

CBUS Corporate Governance Report 1 July 2015 to 30 June 2016



Why do we vote?

As a large super fund we believe we have an obligation to ensure companies are directed and controlled in an appropriate way. Through voting, we believe long-term investment performance for members can be enhanced.

Over the financial year, Cbus actively voted in the Australian share market and in some international markets. Share voting is guided by our Environmental, Social and Governance ([ESG Policy](#)). Records of our voting activities are available on the [Cbus website](#).

Cbus also engages with companies to discuss their performance on ESG matters. This is summarised in the [Corporate Engagement Report](#).

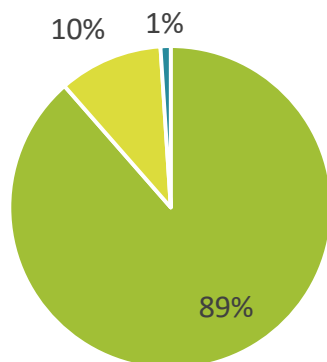
Australian Share Voting

For our [Australian shares](#), Cbus actively considers how it will vote at Company Meetings. Advice from the Australian Council of Superannuation Investors (ACSI) is carefully considered as part of the decision-making process and opinions from investment managers and direct engagement with companies may also be sought for consideration.

Financial Year	Number of resolutions voted	Number of resolutions Cbus voted against	Number of company meetings	Number of companies where Cbus voted against at least one resolution
2016	1,957	204	394	105
2015	1,826	155	350	97

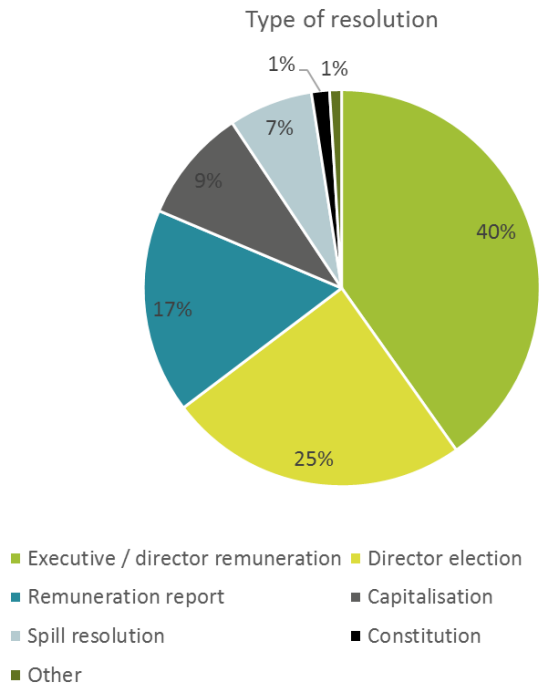
How Cbus voted in FY2016:

Resolutions Cbus voted on

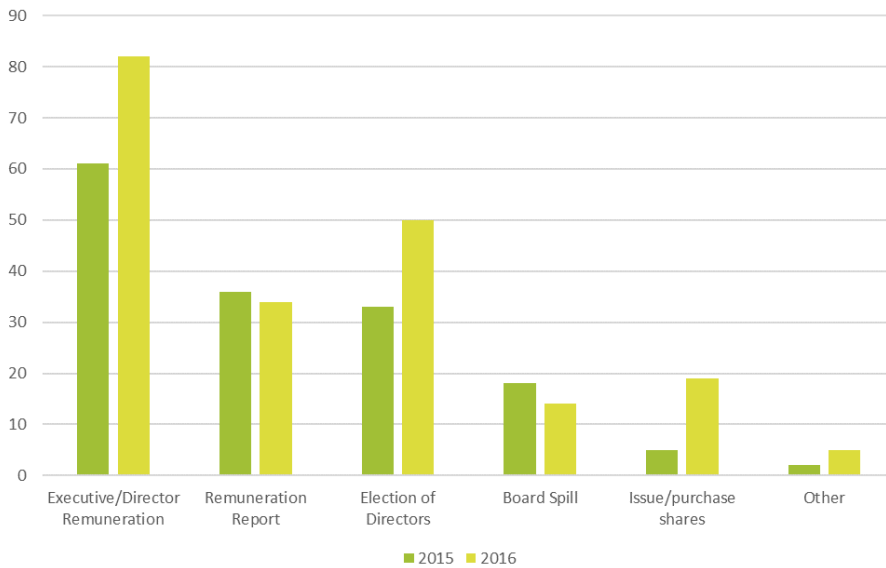


■ For ■ Against ■ Abstain / unvoted

Where Cbus voted 'against' a resolution over FY2016:



How Cbus voted compared to the previous year:



Type of Resolution

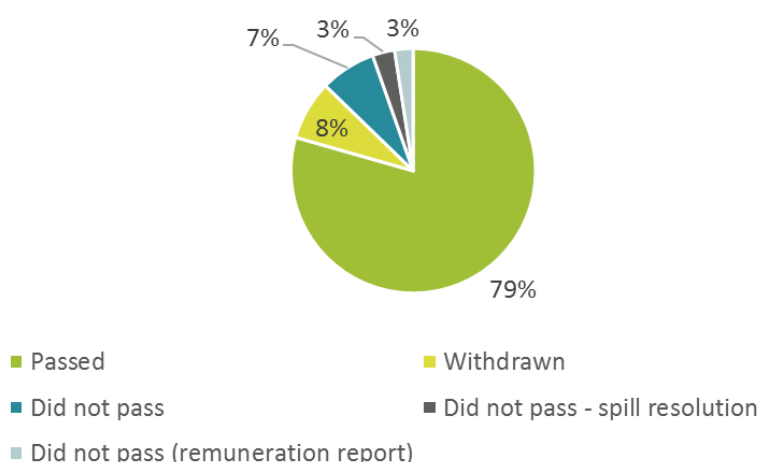
About 57% of resolutions were to do with remuneration, including salary, bonuses and shares. A further 25% were to do with the election (or re-election) of Directors.

Voting Outcomes for 'against' votes

Around 10% of the resolutions we voted against had a high enough vote against them that they failed (excluding spill resolutions). This accounted for 20 resolutions in total, including 5 resolutions relating to the remuneration report and 4 resolutions relating to capitalisation. 6 spill resolutions did not pass and 16 spill resolutions were not put forward at the board meetings.

Cbus' Australian proxy voting listing is available on our website. It outlines all resolutions Cbus voted on over the financial year. On the detailed reports, we show each company resolution Cbus voted on (whether we voted for, against, abstained or whether a vote was uninstructed). The report also shows whether the resolution was proposed by company management ('Mgmt') or by a shareholder ('Sh').

The pie chart below shows the outcomes of against votes over the period between 1 July 2015 and 30 June 2016.



Executive and Director Remuneration

Cbus voted against 82 resolutions related to Executive and Director Remuneration. This was largely due to the following factors:

- There was an insufficient or no performance hurdle (for example, executives get a bonus simply by being there, or by maintaining the current level of performance rather than relative share price performance or profit performance, or there was a lowering of performance levels compared to prior years)
- Remuneration was considered excessive compared to peers
- There was insufficient disclosure or lack of clarity around performance criteria

Remuneration Reports

In Australia, shareholders have a "non-binding vote" on remuneration reports. This means that shareholders can show their approval or disapproval of the way a company pays its executives, but the company is not bound by the outcome of the vote. In other words, if shareholders vote against the remuneration report, the company can still proceed as planned. The reality is that even though our vote is non-binding, it does prompt most (but not all) companies to reconsider their remuneration practices. Companies usually take significant votes against their remuneration reports seriously.

The Government's amendments to the Corporations Act, which took effect from 1 July 2011, strengthen the non-binding vote on the remuneration report. Where the remuneration report receives a 'no' vote of 25% or more over two consecutive years, shareholders are required to vote on whether all Directors should be required to stand for re-election (referred to as a 'spill resolution').

This legislation has led to an increase in the number of companies willing to enter into a dialogue with investors about their remuneration practices. As a result, there has been a reduction in the number of votes against companies on their remuneration reports following an 'against' vote of 25% or more in the previous years.

Cbus voted against the remuneration report of 36 companies at Annual General Meetings.

While the reasons behind each vote are specific to the company, themes included:

- Excessive pay and bonuses, or poorly structured bonus arrangements for executives
- Insufficient performance hurdles for termination benefits or performance options
- Granting of rights to non-executive directors which may impair independence
- Receiving a full bonus despite stepping down from the CEO position
- Additional one-off remuneration granted for something already included in long term incentive plan
- Inadequate disclosure on executive remuneration, for example via loans with undisclosed interest rates

Of the 34 companies, five company resolutions received a 'no' vote of more than 25% and one resolution was withdrawn.

Companies sitting on a 'strike' (a previous 'no' vote) are required to issue a 'spill resolution'. If their second Remuneration Report resolution received an 'against' vote of greater than 25%, the 'spill resolution' is then put to the vote. If the 'against' votes are below 25%, the 'spill resolution' is not applicable.

Cbus voted against company spill resolutions. The main reason Cbus voted against the 'spill' resolutions was that we considered that the companies had listened to shareholders following the first 'no' vote, and had made, or were in the process of making, improvements.

Cbus voted against 14 spill resolutions, of which 8 were not put to a meeting, and six did not pass.

Election or re-election of Directors

Cbus generally follows the Australian Council of Superannuation Investors (ACSI) guidelines, which have a number of expectations for directors. For example, it is expected that independent directors would devote sufficient time to their duties. They are also expected to inform the Board of any external commitments which may impact on their ability to properly fulfil board responsibilities.

Cbus voted against the election (or re-election) of 50 Directors when the election was not seen to be in shareholders' best interests.

- This was generally due to there being a non-majority independent board.
- At times, candidates were not endorsed by ACSI or their Boards and therefore it was expected that they would not be the best choice for the company.

- On some occasions we may vote in support of the election of a non-independent Director. For example, if our fund managers have provided a compelling case for re-election.
- Additionally, we may vote against re-election of Directors where these Directors have presided over poor company performance.

Capitalisation

Cbus voted against the issue of shares or options in 19 company resolutions. This was because the share or option issue was excessively dilutive to existing shareholders.

Other Management resolutions

Cbus voted against three companies' changes to their constitution.

Shareholder resolutions

Shareholders may propose resolutions for company meetings. Shareholder resolutions may cover a range of issues, from remuneration of directors, to environment related concerns.

Where a resolution is proposed by a shareholder, or group of shareholders, and is not supported by the company, Cbus will consider ACSI's advice and the views of the investment manager(s) to determine how the Fund will vote. In some cases, Cbus may vote 'for' shareholder resolutions where they have not been endorsed by the company.

For the financial year ending 30 June 2016, Cbus voted on 14 resolutions proposed by shareholders. Cbus voted 'against' all of these resolutions. For example, Cbus voted against the election of non-board endorsed candidates where it was felt that an against vote was in the shareholders' best interest.

International Share Voting

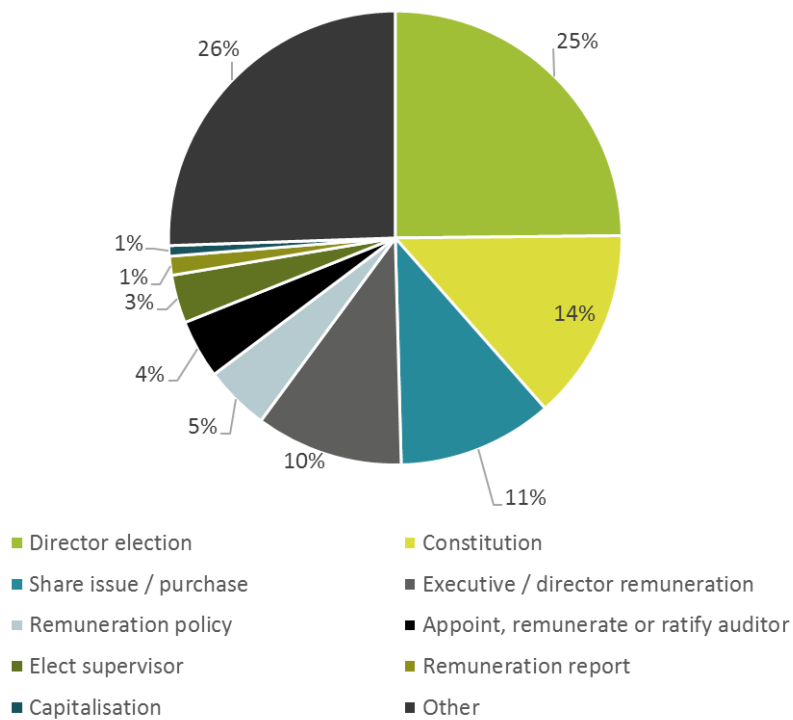
For [international shares](#), Cbus subscribes to a proxy voting service provided by Glass Lewis. This service was generally applied to our active developed markets international equities mandates, across 11 countries (Canada, Denmark, Finland, France, Germany, Ireland, Netherlands, Spain, Sweden, United Kingdom, and the United States).

Outside of the Glass Lewis service, our international shares fund managers can vote on their shareholdings. Cbus expects the international equities fund managers who hold voting responsibility to exercise their voting responsibility actively, and report to Cbus on voting activity on the portfolio. Cbus regularly engages with our fund managers on their corporate governance approach.

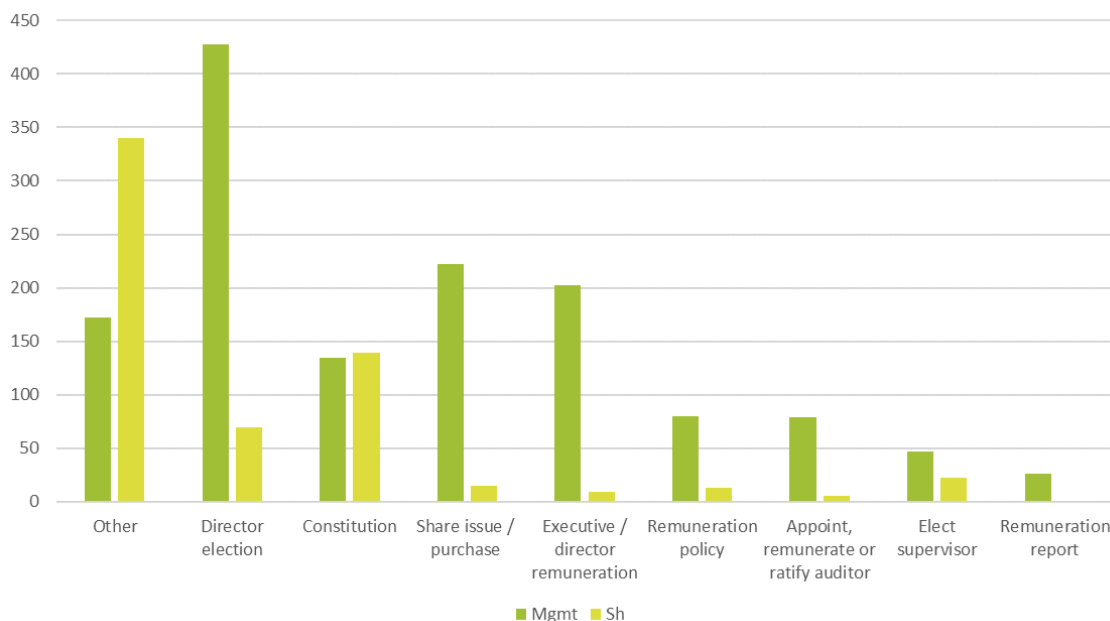
For the international shares section of this report, we do not report on voting for companies held in pooled trusts (voting in these instances is conducted by the fund managers). At the end of June 2016, these accounted for approximately 17% of the international shares portfolio. We note that pooled trust managers will vote according to their own proxy voting policy.

Financial Year	Number of companies where Cbus voted against at least one resolution	Number of resolutions Cbus voted against
2016	854	2,004
2015	904	2,172

Where Cbus voted 'against' a resolution:



Who the resolutions were proposed by:



69% of the resolutions that we voted against were proposed by management and the remainder were shareholder resolutions.

Many of these management resolutions were in relation to the election of Directors or remuneration.

Election of Directors

Cbus voted against 498 Director Election resolutions.

Key reasons for voting against were that the proposed Director:

- Concerns about workload or independence.
- Did not attend sufficient meetings
- Failed to demonstrate the ability to effectively represent shareholders' best interests
- Demonstrated poor performance
- Was not supported by the Board

We also voted on 69 Supervisor election resolutions for supervisory committees (similar to a board of directors).

Remuneration

Cbus voted against 331 resolutions related to remuneration, a majority of which were executive remuneration related resolutions. Most of these resolutions were proposed by management. The main reasons were:

- A poor compensation structure or design of incentive plan, for example the granting of incentives with no performance hurdles
- Pay not aligned to performance or peers
- Excessive bonus
- Lack of disclosure

Issuing shares / purchase

Cbus voted against 222 resolutions relating to the issue of new shares (or similar securities). The reasons for voting against included:

- The additional shares would dilute shareholders' holdings and was not in shareholders' best interest
- A lack of disclosure or rationale
- Price of shares being repurchased was excessive

Change in Company Constitution

Cbus voted against a change in the company constitution on 274 occasions.

Of the votes against a change in the company constitution, 40 of the resolutions related to the company management seeking authority to reduce the General Meeting Notice Period to two weeks. These were voted against on the basis that a shortened notice period could disenfranchise shareholders.

Appoint, remunerate or ratify auditor

Cbus voted against 84 resolutions relating to auditors. Many of these resolutions were voted against because:

- Audit fees were excessive
- The audit process may not be independent
- Poor disclosure

Other Resolutions

We voted against 512 resolutions covering a range of issues. Many of these resolutions were voted against because:

- They were considered to not be in the interest of the majority of shareholders
- There was a lack of transparency or disclosure
- Unclear rationale for the resolution
- The company already had policies in place to address the issues

From the other category, 54 resolutions related to sustainability reporting and or the environment, 47 resolutions related to diversity, 39 resolutions related to political contributions, 36 related to reporting on lobbying payments and 26 resolutions related to reporting across a range of other items.

Of the 'other' resolutions, 66% were shareholder resolutions. Many of these resolutions can be classified into governance, social and environmental related resolutions.

Shareholder resolutions are a lot more common in some overseas countries than they are in Australia, for reasons to do with regulatory structures. At times, Cbus voted against shareholder resolutions. Typically, we would vote against prescriptive or single issue resolutions.

For example, we voted against some shareholder resolutions to increase reporting on political or environmental issues because either:

- The companies already had policies in place to address the issue or
- The matter was already covered by regulations

We also voted against some shareholder resolutions for reporting on environmental standards and employment diversity where the issues identified would be more appropriately dealt through uniform government regulations.

Read the relevant Cbus Product Disclosure Statement to decide whether Cbus is right for you. Contact 1300 361 784 or visit <http://www.cbussuper.com.au> for a copy.