

3 June 2021

Market Conduct Division
The Treasury
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Parkes ACT 260
Email: mcdproxyadvice@treasury.gov.au

Perpetual Limited
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Dear Sir/Madam,

**GREATER TRANSPARENCY OF PROXY ADVICE
CONSULTATION PAPER - April 2021
SUBMISSION - PERPETUAL ASSET MANAGEMENT AUSTRALIA**

Thank you for the opportunity for making a submission in regard to the above consultation paper.

Perpetual Asset Management Australia (“PAMA”)

PAMA is a significant institutional investor in Australian listed companies. As at 31 March our total assets under management in Australian equities was A\$13.8bn. PAMA is a division of Perpetual Limited (ASX:PPT) (“Perpetual”).

Proxy Voting and Advice

PAMA is not a passive investor, but rather actively engages with our investee companies, to ensure corporate accountability and encourage actions by companies that will result in better investment outcomes for our clients. In the same vein we fully utilise our shareholder rights to vote our shares at all shareholder meetings.

While we make our own voting decisions, proxy advice is integral to our proxy voting process.

Proxy advice plays an important role in informing shareholder voting by scrutinising a company’s approach to executive remuneration, board directors and other governance issues. This empowers shareholders to take voting decisions in their best interests. This is especially important during the Annual General Meeting (“AGM”) season in Australia where (especially institutional) shareholders need to make voting decisions regarding a large number of listed companies in a relatively short time frame.

It is also very important to note that forensic governance research conducted by proxy advisors has in numerous instances uncovered untoward actions by company management and boards against shareholders’ interests. This has been one catalyst for an increase in accountability attributed to company boards and management for company performance in the Australian market. Making proxy research and advice sub-economic would make this research more difficult to produce.

Concerns with the proposed changes

Our concern is the proposed changes will make the delivery of well researched and considered proxy advice to shareholders such as PAMA problematic.

Firstly, we do not see the necessity for increased regulation of proxy advice in Australia. Proxy advice is in essence investment research - clients (shareholders) are free to act on it as they see fit. Proxy advice of poor quality should ultimately suffer an appropriate response - clients will simply not pay for it and it will be therefore unsustainable. That said, there are some investors that always vote in line with proxy advice (including any poor advice) but that doesn’t mean all proxy advice should be over-regulated.

In short it is not clear to us why this additional regulation is necessary for investment research of a proxy advice nature.

In particular, **Option 3: Facilitate engagement and ensure transparency** - the requirement that “*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 publicly available...*”.

To our knowledge, no such similar requirement exists for other categories of investment research (such as sell-side stockbroker research), nor is any contemplated. Mandating engagement (pre-publication vetting) in this manner is heavy-handed. This will institutionalise an adversarial engagement process where companies will not need to engage with the proxy advisor until they see the draft voting recommendations. Companies will then be able to employ maximum leverage to influence voting recommendations for their benefit before they are disclosed to clients.

Secondly, the time frame envisaged above (five days) is completely impractical.

Under current law companies only are required to give 28 days (not business days) notice of shareholder meetings. Institutional shareholders including PAMA typically required to lodge our vote 6-8 days prior to the meeting due to custodian considerations. Proxy advisors are required to deliver their research to us well in advance of this deadline, for us to consider the research, engage with the company if necessary and make a voting decision.

So even under current arrangements, proxy advisors face a challenging time frame to carefully consider all company meeting resolutions, seek further information from the company (if necessary), and issue considered advice to clients.

Clearly imposing an additional mandated step in this process requiring draft proxy advice to be vetted by the company would make the delivery of high quality proxy research very difficult. This could be as little as 5-9 days (not business days) per company for proxy advisors to complete their research for company vetting.

This can only negatively affect the quality of proxy research and advice which will be to the detriment of shareholders.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Skamvougeras', written over a faint, illegible background.

Paul Skamvougeras
Head of Equities, Perpetual Investments