CSC Proxy Voting Policy

23 November 2017

Commonwealth Superannuation Corporation (CSC) values good governance in its own operations, in its service providers and in the companies in which it invests (investee companies). In this context, CSC's Proxy Voting Policy in respect of its security holdings in companies reflects the following fundamental tenets:

> The right to vote is an asset to be managed and exercised by CSC in the discharge of its duties as an asset owner in its capacity as Trustee.

> Voting rights are an important tool by which CSC may communicate with the boards of its investee companies.

> CSC's investment managers are mandated to protect its entitlements and to actively resist proposals and practices of investee companies that disenfranchise shareholders.

> Proposals affecting shareholder rights are assessed in the context of the investee companies' legitimate obligations to all stakeholders, including:
  (i) the likelihood of the proposal generating a reasonable return to shareholders; and
  (ii) compatibility with best practice governance standards.

How CSC exercises its proxy votes

CSC has adopted nine principles that provide the framework within which CSC exercises its proxy voting rights and exerts influence on a company's operations and corporate governance. CSC applies these principles to its security holdings in both Australian and international companies.

The principles are not intended to be applied in a rigid 'one size fits all' manner, but provide guidance to allow sufficient flexibility to consider all available information in each circumstance.

CSC's default position is to vote in line with the recommendations of the investee company.

Exceptions to this arise if:

a. CSC's active investment managers (who manage the stock) raise an objection; or

b. An objection is raised by CSC's proxy-voting advisors and the shareholder resolution is in conflict with CSC's proxy voting principles and policy.

In each of these cases, the resolution is reviewed by CSC, according to the principles of our voting policy, a judgement made, and a vote cast.

Any exceptions-based vote, that is, one cast by CSC against the recommendation of an investee company, is reported to the Board.

If a resolution relates to the appointment or reappointment of a CSC Director to the Board of a publicly-listed investee company, the CSC vote is exercised in accordance with the above. Should one of the exceptions noted above arise, CSC will abstain from voting.

How CSC approaches its active ownership

Principle 1 – Voting rights

CSC regards the right to vote as a means by which to achieve enduring long-term returns, through managing financial risk arising from poorly governed environmental and social factors (ESG). Where possible CSC votes on all matters brought to shareholders by the companies in which we invest. Our primary obligation is to vote in the long-term interests of our members.

Principle 2 – Fiduciary responsibilities

CSC may refer to best practice proxy voting guidelines established in the marketplace, but is ultimately responsible for making the voting decision based on CSC Proxy Voting Policy and through consideration of all available information.

Principle 3 – Constructive engagement

Effective governance requires constructive engagement between a company and its shareholders. Exercising its voting rights is one of the ways CSC communicates its expectations to investee companies. Research and constructive engagement are other forms of this communication. Where appropriate, CSC will seek to ensure voting and engagement reinforces each other. (For example, where 'against' votes are exercised, rationale is communicated and explained to those investee companies in which CSC holds a material investment).

Principle 4 – Conflicts

CSC is responsible for a widely diversified portfolio and recognises that at times the investment case for a proposal may be in the interests of the company whilst being detrimental to the interests of CSC's aggregate portfolio. In such instances, CSC votes in the interests of its aggregate portfolio. (For example, where CSC has conflicting advice on a particular company's resolution from two of its incumbent managers, CSC will vote in a way that maximises value for our members).

What CSC expects of its investee public-company governance

Principle 5 – Transparent reporting

CSC expects companies to report transparently on issues associated with all relevant risks, including those relating to long-term considerations and ESG factors so that these are visible and open to proper consideration, including at aggregate portfolio level.

Principle 6 – Independent, well-composed, fit-for-purpose Boards

CSC recognises the expertise brought by boards and management of the companies in which we invest. Truly independent boards and cognitive diversity support effective governance. CSC expects to see evidence of active policies designed to access the full pool of available talent, skill and experience in board and executive appointments and in succession planning. This evidence includes disclosure of strategy, policy and meaningful progress in implementation.

Principle 7 – Long-term horizons

CSC expects boards and executive management to articulate their longer-term strategies, perceived risks, policies and meaningful progress in implementation alongside any reporting of short-term earnings guidance.

Principle 8 – Aligned compensation

CSC supports compensation arrangements for management and directors that are reasonable and fit for the purpose of attracting and rewarding talent for efforts and achievement within their control. Remuneration should be designed to attract and retain the right executive talent, without exerting undue inflationary pressure on executive pay within and across business sectors. Remuneration should reflect well developed human capital management principles, including with respect to the complexity, intensity and impact of the role on corporate performance given the corporate, industry, economic and other relevant factors.

Principle 9 – Shareholders' rights

CSC expects all shareholders to be treated equally. Changes to current arrangements in voting rights that restrict shareholders' control over the board and over major capital transactions should be resisted. Shareholders should be entitled to exercise control over the composition of the board of directors of an investee organisation and to exercise control over those capital transactions, as stipulated by relevant company constitution.

Broader shareholder rights and responsibilities

Collaborative activities may be undertaken in association with peer investors, including PRI signatories, from time to time and include activities such as communications with companies on matters of broad concern, submissions to regulatory or policy-making bodies and drafting engagement materials.

Reporting

On at least a semi-annual basis, CSC will disclose in summary form proxy voting activities on the Trustee's website.

Review

The CSC Board formally reviews this policy triennially or by exception, should any event within this review period render the policy out-dated. The review ensures that the policy remains current, consistent with best practice and an accurate reflection of CSC's business approach.