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Market Conduct Division
The Treasury
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By email: MCDproxyadvice@treasury.gov.au

3 June 2021

Dear Madam / Sir

**Greater Transparency of Proxy Advice – Consultation Paper, April 2021**

Thank you for the opportunity to provide feedback on the proposals under consideration regarding proxy advice.

TelstraSuper is Australia's largest corporate profit-to-members fund, managing $24 billion of funds on behalf of its 85,000 members. The fund has $6bn invested in Australian listed equities which are actively managed by internal and external asset managers.

TelstraSuper subscribes to research on meeting proposals for ASX listed entities from multiple proxy advice providers. That research contains voting recommendations that assists us as a superannuation fund trustee in making informed decisions to advance our members' best financial interest in respect of the companies concerned.

We believe there is a competitive market for proxy voting advice in Australia. We choose our current providers knowing that they engage extensively with companies, include the companies' perspective on voting proposals and make analysis available to companies free of charge at the same time as it is distributed to us. It is important to us that our proxy advisers have an Australian Financial Services Licence (AFSL) as research provided to us makes representation about governance of the companies the fund owns on behalf of members.

Importantly, proxy adviser research is one input into our independent voting process. Our voting is determined by our independent views about what is in the best interests of our members. On occasions we disagree with, and vote in a manner contrary to, our advisers' recommendations, particularly where a proposal is inconsistent with our voting guidelines as detailed in TelstraSuper's Proxy Voting Policy. Our approach is consistent with our obligations as a trustee and we would expect that a similar approach is taken by other institutional investors having regard to their respective obligations.

TelstraSuper has provided commentary on the options canvassed in the consultation paper below.

TelstraSuper

Should you have any queries in relation to our submission, please do not hesitate to contact David Humphreys.

Yours sincerely

**David Humphreys**

**Head of Sustainable Investment**

**Graeme Miller**

**Chief Investment Officer**

**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.*

**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.*

**TelstraSuper Comments on Option 1 and Option 2**

Stewardship

As a long-term investor TelstraSuper believes we have an obligation to act as stewards of the assets in which we invest and to behave as active owners, using our influence to promote optimum financial returns as well as good environmental, social and governance practices in order to support sustainable long term investment performance. We believe that such stewardship can both help produce positive financial outcomes and prevent or avoid value destruction for our members.

The objective of TelstraSuper's stewardship activities is to safeguard our investments in the long-term interests of our members. Part of our fiduciary duty, therefore, is to monitor the assets we hold and to take appropriate action if there are concerns that could impact investment returns.

TelstraSuper is a signatory to the Australian Asset Owner Stewardship Code and has published a Stewardship Statement. The Code supports the transparency and accountability of stewardship activities in Australia. Signatories to the Code are required to disclose their approach and outcomes regarding key stewardship activities: voting, engagement, policy advocacy and the selection, appointment, and monitoring of external asset managers. TelstraSuper publishes a Sustainable Investment Bulletin twice yearly disclosing these activities to members.

Voting

Voting is one of the cornerstones to TelstraSuper's stewardship approach. The exercising of the right to vote is one of the most effective tools for holding boards to account and encouraging good governance. As an active owner, TelstraSuper exercises proxy votes for listed Australian share holdings. Telstra Super has adopted a Proxy Voting Policy which includes voting guidelines for important governance topics.

TelstraSuper votes on all listed equity investments wherever possible, unless doing so is considered to be detrimental to members' interests or gives rise to a conflict of interest. Voting is determined on a case-by-case basis taking into account proxy research where available, the outcomes from engagement meetings, discussions with peers and our external portfolio managers' perspectives.

The aim is to vote in an informed and pragmatic manner to protect and enhance our members' best interests, taking into consideration a company's unique circumstances.

TelstraSuper subscribes for proxy voting research on ASX300 companies from the Australian Council of Superannuation Investors (ACSI) and receives additional advice and analysis on various governance topics from other providers. When undertaking voting, the proxy adviser's guidance and voting recommendations are taken into account and assessed against other factors including TelstraSuper's own policies. In this respect, those recommendations are a useful source of relevant information which enhances our decision-making. TelstraSuper maintains independence when exercising its voting rights and there are occasions where our final voting decisions differ from those proposed by the proxy and/or governance advisers.

Voting Disclosure

The *Superannuation Industry (Supervision) Act 1993* requires funds to make certain information publicly available. This includes the fund's conflicts management policy, proxy voting policy and a summary of when, during the previous financial year, and how the entity has exercised its voting rights in relation to shares in listed companies.

TelstraSuper already goes well-beyond these regulatory requirements and provides disclosure on how the fund voted on each resolution of every listed company in which it is invested. The TelstraSuper Proxy Voting Dashboard accessed via the fund's website provides this information 14 days post the relevant meeting. The dashboard discloses that for the 2020/21 financial year to date, TelstraSuper has voted at 235 Australian listed company meetings, involving 1,227 unique resolutions. 90% of votes cast were in line with company recommendations with 10% voted against. The Fund's proxy voting policy is also available on the dashboard. The Fund's conflict management policy has also been published on our website.

In principle, TelstraSuper would support improved regulatory disclosure in relation to proxy voting, but does not believe that it is necessary for detailed disclosures regarding the proxy advice received to be made in respect of every vote.

Trustee Independence

Telstra Super believes that superannuation funds should retain independence to choose whether to receive proxy advice and determine their own voting positions, regardless of whether they take advice or not, consistent with current regulation and practice.

While TelstraSuper is a full member of ACSI, it is not a requirement of our membership that we receive proxy voting research. This is an optional additional subscription. ACSI is one of several advisers in a competitive market and as outlined above we also procure research on governance topics from other sources.

TelstraSuper is not involved in determining the voting recommendations of ACSI or any other proxy adviser and we are not involved in the preparation of proxy research. This would defeat the purpose of paying a specialist adviser. As an ACSI council member, TelstraSuper contributes to the development of ACSI's principle-based Governance guidelines. These Guidelines do not require funds to follow voting recommendations and research prepared by ACSI. As mentioned above TelstraSuper has adopted its own voting guidelines in our Proxy Voting Policy.

In TelstraSuper's view the fundamental independence principle in proxy advice is ensuring that proxy advisers are independent of the companies that are the subject of advice. The ownership or funding structure of a proxy advice firm is relevant in the context of whether the companies on which the advice is being provided are paying for or funding that research. As a client or subscriber that pays for proxy advice, TelstraSuper is comfortable that the advisers we use are acting in our members interests given that these entities are funded by subscribers similar to us, rather than the companies on which they are making recommendations. TelstraSuper does not therefore see the need to introduce Option 2 and is not in favour of it being adopted.

Options 1 and 2, if adopted, would also impose additional administrative burdens (and consequently additional cost) on superannuation funds in circumstances where, the objects of such reforms are already sufficiently regulated under the existing legal obligations of superannuation fund trustees.

**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.*

**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.*

**TelstraSuper Comments on Option 3 and Option 4**

TelstraSuper does not support Option 3 or Option 4.

Mandating the distribution of proxy adviser recommendations to companies in advance of publication to clients is in our view unnecessary. We have not observed material errors in proxy analysis that would require this sort of market-wide intervention. No other financial research provider we contract with is required to do this. It will impose additional costs on the production of research which will be incurred by our members and delay its distribution to us.

Proposals to have companies review proxy reports before they are received by shareholders who pay for them will diminish the independence of the research we receive. We want our providers to be independent of the influence of the companies they are advising us on. Independent researchers should be able to rely on a company's public statements without any requirement to consult with them prior to publication. Companies already provide their own logic as to why they have recommended voting in a particular manner and any elaboration should be made at the time of announcing the Board's recommended voting preferences. This approach is not applied to other forms of investment research we receive including stockbroker research on companies and we do not see any reason why there should be special treatment of proxy research. These proposals would add compliance cost to the financial detriment of fund members and reduce the time available for investors such as TelstraSuper to utilise the research.

The timeline for producing, receiving, and analysing research is already tight. There is usually a 28-day period between the release of meeting information by a company and the relevant meeting. Adding a 5-day consultation window within this timeline would only reduce the time available to evaluate voting proposals and to engage with the relevant company. Delaying receipt of advice could result in a move to automatically adopt the providers recommendation as there will have been insufficient time to conduct further analysis.

We prefer to talk, or to receive materials, directly from investee companies rather than via our external advisers or third parties. Companies publish their rationale for voting recommendations on the ASX platform at the time a general meeting is called. Complete information should be made available by a company at that stage to allow shareholders to be informed fully on the proposals being voted on. A company can make an announcement on its website or on the ASX platform if required so that all investors can be equally informed if it believes there are misrepresentations made to investors.

**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 licence would be to ensure that proxy advisers 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.*

**TelstraSuper Comments on Option 5**

TelstraSuper supports the adoption of Option 5.

We note that our current proxy advisers hold AFSL licences that authorise the provision of general advice on securities and managed investment schemes to wholesale clients. In this respect, proxy advisers are presently subject to regulatory oversight through the AFSL regime and through additional provisions of the Corporations Act. Proxy advisers must comply with s1041H of the Corporations Act which states that a person must not engage in conduct, in relation to a financial product or a financial service that is misleading or deceptive or is likely to mislead or deceive. In addition, there is already meaningful scrutiny over the practices of proxy advisers, as demonstrated by ASIC's Review of proxy adviser engagement practices, which was published in June 2018.