

# CBUS Corporate Governance Report

## 6 months from 1 July 2016 to 31 December 2016

### Introduction

As a large super fund, we can influence the way companies are directed and controlled by actively voting on the shares we hold. We believe this will improve companies' investment performance over the long-term. Cbus' share voting is guided by our [Environmental, Social and Governance \(ESG\) Policy](#).

For our [Australian shares](#), Cbus actively considers how it will vote at Company Meetings for the biggest 300 companies (by market capitalisation) on the Australian Stock Exchange (ASX). Cbus' fund managers may also vote at company meetings under some circumstances. This report details votes across our whole Australian shares portfolio, whether the vote has been conducted by Cbus or by our fund managers. Where votes are split between for, against and abstain, the category with the majority votes is listed.

Cbus also meets with Australian companies to discuss their performance on environmental, social and corporate governance matters, predominantly through the Australian Council of Superannuation Investors (ACSI). You can read more about this in our [Engagement Report](#).

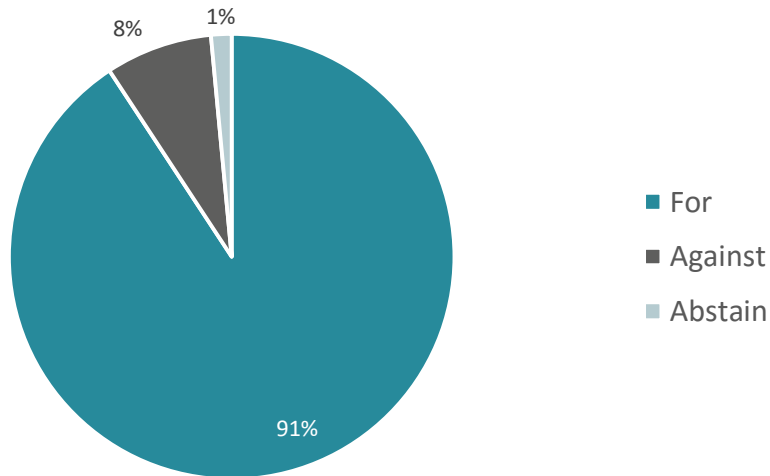
For [international shares](#), Cbus votes on the majority of our international shares portfolio. Cbus subscribes to a proxy voting service provided by Glass Lewis based on their standard proxy voting guidelines. This service is generally applied to our active developed markets international equities mandates, across 12 countries (Canada, Denmark, Finland, France, Germany, Ireland, Netherlands, Norway, Spain, Sweden, United Kingdom, and the United States).

Outside of the Glass Lewis service, our international shares fund managers can vote on their shareholding. Cbus expects international equities fund managers who hold voting responsibility to exercise their voting responsibility actively, and report to Cbus on voting activity on the portfolio.

For the international shares section of this report, we summarise our against votes across our international shares outside of the pooled trusts. Where voting is split between for and against, votes are classified as against votes where greater than 50% of all votes were against. You can see a summary of our voting activities under the [sustainability](#) section of the website.

## Australian Share Voting

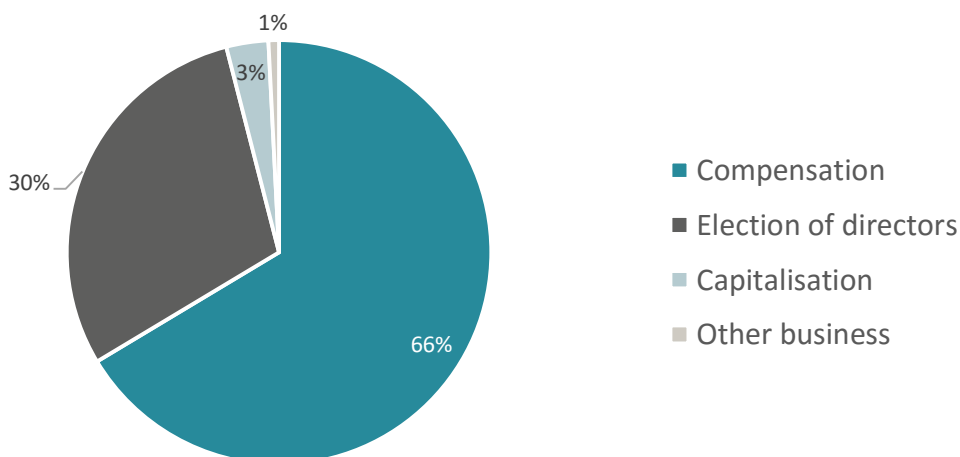
Cbus voted on a number of resolutions over the 6 months ending 31 December 2016:



While we voted in favour of most resolutions, we voted against about 8% of all 1,593 resolutions due to concerns about poorly aligned pay structures, director elections (where there were not sufficient independent directors on boards), or other factors.

Topical issues that were covered over the period in Australia were concerns about executive pay, director elections and capital raisings. Concerns about executive pay being out of step with investor expectations continued to be a theme in 2016. There was a continued focus on board independence, while ACSI set a gender diversity target of 30%. We continued to vote against share issues that were excessively dilutive. (Source: ACSI).

### Against votes by category



Proposal type	Top reason for voting against a company resolution
Compensation	<ul style="list-style-type: none"> <li>• There was insufficient or no performance hurdle</li> <li>• Benefits were considered excessive</li> <li>• Benefits do not align to performance</li> <li>• There was insufficient disclosure about benefits, making it difficult to assess hurdles</li> </ul>
Directors	<ul style="list-style-type: none"> <li>• Non-majority independent board</li> <li>• Directors presided over a period of poor company performance or poor decision making</li> <li>• Diversity concerns</li> </ul>
Capitalisation	<ul style="list-style-type: none"> <li>• The additional shares would dilute shareholders' holdings</li> </ul>

Remuneration reports fall into the compensation category. 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.

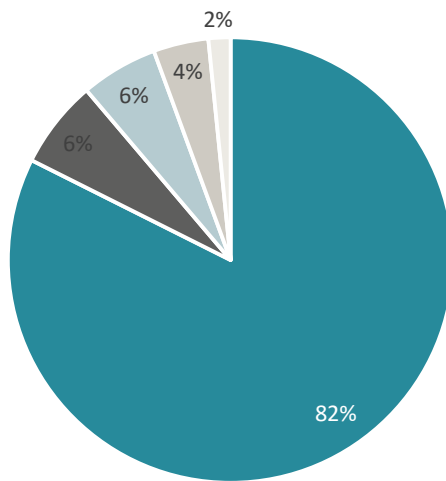
Where the remuneration report receives an against vote of 25% or more over two consecutive years, shareholders are required to vote on whether all Directors should be required to stand for re-election. This is referred to as a spill resolution. If their second Remuneration Report resolution received 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 generally voted against company spill resolutions. The main reason for this was that we considered that the companies had listened to shareholders following the first against vote, and had made, or were in the process of making, improvements.

Sometimes, Cbus intends to vote against a resolution, however the company withdraws that resolution from the meeting. This could be because they have been encouraged to reconsider the resolution.

The chart below shows the outcomes of the resolutions Cbus voted, or intended to vote against.

### Outcome of resolutions Cbus voted against



- Resolution passed
- Resolution withdrawn (spill)
- Remuneration reports with against votes greater than 25%
- Resolution withdrawn
- Resolution failed (excluding remuneration reports)

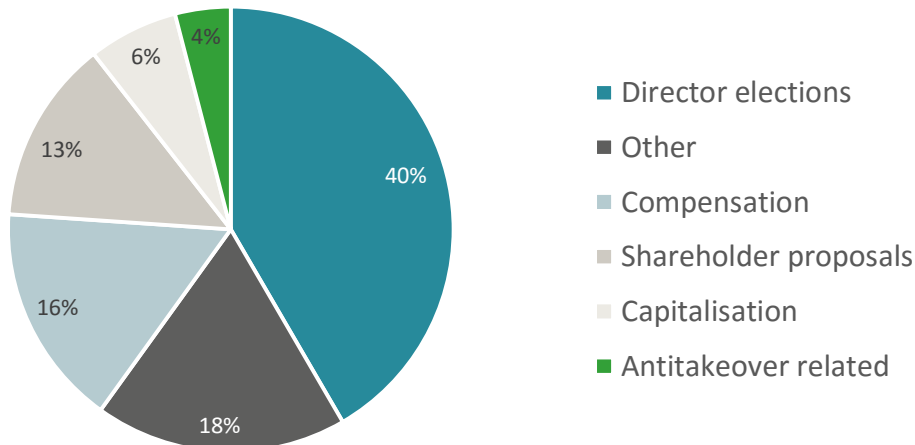
## International Share Voting

Cbus voted against 6.5% of the 5,072 resolutions for the international shares that we vote on.

### Where Cbus voted 'against' a resolution:

Cbus reports on 'against' votes for most of our international voting, however our report excludes voting that takes place within fund manager pooled funds or trusts (voting in these instances is conducted by the fund managers). Voting is classified as 'against' votes where the total number of 'against' votes is greater than 50% of all votes. Details of all 'against' resolutions voted are available in the Cbus International proxy voting listing on the Cbus website.

### Against votes by category



Proposal type	Top reason for voting against a company resolution
Director election	<ul style="list-style-type: none"> <li>Served on too many Boards or Committees, which raises concerns about their ability to exercise sufficient oversight</li> <li>Concerns about conflicts of interest</li> <li>Did not attend enough board or relevant committee meetings</li> <li>Lack of nominee disclosure</li> <li>Was either a non-independent Director or Director on an affiliated company which lacked a sufficient level of independent Directors</li> </ul>
Other	<ul style="list-style-type: none"> <li>A shortened General Meeting Notice Period could disenfranchise shareholders.</li> <li>Lack of information on resolution</li> <li>Auditor raised concerns about financial statements</li> </ul>
Compensation	<ul style="list-style-type: none"> <li>Remuneration was deemed to be excessive</li> <li>Options that were significantly discounted, diluting other shareholders interest</li> <li>Insufficient hurdles</li> <li>A lack of disclosure</li> </ul>
Shareholder proposals	<ul style="list-style-type: none"> <li>Resolution not in the interest of the majority of shareholders</li> <li>Wording of the resolution was considered to be too prescriptive</li> <li>Organisation was already reporting on item</li> </ul>
Capitalisation	<ul style="list-style-type: none"> <li>The additional shares would dilute shareholders' holdings (is excessive or exceeds thresholds)</li> <li>Lack of disclosure</li> </ul>
Antitakeover related	<ul style="list-style-type: none"> <li>Where the resolution relating to takeovers was not in the best interest of shareholders</li> </ul>

*The information contained in this report is about Cbus. It doesn't take into account your specific needs, so you should look at your own financial position, objectives and requirements before making any financial decisions. 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.*