Greater transparency of proxy advice

I have been an investor in ASX listed companies for over 40 years, in a personal capacity, and an institutional investor (mainly in unlisted infrastructure). I have no direct or indirect affiliations with proxy advisory firms. However, as a keen participant in listed markets, and observer of corporate governance and strategy, I am interested in the matters that this Consultation Paper (CP) raises. Although I welcome any initiative to improve transparency in markets, governance and investor rights, I believe that these proposals are seriously flawed, and likely to be counter-productive, as I shall argue below. My strongest criticism is that this CP has not provided any evidence that there is in fact a problem regarding the role of proxy advisors, or institutional voting, in Australia. The CP provides no statistics or case studies.

Some of the CP reads like a Government press release, not the impartial and independent document that one would expect from Treasury. It lacks rigour and integrity, and contains a recital of assertions, rather than reasoned or balanced arguments.

The debate is best answered by responding to statements in the text of the CP, rather than in direct answers to the questions asked, which don't necessarily present the topics in a manner that is best suited to the themes, or to enable comprehensive coverage. Hence, although I have answered the questions, I have also inserted comments in italics into parts of the text to show exactly which statements I am responding to, and often disagreeing with.

Introduction

Part of the regulatory framework supporting good corporate governance is the requirement for companies (1) to hold Annual General Meetings (AGMs), at which senior company officers engage with shareholders and put certain matters to shareholders as resolutions for their approval by vote. Some resolutions are required under the *Corporations Act 2001* (Corporations Act), and some may be required by the company's own constitution. There is a broad range of resolution types, including those related to strategic or commercial decisions (2), the composition of the Board and changes to a company's name, type or constitution.

(1) *In the ASX listed market, this is restricted to companies, or trusts that have stapled securities: unfortunately, listed trusts are otherwise not required- either by law or the Listing Rules- to hold AGMs. A few choose to do so, but most do not, thereby depriving investors of the only opportunity to question the directors and officers responsible for taking care of their investments. This is a major failing in the transparency and integrity of market governance and investor relations.*

(2) *In fact, the great majority of resolutions at AGMs are routine matters relating to director elections and consideration of the remuneration reports and equity grants to directors. It is highly unusual, in my experience, for AGM resolutions to be concerned with "strategic or commercial decisions". Those that are of that type almost exclusively relate to energy policy, climate change etc, which have been proposed not by boards but by small numbers of activist retail investors in recent years, under S249. Most companies' AGMs have no such resolutions.*

Many institutional shareholders, such as superannuation funds (3), use the services of proxy advisers to assist (4) in arriving at voting decisions, particularly those with diversified holdings in a large number of companies.

(3) *The CP refers only to superannuation fund investors. Although they are a major element of the investor base, they are only one part of professional investor capital in Australia (as noted in the CP's paragraph below: consider for example foreign investors, the Future Fund and non-superannuation managed funds, as well as corporate and personal investors). If Treasury truly believes that the proposed "reforms" are worthwhile, they should be applied to all users of proxy advice. It is arbitrary and unjustifiable to limit these proposals to superannuation funds.*

(4) *I agree, but the crucial word is "assist". Proxy advice is only one source of ideas about the voting decisions, albeit an important one, along with advice from lawyers and other professional experts. Also, it is only advice, and no institution would automatically adopt such advice.*

Proxy advisers typically undertake research and provide voting recommendations on resolutions put at a company's meeting. They provide this information in a proxy report to a range of institutional investors, such as superannuation funds, asset owners, pension funds and other major investors. Investors can (5) use the proxy advice report and other sources of information to arrive at a vote decision.

(5) Indeed, but they are not obliged to follow the proxy advisors' recommendations, or those of other professionals. They can and must use their own judgment. It's also worth noting that the four proxy advisors quite frequently do not make the same recommendations, especially on matters of remuneration.

Australia has the fifth largest pool of pension funds[1] 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. (6)

(6) *I disagree with the explicit and implicit aspects of these assertions. The proxy advisors are only one source of advice; and most resolutions are uncontentious and receive very strong votes in favour. The word "therefore" is wrong: very few resolutions concern "the conduct of business". As I argued at the outset, only a very small number of resolutions at AGMs concern the business itself, as opposed to general governance matters. For example, if there is concern about the election of a person as a director, that does not affect the "conduct of the business". Moreover, most NED resolutions get "for" votes of over 95%. Matters that tend to cause more debate and investor reflection are those that relate to pay - either the formal Remuneration Report or grants of equity to directors (mainly the CEO). Parliament decided (10 years ago) that investors should vote on these matters; but, even when they are contentious and receive quite large votes against them, that can hardly be said to affect the "conduct of the business". The only relevant matters here do not concern <u>conduct</u> of business, but strategy, and these are very rare. They are almost entirely limited to concerns re fossil fuels and climate change- at the AGMs of the producers of such fuels and their insurers and bankers. Outside of this topic, and these types of companies, strategy resolutions are almost non existent. Moreover, such resolutions are in Australia rarely sponsored by institutions; in the main, they vote against them. Parliament has given shareholders the tool of potential spill resolutions under the "two strikes rule", but this has seldom been invoked, and only then in public debate where no shareholder could fail to be aware of the matters at stake. Despite objections expressed from time to time by the AICD and lawyers, the non binding vote on Remuneration reports has not led to disruption of board policy, but enhanced it.*

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[1] Investment Company Institute data, sourced via Australian Trade and Investment Commission release *Australia's pension funds shine in 2021 global rankings*

Proxy advice market in Australia

[…]

Each of the four main proxy advisers has their own proxy voting guidelines and policies that outline the underlying principles that guide the voting recommendations. Proxy advisers also abide by bespoke engagement policies that outline how they engage with companies. For example, one proxy adviser has a particular period where they do not engage with companies; another, provides their proxy advice report to the company for comment, prior to publication[2]. These policies are not legally binding on the proxy advisers (7).

(7) Neither are the policies, or the recommendations, binding on their clients.

[….]

Proxy advice in the superannuation sector

Background

Superannuation funds typically own shares in Australian listed companies as part of an overall investment strategy. As at 31 December 2020, superannuation funds with more than four members owned 20 per cent or $443.7 billion (8) of the Australian Stock Exchange (ASX) on behalf of their members.

These shares have voting rights attached, and where superannuation fund trustees exercise voting rights they are obliged to do so in the best interests of their members (with legislation currently before Parliament clarifying that this obligation means members' best financial interests). (8)

(8) Although this is a large $ value, it is only 20% of the ASX capital base. It is inexplicable that Treasury would exclude other institutional investors from consideration of this policy. To argue from the "best interests" duty is disingenuous, because all institutional fund managers should be fundamentally concerned with managing their clients' money in the clients' best interests (including with respect to governance and strategy) even if the obligation happens (unfortunately) not to be enshrined in law for many of them.

Even if some- or several- super funds voted perversely at particular AGMs (which would become obvious and scandalous immediately), such votes would be heavily diluted by those of the other investors. Likewise, even if one proxy advisor gave bad or very contentious advice in some respect, and even if one or more super funds chose to follow it, the incidence would be rare and the overall effect on the voting results of a particular company probably immaterial. It would be very unusual for a single investor with a shareholding below 5% to cause a board –endorsed resolution to fail, even on Remuneration Reports. It would be unheard of on other topics like director elections. A failed resolution would require "against votes" from several major shareholders- and this would suggest that the resolution itself was problematic and perhaps deserved to fail.

Australians currently have at least 9.5 per cent of their salary contributed towards their retirement and they should have confidence that trustees are acting to maximise their retirement savings, including when trustees exercise voting rights and in interactions with listed companies. (9)

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[2] Proxy adviser policies are publicly available from proxy adviser webs ites.

(9) This is true but NB a substantial part of the total superannuation pool (excluding SMSFs) is in public offer funds, where investors (like myself) have chosen to invest savings from their own personal super. It is not only the mandated 9.5% that is important to the public.

Given the volume of company resolutions a trustee may be entitled to vote on in a given year, some superannuation funds may decide to engage proxy advisers to provide additional information and recommendations on how to exercise their voting rights. In such circumstances, it is still a matter for the superannuation fund to ultimately determine how to exercise their voting rights. There is insufficient (10) public information today to determine whether superannuation funds, in this area, are acting in a manner consistent with their legal obligations.

(10)That may be so, but the CP makes a dangerous presumption that this is concealing a problem. Who would decide that funds are not "acting in a manner consistent with their legal obligations"; *would it be ASIC, Treasury, or the Government, individual investee companies, or class action lawyers and litigation funders? I note that ASIC has not expressed such concerns. The sentence above refers to "their legal obligations". Is this wider than the duty which the previous page clarifies as being members' best* financial *interests? Also, how could a supposedly imperfect* financial *performance of a super fund – by comparison with some hypothetical ideal financial performance (either short term or long term) be attributed to the (purportedly inappropriate) vote of a holding in one company, even a very large value holding? This is an absurd and uncommercial hypothesis. And, as a secondary point, even if that could be held, how and why could that "wrong" decision be attributable to proxy advisors, rather than the investment committees and super fund trustees, or any other advisers?*

[….]

Consultation Objectives

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 (11) that would strengthen the transparency and accountability of proxy advice. Additionally (12), given the millions of Australians who have their superannuation savings invested in shares, it is critical that the voting rights attached to the members' superannuation assets are managed to maximise the retirement savings of Australians and for the sole purpose of retirement benefits.

(11) This CP has not provided any instances of poor or irresponsible voting decisions, or unaccountable voting or proxy advice processes. I understand that ASIC has examined the Proxy Advice sector twice and not found such problems. In this regard, it is worthwhile to read ASIC's REP564, and also the contents of a speech given by ASIC Commissioner John Price to AIRA on 7 June 2018. (12) If proxy advisors were giving bad or reckless advice, they would lose their clients quickly. If super funds or other institutional investors were making perverse or grossly activist decisions regarding their voting rights, this would be a scandal and come to light quickly. Companies in the ASX 200 maintain year-round engagement with their larger shareholders and other stakeholders to discuss strategy, governance, policy etc. Companies would be well aware of the opinions of their major shareholders, and vice versa. Most of that engagement is conducted independently of proxy advisors. Notices of Meeting must be published and sent to all shareholders 4 weeks before an AGM. If there was anything contentious to be voted on, proxy advisors and institutions would immediately want to engage again with the relevant company, especially if the resolution was unexpected.

It is hard to understand what problem Treasury believes it is trying to solve here, and I do not believe that there is a problem. Any superannuation funds that made unjustifiable or reckless voting decisions would rightly attract rapid condemnation, and lose investment mandates. This is the real issue, not whether proxy advisors played any part in it. It's difficult to imagine a case where a major institution would want to vote against a Board-sponsored resolution when its concern had not already been expressed in principle.

Potential Reforms

Ensuring independence between superannuation funds and proxy advice

Trustees of registrable superannuation entities should be held to the highest standards of governance, transparency and efficiency to ensure assets are managed to maximise members' retirement savings. (13)

(13) This ought to be a requirement of all Australians professional investment managers - why should superannuation be singled out?

Recent policy initiatives, including the Government's *Your Future, Your Super* (YFYS) legislative package, currently before Parliament, will continue to strengthen the superannuation system in these critical areas. For example, under the YFYS reforms, from 1 July 2021 trustees will have a duty to always act in the best financial interests of members. Transparency will also be enhanced through improved portfolio holdings disclosure requirements and more information being provided to members ahead of the Annual Members' Meeting (AMM). (14)

(14) These are separate points. I agree that it would be helpful to (some) fund members (and likewise to investors in non-super funds, even though they are not covered by this CP) to have more informative disclosures about the biggest investments of their funds- say the 20 biggest Australian and foreign equities, and the largest investments in other asset classes except for bonds and cash - I would suggest as at their balance date and then at their half year. However, although I personally would welcome that information, I expect that it would be of little or no interest to most fund members.

Re "ahead of the AMM"--do the comments about the AMM refer to the annual meeting of the super fund, not investee companies' AGMs? If so, I think that "ahead of " would be of very limited benefit. Treasury should ask super funds how many members attend their AMMs, either in person or on line. I would guess that it would be as low as for attendees at AGMs of ASX100 companies, i.e. under 0.3% of members by number. I expect that an even smaller number would care about their funds' individual equity investments, or want to talk about those at the AMM. The exception might be for a small number of members with an activist interest, e.g. on energy policy or gambling.

There is scope to further improve transparency and member engagement by ensuring trustees provide simpler and clearer information (15) about how funds manage members' money, including in the exercise of voting rights (16). While some funds publish detailed information on their voting, this is not consistent across the industry, and rarely includes information on the proxy recommendation received (17) – attributable in part to a legislative requirement on trustees to publish only their proxy voting policies and a summary of their votes for listed companies.

(*15) "Simpler- how, and for whom? I agree that there could be some merit in expanding disclosure of voting decisions, but it would not be "simpler". In fact it would be more laborious and cost more; is that in the members'* financial *best interests?*

(16) When do you propose that the voting decisions be published- soon after the AGM of each investee company (I hope not, as that would be laborious) or say every 3 or 6 months for the fund's portfolio in aggregate? Do you propose that these potential "reforms" should cover the funds' voting on foreign equities, or only Australian shares? If the latter, why- since the principles are the same? Indeed for most large funds, the total size of their foreign equities portfolios would be only slightly smaller than their Australian equities- so the commercial scale of these principles to foreign equities is almost equally important.

(17) Why should funds provide the proxy recommendations? What matters is the quality of the decisions- not who provided advice. Institutions discuss these matters within their investment and governance committees, and in their boards of trustees, and may receive advice from several sources. Why should they disclose the advice from only one source? Why should they not disclose advice from all advisors, or sell-side stockbrokers, for example?

There is also scope to also ensure that the role of proxy advisers in advising and interacting with trustees is appropriate and transparent. Trustees have specific fiduciary and statutory obligations to their members, including to act in the best interests of members and to maintain high standards of governance. Proxy advisers are not subject to the same framework, and therefore may have broader objectives (18) than those that a trustee is required to consider. Superannuation funds compete for members and investment returns. There are also questions therefore (19) as to whether superannuation funds should be jointly involved in determining their voting positions, including through shared ownership of a proxy adviser. In this context, it is appropriate to consider whether there is a need for meaningful independence between superannuation trustees and proxy advisers

(18) What broader objectives… this reads like a conspiracy theory?

(19) The word "therefore" is an illegitimate segue. Very few AGM resolutions have any commercial consequences, even at the level of one corporate investment, and an infinitesimal amount in the context of a fund portfolio. You are clearly referring to ACSI- but why would shared ownership of a proxy advisor mean that the funds would all vote the same way? It's also likely that some funds would receive material from more than one advisor, sometimes disagreeing. In this context, "competing for members and returns" is no more relevant than boards "competing" with each other for the quality of their AGM resolutions.

Option 1: Improved disclosure of trustee voting. 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. (20)

(20) It's unclear what Treasury is suggesting. Do you mean separate data on every vote for very single equity portfolio holding- irrespective of size, and even for shares that are not still held at the year end? Would this be for foreign equities as well, or only Australian equities- and if so, why make that distinction? Would there be a materiality threshold? Or do you mean that the data would be aggregated to give only % votes by type of resolution e.g. NED elections, Rem reports and equity grants, proportional takeover resolutions, and S249 resolutions etc that were not endorsed by the Board? I don't think that it is appropriate, or of any value to members, to know whether the decision was in accordance with proxy advice,

or which proxy advisors may have given advice. Why not go even further and mandate that when the trustees make their voting decisions, the minutes reflect which way each trustee voted?

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. (21)

(21) I see no value in this. It appears to be part of the hostility of certain Government senators to the industry fund movement, and in this case against ACSI in particular. I don't see why a conflict of interest would arise, any more than when a fund's trustees get "advice" from their senior employees. If (and this is a different matter) there was concern about alleged anti-competitive behaviour by voting- which is hard to imagine as so few resolutions deal with commercial matters- that would be a matter for the ACCC. But again, the material question is "where is the evidence of the bad or conflicted voting decisions"?

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.

Consultation questions

1. How would the proposed options affect superannuation fund members? *Again- why only super funds? If Treasury really believes that these proposals are necessary and beneficial to members, they should be applied across the entire range of professional funds investment in Australia. I believe that very few fund members would be interested; it would result in no improvement to their financial interests, and would in fact incur costs to no useful end.*
2. What impact would the proposed options have on superannuation funds in complying with these regulatory requirements? *More costs in all cases, and extremely unhelpful to ACSI, which is presumably the (vindictive) result sought by the Government, which is shameful.*
3. What should be the regularity and timing of reporting? For example, should trustees be required to provide their proxy voting policy to members ahead of an AMM? *No - that is pointless and impractical, unless you mean in the most general of ways i.e. once or twice per annum, in line with the super funds' annual reporting cycles.*
4. What other information on how voting is informed by proxy advice should be disclosed by superannuation funds and why? *None- or at most only the general principles and policy framework.*
5. What level of independence between a superannuation fund and a proxy adviser should be required? *None, as long as the relationship is disclosed and policies are in place to avoid any commercial conflicts of interest.*
6. Which entity should the independence requirement apply to (superannuation fund or proxy adviser)? *Neither*

Facilitating engagement between companies and proxy advisers

Proxy advice reports are generally provided to investors 14 to 21 days prior to a company's meeting.[3] Currently, proxy advisers are not required to engage with companies on their research, report and recommendations, either before or after providing their reports to investors.

Business representative groups (22) have raised the importance of companies being able to engage with proxy advisers and being able to present their views to the investors who receive the reports, including in situations where a company may disagree with some of the research or recommendations in the reports. The opportunity (23) to engage allows companies to point out any potential factual inaccuracies and convey additional context or information to the proxy adviser that may impact the final voting recommendation. This is important given that there are only a few proxy advisers that are providing advice to what is a large proportion of their shareholder base for some companies.

(22) Which, apart from AICD and BCA, and perhaps some large legal firms? I note that the quoted reference is 10 years old.

(23) This ignores the fact that institutional investors engage with companies regularly, throughout the year. I understand that proxy advisors also do so, separately. It is an implausible hypothesis that the proxy advisors write and complete their reports without having had any engagement with the company.

Given that AGMs are not distributed evenly throughout the year, with a high proportion of Australia's AGMs happening in the last quarter of the year, large institutional investors may have limited capacity to engage with multiple sources of information in relation to each AGM. Having proxy advice accompanied by the company's response to that advice, or a simple direction on how to find it, would simplify accessing and contrasting information and perspectives.

(22) and (23) and see my foregoing comments. Again, this statement ignores the fact that engagement happens all year-round. The question of "disagreement" is not the same as directors' irritation that any investors should have the temerity to vote against a board-endorsed resolution. Such disagreement is not a factual error- it is a legitimate difference of opinion. In my experience, only a tiny number of board-endorsed resolutions fail—and in almost cases the resolutions pass with very high percentages. Likewise, it is almost unheard of for a non-board endorsed candidate or resolution to succeed. Treasury has not made out any case that a problem exists.

Options

Stakeholder views are sought on the following options that are aimed to facilitate engagement and transparency.

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.

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[3] Australian Institute of Company Directors, *Institutional Share Voting and Engagement*: *exploring the links between directors, institutional shareholders and proxy advisers*, 2011

(24) A bad idea. Would the same be proposed for advice from lawyers or other professional advisers? I see a potential problem here for sell-side stockbrokers who provide commentary on AGM resolutions as part of their research notes to clients. This is their intellectual property - why should they publish it? If they make bad or capricious recommendations, they will rapidly lose major clients.

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.

(25) This is unnecessary. If a company is seriously unhappy with a proxy advisor's recommendation- and especially to the extent that it might be worried that it could cause an AGM vote to fail- it can publish that fact on its website and if necessary on the ASX announcements platform. It can- and probably would- contact its major shareholders directly. There are at least 5000 resolutions per annum at listed AGMs (perhaps one third of that for ASX 200 companies) and I suspect that fewer than 20pa of those are the subject of contentious voting results (as opposed to fair differences of opinion). One must emphasise that ordinary resolutions require more than 50% of votes against to fail; this is very rare. It is even less likely that such a result would be brought about (mainly or only) by a proxy advisor report. The standard of governance at most large companies is generally very professional; I don't believe that proxy advisors have much or any work outside the ASX300. Hence it is highly unlikely that a company that is the subject of a proxy advisor report would be proposing a resolution so contentious that it could cause a failed vote, and even more incredible that such a vote would be brought about by the influence of proxy advisors, when compared with shareholders who have voted in favour of it. This is just unrealistic. A 25% threshold is relevant for special resolutions and Rem report votes. If the former was on a major strategic matter (like an M&A matter) it would be canvassed compressively by all parties, sometimes with independent expert reports. In the case of the Rem report, it is non binding: the company's only risk is having two successive Rem report votes which cause so much investor anger that they could provoke a Board spill. This is most unlikely and would not come about because of proxy advisor influence- and it would certainly not be a last minute surprise.

Consultation questions

7. How would the proposed options affect the level of engagement by proxy advisers with companies? *These ideas are impractical and inefficient. It is a matter of professional responsibility and courtesy, and should be left to the parties themselves to sort out. Government should not intrude on the process.*

8. Would the proposed options mean that investors are more likely to be aware of a company's position on the proxy advice they are receiving? *Unlikely*

9. What is the most appropriate method for proxy advisers to notify their clients as to where the company's response to its report is? *N/a- don't do it.*

10. If proxy advisers were required to provide their reports to companies in advance of their clients, what would an appropriate length of time be that allows companies to respond to the report and for the report to be amended if there are any errors? *N/a- don't do it.*

11. Are there any requirements that should be placed on companies during this period, such as confidentiality? Are there any requirements that should be placed on proxy advisers during this period, such as not making their recommendation otherwise

publicly known? *This is another reason not to do it, including potential for insider trading, and unfair loss of intellectual property of the proxy advisor.*

[….]

Options

Stakeholder views are sought on the following option:

Option 5: Ensuring advice is underpinned by professional licensing. Under this option proxy advisers would be required to obtain an AFSL for the provision of proxy advice. The purpose of the license would be to ensure that proxy advisers are making assessments on issues that have a material impact on the conduct of business[sic] in Australia with appropriate regulatory oversight and the necessary care and skill required.

Consultation questions

12. Is the AFSL regime an appropriate licensing regime through which to regulate the provision of proxy advice? *NO*

13. Would coverage under the AFSL regime result in an improvement in the standard of proxy advice? *NO*

CONCLUSONS

The proposals in the CP that relate to proxy advice are flawed and unhelpful. The only proposal that has some merit is for more informative and regular reporting by all fund managers in Australia (not only super funds) on their major asset holdings.

It seems implicit that this CP is referring only to the voting of shares in Australian companies, yet the same arguments by Treasury could be applied to holdings of overseas equities. It may be difficult for Australian law to regulate the behaviour of overseas proxy advisors, yet some of the "reforms" proposed in this CP could be applied to Australian institutions that use the services of foreign proxy advisors for their overseas equity portfolios. It is telling that the foreign aspect appears to be excluded from this CP, or perhaps has not even thought about. This may reflect that the lobbying for these "reforms" has come from Australian directors, not because of the merits of the arguments themselves.

The great flaw with this CP is that it rests on an a presumption that there is a problem in Australia with the quality of proxy advice and its process, yet the CP provides no evidence at all for that. It is worth stating some obvious points. Shareholders (including institutions) own the companies: it is absolutely proper that they should exercise their votes as they wish. On some occasions they may disagree with board-endorsed resolutions. That is their right. All shareholders should be allowed to seek advice on how to exercise their votes, if they wish. Proxy advisors (and others) should be allowed to offer that advice, but no client is obliged to act in accordance with it. Proxy advisors offer their advice only to institutional investors, who are sophisticated and have deep knowledge of corporate strategy, governance and pay policies. They would not be swayed if proxy advisors used biased or incompetent arguments. Their holdings (i.e. the subject matter covered in this CP) would each singly *be worth at least $0.5m, and in many cases would be* individually *worth tens of $millions. It is absurd to suggest that institutional investors would not treat their voting rights (and company engagement) with great care and professionalism.*

These proposals also seem strangely at odds with the Government's usual espousal of free enterprise principles and against prescriptive red tape.

If the Government has appetite for investment reform, two matters that are urgently needed are to extend holding AGMs to listed trusts, and a tightening of the Sophisticated Investor regulations to protect wealthy but naïve investors.

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31 May 2021