

# Corporate Governance Statement

The Board of Aurora Funds Management Limited (“the Company”) ABN 69 092 626 885 recognises the importance of and is committed to achieving high corporate governance standards. The Company is Responsible Entity of Aurora Fortitude Absolute Return Fund, Aurora Absolute Return Fund, Aurora Property Buy-Write Income Trust, Aurora Global Income Trust, Aurora Dividend Income Trust and HHY Fund, collectively known as the Schemes.

To the extent applicable, the Responsible Entity has adopted the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (“ASX Recommendations”).

The Responsible Entity’s directors and management recognize the importance of good corporate governance. The Responsible Entity’s corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Schemes, and is under regular review.

This Corporate Governance Statement reports against the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (“ASX Recommendations”). To the extent that they are relevant to the Schemes, the ASX Recommendations have been adopted by the Schemes. Where, after due consideration, the Schemes’ corporate governance practice departs from an ASX Recommendation, the Corporate Governance Statement will set out the reasons for departure.

## **Principle 1: Lay solid foundations for management and oversight**

### Recommendation 1.1

*A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the board, the chair and management; and includes a description of those matters expressly reserved to the board and those delegated to management.*

The Board of the Responsible Entity has adopted a Board Charter. The Board Charter sets out the specific responsibilities of the Board, requirements of the Board composition, roles and responsibilities of the Chairman and Company Secretary, the establishment, operation and management of Board Committees, assessment and evaluation of Board performance and related party transaction disclosures. A copy of the Responsible Entity’s Board Charter is available on the Company’s website.

The primary role of the Board of the Responsible Entity is to operate the Schemes in accordance with the Constitutions, the ASX listing rules and the Corporations Act 2001. The Board must ensure it acts in the best interests of unitholders and that the activities of the Schemes are conducted in a proper and efficient manner.

Key responsibilities of the Board include:

- reviewing the performance of management, including the Portfolio Manager and the adequacy of resources allocated to Aurora;
- providing input into the final approval of management’s strategy and performance objectives for the Fund;
- reviewing and if appropriate approving significant transactions;
- reviewing the Fund’s policies and procedures;
- oversight and ensuring compliance with best practice corporate governance requirements;
- ensuring the risk management systems, including internal controls, operating systems and compliance processes, are operating efficiently and effectively; and
- establishing formal committees to assist such as the Compliance Committee.

### Recommendation 1.2

*A listed entity should:*

- (a) undertake appropriate checks before appointing a person or putting forward to shareholders a candidate for election, as a director; and*
- (b) provide shareholders with all material information relevant to a decision on whether or not to elect or re-elect a director.*

The appointment of Directors of the Responsible Entity is governed by the Constitution and the Corporations Act 2001. The Board’s policy and procedure for the selection of Directors is included in the Board charter.

Matters regarding Board succession and the various skills necessary to enable it to discharge its duties and responsibilities effectively are discussed regularly by the Board as a whole. The Board considers key skills and experience to include fund management, financial expertise, risk management and corporate governance.

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Directors receive a comprehensive induction to the RE to assist them carry out their role successfully. Directors are encouraged to participate in training programs to develop and keep their skills and knowledge up to date.

## Recommendation 1.3

*A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.*

The Responsible Entity has entered into Service Agreements with Executive Directors and Letters of Appointment with Non-Executive Directors.

## Recommendation 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.*

The Board Charter outlines the roles, responsibilities and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the chair.

## Recommendation 1.5

*A listed entity should:*

*(a) have a diversity policy which includes requirements for the Board:*

- (i) to set measurable objectives for setting gender diversity;*
- (ii) to assess annually both the objectives and the entity's progress in achieving them;*

*(b) disclose the policy or summary of it;*

*(c) disclose at the end of each reporting period:*

- (i) the measurable objectives for achieving gender diversity set by the Board in accordance with the entity's diversity policy and its progress towards achieving them; and*
- (ii) either:*
  - (A) the respective portions of men and women on the board, in senior executive positions and across the whole organisation; or*
  - (B) the entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.*

The Responsible Entity of the Schemes has not as yet implemented a Diversity Policy. The Code of Conduct, which is rigorously enforced by the RE expects all employees and officeholders to observe the highest standards of honesty, integrity and ethical behaviour in performing their duties.

Currently, there is no female representation on the Board, Compliance Committee or in senior management of the Responsible Entity. The Board recognises this as a variance to typical female representation within the Responsible Entity, but notes that from time to time, for various reasons including Board, Committee and staff turnover, measurable objectives may be difficult to achieve.

## Recommendation 1.6

*A listed entity should:*

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and*
- (b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The performance of the Board and Compliance Committee was reviewed in accordance with the Board Charter and the Compliance Committee Charter respectively. The performance of individual directors is discussed regularly during the year, by informal feedback, in-camera discussions and formal interviews with the Chairman. The Compliance Committee Chair held an in-camera discussion which discussed the performance of the Committee to the satisfaction of the Committee members.

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## Recommendation 1.7

*A listed entity should:*

- (c) have and disclose a process for periodically evaluating the performance of its senior executives; and*
- (d) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

Senior executives undergo an annual performance review with their immediate superior. This involves a discussion regarding their performance against goals and key performance indicators agreed to at the beginning of the period. The outcomes are reported to the Board. All senior executives participated in a performance evaluation during the year ended 30 June 2018.

At the review, performance objectives and development plans are set (having regard to both the corporate goals set by the Board and individual performance goals) for the forthcoming financial year; and individual performance is assessed against last year's performance objectives.

## **Principle 2: Structure of the Board to add value**

### Recommendation 2.1

*The board of a listed entity should:*

- (a) have a nomination committee which:*

- (i) has at least 3 members, the majority of whom are independent directors; and*
- (ii) is chaired by an independent director.*

*And disclose:*

- (iii) the charter of the committee;*
  - (iv) the members of the committee; and*
  - (v) 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; or*
- (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, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.*

The Board of the Responsible Entity does not comply with Recommendation 2.1. Nominations of new Directors are considered by the full board. If vacancies arise on the Board, all directors are involved in the search and recruitment of a replacement.

### Recommendation 2.2

*A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve.*

The Board considers key skills and experience to include fund management, financial expertise, risk management investment management and corporate governance. The Board considers the current members of the Board represent the key skills and experience adequately.

The Board as at 30 June 2018 comprised 3 directors: John Patton and Victor Siciliano as Executive Directors and Anthony Hartnell, AM as a Non-Executive Director. Mr Jeffrey Schwarz resigned as non-executive director in May 2018.

The details of the directors during the financial year, including their respective skills, experience, relevant expertise and term of office, are set out in the most recent annual report.

### Recommendation 2.3

*A listed entity should disclose:*

- (a) the names of the directors considered by the board to be independent directors;*
- (b) if a director has an interest, position or association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3<sup>rd</sup> Edition), 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 the opinion; and*

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*(c) the length of service of each director.*

The Responsible Entity discloses the names of Directors considered by the Board to be independent. At 30 June 2018, Mr Anthony Hartnell, AM was considered to be an independent director. Mr Jeffrey Schwarz, who resigned in May 2018 was also considered an independent director during his tenure at the Responsible Entity.

The Board Charter requires Directors to disclose their interests, positions, associations and relationships and requires that the independence of Directors is regularly assessed by the Board. Details of the Directors interests, position associations and relationships are provided in the annual report.

The Board Charter provides for the determination of the Director's term and requires the length of service of each Director to be disclosed.

## Recommendation 2.4

*A majority of the board of a listed entity should be independent directors.*

The Board believes that the individuals on the Board can make, and do make, quality and independent judgements in the best interests of unitholders of the Schemes on all matters. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board meeting before commencement of discussion on the topic.

## Recommendation 2.5

*A 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.*

Mr Anthony Hartnell, AM holds the position of Non-Executive Chairman which complies with the recommendation.

## Recommendation 2.6

*A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as director effectively.*

The Board Charter states that a specific responsibility of the Board is to procure appropriate development opportunities for Directors.

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

### Recommendation 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.*

The Board has established a Code of Conduct which outlines the acceptable standards of behaviour and attitudes expected from staff. The purpose of this Code of Conduct is to:

- Articulate the high standards of honest, ethical and law-abiding behaviour that Aurora expects of its staff;
- Encourage the observance of those standards so as to protect and promote the interests of unitholders;
- Set out the responsibilities and accountabilities of Directors to report and investigate reports of unethical practices.

A copy of the code of conduct can be accessed on the Responsible Entity's website.

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

### Recommendation 4.1

*The board of a listed entity should:*

*(a) Have an audit committee which:*

- (i) Has at least three members, all of whom are non-executive directors, and a majority of whom are independent directors;*
- (ii) Is chaired by an independent director, who is not the chair of the board;*

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And disclose:

- (iii) *The charter of the committee;*
  - (iv) *The relevant qualifications and experience of the members of the committee; and*
  - (v) *In relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members of those meetings; and*
- (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 financial reporting, including the processes for the appointment and removal of the external auditor and rotation of the audit engagement partner.*

The Board believes the individuals on the current Board can make, and do make quality and informed judgements.

Grant Thornton is the current auditor for the Responsible Entity, the Fund and the Compliance Plan. The Board reviews the results of the external audit process of the Fund and the Compliance Plan to ensure:

- The Fund and Compliance auditor are appropriately qualified and legally eligible to act at all times;
- The terms of their appointment are appropriate and accord with the Corporations Act 2001; and
- The auditors have access to all relevant information as required.

In accordance with section 295A of the *Corporations Act 2001*, the Chief Executive Officer and Chief Financial Officer have declared in writing to the Board that the financial records of the Fund for the financial year have been properly maintained and the Trust's financial statements present a true and fair view of the financial position and performance and are in accordance with relevant accounting standards.

The external auditors are invited to attend Board and Compliance Committee meetings where financial reports and compliance plan audits are discussed.

#### Recommendation 4.2

*The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from the CEO and CFO a declaration that 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.*

Prior to the Board approving the entity's financial statements, the CEO and CFO declare 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.

#### Recommendation 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 listed managed investment schemes are not required to hold AGMs.

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

#### Recommendation 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 the policy or a summary of it.*

The Responsible Entity immediately notifies the ASX of any information concerning any of its listed Schemes of which it is or becomes aware, which a reasonable person would expect to have a material effect on the price or value of units.

The Managing Director and the Company Secretary have been appointed as the persons responsible for communicating with the ASX. These people are also responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules.

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The Responsible Entity has adopted a Continuous Disclosure Policy, the purpose of which is to:

- Promote investor confidence by ensuring that trading in the various Aurora funds takes place in an efficient, competitive and fully informed market;
- Meet disclosure obligations with the Corporations Act 2001 and ASX Listing Rules; and
- Ensure stakeholders have the opportunity to access public information issued by the Responsible Entity.

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

### Recommendation 6.1

*A listed entity should provide information about itself and its governance to investors via its website.*

The Responsible Entity has a website found at [www.aurorafunds.com.au](http://www.aurorafunds.com.au). The Responsible Entity principally communicates with unitholders through its website, which contains the following information:

- Current and archived annual and half year financial statements;
- ASX announcements;
- Significant developments relating to the Fund; and
- Current and archived monthly performance reports.

### Recommendation 6.2

*A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.*

The Responsible Entity encourages two-way communication with investors by:

- providing contact details on all Fund announcements;
- responding to queries in a timely manner; and
- making available information on the Responsible Entity's website.

### Recommendation 6.3

*A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security register electronically.*

The electronic contact details of both the Schemes and registry provider are provided in order for the unitholder to make electronic contact. The unitholder is encouraged to provide their email address so that Fund notices etc can be sent electronically.

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

### Recommendation 7.1

*The board of a listed entity should:*

*(a) have a committee or committees to oversee risk, each of which:*

- (i) has at least three members, a majority of whom are independent directors; and*
- (ii) is chaired by an independent director,*

*and disclose*

- (iii) the charter of the committee;*
- (iv) the members of the committee; and*
- (v) 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 of those meetings; and*
- (vi) 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.*

The Board has not established a separate Risk Management Committee. The Board assumes the role of the Risk Management Committee and is ultimately responsible for risk oversight and risk management. Discussions on the recognition and management of risks are also considered by the Board. The Board has appointed a Compliance Committee for the Schemes (as is required by Chapter 5C of the Corporations Act (2001)) of which a majority of its members are independent to the Responsible Entity and the Chair is an independent member. The Compliance Committee Charter and names of the independent members is posted to the Responsible Entity's website.

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## Recommendation 7.2

*The board or a committee of the board should:*

- (a) Review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board;*
- (b) Disclose in relation to each reporting period, whether such a review has taken place.*

The Responsible Entity's process for risk management includes a requirement to identify and measure risk, monitor the environment for emerging factors and trends that affect these risks, formulate risk management strategies and monitor the performance of the risk management systems. The Responsible Entity's Risk Management Plan (and framework) is reviewed, regulated and updated at least annually.

The annual review of the risk management framework was conducted in May 2018.

## Recommendation 7.3

*A listed entity should disclose:*

- (a) If it has an internal audit function, how the function is structured and what role it performs; or*
- (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 process.*

The Responsible Entity does not have an internal audit function. Management periodically undertakes an internal review of financial systems and processes and where systems or processes are considered to require improvement these are developed. The Board also considers external reviews of specific areas and monitors the implementation of these.

## Recommendation 7.4

*A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.*

The Responsible Entity's risk management systems assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if any). Review of the risk management framework is conducted annually.

## **Principle 8: Remunerate fairly and responsibly**

### Recommendation 8.1

*The board of a listed entity should:*

- (a) Have a remuneration committee which:
  - (i) has at least three members, a majority of whom are independent directors; and*
  - (ii) is chaired by an independent director,*and disclose
  - (iii) the charter of the committee;*
  - (iv) the members of the committee; and*
  - (v) 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 of those meetings; and**
- (b) If it does not have a remuneration committee disclose that fact and the processes it employs for setting the level of remuneration for directors and senior executives and ensuring such remuneration is appropriate and not excessive.*

The Responsible Entity does not have a Remuneration Committee.

Members of the senior executive team of the Responsible Entity sign a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

The Board is responsible for the review of the performance of the Managing Director is responsible for reviewing the performance of senior management.