

14 May 2021

Market Conduct Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

### **Greater Transparency of Proxy Advice-Consultation Paper, April 2021**

Dear Sir or Madam,

We are writing to give feedback on the Consultation paper as regards the provision of proxy advice for company resolutions.

We are responding on behalf of our business, Martin Currie Australia, a funds manager wholly owned by Franklin Templeton. We manage approximately A\$10 billion in Australian listed equities on behalf of domestic and international clients, including government agencies, institutions, superannuation funds, dealer groups, family offices, charities, and wealth management firms.

We employ 18 dedicated investment professionals, of which 10 are experienced research analysts who engage regularly with management and Boards of the top 200 companies in Australia.

We do our own internal assessments of Boards and management and have a comprehensive investment process which includes our actions taken in relation to voting for AGMs and shareholder resolutions.

While we do proprietary investment assessments, we also use the input of some external providers to provide additional insight to company financial accounts, AGM resolutions and assessment of directors who are up for re-election.

We do not agree with the suggestion that institutional investors are overly influenced by the research provided by proxy advisors. We frequently disagree with the views of proxy advisors and where we agree, it may well be for different reasons than those stated in the proxy advisor report. Ultimately, our voting is undertaken in the best interests of our clients.

Proxy advisors are in a competitive industry. Our preferred advisor is one that engages regularly with ASX-listed companies and includes importantly the issuer's views on AGM proposals. We also value the fact that our proxy advisor has an Australian Financial Services licence (AFSL) as it relates to providing credible insights regarding the company's financial accounts and AGM resolutions.

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Martin Currie Australia (MCA) is a division of Legg Mason Asset Management Australia Limited (ABN 76 004 835 849).

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We also note that the ASIC review of proxy adviser engagement practices, 2018 was extensive and concluded that “voting allows shareholders to express their views on important issues as well as hold the Board to account for the company’s performance”. This is central to why we have our own investment team and access to multiple proxy advisors who can add valuable and independent insight.

In terms of the options canvassed in your report, we would make the following comments.

*Option 3. Facilitate engagement and ensure transparency-proxy advisors 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.*

We do not agree with this approach. Directing the distribution of independent research recommendations to issuers in advance of its release compromises the entire expectation that this research will be independent of the issuer. We want our providers to be independent of the influence the companies they are researching. We also do not want to see undue costs and time delays added to the process of proxy advisors. Independent researchers should be able to rely on a company’s public documents without any requirement to consult with them prior to publication, otherwise the question of independence will be raised and diminish the efficacy of the proxy report.

Increased costs from any additional regulation will impact returns for investors. Given the Government and regulator focus on affordable, low-cost superannuation, we would be concerned that increased costs of proxy regulation will mean ultimately increased costs for investors.

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

The role of the ASX is to enable issuers to provide continuous disclosure to an informed equity market. A company can make an announcement on its website or via the ASX, so this proposal is both unnecessary and would be an additional cost.

*Option 5. Ensuring advice is underpinned by professional licensing. Under this option proxy advisors would be required to obtain an AFSL for the provision of proxy advice. The purpose of the license would be to ensure that proxy adviser 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.*

Our preferred provider already has an AFSL, and other providers hold similar licenses. What we expect is for ASIC to continue to regulate the proxy advisors such that if a proxy advisor is found to not show professional conduct or independent research, then in a manner similar to other regulated entities. the license to operate is reviewed and remediation actions are taken. To require additional licensing would be regulatory overkill on a provider’s existing AFSL solely because it makes a voting recommendation. The best analysis is driven by



excellent financial research and each analysis of resolutions at AGMs or EGMs always contains opinion about the company's historical or forward-looking financials.

Finally, one of our key issues with this consultation paper is the potential influence of company directors on proxy recommendations. Our challenge as an institutional investor is to hold Boards and management to account. This can only be done via independent research and good financial accounting insight. The extremely high Vote For company resolutions (96%) over time highlights that inertia is a bigger issue than excess challenge to boards. Our concern with the consultation topics is that the reverse could happen where company directors can prevent independent scrutiny of their governance practices and behaviours.

In conclusion, we recommend no action is required in relation to Options 3-5 in the Consultation paper and would welcome discussion on this issue.

Yours Faithfully

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