

Market Conduct Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: MCDproxyadvice@treasury.gov.au

20 May 2021

Dear Sir or Madam

**Greater Transparency of Proxy Advice – Consultation Paper, April 2021**

Thank you for the opportunity to provide feedback on the proposals under consideration regarding proxy advice.

This submission is on behalf of Ethical Partners Funds Management Pty Ltd (EPFM). EPFM is an Australian equities specialist fund manager that manages segregated investment mandates under Investment Management Agreements and also operates a managed investment scheme, called the Ethical Partners Australian Share Fund. EPFM currently manages over \$2.5bn in funds under management. The business founders Nathan Parkin and Matt Nacard have a combined 35 years' experience in financial markets.

EPFM subscribes for research on Annual General Meeting (AGM) proposals for ASX listed companies from a number of different entities. We use proxy advice or voting recommendations only as an input to our independent decision making process, not as a *fait accompli*. Our voting decisions are determined by our independent views about what is in the best financial interests of our clients.

We as a firm have direct relationships with Boards and Directors and we regularly engage with those individuals and committees on a wide range of topics including AGM voting. When forming a view on voting we utilise some external advice as well as our own company interactions and experience. There are many instances where external proxy advice does not concur with our view. While we independently verify research before we act upon it we also believe that having an independent, third party, insightful view from a proxy advisory firm that is untarnished by prior company response or review is an important step in the process of deciding the best course of action as a shareholder.

We make specific comments on the following options canvassed below:

*Option 3: Facilitate engagement and ensure transparency ... proxy advisers would be required to provide their report containing the research and voting recommendations for resolutions at a company's meeting, to the relevant company before distributing the final report to subscribing investors. For example, a period of five days prior to the recommendation being made ...*

A third party untarnished (by listed company response or review) view of voting recommendations and Director elections from proxy advice firms is an important component of seeking truths such as individual track record, appropriate remuneration, validity of corporate actions and other proposals being put to shareholders by companies. It is important to have a range of inputs (sometimes with competing views from various proxy advice firms) as a shareholder as our best and sometimes only

opportunity to protect capital or influence Board decision making is through AGM voting. In addition to our own research, an important consideration in this process is an honest and independent view from a number of third parties. To insert a requirement that companies can comment before EPFM gains access to this third party research will likely obfuscate the flow of information and leave too little time to properly consider facts that need further debate, and likely diminish corporate governance and the outcome for investor and company alike.

In our view it is not in the best interests of institutional shareholders such as Ethical Partners for companies to systematically have the opportunity to respond to proxy advice as part of the formal research approach. We believe that in some cases this may pervert the course of the recommendations or at best dilute the messages therein. While in the majority of cases the interests of Boards and shareholders do align, to presuppose that Boards and shareholder interests are *always* aligned would be a failure of corporate governance. It is better to have direct and honest advice from proxy advisers, even that we may not agree with, than research diluted under the influence of Boards. Shareholders have limited avenues to hold Boards accountable with one of the main ones being AGM voting, hence the importance of independent thinking.

The process envisaged in the consultation paper that companies have the chance to respond is superfluous to our requirements. Ethical Partners already has the opportunity to engage directly with companies prior to voting at AGMs. There is no need for this process to happen before proxy research is released to investors, in our view.

*Option 4: Make materials accessible. Under this option, proxy advisers would be required to notify their clients on how to access the company's response to the report.*

We consider this proposal to be unnecessary. EPFM already has access to professional sources of market information and any company can make an announcement on its website or on the ASX platform if required so that all investors can be equally informed if it believes there are misrepresentations made to the investing public.

*Option 5: Ensuring advice is underpinned by professional licensing. Under this option proxy advisers would be required to obtain an AFSL for the provision of proxy advice. The purpose of the license would be to ensure that proxy advisers are making assessments on issues that have a material impact on the conduct of business in Australia with appropriate regulatory oversight and the necessary care and skill required.*

We believe the requirement of additional licensing would not improve the standard of proxy advice.

In summary EPFM makes independent decisions and utilises some proxy advisors as part of the process to make determinations in the best financial interests of our clients. We value an independent view from proxy voting researchers and already have sufficient avenues to seek clarification with companies directly before arriving at voting outcomes. The reforms being considered (because of the pre-publication to issuers) have the potential to limit the time that we have to consider external research and this could lead to a decline in information flows and corporate governance outcomes.

Conclusion

We suggest that no action is required in relation to Options 3-5 contained in the Consultation Paper.

Yours faithfully



Nathan Parkin  
Investment Director



Matt Nacard  
CEO