

# PACIFIC CURRENT GROUP

## Corporate Governance Statement

as at 28 September 2018

The Australian Securities Exchange (**ASX**) Corporate Governance Council's *Corporate Governance Principles and Recommendations* 3<sup>rd</sup> Edition (**ASX Principles**) set out what it considers to be best practice in conducting the business of a listed entity. The board of directors (**Board**) of Pacific Current Group Limited (**Pacific Current Group** or the **Company**) has considered and applied the ASX Principles, taking into account the circumstances of the Company. Where the Company's practices depart from a recommendation in the ASX Principles (**Recommendation**), this **Corporate Governance Statement** identifies the area of divergence and the reasons for divergence and any alternative practices adopted by the Company.

The practices detailed in this Corporate Governance Statement and each of the documents referred to herein, are available on the Corporate Governance page on the Company's website at:

<http://paccurrent.com/shareholders/corporate-governance/>.

The ASX Principles set out recommended practice in the form of eight Principles:

1. Lay solid foundations for management and oversight.
2. Structure the Board to add value.
3. Act ethically and responsibly.
4. Safeguard integrity in corporate reporting.
5. Make timely and balanced disclosure.
6. Respect the rights of security holders.
7. Recognise and manage risk.
8. Remunerate fairly and responsibly.

This Corporate Governance Statement is current as at 28 September 2018 and has been approved by the Board.

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

#### *Role of the Board and senior executives*

The Board's role is to govern Pacific Current Group rather than to manage it. The Board recognises the importance of clearly delineating between its role and the role of management and has adopted a formal statement of matters reserved to itself and a list of limitations of management in its **Board Charter**. It is the responsibility of the Board to oversee the activities of management.

The main task of the Board is to effectively represent and promote the interest of shareholders with a view to adding long-term value to Pacific Current Group's shares. The Board must also ensure that Pacific Current Group complies with all of its contractual, statutory and other legal obligations, including the requirements of any regulatory body. The Board is accountable to shareholders for the successful operations of Pacific Current Group.

It is the role of senior executives to manage Pacific Current Group in accordance with the direction and delegations of the Board. The Board is responsible for overseeing the activities of senior executives in carrying out these delegated duties.

Full details of the Board and senior executives' roles and responsibilities are contained in the Board Charter, a copy of which is included in the corporate governance section of Pacific Current Group's website at: <http://paccurrent.com/shareholders/corporate-governance/>.

### *New directors and executives*

Pacific Current Group enters into a written agreement with each director and senior executive setting out the key terms, conditions and responsibilities of their position.

Each director has the right of access to all Pacific Current Group information and to Pacific Current Group's executives. The Board (collectively and individually, but subject to informing the Chairman) has the right to seek independent professional advice from a suitably qualified advisor, at Pacific Current Group's expense, up to specified limits, to assist them to carry out their responsibilities. Where appropriate, a copy of this advice is to be made available to all other members of the Board.

Background checks are carried out on all new Pacific Current Group directors and employees. These checks include: gaining character references; confirming that person's experience and education; a police check; and a bankruptcy check. Shareholders are provided with all material information in Pacific Current Group's possession relevant to a decision on whether or not to elect or re-elect a director.

### *Role of the company secretary*

As required by the ASX Principles, Pacific Current Group's company secretary is directly accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. Each director is able to communicate with the company secretary via email and telephone. The role and responsibilities of the company secretary is set out in an agreement.

### *Diversity policy*

Pacific Current Group is committed to developing a corporate culture that is conducive to the appointment of well qualified employees, senior executives and Board candidates and to the achievement of appropriate diversity. Pacific Current Group believes this will maximize the potential for meeting its corporate goals. The Board has a **Diversity Policy**, a copy of which is contained in the corporate governance section on Pacific Current Group's website. Given the Company's current size, nature and complexity, the Board has agreed not to set targets for gender diversity within the organisation at this time.

### *Board performance evaluation*

The Board Charter provides for the undertaking of annual Board and Board Committee performance evaluation. During the financial year ended 30 June 2018 (**FY2018**), the Pacific Current Group directors completed an evaluation questionnaire and the Chairman evaluated the results. The Chairman also completed an evaluation questionnaire and discussed the results with the Chair of the Remuneration and Nomination Committee. The Board discussed the results of the review and considered further actions on matters relating to process and priorities.

### *Senior executive's performance review*

The Board conducts an annual review of the performance of senior executives against pre-determined qualitative and quantitative key performance indicators (**KPIs**). This review was completed in relation to FY2018, at which time new KPIs were set for FY2019.

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

### *Remuneration and Nomination Committee*

The role of the Remuneration and Nomination Committee, is to ensure that the Company:

- has a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties and to bring transparency, focus and independent judgment to decisions regarding the composition of the Board;

- has coherent remuneration policies and practices to attract and retain directors and senior executives who will create value for shareholders;
- observes those remuneration policies and practices; and
- fairly and responsibly rewards the Executive Directors and Group Executives having regard to the performance of the Group, the performance of the Executive Directors and Group Executives and the general external pay environment.

In its function as a nominations committee, the Committee assists the Board in fulfilling its corporate governance responsibilities in regard to:

- Board appointments, re-elections and performance;
- Board and Committee membership;
- directors' induction and continuing development;
- succession planning; and
- strategies to address Board diversity.

As set out in its Charter, the Remuneration and Nomination Committee must comprise:

- at least three directors;
- all non-executive directors; and
- a majority of independent non-executive directors.

The Remuneration and Nomination Committee may obtain information from, and consult with, Management and external advisers, as it considers appropriate.

The Committee met three times during FY2018. For further details of the number of Remuneration and Nomination Committee meetings and the attendance at those meetings, refer to the Directors' Meetings section in the Directors' Report.

The Charter for the Remunerations and Nomination Committee is available in the corporate governance section on the Company's website.

During FY2018, the members of the Remuneration and Nomination Committee were:

Director	Role	Non-executive	Independent
Peter Kennedy	Chairman	✓	✓
Michael Fitzpatrick	Member	✓	x <sup>1</sup>
Gilles Guerin	Member	✓	✓

<sup>1</sup> Mr. Fitzpatrick is a substantial shareholder of Pacific Current Group and as such he does not meet the ASX Principles' criteria for independence

The Chair of the Remuneration and Nomination Committee is an independent non-executive director.

The Remuneration and Nomination Committee's Charter and a description of the process for selection and appointment of new directors are both available in the corporate governance section of Pacific Current Group's website.

Details of attendance at Remuneration and Nomination committee meetings are included in the Directors' Report of Pacific Current Group's Annual Report, a copy of which can be found at:

<http://paccurrent.com/shareholders/document-library/>

### *Board skills matrix*

Pacific Current Group has developed a board skills matrix to identify any gaps in its collective skills or experience that might be addressed by professional development initiatives and/ or the addition of a new board member.

A summary of that matrix is detailed below (disclosure is on a collective basis and the skills of individual directors remain confidential, as provided for in the ASX Principles).

<b>Skills or experience</b>	<b>No of directors with skill/experience</b>
Company Management	7
Corporate Governance	6
Finance qualifications	6
Financial literacy	7
Funds management	7
Global Experience	6
Legal Qualifications	4
Listed experience	6
Mergers & Acquisitions	7
Regulatory Experience	5
Risk Management	6
Sales / Distribution / Marketing	6
Technology	4

### *Board composition and independence*

<b>Director</b>	<b>Role</b>	<b>Non-Executive</b>	<b>Independent</b>	<b>Tenure (yrs.)</b>
Michael Fitzpatrick	Chairman	✓	× <sup>1</sup>	14.0
Melda Donnelly	Director	✓	✓	6.0
Gilles Guerin	Director	✓	✓	3.5
Peter Kennedy	Director	✓	✓ <sup>2</sup>	15.0
Paul Greenwood	Executive Director	×	×	3.5
Tony Robinson	Executive Director	×	× <sup>3</sup>	3.0

<sup>1</sup> M Fitzpatrick is a substantial shareholder of Pacific Current Group and as such he does not meet the ASX Principles' criteria for independence

<sup>2</sup> Mr. Kennedy has been deemed by the Board to be independent despite his tenure (as provided for in the ASX Principles)

<sup>3</sup> Mr. Robinson was a non-executive and considered independent until 30 April 2016, when he became an Executive Director

The Board is made up of a majority of non-executive directors, which it considers enables adequate independent decision making.

Mr. Fitzpatrick, a non-executive director and Chairman, is a major shareholder of Pacific Current Group. His experience and knowledge of Pacific Current Group make his contribution to the Board such that the Board has deemed it appropriate for him to remain as Chairman.

Despite Mr. Kennedy's tenure, the Board has deemed him to be independent, as provided for in the ASX principles.

During FY2018, the role of Chief Executive Officer was split between Mr. Robinson, focusing on the Australian business and investor relations, with Mr. Greenwood president of North American and operational control of the US business. As from 1 July 2018, Mr. Greenwood was elected Managing Director and Chief Executive Officer and retained the role of Chief Investment Officer. Pacific Current Group's Chairman and Managing Director & CEO have separate roles. The division of responsibilities between the Chairman and the Managing Director & CEO are set out in the Board Charter, a copy of which can be found in the corporate governance section of Pacific Current Group's website.

#### *Board induction and professional development*

In order for a new director to participate fully and actively in Board decision-making at the earliest opportunity, an induction process is carried out immediately after appointment. Where possible, this includes meetings with key executives and an induction package and presentations. Information conveyed to new directors includes:

- details of the role and responsibilities of a director;
- details of all relevant legal requirements;
- access to a copy of the Board and Committee Charters;
- background information on and contact information for key people in the organisation;
- an analysis of Pacific Current Group; and
- a copy of the Constitution of Pacific Current Group.

In order to achieve continuing improvement in Board performance, all directors are able to undergo continual professional development. Specifically, directors are provided with the resources and training to address skills gaps wherever they are identified.

### **Principle 3: Act ethically and responsibly**

#### *Code of conduct*

To ensure that Pacific Current Group maintains the highest standards of integrity, honesty and fairness in its dealings with all stakeholders, the Board has established a **Code of Conduct** for directors, management and employees (**Code**). The Code act as a guide for compliance with legal and other obligations that Pacific Current Group have in respect of stakeholders. The Code governs all Pacific Current Group commercial operations and the conduct of the Board, employees, consultants, contractors, advisors and Pacific Current Group representatives.

The Code also outlines the responsibility and accountability of individuals for reporting and investigating unethical practices and can be viewed in the corporate governance section of Pacific Current Group's website.

Pacific Current Group has a **Securities Trading Policy**, under which directors and employees and their associates may only trade in Pacific Current Group's securities during specific trading windows. This policy can also be viewed in the corporate governance section of Pacific Current Group's website.

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

The Board has established an Audit and Risk Committee. The Audit and Risk Committee has a formal Charter, which can be found in the corporate governance section of Pacific Current Group's website.

During the financial year, the members of the Audit and Risk Committee were:

Director	Role	Non-executive	Independent
Melda Donnelly	Chair	✓	✓
Michael Fitzpatrick	Member	✓	x <sup>1</sup>
Peter Kennedy	Member	✓	✓

<sup>1</sup> Mr. Fitzpatrick is a substantial shareholder of Pacific Current Group and as such he does not meet the ASX Principles' criteria for independence.

All members of the Audit and Risk Committee can critically evaluate financial statements and are financially literate. Details of members' qualifications may be found in the director profiles of the Directors' Report of Pacific Current Group's Annual Report on the Company's website.

Details of attendance at Audit and Risk Committee meetings are also included in the Directors' Report.

#### *S295A declaration and relating ASX Principles declaration*

The Managing Director & CEO and CFO have provided the Board with a declaration in accordance with S295A of the *Corporations Act 2001* and also declared that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

#### *Auditors and annual general meeting*

Pacific Current Group's external auditor is Deloitte Touche Tohmatsu (**Deloitte**). The Audit and Risk Committee oversees the effectiveness and performance of Deloitte and ensures the lead audit partner rotates after a maximum of five years.

Information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners may be found in the corporate governance section of Pacific Current Group's website.

A representative of Deloitte attends Pacific Current Group's annual general meeting should any shareholders have questions in relation to the audit.

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

The Board has established a **Continuous Disclosure Policy** to ensure compliance with ASX Listing Rules disclosure requirements. This policy is located in the corporate governance section of Pacific Current Group's website.

The Board has designated the Pacific Current Group Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules*, Pacific Current Group immediately notifies the ASX of information:

- concerning Pacific Current Group that a reasonable person would expect to have a material effect on the price or value of Pacific Current Group's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of Pacific Current Group's securities.

Upon confirmation of receipt from the ASX, Pacific Current Group posts all information disclosed in accordance with this policy on Pacific Current Group's website in an area accessible by the public.

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To enhance clarity and balance of reporting and to enable investors to make an informed assessment of Pacific Current Group's performance, financial results are accompanied by a commentary.

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

*Website*

Pacific Current Group has a comprehensive corporate governance section of its website, where security holders can access all corporate governance information.

*Investor relations program*

Joseph Ferragina, CFO and COO Australia co-ordinates Pacific Current Group's annual investor relations program.

This involves bi-annual roadshows, during which Mr. Greenwood, Managing Director & CEO, Mr. Robinson, Mr. Ferragina and the Chairman as required, will, meet with key investors. The program also involves regular dialogue with investors either directly (via email or telephone) or through investment analysts. Pacific Current Group also provides quarterly funds under management updates to the market and on its website.

*Communications with security holders and their participation at meetings*

Pacific Current Group respects the rights of its shareholders and to facilitate the effective exercise of those rights, Pacific Current Group is committed to:

- communicating effectively with security holders through releases to the market via ASX, Pacific Current Group's website, information mailed to shareholders and general meetings of Pacific Current Group;
- giving shareholders ready access to balanced and understandable information about Pacific Current Group and corporate proposals;
- making it easy for shareholders to participate in general meetings of Pacific Current Group;
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report; and
- making available a telephone number and electronic query service on Pacific Current Group's website for security holders to make enquiries.

The ***Shareholder Communications Policy*** is published in the corporate governance section of Pacific Current Group's website.

**Principle 7: Recognise and manage risk**

*Audit and Risk Committee*

The Audit and Risk Committee is responsible for establishing policies on risk oversight and management. The Audit and Risk Committee has a formal Charter, which can be found in the corporate governance section of Pacific Current Group's website.

Details on the members of the Audit and Risk Committee are detailed under commentary on Principle 4 above.

Details of attendance at Audit and Risk Committee meetings are included in the Directors' Report of Pacific Current Group's 2018 Annual Report on Pacific Current Group's website.

### *Risk management framework*

A summary of Pacific Current Group's risk management and internal compliance and control system is available on Pacific Current Group's website.

Pacific Current Group has designed and implemented a risk management and internal control system to manage Pacific Current Group's material business risks. Risk is managed on an enterprise wide basis, with risks being reviewed across the whole group of companies, as well as risks arising from key stakeholder relationships and external events. Work to enhance the existing risk management framework continues.

Pacific Current Group does not have an independent internal audit function.

### *Material economic, environmental and social sustainability risk*

Pacific Current Group is exposed to the volatility of global financial markets, a systemic risk of being a funds management business. As a means of mitigating this risk, Pacific Current Group is strategically identifying diversification investment opportunities as they arise that are not necessarily linked to market movements or to the performance of the existing portfolio. The Board feels that shareholders of Pacific Current Group invest in the Company knowing this inherent economic risk, as it applies across the entire funds management sector.

Pacific Current Group is not exposed to material environmental and social sustainability risks.

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

#### *Remuneration and Nomination Committee*

The Board has established a Remuneration and Nomination Committee to assist the Board in making appropriate decisions about incentive schemes and superannuation arrangements. The role of the Remuneration and Nomination Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

Details of the members of the Remuneration and Nomination Committee are set out under Principle 4 above.

The Remuneration and Nomination Committee has a formal Charter which is available in the corporate governance section on Pacific Current Group's website.

The Board has endorsed the following senior executive remuneration policy and the non-executive director remuneration policy.

#### *Board and senior executive remuneration policy*

Pacific Current Group is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice, as well as supporting the interests of shareholders. Consequently, under the Group's remuneration framework, the remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual, of performance objectives and for materially improved Pacific Current Group performance;
- participation in Pacific Current Group's long term incentive plan (**LTI Plan**) and
- statutory superannuation (for those employed in Australia).



By remunerating senior executives through performance and the long-term incentive plan, in addition to their fixed remuneration, Pacific Current Group aims to align the interests of senior executives with those of shareholders and enhance Pacific Current Group performance. The amount of remuneration, including both monetary and non-monetary components, for each of the Key Management Personnel during the year (discounting accumulated entitlements) is detailed in the Directors' Report of Pacific Current Group's 2018 Annual Report.

The value of shares, performance rights and options granted to senior executives has been calculated using the Binomial method.

The objective behind using this remuneration structure is to drive improved Pacific Current Group performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, performance rights and other incentive payments. This discretion is exercised on the following basis:

- retaining and motivating key executives;
- attracting quality management to Pacific Current Group; and
- allowing executives to share the rewards of the success of Pacific Current Group through performance incentives.

The current number of shares and performance rights issued under the LTI plan are reasonable in relation to the existing capitalisation of Pacific Current Group and all payments under the LTI plan are made in accordance with thresholds set in the plan.

Non-executive directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of non-executive directors. Non-executive directors do not receive performance based bonuses and do not participate in the LTI Plan. Non-executive directors are entitled to statutory superannuation.

The payment to directors is based on a workload criterion. Consequently, all non-executive directors, except the Chairperson of the Board receive a fixed amount plus an additional amount for Committee membership and committee chairing. The Chairman of the Board receives an extra loading given the duties and extra time associated with the position.

#### *Current director remuneration*

The aggregate amount of remuneration paid to non-executive directors (approved by shareholders) is currently \$650,000.

Further information in relation to the remuneration of directors can be found in the Directors' Report of Pacific Current Group's 2018 Annual Report.

#### *Director and employee incentive hedging*

Directors or employees, who have been issued incentives, are prohibited from entering into a transaction that is designed or intended to hedge their economic exposure to unvested entitlements under any equity based remuneration scheme. Pacific Current Group is satisfied there has been no director or employee hedging of incentives during the financial year.