

AUSTRALIAN COUNCIL OF SUPERANNUATION INVESTORS

# ANNUAL REPORT 2017

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ACSI ANNUAL REPORT FOR  
2016 – 2017 FINANCIAL YEAR

acsi



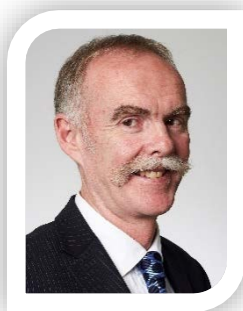
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# PRESIDENT'S MESSAGE

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Every AGM season, there are a handful of articles lambasting institutional investors and proxy advisors for overstepping the mark and apparently wandering into areas they have no expertise or business commenting on. Recently we were criticized for “forcing” companies to engage in

“corporate soul searching” about their social license to operate.

I regard such views as wrong and outdated in today's investment environment.

Demand for investment stewardship is sweeping through financial markets. There is now broad recognition that large shareholders can play a leadership role in supporting sustainable business. Society and individuals expect to know what asset owners are doing to monitor and improve corporate conduct.

There is now broad recognition that large shareholders can play a leadership role in supporting sustainable business.

ACSI members have a significant stake in Australia's listed markets. This confers ownership rights – and responsibilities – which have genuine economic value and can be used to improve long-term investment outcomes.

We regard ESG risks and opportunities as financially material. As such, exercising our ownership rights to drive improvements in ESG practices and performance is not a matter of choice. It is an obligation we owe to organisations whose assets we own and ultimately to the members of our funds.

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There is no organisation better qualified to advise investors about exercising their ownership rights in Australia than ACSI. ACSI is unique in the ESG marketplace. It is solely focused on outcomes for members. Members are intimately involved in setting its priorities and strategy. We involve members in all aspects of the organisation's work.

As the major voice of asset owners in Australia, ACSI has an unparalleled ability to drive change among Australian listed companies and help shape the policy and regulatory environment in which they operate.

I am proud to take up the role of ACSI President and delighted to have the opportunity to contribute with ACSI's members and staff to its already impressive list of achievements.

Like listed companies, ACSI members rely on a social license to operate. Right now, society is looking to us to promote good corporate conduct and support sustainable business. We look forward to meeting these expectations.

Regards

A handwritten signature in black ink, appearing to read 'I Silk'.

Ian Silk  
President

# CEO'S MESSAGE

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Looking back over the past twelve months, I am really pleased to see the growing evidence that ACSI and our members are generating positive change. We are a respected and often-quoted authority on ESG integration and have even been referred to as a “game-changer”. This

has given our work added momentum, which is translating into outcomes and impact.

When ACSI was first established, we struggled to convince boards to meet with us. Our major challenge was getting through the door to put the case for improving ESG performance to directors. Today it's a very different picture. Most of the companies we meet with instigate contact with us.

In the pages of this report, you'll read examples of companies who have made changes in response to concerns we have raised. But we have also shown we can have a major influence on companies that disregard investors' concerns. Executive remuneration and women on boards are issues where we have used proxy voting to promote change when constructive dialogue has failed to yield results.

The single most important factor behind our success is member participation. Our member base is growing and includes asset owners and institutional investors. Without their willingness to collaborate, we would not be as influential as we are today, and the voice of investors would not resonate as powerfully as it does throughout corporate Australia.

ACSI's role in driving change is as important as ever. Events over the past year have clearly reinforced this. To name a few, the AUSTRAC money laundering investigation, media exposes of labour exploitation by franchisee operations and demands for increased focus and transparency on climate change.

Clearly there is a need for additional oversight of corporate conduct. ACSI members are well-placed to fulfil this role as they have a direct economic interest in company performance, along with substantial holdings and long-term horizons.

There is a growing societal expectation that our members will play a greater role in investment stewardship. Awareness of ESG has moved beyond a handful of in-house specialists to boards, civil society and the beneficiaries of our super fund members. There is an increased emphasis on the 'S' in 'ESG', which I anticipate will become even more important in time.

As a vehicle for active ownership, we serve our members by ensuring the principles they value are supported in markets and regulatory settings. This includes overseas, where our members are increasingly active. Our members are continuing to grow in scale and sophistication. It's fitting that our ambitions should too.

As a vehicle for active ownership, we serve our members by ensuring the principles they value are supported in markets and regulatory settings.

Before signing off, I would like to acknowledge the significant contributions made by former ACSI President Gerard Noonan and Vice-President Trish Donohue whose terms have come to an end. I thank Gerard and Trish for the time and effort they have put into supporting ACSI, and welcome Ian Silk and Antony Thow to these roles.

Finally, I would like to acknowledge the extraordinary dedication of ACSI's small staff, whose hard work and talent underpins all our results.

Yours sincerely

A handwritten signature in black ink, which appears to read "Louise Davidson". The signature is fluid and cursive.

Louise Davidson  
Chief Executive Officer

# ABOUT ACSI

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

Our members include 37 Australian and international asset owners and institutional investors. Collectively, they manage over \$1.6 trillion in assets and own on average 10% of every ASX200 company.

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

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

Further details about ACSI, our publications, policy positions and membership are available on our website at [www.acsi.org.au](http://www.acsi.org.au).



## KEY ACHIEVEMENTS

ACSI is especially proud of the following achievements during the 2016 – 2017 financial year (FY17):



We implemented a formal voting policy for company annual general meetings (AGMs) to support our target for women to comprise 30% of all ASX200 board positions by the end of 2017 [\[see page 17\]](#)



We targeted 23 companies with zero women boards in our 2016 priority campaign. By the end of 2016, 14 of these companies had appointed a woman director to the board after engagement with us [\[see page 17\]](#).



We urged the Government to take comprehensive, economy-wide action on climate change in a submission to the Climate Change Policies Review [\[see page 21\]](#). We were among nearly 300 global investors who wrote to the governments of the G7 and G20 nations urging them to stand by and fully implement the Paris Agreement. Download the letter [here](#).



Increased investor scrutiny and pressure has prompted the boards of Australia's largest companies to exercise restraint on CEO pay, as we observed in our 16<sup>th</sup> annual 'CEO Pay Survey'. This report has been a major source of transparency on executive pay, which has contributed to this outcome [\[see page 13\]](#).



We were invited to give evidence before the 'Inquiry into establishing a Modern Slavery Act in Australia', following our submission (in May 2017) to the parliamentary inquiry. At the public hearing, we reiterated our call for legislation requiring companies to monitor and address slavery risks in their operations and supply chains [\[see page 22\]](#).



For the first time, we considered climate-related disclosure in our annual Sustainability Report. This was in response to growing global and investor concerns about climate-related risk. We found that fewer than half of Australia's largest listed companies have a climate-change policy or emissions target [\[see page 12\]](#).

## OFFICE MOVE

In early July 2017, ACSI (along with AIST, Mother's Day Classic and Women in Super) moved to new offices located at Level 23, 150 Lonsdale Street, Melbourne. ACSI now has its own separate part of the tenancy, which has led to an increase in staff collaboration and team building.

# WHAT WE DO

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ACSI staff undertake a year-round program of research, engagement, advocacy and voting advice. We share the knowledge and insights we gain with our members. These activities provide a solid basis for our members to exercise their ownership rights.



## RESEARCH

ACSI's research supports our advocacy, engagement and voting programs. We produce extensive research on material ESG issues for our members on these issues, providing them with detailed insights into material investment issues, market practices and ASX 300 companies. This facilitates their engagement with companies, regulators and the investment community more broadly.

For more information about our research activities, see [page 12](#).



## VOTING ALERT SERVICE

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

For more information about our voting activities, see [page 20](#).



## ENGAGEMENT

ACSI seeks to positively influence companies' ESG performance by maintaining a constructive dialogue with their boards and senior management. Our engagement program has grown over the past decade as we have developed long-standing relationships with ASX300 companies. Likewise, the impact of our engagement program has increased over time.

Our integrated approach to engagement means that we have been able to move our engagement dialogue beyond narrow AGM agendas to deal with all aspects of ESG issues. Member participation is a critical part of our engagement process and members regularly attend our engagement meetings.

For more information about our company engagement activities, see [page 16](#).



## ADVOCACY

We engage with government, regulators and other intermediaries in the financial services sector to ensure markets are focused on the long term and best serve our members' interests. We actively contribute to parliamentary committees and inquiries and relevant public policy forums, through written submissions, giving evidence and participating in round-table discussions.

For more information about our advocacy activities, see [page 22](#).





## REPUTATION MANAGEMENT

ACSI assists our members deal with reputational risks and member inquiries involving ESG. The importance of this work has grown over time as asset owners and institutional investors are increasingly in the public eye. Funds are responsible for developing their own responses to their members, clients and public, but ACSI can provide significant assistance in this area.

As well as responding to specific campaigns, ACSI actively engages and maintains relationships with a wide range of stakeholders to ensure we are aware of emerging issues and that these groups are aware of the work being done in the sector on ESG issues, as well as broader fiduciary duties.



## PRIORITY THEMES

Each year, ACSI consults with our members to identify specific engagement themes and measurable targets. In setting these priorities, we ensure that our engagement is directed at companies where our members have the largest holdings.

Our current priorities include:

- Climate risk
- Governance
- Board quality - gender diversity
- Labour and human rights risks

# FACTS AND FIGURES

**316**

proxy reports  
issued to members

for ASX300 companies  
in FY17

Number of major  
research reports  
released

**4**

**140**

companies engaged  
with ACSI in FY17,  
at 208 meetings

ACSI's members  
represent

**\$1.6 trillion** in  
funds under  
management

2017 ACSI Annual  
Conference  
attendees

**251**

**85<sup>c</sup>**

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

According to ACSI's  
Sustainability Reporting  
research

**14 companies**

with zero women boards  
appointed a women  
director after  
engagement with ACSI

ACSI welcomed

**2 new  
members**

Qantas Super & TCorp  
in the first half of 2017.

AustralianSuper  
Chief Executive  
**Ian Silk**

commenced as  
ACSI President  
in August 2017

**1774**

ACSI provided voting advice  
on 1774 resolutions involving  
ASX 300 companies during  
FY17

ACSI donated over  
**\$8,300 to the Cure  
Brain Cancer  
Foundation**

From funds raised at the 2016 Phil  
Spathis & 2017 ACSI Annual  
Conference

**11**

ACSI member  
events in 2017

including Annual Conference  
events, Member & Trustee Forums  
and the PRI in Person Delegation

**289**

media articles referencing  
ACSI in FY17

**6**

Number of  
submissions made to  
parliament

**>50%**

of ASX100 CEOs received  
more than half their  
maximum bonus in FY16

ACSI's *CEO Pay in the ASX200  
Companies 2016*

# RESEARCH

ACSI's policies and engagement activities are informed by evidence-based analysis and research. Our research also supports our advocacy work and underpins our advice to our members.

## LONGITUDINAL RESEARCH

ACSI produces research that identifies long-term trends and changes in market practices over time. Our annual research projects in FY17 included:

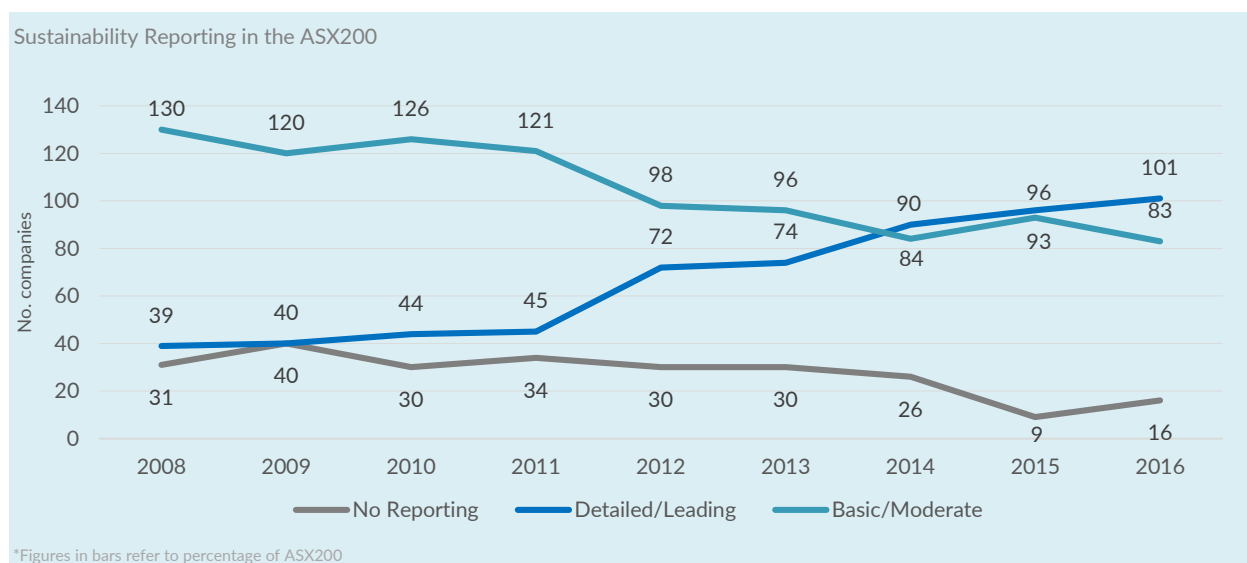
- Corporate Sustainability Reporting in Australia: An analysis of ASX200 disclosure
- CEO Pay in the Top ASX200 Companies
- ASX100 Board Confidence Index.

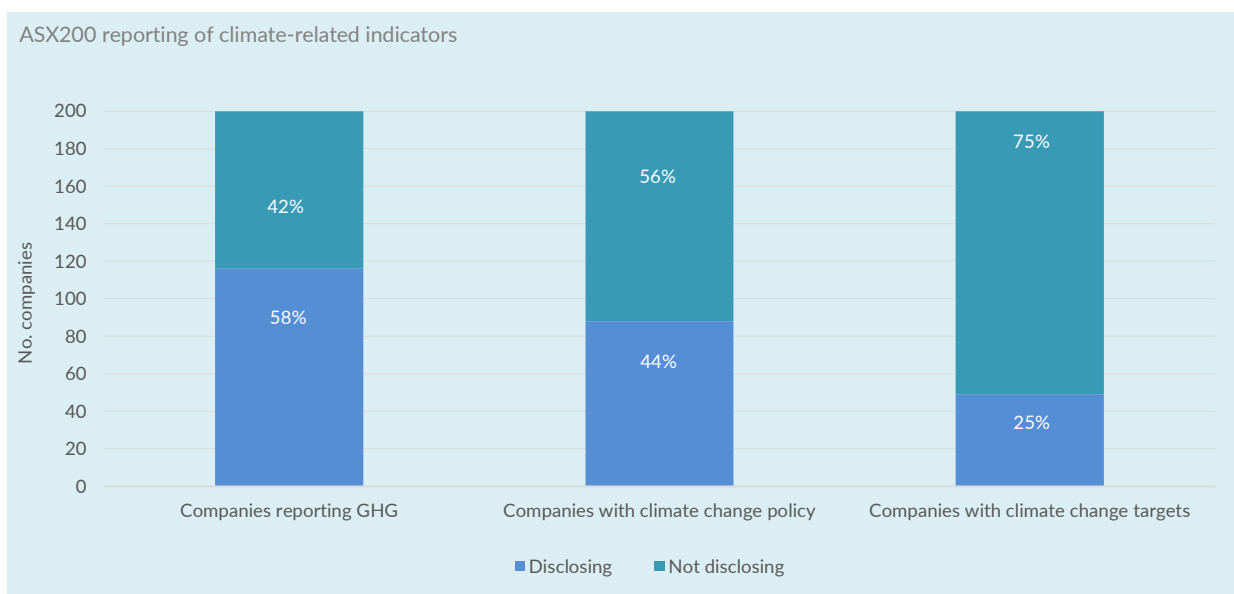
## SUSTAINABILITY REPORTING

Our annual corporate sustainability report was published in early July 2017 and was well-received. This year for the first time it included climate-related disclosure by the ASX200. There was strong interest in these findings, in particular, the number of companies which publicly disclose their greenhouse gas emissions or energy use, an emissions reduction or energy target, and have a publicly available climate-related policy.

Key findings from this year's report include:

- Over 50% of the ASX200 now report to a 'Leading' or 'Detailed' standard, compared to about 20% in 2008. This suggests our research and engagement work is making a difference.
- Only 16 ASX200 companies did not undertake any sustainability disclosure in 2016 (down from 40 in 2008).
- Only 88 ASX200 companies (43%) published policy statements acknowledging climate change as a business risk.





As part of this report, we wrote to the chair of each ASX200 company to advise them of their sustainability disclosure results compared to their sector and the ASX average performance. For the 66 companies that did not make any sustainability disclosure or had a 'Basic' level of reporting, we requested a commitment to improved disclosure of material sustainability risks in their future public reporting.

We wrote to the chair of each ASX200 company to advise them of their sustainability disclosure results compared to their sector and the ASX average performance.

## CEO PAY IN THE ASX200

The 2017 survey was our 16th annual survey of CEO pay in the ASX100 and the sixth edition incorporating data for the ASX200. It was the third time we have included realised pay for CEOs (the actual value received from equity incentives vesting), as well as the accounting values disclosed under regulatory requirements).

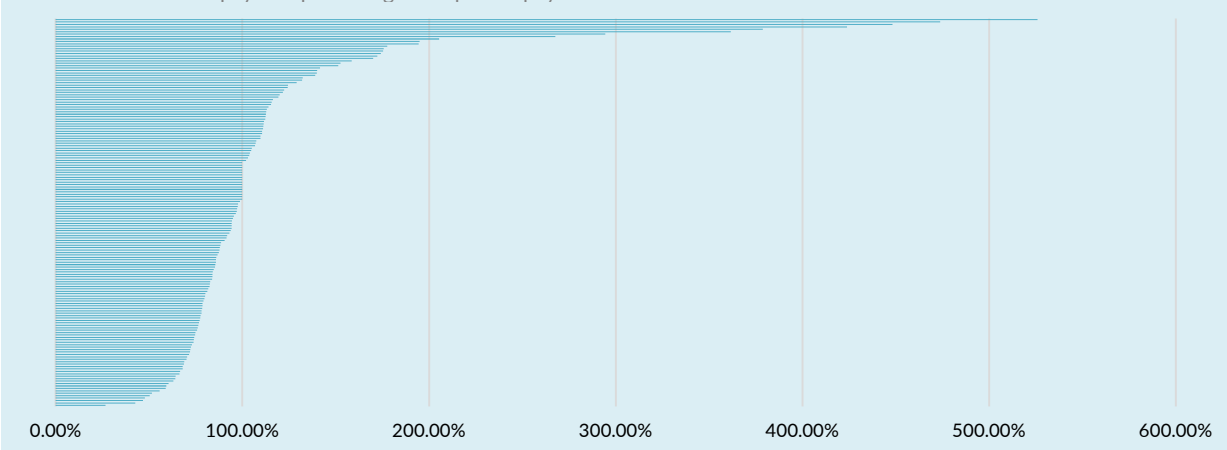
The results indicate that average fixed pay for ASX100 CEOs is the same as it before the global financial crisis, as investor pressure prompts the boards of Australia's largest companies to exercise restraint on CEO pay.

In addition, we found that:

- 86% of ASX100 CEOs received a bonus.
- Where bonuses were paid, the median payout was 69% of maximum.
- Only 18 CEOs in the ASX100 received less than half of their maximum potential.
- The median realised pay (remuneration including equity awards and bonus outcomes) for ASX100 CEOs was \$3.78mn in 2016 (compared to \$3.88mn in FY15 and \$3.96mn in FY14).

The persistence of CEO bonuses at consistently high levels raises serious questions for investors about the way performance hurdles are being designed and applied. The fact that only 18 CEOs received bonuses below 50% of maximum indicates that they bear little relation to performance in many companies.

ASX200 CEO realised pay as a percentage of reported pay for FY16



Rank	CEO	Company	Realised pay	Total Shareholder Return		
				1 Year	3-Yr p.a.	5-Yr p.a.
1	Peter & Steven Lowy	Westfield Corp	\$26,255,778	2.0%	19.2%	19.3%
2	Nicholas Moore	Macquarie Group	\$25,725,006	-10.0%	27.6%	18.6%
3	Don Meij	Domino's Pizza	\$21,026,386	93.3%	87.1%	68.5%
4	Louis Gries	James Hardie	\$21,016,380	22.0%	27.9%	29.4%
5	Chris Rex	Ramsay Health Care	\$18,030,451	18.9%	28.3%	34.4%
6	Alan Joyce	Qantas Airways	\$14,339,815	-5.6%	30.3%	10.2%
7	Ron Delia	Ancor Limited	\$14,089,265	13.3%	21.8%	22.9%
8	Ian Narev	Commonwealth Bank	\$12,261,772	-7.0%	8.1%	13.6%
9	Jamie Odell	Aristocrat Leisure	\$12,038,961	86.7%	54.2%	53.4%
10	Mark McInnes	Premier Investments	\$11,090,136	25.2%	32.9%	29.9%

## BOARD CONFIDENCE INDEX

Each year, we measure investor confidence in the boards of ASX100 companies. We then compare this to the average confidence levels for all ASX100 companies. This research assesses six factors and each factor contributes toward an overall score.

Individual measures are provided to each company to inform them about investor perceptions of the confidence in their board. The findings are communicated to each company and are discussed at ACSI engagement meetings.

## TOPICAL RESEARCH

We conduct research on contemporary ESG issues which are relevant for engagement, policy and advocacy. This includes commissioned research, collaborative projects with other ESG bodies and projects requested or funded by our members.

### WHISTLEBLOWING STUDY

We are participating in a major three-year research project on whistleblowing led by Griffith University. Results from an initial survey were published in late 2016. Key conclusions included:

- 26% of businesses had no system for recording and tracking wrongdoing concerns.
- 33% of businesses did not have any strategy, program or process for supporting and protecting staff who raise concerns.
- 49% of businesses indicated that they did not assess the risk of detrimental impacts that staff might experience from raising wrongdoing concerns, either at all or until problems began to arise.
- Only 17% of businesses have a mechanism for ensuring adequate compensation or restitution if staff experience reprisals or other detriment after raising wrongdoing concerns.

This research helped shape the proposed reforms to corporate whistleblowing protections announced by the Parliamentary Joint Committee (PJC) on Corporations and Financial Services in September 2017.

The project launched its second in-depth research phase in May 2017, which will provide more in- depth analysis. Further results will be available in 2018.

# COMPANY ENGAGEMENT

Each year, ACSI holds more than 200 meetings with ASX300 companies aimed at encouraging them to change their ESG policies and practices to enhance and maintain long-term shareholder value.

During FY17, we observed significant progress on several issues of concern to us and our members.

Most ASX200 companies now have at least one woman director, compared to more than 30 zero women boards when ACSI launched its current campaign in 2015.

This means the available pool of director talent has become broader and deeper, and that companies are being far more disciplined about how they structure their boards to ensure an appropriate mix of skills and knowledge. Despite this progress, it's still extremely disappointing that some zero women boards remain.

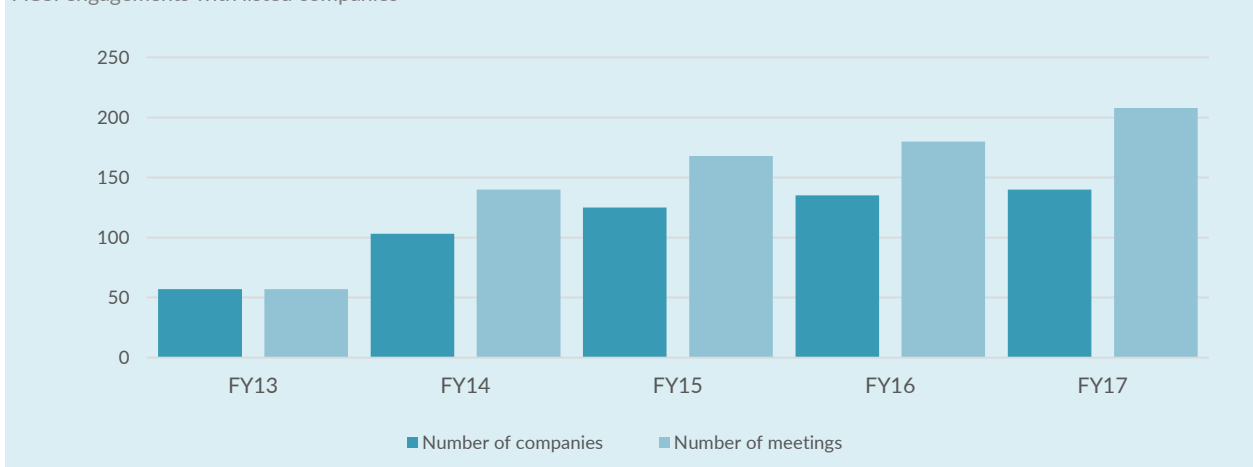
Most ASX200 companies now have at least one woman director, compared to more than 30 zero women boards when ACSI launched its current campaign in 2015.

In 2016, ACSI noted that heightened investor and regulator concerns about culture within financial services companies had been a key issue. Since then, investors have provided a wake-up call to the Commonwealth Bank, voting against its 2016 remuneration report.

The bank has subsequently undergone a change of chair and senior executive management as it responded to investor concerns. We are aware that the other major banks are also reviewing their remuneration structures to reflect investor and community expectations.

The increasing number of companies seeking our views and those of our members clearly reflects the positive value of collaborative and collective action to improve investment outcomes for our members.

ACSI engagements with listed companies



## KEY THEMES

Board Diversity	Labour & Human Rights	Corporate Governance	Climate Change
Targeting companies that have poor gender representation on their boards, with the aim of lifting to at least 30% the proportion of female directors at ASX200 companies by 2017.	Borne out of growing community concern about the sustainability of franchise business models, ACSI aims to understand each company's model and behavioural culture, how this affects the franchisee behaviors and an understanding of the company's systems, policies and internal controls to ensure compliance.	Company-specific issues, covering director elections, executive pay, capital-raising practices, as well as seeking to improve board composition (independence) and accountability.	Encouraging resources and energy, insurance and materials and buildings companies to disclose and discuss more fully how they assess and address the risks and opportunities relating to climate change (including regulatory, physical and technological impacts).

### BOARD GENDER DIVERSITY

Two years ago, ACSI set a target for women to represent at least 30% of all ASX200 boards by the end of 2017. While the current level is only a little over 25%, the ASX20 and ASX50 now both exceed 30%, and the ASX2100 is on the cusp.

As part of the 30% target, our members this year endorsed the adoption of a [voting strategy](#) for the annual meetings of companies which have yet to appoint a woman director.

We may recommend a vote against the re-election of directors at companies where attempts to engage at a senior level on the issue have been ignored, or the board cannot articulate a strategy to address board gender diversity in the near term.

Pleasingly, eight companies in the ASX200 now have boards which are comprised of 50% or more women, and a further 20 have more than 40%. More than 60% of ASX200 companies have at least two women on their boards.

### CORPORATE GOVERNANCE

#### Remuneration

ACSI identified 12 companies as remuneration priority targets for 2017, based on our proxy voting research, voting outcomes and longitudinal research into executive compensation and board structures. We met with representatives from these companies, more than two-thirds of which have now outlined their intention to make significant changes to reflect investor concerns about issues such as the transparency of their remuneration structures, whether they have sufficiently stretching performance hurdles or the overall quantum of executive remuneration.

#### Board renewal

Like remuneration, this theme flows from our proxy voting research, voting outcomes and longitudinal research. For 2017, ACSI identified 11 companies that we wanted to undertake thorough renewal processes, review the competencies of their boards to ensure they are aligned to the company's operations and strategy or which needed to deal with related-party issues including the over- representation of executives or major shareholders on the board.



## CLIMATE CHANGE

In FY17, ACSI continued to extend our engagement on climate change, identifying a target group of companies which we feel could best utilise the best-practice framework developed by the TCFD to publicly disclose their potentially material risks.

As TCFD Chair Michael Bloomberg noted when launching the recommendations, “increasing transparency makes markets more efficient, and economies more stable and resilient”.

We have been encouraging 16 companies in the insurance, transportation, energy and materials and building sectors to report against these issues, using the TCFD framework.

We are pleased to hear that several leading Australian companies have either committed to or are considering adopting the TCFD framework.

Once these companies have used the framework to disclose the governance, strategy and risk measures they have adopted, we will seek to engage with them to seek disclosure of appropriate metrics and targets.

## LABOUR AND HUMAN RIGHTS (LHR) RISKS

We also increased our engagement on labour and human rights (LHR) risks. This included a focus on franchising structures, responding to growing investor concerns about the accountability of these operations. Our aim is to understand the model and behavioural culture of these companies, how this affects the behaviours of their franchisees, and to develop an understanding of each company’s systems, policies and internal controls to ensure compliance.

As part of this work we undertook a detailed review of the responsibilities of franchisors to monitor the labour employment and payment practices of their franchisees. This work compliments our support of legislation to address the risk of slavery in Australia.

We plan to seek transparent reporting including the outcomes of auditing at company-owned and franchisee outlets, and evidence of appropriate independent whistle-blower arrangements to ensure they can effectively deal with poor practices in franchisee businesses.

# VOTING

Participation in company meetings is a critical right of shareholders and a cornerstone of contemporary corporate governance practice. ACSI believes that asset owners and institutional investors should exercise all the votes associated with their investments, all of the time. We also believe that companies should not take any actions which disenfranchise shareholders or inhibit shareholder participation in company meetings.

## SHAREHOLDER RESOLUTIONS

A challenging issue for corporate Australia is the growing number of targeted shareholder resolutions seeking greater disclosure. These predominantly relate to climate change and sustainability disclosure, but are increasingly being used as an avenue to pursue industry-specific issues.

The outcome in many cases has been that, instead of the resolutions being put to shareholder meetings, companies have voluntarily opted to disclose additional information on their material risk assessments and measurements.

Energy and utilities companies such as Santos, Origin and Oil Search have all received shareholder resolutions seeking greater disclosure about their carbon-risk management approaches. These resolutions provided us and our members with new opportunities to engage with the company boards to encourage greater transparency, which we believe will produce significant results in 2018.

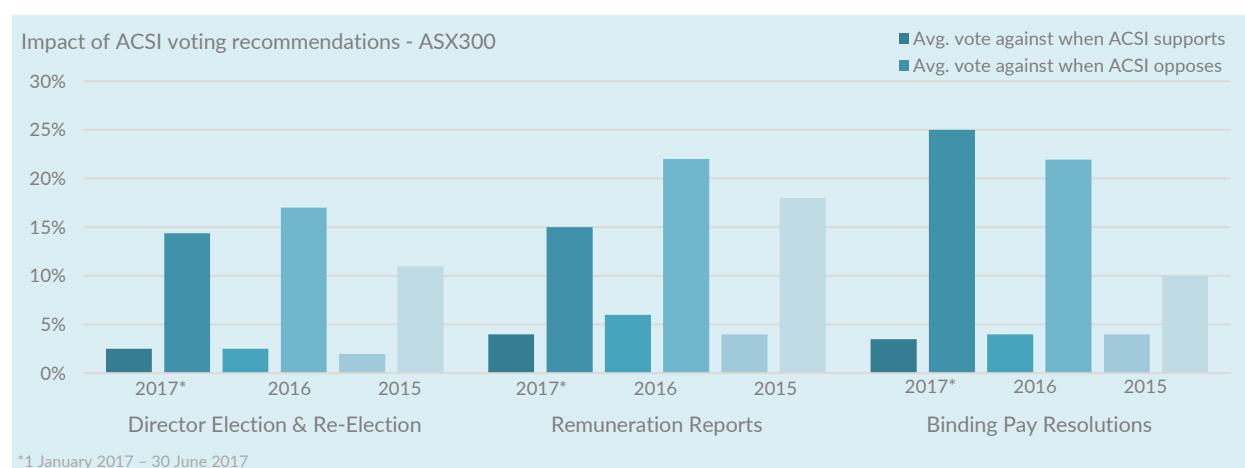
## ACSI VOTING SERVICES

In FY17, ACSI provided voting advice to our members on 1231 resolutions across the ASX200 (1774 resolutions including the ASX300). On average, we opposed around 10% of board-endorsed resolutions.

As the holder of an Australian Financial Services License, ACSI makes recommendations on all voting matters in ASX300 companies.

## PROGRESS ON POLL VOTING

An encouraging development for shareholder democracy in recent years has been the move away from show-of-hands voting to poll voting. This is an issue which ACSI and our members have strongly advocated on. Our goal is to ensure that outcomes reflect the economic interests of voting investors.



## IN THE SPOTLIGHT

Executive pay	Director elections	Shareholder resolutions
<p>Investors have shown increased reluctance to support incentive schemes where outcomes do not appear to be variable from year to year, particularly if it appears that bonuses are always achievable.</p> <p>More than ever, companies which do not clearly demonstrate that incentive hurdles are robust and stretching are finding it difficult to receive investor support for their remuneration outcomes.</p>	<p>This is the first year in which ACSI has begun deploying its voting policy in relation to companies with no women on their boards.</p> <p>Pleasingly, only a handful of companies in the ASX200 remain in that category, and an even smaller number have yet to make commitments on improving director diversity.</p> <p>Not only are investors seeking board structures which are appropriately diverse and independent – they are demanding that directors be held accountable for prior decisions.</p>	<p>Not just materials and energy companies, but even retailing groups are now finding themselves the target of shareholder resolutions.</p> <p>ACSI has been encouraging companies to take all such proposals seriously, and engage with proponents on the issues.</p> <p>In advising its members how to vote, we treat each resolution on a case-by-case basis.</p>

### INTERNATIONAL VOTING OVERLAY SERVICE

During FY17, ACSI worked with its members to create international voting policies that reflect Australian asset owner perspectives on voting in overseas markets. The service operates as an overlay to the standard research prepared by Glass Lewis in international markets. Subscribers have been able to collaborate on key policy issues as well as receiving detailed information on trends such as climate change resolutions, say on pay, proxy access and director votes in the US market.

### GOVERNANCE GUIDELINES

ACSI produces detailed Governance Guidelines which articulate the issues we focus on in our engagement work, as well as factors we consider in determining our voting recommendations. The Guidelines underpin our members' decisions about whether to invest in a company and how to exercise their engagement and voting rights.

The Guidelines are updated every two years to reflect the evolving regulatory and governance landscape. Since March 2017, we have worked with member representatives to update and improve our Guidelines, and also sought feedback from other stakeholders.

In the updated Guidelines, we have spelled out increased responsibilities on directors for environmental, social and governance (ESG) oversight. To assist directors, we have provided specific examples of our approach to four key ESG themes; climate change, labour and human rights, corporate culture and tax disclosure. Other new or expanded updates include:

- Remuneration: added factors to consider in the design of remuneration arrangements.
- Gender diversity: how we will progress our policy to support a 30% target for women on boards.
- Shareholder resolutions: factors we take into account when evaluating shareholder resolutions.
- Chairperson workload: our expectations for managing the chair's capacity and other commitments.
- Director tenure: encouraging companies with long serving directors to disclose their renewal process.
- Audit firm services: our expectations for audit firm rotation and other audit firm services.
- Selective placements: affirmed our opposition to placements which don't adequately respect existing shareholders' interests.

[Click here](#) to access the Guidelines.

# ADVOCACY

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Advocacy is an effective way of addressing systemic issues and complements our engagement work. ACSI actively contributes to government and parliamentary committees and other relevant policy forums to promote improved legislation and regulation on ESG- related matters.

## REVERSE TAKEOVERS CHANGES

After a three-year campaign by ACSI, the ASX has announced amendments to the Listing Rules on reverse takeovers. The changes will require a bidder to obtain shareholder approval for a reverse takeover. This issue came to prominence during the Roc Oil/Horizon Oil transaction in 2014, which resulted in Roc Oil shareholders being disenfranchised. On that occasion, Hostplus and fund manager Allan Gray filed a shareholder resolution to protect their voting rights.

After a three-year campaign by ACSI, the ASX has announced amendments to the Listing Rules on reverse takeovers.

In November 2015, following discussions with us and other concerned parties, the ASX commenced a formal consultation on this issue. We made a [detailed submission](#) to this consultation. In April 2017, the ASX issued [draft listing rule amendments](#) designed to close the reverse takeovers loophole.

Although the ASX has listened to asset owners and designed the draft Listing Rules to address the reverse takeovers loophole, we have ongoing concerns about their design. The new rules apply a dilution threshold that is up three times weaker than comparable markets. This may leave them open to manipulation, meaning the ASX will need to use its discretionary powers to stop any transaction designed to disenfranchise shareholders. We noted these risks to the ASX in our submission.

## WHISTLEBLOWING PROTECTIONS

In a submission to the Parliamentary Joint Committee on Corporations and Financial Services' (PJCCFS) Inquiry into Whistleblowing Protections, we called for stronger protections for corporate whistleblowers.

Whistleblowing reports are the single-most common way fraud and wrongdoing are detected. According to a 2016 report by the Association of Fraud Examiners, fraud costs a typical company about 5% of its revenues.

In September, the PJCCFS recommended protections for whistleblowers irrespective of whether they report internally, to regulatory agencies, or publicly. Consistent with our recommendations, the Committee recommended that whistleblowers be compensated if they suffer reprisals from their actions. The report also proposes a shift to rewarding eligible whistleblowers with a percentage of any legal penalty imposed on wrongdoers.

The Government has committed to introduce these reforms by the end of 2018. Meanwhile, we are involved in a major ongoing research project on whistleblowing, detailed in the 'Research' section of this report.

## MODERN SLAVERY INQUIRY

The Joint Standing Committee on Foreign Affairs and Trade has conducted an inquiry into establishing a Modern Slavery Act in Australia.

In May we lodged a [submission](#) (including 6 key recommendations supporting the introduction of legislation) with the Inquiry. We subsequently attended a public parliamentary hearing to give evidence supplementing our submission. We also signed a [joint investor statement](#) launched by the Principles for Responsible Investment (PRI) supporting Australia's adoption of legislation dealing with modern slavery risks in supply chains.

## CLIMATE CHANGE REVIEW

The Commonwealth Department of Environment and Energy (DEE) is conducting a wide- ranging review of Australia's climate policies. In May we lodged a [submission](#) with the DEE calling on the Government to:

- Set long-term emissions reduction targets and climate policies to 2050 in keeping with the Paris Agreement goal of keeping rises in global average temperature to below 2°C above pre-industrial levels and preferably to 1.5°C.
- Drive investment into the low carbon transition by introducing carbon pricing and developing a plan to phase out fossil fuel subsidies.
- Set minimum efficiency/emissions standards across the transport, building, industrial and appliance sectors.
- Ensure that measures are designed to allow Australian business to fully participate in global trade and carbon markets.
- Implement climate-related financial reporting frameworks, including supporting the TCFD framework.

## TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

We made a submission in February to the UK Financial Stability Board's public consultation process endorsing the TCFD framework as providing useful and much needed guidance for how companies can improve their corporate disclosure practices on climate risk and opportunity.

## BANKING EXECUTIVE ACCOUNTABILITY REGIME

In July, the Government announced it is intending to introduce the Banking Executive Accountability Regime (BEAR). The goal of the BEAR is to create heightened executive accountability in response to growing community and investor concerns over poor culture and behaviour within prominent Australian banks.

Key proposals in the BEAR include:

- Providing APRA with powers to deregister and disqualify senior executives and directors that have been found not to have met the new expectations.
- Requiring a minimum of 40% of an executive's variable remuneration to be deferred for a minimum period of four years, increasing to 60% deferral for certain executives such as the CEO.
- APRA may also be given powers to require Australian deposit-taking institutions to review and adjust their remuneration policies when APRA believes such policies are not appropriate.

We made a [submission](#) to Treasury supporting the objectives of the BEAR. In it, we stated that we do not consider the BEAR recommendations to be overly onerous given that boards are already increasing the deferral of executive remuneration and seeking to retain the ability to reduce to remuneration where issues of poor performance, risk or poor culture arise.

## REVIEW OF THE NZX CORPORATE GOVERNANCE CODE

We participated in the NZX's consultation on an updated NZX Corporate Governance Code (the NZX Code) in October 2016. By participating in this project, we aimed to support the NZX's work to improve reporting on diversity, remuneration and ESG reporting.

# COLLABORATION & INTERNATIONAL RELATIONSHIPS

ACSI members are increasingly investing overseas. To ensure their voices are heard in the development of best practice corporate governance internationally, we have built a strong network of worldwide investors and organisations and actively support regulatory improvements in global markets.

We cultivate relationships with international peer organisations to promote the exchange of knowledge between Australian and overseas profit-for-members superannuation or pension funds, as well as collaborating on campaigns and company engagements where appropriate.

Our International Associate Member category has allowed us to develop closer relationships with significant international pension funds. These funds invest in Australia and provide support to our Australian work. They also provide a perspective on developments in their home market. Where appropriate, we support our international members locally on voting and other issues.

## AUSTRALIAN FORUMS

- ASX Corporate Governance Council
- Business Reporting Leaders Forum (BRLF)
- Investor Group on Climate Change (IGCC)
- PRI Australian Advisory Committee

## AUSTRALIAN COLLABORATIONS

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

- Responding to the now well-established targeting of superannuation investors by NGO advocacy campaigns, ACSI meets with NGOs to discuss ESG concerns. We have found that making ourselves available to NGOs gives them an important channel to raise their concerns. For us, it provides the opportunity to explain the general superannuation industry perspective away from the 'heat' generated by specific campaigns and to receive additional information and inputs that can enhance our company engagement and advocacy work. These discussions allow for a constructive exchange of information without interfering with our members' discretion to manage their fund as they see fit.

ACSI meets with NGOs to discuss ESG concerns. These discussions allow for a constructive exchange of information without interfering with our members' discretion to manage their fund as they see fit.

- We are regularly involved in multi-stakeholder groups set up by government agencies or industry bodies to address policy-level ESG issues and risks. These forums provide us with the opportunity to represent our members in important cross-sector initiatives, and afford useful intelligence to feed into our company engagement and advocacy programs.
- During FY17, we participated in the:
  - ASIC roundtable on proxy voting advisory services
  - Government-business roundtable on anti-corruption
  - Independent Review of the Australian National Contact Point
  - Climate Disclosure Challenge roundtable on challenges with the climate disclosures recommended by the Taskforce on Climate Related Financial Disclosures (TCFD)
  - Human Rights Commission Business Award Judging Panel

## INTERNATIONAL FORUMS

- Asian Corporate Governance Association (ACGA)
- Council of Institutional Investors (CII) (USA)
  - In September 2016, we joined a large group of global pension funds supporting a letter from CII to the US Senate raising concerns over proposed legislation aimed at proxy advisory firms.
- Principles for Responsible Investment (PRI)
- International Corporate Governance Network (ICGN)
  - Beginning in late 2017, we will author the Australian Country Correspondent page for the ICGN website.
- Global Network of Investor Associations (hosted by ICGN)
- Louise Davidson is a director on the board of the International Integrated Reporting Council (IIRC).



ACSI's international memberships

## ACSI AND THE PRI

ACSI maintains a close and effective partnership with the PRI to support effective implementation of the Principles by member organisations. PRI Principle 6 requires signatories to report on their activities and progress, as a measure of progress among PRI members and over time, using a detailed benchmarking analysis.

ACSI maintains a close and effective partnership with the PRI to support effective implementation of the Principles by member organisations.

We provide a range of services to assist members who wish to become a PRI signatory or to help existing signatories to fulfil their PRI obligations. We assist members to respond to initiatives that emerge from the PRI Collaboration Platform. For members who are uncertain about how to implement the PRI guidelines, we provide practical advice and frameworks to assist them.



# MEMBER EVENTS

ACSI provides a number of services to our members; including events, newsletters and email bulletins to keep them informed about our activities and current ESG issues and developments.

## EVENTS

### ANNUAL CONFERENCE

ACSI's Annual Conference has become a key event on Australia's governance agenda. Its content reflects current issues involving ESG investment risks which are relevant to our members.

Two hundred and fifty-one delegates attended our 2017 Annual Conference in May.

More than 70% of attendees were from profit-to-member superannuation funds. Other participants included asset consultants, fund managers, fellow governance organisations, regulators, academics, ASX listed company representatives and the media.



Elizabeth Broderick

Keynote speaker, former Australian Sex Discrimination Commissioner Elizabeth Broderick, opened the conference with a lively presentation highlighting systemic issues that need to be fixed before gender equality in the workplace will be achieved.

This was followed by an international perspective on climate change, the sustainable development goals and impact investing from ACSI international members CalPERS and NZ Super and PRI and HESTA Director Angela Emslie.

Our ever-popular Directors' Panel featured leading company directors including Paula Dwyer, Rebecca McGrath, Tim Poole and Brian Schwartz.

At the end of a very full day, featuring too many speakers to name individually, the Hon. John Brumby, Damian Graham, Dean Paatsch and Elizabeth Proust discussed serious global issues and uncertainties facing investors in 2017.



(L-R) Dean Paatsch, Hon. John Brumby, Elizabeth Proust, Damian Graham, Ali Moore

A forum for trustee directors of ACSI member funds was held the afternoon before the Annual Conference. Attendees heard from Ausbil's Måns Carlsson-Sweeny on human rights in supply chains, Investor Group on Climate Change (IGCC) CEO Emma Herd and a panel discussion featuring leading ASX listed company directors.

Next year's ACSI Annual Conference will be held in Sydney at The Westin Hotel on Thursday 17 May.



## PHIL SPATHIS GOVERNANCE ADDRESS 2016

In October, ACSI members and others from the broader finance community gathered to hear renowned journalist and author Gideon Haigh deliver the inaugural Phil Spathis Governance Address.

Gideon provided a fascinating insight into the governance of Australian sporting bodies, beginning with the proposition that while most of us love sport, few of us know how it is governed.



Phil Spathis Governance Address 2016

Memorably, Gideon observed in relation to gender diversity in sports leadership that “sporting Australia makes corporate Australia look like a bunch of feminist radicals.”

## MICHAEL O’SULLIVAN ESG RISING STAR AWARD

Michael was ACSI President from our foundation in 2001 until 2011, Chair of CareSuper for three separate two-year terms and Deputy Chair in the intervening years. He passed away in 2012.



Michael O’Sullivan 2016 ESG Rising Star Award winner Josephine Toral with Gerard Noonan, Cate Wood and members of the O’Sullivan family.

The Michael O’Sullivan ESG Rising Star Award was established by CareSuper and ACSI to advance ESG integration by developing the next generation of ESG advocates and professionals within the profit-to-member superannuation sector.

This is a bi-annual award and will be presented next at the 2018 ACSI Annual Conference.

## MEMBER FORUMS

ACSI conducts regular forums where members can exchange views and hear from ESG experts. We welcome participation in these forums from all levels of our membership, including trustees, CEOs, investment teams and ESG specialists.

We conduct regular forums where members can exchange views and hear from ESG experts.

Previous forum speakers have included; IGCC CEO Emma Herd, PRI Chair Martin Skancke, prominent UK economist John Kay and CEO of Elevate Global Limited, Ian Spaulding.

We also organise regular forums for members to meet with ASX50 Chairs. Recent sessions have featured Catherine Livingstone (CBA), Michael Chaney (Woodside Petroleum), Dr Ken Henry (National Australia Bank), Ken Mackenzie (BHP Billiton) David Crawford (Lend Lease) and Elizabeth Alexander (Medibank Private).

## ACSI PRI IN PERSON TRUSTEE DELEGATION

ACSI again hosted a delegation of Trustee members to the annual PRI in Person Conference, held in Singapore in September.

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

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

Delegates attended meetings with the Singapore Stock Exchange (SGX) and Monetary Authority of Singapore (MAS), and presentations from a number of local and international leaders in ESG.

# MEMBERSHIP

ACSI's members include 37 Australian and international asset owners and institutional investors. Membership of ACSI is open to all profit-to-member superannuation funds and asset managers which primarily manage assets for profit to member superannuation funds. Commitment to ACSI's Beliefs is a pre-requisite for membership of ACSI.

We are unique within the Australian ESG marketplace. We provide our members numerous competitive advantages, including:

- **Asset owner voice:** We are a membership organisation, solely focused on outcomes for members, not on returning a profit to shareholders. Our members are intimately involved in our governance, and set our priorities and strategy.
- **Impact:** Our members between them own over 10% of ASX300 companies. This gives us a strong voice and makes us highly influential in our advocacy with both listed companies and to government/regulators.
- **Member involvement:** We encourage member involvement in all our work, including our engagement meetings with listed companies.
- **Community of interest:** We provide members with opportunities to collaborate on ESG issues and create an ESG 'community of interest' to enable members to share ideas and learn from each other.

We offer the three levels of membership:

- Full Membership
- Associate Membership
- International Associate Membership.

Full Membership	Associate Membership	International Associate Membership
<p>Full members have access to ACSI research services and:</p> <ul style="list-style-type: none"> <li>▪ Help set our company engagement priorities</li> <li>▪ Participate in engagement meetings with chairs and leading Directors of major ASX listed companies</li> <li>▪ Put forward priority issues for our research and advocacy programs, and have access to key research</li> <li>▪ Collaborate with peers on management of reputation management issues</li> <li>▪ Join 19 major Australian asset owners and institutional investors on ACSI's Member Council, and participate in the nomination and election of Directors to our Board</li> <li>▪ Join our community of members committed to ESG and to enhancing the sustainable, long- term value of the retirement savings entrusted to them.</li> </ul>	<p>Associate members:</p> <ul style="list-style-type: none"> <li>▪ Have access to our key research projects</li> <li>▪ Receive our detailed company engagement reports</li> <li>▪ Benefit from our market advocacy work</li> <li>▪ Collaborate with peers on management of reputation management issues</li> <li>▪ Join our community of members committed to ESG and to enhancing the sustainable, long-term value of the retirement savings entrusted to them.</li> </ul>	<p>International asset owners can collaborate with us in relation to their Australian investment portfolios.</p> <p>Benefits include:</p> <ul style="list-style-type: none"> <li>▪ Use of our ASX300 Voting Alert Service (AVAS) at a member rate</li> <li>▪ Access to all our research and documentation</li> <li>▪ Inclusion in our engagement with ASX200 companies</li> <li>▪ Up to three Australian S&amp;P/ASX300 voting reports free of charge within a year.</li> </ul>

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

## AUSTRALIAN MEMBERS



## INTERNATIONAL MEMBERS



ACSI members as at 28 September 2017

# GOVERNANCE

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ACSI is a Public 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 with input from the Member Council, oversees ACSI's finance, risk management and compliance, and appoints and reviews the performance of the Chief Executive Officer. The Board is made up of seven Larger Full Member representatives and four Smaller Full Member representatives, with the President and Deputy President elected from and by the Board.

## BOARD MEMBERS



Ian Silk (President)  
AustralianSuper  
Appointed 17/02/2017



Antony Thow (Deputy President)  
LUCRF Super  
Appointed 16/08/2013



Debby Blakey  
HESTA  
Appointed 20/04/2015



Candy Broad  
First Super  
Appointed 17/02/2017



Trish Donohue  
Cbus Super  
Appointed 01/07/2013



David Elia  
Hostplus  
Appointed 28/07/2015



Bill Hartnett  
Local Government Super  
Appointed 30/07/2013



John Livanas  
State Super  
Appointed 30/07/2013



Gerard Noonan  
Media Super  
Appointed 01/07/2013



Michael Pennisi  
QSuper  
Appointed 30/10/2015



Talieh Williams  
UniSuper  
Appointed 01/07/2013



## 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 policies and advises the Board on the annual business plan, budget and research program.

### MEMBER COUNCIL REPRESENTATIVE FUNDS



AIST  
Eva Scheerlinck



AustralianSuper  
Andrew Gray



CareSuper  
Julie Bignell



Catholic Super  
Garrie Lette



Cbus Super  
Nicole Bradford



First Super  
Bill Watson



HESTA  
Joanne Saleeba



HOSTPLUS  
Dmitry Capel



IFM Investors  
Chris Newton



Local Government Super  
Bill Hartnett



LUCRF Super  
Gary Maas



Media Super  
Gerard Noonan



MTAA Super  
Shaun O'Malley



NGS Super  
Kathy Andrews



QSuper  
Philip Greenheld



State Super  
Richard Hedley



TCorp  
Komal Jalan



TWUSUPER  
Jerom Lotscher



UniSuper  
Talieh Williams

## REMUNERATION

Members of ACSI's Board, Member Council and Board subcommittees are not paid for their services. Remuneration for ACSI executive staff is set out below. Total remuneration is made up of base salary and superannuation. Staff are also entitled to an annual leave loading of 17.5% of the base salary component of their remuneration package. ACSI does not pay bonuses to staff.

2016/17		
Executive <sup>1</sup>	Total remuneration <sup>2</sup> \$	Total remuneration paid <sup>3</sup> \$
Louise Davidson, Chief Executive Officer	330,000	321,794
Ed John, Executive Manager, Governance, Engagement and Policy	210,000	213,262
Connie Howe <sup>4</sup> , Executive Manager, Finance and Corporate Services & Company Secretary	190,000	181,140
Jane Rennie <sup>5</sup> , Executive Manager, Communications and Public Relations	147,825	12,635
2015/16		
Executive <sup>1</sup>	Total Remuneration Package <sup>2</sup> \$	Total remuneration paid <sup>3</sup> \$
Louise Davidson, Chief Executive Officer	300,000	294,794
Ed John, Executive Manager, Governance, Engagement and Policy	187,200 (to 1 May 2016) 210,000 (from 2 May 2016)	196,052
Connie Howe <sup>4</sup> , Executive Manager, Finance and Corporate Services & Company Secretary	190,000	26,113

1. Former executives are not included in the table above, as consent to disclose their remuneration was not obtained at the time of their departure.
2. Total remuneration for part-time staff has been pro-rated to the hours they work.
3. Total remuneration paid includes annual leave loading paid during the year.
4. Connie Howe was employed from 2 May 2016 (part time 0.9FTE). Before that, Connie was ACSI's outsourced Finance Manager and Company Secretary from September 2014 to April 2016.
5. Jane Rennie joined ACSI on 30 May 2017 (part time 0.9FTE).

## ACSI STAFF



Louise Davidson  
Chief Executive Officer



Ed John  
Executive Manager, Governance,  
Engagement and Policy



Connie Howe  
Executive Manager, Finance and  
Corporate Services; Company Secretary



Jane Rennie  
Executive Manager, Communications  
and Public Relations



Holly Lindsay  
Manager, Research and Engagement



Kim Eden  
Manager, Member Communications  
and Events



Ros McKay  
Engagement and Policy Consultant



Ian McIlwraith  
Governance and Engagement Analyst



Jodie Barnes  
ESG Analyst



Anh Nguyen  
Equities Analyst



Alex Skipworth  
EA to CEO and Team Assistant



Quyen Ngo  
Senior Accountant

All ACSI staff are located in Melbourne.

# FINANCIAL STATEMENTS

The following is an extract from ACSI's financial statements for the past two financial years, taken from audited accounts.

STATEMENT OF COMPREHENSIVE INCOME	2017 (\$)	2016 (\$)	BALANCE SHEET	2017 (\$)	2016 (\$)
<b>Revenue from ordinary activities</b>			<b>Current assets</b>		
Membership subscription fees	2,574,211	2,341,226	Cash and cash equivalents	5,844,658	4,417,342
Voting alert subscription fees	879,818	835,276	Receivables	2,016	14,879
Conference and events	272,086	221,282	Other assets	96,329	194,120
PRI network	-	66,600	<b>Total current assets</b>	<b>5,943,003</b>	<b>4,626,341</b>
Research grants	50,000	-	<b>Non-current assets</b>		
Interest	92,554	84,712	Property, plant & equipment	13,977	15,873
Other income	43,812	39,516	<b>Total non-current assets</b>	<b>13,977</b>	<b>15,873</b>
<b>Total revenue from ordinary activities</b>	<b>3,912,481</b>	<b>3,588,612</b>	<b>Total assets</b>	<b>5,956,980</b>	<b>4,642,214</b>
<b>Expenses from ordinary activities</b>			<b>Current liabilities</b>		
Staff cost including superannuation	1,723,136	1,461,557	Other creditors	404,839	249,794
Finance and office expenses	334,746	308,769	Employee benefit obligations	181,542	172,022
Governance costs	85,594	112,232	Income received in advance	2,874,512	2,287,410
Research costs	244,252	183,568	<b>Total current liabilities</b>	<b>3,460,893</b>	<b>2,709,226</b>
Events and communication	111,343	145,408	<b>Non-current liabilities</b>		
Travel expenses	108,178	93,117	Employee benefit obligations	8,976	5,911
Voting alert services	718,648	685,317	<b>Total non-current liabilities</b>	<b>8,976</b>	<b>5,911</b>
Promotion and development costs	26,550	31,507	<b>Total liabilities</b>	<b>3,469,869</b>	<b>2,715,137</b>
<b>Total expenses from ordinary activities</b>	<b>3,352,447</b>	<b>3,021,475</b>	<b>Net assets</b>	<b>2,487,111</b>	<b>1,927,077</b>
<b>Profit from ordinary activities before income tax</b>	<b>560,034</b>	<b>567,137</b>	<b>Equity</b>		
Income tax expense	-	-	Retained earnings	2,487,111	1,927,077
<b>Total comprehensive income</b>	<b>560,034</b>	<b>567,137</b>	<b>Total equity</b>	<b>2,487,111</b>	<b>1,927,077</b>
Retained earnings at the start of the financial period	1,927,077	1,359,940			
<b>Retained earnings at the end of the financial period</b>	<b>2,487,111</b>	<b>1,927,077</b>			

The full financial report for FY17, which includes the full financial statements and the independent auditor's report by PwC, is available online at [www.acsi.org.au](http://www.acsi.org.au).





