Dimensional

31 May 2021

Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email: MCDproxyadvice@treasury.gov.au

Re: Greater Transparency of Proxy Advice – Consultation Paper, April 2021

Dear Sir or Madam,

DFA Australia Limited ("Dimensional") appreciates the opportunity to provide the Treasury with our views on its proposals regarding proxy advice.

Dimensional is an investment manager holding an Australian Financial Services License in Australia, a United States ("U.S.") registered investment adviser, and a wholly owned subsidiary of U.S.-based Dimensional Fund Advisors LP. Together with our affiliates, we manage A$839 billion in commingled funds and separate accounts for investors around the world.[1] Dimensional established an Australian office in 1994 and began offering investment solutions to local investors with the launch of the first Dimensional Wholesale Trusts in 1999. As at 31 March 2021, over A$23 billion of our assets under management were invested in Australian equities, and over 2020, we voted 2,598 distinct proposals at 517 meetings in Australia.

Dimensional believes it is important to make timely and informed proxy votes on behalf of our clients. To help inform how we vote proxies at shareholder meetings of companies listed on the Australian Stock Exchange (which we refer to in this letter as "issuers"), we review research and voting recommendations from multiple proxy advisers. The information provided by proxy advisers is typically only one of several inputs into our voting decision on a given proposal. Dimensional retains final discretion on how to vote.

While we are generally supportive of additional mechanisms that would allow issuers to more systematically submit information to proxy advisers, we are concerned by proposed option 3, which would require proxy advisers to provide reports containing their research and voting recommendations to the relevant issuer *before* they are distributed to proxy adviser clients.

In view of the potential costs and delays associated with option 3, we believe that requiring proxy advisers to provide their reports to issuers before distributing them to their clients is unnecessary, because it runs the risk that proxy advisers will lose their independence, is likely to increase costs for proxy advisers and their clients, and would cause undue delays in proxy adviser clients receiving reports that could have very negative potential consequences.

Our view is that requiring proxy advisers to distribute their research and voting recommendations to issuers in advance of publication to clients is unnecessary. In our experience, the data we have received from the multiple proxy advisers we use has been high quality, and generally, we have not observed material errors in the proxy analysis we have received.

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[1] In Australian dollars as of 31 March 2021.

Further, we believe an important reason to use research from proxy advisers is that they are independent from influence of the issuers that they are reporting on. Requiring proxy advisers to provide reports to the relevant issuer before they are distributed to clients creates the risk that proxy advisers may lose this independence.

In addition, giving issuers a period of five days to respond to a proxy adviser's report before it is made public would mean less time for proxy advisers to prepare their reports, less time for shareholders to conduct their usual voting due diligence, or both. In the table below, we outline the typical timeframe leading up to an issuer's annual general meeting. In our experience, proxy advisers generally take about 10 days to produce their reports, which gives us and other proxy adviser clients 10 days to review these reports and conduct any additional internal diligence before casting our vote. At Dimensional, our internal process may include engaging with issuers, conducting additional research, and circulating the issues for internal discussion. Some of our processes—such as verifying information and developing additional questions—build upon the proxy research reports provided by proxy advisers. All of this requires lead time to conduct properly.

Typical Timeframe Leading up to an Annual General Meeting	
T-28	Notice of annual general meeting provided
T-18	Proxy advisers publish reports
T-8	Votes must be cast
T	Annual general meeting

If proxy advisers are required to provide their reports to an issuer five days before making the reports public, then those five days would have to come from the 10 days that proxy advisers usually have to produce their reports or the 10 days that proxy adviser clients have to review the reports. If proxy advisers are required to produce their reports on an even more compressed timeframe, we believe that this may negatively impact the quality of these reports and will require more resources, which will lead to additional costs for proxy advisers. These costs are likely to be passed on to proxy adviser clients and ultimately borne by end investors. In its letter to the U.S. Securities and Exchange Commission on its proposed amendments to rules relating to proxy advice, Glass Lewis, which has an Australian subsidiary, CGI Glass Lewis, stated that additional costs would inevitably have to be passed on to their institutional investor clients.[2] Institutional Shareholder Services, which also provides services in the U.S. and Australia, similarly commented on the U.S. proposal and indicated that costs may be passed through to their clients.[3]

More importantly, we are very concerned that a delay in the delivery of reports to proxy adviser clients will lead to less informed—or uninformed—voting. If reports are delayed, this could mean that proxy adviser clients would have to cast votes at meetings without the benefit of advice that they have paid for, or worse, that they may miss voting deadlines altogether. Given these risks, we believe that any perceived benefit that might result from giving issuers an opportunity to comment on a proxy adviser's report would be overwhelmed by the possible consequences of a delay.

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2 Letter to Alex Goodenough, Office of Management and Budget, from Nichol Garzon-Mitchell, Glass Lewis, re File. No. S-7-22-19 (January 7, 2020), available at https://www.sec.gov/comments/s7-22-19/s72219-6617071-202957.pdf.

3 Letter to Vanessa Countryman, US Securities and Exchange Commission, from Institutional Shareholder Services Inc., re File. No. S-7-22-19 (January 31, 2020), available at https://www.sec.gov/comments/s7-22-19/s72219-6732023-207470.pdf.

For these reasons, we recommend against adopting option 3. While it may facilitate engagement between issuers and proxy advisers, ultimately, we believe it may lead to a diminished voice for investors and less rigorous oversight of management.

Our recommendations

We believe that proposed option 4, which would require proxy advisers to notify clients on how to access the issuer's response to the report, for example, via a website link, would be an appropriate way to facilitate engagement and ensure transparency. We also offer the following recommendations:

- Issuers could be provided an opportunity to review and respond to the full research report after the report is made available to clients of the proxy adviser.
- Research reports could note if issuer input is pending or if an issuer has chosen not to provide input.
- If the issuer disagrees with the factual information provided in the proxy adviser's report, the issuer could flag the inaccuracies to the proxy adviser and the proxy adviser could outline the issuer's comments and the proxy adviser's response.
- Additionally, if the proxy adviser firm engaged with the issuer prior to publishing the report, the proxy adviser could indicate in the report the details that were changed in response to the issuer's feedback.
- With respect to the time required to facilitate the above interactions, we suggest Treasury work with the proxy advisers to determine acceptable issuer response windows. We stress that reducing the current timeliness of when proxy adviser research reports are available is highly undesirable.

Dimensional thanks the Treasury for considering our comments and recommendations and will gladly make ourselves available for further discussion or to answer any questions concerning this submission.

Sincerely,

Bhanu Singh
Head of Portfolio Management APAC, Director & Vice President
DFA Australia Limited