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VicSuper submission on the proposed Fourth Edition of the ASX Corporate Governance Principles and Recommendations

VicSuper is a public profit to member superannuation fund managed solely in the interests of our members. We are one of Australia's fastest growing super funds with more than 242,000 members and \$21 billion funds under management.

We are committed to investing our members' retirement savings responsibly to generate long-term value. With this in mind, we have a vested interest in ensuring that Australian listed companies have clear and robust corporate governance policies, practices and disclosures.

Central to VicSuper's Responsible Investment strategy are our responsible investment beliefs and key strategic areas: environmental, social and governance integration; active ownership; investing in sustainable outcomes; and member choice.

We welcome the proposed fourth edition of the Principles and Recommendations and we hope the proposed amendments and additions will continue to deliver good corporate governance outcomes for ASX listed entities, investors and other stakeholders.

We strongly support the proposed amendments which seek to strengthen the Principles and Recommendations, particularly those that reflect our own priority objectives within our strategy.

Our response to new and amended Principles and Recommendations

Recommendation 1.5: Diversity policies, measurable objectives, management responsibilities and disclosure

It is our belief that skilled and suitably diverse boards make for better governed companies and provide higher value investments for our members. While we recognise that there are now 30 companies in the ASX200 that have boards with 40% or more women, there has been a general lack of progress by many other companies. This is why the promotion of gender equity, diversity and inclusion on company boards is one of our key objectives within VicSuper's proxy voting and engagement activities.

VicSuper strongly supports the amendments to Recommendation 1.5, particularly:

- The requirement that entities in the S&P/ASX300 set a measurable objective to have a minimum of 30% of directors of each gender on their boards by a specified date.

In 2017 VicSuper signed the 30% Club Investor Statement to support the vision of achieving 30% of ASX200 board seats held by women. The amendment to Recommendation 1.5 would be a positive step in further achieving this vision.

Principle 3: Instill the desired culture

We strongly support the expansion of Principle 3 to include instilling and continually reinforcing a culture across the organisation of acting lawfully, ethically and in a socially responsible manner.

A company's 'social licence to operate' is a valuable asset that if lost or damaged, can have serious implications on shareholder value. Good corporate governance demonstrating a company's values and integrity, and effective engagement with stakeholders, is crucial to maintaining this licence to operate. Conversely, long-term and sustainable value creation is founded on the trust a listed entity has earned from its stakeholders. Through our engagement activities we seek to promote best practice governance and encourage Boards to maintain focus on shareholder value creation and risk reduction.

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We find the proposed changes particularly timely given the recent examples of corporate misconduct and unethical behaviour. We believe transparent disclosures as one way of rebuilding trust among investors and the broader group of stakeholders. Good disclosures in relation to codes of conduct, whistleblowing and anti-corruption and bribery policies, should also include disclosing the role and obligations of the board and senior management in enforcing them.

Given the recent examples of corporate misconduct and unethical behaviours, we welcome commentary that encourages a company to disclose in general terms the actions it has taken to enforce its values and code of conduct to its workforce, including appropriate disciplinary actions against those that who breach it.

Recommendation 4.4: A listed entity should have and disclose its process to validate that its annual directors' report and any other corporate reports it releases to the market are accurate, balanced and understandable, and provide investors with appropriate information to make informed investment decisions.

To protect the long-term value of our members' retirement savings VicSuper, we have a robust investment process that includes integrating ESG factors into our investment decisions. We welcome this new recommendation as it will provide further information usually included in the annual directors' report, to help us assess a company's performance and prospects.

We also support the acknowledgement in the commentary of 'integrated reporting' as a useful framework for providing information about a listed entity's future prospects, risks and opportunities, strategy and business model. We prepare our own integrated report and firmly believe that integrated reporting is an emerging global reporting framework worthy of inclusion in the Principles and Recommendations.

Recommendation 7.4: A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.

Company reporting requirements under multiple frameworks can be onerous. Thus we believe that Recommendation 7.4 should not increase or dilute reporting by duplicating requirements already held with s299A(3) of the Corporations Act 2001 (Cth). We agree on the limitation of Recommendation 7.4 to material exposure to environmental or social risks.

We support the amendments to the commentary that when an entity does not believe it has material exposure to environmental and social risks, that it considers carefully the basis for that belief and benchmark its disclosures against peers. As an investor, any company that believes it has no exposure to environmental or social risks, demonstrates a lack of understanding or a poor risk management framework.

We invest for the long-term—to provide our members with a comfortable retirement and to shape the type of world they want to live in. Climate change is one of our priority engagement objectives, reflecting its importance to us and our members.

We know that as we transition to a low carbon economy, climate change will impact many sectors. Transparent disclosures on climate-related risks and opportunities are key to sound investment decision making during this period.

As such we would recommend the inclusion in the commentary:

- Reference to climate change risks.
- Acknowledgement that many listed entities will be exposed to these types of risks, even where they are not directly involved in mining or consuming fossil fuels.
- Reference to the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) framework.

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As an active asset owner, VicSuper engages with the companies we invest in to encourage disclosure of climate change risks and opportunities in accordance with TCFD recommendations. We believe that disclosure can drive tangible change because it can encourage companies to get better at managing and understanding their physical and transition climate risks, equipping them to tackle future challenges and adapt to change. We also believe this process drives long-term shareholder value.

Conclusion

Overall, the proposed amendments and additions reflect the progress of corporate governance and corporate governance disclosures. The greater emphasis on values, ethics and broader stakeholder accountability will provide investors such as ourselves (and other stakeholders) with improved insight into the robustness and effectiveness of the entities that they invest in.

We will follow the progress of the consultation with interest. Please contact me if you wish to discuss any aspect of our submission.

Kind regards,

Andrew Howard
Chief Investment Officer
VicSuper