Proxy advice

HESTA welcomes the opportunity to make a short submission regarding the consultation paper - *Greater transparency of proxy advice*.

Background

HESTA holds $60 billion of assets on behalf of more than 880,000 members in the health and community services sector, 80% of whom are women. The performance of those assets and our members' financial wellbeing can be materially impacted by even small changes to the retirement system. Our members rely on us to ensure that their retirement story is told, and their working life is considered in complex policy deliberations.

Our typical member is a 43-year-old female. She works in health or community services where she earns on average 15.9% less than her male counterpart doing the same job with the same skills.[1] She spends considerable time caring for others in an unpaid capacity which adds enormous economic benefit to the country. Because of all this, at 43, she has less than $30,000 in superannuation and will be financially penalised in retirement. The way in which HESTA can operate and invest matters to our members because they participate in a sophisticated system that doesn't yet adequately reflect their working lives.

Informed and transparent responsible investing

HESTA always acts in the best financial interests of its members. We invest members' retirement income in a way that considers the level of risk when investing a member's contributions, and the return generated by how HESTA is investing the contributions. HESTA believes that our ownership practices can improve long-term risk-adjusted returns to our members and is entirely consistent with HESTA's duty to act in the best interests of our members.

As long-term investors who expect to own assets for many years, active ownership is especially important in serving the interests of our members given their retirement can be significantly eroded through poor corporate behaviour. HESTA believes that investing in companies that are well run and responsible is critical to protecting the value of investments and achieving investment objectives. We are active in supporting good

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[1] https://www.wgea.gov.au/data/wgea-research/australias-gender-equality-scorecard/health-care-and-social-assistance

business practices in companies and we advocate for change where we think that a business could be run more responsibly.

Our active ownership activities include:

- **Engagement** with companies to better understand their business model and to influence their performance and practices to benefit our members.
- **Voting** in both listed and unlisted markets is a key element of our stewardship activities and an important link in the chain of accountability between a company and its shareholders.

We believe that through these tools we can most effectively influence a company to adequately address issues to improve long-term performance. We believe active ownership also has the potential to result in improved performance across the market.

HESTA believes that proxy advice is a useful input into complex and time-sensitive voting issues. Proxy voting is an important way investors can promote good governance which contributes to shareholder long-term value.

The HESTA Responsible Investment Policy outlines our principles and commitments in relation to incorporating environmental, social and governance (ESG) considerations into our investment processes, decision-making and active ownership (share voting, company engagement, and advocacy activities).

Other important statements outlining HESTA's positions are:

- *Working with Indigenous Communities*
- *Climate Change*
- *Water*
- *Gender Equality*
- *Housing Affordability*
- *Health and Well-being*
- *Decent Work.*

These public statements[2] provide certainty and clarity to a broad range of stakeholders, including company management and boards around our approach as an active owner.

HESTA is a founding member of the Australian Council of Superannuation Investors (ACSI) and is represented on the Board and Council.

[2] https://www.hesta.com.au/about-us/what-we-stand-for/responsible-investment/our-commitment.html

Commentary

HESTA supports superannuation funds being held to the highest standards of governance and transparency; however, HESTA is concerned that the proposals canvassed by the consultation paper may increase regulatory cost and complexity without bringing a corresponding benefit to fund members. Essentially, it is not clear what 'problem' is trying to be fixed.

We note the 2018 ASIC *Review of proxy adviser engagement practices*[3] did not identify issues that needed to be addressed. Proxy advisers are subject to regulation under various laws and ASIC found no evidence of wrongdoing that would require changes to the regulatory framework. The Consultation Paper does not appear to provide any examples of poor practice or a rationale for why change is now warranted in 2021.

We also note that the Consultation Paper makes the following assertions:

> "Australia has the fifth largest pool of pension funds and there are more than 2,000 companies listed on the ASX. At the same time, there are only four main proxy advisers operating in Australia. This ***gives these advisers a high degree of influence in the outcomes of company resolutions and therefore the conduct of business in Australia***."[4] (emphasis added)
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> "Given ***the influential role of proxy advisers in corporate governance in Australia*** and the high degree of institutional share ownership, this consultation is designed to help assess the adequacy of the current regulatory regime and help develop reform options that would strengthen the transparency and accountability of proxy advice."[5] (emphasis added).

This statement and others in the paper seem to suggest that superannuation funds follow proxy advice and potentially abrogate their responsibility to make voting decisions. This is simply incorrect.

HESTA receives advice and input from a range of sources regarding voting our shares. Regardless of what advice is received, HESTA makes and owns the final voting decision. Most voting decisions are straightforward as the advice we get from proxy advisors and asset managers is consistent with the recommendations made by company Boards. For a small number of governance, remuneration and ESG issues, where corporate practice is inconsistent with accepted standards of corporate governance (e.g. ASX Guidelines) or mis-aligned with long term shareholder outcomes, then proxy advisers and/or asset

[3] https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-578-asic-review-of-proxy-adviser-engagement-practices/
[4] Page 2 of the Consultation Paper.
[5] Page 4 of the Consultation Paper.

managers will recommend votes against Board recommendations. However, once again the final decision still belongs to HESTA.

In relation to **Option 1** (fund disclosure of voting practice) we note that HESTA is a leader regarding disclosure of our voting behaviour. We publish our votes in close proximity to AGMs and have for many years disclosed our full voting record.[6] We also provide comprehensive publicly available information regarding our position and expectations as investor across a range of key issues impacting our members.[7] This information provides clarity to stakeholders such as company management and boards around our expectations and approach as an investor.

We note that **Option 2** asks whether proxy advisers should be required to be 'meaningfully independent' from a superannuation fund they are advising. We are concerned by the underlying premise that shared ownership of a proxy adviser by superannuation funds is problematic or conflicted. This implication is not supported by evidence nor are any relevant examples of such potential risks cited in the consultation paper. This ownership structure is not unique and there are similar well-established arrangements that are effectively utilized by asset owners in overseas jurisdictions.

A key conflict of interest in proxy advice is ensuring that researchers are independent of the entities that they provide research on. ACSI are clearly independent from the companies they research. In addition, the notion that shared membership of a proxy adviser such as ACSI will automatically create uniform voting positions by the member funds is wholly incorrect.

As previously emphasised, HESTA (and other funds) make their own voting decisions regardless of what advice is received. There is no obligation for HESTA to follow any advice or recommendations it receives. In fact, we would argue that nonconformity of views between investors and researchers is part of a healthy functioning marketplace.

It is important to remember that 'correlation is not causation' and this applies when funds receive proxy advice and when they vote. It is the fund's decision how to vote. This may or may not replicate proxy research as it is simply one of many inputs into a voting decision. In addition, HESTA also receives input from fund managers and alternate sources of research and advice such as broker reports, and internal analysis. On occasion we also

[6] https://www.hesta.com.au/about-us/what-we-stand-for/responsible-investment/active-ownership.html
[7] https://www.hesta.com.au/about-us/what-we-stand-for/responsible-investment/our-commitment.html

participate in direct company engagement to ensure we have all the necessary information to make a decision.

Best financial interests and efficiency

Organisations such as ACSI provide a benefit due to economies of scale on research and engagement. There would be significant additional cost to fund members if all these activities were recreated in each fund. This is also true from a company perspective. If there wasn't an organisation like ACSI to facilitate collective engagement, then a company might need to meet and correspond with multiple funds on an individual basis. Collective engagement provides benefits and efficiencies for both superannuation funds and companies.

Option 3 that would allow companies 5 days to vet proxy advice before clients receive it is not consistent with other forms of investment research. These proposals would add compliance cost to the financial detriment of fund beneficiaries and reduce the time available for funds to utilise research.

Imposing a 5-day window for company review would also diminish investor 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.