

**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

**Corporate Governance  
Statement  
2021**



## 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 (fourth edition) (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 2021.

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 contained in the NZX Corporate Governance Code. More information about the corporate governance rules and principles of the ASX can be found at [asx.com.au](http://asx.com.au) and, in respect of the NZX, at [nzx.com](http://nzx.com)

## Principle 1: Laying Solid Foundations For Management and Oversight

This Principle requires the Company to clearly delineate the respective roles and responsibilities of both the Board and management and regularly review their performance.

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

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
- causing processes to be put in place 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.

# CORPORATE GOVERNANCE STATEMENT

## 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, [afi.com.au](http://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.

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 manage the Company's investments and provide oversight of the investment process to support the Company's Corporate Objective.

In doing this, the Committee:

- approves all purchases and sales and other investment decisions to maintain the investment and trading portfolios at the subsequent meeting;

- makes decisions in relation to how other portfolio-related activities are carried out, including regarding voting instructions and lodgement of proxies in respect of general meetings of companies in which the Company has invested;
- receives reports 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 J Paterson (Chairman), M Freeman (CEO), RP Dee-Bradbury, DA Peever, 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.

## Relationship with AICS

The Company has entered into an agreement with Australian Investment Company Services Limited (AICS) for AICS to provide on a Non-Exclusive basis a comprehensive range of 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 Djerrirwarrh 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 2021 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.

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.

	Board		Investment		Audit		Remuneration		Nomination	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
J Paterson	12	12	20	20	4	4	2	2	4	4
M Freeman	12	12	20	20	-	4 <sup>#</sup>	-	2 <sup>#</sup>	-	-
RE Barker**	12	12	20	19	-	4 <sup>#</sup>	-	2 <sup>#</sup>	-	1 <sup>#</sup>
RP Dee Bradbury	12	11	20	18	-	4 <sup>#</sup>	-	-	4	4
JA Fahey	3 <sup>^</sup>	3	-	2 <sup>#</sup>	-	1 <sup>#</sup>	-	-	-	-
GR Liebelt	12	12	-	13 <sup>#</sup>	-	3 <sup>#</sup>	2	2	-	1 <sup>#</sup>
DA Peever	12	12	3*	16	4	4	-	-	-	1 <sup>#</sup>
CM Walter	12	12	20	20	4	4	2	2	4	4
PJ Williams	12	11	20	19	4	4	-	2 <sup>#</sup>	4	4

# Attended meetings by invitation.

\* Mr DA Peever was appointed to the Investment Committee on 19 May 2021.

\*\* Mr REB Barker retired from the Board on 30 June 2021.

<sup>^</sup> Ms JA Fahey was appointed to the Board 22 April 2021

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## 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 2021 Annual Report. While the Company Secretary is an employee by AICS, he is accountable to the Company's Board, through the Chairman, 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, 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. Whilst the Company was not in the S&P/ASX300 Index it has undertaken to comply with Recommendation 1.5 of the ASX Governance Principles, and the Board has set as an objective to have at least 30 per cent of each gender represented on the Board. As at the 30 June 2021 the Board had met this objective.

Gender diversity has been a continuing focus of discussion for the Nomination Committee regarding Board succession during the financial year.

	Male	Female
Board (including Managing Director)	6	3
Other Senior Executives	3	0
Employees (all employed by AICS, including Managing Director and other Senior Executives)	14	9

AICS has a small yet diverse workforce and due to its size and flexibility, is able to attract outstanding candidates whose flexible working needs 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. In addition, an independent Director meets with other Directors to discuss the performance of the Chairman.

The Chairman meets with each Director individually to discuss matters including performance, the effectiveness of the Board as a whole and Board Committees with the intention of providing mutual feedback.

To assist the effectiveness of these meetings, Directors provide prior input on these matters. Additionally, 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 optimise consistency.

The Chairman and the independent director report on the general outcome of these meetings to the Nomination Committee and to the Board where necessary. 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 2021 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 be Effective and Add Value

This Principle requires the Company to have a Board of appropriate size and collectively have the skills, commitment and knowledge of the Company and the industry in which it operates to enable it to discharge its duties effectively and to add value.

The Board currently consists of an Independent Non-Executive Chairman, J Paterson, a Managing Director, M Freeman and seven Non-Executive Directors, CM Drummond, R Dee-Bradbury, JA Fahey, GR Liebelt, DA Peever, CM Walter AM and PJ Williams. All Non-Executive Directors are considered by the Board to be independent (see below).

The Directors' Report in the 2021 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:

Director	Years/Months
J Paterson	16 years and Alternate Director 1987 to 2005
RP Dee-Bradbury	2 years
CM Drummond	1 month
JA Fahey	3 months
M Freeman (MD/CEO)	3 years
GR Liebelt	8 years
DA Peever	7 years
CM Walter AM	18 years
PJ Williams	11 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 CM Walter AM (Chairman), RP Dee-Bradbury, J Paterson, 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 and relevant expertise and a breadth of significant experience in the following areas:

- leading, managing and overseeing corporations in a range of industry sectors, at both Executive and Board level;
- developing and managing business strategies and assessing opportunities and threats to a business;
- risk management and managing strategic, regulatory, operational and financial risk
- advising corporations (including legal, tax 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).

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In addition to the skills and experience outlined above current and prospective directors must have and demonstrate the following qualities:

- Professionalism, Passion and Experience
- Integrity
- Respect
- Collaboration

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 Board has set a two tier materiality threshold being:

- I. \$100,000 for any compensation, consulting or advisory fee received directly from the Company; or
- II. \$1 million with respect to any situation where an individual Director is a partner in, controlling shareholder of, or Executive of an entity which has a material commercial relationship with the Company.

The above threshold excludes compensation received in direct connection with the director fulfilling his/her role as a director of the Company or owning or disposing of securities in the Company. 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 the eight Non-Executive Directors are all independent.

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

## Principle 3: Instil a Culture of Acting Lawfully, Ethically and Responsibly

This Principle requires that the Company should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly.

The Board and Senior Executives are committed to maintaining the highest standards of integrity. The Board and Senior executives have articulated this long-standing approach into 'Our Purpose'.

## Our Purpose

- To deliver attractive investment returns which exceed the Australian equity market over the long term.
- To invest in quality companies taking a long term, low turnover approach, which aims to provide both capital growth and a growing stream of dividends over time.
- To produce tax effective returns that are less volatile than the market, at a very low cost with no performance fees.
- To effectively utilise the internally managed, listed closed-end company structure to support our investment approach, ensure transparency for all stakeholders, provide strong governance oversight, and produce alignment of interests between employees and shareholders.

- To sustain our culture over time through a team of high-quality people who have a deep sense of purpose, passion, and conviction for: the way we invest, the way we manage the business, our long history of success, and our privileged position of serving our shareholders.

To deliver on this Purpose we are guided by the following qualities:

- Professionalism, Passion and Experience
- Integrity
- Respect
- Collaboration

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. A copy of the Whistleblower Protection Policy is available on the Company website.

## Anti-Bribery and Corruption Policy

The Company also has in place an Anti-Bribery and Corruption Policy that establishes the Company's prohibition of Bribery and Facilitation Payments and its approach to Political Contributions/ Donations and Gifts and Entertainment. A copy of the Anti-Bribery and Corruption Policy is available on the Company's website.

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

## Principle 4: Safeguard the Integrity of Corporate Reports

This Principle requires that the Company has appropriate processes to verify the integrity of its corporate reports.

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), J Paterson, 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 2021 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 (including taxation risk) 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 2021 Annual Report.

In respect of both the financial statements for the year ended 30 June 2021 and the half-year ended 31 December 2020, 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 Company's external auditor audits and reviews the annual and half-yearly financial reports respectively. Before the release and publication of any corporate report there is a robust review process which checks that any information provided in the reports is accurate and provides a consistent and balanced message to shareholders.

**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 should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

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.

Board approval is required on any material market announcements before release.

The Company always releases any shareholder presentation material to the ASX Market Announcements Platform ahead of the presentation.

**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 should provide its security holders with appropriate information and facilities to allow them to exercise their rights as security holders 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, [afi.com.au](http://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. The key Governance documents referenced in this document are available at [afi.com.au/corporate-governance](http://afi.com.au/corporate-governance)

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 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 2020 the Annual General Meeting was held virtually with shareholders able to ask questions via the voting application and via telephone. All resolutions at the Annual General Meeting were decided by a poll. The Company will continue to use voting by a poll for all resolutions.

In addition to the Annual General Meeting and in light of the ongoing COVID-19 health crisis, the Company held three shareholder conference webcasts. Shareholders are able to participate in the webinar via computer or via telephone.

The Company views the holding of non-statutory meetings and webcasts 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. It is hoped that these in-person meetings will resume in October 2021.

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 reviews the effectiveness of that framework.

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;

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- 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. Day-to-day administration of the portfolios is performed by AICS. The Investment Committee manages the portfolio, and reviews, discusses and approves all purchases and sales and other matters in connection with the maintenance of the portfolios, including the voting of proxies.

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 compliance risk, governance risk, reputation risk (insofar as it relates to the operations of the Company), strategic risk, political risk and operation risk (including outsourcing risk, business continuity risk, fraud risk, people risk and cyber 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. PJ Williams also serves as Chairman of AICS. J Paterson also represents the Company on the Board 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 on Assurance Engagements ASAE 3150 'Assurance Engagements on Controls' 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 risks Economic risk is principally dealt with under Investment Risk, above. In respect of environmental and social 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.

## Approach to Environmental, Social and Governance Issues when Investing

Assessment of Environmental, Social and Governance (ESG) issues is an important part of our investment process. As a long term investor, we seek to invest in companies that have strong governance and risk management processes, which includes consideration of environmental and social risks. We regularly review companies to ensure ongoing alignment with our investment framework:

- We believe environmental factors, including the impact of climate change, can have a material impact on society. These factors are considered when assessing a company's assets, long term sustainability of earnings and cash flow, cost of capital and future growth opportunities.
- We believe that aligning ourselves with high-quality management and boards building sustainable long term businesses is the best approach to avoiding socially harmful businesses. We are attracted to companies that act in the best interest of all their stakeholders, including their employees, customers, suppliers, and wider communities.

# CORPORATE GOVERNANCE STATEMENT

- We invest in high-quality companies with strong governance processes, and management and boards whose interests are closely aligned with shareholders. The investment process includes an assessment of their past performance, history of capital allocation, level of accountability, mix of skills, relevant experience and succession planning. We also closely scrutinise a company's degree of transparency and disclosure.

## Engagement with Companies

Voting on resolutions is one of the key functions that a shareholder has in ensuring better long term returns and management of investment risk:

- We take input from proxy advisers but conduct our own evaluation of the merits of any resolution.
- We vote on all company resolutions as part of our regular engagement with the companies in the portfolio.
- We actively engage with companies when we have concerns those resolutions are not aligned with shareholders' interests.

We acknowledge that high-quality companies may face ESG challenges from time to time. We seek to stay engaged with the companies and satisfy ourselves that the issues are taken seriously and worked through constructively. Ideally in this instance, we seek to remain invested to influence a satisfactory outcome for stakeholders.

During the year ended 30 June 2021 the Company lodged its first Annual Modern Slavery Statement with the Australian Border Force in accordance with the requirements of the Modern Slavery Act. The Board is committed to complying with relevant local and national laws, community expectations and ethical standards related to human rights and modern slavery in respect to our employees and our business operations and supply chains.

**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 and with the Company's values and risk appetite.

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), 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 invested 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 2021 Annual Report.

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

**The Board has determined that recommendations 9.1 to 9.3 do not apply to the Company.**

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

**Dated: 26 July 2021**