



# Clime Investment Management Limited

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## CORPORATE GOVERNANCE STATEMENT

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Clime Investment Management Limited (“Company”) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. In ensuring the highest standard of ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the 3rd Edition of Australian Securities Exchange’s (“ASX”) Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council (‘ASX Principles and Recommendations’) where applicable. However, the Board also recognises that full adoption of the above ASX Principles and Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Company.

The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Company’s main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

## ***Principle 1: Lay Solid foundations for management and oversight***

### **The Board of Directors**

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance section of this website. The charter details the Board’s composition and responsibilities.

### **Board Members**

Details of the members of the Board, their experience, expertise, qualifications and term of office are set out in the Directors’ Report under the heading “Information on Directors”. There are three Non-Executive Directors, of which two are deemed independent under the principles set out below, and one Managing Director at the date of signing the Directors’ Report. The Chairman is not deemed independent due to his interest in 13% of issued shares in the Company.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the Board is conducive to effective discussion and efficient decision-making.

The relationship between the Board and senior management is critical to the Group’s long term success. The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of the shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group’s affairs and the implementation of corporate strategy and policy initiatives are delegated by the Board to the senior executives as required.

### **Responsibilities**

The Board seeks to ensure that:

- overall strategic direction and leadership of the Company;
- approving and monitoring the implementation by management of the Company’s policies, objectives and strategies;
- reviewing the Company’s performance against its stated objectives, by receiving regular management reports on its business situation, opportunities and risk profile;
- monitoring financial performance on a monthly basis in comparison with the budget;
- approving the annual and half-year financial statements and liaising with the Company’s auditors through its Audit Committee;

- appointing and assessing the performance of the Executive Directors;
- ensuring compliance with corporate governance principles by the Company and its officers;
- ensuring adequate internal controls exist and are appropriately monitored for compliance with the Company's regulatory environment, which includes the Corporations Act 2001, the Listing Rules of the Australian Securities Exchange, taxation legislation, the Trades Practices Act and its AFS licensing requirements;
- establishing and ensuring compliance with ethical standards and determining the Company's code of conduct; and
- reviewing investment strategies, investment decisions and establishing executive authority limits (refer below).

### **Board investment authority**

The Board has specific authority to review and approve investment decisions which exceed authority limits for management. Such investment meetings are conducted concurrently with Board Meetings on matters relating to investment decisions.

The charter for the Board in respect of investment decisions is as follows:

- reviewing investment strategies recommended by management for the Company;
- reviewing management strategies for existing investments including provision of additional capital, acquisition and exit strategies;
- authorising individual investment proposals where such investments are of an amount requiring Investment Committee approval;
- setting delegated investment and trading limits for management;
- ensuring delegated investment and trading limits are adhered to by management;
- reviewing risk / return objectives set by management on individual investments to ensure these fit with the overall company objectives; and
- reviewing performance of individual investments to ensure these are in accordance with established budgets.

### **Term of office**

All directors must retire from office no later than the third annual general meeting (AGM) following their last election. Any directors appointed by the Board must be duly re-elected at the next AGM.

### **Chairman**

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The Chairman of the Board and majority of the Board are not independent directors. The Company believes that an independent Chairman under ASX Principles and Recommendations 2.4 and 2.5 does not necessarily improve the function of the Board. The Company believes that when the Chairman is a significant driver behind the business, and is a sizeable shareholder, as is the case with the Company, it adds value to the Company and all shareholders benefit.

### **Company Secretary**

The Company Secretary is directly accountable to the Chair on all matters to do with the proper function of the Board.

### **Diversity**

The Group's workforce is comprised of people from diverse backgrounds with a range of skills, values and experiences. Diversity includes, but not limited to, gender, age, ethnicity and cultural background. The Group is committed to providing an environment in which all employees are treated with fairness and respect, and have equal access to opportunities available in the workplace.

The key element of the diversity policy of the Group is that the Group will seek the best person available for the position which will not be influenced by gender, age, ethnicity or cultural background. In relation to the appointment of a new director, the board will seek male and female candidates with the appropriate skills and investment/industry experience to complement the current directors.

The Group's workforce is relatively small and the directors do not believe it is appropriate to establish formal diversity objectives in relation to gender, age, cultural background and ethnicity at this stage as outlined in ASX Principles and Recommendations 1.5.

### Performance assessment

The Board undertakes an annual self-assessment of its collective performance, the performance of the Chairman and of its Committees. This review is coordinated by the Chairman and is assessed against both measurable and qualitative indicators. The Board uses surveys for the purpose of its internal Board and committee performance reviews. Those reviews are to ensure that individual directors and the Board work effectively in meeting their responsibilities as described in the Board and Committee Charters. The Board conducted an internal review in the 2018 financial year.

The senior management performance is evaluated annually against operational and financial objectives agreed by the Board.

Details of the principles used to determine the nature and amount of remuneration paid to each director and other key management personnel can be found in the Remuneration Report of the latest Annual Report.

### **Principle 2: Structure of the Board to add value**

#### Board composition

The composition of the Board is determined in accordance with the following principles:

- the Board shall comprise not fewer than three members;
- the Board shall comprise a mix of Independent and Executive Directors;
- a director need not be a shareholder;
- the Board shall comprise directors with an appropriate range of qualifications and experience; and
- the Chairman should preferably be Non-Executive, is elected by the full Board and is required to meet regularly with the senior executives.

During the financial year the names of each director, their respective role, appointment date and classification were:

| Name        | Role              | Appointed/Resigned | Classification  |
|-------------|-------------------|--------------------|-----------------|
| D McLay     | Chairman          | 1 March 2016       | Non-executive * |
| J Abernethy | Managing Director | 17 November 1994   | Executive *     |
| N Schafer   | Director          | 7 January 2011     | Independent     |
| A Chant     | Director          | 9 July 2014        | Independent     |

*\*Meets the 'substantial shareholder' definition under section 9 of the Corporations Act 2001, due to a prescribed direct, indirect and representative shareholding interest exceeding 5% of the total issued ordinary capital of the Company.*

The Board is of the opinion that the current directors add value to the Company by virtue of their financial and other commitment and considerable industry experience. The Board also believes that the alignment of the interests of directors with those of shareholders is an efficient way to ensure the protection of shareholders' interests.

## Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be non-executive and must:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years, not have been employed in an executive capacity by the Company or any other group member, or been a Director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- have no material contractual relationship with the Company or a controlled entity other than as a Director of the Group;
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual Director's net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the Director's performance.

## Nomination of Directors

The Chairman is responsible for reviewing the membership of the Board and the nomination of directors to the Board. Any review or recommendation is considered by the full Board. Appropriate expertise and experience are essential attributes for any nominee.

The Board is committed to undertaking appropriate checks before appointing a person or putting forward to shareholders a candidate for election as a director and to providing shareholders with all material information in its possession relevant to a decision on whether to elect or re-elect a director.

Having regard to the size of the Board and the Company, a formal Nomination Committee is deemed neither appropriate nor necessary.

## Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Remuneration and Audit Committees. It is the Company's policy that each Committee is comprised entirely of Non-Executive Directors. The committee structure and membership is reviewed on at least an annual basis. All matters determined by the committees are submitted to the full Board as recommendations for Board decisions.

## Commitment

The Board considers corporate governance to be an important element of its responsibilities. As such, it meets at least six times throughout the year and attends an annual corporate strategy workshop. Non-Executive Directors are expected to spend at least 15 days a year preparing for, and attending, Board and committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2018 and the number of meetings attended by each Director is disclosed in the Directors' Report of the latest Annual Report.

## Conflict of interests

In accordance with the Board's corporate governance practices, a director that has a perceived or actual conflict of interest (as determined by themselves, other Board Members or the Chairman) must declare their interest in those dealings by the Company and take no part in decisions relating to them or the preceding discussions. In addition, the directors should not receive any papers pertaining to those dealings.

## Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

## Induction for Directors

New directors will be familiarized with the Company by undertaking an induction program, which is arranged by the Companies Secretary.

## ***Principle 3: Promote ethical and responsible decision making***

### Code of Conduct

The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and spirit of both the law and Company policies. A copy of the Code is available on the Company's website.

### Trading in Company Shares or Securities

The Board of the Company has established a set of guidelines governing the trading in the Company's shares or securities by directors and management. These guidelines are designed to supplement (not replace) the legislative and reporting requirements already established for directors under the *Corporations Act 2001* and the ASX Listing Rules.

The guidelines grant authority to the Board to determine periods during which directors and management will be prevented from dealing in Company shares or securities as follows:

- at any time the Board believes that the directors or management are in possession of price sensitive information;
- during specified 'black-out' periods approaching the release of annual and half-year financial results, and any other Board-imposed black-out periods that may apply from time to time;
- directors are required to notify the Chairman of their intention to trade in the Company's shares prior to doing so; and
- all other employees should notify the Chief Investment officer/Portfolio Manager prior to trading in any shares.

Directors are required to notify the ASX via the Company Secretary within five business days of any dealing in the Company's shares.

The Company's policy for staff, Executive Directors and Non-Executive Directors is that they should not buy and sell the Company's shares if they are aware of any undisclosed price-sensitive information about the Company. If they are aware of such information they may not:

- either on behalf of themselves or anyone else, buy, sell or otherwise deal in any shares or other securities which are affected by the information;
- either on behalf of themselves or anyone else, cause or procure any other person to buy, sell or otherwise deal in those securities; and
- communicate the information to anyone else, if they know or reasonably should know that they will use the information, directly or indirectly, for dealing in the securities.

All directors and employees are expressly prohibited from trading in Company securities at any time where that trading amounts to 'short-selling'. For this purpose, 'short-selling' amounts to disposing of securities within 3 months of their acquisition.

### **Trading in Other Listed Shares or Securities**

The Board of the Company has established a set of guidelines governing the restrictions on directors trading in listed shares or securities in which the Company may have an interest, being financial, advisory, consulting or research in order to remove any potential conflict of interest.

These guidelines are designed to supplement (not replace) the legislative and reporting requirements already established for Directors under the *Corporations Act 2001* and the ASX Listing Rules.

These guidelines include:

- the circulation by the Company Secretary of any listed shares or securities deemed by the Chief Investment Officer to be part of the "Restricted Securities List";
- directors and officers are required to notify the Chairman of any listed shares or securities which they currently own, that appear on the most current "Restricted Securities List";
- directors and officers are required to notify the Chairman of any intention to trade in listed shares or securities that appear on the most current "Restricted Securities List"; and
- for the purposes of the guidelines, Directors' or officers' interests in listed shares and securities shall include direct holdings and beneficial interests.

A copy of the trading policy is also available on the Company's website.

The directors are satisfied that the Group has complied with its policies on trading in the Company's securities.

## ***Principle 4: Safeguard integrity in financial reporting***

### **Financial reporting**

The Managing Director and the Chief Financial Officer have made the following certifications to the Board for the year ended 30 June 2018:

- that the Company's financial statements are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management, internal compliance and control and which implements the policies adopted by the Board and that the Company's risk management, internal compliance and control is operating efficiently and effectively in all material respects.



## Audit Committee

The Audit Committee must comprise at least two members, all of whom will be Non-Executive Directors, who are independent of the management of the Company. The Chairman of the Committee will be appointed by the Board from time to time. Due to the size and structure of the Board, and considering the number of Non-Executive Directors, it is not always practicable for all members of the Committee to be independent. Members will be selected on the basis of their appropriate skills and at least one member will be financially literate. A quorum for any meeting will be two members of which two shall be Non-Executive Directors. The Company Secretary will attend Audit Committee meetings and keep minutes.

The Audit Committee should meet at least two times a year. Additional meetings may be convened by the Chairman or the external auditors as they see fit. The external auditors are asked to make presentations to the Audit Committee at least twice a year. All meetings are minuted.

The charter for the Audit Committee is summarised as follows:

- review the Company's financial reporting processes, internal control and management of financial, business and investment risks (risk management);
- evaluate the processes in place, including communication to and training of staff, to ensure internal control, compliance with codes of conduct and the management of risk;
- review the annual financial statements and determine whether they are complete, consistent with committee members' understanding of the business and reflect appropriate accounting principles and satisfy themselves that any announcements and interim financial statements contain adequate and appropriate disclosures;
- review the external auditors' proposed audit scope and approach and ensure that no unjustified restrictions or limitations have been placed on that scope. Review the performance of the external auditors. Ensure that significant findings and recommendations made by the external auditors are received, discussed and acted on by the management of the Company on a timely basis;
- review the independence of the external auditors, taking into account the length of service and the provision of non-audit services. Make recommendations to the Board regarding the reappointment of the external auditors;
- review the provision of non-audit services by the external auditors to ensure independence; and
- review the Company's processes for ensuring compliance with laws and regulations. Be satisfied that all regulatory compliance matters have been considered in the preparation of financial statements.

The Audit Committee currently comprises Mr. A Chant (Chairman), Mr. N Schafer and Mr. D McLay. The Audit Committee meets at least two times per year. Details of these directors' qualifications and attendance at Audit Committee meetings are set out in the Directors' Report. Committee meetings are also attended by the Audit Partner by invitation as and when required.

## External Auditor

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. Pitcher Partners Sydney was appointed as the external auditor in November 2015. It is Pitcher Partners Sydney's policy to rotate audit engagement partners on listed companies in accordance with the *Corporations Act 2001*.

An analysis of fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in the notes to the financial statements. It is the policy of the external auditor to provide an annual declaration of their independence to the Audit Committee. A copy of this declaration is included on page 62 of the Group's 2018 Annual Report. The external auditor is requested to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.



## ***Principle 5 and 6: Make timely and balanced disclosure and respect the rights of Shareholders***

### **Continuous Disclosure and Shareholder Communication**

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities. A summary of these policies and procedures is available on the Company's website.

Company Secretary is nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Relevant information is communicated to the Company's shareholders through the following measures:

- An annual report will be mailed to those shareholders who have elected to receive a hard copy. Alternatively, for those shareholders who chose a link to a copy of the Annual Report on the Company's website will be emailed in lieu of a hard copy;
- Quarterly market update is released to the ASX within one month from the end of the quarter; and
- Any information of a material nature affecting the Company is disclosed to the market through release to the ASX as soon as the Company becomes aware of such information, in accordance with the Continuous Disclosure Requirement.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of Company's strategy and goals.

The Company's registry, Boardroom Pty Limited, provides the option for shareholders to receive and send communications electronically. Shareholders are encouraged to create an online account at [www.clientonline.com.au](http://www.clientonline.com.au).

## ***Principle 7: Recognise and manage risk***

### **Risk Assessment and Management**

The Board, through the Audit Committee and the Board Investment and Compliance Review Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the Company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

The directors recognise that risk management is an essential element of the Company's business planning and investment process. Consolidated risk reviews are a key input in the Company's annual corporate strategy workshops attended by the Board and senior management. The identification of key business and financial risks facing the Company is required to ensure management has put in place appropriate controls.

In addition, and as discussed above, the Board requires each major investment proposal submitted to it for decision to be accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The Company does not have an internal audit function. The Board and the Audit committee are sufficiently knowledgeable of the Company's operations to evaluate the effectiveness of risk management and internal control processes of the Group.

### ***Principle 8: Remunerate fairly and responsibly***

#### **Remuneration Committee**

The Remuneration Committee makes specific recommendations on remuneration packages and other terms of employment for Executive Directors and senior management. Membership of the Committee will be reviewed annually.

The charter of the Remuneration Committee specifies that remuneration for Executive Directors and other terms of their employment are reviewed annually by the Committee having regard to performance, relevant comparative information and, where appropriate, independent expert advice. In addition to base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Non-Executive Directors are also eligible to participate in the Company's Employee Share Option Plan (ESOP).

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the Group's diverse operations and achieving the Company's strategic objectives. The remuneration packages of executives are based on a three tiered structure, comprising of a fixed component, a performance based component and an equity based component. The fixed portion of the package reflects the core performance of their duties. The executives are given an incentive via a performance based bonus (as determined by the Remuneration Committee). Equity based remuneration is made via the options issued to the executive under the ESOP or EIS. The termination payments of Executive Directors and senior management have been determined in advance.

Further information on Directors' and executives' remuneration is set out in the Directors' Report and in the notes to the financial statements.

Remuneration and other terms of employment for the Managing Directors and certain other senior executives are formalised in service agreements with annual adjustments (once agreed by the Remuneration Committee) notified in writing.

Remuneration of Non-Executive Directors is determined by the full Board within the maximum amount approved by the shareholders from time to time. Currently the shareholders have approved a total Board base remuneration pool of \$260,000 per annum. The payments to Non-Executive Directors do not include retirement benefits other than statutory superannuation. Consultation with Non-Executive Directors outside their duties as Directors is treated as external consultation and is subject to additional fees by consent of the Board.

The Company has a policy that Non-Executive Directors:

- are not entitled to retirement benefits in addition to the statutory minimum;
- may not participate in the Company's bonus scheme or Employee Incentive Scheme; and
- may participate in the ESOP.

The Remuneration Committee currently comprises Mr. N Schafer (Chairman), Mr. A Chant and Mr. Donald McLay.

The Remuneration Committee meets for the annual reviews of senior management as well as any other time that an executive salary is negotiated. Details of these Directors' attendance at Remuneration Committee meetings are set out in the Directors' Report.

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