

Statement of Governance Practice

1. Statement of Governance Practice

Corporate governance, ‘the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations’¹, influences how objectives are set and achieved, how risk is monitored and assessed, and how performance is optimised.

Although superannuation funds resemble public companies in respect to the separation of ‘ownership’ (the members) and control (the trustee), the governance model adopted by a superannuation fund includes additional components to address the fiduciary duties unique to a superannuation trustee.

2. Background

UniSuper Limited (USL) is the trustee of the UniSuper superannuation fund (the Fund). UniSuper Management Pty Ltd (USM) is the administrator of the Fund. USM is fully owned by USL and is an asset of the Fund. Some parts of this Statement will relate to either USL or USM but generally both companies’ interests and obligations are aligned as they both must act in the best interests of members. In this Statement, ‘the Boards’ means the Boards of USL and USM.

3. The UniSuper Boards

The Boards have adopted the following principles of good governance and practice to comply with their respective Constitutions, the *Corporations Act 2001* and *Superannuation Industry (Supervision) Act 1993* and to support compliance with APRA Prudential Standards, in particular *Prudential Standard SPS 510: Governance*.

The governance system operates to enable the Boards to deliver outcomes in the best interest of the members of the Fund.

3.1 Role of the Boards

3.1.1 Trustee Board

The role of the USL Board is to critique, approve and monitor the strategy and objectives of the Fund as proposed by Management and to oversee Fund operations. The Board supervises and monitors the proper implementation by its delegates of the approved strategy and promotes and protects the interests of

¹Justice Owen – HIH Royal Commission

members by ensuring the Fund is managed soundly and prudently and is administered in accordance with the Trust Deed, UniSuper regulations and relevant legislation.

The USL Board is also responsible for ensuring its obligations are met under its Australian Financial Services Licence.

3.1.2 USM Board

The principal role of the USM Board is to oversee the governance framework implemented to support the administration and investment services USM provides to the Fund and ensure these services are in accordance with the terms of Administration and Investment Services Agreement (Agreement). The USM Board is also responsible for ensuring its obligations are met under its Australian Financial Services Licence and as a provider of financial services.

The Directors collectively oversee and approve the policies and performance of USM, having regard to the terms of the Agreement and policy established by USL in its capacity as Trustee of the UniSuper Fund.

3.1.3 Board Charters

The Boards operate under Charters which detail the role, structure and responsibilities of the Boards, the processes to be followed and the responsibilities of the Chair.

3.1.4 Responsibilities of the Trustee Board

The USL Board is responsible for policy making and oversight of the Fund, including the following key functions:

Strategy

- Approving and critiquing the strategic objectives and business plan of the Fund and assessing the outcomes provided to members and identifying opportunities for improvement in these outcomes in future
- Approving, monitoring and adjusting the risk appetite
- Oversight of governance standards to maintain high standards of integrity

Board Governance

- Selection of non-representative Board candidates by the representative directors
- Appointment of the Chair

- Monitoring the interests and duties of directors to ensure any conflict is managed to give priority to the duty to, and interests of, beneficiaries
- Evaluation of Board processes and performance of the Board and its Committees
- Development and approval of policy in relation to the Board

Financial, risk management, audit and Fund investments

- Approval and monitoring of Fund investment objectives and strategy
- Selection, appointment and monitoring the performance of the external auditors
- Monitoring financial results and approval of financial reporting
- Approval and monitoring of annual budgets, extraordinary expenditure and the charging of fees to members
- Monitoring strategically material risks and oversight of the risk management and internal control frameworks
- Approval of Fund policies

Oversight of the Administrator

- Oversight of the services provided by the Administrator to verify that:
 - Fund operations are in compliance with legislative and regulatory requirements and any subscribed code requirements.
 - Adequate financial, technical and human resources are available to administer the Fund.
 - The Administrator meets specified service level requirements
 - The Administrator has in place appropriate internal controls and governance.

Appointment of the Trustee Board

As specified in the UniSuper Limited Constitution, the Board comprises eight representative directors:

- Two directors are nominated by vice-chancellors of employer universities
- Two directors are nominated by Consultative Committee members who represent employers
- One director is nominated by Consultative Committee member who represent academic staff
- One director is nominated by Consultative Committee members who represent general staff
- Two directors are nominated by the national unions who represent a significant number of members of UniSuper.

The representative directors then appoint three independent (non-representative) directors. Selection is based on the nature of their vocation and specific expertise. Exemption from the equal representative rules has been obtained from APRA to allow the Board to appoint three non-representative directors.

The Boards' Directors and a synopsis of each Director's experience is provided in the 'Details of Board directors' qualifications and experience' at www.unisuper.com.au/about us.

3.1.5 Responsibilities of the USM Board

The USM Board is responsible for providing advice to Management and ensuring the governance framework supporting the provision of administration and investment services is in compliance with the Agreement. The Board approves corporate initiatives including major acquisitions, project programs and significant restructures as well as providing recommendations to USL in respect of adjustments to risk appetite.

The USM Board is responsible for the following key functions.

Governance structures

- Approval of governance structures and programs
- Setting the behaviours expected of staff to support good governance
- Monitoring the effectiveness of the entity's governance practices

Board governance

- Ensuring any conflicts of interest or duty are identified and managed in accordance with the Conflicts of Interest framework
- Evaluation of Board processes and performance of the Board and its Committees
- Development of policy in relation to the Board

Financial, risk management, audit, actuarial and Fund investments

- Selection, appointment and monitoring the performance of the internal and external auditors
- Monitoring financial results and approval of financial reporting provided to USL
- Approval and monitoring the annual budget and any extraordinary expenditure
- Monitoring the material risks pertinent to USM and its activities and reporting any significant variations to the USL Board
- Implementation of risk management and internal controls frameworks

- Reviewing the adequacy of compliance frameworks to support compliance with all applicable laws and regulations and any adopted codes²
- Oversight of the delivery of, and reporting on, the administration and investment services provided in accordance with the Agreement

CEO succession and executive remuneration

- Selection, appointment and evaluation of the performance of the Chief Executive Officer (CEO)
- Replacement of the CEO, if necessary
- Ratification of the selection, appointment and terms of appointment (including remuneration) of executives who report directly to the CEO
- Planning for succession of the CEO
- Monitoring Management's performance and the exercise of delegated authority

3.1.6 Structure of the Boards

The Boards are committed to arrangements which ensure they retain adequate expertise and remain active, relevant and effective in the performance of their duties.

The USM Board which comprises 12 directors replicates the USL Board with the exception of an additional director who is the USM CEO.

All directors of USL and USM (excluding USM's CEO) are non-executive and independent of management. Collectively, directors have a broad range of relevant skills, expertise and experience and, within the constraints of the Fund's governing rules, the Boards are structured to facilitate enhanced performance and independent judgement.

3.1.7 Role of the Chair

The Chair, who acts as the Chair of both Boards, is elected by the full USL Board to provide leadership and to take all reasonable steps to ensure the Boards discharge their role and duties. The Chair annually facilitates the collective and individual performance assessment of the Boards and individual directors.

The Chair guides the effectiveness and development of the Boards and individual directors.

² For example, the Insurance in Superannuation Voluntary Code of Practice

In conjunction with the CEO, the Chair sets the agenda for Board meetings and meetings of the Consultative Committee. The Chair ensures directors are properly briefed on all matters relevant to their role and responsibilities and the Boards are provided with adequate information to facilitate discussion and effective decision-making.

3.1.8 Secretariat

The Company Secretariat supports the effectiveness of the Boards by coordinating the completion and despatch of board agendas and papers. The Secretariat also assists the Boards meet compliance obligations by overseeing adherence to board policy and procedures, coordinating assessment of, and ongoing compliance with, fitness and propriety obligations and, as directed by the Chair to support the maintenance of director competencies, facilitate training and continuing education.

3.1.9 Independent Judgement

The same individual does not exercise the roles of the Chair and CEO.

All directors and Board Committees have the right, in connection with their duties and responsibilities and with the prior approval of the Chairman, to seek independent professional advice at the Fund's expense. Approval to obtain independent advice will not be unreasonably withheld.

3.1.10 Tenure and succession planning

Directors are appointed for a term of three years and are eligible for reappointment. No maximum is set under the Constitution however the Board Charters recommend the maximum tenure for non-representative directors is three terms. The 'three term' rule may not necessarily apply to the Chair who typically serves two terms as a director prior to being appointed Chairman for a further two terms.

To maintain continuity of knowledge and enable the more recently appointed Board members to benefit from the expertise and experience of longer serving Board members, expiry of terms are limited so that, in any one year, the terms of no more than two directors representing employers, two directors representing members and one independent director will expire.

The eight representative directors, having regard to the non-representative directors' performance and the contribution

their individual skills and experience make to the overall composition of the Boards, determine reappointment of non-representative directors.

The shareholders, following nomination by either the Consultative Committee or other body responsible for their appointment, reappoint the directors representing members or employers.

On the recommendation of the Consultative Committee or other body responsible for their appointment, a representative director may be removed at any time by a majority of shareholders. A non-representative director may be removed at any time by resolution of the representative directors.

3.2 Qualifications, skills and training

3.2.1 Fit and Proper Policy

Collectively, directors have the full range of skills needed for the effective and prudent operation of the Fund, including an understanding of the associated risks and legal and prudential obligations. Individually, directors must have skills that allow them to make an effective contribution to Board deliberations and processes, be of good fame and character and be suitably qualified to perform their duties to a high standard. They must also be free of any interest, business or other relationship which could, or be perceived to, materially interfere with their ability to act in the best interests of the Fund and its members.

The USL Board has developed and implemented a Fit and Proper Policy which applies to all Responsible Persons³. The Responsible Persons of UniSuper include the directors, Company Secretary, independent non-director Board committee members and consultants, RSE Auditor and Actuary, the Executive Leadership Team and Responsible Managers as defined under the AFS Licences.

The fitness and propriety of all Responsible Persons is assessed prior to their appointment and annually thereafter. At each Board meeting, directors verbally confirm their ongoing fitness and propriety and declare any conflict of interest or personal interests. Each year by signed declaration, Responsible Persons re-attest their fitness and propriety and compliance with a Code of Conduct.

3.2.2 Communication of appointment requirements

³ A Responsible Person is defined in APRA Prudential Standard SPS 520 – Fit and Proper as someone whose conduct is likely to have a significant impact on the sound and prudent management of the RSE licensee's business operations or have the potential to impact the interests of members. Responsible Person status is determined by virtue of the position or role held by the person who may be an employee of the RSE licensee, an employee of a connected entity or a provider of services under agreement.

Acting on behalf of the USL Board, the Company Secretary communicates the election process of the four directors nominated by the Consultative Committee. Details of the appointment process and requirements for appointment are provided, including details of the Fit and Proper Policy. Prospective nominees are also provided with detailed information on the responsibilities of a trustee, the Board and individual Board members.

3.2.3 Appointment formalities

All Board appointments are properly documented. Potential candidates are provided with a copy of the Fit and Proper Policy and details of the fit and proper assessment procedures.

The newly elected director is provided with a detailed letter of appointment which documents all the responsibilities and entitlements of the role.

3.2.4 Induction and training

To enable directors to properly meet their responsibilities, induction and ongoing training is provided. The induction program is structured to provide the new director with information on their responsibilities, corporate governance and Fund and Board policies. Briefing sessions with the Chair, and members of the Executive Leadership Team also form part of induction training, providing an insight into the Fund's structure and philosophy. Each director is provided with access to information, current policies, licences and documents relevant to the Fund and their role on the Boards.

The Boards are committed to continuous education thereby ensuring that directors' skills and knowledge remains current and relevant. Ongoing training is provided, including briefings on legislative and regulatory change and its impact, investment updates and periodic Trustee/RSE Licensee training. Directors are encouraged to attend industry forums, briefings and external training sessions as relevant.

3.3 Governance policies

The Boards have developed, and oversee the implementation of, a range of policies containing key governance principles including a whistle blowing policy to protect the identity of anyone reporting unethical behaviour and the Corporate Responsibility and Sustainability Policy which details the Trustee's commitment to corporate responsibility and sustainability as a means of enhancing long-term member and stakeholder value and reducing social, environmental and financial risks to the Fund.

3.3.1 Conflicts of interest or duty

Operating in conjunction with the Fit and Proper Policy, the Conflicts of Interest Policy addresses actual and potential conflicts of interest or duty. Underpinning the Policy is a conflicts management framework comprising systems, structures, policies, processes and controls to identify, assess and effectively manage any conflict.

The Boards actively consider whether it is appropriate for directors to have multiple board memberships which are not encouraged. Directors must provide reasonable notice if they expect to concurrently hold four or more directorships or officer positions.

Board members are required to advise the Company Secretary of all positions held, especially directorships and officer positions and are expected to excuse themselves from Board and Committee deliberations if having a conflict of interest or a material personal interest in the matter being considered.

Appointment procedures require the disclosure of all relevant duties and interests prior to the director taking up a role on the Board. For reporting purposes, materiality thresholds have been set at 10% or greater shareholding in any entity and any duty, other than to the Fund, which has the capacity to influence or adversely affect the ability to comply with best interests' duty to beneficiaries and/or to the Fund. Any potential conflict of interest is considered as part of the fitness and propriety assessment.

Directors are also expected to prudently manage and promptly notify the Company Secretary of a conflict of interest or material personal interest they may have in relation to matters concerning the Fund, especially if relating to an investment being considered, acquired, held or disposed of as part of the Fund's investment portfolio. Conflicts of interest and personal interests must also be declared at each meeting of the Board and a signed declaration is required each year.

Gifts valued over \$300 must be disclosed. Monetary gifts may not be accepted and the total value of gifts, hospitality or attendance at corporate sporting events accepted each year may not exceed \$5,000. Relevant details are recorded in the Gift Register.

Related party dealings, although uncommon, are permitted if the dealing is on a commercial, arm's length basis. Any related party dealing will be disclosed in the Annual Report.

3.3.2 Code of Conduct

A Code of Conduct promoting a professional, fair and ethical standard of behaviour applies to all directors, employees and contractors. The Code details the ethics and minimum standard of behaviour appropriate in any dealing with members, suppliers, fellow employees, directors or committee members.

3.4 Board performance evaluation and assessment

To evaluate performance and ensure, on an ongoing basis, the necessary diversity of skills, experience and expertise to meet the Fund's needs are available to the Board and its Committees, a Director Appointment, Renewal, Performance and Remuneration Policy and supporting procedures have been developed and implemented.

It is the responsibility of the Chairman to facilitate an annual review of the performance of the Boards, Board Committees and individual directors and Committee members. The Boards and Committees are assessed both collectively and individually, relative to the objectives of the relevant Charters. The performance of the Chair and each Committee Chair is also assessed.

Every three years an independent assessment is undertaken. Any issues or weaknesses identified through the performance assessment are managed having regard to the Fit and Proper Policy and immediate steps taken to remove a director if they are no longer fit and proper. Failure relating only to the fitness test may not necessitate removal if the issue can be rectified through training.

4. Delegation monitoring and reporting

As detailed in the Board Charters the Boards may delegate, through power of attorney or otherwise, authority to act. Formal delegations are documented, within power and given only to competent and reliable people.

Assurance is obtained from management and auditors that financial reports present a true and fair view and have been prepared in accordance with all relevant accounting standards. Prior to the issue of the final audit opinions the external auditor provides written confirmation to the ARCCs that the audits have been completed and details any issues arising from the audits. The CEO, Chief Financial Officer and the General Manager, Risk and Assurance also provide written representation in respect of the preparation of the financial statements, business operations, risk management and regulatory compliance.

The ARCCs provides the Boards with a report of each meeting.

An Incident, Breaches and Error Rectification Policy and supporting procedures have been implemented to ensure the Boards are made aware of all breaches and significant events affecting the Fund.

4A Committees

Specialist committees have been established to assist the Boards carry out their responsibilities. Whilst the Boards retain ultimate responsibility for ensuring those duties are performed, some functions and responsibilities have been delegated to the following Committees:

- Investment Committees for each of USL and USM
- Insurance Committee for USL
- Audit Risk and Compliance (ARCC) Committees for each of USL and USM
- Remuneration Committee for both USL and USM
- Technology and Projects Committee for both USL and USM.

Each Committee operates under a Charter which clearly specifies composition, tenure and processes of the Committee as well as the authority delegated by the Board and limitations under which the Committee may operate.

The Chair, in conjunction with the Board, determines the structure and membership of each Committee. The Chair of the Board is able to sit on all Committees as a member with full voting powers. The Chair of the Board may not chair the ARCC or the Remuneration Committee and may only chair the Investment Committee, the Insurance Committee or the Technology and Projects Committee on a temporary basis (e.g. to fill a short term vacancy).

The size of each Committee is dependent on the nature of the Committee and the mix of skills and capabilities directors require to oversee the matters set out in each Charter.

All committees report regularly to the Board and the minutes of each Committee meeting are presented to the subsequent Board meeting.

The composition of each Committee is available on the UniSuper website.

4A.1 Audit, Risk and Compliance Committees

Appropriately qualified Audit Risk & Compliance Committees (Committees / ARCCs), independent of the Chair and management, have been formed to oversee governance, risk and the compliance framework. The ARCCs assist the Boards by providing an objective, non-executive review of the effectiveness of financial reporting and risk management framework and oversight of the internal and external audit functions.

The Committee of each Board operates under a separate Charter, and have sufficient powers to obtain all information necessary to perform the delegated functions. Three Committee members are non-executive directors and two are independent (non-director) consultants. All have specialist knowledge and experience.

The ARCCs also monitor the adequacy and effectiveness of the compliance and internal controls frameworks to support compliance with all applicable laws and regulations, corporate governance and the adequacy of insurance protection.

4A.2 Investment Committees

The USL Board is responsible for the proper exercise of all investment-related powers and duties, including for the overarching investment governance framework. However, given the time and expertise required to make sound investment decisions, a specialist Investment Committees for USL and USM comprising three non-executive directors and two independent (non-director) members exists. All Committee members are recruited for their relevant skill, specialist knowledge and experience in investment matters. The CEO is an ex-officio member of the Committee.

The USL Investment Committee is responsible for:

- Investing Fund assets in a manner consistent with the investment objectives set by the USL Board
- Other investment matters including:
 - o Investment policy
 - o Making investment strategy recommendations to the Board
 - o Monitoring asset allocations and investment performance.

The USM Investment Committee is responsible for:

- Approving the commencement, terms and termination of portfolios managed by USM as investment manager
- Approving, other than derivatives policies which require Board approval, the policies governing the investment-related activities undertaken by USM
- Making recommendations in respect of derivatives policies applicable to the activities of USM in its capacity as an investment manager.

4A.3 Insurance Committee

The USL Board has formed an Insurance Committee which, under its Charter, has authority to consider and determine declined benefit claims, appoint the Fund's two Chief Medical Officers and oversee the renewal process for group life policies and the appointment of the insurer. The Committee monitors the performance of the external insurer and the services and functions outsourced to the Administrator. Claims data information is reported quarterly to the Board. Three directors, the CEO as an ex-officio member and an independent (non-director) consultant are members of the Committee.

4A.4 Remuneration Committee

A Remuneration Committee determines policies for the remuneration of directors and the Executive Leadership Team. The Committee operates under a Charter and all Committee members are non-executive directors. Except when the CEO's own remuneration package is being discussed, the CEO also attends meetings of the Committee.

The Remuneration Committee has responsibility for the establishment and maintenance of the Remuneration Policy, is responsible for reviewing the effectiveness of the remuneration framework and makes annual recommendations to the Boards in respect of remuneration of any person covered by the Remuneration Policy.

4A.5 Technology and Projects Committee

A Technology and Projects Committee monitors and approves the Technology Strategy. The Committee operates under a Charter and is intended to be a limited-life committee with two Director members and two independent (non-director) consultant members. The CEO is an ex-officio member of the Committee.

4B Management

The USM Board appoints the CEO and ensures the CEO and all other senior executives are appointed on the basis of a documented position description which clearly outlines the functions, responsibilities, accountabilities, required competencies and performance measures of the role.

4B.1 CEO

Although responsibility for the leadership of the Fund is shared by the USL Board and the CEO, it is the CEO who, in accordance with the strategic objectives set by the Board, is responsible for implementing strategy and policy initiatives.

The CEO assists the Chair set Board agendas. Board discussion and ultimately decisions are based on the information provided, and recommendations made, by the CEO.

4B.2 Executives and Managers

The Executive Leadership Team (ELT) has day to day responsibility for the running of the Fund. Under the direction of, and by delegation from the USM Board, the ELT acts on instruction from the CEO and is responsible for implementation of the strategy as determined by the Board.

Through the CEO, the USM Board ensures clear goals and performance standards are set for all key executives and that performance is regularly evaluated against the performance standards that have been set.

4B.3 Response to unsatisfactory performance

Key performance indicators (KPIs) are set annually. In the event of unsatisfactory performance of the CEO, the USM Board will take appropriate action and will ensure unsatisfactory performance of a member of the ELT is addressed by the CEO.

4B.4 Resourcing of key governance functions

The USM Board, through its Audit Risk and Compliance Committee, ensures a senior employee has operational responsibility for risk management. Written reports confirming risk management procedures are in place and that the risk management systems are operating efficiently and effectively are provided to each meeting of the ARCC. Reporting, including any areas of concern and remedial actions, is provided to the USM Board.

An internal audit function, also under the responsibility of the ARCC, has been established. Internal audit reports are provided to the USM ARCC and exception based reporting to the USM Board.

5. Engagement of external service providers

A robust Outsourcing Policy has been implemented and is actively overseen, which includes practices and procedures to ensure appropriate due diligence is conducted prior to the engagement of an external service provider. Activities are outsourced under appropriate contractual arrangements, ongoing reporting obligations are imposed and the performance of the provider is regularly monitored.

Day-to-day management of USL affairs and the operations of the Fund have been outsourced to USM, which is fully owned by USL. USL remains responsible for all Trustee and RSE Licensee obligations and USM is contractually obliged to adhere to all RSE Licensee policy and relevant law.

Oversight of USM is detailed as a key responsibility of the USL Board in the USL Board Charter and includes an annual assessment of the services provided by USM to confirm the operational management and administration of the Fund are being satisfactorily provided and are in compliance with all legislative and regulatory requirements and any adopted codes.

6. Accountability to members

6.1 Communicating with members

A communication strategy has been developed to ensure all Fund communications satisfy legislative requirements and meet the communication needs of members.

6.1.1 Electronic access

The Fund website provides extensive information and is regularly upgraded to permit easier member and employer interaction.

6.1.2 Two way communication

A key strategic objective which forms part of the focused strategy to increase member engagement is the development of digital methods to facilitate member and employer interaction and to allow both groups to communicate easily with the Fund.

6.2 Disclosure of governance procedures

In accordance with industry best practice, information is disclosed to members about how the Fund is governed.

6.2.1 Board and management

The process of how directors are appointed and removed is fully disclosed both on the UniSuper website and in the Annual Report.

Any associations that give rise to a conflict are disclosed in the USL Report to Shareholders.

6.2.2 Remuneration

The USL Report to Shareholders provides details of the nature and amount of remuneration of directors and senior management.