

## Appendix 4G

### Key to Disclosures Corporate Governance Council Principles and Recommendations

Name of entity

AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED

ABN/ARBN

56 004 147 120

Financial year ended

30 June 2015

Our corporate governance statement<sup>2</sup> for the above period above can be found at:<sup>3</sup>



these pages of our annual report: \_\_\_\_\_



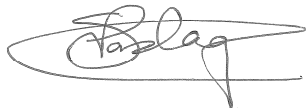
this URL on our website: \_\_\_\_\_

[www.afi.com.au/Corporate-Governance.aspx](http://www.afi.com.au/Corporate-Governance.aspx)

The Corporate Governance Statement is accurate and up to date as at 20 July 2015 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.

Date here: 27 August 2015



Sign here:

company secretary

Print name: Simon Pordage

<sup>1</sup> Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

<sup>2</sup> "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

<sup>3</sup> Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found.

## ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
<b>PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</b>		
<p>1.1 A listed entity should disclose:</p> <p>(a) the respective roles and responsibilities of its board and management; and</p> <p>(b) those matters expressly reserved to the board and those delegated to management.</p>	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management):</p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>
<p>1.2 A listed entity should:</p> <p>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</p> <p>(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</p>	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>
<p>1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>
1.5	<p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p>	<p>... the fact that we have a diversity policy that complies with paragraph (a):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and a copy of our diversity policy or a summary of it:</p> <p><input checked="" type="checkbox"/> at this location:</p> <p><a href="http://www.aficom.au/Corporate-Governance.aspx">www.aficom.au/Corporate-Governance.aspx</a></p> <p><i>Insert location here</i></p> <p>... the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and the information referred to in paragraphs (c)(1) or (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>AND</b></p> <p><input checked="" type="checkbox"/> at this location:</p> <p><a href="http://www.aficom.au/Reports-by-year.aspx">www.aficom.au/Reports-by-year.aspx</a></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>... the evaluation process referred to in paragraph (a):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and the information referred to in paragraph (b):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>... the evaluation process referred to in paragraph (a):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and the information referred to in paragraph (b):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
<b>PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE</b>		
<p>2.1 The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; <b>OR</b></p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	<p>[If the entity complies with paragraph (a):] ... the fact that we have a nomination committee that complies with paragraphs (1) and (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and a copy of the charter of the committee:</p> <p><input checked="" type="checkbox"/> at this location:</p> <p><a href="http://www.afj.com.au/Corporate-Governance.aspx">www.afj.com.au/Corporate-Governance.aspx</a></p> <p><i>Insert location here</i></p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>[If the entity complies with paragraph (b):] ... the fact that we do not have a nomination committee and the processes we employ to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	<p>... our board skills matrix:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>
2.3	<p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	<p>... the names of the directors considered by the board to be independent directors:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... where applicable, the information referred to in paragraph (b):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... the length of service of each director:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>
2.4	A majority of the board of a listed entity should be independent directors.	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> at this location: <hr/> <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> at this location: <hr/> <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable
<b>PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY</b>			
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	... our code of conduct or a summary of it: <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>AND</b> <input checked="" type="checkbox"/> at this location: <a href="http://www.afc.com.au/Corporate-Governance.aspx">www.afc.com.au/Corporate-Governance.aspx</a> <hr/> <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement
<b>PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING</b>			
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the	[If the entity complies with paragraph (a):] ... the fact that we have an audit committee that complies with paragraphs (1) and (2): <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> at this location: <hr/> <i>Insert location here</i> ... and a copy of the charter of the committee: <input checked="" type="checkbox"/> at this location: <a href="http://www.afc.com.au/Corporate-Governance.aspx">www.afc.com.au/Corporate-Governance.aspx</a>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
	<p>number of times the committee met throughout the period and the individual attendances of the members at those meetings; <u>OR</u></p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p><i>Insert location here</i></p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> (5) in our Corporate Governance Statement <u>AND</u></p> <p><input checked="" type="checkbox"/> (4) at these locations:</p> <p><a href="http://www.afi.com.au/Reports-by-year.aspx">www.afi.com.au/Reports-by-year.aspx</a> and <a href="http://www.afi.com.au/Board.aspx">www.afi.com.au/Board.aspx</a></p> <p><i>Insert location here</i></p> <p>[If the entity complies with paragraph (b):]</p> <p>... the fact that we do not have an audit committee and the processes we employ that independently verify and safeguard the integrity of our corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> at this location:</p> <p><i>Insert location here</i></p>	
4.2	<p>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> at this location:</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>



Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> at this location:  <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> we are an externally managed entity that does not hold an annual general meeting and this recommendation is therefore not applicable
<b>PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE</b>			
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	... our continuous disclosure compliance policy or a summary of it: <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>AND</b> <input checked="" type="checkbox"/> at this location:  <a href="http://www.aficom.au/Corporate-Governance.aspx">www.aficom.au/Corporate-Governance.aspx</a> <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement
<b>PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS</b>			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	... information about us and our governance on our website: <input checked="" type="checkbox"/> at this location:  <a href="http://www.aficom.au/Corporate-Governance.aspx">www.aficom.au/Corporate-Governance.aspx</a> <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	... the fact that we follow this recommendation: <input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b> <input type="checkbox"/> at this location:  <i>Insert location here</i>	<input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	<p>... our policies and processes for facilitating and encouraging participation at meetings of security holders:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> we are an externally managed entity that does not hold periodic meetings of security holders and this recommendation is therefore not applicable</p>
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>
<b>PRINCIPLE 7 – RECOGNISE AND MANAGE RISK</b>			
7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; <u>OR</u></p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	<p>[If the entity complies with paragraph (a):]</p> <p>... the fact that we have a committee or committees to oversee risk that comply with paragraphs (1) and (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and a copy of the charter of the committee:</p> <p><input checked="" type="checkbox"/> at this location:</p> <p><a href="http://www.afic.com.au/Corporate-Governance.aspx">www.afic.com.au/Corporate-Governance.aspx</a></p> <p><i>Insert location here</i></p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <u>OR</u></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
		<p><i>Insert location here</i></p> <p>[If the entity complies with paragraph (b):] ... the fact that we do not have a risk committee or committees that satisfy (a) and the processes we employ for overseeing our risk management framework:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p>... the fact that we follow this recommendation:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; <b><u>OR</u></b></p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>[If the entity complies with paragraph (a):] ... how our internal audit function is structured and what role it performs:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>[If the entity complies with paragraph (b):] ... the fact that we do not have an internal audit function and the processes we employ for evaluating and continually improving the effectiveness of our risk management and internal control processes:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	<p>... whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>
<b>PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY</b>			
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; <b>OR</b></p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>[If the entity complies with paragraph (a):]</p> <p>... the fact that we have a remuneration committee that complies with paragraphs (1) and (2):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>... and a copy of the charter of the committee:</p> <p><input checked="" type="checkbox"/> at this location:</p> <p><a href="http://www.afj.com.au/Corporate-Governance.aspx">www.afj.com.au/Corporate-Governance.aspx</a> <i>Insert location here</i></p> <p>... and the information referred to in paragraphs (4) and (5):</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p> <p>[If the entity complies with paragraph (b):]</p> <p>... the fact that we do not have a remuneration committee and the processes we employ for setting the level and composition of remuneration for directors and senior</p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
		<p>executives and ensuring that such remuneration is appropriate and not excessive:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	<p>... separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input checked="" type="checkbox"/> at this location:</p> <p><a href="http://www.afi.com.au/Reports-by-year.aspx">www.afi.com.au/Reports-by-year.aspx</a></p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>... our policy on this issue or a summary of it:</p> <p><input checked="" type="checkbox"/> in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement <b>OR</b></p> <p><input type="checkbox"/> we do not have an equity-based remuneration scheme and this recommendation is therefore not applicable <b>OR</b></p> <p><input type="checkbox"/> we are an externally managed entity and this recommendation is therefore not applicable</p>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed ...
<b><u>ADDITIONAL DISCLOSURES APPLICABLE TO EXTERNALLY MANAGED LISTED ENTITIES</u></b>			
-	<p><i>Alternative to Recommendation 1.1 for externally managed listed entities:</i></p> <p>The responsible entity of an externally managed listed entity should disclose:</p> <p>(a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity;</p> <p>(b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.</p>	<p>... the information referred to in paragraphs (a) and (b):</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>
-	<p><i>Alternative to Recommendations 8.1, 8.2 and 8.3 for externally managed listed entities:</i></p> <p>An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.</p>	<p>... the terms governing our remuneration as manager of the entity:</p> <p><input type="checkbox"/> in our Corporate Governance Statement <b><u>OR</u></b></p> <p><input type="checkbox"/> at this location:</p> <p>_____</p> <p><i>Insert location here</i></p>	<p><input type="checkbox"/> an explanation why that is so in our Corporate Governance Statement</p>



## CORPORATE GOVERNANCE STATEMENT – FINANCIAL YEAR ENDED 30 JUNE 2015

### Introduction

The Board of the Company is committed to having the highest standards of ethical behaviour and an effective system of corporate governance for the Group, that is, the Company and its subsidiary Australian Investment Company Services Limited (AICS), commensurate with the size of the Company and the scope of its business operations.

In accordance with ASX Listing Rule 4.10.3, set out below are the applicable ASX Corporate Governance Council's eight principles of corporate governance (ASX Governance Principles) and outlined accordingly is how the Board has applied each principle and the recommendations set out within them for the financial year ended 30 June 2015.

The Company is fully supportive of the 'if not, why not' disclosure based approach to governance adopted by the ASX Governance Principles and the recognition within them that there is no single model of corporate governance and that good corporate governance practice is not restricted to adopting the recommendations contained in the ASX Governance Principles.

In addition to having its shares listed on the Australian Securities Exchange (ASX), the Company also has shares listed on the New Zealand Stock Exchange (NZX). As an overseas listed issuer on the NZX, the Company is generally deemed to comply with the NZX Listing Rules provided that the Company remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

The ASX Governance Principles differ from the NZX's corporate governance rules and the principles of the NZX's Corporate Governance Best Practice Code. More information about the corporate governance rules and principles of the ASX can be found at [www.asx.com.au](http://www.asx.com.au) and, in respect of the NZX, at [www.nzx.com](http://www.nzx.com)

### Principle 1: Laying solid foundations for management and oversight

This Principle requires the Company to establish and disclose the respective roles and responsibilities of both the Board and management and how their performance is monitored and evaluated.

The Company's Corporate Objective, as determined by the Board, is to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital.

In this regard, the Company's primary goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

The role of the Board underpins and supports the Corporate Objective of the Company. The Board generally sets objectives and goals for the operation of the Company, oversees the Company's management, regularly reviews the Company's performance and monitors its affairs in the best interests of the Company. For these responsibilities, the Board is accountable to its shareholders as owners of the Company.

The Board operates under a Board charter, available on the Company's website, which documents the role of the Board outlined above and the matters that the Board has reserved to itself. Those matters include:

- setting the Corporate Objective of the Company and approving business strategies and plans of the Company designed to meet that objective;
- approving the expense budget at least annually;
- approving changes to the Company's capital structure and dividend policy;
- appointing and removing the Managing Director and carrying out succession planning for the Managing Director as applicable;



- reviewing the performance of the Managing Director, his/her remuneration and contractual arrangements;
- appointing and removing Senior Executives on the recommendation of the Managing Director;
- reviewing the performance and remuneration of Senior Executives on the review and recommendation of the Managing Director;
- reviewing the composition of the Board and Board Committees, the independence of Directors, the Board's performance and carrying out succession planning for the Chairman and other Non-Executive Directors;
- determining the risk appetite of the organisation;
- reviewing the performance of management and the Company, including in relation to the risk management, internal controls and compliance systems adopted by the Company and the monitoring and review of the performance of AICS in relation to the services that AICS provides the Company;
- dealing with any matters in excess of any specific delegations that the Board may from time to time delegate to the Managing Director and Senior Executives;
- approving the communication to shareholders and to the public of the half-year and full-year results and generally any public statements which reflect issues of the Company's policy or strategy that the Board deems material; and
- setting designated authorities for the investment team to implement (in consultation with the Chairman/Managing Director) the decisions of the Investment Committee in buying/selling options or securities.

The Directors meet formally as a Board, normally monthly with an annual strategy session. The Non-Executive Directors meet regularly in the absence of the Managing Director and other Senior Executives.

#### **Delegation to Board Committees**

The Board has established the following principal Board Committees to assist the Board in exercising its authority over the matters outlined above:

- Investment Committee;
- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

Each Board Committee operates under a formal charter that is made publicly available on the Company's website, [www.afi.com.au](http://www.afi.com.au).





A chart showing the number of Board and Board Committee meetings held during the year and attendance by Directors is set out below:

	Board		Investment Committee		Audit Committee		Nomination Committee		Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
TA Campbell	12	11	35	32	-	1#	3	3	2	1
RE Barker	12	12	35	34	-	4#	-	-	-	2#
JC Hey	12	11	-	31#	-	-	-	-	-	-
GR Liebelt	12	12	-	22#	-	-	-	-	2	2
J Paterson	12	11	35	30	-	-	3	3	2	2
DA Peever	12	11	-	26#	4	4	-	1#	-	-
FD Ryan	12	11	35	26	4	4	3	3	-	-
CM Walter	12	11	35	29	4	4	-	-	-	-
PJ Williams	12	12	35	33	4	4	3	3	-	1#

#attended meetings by invitation

The role and work of the Nomination Committee is outlined under Principle 2; the Audit Committee is outlined under Principles 4 and 7; and the Remuneration Committee is outlined below under this Principle and under Principle 8.

#### Investment Committee

The general role of the Investment Committee is to review and endorse investment decisions to support the Company's Corporate Objective.

In doing this, the Committee:

- reviews and endorses investment decisions to maintain the investment and trading portfolios;
- makes decisions in relation to other portfolio-related activities including voting instructions and lodgement of proxies in respect of general meetings of companies in which the Company has invested;
- receives reports from management on portfolio matters, including portfolio performance, transaction reports, portfolio position reports and performance attribution analysis; and
- receives reports and recommendations in relation to the review and analysis of companies/securities in which the Company is able to invest, or has invested in.

The Committee's membership currently comprises TA Campbell AO (Chairman), RE Barker, J Paterson, FD Ryan AO, CM Walter AM and PJ Williams. Other Directors attend Committee meetings when available.

Further details of the role of the Investment Committee in respect of the oversight of investment risk can be found under Principle 7.

#### Delegation to Management

The Company has entered into an agreement with Australian Investment Company Services Limited (AICS) for AICS to provide on a nonexclusive basis a comprehensive range of management and operational services to the Company under the leadership of the Managing Director of AICS.



The Managing Director of AICS has been appointed Managing Director of the Company, and the AICS services provided include the day-to-day maintenance of the portfolios and associated research. AICS is 25 per cent owned by Djerriwarrh Investments Ltd and 75 per cent owned by the Company.

The Managing Director is responsible to the Company for the performance of those services and the Board acts in close consultation and cooperation with AICS in relation to the provision of services by AICS to the Company. AICS is paid a fee based on its costs in providing these services. The Senior Executives of AICS have also been appointed as officers of the Company and their details are set out in the 2015 Annual Report.

#### **Pre-appointment checks and AGMs**

Prior to their appointment of a non-executive Director to the Board, the Nomination Committee will determine what pre-appointment checks are appropriate to be undertaken in the circumstances. No new Director was appointed to the Board during the year.

Relevant details in respect of each Director standing for election or re-election by shareholders are contained within the explanatory notes of the Notice of Annual General Meeting.

#### **Agreements**

All of the Directors have entered into an agreement with the Company in respect of their appointment, including access to documents, Director's indemnity against liability, Directors' and Officers' insurance, conflicts of interests, taking independent professional advice and dealing in the Company's securities.

#### **Company Secretary**

The Company Secretary's details and experience appears in the 2015 Annual Report. While the Company Secretary is an employee by AICS, he is accountable to the Company's Board, through the Chair, on all matters to do with the proper functioning of the Board.

#### **Board Diversity Policy**

The Board recognises that having a diverse Board will assist it in effectively carrying out its role. The Board has established a Diversity Policy under the oversight of the Nomination Committee.

The Board views diversity as including, but not being limited to, skills, qualifications, experience, gender, age, disability, race, ethnicity and cultural background.

The Company has a number of characteristics that have an important influence on how the Board deals with Board and organisational diversity:

- As the Company is a long term shareholder, it is beneficial to have Directors who serve for a long period of time, experiencing different economic and business cycles.
- The Company has no employees as all management, financial, business development/marketing and securities/stock market services are provided by its subsidiary, Australian Investment Company Services Limited (AICS).
- Senior Executives of the Company are the Senior Executives of AICS and employed by them.

As such, the Diversity Policy is limited to Board diversity. When the Board is looking for an additional member, the overarching priority is to appoint an individual based on merit who the Board believes will provide the Company with the best opportunity to meet its Corporate Objective. Pursuant to the policy, the Board has set as an objective to embed gender diversity as an active consideration in succession planning for all Board positions.

Gender diversity has been a continuing focus of discussion for the Nomination Committee regarding Board succession during the financial year, although no Directors have been appointed.



	Male	Female
Board (including Managing Director)	7	2
Other Senior Executives	4	0
Employees (all employed by AICS, including Managing Director and other Senior Executives)	11	8

AICS has a small yet diverse workforce and due to its size and flexibility, is able to attract outstanding candidates whose flexible working needs (for example, returning to work mothers) may not easily be met in the general investment/financial services industry.

## Performance assessments

### Non-executive Directors

In order to provide a specific opportunity for performance matters to be discussed with each Director, each year the Chairman of the Board conducts a formal Director review process.

He meets with each Director individually to discuss issues including performance and discusses with each Director the effectiveness of the Board as a whole, Board Committees, individual Directors and the Chairman with the intention of providing mutual feedback.

To assist the effectiveness of these meetings, the Chairman is provided with objective information about each Director (e.g. number of meetings attended, Committee memberships, other current directorships etc.) and a guide for discussion to ensure consistency. The Chairman reports on the general outcome of these meetings to the Nomination Committee, and to the Board where necessary. In addition, an independent Director meets with other Directors to discuss the performance of the Chairman. Evaluations under this process were carried out during the financial year.

### Management

The Remuneration Committee (see Principle 8), is responsible to the Board for evaluating the performance of the Managing Director and the Company's Senior Executives in accordance with the Company's aims and objectives, and remunerating them appropriately.

As part of its approach to encouraging enhanced performance, the Board has adopted a remuneration structure for the Managing Director and other Senior Executives, which includes a significant component of 'at risk' remuneration designed to encourage and reward high performance.

Full details of the remuneration process and the benchmarks used for assessment are given in the Remuneration Report in the 2015 Annual Report, available on the Company's website. Such an assessment was carried out in respect of the Managing Director's and Senior Executives' performance for the financial year.

**The Board believes that the Company is fully compliant with Principle 1 and its recommendations.**

## Principle 2: Structure the Board to add value

This Principle requires the Company to have a Board of effective composition, size and commitment to enable it to discharge its duties effectively.

The Board consists of an Independent Non-Executive Chairman, TA Campbell AO, a Managing Director, RE Barker and seven Non-Executive Directors, JC Hey, GR Liebelt, J Paterson, DA Peever, FD Ryan AO, CM Walter AM and PJ Williams, who are considered by the Board to be independent (see below).

The Directors' Report in the 2015 Annual Report sets out the details of the skills, experience, and expertise of each Director.



The roles of the Chairman and Managing Director are separate. The role of the Managing Director is set out under Principle 1, above. The role of the Chairman is set out in the Board charter, including being responsible for:

- the business of the Board, taking into account the issues and the concerns of all Directors and the requirements of the Board charter;
- the leadership and conduct of Board and Company meetings to be in accordance with the agreed agenda, the Company's Corporate Objective and Principles of Conduct (described under Principle 3, below); and
- encouraging active engagement by Directors and an open and constructive relationship between the Board and the Managing Director and Senior Executives.

The Chairman also has the authority to act and speak for the Board between meetings, subject to any agreed consultation processes.

### **Appointment and Renewal**

The Company's constitution provides that each Non-Executive Director must seek re-election by shareholders at least every three years if they wish to remain a Director. Any new Non-Executive Director appointed by the Board must seek election by shareholders at the next Annual General Meeting of the Company. This approach is consistent with the ASX Listing Rules.

Details of the term of office held by each Director in office as at the date of this report are as follows:

TA Campbell AO	30 years
RE Barker	14 years and Alternate Director 1987 to 2001
JC Hey	2 years
GR Liebelt	3 years
J Paterson	10 years and Alternate Director 1987 to 2005
DA Peever	1 year
FD Ryan AO	13 years
CM Walter AM	12 years
PJ Williams	5 years

All Directors are encouraged to have a meaningful shareholding in the Company of at least one year's Director's fees over time. In this way Directors benefit in the same way as all shareholders in improving the shareholder value of the Company.

To assist Directors to fully meet their responsibilities to bring an independent view to matters coming before them, the Board has agreed upon a procedure in appropriate situations for Directors to take independent professional advice, at the expense of the Company, after advising the Chairman of their intention to do so.

On appointment, new Directors are given the opportunity to meet with Senior Executives of the Company to fully understand their areas of expertise and responsibility within the Company. On an ongoing basis, regular reports are provided to the Board updating Directors with legal, regulatory, governance and financial developments, both in Australia and internationally, that could impact either the Company, the companies that AFIC invests in, or their roles as Directors of AFIC and other companies. Directors are also invited to attend meetings the Company arranges with investee companies and subject matter experts on various business and economic issues.

### **Nomination Committee**

The Nomination Committee comprises J Paterson (Chairman), FD Ryan AO, TA Campbell AO and PJ Williams. Committee members are independent Directors including the Chairman of the Committee.

The Nomination Committee's charter sets out the role of the Committee and its responsibilities, composition and membership requirements.



The Nomination Committee periodically reviews Board and Board Committee composition and succession planning, and where applicable, recommends suitable Directors for appointment by the Board and shareholders. The Committee may also involve other Directors or the full Board in this process. Complementary to this responsibility, the Committee oversees the Board's Diversity Policy.

On recommendation from the Committee, the Board has determined that, in terms of the mix of skills and diversity it is looking for in its own membership, it is best served by having a mix of individuals with different perspectives that have deep expertise and a breadth of experience in the following areas:

- leading, managing and overseeing corporations in a range of industry sectors, at both Executive and Board level;
- advising corporations (including legal and accounting advice);
- the investment industry; and
- organisations with diverse governance and regulatory regimes (including charities, not-for-profit organisations, government bodies, private companies and international organisations).

The Nomination Committee utilises this matrix when considering future Board succession matters. The Committee also reviews the process in place to assess the Board's performance.

#### **Independence of Directors**

The Nomination Committee also reviews the independence of each of the Non-Executive Directors on an annual basis, taking into account the factors set out in the ASX Governance Principles, including situations where an individual Director may be a partner in, controlling shareholder of, or Executive of an entity which has a material commercial relationship with the Company and also the behaviours each Director exhibits in the Boardroom. In looking at commercial relationships, the Nomination Committee has set an initial materiality threshold of \$1 million per annum and this threshold is reviewed annually by the Committee.

Being a long term investor is an essential part of the Company's Corporate Objective and continuity on the Board is regarded as an important factor in the Board's approach. The Board is of the strong view that length of tenure is not an indication of a lack of independence and what is important is how each Director behaves in the boardroom, including the ability to constructively challenge management. The Board instead regards retention of corporate memory as an important element of the Board's responsibilities. Details of the length of service of each Director are set out above.

A number of the Directors are also Directors of companies in which the Company invests. Any real or potential conflicts of interest are dealt with by procedures consistent with Corporations Act requirements which are designed to ensure that conflicted Directors do not take part in the decision-making process on relevant issues. On this basis, it is believed that their independence on all other issues is not compromised.

It is considered that all Non-Executive Directors are independent and this is a majority of Directors.

**The Board believes that the Company is fully compliant with Principle 2 and its recommendations.**

#### **Principle 3: Act Ethically and Responsibly**

This Principle requires that the Company should act ethically and responsibly.

The Board and Senior Executives are committed to maintaining the highest standards of integrity. The Company also maintains a high level of transparency regarding its actions consistent with the need to maintain the confidentiality of commercial-in-confidence material and, where appropriate, to protect the shareholders' interests.

#### **Corporate Principles of Conduct**

The Board has adopted Corporate Principles of Conduct which outline ethical standards to be followed by Directors and Senior Executives of the Company when carrying out their responsibilities with a view to the Company achieving its aims.



Under the Principles, Directors and Senior Executives will:

- conduct business in good faith in the best interests of the Company with efficiency, honesty and fairness;
- perform their duties with the utmost integrity and the standard of care and diligence expected of an organisation of the highest calibre;
- treat others with dignity and respect; and
- not engage in conduct likely to have an adverse effect on the reputation of the Company.

The Corporate Principles of Conduct also set out details of how conflicts of interest should be avoided. The Company's Directors and employees must disclose to the Company any material personal interest that they or any associate may have in a matter that relates to the affairs of the Company, and inform the Board, via the Company Secretary, of any changes.

Where a conflict of interest may arise, full disclosure by all interested persons must be made and appropriate arrangements followed, such that interested persons are not included in making any relevant decisions.

AICS also has its own comprehensive Principles of Conduct in place that cover the behaviours and actions of its employees. Compliance with those principles is a condition of the appointment of each Senior Executive with the Company and a condition of their employment with AICS.

#### **Whistleblower Protection Policy**

The Company also has in place a Whistleblower Protection Policy that establishes a formal framework within which individuals are able, in a secure way, to express their genuine concerns about unlawful behaviour or breaches of policy, free from the threat of victimisation or reprisal and on the understanding that their concerns will be investigated and that, where appropriate, action will be taken to redress the situation. Any individual making a report in good faith under the policy will be protected by the Company from any victimisation, including harassment, reprisals, discrimination or other form of detriment, as a result of making such a report.

**The Board believes that the Company is fully compliant with Principle 3 and its recommendations.**

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

This Principle requires that the Company has formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

The Company has established an Audit Committee to oversee the integrity of the financial reporting process and which reports to the Board. The Committee has four members, all of whom are independent Directors: PJ Williams (Chairman), FD Ryan AO, DA Peever and CM Walter AM.

Members of the Audit Committee have the requisite financial experience and understanding to effectively discharge the Committee's mandate. In addition, some members of the Committee have relevant experience and qualifications as set out in the 2015 Annual Report, but they have no responsibilities additional to those of other members of the Audit Committee.

The Audit Committee is responsible for reviewing:

- the Company's accounting policies;
- the content of financial statements;
- issues relating to the controls applied to the Company's activities;
- the conduct, effectiveness and independence of the external audit;
- risk management and related issues; and
- compliance issues.



### **Written Affirmations**

Prior to approving the Company's financial statements, the Board has received from the Managing Director and the Chief Financial Officer written affirmations concerning the Company's financial statements required by the Corporations Act as set out in the Directors' Declaration in the 2015 Annual Report.

In respect of both the financial statements for the year ended 30 June 2015 and the half-year ended 31 December 2014, the Board has also received from the Managing Director and the Chief Financial Officer written affirmation that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Audit Committee and the Board have also received reports from the Senior Executives as to the effectiveness of the Company's management of its material business risks whilst noting that the Company, as a listed investment company, actively takes on appropriate levels of investment risk as part of its investment activities.

### **External Audit**

The Company has a process to ensure the independence and competence of the Company's external auditor including the Audit Committee reviewing any non-audit work to ensure that it does not conflict with audit independence. Information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners is set out in the Committee's charter. Policies relating to rotating external audit engagement partners are set by the external audit firm in accordance with Corporations Act and international best practice requirements. The Audit Committee meets regularly with the external auditor in the absence of management. The external auditor attends the Company's Annual General Meeting to answer questions from shareholders relevant to the audit.

**The Board believes that the Company is fully compliant with Principle 4 and its recommendations.**

### **Principle 5: Make timely and balanced disclosure**

This Principle requires that the Company promotes timely and balanced disclosure of all material matters concerning the Company.

As a listed entity, the Company has an obligation under the ASX Listing Rules and the Corporations Act to maintain an informed market in its securities. Accordingly, the market is kept advised of all information required to be disclosed under the Listing Rules, which it is believed would or may have a material effect on the price or value of the Company's securities.

The Company has a written Continuous Disclosure policy and procedures designed to ensure compliance with ASX Listing Rule and Corporations Act disclosure requirements, to ensure accountability at a senior management level for that compliance and to clarify individual, management and Board responsibilities in the process. The policy is publicly available on the Company's website.

**The Board believes that the Company is fully compliant with Principle 5 and its recommendation.**

### **Principle 6: Respect the rights of security holders**

This Principle requires that the Company respects the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

The Company is owned by its shareholders and the Board's primary responsibility to them is to do its utmost to meet the Company's objectives and so increase the Company's value for all shareholders. The Board's policy is to maintain active communication with shareholders as owners of the Company.





The Company's website, [www.afi.com.au](http://www.afi.com.au), contains access to ASX announcements, Annual Reports, Half-Yearly Reports, details of corporate governance practices, presentations to shareholders, NTA announcements, key date information, dividend and security issue history and relevant related material for shareholders and investors.

In addition to communicating with shareholders via the Annual Report and the non-statutory Annual and Half-Yearly Reviews, the Company holds an Annual General Meeting of shareholders to fulfil statutory requirements, to provide shareholders with the opportunity to meet with representatives of the Board and management, to learn more about the Company's activities and, particularly, to provide an opportunity to question the Board and management about any aspect of the Company's activities. The documentation produced (both hard copy and electronic) for the Annual General Meeting makes provision for shareholders to submit questions to the Company.

In addition to the Annual General Meeting, the Company holds non-statutory Shareholder Information Meetings in the Australian capital cities, some of which follow the full-year results and some of which follow the half-year results. This financial year, shareholder meetings were held in Sydney, Melbourne, Adelaide, Brisbane, Canberra, Perth and Auckland.

The Company views the holding of these non-statutory meetings as being very important in terms of communicating with its shareholders as it allows shareholders around the country the opportunity to question management and Directors in an informal setting on the Company's activities and approach.

The Company also ensures, through the share registry, that shareholders have the option to communicate electronically with the Company and the share registry. The Company also maintains an email address, [invest@afi.com.au](mailto:invest@afi.com.au), that shareholders can communicate electronically through.

The Company also utilises a toll free telephone service, 1800 780 784, that shareholders can call to hear the latest NTA information.

**The Board believes that the Company is fully compliant with Principle 6 and its recommendations.**

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

This Principle requires that the Company establish a sound risk management framework and periodically review it.

The Board believes it has established and maintains a sound system of risk oversight, management and internal control. The Risk Management Framework adopted for the Company is available on the Company's website. The Board has approved the overarching risk appetite of the Company and is assisted in its risk management activities by the Audit Committee and coordination of risk management activities is done by the Chief Financial Officer, who reports to the Audit Committee on such matters. The Audit Committee reviews the Framework annually and a review has been carried out during this financial year.

This approach involves establishing the context in which it operates, identifying the risks, analysing those risks, evaluating the risks, treating the risks where appropriate and monitoring, reviewing and reporting risks and the overall performance of the framework. This process is underpinned through regular communication and consultation with key business stakeholders. The framework forms the basis for embedding enterprise risk management within the culture of the organisation. Its objectives are to:

- enable the Company to meet its obligations and objectives efficiently and reliably;
- increase the likelihood that the Company will be successful in its business operations by mitigating potentially damaging events occurring (e.g. operational risk) and maximising the results of positive events (e.g. financial position, investment strategies, etc.), through the implementation of risk management strategies;
- provide decision-makers with the means to identify risks and to determine whether the controls in place are adequate to mitigate those risks;





- provide a mechanism to assess the levels of risk that can be accepted;
- ensure that the application of risk management practices is understood by the agents, employees, officers and Directors of the Company, and a strong risk culture is well entrenched; and
- reduce the consequence and/or likelihood of potentially damaging events by regular reviews of investments and investment strategies or by transferring the impact of potentially damaging events to third parties (e.g. by insurance and contractual arrangements) for outsourced arrangements, where appropriate.

There are two main areas of risk that have been identified:

- investment risk; and
- operational risk.

#### **Investment Risk**

Investment risk includes:

- market risk;
- credit, counter-party and settlement risk;
- liquidity risk; and
- reputational risk (insofar as it relates to the investments that the Company enters into).

The Investment Committee is primarily responsible for dealing with issues arising from investment risk, and has delegated day-to-day management of the portfolios to an experienced investment team provided by AICS. All decisions of the team are reviewed, discussed and where necessary, ratified by the Committee.

By its nature as a listed investment company, the Company will always carry investment risk because it must invest its capital in securities which are not risk-free. However, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.

In addition to the investment portfolio, the Company also operates a trading portfolio for short term opportunities. The Company seeks to enhance the return from that portfolio by also selling call and put options. In normal circumstances, the Board restricts the size of the trading portfolio to a maximum size of 10 per cent of the assets of the Company. The Board, through its Investment Committee, maintains close control of option transactions. Option transactions are limited to stocks held in the trading portfolio or in a small sub-category of the investment portfolio for the purpose of enhancing returns from that portfolio and buying and/or selling stocks at attractive prices.

#### **Operational Risk**

The Company's management is primarily responsible for recognising and managing operational risk issues such as legal and regulatory risk, systems and process risk, human resource risk, reputation risk (insofar as it relates to the operations of the Company), disaster recovery risk, and workplace health and safety risk. A further risk comprises ensuring compliance with AICS's Australian Financial Services Licence requirements. This aspect of management's role is specifically overseen by the Risk Management, Audit and Remuneration Committee of AICS and reported to the Company's Audit Committee. The Chairman of the Company's Audit Committee, PJ Williams, is also Chairman of the AICS Risk Management, Audit and Remuneration Committee. J Paterson serves as Chairman of AICS.

#### **Internal audit and written affirmation from AICS**

The Company has received a report from AICS outlining the control objectives for AICS and the specific policies and procedures established to meet these procedures. These policies include management oversight, segregation of duties, multiple sign-offs and specific authorisation levels. AICS has stated that these have been in place throughout the financial year, and have been effective in meeting the control objectives.



While the Company does not have its own internal audit function, AICS has appointed Ernst & Young as its internal auditor. The Company has received a report from Ernst & Young, under the requirements of Auditing Standard 810 "Special Purpose reports on the Effectiveness of Control Procedures" stating their opinion that, in all material respects, the internal controls put in place by AICS in relation to Investment Management and Administration Operations for this financial year are suitably designed to meet the control objectives and have operated effectively for this financial year.

**Economic, environmental and social sustainability risks**

Economic risk is principally dealt with under Investment Risk, above. In respect of environmental and social sustainability risks, the Company utilises AICS staff and AICS' office space for meetings, so is not subject to material direct environmental and social sustainability risks. AICS has resources to identify if any legal environmental issues arise that need to be considered by AICS and the Company going forward. Sustainability of the companies that AFIC invests in is considered by the Investment Committee and Investment Team as part of the Company's long-term investment approach, utilising external experts to gain information as required.

**The Board believes that the Company is fully compliant with Principle 7 and its recommendations.**

**Principle 8: Remunerate fairly and responsibly**

This Principle requires that the Company should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.

The Company has a Remuneration Committee to oversee remuneration issues relating to the Non-Executive Directors, the Managing Director and Senior Executives. The charter of the Remuneration Committee is available on the Company's website.

GR Liebelt (Chairman), TA Campbell AO, J Paterson and CM Walter AM are members of the Remuneration Committee. All members are Independent Non-Executive Directors.

As set out in the Company's Securities Dealing Policy, Senior Executives are prohibited from using financial products to protect against or limit the risk associated with unvested Company securities they may receive as part of their performance-based remuneration. Breaches of the Company's policy in this regard will normally result in the termination of the Senior Executive's employment.

Further and full details regarding the work of the Committee and the Company's remuneration practices in relation to both Directors and management are set out in the Remuneration Report contained in the 2015 Annual Report.

**The Board believes that the Company is fully compliant with Principle 8 and its recommendations.**

**Approved by the Board of Australian Foundation Investment Company Limited**

**Dated: 20 July 2015**