

Summary of VicSuper's Conflicts Management Policy

VicSuper has a Conflicts Management Framework and Conflicts Management Policy which is designed to enable VicSuper Pty Ltd (Trustee) to clearly identify, avoid or prudently manage material conflicts of interest and conflicts of duty that may arise in its capacity as trustee of the Victorian Superannuation Fund (Fund) and as an Australian Financial Services Licensee (AFS Licensee).

VicSuper has determined its current 'responsible persons' to be its directors, General Counsel and Company Secretary, executive managers, external auditors, and any actuaries appointed for the purpose of the SIS Act.

A 'conflict' is a reference to:

- a conflict between the duties owed by the Trustee, or a responsible person of the Trustee, to the Fund beneficiaries and the duties owed by them to any other person;
- a conflict between the interests of the Fund beneficiaries and the duties owed by the Trustee, or a responsible person of the Trustee, to any other person;
- a conflict between an interest of the Trustee, an associate of the Trustee or a responsible person or an employee of the Trustee, and the Trustee's duties to the Fund beneficiaries; and
- a conflict between an interest of the Trustee, an associate of the Trustee or a responsible person or an employee of the Trustee and the interests of the Fund beneficiaries.

A conflict of interest may therefore arise where the personal interests of the Trustee (or its directors, other responsible persons, employees and service providers) diverge or may diverge from those of the Fund members. An example of a conflict of interest is where a person (or the immediate family of a person) stands to gain financially from a particular decision – such as where an employee's spouse is a member and has claimed a disablement benefit or where a director holds shares in a service provider or investment of the Fund.

A conflict of duty may therefore arise when there are competing loyalties, i.e. when a duty owed to another entity diverges or may diverge from a duty owed to the Fund members. An example of a conflict of duty is where a person is representing both parties to a transaction or relationship – such as where a trustee director is also a director of a non-performing service provider.

The acceptance of gifts, hospitality and other benefits can also create conflicts of interest or duty, whether actual or perceived and must be managed in compliance with the Trustee's gifts and hospitality policy.

Either type of conflict can impair a person's ability to exercise independent judgment. Conflicts must be managed in accordance with the requirements to give priority to the duties to, and interests of, beneficiaries and to reduce the risk that they might adversely impact the integrity of the Trustee's decision-making in the best interests of Fund members. There are various legal requirements to manage conflicts. In addition, decisions and services that are tainted by conflicts can impact adversely on the Trustee's reputation with regulators and the broader community and diminish their confidence in the Trustee and the Fund.

The Trustee has a Conflicts Officer who coordinates the activities under the Conflicts Management Framework and Conflicts Management Policy.

Identifying conflicts

A. Individual Statements

All responsible persons are required to complete a statement of Notification of Interests and duties in sufficient detail to enable the impact of the conflict to be assessed. All material

interests and duties are recorded on the conflicts register. If in doubt, a suspected conflict is reported and recorded in the register.

B. Survey of Trustee structure and operations

In addition, a survey of all responsible persons is coordinated, which asks them to assess all aspects of their responsibilities, as well as their relationships with existing or prospective service providers or adviser, with a view to identifying actual or potential conflicts that affect the Trustee's operations as an RSE Licensee and AFS Licensee.

An independent assessment of conflicts that may affect the Trustee's operations (including its relationship with existing or prospective service provider) is made, based on working knowledge and having regard to any other relevant documents, such as business plans and risk registers.

The identified conflicts are reviewed and categorised into:

- actual conflicts where there is a direct conflict that is obvious; and
- perceived and potential conflicts where a conflict appears to exist or could arise in the future.

These conflicts may then be further categorised into conflicts that affect the Trustee as a whole and conflicts that affect particular individuals only.

All other employees of the Trustee are requested to disclose and provide information about any interests they have or duties they owe to another party that may conflict with the Trustee's duties to beneficiaries of the Fund or the interests of those beneficiaries, and where an employee provides financial product advice, any interests or duties that may diverge from the interests of the advice recipients, affecting the appropriateness of their advice. For example, any relationship an employee has with a service provider to the Trustee would need to be disclosed.

In respect of any associate of the Trustee, a survey is coordinated to obtain disclosure of all material interests and duties to assess whether they could conflict with the duties of the Trustee to the beneficiaries of the Fund or with the interests of those beneficiaries.

The Gifts & Hospitality Register is also referred to, in order to identify any actual perceived or potential conflicts.

Approaches for managing conflicts

A. Disclosure

Disclosure is the minimum requirement for managing conflicts of interest and is most appropriate for managing low-risk or potential conflicts or conflicts that are permitted under the Fund's trust deed, such as the charging of fees.

In the case of conflicts affecting the Trustee's directors, other responsible persons, and employees, disclosure of the conflict is required in all cases and must be made in order for it to be recorded on the Trustee's conflicts register and for conflicts management arrangements to be developed and implemented. Conflicts declared by a director or other responsible person at a meeting will also be recorded in the minutes of the meeting, together with any additional action taken to manage the conflict in accordance with this policy.

B. Control

Depending on the nature of the conflict, it may be considered that the conflict can be controlled so that it does not compromise the Trustee's or responsible person's integrity of decision making or their duties to Fund beneficiaries, such as the duty to act in the best interests of Fund's beneficiaries as a whole.

Control mechanisms can be appropriate to deal with structural conflicts that are embedded in the Trustee's operations or personal conflicts that only impact in certain circumstances.

Examples of control mechanisms include:

- information barriers whereby the conflicted party is denied access to information relevant to the conflict,
- restricting or removing the involvement of a conflicted party in a decision or service whereby the conflicted party either withdraws from discussion, abstains from voting or refrains from any participation altogether,
- imposing a suspension period during which a conflicted party cannot act on information to curb the immediate influence of the conflict; and
- peer review of potentially conflicted decisions for probity by an independent third party or delegation to a committee of non-conflicted individuals.

C. Avoidance

Certain conflicts are prohibited at law or are so serious or endemic that they cannot be managed through disclosure or control in a manner that ensures that the Trustee integrity of decision-making or the interests of Fund members will not be adversely affected. In these cases, exposure of the Trustee or the conflicted individual to the conflict must be avoided altogether.

This may mean that the conflicted party is asked to surrender the interest or duty that is creating the conflict, be re-assigned to another role that is not affected by the conflict (or alternatively have the duties creating the conflict re-assigned) or be asked to resign altogether.

Formulating conflict management arrangements

The Conflicts Officer will use the conflicts register derived from individual statements of material interests and duties, together with the survey responses of the Chief Executive and executive managers to record the individual material conflicts and any generic conflicts that have the potential to impact the Trustee's operations as a whole.

The Conflicts Officer will assess the identified conflicts and determine how to manage them in accordance with the Conflicts Management Framework and Policy.

The proposed mechanism for managing the conflict will be recorded and submitted to the Board for approval. In all cases, conflicts must be managed in accordance with the requirements to give priority to the duties to, and interests of, beneficiaries.

Review

The Conflicts Management Framework and Policy is reviewed at least annually and updated as required.

Every three years, the appropriateness, effectiveness and adequacy of the Conflicts Management Framework will be subject to a comprehensive review by operationally independent, appropriately trained and competent persons.