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Via email: mcdproxyadvice@treasury.gov.au

Dear Madam/Sir

Submission – Consultation paper Greater Transparency of Proxy Advice

First Super (the Fund) welcomes the opportunity of making a submission in response to Treasury's Consultation on Greater Transparency of Proxy Advice.

First Super is a profit to members superannuation fund. It has approximately 45,000 members and AUD3.3b of funds under management. First Super is a member of the Australian Council of Superannuation Investors, Australian Institute of Superannuation Fund Trustees, and the Australian Shareholders Association.

Implementing First Super's investment strategy, First Super invests in Australian and international publicly listed shares. For international shares First Super invests in pooled unit trusts and therefore relies upon the managers of those vehicles to exercise proxy votes.

In the case of Australian shares First Super invests in both pooled unit trusts and though individually managed accounts (IMAs). Investing in IMAs provides First Super with the opportunity to exercise proxy votes.

First Super's Investment Governance policy sets out its investment philosophy and the application of this philosophy through its Corporate Governance policy. The following beliefs underpin the Corporate Governance policy:

- We believe that over the long-term companies and organisations that adopt best practices across environment, social and governance deliver better returns.
- Good governance in investee companies is a high priority.
- Good treatment of stakeholders by investee companies is important because it contributes to better community and member outcomes and viable economies.

First Super's view is that to achieve members' best interests and best financial interests, it must consider application of environment, social and governance (ESG) factors when investing. This view is based upon the belief that investee companies that have a better record of application of ESG across their businesses achieve better and more sustainable returns for shareholders. This belief is supported by a considerable body of peer-reviewed research.

Our Corporate Governance Policy states that the First Super's default position is to vote in accordance with ACSI's advice with the caveat that Trustee directors can request additional consideration by the Fund on how the Fund's votes should be cast on a particular resolution.

In addition, the Fund will vote against resolutions adopting remuneration reports where either the combined total of the CEO's remuneration package or director fee budget has increased at percentage rate greater than the increase in average weekly ordinary earning times earning for the comparable period.

The rationale for this is the Board's concerns about excessive remuneration creating a negative impact on company image, staff morale, profitability, share price and returns to shareholders.

The Fund is a member of the 30% Club which has the objective of ensuring greater diversity at a director level through at least 30% of directors on ASX listed companies being women. To give effect to this policy, the Fund votes against the re-election of the Chair of the Nominations Committee where the 30% target has not been achieved.

As a matter of course the Fund writes to all investee companies once a manager invests in them informing them of the above Fund policies. In the past five years, the Fund has only had one investee company request a meeting to discuss these policies.

In relation to the options set out in the consultation paper, our specific comments are:

Option 1 – Improved disclosure of trustee voting

This is of no concern to First Super as it has available for download from its website how it has voted on all resolutions. First Super informs its members of proxy voting and investee company governance issues of significance in its annual report.

We see no issue in disclosing from whom the Fund has received proxy voting advice and how the Fund has voted in relation to that advice. We support funds reporting on a six-monthly basis rather than annually.

The most efficient and timely method of informing members and interested persons about proxy voting policy and how and why votes have been cast is through the Fund's website. This would follow precedent of using fund websites for the MySuper product dashboard disclosure and reporting.

We do not believe that providing members of proxy voting advice prior to the annual members' meeting (AMM) would serve any useful purpose. There is a significant risk of the notification for AMM developing an omnibus bill feel. There is already considerable information required to be disclosed in the AMM notice.

To require notification to members of proxy voting matters prior to AMM separate from the AMM notice would be a significant cost impact upon fund members. A substantial proportion of First Super's members have elected to continue to receive paper communications from First Super.

Option 2 – Demonstrating independence and appropriate governance

We are not aware of any proxy voting advisor being dependent upon or having been captured by or have captured users of their services.

First Super has a need for proxy voting advice. It does not have the resources to cover all investee company annual general meetings and special general meetings. Even if First Super had greater resources, it would not possess the requisite degree of expertise for some complex governance resolutions.

Acquisition of proxy voting advice services from capable and competent service provider is the most efficient and cost-effective manner for First Super to act in members' best financial interests.

First Super acquires these services from ACSI, not because it is an ACSI member but rather it is the most economic service available to it. Again this is in members' best financial interests. ACSI proxy voting services are an additional cost to ACSI membership. We note that the Fund is also a member of the Australian Shareholders' Association (ASA) to enable it to gain access to their recommendations as an additional source of information when determining how to vote.

First Super values ACSI's independence from its member funds and other financial services service providers. We have seen no evidence of ACSI acting in concert with member funds in developing voting recommendations. If there was evidence of this, First Super would not subscribe to the proxy voting services.

As noted above, First Super's corporate governance policy sets out how it exercises its votes. This means even where ACSI or the ASA recommends a vote in favour of a resolution, First Super will vote against the resolution if it is contrary to its policy.

Practically what this means is that First Super has voted against remuneration reports twice more frequently than ACSI has recommended voting against.

Option 3 – Facilitate engagement and ensure transparency

We do not support this option as this creates significant potential for disputes about matters of opinion rather than fact. We are not aware of any circumstances where ACSI's recommendations have been factually incorrect. We are aware of circumstances where recommendations go to matters of opinion, which investee companies have taken exception to, as they are entitled to do so.

We have seen some investee companies take considerable issue with remuneration report recommendations in circumstances where the relevant board has waived performance hurdles on bonuses or share vesting. Waiving conditions is not in shareholders interests as it reduces profits and therefore the size of the dividend pool.

Voting recommendations do not deny investee companies of the ability to engage directly with shareholders. In recent times First Super has been contacted directly by investee companies after proxy voting recommendations have been made and prior to the relevant AGM.

Practically, it would come as no surprise to investee companies about proxy advisors recommendations on certain issues nor would it come as a surprise where owners want to hold directors to account for gross mismanagement.

Proxy voting controversy could be avoided by boards if they were to apply themselves to the task as hand which is, amongst other things, acting in the best financial interests of shareholders rather than over-rewarding themselves and their executives or forgiving executive underperformance.

We do not support a “blackout” where proxy advisers are unable to inform their clients of their recommendations during the proposed consultation period between the advisor and the subject company. If this were to be the case, it creates the potential for subject companies to “run down the clock” preventing clients from having adequate time to consider recommendations.

There are also practical considerations in relation to cut-off time to lodge votes. For superannuation funds, fund shares are held on trust by custodians. Custodians may require an instruction on how to vote 72 to 48 hours prior to the voting deadline. If there is to be a blackout, then custodian timing needs to be taken into account.

Option 4 – Make materials accessible

We do not understand the necessity for this recommendation as our service provider always notifies us if there is additional information or supplementary advice available after their report is issued.

In addition we note that First Super has access to a portal from which all information is available.

If we can be of further assistance, please do not hesitate to contact us.

Yours sincerely



Bill Watson
CEO