



## **2020 Corporate Governance Statement and ASX Appendix 4G - Key to Disclosures of Corporate Governance Principles and Recommendations**

Hotel Property Investments Limited (ASX: HPI) is pleased to attach the Company's 2020 Corporate Governance Statement and ASX Appendix 4G (Key to Disclosures of Corporate Governance Principles and Recommendations).

The Company has chosen to adopt the Corporate Governance Principles and Recommendations (3rd Edition, March 2014) issued by the ASX Corporate Governance Council in respect of the financial year ended 30 June 2020.

Accordingly, the Company can lodge its Corporate Governance Statement on ASX and need not include it within its 2020 Annual Report.

The Company's 2020 Corporate Governance Statement, ASX Appendix 4G (Key to Disclosures of Corporate Governance Principles and Recommendations) and other ancillary corporate governance related documents can also be found on the Company's website:

[www.hpitrust.com.au](http://www.hpitrust.com.au)

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**Company Secretary**

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## **CORPORATE GOVERNANCE STATEMENT**

### **Introduction**

The HPI Group (“the HPI Group”) consists of the HPI Trust (“Trust”), HPI Limited (“Company”) and their controlled entities. The Company is the “Responsible Entity” for the Trust.

The shares in the Company are stapled to the units in the Trust in accordance with a Stapling Deed, and are quoted together as a single stapled security on the ASX (Australian Securities Exchange) under the Company Security Code **HPI**.

As Responsible Entity, the Company is responsible for the oversight and day-to-day management of the HPI Group.

This Corporate Governance Statement (“CGS”) relates to the stapled, listed securities in the HPI Group.

Details of the HPI Group’s key policies, practices and the Board Charter are available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

Responsibility for HPI’s proper corporate governance rests with the Board whose guiding principle in meeting this responsibility is to act honestly, in good faith and in the best interests of the HPI Group, in accordance with the law and HPI’s Code of Conduct. The Board will monitor the operational and financial position and performance of HPI and oversee its business strategy, including considering and approving the operating budget and Strategic Plan of HPI. The Board is committed to maximising performance, generating appropriate levels of Securityholder value and financial return, and sustaining the growth and success of the HPI Group. In conducting HPI’s business with these objectives, the Board seeks to ensure that the HPI Group is properly managed to protect and enhance Securityholder interests, and that the Directors operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing the HPI Group, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for HPI’s business and which are designed to promote the responsible management and conduct of HPI. In addition, the Corporations Act, Listing Rules, Constitutions, Stapling Deed and general law regulate the operations and responsibilities of HPI and its officers.

The Board supports the Corporate Governance Principles and Recommendations (3rd Edition, released in March 2014) (ASX Recommendations) developed by the ASX Corporate Governance Council. The Company has chosen to adopt the 3rd Edition of the ASX Recommendations in respect of the financial year ended 30 June 2020 (Reporting Period).

The Company’s practices are largely consistent with the ASX Recommendations. The Board uses its best endeavours to ensure that exceptions to the ASX Recommendations do not have a negative impact on the Company and the best interests of Securityholders as a whole.

As required by the ASX Listing Rules, this Corporate Governance Statement discloses the extent to which the Company has followed the ASX Recommendations during the Reporting Period, as summarised below:

<b>ASX Corporate Governance Principles and Recommendations</b>	<b>CGS Reference</b>
Principle 1 – Lay solid foundations for management and oversight	1.1 - 1.7
Principle 2 – Structure the Board to add value	2.1 - 2.6
Principle 3 – Act ethically and responsibly	3.1
Principle 4 – Safeguard integrity in corporate reporting	4.1 - 4.3
Principle 5 – Make timely and balanced disclosure	5.1
Principle 6 – Respect the rights of Securityholders	6.1 - 6.4
Principle 7 – Recognise and manage risk	7.1 - 7.4
Principle 8 – Remunerate fairly and responsibly	8.1 - 8.3

The Company has also prepared an ASX Appendix 4G – Key to Disclosures of Corporate Governance Principles and Recommendations (which reports on the Company’s compliance with each of the ASX Recommendations) – which will be lodged with the CGS on ASX following approval at the August 2020 Board Meeting.

A copy of the ASX Recommendations can be found on the ASX website at the following URL:  
<http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf>.

The HPI Group and Company’s latest Annual Reports (and other ASX market announcements and media releases) may be viewed and downloaded from the Company’s website at the following URL:  
[www.hpitrust.com.au](http://www.hpitrust.com.au)

The Corporate Governance page of the Company’s website contains the Charters, Codes and Policies which are referred to in this CGS, at the following URL:

[http://hpitrust.com.au/cms/?q=corporate\\_governance](http://hpitrust.com.au/cms/?q=corporate_governance)

The names of the Directors currently in office and their qualifications and experience are stated in the Company’s latest Annual Report.

### **Responsible Entity Compliance Framework**

The Company holds AFSL No. 479719, and as the Responsible Entity has responsibility to operate the Trust (as a registered managed investment scheme) and to perform functions conferred on it by the Corporations Act, the Trust Deed and the Compliance Plan. As Responsible Entity, the Company is also subject to duties including duties to act in the best interests of Securityholders, act honestly, exercise care and diligence, and treat Securityholders holding the same class of Securities equally.

In order to ensure compliance with the Constitution and the Corporations Act, the Company has adopted a Compliance Plan for the HPI Trust which sets out the key processes that it will apply in operating the Trust. The Compliance Plan also comprises an extensive compliance management and reporting structure.

The Company has formed a Compliance Committee of the Trust for the purposes of Part 5C of the Corporations Act. The Committee is responsible for monitoring and reporting on compliance with the Compliance Plan.

## **Principle 1 - Lay Solid foundations for management and oversight**

### **1.1 Board of Directors - Role and Responsibilities**

The Board has adopted a Board Charter (which will be kept under review and amended from time to time as the Board considers appropriate) to give formal recognition to the role of the Board, its Committees, Board composition requirements and the Company's Policy for the selection, nomination, appointment, retirement and rotation of its Directors.

The Board Charter requires that the Board comprise a minimum of three Directors and comprise a majority of independent Directors. The Chairman of the Board must be an independent, Non-Executive Director.

The composition of, and terms of reference for the Board will be reviewed annually by the Board.

The Directors are responsible for protecting the rights and interest of the Company, its Securityholders and other stakeholders, including creditors and employees, and are accountable for the overall management of the HPI Group.

The Board's responsibilities include:

- (a) protecting and enhancing the value of the assets of the HPI Group;
- (b) setting the strategies and directions and monitoring and reviewing against these strategic objectives;
- (c) reviewing and ratifying risk management systems, internal controls, Code of Conduct and legal compliance;
- (d) reviewing the HPI Group's accounts;
- (e) reporting to Securityholders;
- (f) approval of the Charters of the Committees;
- (g) approval and review of the operating budget for the HPI Group;
- (h) development and review of the Strategic Plan for the HPI Group;
- (i) evaluating performance and determining the remuneration of Senior Management;
- (j) ensuring the significant risks facing the HPI Group have been identified and adequate control, monitoring and reporting mechanisms are in place;
- (k) approval of transactions relating to acquisitions, divestments and capital expenditure;
- (l) setting and approving financial and dividend policy; and
- (m) considering and (if thought appropriate) authorising dividends and distributions of the Trust and Company to the extent permitted by the Stapling Deed.

To assist in the execution of these responsibilities, the Board has in place a Board Audit and Risk Committee, a Human Resources Committee and a Compliance Committee, and may establish other committees from time to time.

Management are responsible for implementing the strategic objectives and all other aspects of the day to day running of the HPI Group. Management must operate within the Delegations of Authority and the risk appetite set by the Board. Management are also responsible for providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities.

### **1.2 Board Appointments**

The HPI Group is committed to upholding the highest standards in corporate governance. The HPI Group's corporate governance framework is underpinned by the appointment of high quality Board members with the pre-requisite experience in overseeing listed entities. Specifically, the Board will be actively involved in developing appropriate governance arrangements and implementing a regime to continually monitor these arrangements.

Detailed background information will be obtained for a potential candidate to the Board and appropriate checks will be undertaken prior to appointment or before putting forward to the Securityholders for election. The identification of a potential Director may be assisted by the use of an external search organisation as appropriate. The Board collectively will consider potential candidates for Directorship and, if it is resolved to do so, will extend an invitation to join the Board.

The Company will provide Securityholders with any material information in the Company's possession which is relevant to a decision on whether or not to elect or re-elect a Director.

### **1.3 Terms of Appointment – Directors**

All Directors of the Company are required to sign a letter of appointment outlining the material terms of their appointment and the key roles based on their experience and skills. The level of remuneration for Non-Executive Directors primarily reflects the experience, time commitment, level of responsibilities and complexity shouldered. The remuneration of the Directors is outlined in the Remuneration Report in the Company's latest Annual Report.

The Company's Constitution requires that no Director (who is not the Managing Director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected.

### **1.4 The Company Secretary**

The Company Secretary is appointed by the Board and is responsible for developing and maintaining the information systems and processes that are appropriate for the Board to fulfil its role. The Company Secretary is responsible to the Board for ensuring compliance with Board procedures and governance matters. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. The Company Secretary is also responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

### **1.5 Diversity**

The Board has adopted a Diversity Policy for the Company, which includes details on how the Board takes into account the diversity criteria when identifying and assessing potential Director candidates and members of the senior management team. In adhering to its Diversity Policy the Company has attempted to introduce diversity standards to ensure an environment that is supportive of equal opportunity and equal access to career development, remuneration and benefits through the implementation of practices, procedures and policies which support, among other matters, diversity

Whilst the Company notes the ASX Principles and Recommendations, it recognises that the Company has a small team of Directors and employees, and as such the Board has determined that it will not set benchmarks for gender diversity, and will not report against its progress to achieve any measurable objective. The Company remains committed however, to ensuring that the best candidates both at a Board and employee level are appointed as opportunities arise regardless of gender, beliefs or racial background.

The Company believes that while this is departure from the Principles and Recommendations, it does not diminish its commitment to ensuring gender diversity.

### **1.6 Performance Review and Evaluation**

During the year the Board undertook an interview between the Chairman and each Director to discuss the performance of the Board and review the contribution, attendance and role of each Director. The Chairman of the Board Audit and Risk Committee conducted similar interviews in respect of the performance of the Chairman with each Director individually. The Chairman then provided individual feedback to each Director and the Chairman of the Board Audit and Risk Committee provided feedback to the Chairman of the Board. The Board then undertook a session in which the performance of the Board was discussed with all Directors present.

## 1.7 Performance and Review and Evaluation of Executive Key Management Personnel

The Board monitors and evaluates the performance of the Executive Key Management Personnel of the Company. Key performance indicators are defined and communicated on an annual basis to the Chief Executive Officer. An annual review of performance of the Chief Executive Officer is undertaken by the Chairman of the Board and the results of the Chief Executive Officer's assessment of other Executive Key Management Personnel is undertaken by the Chairman of the Board Audit and Risk Committee.

### **Principle 2 - Structure the Board to add value**

#### 2.1 Nomination for Board Appointment

The Board acts as the Nomination Committee and considers nomination matters from time to time at its regularly scheduled meetings. As stated in the Board Charter, in considering candidates for Directorship, the Directors will consider the skills, knowledge and experience of the candidate and the extent to which those skills are represented by the current Directors.

#### 2.2 Skills, Knowledge and Experience

The Board considers the present composition, size and balance in respect of qualifications and experience of the Board to be appropriate and effective for the control and direction of the HPI Group's business. Each Director is expected to bring to the Company their experience and skills in their respective fields, to add value to the performance of the Company.

The table below depicts the skills matrix of the Board during the Reporting Period.

Director's Background and Experience	Name of Director who falls within the categories
Accounting and Finance	Ray Gunston, Lachlan Edwards, John Russell, Giselle Collins and Don Smith
Gaming, Leisure and Hospitality	Ray Gunston, Lachlan Edwards, John Russell, and Giselle Collins
Hotel Property Management	John Russell and Giselle Collins
Risk, Management and Board Governance	Ray Gunston, John Russell, Lachlan Edwards, Giselle Collins and Don Smith
Property Development and Investment	Ray Gunston, John Russell, Giselle Collins and Don Smith

#### 2.3 Director Independence and Service

Name of Director	Date Appointed	Date elected/ re-elected (if applicable)	Independent
Ray Gunston	19 November 2013	22 November 2017	Yes
Lachlan Edwards	19 November 2013	17 November 2019	Yes
John Russell	23 May 2013	21 November 2018	Yes
Giselle Collins	19 April 2017	22 November 2017	Yes
Don Smith	1 October 2018	21 November 2018	No

#### 2.4 Director Independence

The Board is comprised of independent Non-Executive Directors, and a Managing Director.

#### 2.5 Chairman

The Board Chairman is responsible for the leadership, operations and governance of the Board and Board Committees. The Chairman shall also undertake the role as leader in chairing all Board and Securityholder meetings. A profile of the Board Chairman, John Russell (appointed on 23 May 2013, and subsequently re-elected on 21 November 2018), is stated in the Company's latest Annual Report. John Russell is an independent Non-Executive Director.

## **2.6. Induction and Professional Development**

To ensure that Directors are equipped with the knowledge and information they need to discharge their responsibilities effectively and that individual and collective performance is regularly and fairly reviewed the Company has a programme for inducting new Directors.

The induction process is set out in the Board Charter;

- (a) The Board will ensure that any new Director is appropriately introduced to the Company and amongst other things, will provide to any new Director:
  - (i) a copy of the Company's Constitution;
  - (ii) a copy of this Board Charter;
  - (iii) the most recent Annual Report of the Company;
  - (iv) a draft of the deed of indemnity, insurance and access given by the Company to each Director; and
  - (v) where appropriate, a summary of the most recent Strategic Plan of the Company.
- (b) The Board will also ensure that any new Director is acquainted with:
  - (i) knowledge of the industry within which the Company operates;
  - (ii) visits to specific Company operations when appropriate; and
  - (iii) briefings with Senior Management and industry experts where appropriate.

## **Principle 3 - Promote ethical and responsible decision-making**

### **3.1 Code of Conduct**

The Board has adopted a Code of Conduct to provide a set of guiding principles which are to be observed by all Company personnel, including Directors, officers and employees of the Company.

The Code of Conduct sets out the consequences for a breach of the Code of Conduct, including the possibility of legal or disciplinary action.

The Code of Conduct was developed to reflect the fundamental principles of the HPI Group, including ethical behaviour, honesty, integrity and respect. The Code of Conduct includes obligations relating to matters including (without limitation):

- (a) responsibilities to Securityholders and financial markets;
- (b) compliance with laws, policies and procedures;
- (c) relationships with politicians and government officers;
- (d) confidential information, privacy and maintenance of business records;
- (e) conflicts of interest; and
- (f) sustainability.

The Code of Conduct also sets out the consequences for a breach of the Code of Conduct, including the possibility of legal or disciplinary action. A copy of the Code of Conduct is available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

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

### **4.1 Board Audit and Risk Committee**

The Board has established the Board Audit and Risk Committee.

The role of the Board Audit and Risk Committee, as set out in the Committee's Charter is to assist the Board in fulfilling its corporate governance and oversight responsibilities relating to:

- (a) the integrity of the HPI Group's financial reporting;
- (b) the effectiveness of the HPI Group's systems of financial risk management and internal control;
- (c) the external audit functions;
- (d) the HPI Group's risk profile and risk policy; and
- (e) the effectiveness of the HPI Group's risk management framework and supporting risk management systems.

In fulfilling its responsibilities, the Board Audit and Risk Committee:

- (a) receives regular reports from management and the external auditors;
- (b) regularly meets with the external auditor;
- (c) reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- (d) meets separately with the external auditors at least once a year without the presence of management; and
- (e) provides the external auditors with a clear line of direct communication at any time to either the Chairman of the Board Audit and Risk Committee or the Chairman of the Board.

The Committee Charter states that the Committee will comprise a minimum of three Directors and comprise a majority of independent Directors. All members of the Committee must be Non-Executive Directors. The Chairman will be an independent Non-Executive Director appointed by the Board who is not the Chairman of the Board. Each member must be financially literate, have familiarity with financial management and an understanding of the industries in which the HPI Group operates. At least one member will have relevant qualifications and experience.

Under its Charter, the Committee will meet at least four times per annum. The number of meetings held by the Board Audit and Risk Committee and the individual attendances of the members at those meetings is set out in the Annual Report of the Company. A copy of the Charter is available at: [http://hpitrust.com.au/cms/?q=corporate\\_governance](http://hpitrust.com.au/cms/?q=corporate_governance).

The composition of the Board Audit and Risk Committee will be reviewed annually by the Board, and currently comprises the following members:

Raymond Gunston (Chairman); B. Com (Hons), Dip Ed, FCPA, GAICD.

Lachlan Edwards; B. Ec, Grad Dip Applied Fin and Inv, GAICD.

Giselle Collins; B. Ec, Grad Dip Applied Fin and Inv, GAICD.

The Board Audit and Risk Committee has unrestricted access to Management of the Company and the external auditor and may conduct or direct investigations into any matters within its Charter.

### **4.2. CEO and CFO Declarations**

The primary form of financial reporting for the Company and the Trust is in the form of consolidated financial statements for the HPI Group. The Chief Executive Officer and the Chief Financial Officer provide declarations to the Board in relation to the preparation of the consolidated financial statements, in accordance with section 295A of the Corporations Act.

### **4.3. External Auditor**

The HPI Group's policy is to appoint external auditors ("Auditor") who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually.

The Company's Auditor is selected for its professional competence, reputation and the provision of value for professional fees. Within the audit firm, the partner responsible for the conduct of the Company's audits is rotated every 5 years. A representative of the Auditor will attend the annual general meeting and is available to answer Securityholder questions about the conduct of the audit and preparation and content of the audit report.

## **Principle 5 - Make Timely and Balanced Disclosure**

### **5.1. Continuous Disclosure to ASX**

The HPI Group is committed to ensuring that Securityholders and the market are provided with price sensitive information relating to the HPI Group in a meaningful and timely manner in accordance with its obligations under the Corporations Act and the Listing Rules.

The Board has adopted a Continuous Disclosure Policy which establishes procedures which are aimed at ensuring that Directors and Management are aware of and fulfil the obligations of the Company in relation to the timely disclosure of material price-sensitive information.

The HPI Group communicates all important information relating to the HPI Group to its Securityholders. Additionally, the Board recognises that potential investors and other interested stakeholders may wish to obtain information about the HPI Group from time to time. To achieve this, the HPI Group communicates information to Securityholders and other stakeholders through a range of forums and publications, including the HPI Group website, at the annual general meeting, through the annual report and ASX announcements. The HPI Group also has in place a Securityholder Communication Policy to facilitate communication with Securityholders."

A copy of the Continuous Disclosure Policy is available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

## **Principle 6 - Respect the rights of Securityholders**

### **6.1 Market and Securityholder Communications**

The Investor Centre on the HPI Group website contains information about market and securityholder communications including media releases, key policies and the terms of reference of the Board Committees. All relevant announcements made to the market and any other relevant information will be posted in the Investor Centre on the website as soon as they have been released to ASX.

### **6.2 Investor Relations**

The Board has adopted a Communications Policy setting out the means by which the HPI Group will communicate information to Securityholders. The Board's aim is to ensure that Securityholders are informed of all major developments relating to the HPI Group in a timely and effective manner. Information will be communicated to Securityholders through the lodgement of all relevant financial and other information with ASX and publishing information on the website.

The Company will handle any complaints received from Securityholders in accordance with its Complaints Handling Policy. The Company is a member of the Australian Financial Complaints Authority, an independent dispute resolution body, which is available to Securityholders in the event that any complaints cannot be satisfactorily resolved by the Responsible Entity.

A copy of the HPI Group's Securityholder Communications Policy is available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

### 6.3. Securityholder Participation at Meetings

Securityholders have the ability to communicate with Directors through various means including:

- (a) having the opportunity to ask questions of Directors at all general meetings;
- (b) the presence of the Auditor at the annual general meeting (in person or by teleconference, as practicable and appropriate) to take Securityholder questions on any issue relevant to their capacity as Auditor;
- (c) the Company's policy of expecting Directors to be available to meet Securityholders at the AGM; and
- (d) the Company having Directors available to answer Securityholder questions submitted by telephone, email and other means (where appropriate).

The key forum for two-way communication between the Company and its Securityholders is its annual general meeting. The Board encourages Securityholder participation at the Company's annual general meeting and other general meetings of Securityholders and the Chairman encourages questions and comments from Securityholders and seeks to ensure that Securityholders are given ample opportunity to participate. Securityholders who are unable to attend the annual general meeting or a general meeting may submit questions and comments before the meeting to the Company and/or to the Auditor (in the case of the AGM).

### 6.4 Electronic Communications

The Investor Centre on HPI's website [www.hpitrust.com.au](http://www.hpitrust.com.au) contains the following information for the benefit of Securityholders:

- (a) all market announcements and related information (posted immediately following release to the ASX);
- (b) details relating to the Directors and key executives; and
- (c) Board and Board Committee Charters and other corporate governance documents.

In order to facilitate Securityholder engagement, the Company may webcast and/or provide copies of Investor presentations, general meetings results and selected analyst and media briefings within the Investor Centre on the Company's website.

A copy of the HPI Group's Securityholder Communications Policy is available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

### **Principle 7 - Recognise and Manage Risk**

The HPI Group's business of investing directly in freehold property exposes it to certain risks which the HPI Group actively monitors and seeks to manage. The Company's Board Audit and Risk Committee ("BARC") assists the Board in fulfilling its responsibilities relating to the oversight of the HPI Group's risk profile. During the period the BARC and the Company's Board reviewed and updated the Risk Management framework, including the risk matrix. Interest rate risk, market risk and regulatory risk are considered the key risks for the HPI Group.

Further material risks include credit availability, tenant credit risk, valuation risk, property liquidity risk, succession planning, possible adverse impacts of inflation and the COVID-19 pandemic.

The HPI Group considers risk management fundamental to maintaining efficient and effective operations and generating and protecting Securityholder value. For the HPI Group, the management and oversight of risk is an ongoing process integral to the management and corporate governance of its business.

The HPI Group has adopted risk management policies which aim to establish a consistent approach to identifying, reporting and addressing material business risks throughout the organisation. The risk management policies and risk management systems established under the policies are administered by the Board in consultation with the HPI Group's Senior Management.

The Board will have primary responsibility for ensuring that the significant risks facing the HPI Group have been identified and adequate control, monitoring and reporting mechanisms are in place. The Company, as Responsible Entity of the Trust, has established a Compliance Committee pursuant to

Part 5C of the Corporations Act, to assist the Board to discharge its risk management and compliance responsibilities as Responsible Entity. This Compliance Committee is responsible for the oversight of risk management, internal control systems and compliance matters specific to its obligations as the Responsible Entity. Under the Compliance Committee Charter, the Committee will meet at least once in each quarter. Significant matters arising during a quarter are addressed by Management and escalated as appropriate.

A copy of the HPI Group's risk management policies are available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

### **7.1. Risk Committee**

The Board does not have a stand-alone Risk Committee. However, the Board Audit and Risk Committee has an important risk management and compliance function, with key responsibilities being to ensure that an appropriate risk management framework is in place and is operating properly and reviewing and monitoring legal and policy compliance systems and issues as follows:

- (a) Review and recommend to the Board, and oversee the operation of, risk management policies and procedures, so that there is, amongst other things:
  - (i) A procedure for identifying risks relevant to the HPI Group's business and controlling their impacts on the HPI Group;
  - (ii) An adequate system of internal control, risk management and safeguarding of assets;
  - (iii) A system of reporting and investigating breaches of risk management policies and procedures;
  - (iv) A review of internal control systems and the operational effectiveness of risk management policies and procedures;
  - (v) A culture of risk management and compliance throughout the HPI Group; and
  - (vi) Adequate resources to support the risk management function and enable proper remedial action to be taken to address areas of weakness;
- (b) Review and monitor the HPI Group's risk management performance, including conducting specific investigations where necessary;
- (c) Assess the effectiveness of assurance activities and review assurance reports;
- (d) Evaluate the structure and adequacy of the HPI Group's insurances; and
- (e) Recommend to the Board any corrective action resulting from its review and assessment.

The Board Audit and Risk Committee Charter is available at [www.hpitrust.com.au](http://www.hpitrust.com.au).

### **7.2. Internal Control and Risk Management**

The Board considers risk management fundamental to maintaining efficient and effective operations and generating and protecting Securityholder value. The management and oversight of risk is an ongoing process integral to the management and corporate governance of the HPI Group.

The Board determines the HPI Group's tolerance for risk and is committed to a risk management system that balances the need to preserve long term value, prudently manages the properties, maintain good relationships with tenants, and facilitates a culture of innovation. The HPI Group's risk management system is designed to assist the HPI Group to achieve its strategic and operational objectives. It aligns with the vision, strategy, processes, technology and governance of the HPI Group and provides for:

- (a) appropriate levels of risk taking;
- (b) an effective system for the management of risk across the HPI Group;
- (c) protection against incidents causing personal injury and property damage;
- (d) development of risk management and control plans to reduce or minimise unforeseen or unexpected costs;

- (e) an ability to identify, prioritise and respond to risk in a manner that maximises opportunities;
- (f) reliable financial reporting and compliance with laws, regulations and standards;
- (g) sound insurance management practice; and
- (h) protection of assets from planned and unplanned events.

### **7.3. Internal Audit**

The HPI Group does not have an independent internal audit function due to the size of the organisation, and relies on the controls testing and recommendations to the Board from the external Auditor.

The Board has primary responsibility for ensuring that the significant risks facing the HPI Group have been identified and adequate control, monitoring and reporting mechanisms are in place.

### **7.4 Risk Exposures**

The risk management function is supported by the Board Audit and Risk Committee. The Board Audit and Risk Committee have reviewed the overall risks to the HPI Group and have reported to the Board that there are in their opinion no material un-mitigated exposures to economic, environmental or social sustainability risks that would have an impact on the HPI Group or its operations.

Whilst the HPI Group is not subject to significant environmental regulation in respect of its property activities, the Directors are satisfied that adequate systems are in place for the management of its environmental responsibility and compliance with the various licence requirements and regulations. Further, the Directors are not aware of any material breaches of these requirements.

## **Principle 8 - Remunerate Fairly and Responsibly**

### **8.1. Human Resources Committee**

The Board has established the Human Resources Committee. The role of the Committee is to recommend to the Board policies and practices which enable the Company to attract, develop, retain and motivate high calibre Directors and Executives.

The Human Resources Committee is responsible for recommendations to the Board with respect to:

- (a) executive remuneration strategy, structure and practice having regard to the HPI Group's strategic objectives, corporate governance principles and competitive market practice;
- (b) the terms and conditions of the Chief Executive Officer's (CEO) employment contract and of Key Management Personnel (KMP) reporting to the CEO, including fixed and variable remuneration, equity based payments, benefits, termination compensation and any alterations thereto;
- (c) the wider remuneration review and relevant human resources policy setting framework operating within the HPI Group to ensure that it is merit based, free from bias and results in remuneration outcomes that are aligned with market trends and Securityholder expectations;
- (d) evaluating the performance of the CEO;
- (e) consideration of Senior Management succession plans, as and when required;
- (f) the operation of any Long Term Incentive (LTI) and Short Term Incentive (STI) Plans
- (g) ensuring that the procedures surrounding termination of employment and performance management are robust and review and approve any termination payments or one-off/ex-gratia payments proposed to departing executives;
- (h) ensuring that Management and the Board have sufficient external professional advice and information to facilitate informed decision making regarding remuneration; and
- (i) adoption of the Remuneration Report, having satisfied itself that it has been prepared in accordance with the Corporations Act 2001 (Cth) for inclusion in the Company's annual Directors report.

The Committee Charter states that the Committee will comprise a minimum of three Directors with all being independent Non-Executive Directors. The Chairman will be an independent Non-Executive Director appointed by the Board who is not the Chairman of the Board.

Under its Charter, the Committee will meet as often as is required to fulfil its responsibilities. The number of meetings held by the Human Resources Committee and the individual attendances of the members at those meetings is set out in the Annual Report of the Company. A copy of the Charter is available at: [http://hpitrust.com.au/cms/?q=corporate\\_governance](http://hpitrust.com.au/cms/?q=corporate_governance).

The composition of the Human Resources Committee will be reviewed annually by the Board, and currently comprises the following members:

Lachlan Edwards (Chairman). independent Non-Executive Director;

John Russell. independent Non-Executive Director; and

Giselle Collins. independent Non-Executive Director.

## **8.2. Remuneration Policy**

The Board's overall objective is to ensure that executive remuneration is effective in attracting, motivating and retaining high calibre executives to allow the HPI Group to generate sustainable growth in value for Securityholders, and that in doing so reflects the Group's risk culture and organisational values.

More specifically, the executive remuneration framework is intended to:

- (a) Provide fair remuneration outcomes for executives having regard to relevant market remuneration levels and their ability, experience and contribution to the HPI Group's sustainable long-term performance;
- (b) Be sufficiently closely linked to the HPI Group's sustained growth performance to provide alignment with the interests of Securityholders;
- (c) Ensure that remuneration and remuneration outcomes are determined on a clear and transparent basis; and
- (d) Take specific account of the circumstances applying to the HPI Group to achieve the right balance between fixed and variable remuneration and the right timeframes and performance measures used to assess variable remuneration outcomes.

A mix of fixed and performance-related remuneration is provided to achieve these objectives. During the year the Board has reassessed its growth objectives and consequently introduced a short-term incentive ("STI") plan to complement the existing equity based long term incentive plan ("LTI"). Under the current business model, the Board anticipates that the weighting of total remuneration be to fixed pay as it is reflective of the steady and predictable nature of HPI's current business.

The remuneration paid to Directors and Key Management Personal, including composition of remuneration is included in the Annual Report.

## **8.3. Equity Based Remuneration Scheme**

The Company established the LTI Plan in the 2017 Reporting Year. Under the LTI plan, participants receive grants of Rights over HPI Securities. Each Right may be exercised to provide one HPI Security if the performance conditions attached to that Right are satisfied and the Executive remains employed with the HPI Group until the relevant vesting outcomes have been determined. To further maximise the alignment of interests between Executives and Securityholders, for the period between vesting and exercise of a Right, the Company will remunerate the executive an amount equivalent to the distributions paid on a Security over that same period for each Right that vests.

The Security Trading Policy prohibits participants from entering into hedging arrangements in relation to the Company's and Trust's securities, including, without limitation, arrangements that would have the effect of limiting the exposure of the person to risk relating to an element of their remuneration that has not vested, or has vested but remains subject to a holding lock.