Stewart Investors

31 May 2021

Market Conduct Division

The Treasury

Langton Crescent

PARKES ACT 2600

Via email: mcdproxyadvice@treasury.gov.au

We are writing in response to the Consultation Paper on Greater transparency of Proxy Advice. Stewart Investors has been managing listed equity funds since 1988 with an investment philosophy based on the principle of stewardship. We strive to deliver sustainable returns for our clients by investing in high quality companies over the long term. We are a global investment manager specialising in Asia-Pacific, Emerging Markets and Global Markets investing in listed equities with offices in Edinburgh, London, Singapore and Sydney. We manage $25.38 billion on behalf of our clients as at 31 March 2021.

Core principles and general comments for the consultation

As long-term investors, we believe that company engagement and proxy voting is a fundamental duty of shareholders and critical to sustainable shareholder capitalism. In this regard, both as it relates to proxy voting advisors and shareholder resolutions, the views we express in this letter are founded on the following:

- The ultimate responsibility (and regulatory focus) for voting decisions should lie with the investor, rather than advisors.
- The resolution of perceived issues with the role and influence of proxy advisors, is best achieved by investors embracing their stewardship responsibilities.
- Ensuring transparency and easy access to information from companies, filers of shareholder resolutions and the different sides in contested proxy ballots is more important than encouraging specific engagements between proxy advisors and these stakeholders.
- Shareholder resolutions are a vital mechanism by which investors can voice a non-binding, transparent and collective voice on issues of concern.
- The size of the shareholder's economic interest is not indicative of the insight or care the filer of a resolution may have on an issue or the support they might receive from other shareholders.
- Regulatory complexity in these areas are the enemy of good-faith and productive engagement between investors and companies.

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Specific response

Whether making investment decisions or exercising our responsibility as investment managers to vote at company general meetings, we use multiple inputs. The source of these inputs include (but is not exclusive to) our own meetings with companies; meetings with industry experts, journalists and non-governmental organisations; written research we generate internally; written research we consume from others in the investment value chain including investment banks and proxy advisors; along with specifically commissioned research by experts working in a broad range of fields. It is our belief that our clients benefit from our ability to analyse and critique a broad range of inputs to our decisions. We are considered in our approach, we scrutinise sources, and in keeping with our team-conceived Hippocratic Oath, we make rational judgements. In short, our clients would expect us to do more than simply follow what service providers fed us.

We vote in 54 markets in a typical year and aspire to vote every share of every company we are invested in. While we consume research from proxy advisors and investment banks on governance and voting issues, we regularly and consistently vote against their recommendations. When voting, we communicate with the relevant company Board on points of clarification or where we intend to vote against the recommendations of that Board. It would be a falsehood to suggest we do not discuss any points of contention with a company to garner their response. It is important that this remains the role of investors rather than third parties. Our voting decisions are a function of the many and varied data points outlined above (quantitative and qualitative) and our belief of the best interests of our clients as the ultimate owners of capital. This is often not aligned with the approach of our service providers. The idea that the proxy advisor tail is wagging the investment manager dog is simply misplaced.

Should The Treasury believe that this strong focus on exercising stewardship responsibilities is not the case for a significant enough portion of investors and risks undermining the integrity of company general meetings, then we believe the focus should be on those investors rather than service providers. This could be achieved by mandating disclosure of votes including rationale for votes against Board recommendations. It could also be achieved through guidance on the responsibility of investors to consider and vote on every resolution according to its merits. A similar promotion of best practice transparency would be the requirement on companies to post on their website the questions from / correspondence with proxy advisers and investment banks, and their responses, so that all investors in the market have timely access to this information.

Ultimately, it is investors who should hold their service providers accountable for the quality of their advice, while investors are accountable for their votes to their clients. We believe this chain of responsibilities would be weakened by the proposals as currently drafted.

As well as the breadth of inputs of research, the independence and the timeliness of the research is critical. Voting across 54 markets, we believe investors are best able to make judgements on the merits of proposals where recommendations are frank and fearless. Corporate capture of service providers is unlikely to improve the outcome for our clients. Consequently, option 4 may well jeopardise a relationship that is most functional between companies and their shareholders rather than introducing an intermediary.

Similarly, we are challenged by voting submission deadlines, technology constraints, and internal mechanical processes. Investing globally means investing in an environment with markets always open. Any delay in

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receiving inputs to our decision making process – such as that suggested in Option 3 - will jeopardise the quality of the outcome we can provide to our clients.

Finally, we note that the US Securities and Exchange Commission (SEC) conducted consultation for a similar proposal last year, and following review they scrapped the portion of the proposal that would have forced proxy advisers to submit their voting recommendations to companies for checking before distributing them to investors in advance of shareholder meetings.

We commend The Treasury for seeking stakeholder feedback on these proposed changes and hope our comments are helpful in deliberations. We would welcome the opportunity to discuss our views on these issues or to provide additional information as required.

Your faithfully,

Stewart Investors.