



4 June 2021

Market Conduct Division
The Treasury
Langton Crescent
Parkes ACT 2600

Consultation Paper - Greater transparency of proxy advice

Dear Mr Jeremenko,

Thank you for the opportunity to provide a response to the consultation paper on *Greater transparency of proxy advice*.

Rest is a major profit-to-member industry superannuation fund with around 1.8 million members – or around one-in-seven working Australians – that manages assets of more than \$62 billion (as at 31 March 2021).

Rest is a firm believer in the value of proxy advice in assisting superannuation funds to meet their obligations to act in the best interests of members. Proxy advisers provide access to quality research and advice in the complex endeavour of assessing the long-term sustainable financial performance of Australian companies.

In this submission, we include some general comments about the value and current state of proxy advisors in our experience, and further comments on some of the options that have been raised in the consultation paper.

General comments

Rest's guiding principle for proxy voting is that shareholder voting rights should be exercised, and proxy votes should be cast in a manner that seeks to improve long-term investment performance. Proxy advice is one input into a voting decision, with other sources including broker reports and company analysis of, for example, annual reports and company announcements.

Rest and its investment managers arrive at the ultimate voting decisions themselves, exercising the voting right in a manner that is consistent with the best interests of Rest members.

Comments on the options

Option 1: *Under this option, superannuation funds would be required to disclose more detailed information in relation to their voting policies and actions for each financial year. The details to be disclosed could include how votes were exercised, whether any advice was received from a proxy adviser and who provided the advice. If proxy advice is received, disclosure could include whether the voting actions taken were consistent with the proxy advice.*

Rest strongly supports the principle that members should have access to transparent information about the investments superannuation funds hold, and the way in which those investments are managed.

We believe that, when superannuation fund members are informed and knowledgeable about their superannuation, they will seek to make informed decisions that support the objective of achieving their personal best retirement outcomes.

Rest's [Voting and Proxy Policy](#) is available on our website and Rest [publicly discloses all proxy voting records](#), which outline how votes have been exercised.

Rest's approach to proxy voting is that investment managers are expected to exercise all voting rights unless the Trustee makes a direction.

Given this approach, further disclosure of 'whether any advice was received from a proxy advisor and who provided the advice' and 'whether the voting actions taken were consistent with the proxy advice' would present an unhelpful reporting burden that provides no additional value to Rest members.

This is due to a number of factors:

- Rest and its investment managers engage a number of proxy advisers to provide proxy advice on voting decisions for our listed equity investments.
- Investment managers will conduct their own independent research from multiple sources, one of which may be their selected proxy adviser/s. It is therefore not uncommon, as presented in the [Rest Proxy Voting Behaviours](#) report, for Rest and its investment managers to each vote differently on the same proposals at a company AGM.
- The disclosure is backward looking, up to 12 months in the past.
- It is inconsistent with global practice and unlikely to provide our members or other interested parties any further understanding in the fund's approach to stewardship.

Rest does, however, support an industry-wide standard for proxy voting disclosure, to cover both superannuation and asset managers. We note that Codes are already in existence in Australia, for example, the Australian Asset Owner Stewardship Code, and the FSC Standard No. 13: Voting Policy, Voting Record and Disclosure. Further, the UK Stewardship Code is another helpful industry code.

Nevertheless, any disclosures should be able to be tailored to the needs of our members.

Option 2: Demonstrating independence and appropriate governance. Under this option, proxy advisers would be required to be meaningfully independent from a superannuation fund they are advising to ensure that proxy advice is provided to and used by superannuation funds on an 'arm's length' basis.

Trustees could also be required to outline publicly how they implement their existing trustee obligations and duties around independent judgement in the determination of voting positions.

Rest is a member of the Australian Council of Superannuation Investors (ACSI), although this does not mean we are required to receive ACSI proxy voting advice. Rather, it's an optional service to which Rest subscribes, in a competitive proxy advisory market. Rest is not involved in the process of developing the ACSI proxy advice research. Rather, Rest members benefit from economies of scale ACSI provides in delivering company research and engagement.

The nature of the proxy advice process is such that independence and absence of conflicts of interest need to exist between the proxy advisor and the company or entity that is the subject of research, rather than the proxy advisor and the client (i.e. a superannuation fund or investment manager). Proxy advice, after all, is there for the investor, rather than the company.

Membership of ACSI also allows Rest to contribute to the ACSI Governance Guidelines, which are principles-based. These guidelines do not require individual ACSI members to follow the ACSI voting recommendations, and Rest assesses all voting guidance on its merits.

If research and engagement were to be individually managed by a superannuation fund or investment manager, the cost of developing the depth and quality of research without the benefits of the scale that ACSI provides, would create a significant cost impost, which would ultimately be borne by superannuation fund members.

Furthermore, we believe a negative impact of this option is that it may lead to reduced market competition amongst proxy advisers, which may affect the quality of the research and advice available to investors.

Option 3: Facilitate engagement and ensure transparency. Under this option, 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 would give enough time for both the company and proxy adviser to comment and for the proxy adviser to amend the report in response if warranted.

Best practice company research includes ongoing company dialogue, whether that is conducted by the proxy advisor, the investment manager, the asset owner or otherwise, and voting occurs once per year within this broader process.

Proxy advice is generally sourced from a combination of company research and engagement. It would therefore be both inefficient and superfluous for proxy advisers to provide research reports – which are intended to be independent of a company – to the company first, prior to us as the client.

This approach is not applied to any other forms of investment research we receive, for example, broker research, which also inform investment decisions.

Additionally, proxy voting season is an exceptionally busy time of year, concluding many months' worth of in-depth analysis and research and company engagement in an eventful, contracted period. This proposal would be to the financial detriment of our members, reducing the time available for Rest and our investment managers to review and input proxy research into investment management decisions.

Option 4: Make materials accessible. Under this option, proxy advisers would be required to notify their clients on how to access the company's response to the report. This could be through providing a website link or instructions on how to access the response elsewhere.

Companies currently make announcements on their websites or on the ASX platform, allowing the market to be equally informed. Rest and its investment managers access these. This proposal therefore seems redundant.

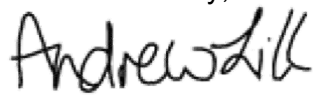
In conclusion

Rest is an active owner. We engage with both investment managers that we mandate, and with management teams of the assets we hold directly. Proxy voting is important in the process of how we manage these investments, but it is only part of that investment process. Rest seeks to build sustainable long-term performance from our investments through this engagement, and proxy voting forms only one part of that engagement.

Rest strongly believes that superannuation funds should continue to have access to the cost-efficient, quality research and advice that proxy advisers produce on an ongoing commercial basis in order to support the long-term interests of our members.

I invite you to contact Sarah O'Brien, Head of Regulatory Affairs at sarah.o'brien@rest.com.au if you wish to discuss any aspect of this submission.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Lill". The signature is written in a cursive, slightly slanted style.

Andrew Lill
Chief Investment Officer