

Submission

Market Conduct Division, Treasury

Greater transparency of proxy advice

Submission from Aware Super

4 June 2021

Submission to Treasury

About Aware Super

Aware Super (the new name for First State Super) has been the fund for people who value the community since 1992. We're one of Australia's largest funds and we're continuing to grow.

We merged with VicSuper and WA Super in 2020 and manage approximately \$140 billion in savings, including \$31 billion in retirement assets, for more than one million members located across the country. Our members—including teachers, nurses, public servants and emergency services officers—work in roles that support our community, and they expect us to do the same by investing in ways that do well for them, and good for all.

Background

As stewards of our members' retirement savings, we have an obligation to ensure that the companies and other assets in which we invest are governed and managed appropriately to produce the best financial outcome for members. We take our voting rights seriously and want to ensure that we are acting in our members' best interests when we vote, which is why we use proxy advisers as one key input into our voting process.

At Aware Super we exercise our voting rights at all eligible company meetings. Our process includes receiving proxy advice and recommendations; direct engagement with companies; direct engagement with our external or internal fund managers, and other inputs such as broker advice.

Proxy voting recommendations are only one input into our decision-making process. We do not automatically accept proxy advice – Aware Super has a robust process to ensure we include both our fund managers' views and the insights we gain from our direct engagement with companies in terms of whether we support management proposals.

Aware Super uses proxy advisers to efficiently manage certain aspects of our shareholder rights and to reduce costs to our members – without them we need to develop this capability internally which would come at a much greater cost – that would ultimately be passed on to members. Our preliminary estimate of this cost is that we would need at least an additional 10 -15 staff (possibly more), plus an upgrade to our system which would cost in the proximity of \$2-4 million to establish, maintain and monitor.

Our feedback on the consultation paper

We are supportive of clear and consistent disclosure of trustee voting. We have recommended targeted enhancements to the current disclosure regime through an industry code and completion of a Regulatory Impact Statement prior to a decision being made.

However, we ask Treasury to be conscious of getting the balance right between rights of larger shareholders (and in our case, our superannuation members) and those of the investee companies and therefore, we do not support investee companies receiving proxy adviser recommendations

5 days before subscribing investors. We recommend larger shareholders (subscribing investors) and investee companies receive proxy adviser recommendations at the same time.

Proposals to have companies review proxy reports before these are received by the clients who pay for them will significantly diminish the independence of the research shareholders receive. This approach is not applied to other forms of investment research, including broker research and we do not see any reason why there should be special treatment of proxy research. These proposals would add compliance costs to the financial detriment of members and reduce the time available for shareholders to utilise research.

Imposing a 5 day window for company review would also diminish shareholder engagement. There is usually a 28 day period between the release of meeting information and the relevant meeting. This creates a short window for investors to evaluate voting decisions and engage with the relevant company. Adding a 5-day window to this timeline would only reduce the time available to evaluate voting proposals and to engage with the relevant company.

Our feedback on the options presented in the consultation paper is outlined in the table below. Should Treasury have any questions we would be happy to provide further information.

Options for consultation	Aware Super feedback
<p>Option 1: Improved disclosure of trustee voting.</p>	<ul style="list-style-type: none"> • Under current ASIC requirements, we are required to publish our voting behaviour on an annual basis. We disclose trustee voting quarterly (see link below). • As we use a range of inputs for our voting outcomes, disclosing whether our final vote is in line with proxy advisor recommendations is not useful information for investee companies, boards and management. • Therefore, we recommend disclosure of whether an investor has supported company resolutions, rather than whether the investor has supported proxy adviser recommendations. • Rather than being law, this enhanced disclosure requirement should be in industry codes (including the Stewardship Code) reflecting best practice. • This enhanced disclosure system will provide investee companies and other interested parties, including super fund members, with meaningful information while minimising cost, complexity and red tape. These disclosures and our voting policy are currently made available on our website. • Proxy voting Governance and policies Aware Super - Australian Superannuation Fund.

Options for consultation	Aware Super feedback
<p>Option 2: Demonstrating independence and appropriate governance.</p>	<ul style="list-style-type: none"> • Proxy advisers are already meaningfully independent of Aware Super because: <ul style="list-style-type: none"> - As outlined above, proxy adviser recommendations are one of a range of inputs into our decision-making, - We do not hold an equity stake in any proxy advisers, - While proxy advisers provide a voting recommendation, as a shareholder, we still make our own voting decisions, and - Proxy advisers are engaged as service providers on a fee for service basis. • Therefore, we do not see a need for change. • In relation to trustee disclosure, our proxy voting policy and obligations are already outlined on our website as noted in our response to Option 1, and we are supportive of targeted improvements in disclosure through industry codes.
<p>Option 3: Facilitate engagement and ensure transparency.</p>	<ul style="list-style-type: none"> • We believe this option does not get the balance right between the rights of key shareholders and those of investee companies and do not support it. • While we respect listed companies' right of reply, providing information on proxy voting to investee companies 5 days prior to sharing this information with subscribing investors, diminishes the effectiveness of our voting rights which is not in the interests of our members. • We recommend larger shareholders (subscribing investors) and investee companies receive proxy adviser recommendations at the same time.
<p>Option 4: Make materials accessible.</p>	<ul style="list-style-type: none"> • Where appropriate, we inform companies directly of our voting decision where we have not supported them and include our rationale. • Should a company wish to provide a formal response to a proxy recommendation (which some currently do) we support this. Currently the company needs to reach out to all investors to share their response. This can be time consuming and may miss some investors. • We would support a common portal or sharing of company responses to any proxy recommendations and proxy advisors notifying us of this response. • We believe this would benefit both the company and investors.

Options for consultation	Aware Super feedback
<p>Option 5: Ensuring advice is underpinned by professional licensing.</p>	<ul style="list-style-type: none"> • In line with guidelines issued by the Department of Prime Minister and Cabinet, we recommend Treasury publish a Regulatory Impact Statement on proposed changes to licensing and disclosure prior to a decision being made. • Australian Securities and Investments Commission (ASIC) conducted a similar review in 2017 and ultimately determined no further regulation was needed.

As noted above, we are supportive of clear and consistent disclosure of trustee voting. However, we ask Treasury to be conscious of getting the balance right between rights of larger shareholders (and in our case, our superannuation members) and those of the investee companies.