

Market Conduct Division
Treasury

Email: MCDproxyadvice@treasury.gov.au

1/06/2021

Dear Market Conduct Division,

Re: Consultation Paper – Greater Transparency of Proxy Advice

Hostplus thanks the Treasury for the opportunity to make a submission to the Consultation Paper on Greater Transparency of Proxy Advice.

Below, we provide a summary of our commitment to active ownership and our approach to proxy voting, as well as specific feedback in relation to each of the options proposed by Treasury.

About Hostplus

1. Hostplus was established in 1988 as the national industry superannuation fund for the hospitality, tourism, recreation and sport industries. Hostplus is proud of its industry fund heritage and is run only to benefit our members. Our 'members first' philosophy and ethos drives us and is reflected in our ongoing commitment to low fees and the best possible returns for our members, so they can look forward to a more comfortable and dignified retirement lifestyle.
2. Today, Hostplus is one of Australia's largest and increasingly diversified funds with 1.2 million members, 230,000 contributing employers and \$64 billion in funds under management (as at 30 April 2021). Our default Balanced (MySuper) option is one of the best-performing¹ investment options over the long-term.

¹ Source: According to the SuperRatings Fund Crediting Rate Survey – SR50 Balanced (60 – 76) Index, April 2021, our default Balanced (MySuper) option has ranked in the top five Balanced Funds over one, five, seven, 10, 15 and 20 year periods. Past performance is not a reliable indicator of future performance and should never be the sole factor considered when selecting a fund.

Hostplus Commitment to Active Ownership

3. Hostplus is committed to responsible investment across all its investment activities as we believe it helps us to better manage risk and optimise retirement outcomes for our members.
4. We believe that active ownership (involving company engagement and proxy voting) is critical to the governance of investments over the long-term. It helps to protect and enhance long-term investment value, in our members' best financial interests.
5. Active ownership also helps to ensure alignment between how companies are managed and the long-term financial interests of our members. Proxy voting provides us with the opportunity to express our views to a company on important matters, particularly Hostplus' engagement and voting priorities. These matters are prioritised because they are critical to the long-term performance of investments. We express our views through votes on items at company meetings which relate to director elections, major transactions, remuneration reports and the appointment of auditors, among other items
6. Our approach to responsible investment is informed by our responsible investment beliefs and publicly documented in our [Responsible Investment Policy](#). Hostplus' Responsible Investment Policy articulates the Fund's commitment to vote in all matters where it is practical and in our members' best interests to do so. The Responsible Investment Policy also outlines the Fund's approach to proxy voting, including its use of proxy advisers, and the key principles which direct its engagement and proxy voting.
7. Hostplus believes that well informed research and recommendations from proxy advisers that are independent of the subject company and based on accurate information assists in the exercise of ownership rights to protect and enhance long term investment value for beneficiaries, and is therefore wholly consistent with the duties of trustees.

Hostplus Approach to Proxy Voting

8. In 2020, Hostplus voted on more than 3,000 items at 400 company meetings related to our Australian equities' accounts.
9. Hostplus has responsibility for all voting decisions associated with directly-held equities.
10. Hostplus favours a pragmatic and commercial approach to voting, that considers the specific circumstances of each company on a case-by-case basis in order to further the best interests of our members.
11. Hostplus draws on a range of inputs to determine its proxy voting decisions. These include proxy adviser research, recommendations from external investment managers, input from the internal investment team and results of direct company engagement.
12. The vast majority (> 90%) of items we vote upon are uncontroversial. For these items, there is alignment of voting recommendations between company management, proxy advisers and investment managers. This reflects the shared financial interests of investors and the companies in which they are invested
13. The proportion of votes that are contentious is relatively small (<10%). These cases, where there is a difference of opinion between one of more of company management, proxy advisers

and investment managers are not indicative of a problem, but rather indicate the opportunity for active ownership (including company engagement and proxy voting) to protect and enhance long-term returns.

14. Our voting process aims to identify these contentious items and apply a rigorous process in order to reach a voting decision that is in the best financial interests of our members.
15. To support the large number of company meetings and items on which it is required to vote as part of exercising its ownership rights and responsibilities, Hostplus engages proxy advisers to provide research and voting recommendations as one of a number of inputs to the voting process.
16. In relation to Hostplus' Australian equities held in discrete mandates (i.e. directly-held in the name of Hostplus), Hostplus subscribes to the Australian Council of Superannuation Investors' (ACSI) proxy voting alert service which provides analysis of and recommendations for voting. ACSI's voting recommendations are underpinned by its [Governance Guidelines](#), which as an ACSI member, Hostplus helped create and regularly reviews.
17. Through other contractual relationships, Hostplus also has various access to research or recommendations from Hermes Equity Ownership Services (EOS), CGI Glass Lewis and Institutional Shareholder Services (ISS).
18. In addition to research from proxy advisers, Hostplus also seeks voting recommendations from our investment managers, especially for contentious issues. These are considered together with, where relevant, written responses from company management, input from the internal investment team and results of direct company engagement.
19. Where voting recommendations differ between proxy advisers and investment managers, final responsibility for voting decisions rests with the Hostplus CIO, whose decision is based upon members' best financial interests and Hostplus' key engagement and voting principles.
20. Australian proxy advisers regularly engage with companies to inform voting recommendations. Hostplus, as an ACSI member, can (and regularly does) attend and participate in ACSI meetings, in addition to conducting engagement directly with companies and through investment managers. Ensuring there are appropriate linkages between company engagement and proxy voting is important.
21. Using proxy advisers helps us to manage our resources more effectively. There is no doubt that if Hostplus was forced to replicate proxy advisers' services, that this would require additional internal resources, causing us to incur increased costs associated with employing these additional resources and lead to duplication across the sector.
22. Proxy advisers are not empowered to act on behalf of Hostplus. Every vote item is considered by Hostplus' internal team and Hostplus retains discretion to not follow proxy advisers or investment manager recommendations where it is considered to be in our members' best interests.
23. As a result of considering a range of inputs in determining our voting decisions, there are many instances where Hostplus voting differs from one of more of its proxy advisers and/or investment managers.

In response to Treasury's proposed options and consultation questions, Hostplus provides the following response:

Option 1: Improved disclosure of trustee voting

24. Transparency is important to Hostplus and we are continually working to improve our disclosures.
25. Hostplus already discloses its approach to proxy voting, including its use of proxy advisers, and the key principles which direct our engagement and proxy voting as part of the Fund's proxy voting policy, which forms part of Hostplus' Responsible Investment Policy.
26. Hostplus also already goes beyond regulatory requirements in disclosing its [Full Proxy Voting Record](#), including how votes were exercised for each item, bi-annually on its website.
27. Because Hostplus considers a range of factors in making its voting decisions (including but not limited to the reports of a range of proxy advisers, recommendations from external investment managers, input from the internal investment team and results of direct company engagement), it would not be helpful to members to compare Hostplus vote decision for each item against the advice of one or more proxy advisers, as this would not provide information on how the fund reached its voting decision.
28. Hostplus is a signatory to the Australian Asset Owner Stewardship Code, and its current disclosures are informed by the principles of the Code.
29. Hostplus believes that best-practice disclosure (possibly including vote rationale for contentious items) could be formalised through an industry code. An industry wide standard could be established (covering asset managers as well as asset owners) and updated to reflect evolving best practice of disclosure. The UK Stewardship Code is an example of this approach.

Option 2: Demonstrating independence and appropriate governance

30. The use of proxy advisers is one of a number of necessary inputs to enable Hostplus to appropriately exercise its voting rights in members best financial interests.
31. Timeframes for making voting decisions between release of company materials 30 days prior to a meeting and voting cut-offs are constrained and the workload of reviewing company materials and making voting decisions is uneven throughout the year because reporting periods mean the majority of meetings occur over a 2-3 month period.
32. To support the large number of company meetings and items on which we are required to vote as part of exercising our ownership rights and responsibilities and managing our resources more effectively, Hostplus engages proxy advisers to provide research and voting recommendations as one (of a number of) inputs to the voting process.
33. Proxy advisers are contracted to provide research and voting recommendations on listed companies. This arrangement is documented through a contract which requires the proxy adviser to provide to Hostplus, research reports for a specified number of companies. In the case of ACSI, proxy voting research is covered by a separate optional subscription agreement and is not part of or required by ACSI membership.

34. The alternative would be to replicate proxy advisers' services internally. There is no doubt that if Hostplus was forced to replicate proxy advisers' services, that this would require additional internal resources, causing us to incur increased costs associated with employing these additional resources and lead to duplication across the sector.
35. Since the alternative would be for Hostplus to conduct these activities internally, there is no reason that proxy advisers should be 'structurally independent' of their clients. Rather, it is important that there is alignment of the proxy adviser with the best financial interests of its client's members. This can be achieved either through a contractual relationship and/or shared ownership.
36. Rather than independence of proxy advisers from their clients, proxy advisers must be independent of the companies upon which they provide research and voting recommendations.
37. Further, investors should determine their voting decisions independent of one another. This is consistent with existing practice in which Hostplus and other investors do not contribute individually or jointly to proxy advisers' research, each receives research and voting recommendations prepared by specialist proxy advisers, each considers this information together with a range of other sources to make a voting decisions which is in the best financial interests of its membership. These voting decisions are not communicated back to proxy advisers or to other investors.
38. Our process is independent as proxy advisers are not empowered to act on behalf of Hostplus. Every vote item is considered by Hostplus' internal team and Hostplus retains discretion to not follow proxy advisers or investment manager recommendations where it is considered to be in our members' best financial interests.
39. Each proxy advisers' research and recommendations are informed by principles-based Governance Guidelines, or similar. As a client, Hostplus has the opportunity to contribute to these guidelines in so far as identifying those matters that it believes may be financially material to a company and are therefore relevant to member best financial interests and consequently should be taken into account in company engagement and voting research.

Option 3: Facilitate engagement and ensure transparency

40. Independence of proxy adviser research from the companies on which they provide that research is critical.
41. Providing proxy research and recommendations to a company in advance of that proxy adviser's clients would compromise that independence.
42. The time between when a proxy adviser report is received (14-18 days ahead of the relevant meeting) and voting cut-off (electronic cut-off is often 7 days ahead of the relevant meeting) can be less than 7 days. Adding a 5-day window for company review would significantly reduce Hostplus time to review items and to engage directly with the company.
43. We believe the current market practice of a proxy adviser providing their research to the company that is the subject of that research at the same time it is provided to clients is effective and promotes engagement between companies and their end investors.

Option 4: Make material accessible

44. Where companies have feedback upon the research of proxy advisers, we already welcome and review that feedback which is either provided directly to us or accessed via announcements to the ASX platform.
45. If through proxy adviser research or other information sources we newly become aware of an issue, we may choose to engage directly with that company. We also welcome engagement directly from companies throughout the year.

Option 5: Ensuring advice is underpinned by professional licensing

46. Hostplus understands that all major proxy advisers already hold an AFSL.
47. Hostplus does not believe that differentiated licensing for proxy advisers is necessary or would contribute to improved proxy voting research.
48. Any further requirements would best be linked to a code of practice, similar to the UK Stewardship Code, which operates on a 'comply or explain' basis.

Hostplus appreciates the opportunity to provide feedback to Treasury on its proposals. We would welcome further discussion as Treasury progresses its thinking on this topic. If you have any questions or would like further information, please do not hesitate to contact me.

Yours sincerely,



David Elia
Chief Executive Officer
Hostplus