ACSI ANNUAL REPORT

Australian Council of Superannuation Investors
Annual Report for 2015 – 2016 financial year

acsi

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MESSAGE FROM THE PRESIDENT

The late, great economist John Kenneth Galbraith had a colourful way of discussing his dismal profession.

When challenged to defend his opposition to trickle-down economics the droll Canadian used a simple analogy.

It was, he surmised, akin to feeding a horse oats and relying on a few grains making their way through the equine digestive system to provide sustenance to the sparrows.

I've been thinking of Galbraith recently as an argument has spooled around the world that business tax cuts alone are the key to reviving troubled economies.

That perhaps is unsurprising in an America under showman property developer President Trump, and possibly in Britain where some policy makers seem to think becoming a tax haven might be the country's best bet in a post-Brexit world.

But it has been a great disappointment to hear one-track minds at work among elements of the business lobby, their cheerleaders in the media and the conservative side of politics here in Australia.

Entirely untested by evidence (indeed, data suggests countries with a higher corporate tax rate have superior performance and productivity), the low tax advocates simply assert that it will be better for all.

Well, I don't buy that argument. If it were so, you would expect corporate Australia to agitate that their tax bills at the 'official' rate are a major headache. In fact, very few corporations pay tax at the official rate, and many pay little or no tax at all.

Does this matter? And if it does, what should fiduciaries like superannuation fund Trustee Directors and executives do about it?

My answer to the first question is simple: yes. Our lives and those of future Australians rely on a social compact in which compulsory taxation provides education, health, infrastructure, housing and a host of other benefits to all citizens. If tax minimisation or avoidance is elevated to a high art, we are all the poorer for it.

The answer to the second is more complex. It will not be easy, considering the tension between the short-term balance sheet benefit achieved by a non-tax paying company with the broader social good. The potential share price hike which could translate into our members' accounts will inevitably come at the expense of the community.

ACSI has dealt with many complex issues when engaging with the boards and chief executives of the companies in which our member funds invest.

We have been successful, over our 15 year existence, in moderating sky-rocketing executive payments and outrageous golden parachutes; putting the case for diversity on boards; and urging companies to improve their international supply chains and environmental impact in the face of some major scandals.

But to my mind, at some stage soon, we need to engage more fully in the important debate over horse feed.

Yours faithfully,

Gerard Noonan

Gerard Noonan
President

MESSAGE FROM THE CEO

In reflecting on 2016, it is clear that ACSI and its members are having a growing impact on the ESG performance of listed companies in Australia. We have seen significant progress in relation to one of our highest profile campaigns – board gender diversity.

We have seen the challenge taken up to boards that have not provided adequate transparency or confidence to investors about their use of discretion when it comes to remuneration. And the number of companies who are taking the engagement process with investors seriously continues to grow.

Our members' commitment to the issue of diversity saw a formal voting policy put in place to be used against all-male boards if they haven't appointed women, or signalled they have a plan in place by the end of 2017. Such a policy inevitably concentrates minds, and I have been pleased to see that much progress has been made in Australia's boardrooms in 2016.

As you'll read in the coming pages, boards in both the ASX20 and ASX50 now average more than 30% women, albeit with some notable laggards. There are fewer than 15 ASX200 companies without any women directors, which means those in that category are now an aberration.

Perhaps the most positive sign that change is occurring is that women comprised more than 40% of ASX200 director appointments in 2016. With 25% of the ASX200's directorships now filled by women, the 30% target is in clear view.

Also in the spotlight were remuneration and bonuses, particularly bonuses awarded for 'non-financial' metrics such as safety, diversity and corporate culture. ACSI supports the inclusion of these critical strategic issues in remuneration plans, but companies must be able to demonstrate to investors how performance in these areas is monitored and measured. Failures in this regard led to some unprecedented 'against' votes this season, and we'll be watching with interest to see if lessons are learned in time for 2017's AGMs.

ACSI will continue to work to ensure that 'at risk' pay is indeed at risk, and not merely deferred fixed pay.

Something else many of us will be monitoring closely next year are the corporate governance reforms outlined in a UK Government green paper in November. It puts the case for some bold changes, and, if implemented, the ripples will doubtless reach Australia.

This year ACSI has continued to focus on delivering high quality educational events for members. We had a big turnout at our well-received 2016 Annual Conference; our Trustee Delegation to the PRI In Person in Singapore in September brought corporate governance in Asia into sharp focus; and Gideon Haigh's excellent take on governance in sports was the highlight of ACSI's inaugural Phil Spathis Governance Address. I believe all three of these events will go from strength to strength in the years to come.

It's been a year of change at ACSI, with the departure of some long term colleagues and the arrival of a number of excellent new recruits. Our team of ESG analysts has a remarkable breadth of policy, financial and ESG knowledge, skills which will enable us to continue to build our capability and the support we provide to members.

As the end of my first full year as CEO, I would like to thank President Gerard Noonan and Vice-President Trish Donohue, ACSI's board and member council, and all ACSI members for their continuing support and counsel throughout 2016.

I look forward to us all working together again in 2017 to continue to improve the ESG practices of Australia's listed companies, bringing about change that helps to protect the retirement savings of millions of Australians.

Yours sincerely,

Louise Davidson
Chief Executive Officer

ABOUT ACSI

ACSI is a collaboration of Australian and international asset owners, bound together by their common interests as long-term investors in the capital markets.

We have 29 Australian members, including profit-to-member superannuation funds and asset managers who manage money for the profit-to-members sector. Collectively, they manage over $450 billion in assets on behalf of over eight million Australian superannuation fund members and retirees.

ACSI's six international members are among the largest in the world. Together, our members manage more than $1.5 trillion.

ACSI was created in 2001 to mutualise the cost of corporate governance research and to provide a strong, collective voice to major listed companies on governance issues. With our members owning a combined 10% of the ASX200, that voice is being heard more clearly every year.

We are one of the major forces in responsible investment in Australia.

Our ESG research and engagement with Australia's largest listed companies helps enhance the value of the retirement savings entrusted to our members – in fact, that is our mission.

Using the collective voice of our members, we engage constructively with company boards about material ESG issues, to help promote long term shareholder value and minimise risk.

ACSI's contributions to the transparency and integrity of Australia's capital markets over the past decade include:

- The development of **authoritative guidelines** (now in their seventh edition) detailing the reasonable expectations of asset owners for governance standards that should be adopted by listed investee companies, and under which sustainable long-term investment can prosper
- Creation of a productive **model of engagement** between boards of major listed companies and their investors, who collectively represent a significant and growing proportion of the share register
- **Securing of significant policy and self-regulatory reforms** in crucial governance areas including executive remuneration, disclosure of material non-financial risks, capital raising practices and proxy voting administrative processes
- **Development of a sound evidence base on material ESG investment risks** facing Australian companies and how these might be better managed, through focused empirical research (for example, the exposure of Australian corporations to significant risks in their expanding offshore operations, notably bribery and corruption and supply chain labour and human rights abuses)
- **Active participation with industry peers** in significant cross-sector collaborations including the ASX Corporate Governance Council, and in key international forums including the International Corporate Governance Network (ICGN) and UN-backed Principles for Responsible Investment (PRI).

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

ACSI's research supports our advocacy, engagement and voting programs and includes long-running annual projects, such as *CEO Pay in ASX200 Companies* and *Sustainability Reporting Practices of the ASX200*, as well as thematic research on specific material ESG issues.

All of our research provides a solid evidence base for engagement with companies, regulators and the investment community more broadly.

Engagement

ACSI seeks to influence companies through constructive engagement with their boards about material ESG issues, with the aim of promoting long term shareholder value and minimising risk.

Some examples of ESG risks discussed are board diversity and independence, remuneration report recommendations, carbon asset risk, human rights in supply chains and sustainability reporting disclosure.

Australian Voting Alert Service (AVAS)

Voting at AGMs is an important first step for ACSI members to exercise their shareholder rights and manage corporate governance risks in the companies they invest in.

Before the ACSI AVAS was introduced, only 30% of overall shareholdings were voted in Australia. Now it's 67%.

Our voting recommendations are based on the **ACSI Governance Guidelines** and material governance issues.

Advocacy

ACSI actively contributes to government, parliamentary committees and other relevant public policy forums to promote a regulatory system that is equitable and effective for long term investors.

329

proxy reports issued to members

4

major research reports released

136

companies engaged with ACSI in 2016, with 180 meetings

ACSI's members represent

$1.5 trillion

in funds under management

ACSI 2016 Annual Conference attendees

257

71c of every dollar invested in the ASX200 goes to a 'leading' reporter

According to ACSI's Sustainability Reporting research

93%

of ASX100 CEOs were awarded a bonus in 2015.

6 more than at any time since 2008.

ACSI's *CEO Pay in the ASX200 Companies 2015*

12

ACSI member events held in 2016

ACSI CEO Louise Davidson appointed to the board of the

International Integrated Reporting Council (IIRC)

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.

LONGITUTIONAL 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

This was ACSI's 15th annual survey into CEO Pay in Australia's largest listed companies, and showed fixed pay for top CEOs has declined to below 2008 levels.

This was due not to incumbent CEOs taking pay cuts, but to boards taking the opportunity to pay the replacements of departing CEOs less.

One area that certainly isn't shrinking is bonuses – both their size and their frequency. The median bonus was $1,360,000 in 2007, dipped under the million mark in 2013 at $950,000, and in 2015 was back up to $1,162,488.

In 2015, 93% of our sample ASX100 CEOs received a median 76% of their maximum bonus. That's the highest proportion since 2008, a year renowned for hitting new heights in CEO pay, bonuses and termination payments.

Bonuses are the new normal. So many CEOs receiving such a big percentage of their maximum bonus raises serious questions about the appropriateness of bonus hurdles, and begs the question – are bonuses really just fixed pay dressed up as at-risk pay?

As owners representing the retirement savings of millions of Australians, this is concerning.

Listed companies should be acutely aware that showing moderation is vital if they are to retain their social licence to operate.

Report highlights:

- **Both realised and reported ASX100 CEO's pay were down slightly on FY14 levels**, with median reported pay declining 3.1%, and median realised pay declining 2%
- Realised and reported pay levels have declined substantially in the ASX101-200
- Average realised pay was $1.89m, down 15% from $2.23m in FY14
- Average reported pay dropped 24%, from $2.34m in FY14 to $1.78m
- **93% of all sample CEOs received a bonus** - the equal highest number in the history of the study
- **The median bonus paid rose 9.2% to $1.16m,** while the median bonus accrued rose 5.8% to $1.6m
- **Bonuses in smaller companies seem harder to achieve.** In the ASX101-200 sample, median bonus paid fell 1.6% to $329,000 **while a third received no bonus**, up from 21% in FY14
- The highest realised pay in the ASX100 was $24.75m between Westfield's co-CEOs, Peter and Steven Lowy, who also had the highest reported pay at $21.71m
- Ramsay Health Care CEO Chris Rex, who was the highest realised pay CEO in FY14 with $30.8m, was still among the highest paid CEOs on a realised basis in FY15 with $15.4m.

Board Composition and Non-Executive Director Pay in ASX200 Companies

It is more than a decade and a half now since ACSI began its annual study of who controlled Australia's largest companies, and how they remunerated themselves. Back then, the boards of the ASX100 were, as we noted and lamented, truly 'male, pale and stale'.

Times have changed – ACSI expanded its work to look at the top S&P/ASX200, and Australia's boardrooms began to expand their horizons, looking just a little beyond their traditional work and sporting networks for fellow directors who could bring the appropriate skills and capabilities to boardrooms.

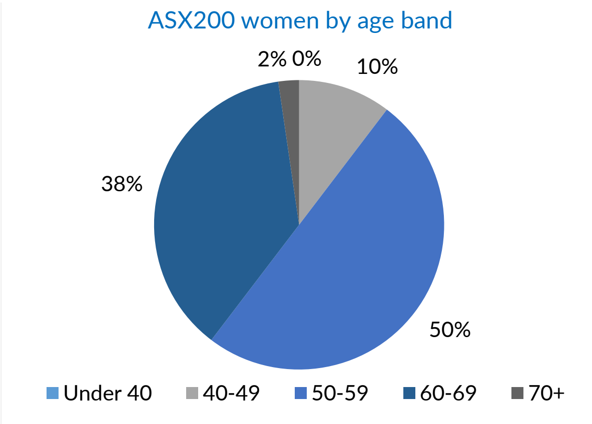
While the gender make-up of these boards in leading companies is still overwhelmingly male, almost a quarter of all board seats are now occupied by women – and ACSI is intent on working with its membership, in raising that to at least 30% by the end of 2017.

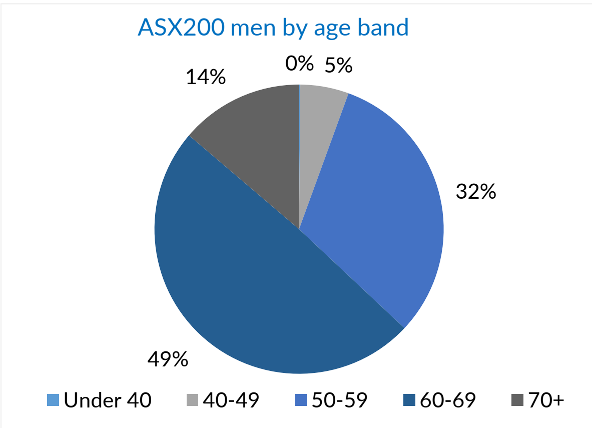
The 15th annual Board Competition and Non-Executive Director Pay report found:

- The average age of an ASX100 director has hit 61.9 – almost three years older than when the study began in 2001
- Women being appointed are on average aged 57.9, compared to their male counterparts, at 63.5, but that average is edging higher as the proportion of women directors in Australia's top companies accelerates.

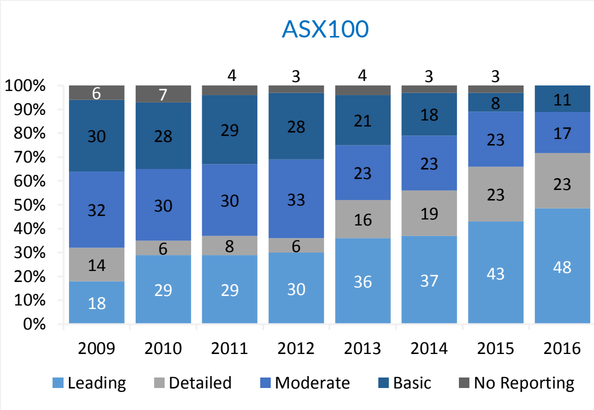
The still large cohort of long-serving, male directors over 70 years of age, 14% of men compared to only 2% of women, is helping drive the average up. In fact, two out of every three male directors are over 60.

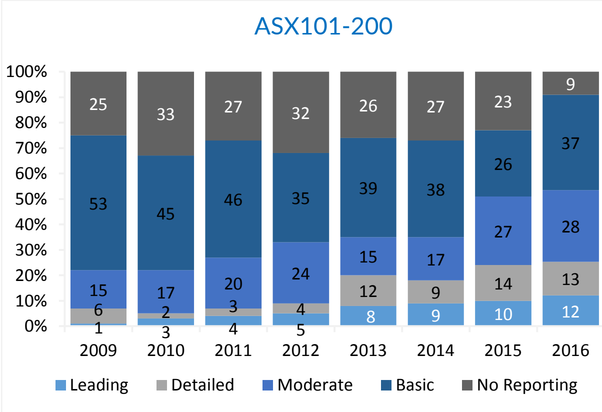
- In 2015, 21% of ASX200 directorships were held by women. In 2016, that is running at just below 25% – still significantly short of ACSI's target of 30% by the end of 2017
- Multiple directorships remain prevalent: 109 non-executive directors (NEDs) held 37% of all ASX100 board seats. Across the entire ASX200, 182 individuals (almost 20% of the director community) accounted for 418 seats – or 36% of all NED positions
- The number of ASX100 directors with no shareholdings in the company they preside over, or 'skin in the game', fell by a third, to only 51 people – although just under one half of those had been there less than a year. Nine directors with no shares had been on their respective boards for more than five years – one, for nearly 20 years
- In the ASX101-200, 87 individuals held no shares in the companies over which they preside which means that almost one director in every company in the sample held no shares.





Changes in level of reporting year-on-year 2008-2016 (ASX100) and 2009-2016 (ASX101-200)





Sustainability Reporting Practices of ASX200 Companies

Since its inception in 2008, this annual research report has had a tangible effect on corporate disclosure practices in Australia.

102 companies in the ASX200 have been rated every year since 2009. There are no longer any 'No Reporting' companies among them, and approximately 70% are now in the Leading' or 'Detailed' categories.

In 2015, more than 20 companies directly committed to ACSI to improve their reporting, with others making positive changes following discussions with ACSI: a constructive engagement process that we are confident has contributed to the improvements in disclosure to date, and will continue to do so in the future.

Perhaps most tellingly, our research shows that 71 cents in every dollar invested in the ASX200 is now invested in companies shown as reporting on ESG to a 'Leading' standard.

Report highlights:

- 90% of ASX200 companies provided some level of reporting on sustainability factors in their 2015 public disclosures
- The ASX100 reports to a higher standard than the ASX200
- Of 174 companies surveyed in both 2015 and 2016, 48 upgraded their reporting level, and only eight downgraded.

The most improved sectors are utilities, gas, and energy distribution companies. This improvement may be correlated with increasing pressure from investors in these sectors to be transparent about the economic and environmental risks particularly those related to climate change.

- Compulsory reporting under Recommendation 7.4 of the ASX Corporate Governance Council Principles (Third Edition) is likely responsible for the drop in the 'No Reporting' companies and an increase in the "Basic" reporters
- There has been a 30% increase (from 42 companies in 2015 to 55 in 2016) in reporting against the Global Reporting Initiative and a steady take-up of the GRI's most recent (G4) guidelines
- Formal adoption of the International Integrated Reporting (<IR>) framework by Australian companies remains low by international standards; however a number of leading Australian companies report using the <IR> framework to integrate reporting metrics
- In almost all sectors there is now a 'Leading' reporter setting the standard across the industry group. This important development obviates any argument that there are some industries that do not have a material exposure to ESG issues.

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.

Fossil Fuel Investments

By 2050, according to expert opinion, the world will have to be at, or rapidly approaching, net zero greenhouse gas emissions if we are to avoid the worst environmental and economic impacts of climate change.

We saw at the Paris COP21 a strong global agreement to keep climate change at below 2 degrees Celsius pre-industrial levels, with an aspirational target of keeping global warming to less than 1.5 degrees. To get there, enormous changes to the global economy will have to take place.

Investors will need to play a key role in minimising the risks and taking advantage of the opportunities from this transformation. If managed well, the long term retirement outcomes for Australians may be dramatically improved. On the other hand, mismanaging these risks and opportunities has the potential for substantial value destruction.

So how should funds approach climate change risks and opportunities? How should investors interact with companies in the energy, resources, property and other industries that are the most directly impacted by climate change risks? What role should they seek to play in shaping the public policy environment for a smooth transition to a decarbonised world?

Report author, Martin Skancke is a recognised global authority on climate risk management from an institutional investment perspective. He is at the centre of emerging leading practice in this area, through being chair of the PRI and a member of the Task Force on Climate-Related Financial Disclosures recently established by the Financial Stability Board.

He brings a depth of knowledge and a calm, methodical and investment-focused approach to this often fraught topic. ACSI hopes the report helps our members in developing frameworks to manage the investment challenges associated with climate change.

Research papers are available online at www.acsi.org.au

COMPANY ENGAGEMENT

ACSI's objective, in meeting with companies, is to encourage changes to their policies and practices, which will create and maintain long-term shareholder value, and reduce risk. As such, ACSI holds almost 200 meetings annually with ASX300 companies, on behalf of its members, where their standards and behaviours in relation to material environmental, social and governance investment risks are scrutinised.

Moving the dial on financial services culture

Heightened investor, and regulator, concerns about culture within financial services companies has been a focal point of 2016.

Both the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) signalled plans to closely examine structures and behaviours.

The rewards culture within Australia's major banks has been on ACSI's radar for some time – if for no other reason than the persistence of bonus payments to senior staff, even at times when banks' behaviours are under public scrutiny.

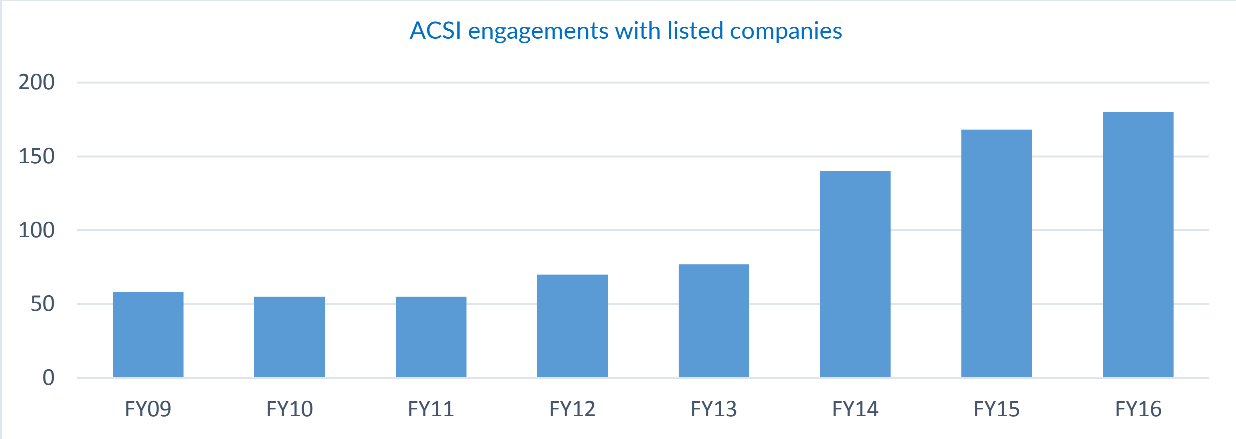
During the year, ACSI met with representatives of all the major and second-tier banks, as well as hosting special briefings for members with current and former banking executives to discuss the cultural issues and how they are resonding to the challenges.

The fourth iteration of the Board Confidence Index, undertaken in partnership with Ownership Matters, was completed in June. This annual research has changed the conversation on corporate governance, and results are used during meetings with ASX100 boards.

While ACSI cannot claim sole credit for changes in company behaviours, the growing numbers of ASX-listed boards which seek the opinions of ACSI and its members before making changes to remuneration and other policies, underlines the value of collective action to improve investment outcomes for fund members.

Key themes

Board Diversity	Labour and Human Rights	Corporate Governance	Carbon Asset Risk
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.	Seeking insights into how consumer goods manufacturers, importers and retailers oversee and manage the risks to their business of poor employee practices by them and their suppliers.	Company-specific issues, covering director elections, executive pay, capital-raising practices, as well as seeking to improve board composition (independence) and accountability.	Encouraging large resources and energy companies to disclose and discuss more on how they assess and address the risks and opportunities relating to climate change (including regulatory, physical and technological impacts).



Board gender diversity

Pleasingly, this year has seen a number of milestones passed in terms of gender diversity:

- 13 companies ACSI engaged with on the subject appointed their first woman to the board
- Boards in both the ASX20 and ASX50 now average more than 30% women – although there are still some notable laggards
- The number of ASX200 companies without any women directors has fallen to fewer than 15 – which means that having a board with zero women represented is now an aberration
- Women comprised more than 40% of all ASX200 director appointments during 2016
- More than 60 ASX200 companies now have boards of 30%, or more, women. Another 55 have 25% or more women
- Five companies have boards comprised of 50% women – AMP, Boral, Mirvac, Nine Entertainment Co. and Woolworths. Medibank Private has 63%.

ACSI members this year endorsed the implementation of a new voting policy, to be applied from 2017 onwards when considering whether to support the elections and re-elections of ASX200 directors at companies with poor gender diversity. Companies that have not presented a clear path to achieving 30% women on their boards by the end of 2017, risk a significant vote against director nominees at their next AGM.

Labour and Human Rights (LHR) risks

The welfare of workers at investee companies, and the companies that supply them with goods and services, is always something of which ACSI's members are keenly aware - not just because of the reputational and economic risks, but because ACSI members are themselves investing funds on behalf of millions of workers around the globe.

LHR issues have come into sharp focus overseas and, more recently, at home. Risks in supply chains have been an ongoing program for ACSI and its members for several years, beginning with ethical sourcing by consumer goods companies. ACSI's work in this area pre-dated major tragedies in the Bangladeshi garment industry, and we subsequently stepped up our engagements with a group of target companies. We encouraged best practice behaviour through their publication of sourcing policies, provision of information on how those are implemented, listing of supplier factories and disclosure of instances where arrangements with those factories are either suspended or abandoned. ACSI is pleased to see that most of those companies have responded positively, recognising the risks to their reputations and performance in how and who they source from.

In the latest year, the use of contract labour within Australia by fresh produce suppliers to major supermarket chains, including Woolworths and Wesfarmers' subsidiary Coles, has been a topic of high engagement because of the potential risk to those companies' reputations and, consequentially, members' investments.

ACSI has also initiated meetings where issues arise of how ASX-listed companies conduct their business in offshore locations, such as Broadspectrum's detention centre operations and Ansell Limited's manufacturing in Sri Lanka and Malaysia.

Carbon Asset Risk (climate change)

This engagement theme commenced in 2014 as a means for ACSI to make some practical inroads into the increasingly-prominent climate risk debate, while also helping Member funds to address member and stakeholder concerns over the types of assets in which their funds are being invested.

During this year, ACSI proposed a climate change resolution at the Rio Tinto AGM on behalf of the "Aiming for A" coalition, which was endorsed by the mining company's board and overwhelmingly ratified by investors.

The resolution aims to ensure Rio's strategic resilience for 2035 and beyond, requiring annual reporting from 2017 onwards about its emissions management, public policy positions on climate change, how it is managing its asset portfolio and strategies, and their benchmarked performance against International Energy Agency scenarios.

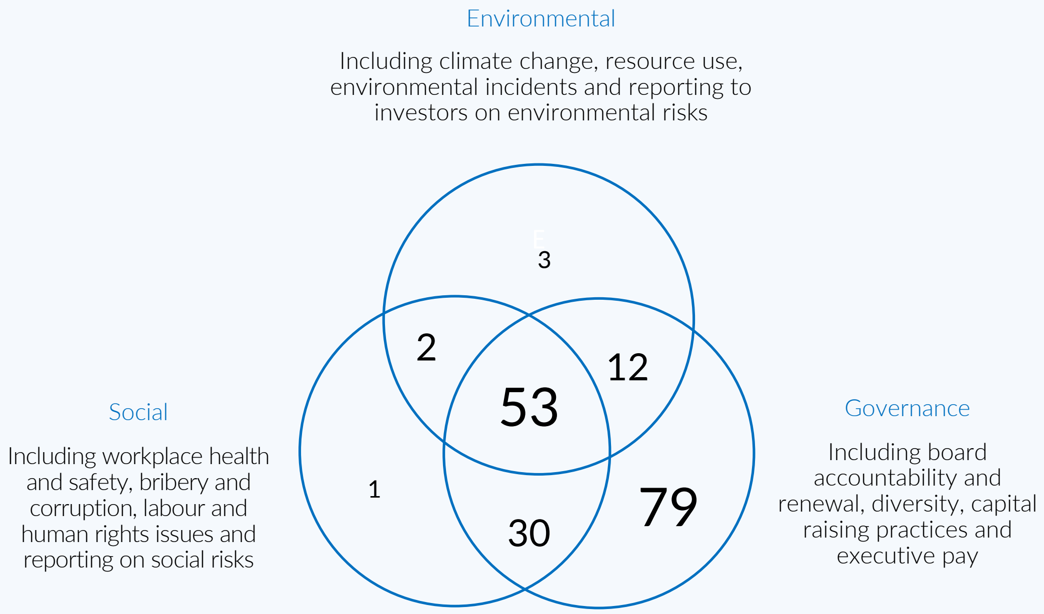
Corporate governance

The primary objective is to seek changes to governance structures where issues arise on fundamental questions such as board accountability, misaligned incentive plans for company executives, and dilutive capital raising practices. Much of ACSI's work in this category is driven by its voting advisory service to members (see below), and the outcomes of shareholder meetings. As mentioned earlier, board oversight of corporate culture has been a significant focus, and not just for the financial services industry.

Progress made during FY16 includes:

- Eight target companies changing the way they set bonus hurdles – making wholesale changes and raising the bar for executives
- Three target companies began board renewal.

Breakdown of 180 company engagements in FY2016 by topics discussed



VOTING

Participation in company meetings is a critical right of shareholders and a cornerstone of corporate governance practice. ACSI believes that all superannuation funds, as long-term investors, should be exercising all of the votes associated with their investments, all of the time. Companies should not take any actions which disenfranchise shareholders or inhibit shareholder participation in company meetings.

After an improvement in governance practices in recent years, 2016 was a contentious year on the voting front. Ongoing volatility and subdued economic conditions in world markets, couple with increased regulatory demands in capital markets, have increased the pressures on boards to deliver performance. ACSI has seen an upsurge in against votes, as investors call out poor governance practices – and not just in mid and small cap stocks.

In FY16, ACSI provided voting advice to its members on 1190 resolutions across the ASX200 (1733 resolutions including the ASX300). On average, ACSI opposes around 10% of board-endorsed resolutions. Typically, the average vote against resolutions trebles in cases where ACSI has recommended 'against', demonstrating both ACSI success in highlighting contentious issues and the impact of our voting recommendations.

In the spotlight

Executive pay	Director elections	Capital raisings and merger schemes
Concerns on executive pay being out of step with not just investor experience, but that of customers and community perceptions, has ensured another lively voting season – crowned by the Commonwealth Bank of Australia's remuneration resolution being defeated. Separate resolutions on equity allotments to executives are also facing opposition. The number of 'first strike' votes in ASX300 companies rose to 20 (FY15: 16).	Board-endorsed director elections are being more critically examined as investors seek to ensure board structures are appropriately diverse and independent – and that directors are being held accountable for prior decisions. ACSI's gender diversity aim of 30% women on ASX200 boards by the close of 2017 will be backed in the next year by a firm voting commitment from members on director voting at companies with zero women directors.	ACSI continues to oppose equity issues which disenfranchise, or dilute inappropriately, existing investors. Similarly, ACSI members have continued to oppose dual share structures that confer limited voting rights on some stakeholders, while conferring control on others – such as News Corporation and the Murdoch family.

The current voting season has seen the remuneration report of Australia's largest listed company, Commonwealth Bank of Australia, receive a 'first strike' and influenced the bank's decision to withdraw a resolution relating to the allotment of equity to its CEO. At least one director elected to retire from a board, rather than face a significant vote against them due to investor concerns about their suitability on account of their work on other public company boards. Investors are more often testing the credentials of existing and proposed directors before endorsing their appointments.

Voter turnout: the 'care factor'

Voter turnout, the average proportion of all shares voted per resolution, is an approximation of the 'care factor' for governance issues. Although figures are yet to be finalised for the second half of calendar 2016, the average prior to that across the ASX300 was running at a little below 67% - a new high-water mark. Some of the best gains are coming at the smaller ASX300 companies, where governance standards are typically lower– so perhaps investors are realising the opportunity to influence behaviour and add value in this part of the market.

ADVOCACY

ACSI actively contributes to government, parliamentary committees and other relevant public policy forums to promote desirable legislative and regulatory outcomes on ESG-related matters. 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 in the last 12 months include:

Senate Economics Legislation Committee Carbon Risk Disclosure Inquiry

In February 2016 the Senate referred to the Economics References Committee for inquiry and report by 22 June 2016, a report on carbon risk disclosure, with specific focus on:

- Current and emerging international carbon risk disclosure frameworks
- Current carbon risk disclosure practices within corporate Australia
- Australian involvement in the G20 Financial Stability Board discussions on carbon risk impacts for financial stability
- Current regulatory and policy oversight of carbon risk disclosure across government agencies.

ACSI made a submission to the inquiry in May, which included several recommendations – including that the committee adopt questions on corporate disclosure similar to ACSI's own checklist in its engagement meetings with target companies. In it, ACSI advocated that it would be desirable to see the emergence of industry-sector standards for carbon risk disclosure, ideally modelled on an independent assessment of best-in-sector approaches from existing disclosure materials (both domestically and overseas).

ACSI also endorsed the Investor Group on Climate Change's (IGCC) submission to the inquiry for improving regulated carbon disclosure standards, including standardisation of industry definitions of climate risk, enhancements to the National Greenhouse and Energy Reporting Scheme, development of guidance on consistent definitions and materiality thresholds, and stress testing for different climate change scenarios.

The inquiry was suspended due to the Federal Election, but has been reconvened under the new Parliament with a report due by March 2017.

ASX's Consultation Paper on Reverse Takeovers

In December 2015, ACSI took a strong stand against a proposal by the ASX to amend its listing rules in a way that could lead to disenfranchisement of shareholders in the smaller of the companies involved in a 'reverse takeover' transaction. The issue has arisen several times in recent years – Roc Oil and Horizon Oil, Federation Centres and Novion – and was also a factor in current merger proposals between Tabcorp Holdings and Tatts Group.

ACSI's submissions to the consultation noted that the ASX's proposed investor protections were up to four times weaker than standards applied on comparable exchanges in Toronto, Singapore, London, Johannesburg, the NYSE and NASDAQ.

INTERNATIONAL CONTRIBUTIONS

Review of the NZX Corporate Governance Code

ACSI participated in the NZX's consultation on an updated NZX *Corporate Governance Code* (the NZX Code) in October 2016. The main aim of participating was to support the NZX's work to improve reporting on diversity, remuneration and environmental, social and governance (ESG) reporting. The NZX Code standards are important as they influence the reporting of a number of dual-listed companies that our members invest in on the ASX.

At present, the NZX provides substantially lower standards than those included in the ASX Corporate Governance Council *Principles and Recommendations*. In making a submission to the consultation, ACSI was also keen to support the submission made by our international member, the NZ Super Fund.

We strongly support new requirements for companies to report the details of CEO remuneration and would encourage the NZX to extend the reporting requirement beyond the CEO to key management personnel.

US Proxy Advisor Regulation

ACSI has joined a large group of global pension funds to support the Council of Institutional Investors' (CII) letter to the US Senate raising concerns over proposed legislation aimed at proxy advisory firms. The letter received support from US pension funds, and asset managers, with FUM of over $3 trillion. The letter raises concerns with a range of proposals under consideration in the US House of Representatives including laws that would:

- Require that proxy advisory firms provide companies advance copies of their recommendations and most elements of the research informing their reports.
- The CII highlighted a number of concerns with these measures including the right of pre-review giving companies substantial influence over proxy advisory reports, potentially undermining the objectivity of the firms' recommendations.

Submissions can be viewed online at www.acsi.org.au

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.

Australian memberships

- ASX Corporate Governance Council
- Business Reporting Leaders Forum (BRLF)
- Investor Group on Climate Change (IGCC).

International memberships

- Asian Corporate Governance Association (ACGA)
- Council of Institutional Investors (CII) (USA)
- National Association of Pension Funds (NAPF)/The Investment Association (UK)
- Principles for Responsible Investment (PRI) and PRI Clearing House
- International Corporate Governance Network (ICGN)
- Louise Davidson is a director on the board of the International Integrated Reporting Council (IIRC).

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.

ACSI and the PRI

ACSI provides a range of services to assist its members either in becoming a PRI Signatory of 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.

AUSTRALIAN COLLOABRATIONS

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

- ACSI is increasingly meeting with NGOs 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 2016 Annual Conference

257 people attended ACSI's 2016 Annual Conference at the Sofitel Melbourne on Collins on 10 May.

Covering the big ESG issues on the investment horizon, the conference heard from experts on human rights risks and corporate culture; the role of institutional investors in decarbonising the economy; how super fund boards are approaching ESG; and saw the return of the renowned and always illuminating directors' panel.

The conference closed with a first-hand account of corporate scandal - former Olympus Corporation President and CEO, Michael Woodford, on the fraud, treachery and intrigue that made him blow the whistle and left him fearing for his life.

2017's Annual Conference will be held at the Sofitel Melbourne on Collins 4 May 2017. To find out more, visit the event page online at www.acsi.org.au.





Michael O'Sullivan ESG Rising Star Award

HESTA's Josephine Toral was the winner of the 2016 Michael O'Sullivan ESG Rising Star Award.

The award was established by CareSuper and ACSI to commemorate Michael O'Sullivan's legacy in 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-member's superannuation sector.

Josephine impressed the judges with her commitment to ESG integration both within her fund and more broadly throughout the investment community. As 2016's winner, she received funding to attend the PRI in Person Annual Conference in Singapore.

L-R (Gerard Noonan, Josephine Toral and Cate Wood)

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

Following the positive feedback from last year's inaugural trip, ACSI again hosted a delegation of Trustee members to the annual PRI in Person Conference, held in Singapore in September.

ACSI's delegation included two days of meetings and networking events prior to the commencement of the PRI conference with top ESG experts and practitioners from the around the globe.

ACSI structured the delegation meetings with a focus on Asia – looking at the investment and governance challenges, the geopolitical environment and meetings with key regulators.

The program included a site visit to a Sheng Siong Group supermarket in downtown Singapore, regulator meeting with both the Singapore Stock Exchange (SGX) and Monetary Authority of Singapore (MAS), and presentations from a number of local and international leaders in ESG. A range of topics were explored including climate change, ESG integration, and human rights in supply chains.

Additional side events were also held including a dinner with asset owners from around the world to provide delegates with an opportunity to develop relationships and exchange ideas with like-minded superannuation fund trustees.

ACSI website

www.acsi.org.au contains provides a range of information for the general public and for our members, via the members-only section. A redesign earlier this year makes the site more clear and accessible for all interested in ESG issues.

MEMBERSHIP

ACSI has 29 Australian members, who collectively managed over $450 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 has the following three membership categories:

- Full Membership
- Associate Membership
- International Associate Membership.

Full Membership	Associate Membership	International Associate Membership
Full members have access to research and proxy voting services, and: ▪ Help set ACSI's company engagement priorities ▪ Participate in engagement meetings with chairs and leading Directors of major ASX listed companies ▪ Put forward priority issues for ACSI's research and advocacy programs, and have access to key research ▪ Collaborate with peers on management of reputation management issues ▪ Join 18 major Australian profit-for-members superannuation funds on ACSI's Member Council, and participate in the nomination and election of Directors to ACSI's Board ▪ Join our community of members committed to ESG and to enhancing the sustainable, long-term value of the retirement savings entrusted to them.	Associate members: ▪ Have access to ACSI's key research projects ▪ Receive ACSI's detailed company engagement reports ▪ Benefit from our market advocacy work ▪ Collaborate with peers on management of reputation management issues ▪ Join our community of members committed to ESG and to enhancing the sustainable, long-term value of the retirement savings entrusted to them.	International asset owners can collaborate with ACSI in relation to their Australian investment portfolios. Benefits include: ▪ Use of ACSI's ASX200 Voting Alert Service (AVAS) at a member rate ▪ 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 5 December 2016

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 Board charts the future direction of ACSI after input from the Member Council, oversees the finances and regulatory requirements and appoints and reviews 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)	John Livanas - State Super (appointed 30/07/13)
Trish Donohue - Cbus (Deputy President) (appointed 01/07/13)	Michael Pennisi - QSuper (appointed 30/10/15)
Debby Blakey - HESTA (appointed 20/04/15)	Antony Thow – LUCRF Super (appointed 16/08/13)
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); Rosemary Vilgan - QSuper (ceased 23/10/15)

Role of the Member Council

The Member Council establishes ACSI's strategic direction and serves as its policy making body. It meets quarterly, approves the ACSI strategic plan and ACSI policy and advises the Board on the annual business plan, budget and research program.

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

	2016 ($)	2015 ($)
Gerard Noonan, President *	-	40,690
Louise Davidson, CEO	294,794	40,693
Gordon Hagart, CEO (to 27 April 2015)	-	283,361
Executive Managers (aggregate) **	559,010	489,129

* No payment made by ACSI to Mr Noonan during the year (2015: $40,690).
** The Finance Manager and Company Secretary role was outsourced until April 2016. The fees paid/payable to the outsourced Finance Manager and Company Secretary function to 30 April 2016 of $104,108 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 2015-2016 financial year, together with the independent auditor's report.

STATEMENT OF COMPREHENSIVE INCOME	2016 ($)	2015 ($)
Revenue from ordinary activities		
Membership subscription fees	2,341,226	2,149,230
Voting alert subscription fees	835,276	883,194
Conference and events	221,282	65,855
PRI network	66,600	60,000
Interest	84,712	68,801
Other income	39,516	7,427
Total revenue from ordinary activities	3,588,612	3,234,507
Expenses from ordinary activities		
Staff cost including superannuation	1,461,557	1,380,334
Finance and office expenses	308,769	295,710
Governance costs	112,232	132,374
Research costs	183,568	176,192
Events and communication	145,408	93,322
Travel expenses	93,117	60,700
Voting alert services	685,317	722,459
Promotion and development costs	31,507	8,733
Other expenses	-	18,410
Total expenses from ordinary activities	3,021,475	2,888,234
Profit from ordinary activities before income tax	567,137	346,273
Income tax benefit/(expense)	-	-
Total comprehensive income	567,137	346,273
Retained earnings at the start of the financial period	1,359,940	1,013,667
Retained earnings at the end of the financial period	1,927,077	1,359,940

BALANCE SHEET	2016 ($)	2015 ($)
Current assets		
Cash and cash equivalents	4,417,342	3,107,346
Receivables	14,879	79,303
Other assets	194,120	23,239
Total current assets	4,626,341	3,209,888
Non-current assets		
Property, plant & equipment	15,873	15,524
Total non-current assets	15,873	15,524
Total assets	4,642,214	3,225,412
Current liabilities		
Other creditors	249,794	243,441
Employee benefit obligations	172,022	149,867
Income received in advance	2,287,410	1,447,511
Total current liabilities	2,709,226	1,840,819
Non-current liabilities		
Employee benefit obligations	5,911	24,653
Total non-current liabilities	5,911	24,653
Total liabilities	2,715,137	1,865,472
Net assets	1,927,077	1,359,940
Equity		
Retained earnings	1,927,077	1,359,940
Total equity	1,927,077	1,359,940

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 2016, 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 30 November 2015 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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pwc

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 2016 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 30 November 2015.

PricewaterhouseCoopers

PricewaterhouseCoopers

George Sagonas
Partner

Melbourne
17 October 2016

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