



# AUSTRALIAN HOTELS ASSOCIATION

24 Brisbane Avenue Barton ACT 2600 • PO Box 4286 Manuka ACT 2603 • Australia  
email: [aha@aha.org.au](mailto:aha@aha.org.au) • Facsimile: (02) 6273 4011 • Telephone: (02) 6273 4007  
Web: [www.aha.org.au](http://www.aha.org.au)

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Mr Bernie Fraser  
The Fraser Governance Review  
[submissions@thefraserreview.com](mailto:submissions@thefraserreview.com)

Dear Mr Fraser,

## **SUBMISSION TO THE FRASER GOVERNANCE REVIEW**

Thank you for the opportunity to make a submission to the review of Governance arrangements in respect of All Profits to Members Superannuation Funds and to endorse the Cooper Review model as the best practice Governance Code for such funds.

As one of two founding shareholders in Hostplus, the Australian Hotels Association is a strong supporter of Industry Superannuation Funds and most importantly, the benefits that flow predominately to our sector specific employees and employers.

Hostplus specialises almost exclusively in the Hospitality, Tourism, Recreation and Sports industries, however it is also a public offer Fund which anyone can join. The fund is run for the benefit of the members, there are no commissions paid to Financial Planners and no dividends are paid to shareholders. Currently there are approximately 1,000,000 members and 95,000 employers contributing to their Hostplus accounts. Current funds under management are approximately \$17.5 billion.

### **Australian Hotels Association (AHA)**

Clearly the Australian Hotels Association (AHA) is one major employer group referred to in the sector specific categories listed above. Furthermore, employees in the AHA component of hospitality possess the skill set that also enables them to secure employment across the other sector specific categories. Therefore, we often see these employees migrating between those industries of hospitality, sport, tourism and recreation.

The AHA itself is an organisation of Employers in the Hotel and Hospitality industry registered under the Fair Work (Registered Organisations) Act 2009. Its direct membership of more than 5,000 licensed hotel business owners includes pub-style hotels plus three, four and five star international accommodation hotels located in each state and territory.

The size and scope of the Australian Hotel industry includes over 5,000 businesses generating over \$12 billion of annual economic benefit. Considering Hostplus has approximately 95,000 contributing Employers, the economic benefit referred to above is a mere fraction of the overall economic benefit generated across all the sectors the Fund caters to. These sector specific industries are 24/7 labour intensive, requiring a flexible and extremely diverse work force of all ages, and genders including highly skilled, unskilled and entry level people.

## **The Importance of Superannuation to Hostplus Members**

A successful superannuation scheme is of the utmost importance to all Australian workers in ensuring a dignified properly funded retirement. It is therefore of extreme importance that all Members trust the governance structures of Hostplus.

## **Hostplus performance**

The performance of Hostplus is evidence of its sound governance practices. Recognition of Hostplus performance includes e.g.

- Winner of Money Magazine Best of the Best Lowest Cost Super Fund for the Indexed Balanced Option for 2013, 2014, 2015, 2016
- Winner of Selecting Super Fund of the Year for 2014 and 2015.
- Winner of Money Magazine Best Super Fund in 2007, 2008 and 2009
- Winner of Super Ratings Fund of the Year in 2007, 2008 and 2009
- Rated Platinum by Super Ratings for over 10 years
- Rated AAA by Selecting Super Rainmaker Research
- Rated 5 apples by Chant West
- Rated 6 stars by Heron Partnership

## **Hostplus Governance**

The Hostplus website comprehensively explains the Governance structure, therefore we see no need to amend much of the work as set out below.

## **Board Charter**

The Board Charter details the key policies and processes that the Board has in place for the governance of the fund and principal areas of the Board's role and responsibility including strategic planning, corporate culture and the monitoring and evaluation of management and stewardship.

## **Rules on Nomination, Appointment and Removal of Trustee Directors Board Nomination**

Directors are appointed to the Hostplus Board in accordance with the Hostplus Constitution and the Fit and Proper policy. The founding members (AHA and United Voice) are responsible for nominating employer and member representative directors respectively. Independent directors are appointed by the Founding Members, or failing agreement by the Founding Members, by the Selection Committee.

The definition of an Independent Director has been adopted from that specified in the ASX Corporate Governance Council principles that apply to listed companies. An Independent Director in the Superannuation Board context should be one that is not a shareholder of the Trustee has no material relationship with the Trustees and has not been an Executive or a Director of a Body that has a material relationship with the Trustee.

The Founding Members take into account and assess each potential candidate when a review is warranted. This is to ensure that the Hostplus Board remains open to new ideas and independent thought while retaining adequate expertise to comply with the requirements of the SIS Act, performing its trustee duties and the exercising of trustee powers in the best interest of the members.

## Board Appointment

Directors are appointed for a three year term. At the conclusion of each term, the nominating body either renews the term of the existing director or appoints another representative. For independent directors, the founding members must reach agreement on the appointment or re-appointment of the independent directors (as the case may be) in each relevant year by 16 May. If the founding members fail to reach agreement by this date, the Selection Committee must appoint or reappoint the independent directors (as the case may be) by no later than 30 June in each relevant year.

In assessing directors, the founding members will give consideration to the overall skills matrix of the Board, taking into account stability, longevity, experience, corporate knowledge and whether an individual's period of tenure on the Board could, or be perceived to, materially interfere with their ability to act in the best interests of the members. Each nominating body may elect to appoint an alternate director to represent appointed directors in their absence. The Chair of the Hostplus Board is elected by the Board.

Terms of reference have been established and approved by the Hostplus Board to govern board proceedings including membership, role and responsibilities, operating functions and charter, appointment of Chair, quorum, voting entitlements and meeting arrangements.

## Removal of Directors

The general procedure for the removal of directors is set out in the constitution of the Trustee. The constitution details how and when a director needs to be removed from the directorship of the Trustee Company. Any director elected by the founding members may be removed by the founding members whenever the best interests of the members would be served - including non-compliance with the Hostplus Fit and Proper Policy, in the founding member's judgement and in accordance with the constitution. A director may also resign by giving written notice to the trustee.

## Committees of the Board

Under the Trust Deed of the fund, the Hostplus Board has the ability to delegate its powers and responsibilities to Committees of the Board. Currently, the Hostplus Board has established the following Committees:

Committee	Role
Audit, Risk and Compliance Committee (ARCC)	The role of the Audit, Risk and Compliance Committee is to oversee the financial reporting, regulatory, legislative, risk management and taxation activities of the fund
Claims Review Committee (CRC)	The role of the Claims Review Committee is to review members' claims rejected by the insurer.
People and Remuneration Committee	The role of the People and Remuneration Committee is to oversee the remuneration strategies of the fund and make recommendations to the Hostplus Board in respect of executive remuneration

Similar to the Hostplus Board, each Committee operates in accordance with its Terms of Reference. Every year the Hostplus Board and Committees undertake a performance assessment process using the services of an external consultant (as required) to assess and benchmark the performance of the Board and Committees.

### **Board Policies**

The Board of Hostplus have approved a number of policies that assist in managing the governance responsibilities of the fund. Such policies include:

- Fit and proper policy - sets out Hostplus' processes for assessing and monitoring the fitness and propriety of responsible persons and senior managers.
- Outsourcing policy - sets out Hostplus' processes for appointing, assessing, monitoring and terminating of material outsourced service providers.
- Risk management framework - sets out Hostplus' approach to risk management, how the fund identifies, assesses, mitigates, manages, monitors and regularly reports on risk.
- Conflicts management policy - sets out processes and procedures Hostplus has adopted to manage conflicts of interests.
- Code of conduct policy - sets out Hostplus' expectations and requirements of its directors and staff including contractors - their responsibilities and obligations relating to various matters including confidentiality, privacy, conflicts of interest and other principles and behaviours.
- Fraud policy - sets out Hostplus' expectations and requirements of its directors and staff and their responsibilities and obligations relating to fraud awareness, governance and oversight, internal controls and fraud management and investigation procedures.
- Whistleblowing policy - sets out Hostplus' expectations and requirements of its directors and staff and their responsibilities and obligations relating to its whistleblowing mechanism and reporting procedures to protect the interests of individuals acting in good faith and reporting suspected incidents of misconduct.
- Diversity policy - sets out Hostplus' expectations and requirements of its directors and staff and their responsibilities and obligations relating to managing diversity throughout the Hostplus organisation, and respecting diversity in the wider community. This includes maintaining a workplace environment that supports diversity and is free from discrimination, hostility, harassment, bullying and victimisation.
- Gift and Hospitality policy - sets out Hostplus' expectations and requirements of its directors and staff and their responsibilities and obligations relating to being offered and/or accepting any type of gift, hospitality or benefit, or free access to entertainment which may be related to their capacity as Hostplus directors and staff.

### **Compliance and Risk Framework**

The Hostplus Board has a compliance program which formalises the structure and processes to meet legislative and regulatory requirements, including relevant prudential standards and contractual obligations. The compliance program has two tiers:

- "The compliance framework", is the structure Hostplus employs to manage the compliance requirements; and
- "Policy documents & standards", is a listing of policy documents and standards adopted at Hostplus.

## **Risk Framework**

The Hostplus Board risk framework consists of:

- The Risk Management Strategy (RMS) which outlines the Board's approach to risk management. It includes how we identify, access, mitigate, manage, monitor and report on risk;
- Risk Appetite Statements (RAS) which is a formal declaration of the Board's risk appetite and articulates how much risk the Board is willing to accept in order to achieve its strategic and business objectives; and
- Material Risk Register (MRR) and Key Risk Indicators (KRI) which contain details of material risks impacting the fund and captures the risk assessment, risk tolerance and mitigating controls of all the identified material risks.

## **Audit Arrangements**

The Hostplus Board appoints an external auditor to undertake an annual audit of the fund's financial statements and regulatory returns to ensure compliance with legislative requirements. An independent audit opinion is issued at the conclusion of the audit providing assurance over the integrity of the financial statements and compliance with legislative requirements. The external auditor reports to the Audit, Risk and Compliance Committee.

The appointed internal auditor is responsible for providing further assurance over the control environment of the fund and trustee. An annual internal audit program is developed by the internal auditor in conjunction with the Audit, Risk and Compliance Committee who oversees the performance of the internal auditor. The internal auditor reports to the Audit, Risk and Compliance Committee.

## **Hostplus Conflicts Management Policy – Summary**

### *Maintenance of Conflicts Management Framework*

Hostplus has a conflicts management framework to ensure that practical arrangements (i.e. measure, processes and procedures) must be implemented and maintained. It is designed to reflect the nature, scale and complexity of Hostplus' operations.

### *Role of Board and Directors 'Duties*

Hostplus' Board of Directors (Board) is ultimately responsible for the development and maintenance of its Conflicts Management Framework, including this Policy. It must also take all reasonable steps to ensure that Hostplus staff clearly understands:

- the need to identify all actual and potential Conflicts of Interest,
- the circumstances that might give rise to a Conflict of Interest;
- the content and purpose of Hostplus' Conflicts Management Framework, including this Policy; and
- their obligations under the Policy.

### *Policy Summary*

Under the Policy:

- both Hostplus, itself, and certain members of Hostplus' staff (including but not limited to the Board, Senior Management, and other staff that Hostplus determines should be included);
- certain service providers; and
- certain associates of Hostplus,

must disclose certain interests they personally hold and duties they owe to third parties as and when they arise. These interests and duties must be registered on the consolidated Register of Relevant Interests and Duties.

The Board periodically reviews the Register to determine whether any Conflicts of Interest arise that could affect the Fund and its members. If a Conflict of Interest is identified, Hostplus must determine whether to manage or avoid the Conflict of Interest. In certain cases Conflicts of Interest cannot be avoided and these will be managed, in accordance with the requirements of the Law, including but not limited to the SIS Act and Corporations Act 2001 (Cth).

#### *Relevant Interest*

A Relevant Interest is any interest, gift, emolument or benefit (for example earnings, dividends, payments, capital gains, rights or profits) whether pecuniary or non-pecuniary, directly or indirectly obtained or offered that Hostplus considers to be relevant because it has the potential to have a significant impact on Hostplus' capacity to act in a manner that is consistent with its Trustee duties.

#### *Relevant Duty*

A relevant duty is a duty that a person may owe to a third party (for example, as a director or employee of that third party) that Hostplus considers to be relevant because it has the potential to have a significant impact on Hostplus' capacity to act in a manner that is consistent with its Trustee duties.

#### *Conflict of Interest*

Put simply, a Conflict of Interest arises if a person's Relevant Interest or Relevant Duty is likely to affect his or her ability to make an impartial decision or judgement that he or she is required to make for the benefit of the Fund's members.

Identification, disclosure and recording of Relevant Interests and Relevant Duties and subsequent Conflicts of Interest Relevant Interests and Relevant Duties will remain disclosed on the Registers until the relevant person no longer holds that interest or owes the duty, or no longer is employed by, provides services to, or is associated with Hostplus.

Each person must ensure that their Relevant Interests and Relevant Duties are disclosed on the Register on a periodic basis or when a change to their interests or duties arises during their tenure. Over time certain Relevant Interests or Relevant Duties may or may not be considered to create Conflicts of Interest, and this will depend upon the relevant circumstances at the time. Hostplus maintains a Conflicts of Interest register, in order to aid it in managing and avoiding Conflicts of Interest.

#### *Management and monitoring of conflicts of interest*

The Law requires Hostplus and the Board to manage Conflicts of Interest. The aim of the Hostplus Board is to avoid Conflicts of Interest. However, there might be circumstances where the avoidance of Conflicts of Interest will not always be possible or prudentially practical. The Board will identify,

analyse and evaluate all such conflicts and then determine whether to avoid a particular Conflict of Interest or accept and act notwithstanding the Conflict of Interest, subject to any management controls. Any Conflict of Interest that cannot be avoided must be managed, as is reasonable in the circumstances, but always so that priority is given firstly to the interests of members and beneficiaries.

### **Conclusion**

The Hostplus Governance structure has served the Fund well since 2003. Investment returns have exceeded the Funds benchmark of CPI plus 4% over all periods and have generated 1st quartile results in 1, 3, 5 and 10 year terms and 2nd quartile results in 7 years.

The AHA believe there is a fine balance between absolute Independents and Founder shareholder appointed Directors who in some ways have "skin in the game" ensuring their Members enjoy the highest level of returns whilst being absolutely mindful of the downside investment risks.

A well performing fund is clearly excellent for the Members, but it's also hugely beneficial to the Founder shareholders as it strengthens their respective organisations claims as guardians of Members interests and strengthens their arguments when encouraging individuals and Employers to join up.

In short it's a "win/win" structure that serves all stakeholders well in the "Profit for Members" sector. I trust this submission is self-explanatory, however if you have further queries please contact me at any time.

Yours faithfully,



**STEPHEN FERGUSON**  
**AHA NATIONAL CEO**