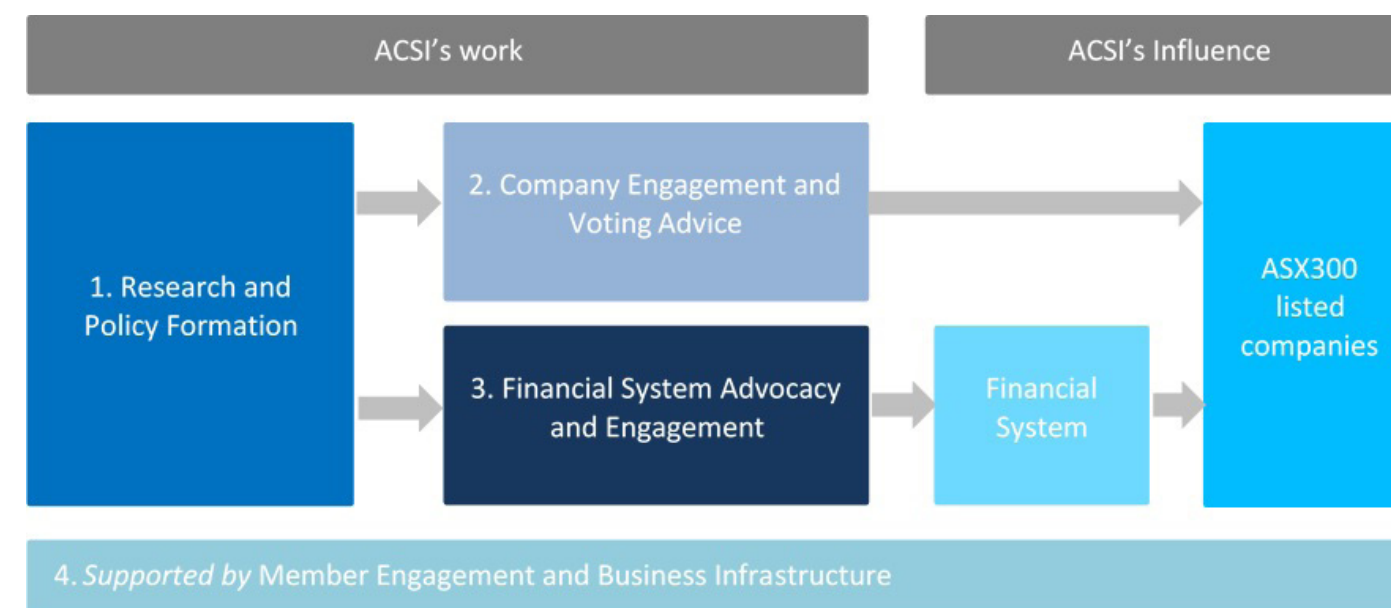
A sharper focus on the Australian
listed equity sector (ASX300) as the
primary domain for ACSI's company
engagement, research and proxy
voting services.

Advocacy Agenda

An increased focus on financial
system-level advocacy and
engagement, both in Australia and
internationally.

Scale and Alignment

A measured expansion in ACSI's
membership base, through
a broadening of membership
eligibility beyond ACSI's traditional
restriction to the profit-for-members
superannuation segment alone, and
through expansion within existing
membership categories.



The new Strategic Plan provides the mechanism for ACSI to build upon the significant accomplishments of our first 15 years,
while working to improve communications to ensure that ACSI's members and broader stakeholders recognise the value of the
work that we deliver.

Research

Every position ACSI takes is informed and supported by continuous analysis and research. Our research underpins ACSI policies and engagement program, supports our advocacy and participation in public policy, and informs our advice to ACSI members.

Longitudinal Research

Capturing long-term trends and revealing changes in market practices and progress over time, our annual research projects included:

- Sustainability Reporting Practices of ASX200 Companies.
- CEO Pay in the Top ASX200 Companies.
- Board Composition and Non-Executive Pay in ASX200 Companies.
- ASX100 Board Confidence Index Survey.

CEO Pay in ASX200 Companies

ACSI’s annual research into CEO pay found that Australia’s 10 highest-paid chief executives collectively reaped \$70 million more than reported by their companies under statutory reporting requirements.

ACSI’s 14th annual CEO Pay study is the first to review what has actually been received by CEOs across the S&P/ASX200 index in a financial year, rather than the usual estimates of the value of their pay included in annual reports.

The results were significant and suggest existing requirements for reporting executive pay may significantly understate the rewards received in a given year. Statutory reporting is, perhaps, disclosing only the tip of the iceberg and investors cannot afford to lose sight of the quantum of rewards being delivered.

Report highlights included recording the 10 highest paid CEO’s in S&P/ASX100 on a realised pay basis in FY14:

Rank	CEO (ASX code)	Realised pay	Reported pay	3yr TSR (FY14)
		(\$m)	(\$m)	%
1	Chris Rex (Ramsay Healthcare)	\$30.8	\$9.1	39.0
2	Peter & Steven Lowy (Westfield)	\$24.4	\$22.1	25.5
3	Louis Gries (James Hardie)	\$20.8	\$12.6	38.8
4	Andrew Bassat (Seek)	\$17.9	\$4.2	38.1
5	Andrew Mackenzie (BHP Billiton)	\$15.6	\$7.8	-3.3
6	Colin Goldschmidt (Sonic Healthcare)	\$13.4	\$3.8	15.4
7	Gail Kelly (Westpac)	\$12.9	\$11.0	24.3
8	Ken MacKenzie (Amcor)	\$12.7	\$8.4	21.9
9	Mike Wilkins (IAG)	\$11.5	\$7.5	25.9
10	Nicholas Moore (Macquarie Group)	\$11.4	\$13.1	23.3

Board Composition and Non-Executive Director Pay in ASX200 Companies

ACSI and our member superannuation funds believe skilled and diverse boards make for better-governed companies and, consequently, better investment outcomes over the long-term.

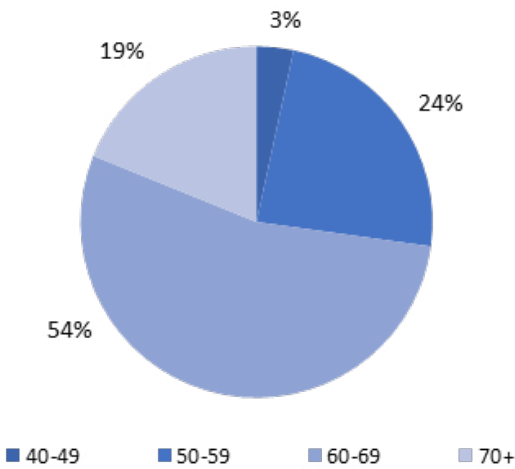
Diversity can be measured in a number of ways, and this, ACSI’s 14th annual research report into Board Composition and Non-Executive Director Pay in ASX200 Companies, does just that, breaking down Australia’s boards to track gender, size, independence, new entrants, tenure and director fees.

A continuing theme in this year’s study remains the inexorable, if painfully slow, rise of women on the boards of Australia’s largest companies.

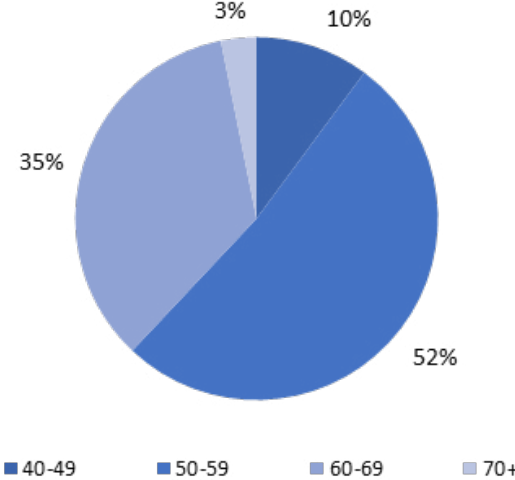
The report found:

- The proportion of women on boards may have doubled over the last ten years, but it still stands at just under 23% of directorships in the ASX100.
- Progress is lagging in the ASX101-200, though, with women only holding just under 14% of board positions. Despite this, we believe there is a widespread mood for change, and momentum is growing around the issues of board diversity. ACSI will continue to be a strong voice in this discussion, both in the investment community and in our engagements with companies.
- Increasing diversity on boards may also be ushering in generational change. This year’s study shows that 62% of women on boards are aged 40-60, against just 27% of men. In contrast, nearly three-quarters of male non-executive directors are aged 60+.
- For the second year in a row, ACSI analysed directors’ ‘skin in the game’, or shareholdings in the company they preside over. Nearly 11% of ASX100 non-executive board seats are held by directors with no shares in the company. This is a poor result and we hope the number begins to improve.

S&P/ASX200 men on boards by age (2014)



S&P/ASX200 women on boards by age (2014)



Sustainability Reporting Practices of ASX200 Companies

ACSI's 8th annual sustainability reporting research continues to assess the level of public reporting of sustainability issues by listed companies, with the goal of promoting improvement in reporting standards and practices across the market. As ESG risks can have a significant impact on the long-term performance of companies, thorough disclosure of their performance in these areas, broadly referred to as sustainability risks, is integral to quality investment decision-making.

Report highlights:

- 87% of ASX200 companies now provide at least some level of reporting on sustainability factors.
- 73 companies have been reviewed in all seven of ACSI's research projects since 2008; of these, almost 80% now report to a level of Leading or Detailed, and there are none rated No Reporting.
- 12 new companies entered the Leading category in 2015. Of these, one was new to the ASX200, four improved from Moderate in 2014 and seven improved from Detailed in 2014.
- There remained three persistent 'laggards' who had neglected to report on sustainability risks to any extent for four or more consecutive years, despite having been engaged by ACSI on the need for improved disclosure as a risk management tool.
- Larger companies continue to be more proficient sustainability reporters, with 66% of ASX50 companies reporting to a level of Leading.

Reporting guidelines and regulations from ASIC and the ASX Corporate Governance Council continue to have implications for companies, in particular the introduction of the new ASX Corporate Governance Council Recommendation 7.4 on sustainability disclosure. It will take effect for most ASX-listed companies from their 2015 annual reporting cycle and should see a further uplift in standards. ACSI encourages all companies to review their responsibilities in light of both our findings and the new market disclosure requirement. Above all, companies should focus on reporting that is likely to be most meaningful for long-term owners, and take an 'above and beyond' approach to the minimum regulatory requirements.

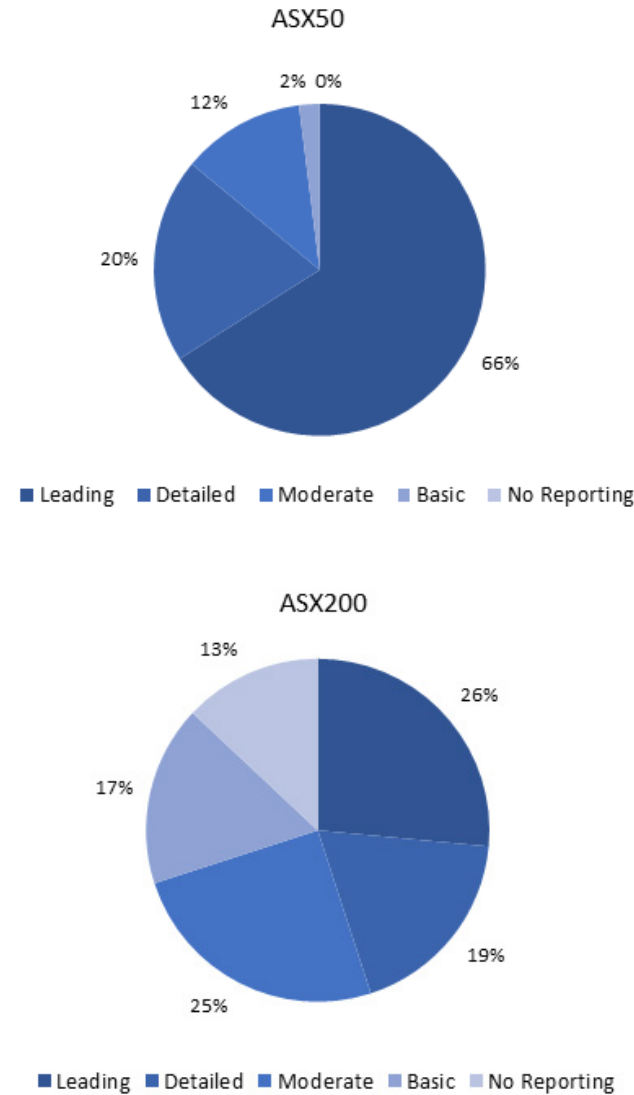
Board Effectiveness

ACSI's board effectiveness study has been a key part of the overall research program since its inception in 2013.

Undertaken in partnership with Ownership Matters, our annual research has changed the conversation on corporate governance - shifting in the focus from narrow AGM agendas to the critical question of board quality, and a range of key strategic issues including the oversight of M&A transactions, CEO succession and capital management.

With significant buy-in from Australia's largest investment managers, this work has again been a major success in the 2014-15 financial year.

Percentage of companies at each reporting level ASX50 and ASX200



Topical Research

We conduct research on specific, material ESG issues identified by Full Members. This can include commissioned research, collaborative projects with other ESG bodies, and projects requested or funded by ACSI members.

Workplace Mental Health and Safety

Focusing on the mining, utilities and financial services sectors, which have particular exposure to mental health concerns, this report was commissioned by ACSI from specialist ESG research provider CAER and published in July 2015.

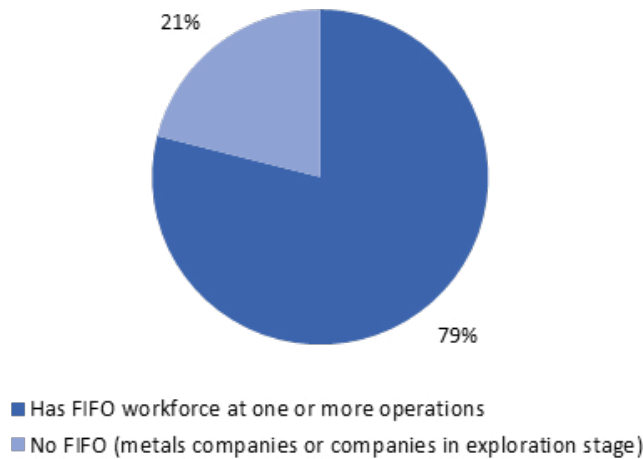
Report highlights:

- While 79% of metals and mining companies in the S&P/ASX200 have fly-in fly-out (FIFO) workforces, only one-third of those disclose details of initiatives that contribute to improved lifestyle to safeguard the mental health of those workers.
- 92% of ASX200 financials and 75% of mining and utilities companies disclose commitments to workplace mental health and safety, through formal initiatives to enable flexible workplaces, and 75% of ASX200 financials and 54% of mining and utilities through various wellbeing programs and initiatives.
- ASX200 financials, mining and utilities companies have low to zero disclosure of absenteeism, overtime or extra hours worked by their employees.
- 58% of ASX200 financials companies practice moderate or good disclosure, well below the 87% of industry peers in the UK and 73% in Europe.
- 83% of ASX200 mining and utilities companies practice moderate or good disclosure, slightly below the disclosure levels of the same comparator group of industry peers in the UK and Europe.

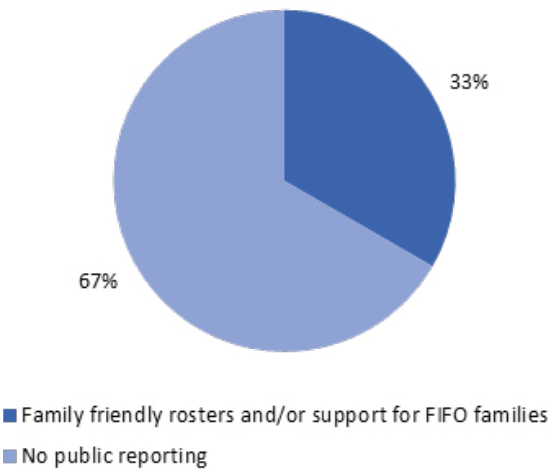
The report aims to start a conversation among investors and companies by taking stock of how leading companies within the finance, mining and utilities sectors communicate publicly about workplace mental health factors.

The research provides a useful evidence base for ACSI's engagement with companies on this critical area of governance and risk management.

Proportion of ASX200 Metals and Mining companies with a FIFO workforce



Percentage of ASX200 Metals and Mining companies with a FIFO workforce providing public disclosures on family friendly rosters and/or support for FIFO families



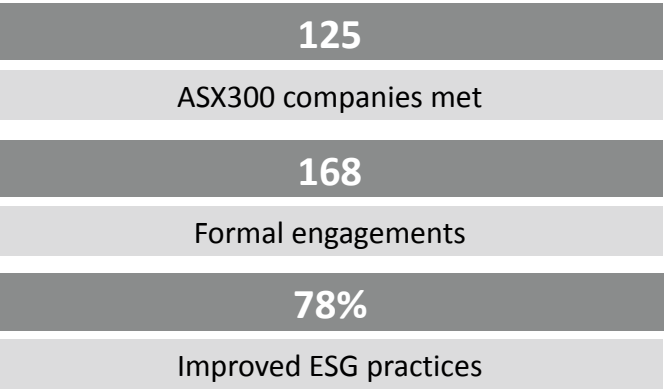
Copies of all of the above-mentioned research papers are available online at www.acsi.org.au.

Company engagement

ACSI engages with listed companies, on behalf of its members, to discuss standards, behaviours and awareness of material environmental, social and governance investment risks. Our objective is to achieve improvements in company policies and practices, creating and maintaining long-term shareholder value, and reducing risk.

ACSI’s company engagement program primarily involves detailed, face-to-face meetings with board members of those ASX300 companies, but also includes teleconferences and written communications where appropriate.

Our engagement is particularly effective and influential because the issues we raise are presented on behalf of a group of long-term investors who collectively own more than 10% of the average ASX300 company. In the year ending 30 June 2015, ACSI held 168 formal meetings, with 125 companies – an increase of more than 20% over FY14 levels.



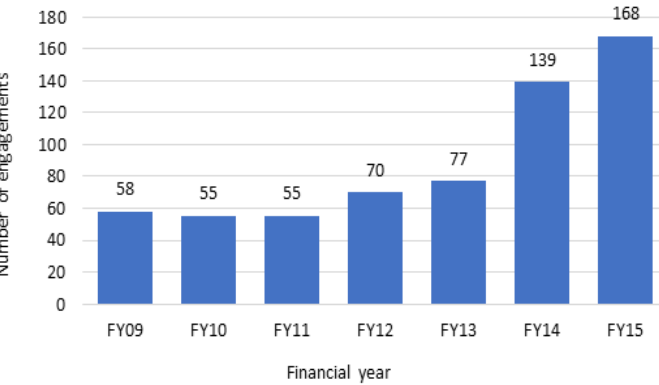
Outcomes of past priority engagements

Each calendar year ACSI, in collaboration with its members, develops a suite of core engagement themes and identifies a group of target companies for priority focus.

In 2014, 28 companies were chosen as engagement priorities. We saw measurable improvement in 79% of these companies.

Improvements include more detailed disclosures on companies’ approach to climate change risks and managing their supply chains, changes in board composition and better aligned (and more demanding) executive pay schemes.

ACSI engagements with listed companies



Priority themes for 2015

In calendar 2015, there are 57 priority companies (some in more than one subject area) being engaged with on:

Carbon Asset Risk	Board Diversity	Labour and Human Rights	Corporate Governance
Engaging with large resources and energy companies on how they are assessing and addressing the risks and opportunities relating to climate change (including regulatory, physical and technological impacts), as well as discussing with the major banks how they factor those potential effects on clients into their corporate lending decisions.	Targeting companies that have poor gender representation on their boards, with the aim of lifting to at least 30 percent, by 2017, the proportion of female directors at ASX200 companies.	(LHR) risks in the retail supply chain Seeking insights into how consumer goods manufacturers and importers oversee and manage the risks to their business of using suppliers with poor employee practices.	Company-specific issues covering director elections, executive pay, capital-raising practices and improving board composition and accountability.

2015 highlights to date

Since ACSI launched its new board gender diversity targets in February 2015, followed by a contact campaign with ASX200 companies that had either none or one woman director, there are signs of an accelerating rate of women appointments.

Some 13% of the ‘zero women’ target companies have already appointed a female director, while private engagement with ACSI by other companies has resulted in strong indications that others will soon follow suit.

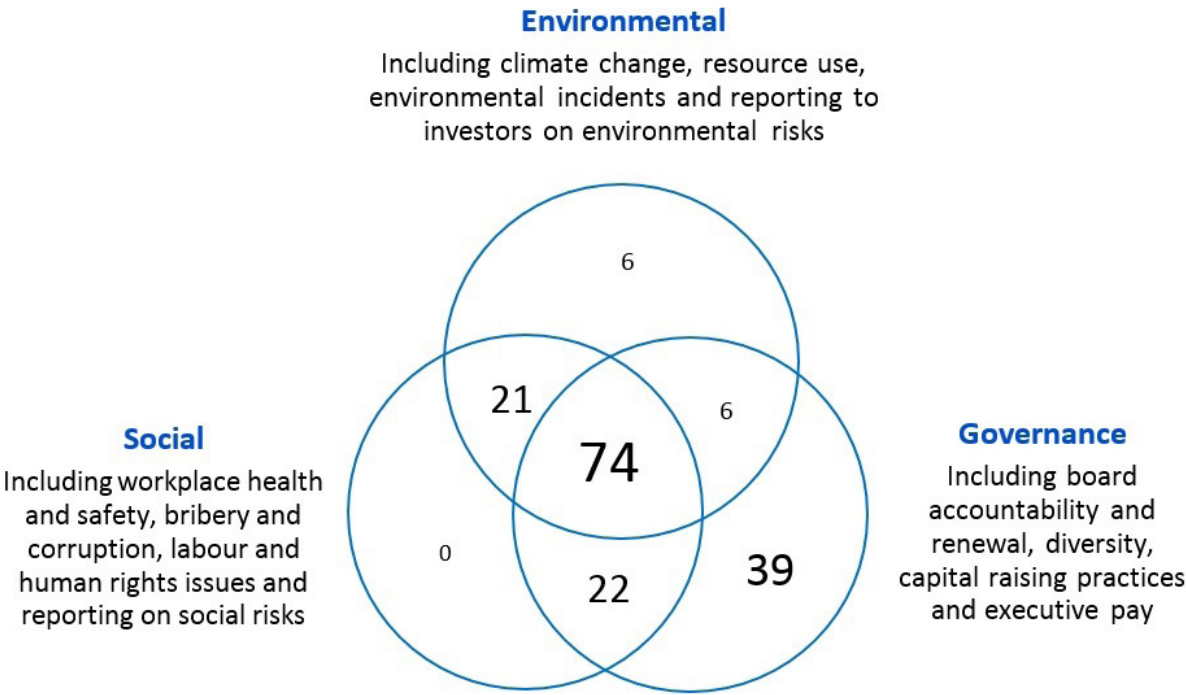
For the first time in Australia, women now represent more than 20% of ASX200 directorships, and hold more than 300 seats, with almost 50 new appointments so far in 2015.

Several large Australian diversified resources and energy companies have already taken positive steps regarding disclosing their approaches to climate change risks, following engagement with ACSI for the last two years and other interested groups.

These included:

- Articulating the resilience of their businesses to both physical and regulatory outcomes of climate change. This includes discussions of plausible long-term scenarios, and their impacts on companies, and how climate change is being factored into strategies and capital expenditure decisions. Some are now also providing detailed demand and profit margin forecasts under different scenarios.
- Declaring support for public policies to limit adverse climate change outcomes.
- Joining initiatives such as ‘We Mean Business’, which invites companies to commit publicly to actions like adopting an emissions reduction target, putting an internal price on carbon and responsible engagement in climate policy.

The following is a breakdown of each of the 168 engagements by the topics discussed:



Voting

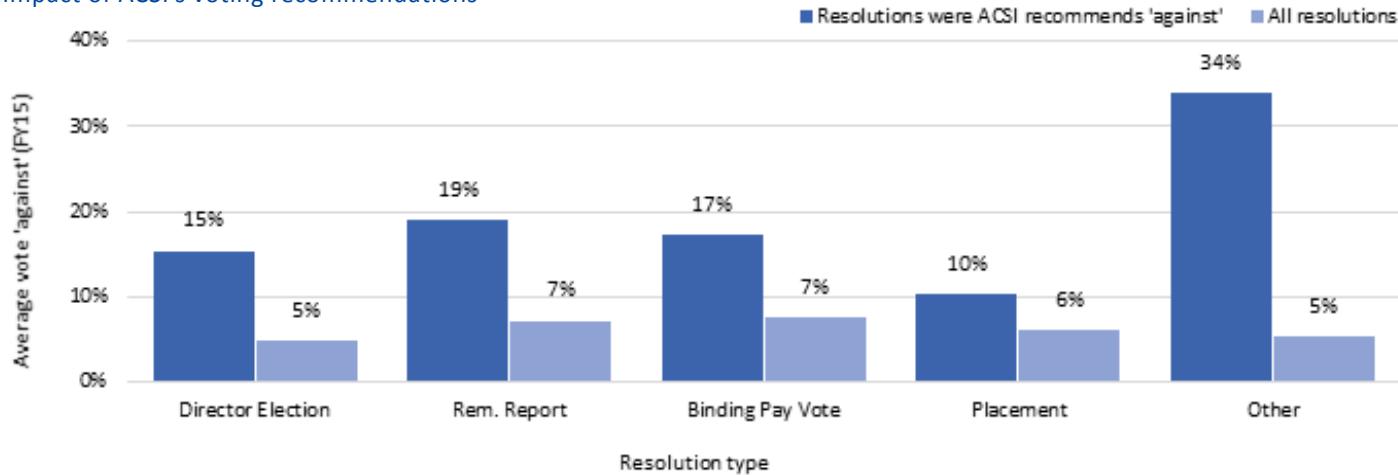
Voting rights have a genuine economic value, and exercising them can materially improve investment outcomes. By positively influencing the companies in which they invest, ACSI members are advancing the long-term economic well-being of their beneficiaries. All of our voting recommendations are based on the ACSI Governance Guidelines and a range of information on governance issues.

ASX300 companies are clearly improving their governance and remuneration disclosure and practices, resulting in significantly lower incidences of recommendations ‘against’ and fewer ‘first strikes.’ These general improvements masked several situations where contentious propositions were defeated by shareholder votes.

One of the more notable statistics to emerge was that the votes on four remuneration reports were defeated outright – the most in any voting year since the legislation was introduced. This continues a trend where investors are targeting outliers in the market.

328	1781	177
Proxy reports issued	Resolutions	Board endorsed resolutions opposed by ACSI

Impact of ACSI’s voting recommendations



In the spotlight

Executive Pay

- ACSI’s concerns on executive pay are at their highest level in four years – the issues include pay quantum (the cash cost of the key management team as a percentage of company profit), poor alignment between bonuses and the shareholders’ experience, and one particularly egregious termination payment.
- The number of ‘first strike’ votes in ASX300 companies dropped to 16 but a record one quarter of companies that received a ‘strike’ suffered an outright defeat of their remuneration resolutions.

Director Elections

- Director elections were shown to be no longer a formality with candidates resigning at companies (including Cabcharge and Sundance Resources) shortly before they were due to submit themselves to shareholder votes after institutional proxy votes lodged with companies indicated likely defeat or large ‘against’ votes.
- Capital raising continues to be an issue of concern, particularly where companies undertake share placements that dilute existing shareholders. During the year we saw an increase in votes against non-pro rata capital raisings – most dramatically copper exploration company CuDeco.

Shareholder Resolutions

- AGL Energy and Origin Energy joined the major banks in receiving shareholder-nominated resolutions on climate change – with ACSI playing a key role in organising discussions and meetings between the companies, members and the resolutions’ proponents to ensure the issues were properly understood and that the companies engaged with their substance.

ACSI Governance Guidelines

This year ACSI released the 7th edition of our Governance Guidelines, following a review involving a specialist committee of ACSI members and extensive consultation and contributions from members and other stakeholders.

The Guidelines are a tool for superannuation funds to help manage their investments in Australian-listed companies. They provide a framework by which superannuation funds can assess the ESG practices of investee companies, particularly when exercising their voting rights.

Updated every two years to take into account the evolving regulatory and governance landscape, the Guidelines are also designed as a reference for chairs, directors and senior executives. The Guidelines reinforce the accountability of boards and management teams to shareholders, and represent a clear statement by a significant group of Australian investors of their expectations of governance practices at the companies in which they invest.

In the new edition, released on 16 October, we’ve revised and streamlined many existing principles, as well as providing specific guidance and examples of the factors it considers when assessing voting recommendations for members.

New guidelines have been added regarding:

- Board gender diversity, based on the belief that skilled and suitably diverse boards make for better-governed companies and, as such, higher value investments – in line with ACSI’s target of 30% women on each ASX200 board by 2017.
- A section on major transactions which refines ACSI’s views on capital-raising conduct, share buybacks and expected behaviours during takeovers.
- Strengthening the guidelines relating to shareholder resolutions to require that boards must consider the substance of shareholder resolutions, offer to engage with its proponents and (if the board recommends a vote ‘against’) to explain publicly why its position better serves shareholders’ long-term interests.
- Clearly articulating that ACSI supports companies taking a bespoke approach in remuneration matters that best suits the specific needs of the company, as well as refinements including sign-on grants and non-executive director shareholdings.

Advocacy

ACSI actively contributes to government, parliamentary committees and other relevant public policy forums to promote desirable ESG legislative and regulatory outcomes. Every opportunity is taken to ensure that ESG investment and disclosure standards in Australia meet world's best practice.

Key contributions made to regulatory and policy discussions during 2014/15 include:

Financial System Inquiry (FSI)

ACSI made a detailed submission to David Murray's Financial System Inquiry in August 2014. It focused on three key topics raised in the FSI's June 2014 Interim Report which we believed strongly related to ACSI's domain of active share ownership and fiduciary oversight:

- The profound macroeconomic and market implications of the growth of superannuation funds as 'universal' owners of public equities.
- The need for improvements in regulation governing the capital raising practices of Australian listed companies.
- The importance of trust law as the most suitable legal foundation of Australia's superannuation system.

ACSI also led the preparation of a submission from the International Corporate Governance Network (ICGN) that echoed these points, adding the weight of the international corporate governance community to the themes we were presenting.

In the event, the FSI's Final Report, published in December 2014, and the Federal Government's eventual response (October 2015) did not directly touch upon any of these issues. Whilst somewhat disappointing, this wasn't surprising given the prevalent public discourse around other systemic issues (such as the competitive dynamics of the superannuation industry and the resilience of the banking system) leading up to the FSI's final report and since.

Whilst the active ownership and stewardship agenda did not feature in the FSI's specific recommendations, ACSI will continue to pursue these issues through other avenues such as the ASX Corporate Governance Council, interactions with regulators and policymakers, and active participation in the ICGN, PRI and other relevant forums.

We also believe that the FSI submission has been a useful opportunity for ACSI to articulate some of the core philosophical underpinnings of its work and role in the financial system, which can be readily re-purposed for the expanded advocacy program envisaged under ACSI's new 2015-18 Strategic Plan.

Senate Economics Committee Reviews

ACSI contributed to two legislative measures which had been referred to the Senate Economics Committee for review following passage through the House of Representatives:

- The Corporations Legislation (De-regulatory and Other Measures) Bill – which was primarily concerned with the abolition of the so-called '100 members rule' for shareholders to be able to requisition an Extraordinary General Meeting of a company, at the company's expense. ACSI's response was to support this measure on cost-efficiency grounds (even though it entailed some diminution of existing shareholder rights), provided that the measure did not extend to shareholders' rights to raise matters for decision at an ordinary AGM convened by the company. This view was shared by the majority of respondents to the review and was ultimately supported by the Committee and passed into law in March 2015.
- The Australian Securities & Investments Commission (Abolition of CAMAC) Bill – in which the Senate Committee sought feedback on the Government's decision to abolish the Corporations & Markets Advisory Committee (CAMAC) as part of its 'red tape reduction' policy to rationalise public sector advisory bodies. ACSI's submission, along with those of many other industry and professional bodies, supported the reinstatement of CAMAC as a demonstrably successful, productive and relatively inexpensive forum for market-wide discussion and resolution of corporate law reform issues since its establishment in 1989. Whilst these views were extensively cited in a dissenting report from Opposition Senators, in the event the Committee was split on party lines and the majority report from the Committee supported the Government's decision to proceed with abolition of CAMAC.

ASIC Review of Regulatory Guide 128 - Collective Action by Investors

This review concerned how ASIC proposed to categorise different types of investor collective action (where the combined holding of participating investors exceeds 5% of issued capital) to determine which actions might require public disclosure of an 'association' or 'relevant interest'.

The strict wording of the Corporations Law in this area has considerable ambiguity, so it's crucial investors understand and work within the policy approach adopted by the corporate regulator.

The key risk for ACSI and its members is that an unduly restrictive interpretation of the 'relevant interest' provisions might constrain the collective shareholder engagement that ACSI facilitates (generally called 'active ownership'), and potentially impose very significant compliance costs on member funds through having to constantly monitor and disclose their combined holdings in listed entities across multiple managers, custodians and products.

On the other hand, all investors, including ACSI members, need timely market disclosure of collective action with more of an opportunistic or corporate control agenda, such as certain forms of hedge fund activism that is common in markets such as the US (generally called 'shareholder activism').

After much discussion and formal comment on ASIC's proposed re-draft of RG128, the final version released in June 2015 represented a very good result for ACSI and its member funds. In particular, it removed the ambiguity in ASIC's earlier draft that might have seen collaborative engagement on 'strategic' issues triggering the 'relevant interest' provisions of the Corporations Act, and thereby potentially imposing onerous disclosure requirements on our member funds.

At the same time, it makes a number of positive comments about the importance of constructive shareholder engagement as a means of increasing shareholder value and improving companies' risks management practices. This, and the responsiveness of ASIC to ACSI's submission, indicates that the corporate regulator understands and is favourably disposed to our core mission and goals.

ASX Engagement

ACSI undertakes a regular dialogue with the ASX on regulatory and policy issues of mutual interest, including the impact of ASX Listing Rules on shareholders' rights and the general framework for reporting of material ESG risks by ASX listed companies.

Matters under discussion with the ASX during 2014/15 have included:

- ACSI's ongoing concerns over the lack of transparency in underwriting and management fee disclosures for share placements by large listed companies, compared to those in place for traditional rights issues and for special capital raisings by companies outside the ASX300.
- The anomalies created by the ASX Listing Rules in cases of 'reverse takeovers' undertaken by Schemes of Arrangement, whereby the shareholders of the smaller party to the merger can be disenfranchised from the approval process despite having their economic interests significantly diluted (exemplified by the widely publicised Roc Oil/ Horizon and Novion/Federation Centres transactions during 2014/15).
- The adaptation in Australia of international initiatives to improve market-level disclosure frameworks on material ESG risks, such as the UN Global Compact/PRI Sustainable Stock Exchanges Initiative and Integrated Reporting.

At the date of preparing this report, progress is being made in each of these areas and we expect to see positive outcomes reflected in Listing Rules updates and ASX practices in 2015/16 and beyond.

International Collaborations

ACSI contributed to a number of major international ESG advocacy initiatives in partnership with our overseas peer network during 2014/15, and through our links with global investor collaborations such as the ICGN, PRI and ACGA.

Two particular highlights were:

- A submission to the Japanese Financial Services Agency on the proposed adoption of a Corporate Governance Code for Japan. The main focus of this submission was to highlight the workings of Australia's 'if not why not' approach to corporate governance disclosures, and why this would be a useful framework in preference to a more prescriptive or rules-based approach.
- Collaboration with major US pension fund TIAA-CREF and a range of global funds in a campaign to persuade ASX listed companies to abolish voting on a 'show of hands' at their AGMs, and instead move to all voting being conducted by polls. This has been an active advocacy item for ACSI for some years, but has started to attract more attention from international institutional investors as a particular anomaly in the Australian voting system compared to other advanced markets. This campaign has made some important early progress and is expected to lead to further successes that ACSI will be in a position to report on in detail following the conclusion of the 2015 AGM season.

Corporate Climate Lobbying Engagement

Early in the new financial year ACSI signed on to a global collaborative engagement program initiated by the PRI, focusing on the use of industry associations and trade bodies to influence governments' climate change policies, in ways that appear inconsistent with the stated positions on decarbonisation and/or commitment to global warming targets by companies that belong to, and fund, those bodies.

ACSI will play a lead investor role with selected ASX-listed companies in the extractives and energy sectors in this program, complementing our existing engagement work on carbon asset risk (reported in the Engagement section). This will be a critical project in what promises to be a signature year for climate change policy in 2015/16. We will be working closely with the PRI and our peer association the Investor Group on Climate Change to ensure that investors' voices are heard.

Collaboration and International relationships

ACSI collaborates with other investor organisations in the advancement of shared goals, both in Australia and internationally.

As members are increasingly investing overseas, ACSI is developing networks to ensure that the voice of its members is heard in the development of best practice corporate governance internationally.

ACSI cultivates relationships with international peer organisations in order to promote exchange of knowledge between Australian and overseas profit-for-members superannuation/pension funds, as well as collaborating on campaigns and company engagements where appropriate.

ACSI's International Associate Member category has allowed ACSI to develop closer relationships with significant international pension funds. These funds invest in Australia and provide support to ACSI's Australian work. They also provide a view into their home market and, where appropriate, ACSI will support these funds locally on voting and other issues.

Australian collaborations

- Member of ASX Corporate Governance Council.
- Australian Institute of Superannuation Trustees (AIST).
- Business Reporting Leaders Forum (BRLF).
- Financial Services Council (FSC).
- Investor Group on Climate Change (IGCC).
- Investment managers.
- Governance Institute of Australia.
- Regnan.
- Responsible Investment Association of Australia (RIAA).

International collaborations and memberships

- ACSI international members (APG Asset Management, CalPERS, NZ Super, PGGM, Railpen & USS).
- Asian Corporate Governance Association (ACGA).
- Council of Institutional Investors (CII) (USA).
- National Association of Pension Funds (NAPF)/The Investment Association (UK).
- Local Authorities Pension Fund Forum (LAPFF) in the UK.
- Principles for Responsible Investment (PRI) and PRI Clearing House.
- International Corporate Governance Network (ICGN).
- International Integrated Reporting Council (IIRC).

ACSI and the PRI

ACSI provides a range of services to assist its members either in becoming a PRI Signatory or helping them fulfil their PRI obligations.

ACSI maintains a close and effective partnership with the UN backed PRI to support effective implementation of the Principles by member organisations. ACSI provides a co-ordination service for members to respond to initiatives that emerge out of the PRI network Clearing House. Where member funds are uncertain how to practically implement the PRI guidelines, ACSI will provide practical advice and frameworks to assist them. PRI Principle 6 requires signatories to report on their activities and progress, as a measure of progress amongst its members and each year through a detailed benchmarking analysis.

Non-government organisations (NGO) and Multi-stakeholder engagement

ACSI is increasingly meeting with non-government organisations on ESG concerns, as a result of the now well-established targeting of superannuation investors by NGO advocacy campaigns.

We've found that making ourselves available to NGOs gives them an important channel to raise concerns, and us the chance to explain the general superannuation industry perspective away from the 'heat' generated when funds are targeted by specific campaigns. The discussions are generally very amicable, and allow for a constructive exchange of information without interfering with any member fund's discretion to manage its own portfolio as it sees fit.

We're also engaging with multi-stakeholder groups set up by government agencies or industry bodies to address particular policy-level ESG issues and risks, which reflects the growing recognition of the role and influence the superannuation sector can play in public policy discussions on key ESG issues.

These forums provide ACSI with the opportunity to represent its members in important cross-sector initiatives, and affords us useful intelligence to feed into our company engagement and advocacy programs.

Member services

ACSI 2015 Annual Conference

ACSI's 2015 Annual Conference was held at the Sheraton on the Park in Sydney on Tuesday 5 May 2015. This year's conference explored some of the major ESG risks and opportunities facing long-term investors.

Sessions during the day included a panel discussion on the financial impact of mental health and safety in the workplace from the National Mental Health Commission and Transfield Services, UK 30% Club Founder Helena Morrissey talking about board gender diversity and shareholder engagement and ACSI President Gerard Noonan looking at the ways ACSI has managed the complex ESG tasks facing long-term investors over the past year and highlighted some challenging new issues for the year ahead.

Led by acclaimed business journalist Michael Pascoe, ACSI's Directors Panel comprised some of Australia's most influential company directors including David Gonski and Kevin McCann who shone a spotlight on the governance and sustainability issues facing the financial sector.

The afternoon then followed with a panel on Director Liability, including John Brogden of the AICD and Professor Ian Ramsay, followed by a presentation by the global founder and inspiration for the Integrated Reporting <IR> movement, Professor Mervyn King.

Lastly, keynote Christiana Figueres, Executive Secretary for the United Nations Framework Convention on Climate Change (UNFCCC) closed the conference by addressing the climate change challenges in the lead up to the UN Climate Change Conference in Paris in December 2015.

More than 230 delegates representing superannuation fund trustees and staff, regulators, academics, investment managers, company directors and the media attended the day.

ACSI's next Annual Conference will be held at the Sofitel Melbourne on Collins in Melbourne on Tuesday, 10 May 2016. To find out more about the ACSI Annual Conference, visit the event page online at www.acsi.org.au.

Michael O'Sullivan ESG Rising Star Award

The Michael O'Sullivan ESG Rising Star Award has been established by CareSuper and ACSI to commemorate the former ACSI President and CareSuper Chair and to pass on his legacy to the superannuation sector and in particular to the incorporation of ESG principles in the risk management of long-term investing.

The award aims to advance the ESG agenda through development of the next generation of ESG advocates and professionals within the profit to members superannuation sector.

ACSI's inaugural rising star award was announced and presented to Alice Prudhoe, Sustainability Officer, Local Government Super during the ACSI 29015 Annual Conference. As winner of the 2015 Award, Alice has received a \$10,000 grant towards an ESG professional development opportunity.

Member ESG forums

Our member 'ESG Group' holds regular discussion forums for the investment staff of ACSI's Full Members. The Group is conducted under Chatham House rules and is an opportunity to discuss emerging issues and the work involved in implementing ESG in superannuation fund portfolios. The Group has featured regular briefings on proxy voting issues in the ASX200, suggestions and refinements for future ACSI research projects, and information sessions on contentious issues such as the 'two strikes' test on remuneration.

Member briefings

ACSI holds briefings for member-fund staff and trustees to meet with a number of listed companies throughout the year on a range of topics. At least one of these meetings is held before each of the voting seasons (March and September), so that funds are aware of forthcoming controversial issues. ACSI also hosts meetings with ASX50 Chairmen in addition to our regular member briefings.

ACSI Trustee Delegation: PRI in Person

For the first time, ACSI hosted a delegation of Australian Trustee Director members to the PRI in Person Conference held in London in early September 2015.

In addition to the PRI conference, a number of additional side meetings were also hosted by ACSI, providing members with the opportunity to take a deep dive into ESG issues and explore a range of topics including climate change, a sustainable financial system, member activism, tax and human rights.

The delegation also provided the platform for members to develop relationships and exchange ideas with like-minded superannuation fund trustees, both from Australia and from around the globe.

ACSI website

www.acsi.org.au has both public and private domains providing a range of information for our members and general consumption.

Information that can be found within the site includes:

- ACSI Annual Reports
- ACSI Governance Guidelines
- Parliamentary Submissions
- Research Reports
- Media releases
- Voting Alert Service recommendations (subscriber only access)

Membership

ACSI currently has 29 Australian members, who collectively managed over \$400 billion in assets on behalf of over eight million Australian superannuation fund members and retirees, along with six international members. Membership of ACSI is open to Australian profit-for-members superannuation funds and to international asset owners.

ACSI currently has the following three membership categories:

- Full Membership.
- Associate Membership.
- International Associate Membership.

Full Membership	Associate Membership	International Associate Membership
<p>This category of membership provides access to the decision-making structure of the organisation through the Board of Directors and the Member Council.</p> <p>Full Members elect the nine-member Board, with all Full Members making up the Member Council, which meets quarterly to approve policy positions, the annual budget and the future research projects as well as considering the strategic direction of ACSI.</p> <p>The definition of Larger Full Members is based on the proportion of contribution to ACSI’s fee revenue, which is in turn a function of the aggregate funds under management of each member fund.</p> <p>Other benefits include:</p> <ul style="list-style-type: none"> ✓ Input into, and access to, all research projects ✓ Regular publications and articles 	<p>This category of membership is more passive and has access to research and the proxy voting services.</p> <p>Benefits include:</p> <ul style="list-style-type: none"> ✓ Receive constructive guidance on successful management of reputation management issues arising in the Fund’s investment portfolio ✓ ACSI actively contributing to government, parliamentary committees and other relevant public policy forums to promote legislative and regulatory outcomes that are consistent with the interests of our member funds ✓ ACSI engaging with listed companies on behalf of our member funds to improve standards of governance, and raise material ESG investment risks 	<p>Membership of ACSI is also open to international asset owners that have an interest in collaboration with ACSI, with respect to their Australian investment portfolios.</p> <p>Benefits include:</p> <ul style="list-style-type: none"> ✓ Use of ACSI’s ASX200 Voting Alert Service (AVAS) at a member rate ✓ Complimentary attendance at ACSI’s Annual Conference ✓ Access to all ACSI research and documentation ✓ Inclusion in ACSI engagement with ASX200 companies ✓ ACSI’s international members are entitled to request a maximum of three Australian S&P/ASX300 voting reports free of charge within a year as a part of their membership benefits

To find out more about becoming an ACSI member please call +61 (0)3 8667 3890

Australian members



International members



ACSI members as at 1 December 2015.

ACSI Governance

ACSI is registered as a Company Limited by Guarantee and is run by a Board, Member Council and staff.

Role of the Board

The role of the Board is to chart the future direction of ACSI after input from the Member Council, to oversee the finances and regulatory requirements, and to appoint and review the performance of the Chief Executive Officer.

The Board is made up of six Larger Full Member representatives and three Smaller Full Member representatives with the President and Deputy President elected from and by the Board.

Current Board members	
Gerard Noonan - Media Super (President) (appointed 01/07/13)	Antony Thow - LUCRF Super (appointed 16/08/13)
Trish Donohue - Cbus (Deputy President) (appointed 01/07/13)	Michael Pennisi - QSuper (appointed 30/10/15)
Debby Blakey - HESTA (appointed 20/04/15)	John Livanas - State Super (appointed 30/07/13)
David Elia - Hostplus (appointed 28/07/15)	Talieh Williams - UniSuper (appointed 01/07/13)
Bill Hartnett - Local Government Super (appointed 30/07/13)	

Ian Silk - AustralianSuper (ceased 22/07/15); Anne-Maree Corboy - HESTA (ceased 16/02/15); Tim Lyons - HESTA (appointed 16/02/15, ceased 30/03/15); Rosemary Vilgan - QSuper (ceased 23/10/15)

Role of the Member Council

The role of the Member Council is to establish the strategic direction of ACSI and to serve as the policy making body of ACSI. It meets quarterly, providing advice to the Board on the annual business plan, budget and research program. The Member Council approves the ACSI strategic plan and ACSI policy.

Member Council representative funds		
AIST	HESTA	MTAA Super
AustralianSuper	Hostplus	NGS Super
CareSuper	IFM Investors	QSuper
Catholic Super	Local Government Super	State Super
Cbus	LUCRF Super	TWUSUPER
FIRST Super	Media Super	UniSuper

Key management personnel compensation

	2015 (\$)	2014 (\$)
Gerard Noonan, President *	40,690	44,596
Ann Byrne (to 31 October 2013)	-	185,857
Gordon Hagart, CEO (to 27 April 2015)	283,361	190,769
Louise Davidson, CEO (from 27 April 2015)	40,693	-
Executive Managers and Finance Manager & Company Secretary (aggregate) **	489,129	587,360

* Mr Noonan was paid \$28,000 (2014: \$24,000) directly by ACSI for his services as a director and ACSI President. This arrangement has ceased on 31 Dec 2014. Mr Noonan is no longer contracted from Australian Institute of Superannuation Trustees (AIST) (2014: \$20,596). Mr Noonan was paid a further \$12,690 in 2015 for his services in connection with seeking a replacement CEO following the departure of Mr Hagart.

** The Finance Manager and Company Secretary role has been outsourced since October 2014. The fees paid/payable to the outsourced Finance Manager and Company Secretary function to 30 June 2015 of \$124,272 are not included in the aggregated remuneration disclosure above.

Financial report

The following is an extract from the financial report of the Australian Council of Superannuation Investors Limited for the 2014-2015 financial year, together with the independent auditor's report.

STATEMENT OF COMPREHENSIVE INCOME	2015 (\$)	2014 (\$)	BALANCE SHEET	2015 (\$)	2014 (\$)
Revenue from ordinary activities			Current assets		
Membership subscription fees	2,149,230	1,713,726	Cash and cash equivalents	3,107,346	3,187,296
Voting alert subscription fees	883,194	905,581	Receivables	79,303	137,196
PRI network	60,000	58,000	Other assets	23,239	8,064
Annual conference - delegate fees	65,855	41,272	Total current assets	3,209,888	3,332,556
Other income	7,427	18,188	Non-current assets		
Interest	68,801	65,870	Property, plant and equipment	15,524	-
Total revenue from ordinary activities	3,234,507	2,802,637	Total non current assets	15,524	-
Expenses from ordinary activities			Total assets	3,225,412	3,332,556
Staff cost including superannuation	1,380,334	1,463,601	Current liabilities		
Finance and office expenses	295,710	171,484	Other creditors	243,441	189,623
Depreciation	-	49,613	Employee benefit obligations	149,867	126,170
Governance costs	132,374	24,842	Income received in advance	1,447,511	2,003,096
Research costs	176,192	97,250	Total current liabilities	1,840,819	2,318,889
Event and communication	93,322	68,568	Non current liabilities		
Travel expenses	60,700	47,579	Employee benefit obligations	24,653	-
Voting alert service	722,459	705,411	Total non current liabilities	24,653	-
Promotion and development costs	8,733	30,116	Total liabilities	1,865,472	2,318,889
Other expenses	18,410	-	Net assets	1,359,940	1,013,667
Total expenses from ordinary activities	2,888,234	2,658,464	Equity		
Profit from ordinary activities before income tax	346,273	144,173	Retained earnings	1,359,940	1,013,667
Income tax benefit/(expense)	-	87,594	Total equity	1,359,940	1,013,667
Profit from ordinary activities after income tax	346,273	231,767			
Total comprehensive income	346,273	231,767			
Retained earnings at the start of the financial period	1,013,667	781,900			
Retained earnings at the end of the financial period	1,359,940	1,013,667			

The above statements should be read in conjunction with the notes to the financial statements, which can be found in the full financial report online at www.acsi.org.au.



Independent auditor's report to the members of Australian Council of Superannuation Investors Limited

Report on the financial report

We have audited the accompanying financial report of Australian Council of Superannuation Investors Limited (the company), which comprises the balance sheet as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements, the *Corporations Act 2001* and the Constitution dated 1 July 2013 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion, the financial report of Australian Council of Superannuation Investors Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements, the *Corporations Regulations 2001* and the Constitution dated 1 July 2013.


PricewaterhouseCoopers

Claire Keating
Partner

Melbourne
28 September 2015

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