



**Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600**

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Email: MCDproxyadvice@treasury.gov.au

Greater transparency of proxy advice

Cbus welcomes the opportunity to comment on the proposals in relation to the development of reform options that would strengthen the transparency and accountability of proxy advice.

About Cbus

Cbus has the proud history of being one of Australia's first industry super funds. Cbus was formed in 1984, when building and construction workers won the right to superannuation. Today, we have grown into a leading industry super fund, open to all while maintaining a focus on the industries that build Australia. We work hard to make sure that the super system is delivering for our members. Our members include workers and retirees, their families and employers.

Cbus, with more than 779,000 members, is one of the best performing funds, with investment performance for our Growth (Cbus MySuper) option of 8.98% per annum since inception in 1984 to 30 June 2020. The Growth (Cbus MySuper) option has returned 20.99% for one year to 31 March 2021 compared to 19.31% for the median return in the SuperRatings SR50 Balanced Survey. Average annual returns for the Growth (Cbus MySuper) option over 5 years was 9.19% per annum, 7 years was 8.73% per annum and 10 years was 8.97% per annum (to 31 March 2021). Funds under management total \$61.3 billion as at 31 March 2021.

Background to submission

Cbus supports transparency, accountability, and independence. However, we are concerned that some of the proposed measures will impose unnecessary additional costs on our members and inhibit our ability to make voting decisions in the best financial interest of our members.

Cbus has a long history of stewardship, commencing with engagement and voting over 15 years ago. The aim is to enhance long-term value creation and minimise risk. Ultimately, we want to generate sustainable returns for our members so they can retire with dignity. Cbus exercises its shareholder voting rights to encourage better ESG practices and disclosures among investee companies and where necessary hold boards to account for company performance. Consistent with the sole purpose test, members' best financial interests, our approach aims to protect and enhance the long-term value of equity holdings.

Annual General Meetings (AGMs) are concentrated into a relatively short period each year and there are significant volumes of information that requires consideration. Given Cbus internally manages the voting at the Australian listed equities ASX300 AGM's, having two proxy voting advisers (ACSI and CGI Glass Lewis) is an efficient way of gathering relevant information for voting purposes and assists in identifying issues for further consideration and provides a good cross check of issues to consider.

It also ensures we are in receipt of recommendations both domestically and globally. In the absence of this information Cbus would require significant additional internal resources to undertake research to make informed voting decisions.

As outlined below the role and our approach to exercising voting rights are consistent with ASIC's review of proxy adviser engagement practices in 2018¹ and the HIH and Hayne Royal Commission findings.

From ASIC's review of proxy voting practices 'Voting on resolutions is an important shareholder right which enables shareholders to play a role in the governance of a company. Voting allows shareholders to express their views on important issues as well as hold the board to account for the company's performance.'² Further as noted by Cathie Armour, Commissioner, ASIC, 'Pointers for the AGM season', August 2016 'The information provided to shareholders as part of the AGM is critical to their assessment of the company's business strategies and future prospects.'

Justice Owen, HIH Royal Commissioner noted that shareholder apathy was a major constraint to good corporate governance and institutional and individual investors need to ask more questions of company directors. Adding that HIH is a good example of a company in which shareholders lacked any real input.

"If shareholders, as owners, are unwilling or unable to exercise their powers or make themselves heard then directors and management will lack guidance and constraint from those whose interests they're supposed to serve," Justice Owen said.³ Consistent with good stewardship practices the purpose of Cbus' voting and engagement activities is to communicate with the companies in which we invest with the aim of enhancing long term value creation and minimising risk.

Cbus maintains a robust and independent approach to voting. Internal criteria form the basis of the Fund's approach to voting. These are approved by the Fund's Investment Committee and reviewed annually. This results in the review of recommendations for approximately 75% of meetings of ASX 300 companies.

A range of inputs inform our voting positions, including proxy recommendations from two advisers, inputs from our internal investment teams and external fund managers who are responsible for investment decisions, stakeholders and insights from company engagement (throughout the year and where necessary ahead of the AGM). With this information we form our own views, based on the best financial interests of our members over the long-term.

Our actions in relation to voting are also regulated by the relevant provisions of the Corporations Act, including the provisions regarding acting in concert with other investors and we take compliance with these obligations seriously, as we do all regulatory requirements.

We know through research that our members and employers firmly believe that Cbus can and should seek to influence the companies it invests in. Members and employers believe that companies that do the wrong thing by their customers, employees or the environment are presenting a risk to investors and members or super funds.⁴

¹ ASIC review of proxy adviser engagement practices, page 4, June 2018

² ASIC review of proxy adviser engagement practices, page 9, June 2018

³ 'Shareholders warned about apathy' - ABC News <https://www.abc.net.au/news/2003-06-13/shareholders-warned-about-apaty/1869860>

⁴ Responsible Investment Research, conducted for Cbus by Essential Research, April 2020

As noted by Justice Hayne, 'The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk.'⁵

Our aim in responding Options 1 – 4 is to provide practical insights into the role of proxy voting and Cbus' voting process (including use of proxy advice).

Yours sincerely




Justin Arter
Chief Executive Officer

⁵ <https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf>, page 403

Option 1: Improved disclosure of trustee voting.

Cbus voting disclosure

In compliance with the requirements of Section 29QB of the Superannuation Industry (Supervision) Act 1993 (SIS Act) and s 2.38(2) of the Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations) we are required to disclose a summary of the conflicts management policy; proxy voting policies; 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. As such Cbus provides the following disclosures:

- A summary of Cbus' conflicts management policy (which is also referenced in Cbus' Responsible Investment Policy and our Stewardship Statement)
<https://www.cbussuper.com.au/content/dam/cbus/files/governance/policies/Conflicts-Management-Policy-Summary.pdf>
- Key voting positions
<https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Key-Voting-Positions.pdf>
 - o Cbus' voting practices domestically and internationally are based on the [Australian Council of Superannuation Investors \(ACSI\) Corporate Governance Guidelines](#) to ensure consistency of our voting process.
- An annual summary of Australian and International voting outcomes by outcome (for, against, abstain), theme (director elections, capital management, executive pay, other), Against resolutions by theme and shareholder proposals by outcome and theme -
 - o <https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Responsible-Investment-Supplement-2020.pdf>
- In addition to the regulated disclosures, Cbus also discloses:
 - o Voting decisions for all meetings domestically and globally are published immediately after the company's Annual General Meeting (AGM)
<https://viewpoint.glasslewis.com/WD/?siteId=CBUS>
 - o Through our voluntary commitment to the Australian Asset Owner Stewardship Code, Cbus publishes a Stewardship Statement
<https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Stewardship-Statement.pdf>
 - o As a signatory to the Australian Asset Owners Stewardship Code, Cbus supports the principles and guidance outlined in the Code which are designed to promote greater transparency and accountability in relation to stewardship activities.
 - o Contacts details are provided within the statement for companies wishing to engage with Cbus.

Cbus response to Option 1

One option being considered by Treasury is whether superannuation funds should disclose if their voting actions taken were consistent with the proxy advice.

While Cbus' approach to voting is guided by the [ACSI Corporate Governance Guidelines](#) (which are publicly available and principles based) as noted above Cbus considers a range of inputs when making voting decisions, Cbus receives advice from two proxy advisers and do diverge from proxy advice.

Further information regarding our voting process is provided below.

In addition, while a final published voting decision may on the face of it appear to align with a proxy advisers' recommendation, the decision to support or otherwise a resolution is often based on a broad range of issues and inputs.

Disclosing whether the voting actions taken were consistent with the proxy advice would appear misleading given a range of inputs can be sought in determining a vote decision and it is unclear how the disclosures would benefit our members.

Cbus encourages Treasury to consider the following alternative to Option 1 as currently proposed.

Stewardship codes exist in numerous markets in the world, including a fund manager stewardship code in Australia. However, a meaningful improvement to transparency and accountability of stewardship practices would be the introduction of a UK style [Stewardship Code](#) which would have application to all institutional investors (asset owners and investment managers), framing proxy voting disclosure requirements in a broader and more principles-based manner, allowing investors to choose how to present the information in a meaningful way in accordance with industry norms and in a manner appropriate for their key stakeholders i.e. their members and clients. The guiding principle underpinning any disclosures being members best financial interests.

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.

Cbus has a robust governance structure for vote decision making which includes investment delegations, annual strategy reviews and reporting to the Investment Committee and regular reporting to the Board. Outlined below is an overview of Cbus proxy voting governance arrangements.

Governance

Cbus' [Investment Governance Framework](#) acknowledges that improvement of long-term returns can be achieved through active involvement in ESG issues. Our [Responsible Investment Policy](#) highlights the role of voting and engagement. Cbus has dedicated Stewardship resources.

Delegations

In accordance with the Investment Delegations Matrix:

- annual approval of the Stewardship strategy (approach to voting and engagement) rests with the Investment Committee
- vote decision making is delegated to the Head of Stewardship and Policy, Responsible Investment
- the Stewardship Statement is approved by the Investment Committee, while the CIO can approve minor amendments.

Reporting to the Investment Committee

The Investment Committee is kept informed of voting intentions and outcomes through:

- weekly updates during the Australian voting seasons (provided to the whole Board)
- monthly reporting of where Cbus has voted 'Against' company Board endorsed resolutions and voting positions in relation to shareholder proposals and
- an annual stewardship program update and stewardship strategy review.

Proxy Voting approach

Cbus receives vote recommendations for Australian publicly listed companies in the ASX 300 from both ACSI and CGI Glass Lewis. These recommendations are actively reviewed based on criteria annually approved by the Cbus Investment Committee. That is, we consider a range of issues for example safety and financial performance consistent with member's best financial interest.

This leads to a review of recommendations for ~75% of ASX300 meetings. Divergences from proxy advice is also monitored. As noted, a range of inputs are sought to inform our voting positions, including from internal investment teams and external fund managers who are responsible for investment decisions, stakeholders (non-government organisations, other subject matter experts), proponents, and insights from company engagement (conducted throughout the year and where necessary when forming voting positions).

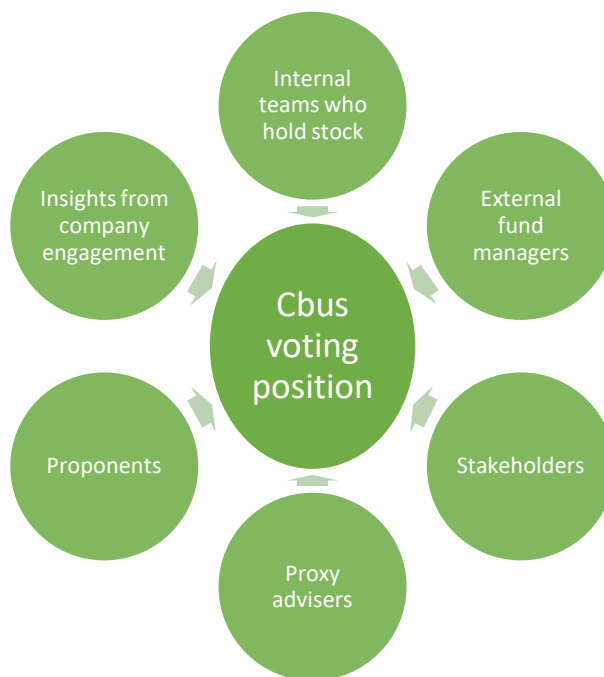


Figure 1: Inputs into Cbus voting position (where applicable)

Cbus response to option 2

For the sake of clarity voting recommendations are one input into Cbus' voting positions.

Cbus is not bound by voting recommendations provided by any provider, nor is Cbus involved in the development of any proxy voting recommendations.

Cbus's voting decisions are made independently regardless of the advice it receives.

Cbus' voting activities are also governed by the provisions of the Corporations Act in relation to acting in concert with other investors. For further information regarding the relevant provisions, application to collective action refer to ASIC's Regulatory Guide 128 'Collective action by investors'.

Option 3: Facilitate engagement and ensure transparency.

Cbus has several concerns with the proposal that voting reports and recommendations should be provided to companies 5 days before investors. Given the seasonality, volume and vote time constraints, the proposals would impede the ability for informed voting decisions in a timely manner or increase the cost of undertaking this important activity.

Cbus typically votes 60+ meetings (350+ proposals) during the mini season (April - May) and 200+ meetings (1100+ proposals) during the main season (Oct-Dec). Most meetings/resolutions are routine in nature with the majority of board endorsed resolutions supported by shareholders, as confirmed by ASIC's findings in 2018.⁶

Timing of vote considerations are dependent upon and constrained as follows:

- Companies release their notice of Annual General meeting 28 days prior to their AGM
- Voting recommendations from two providers are typically received 14 days prior to the AGM
- In line with our voting criteria depending on the nature of the meeting and the resolutions, further engagement may be required with companies, views sought from internal/external managers, proponents of resolutions and other subject matter experts particularly on more sensitive votes prior to a decision being formed.
- Lodgement of the vote 7 days prior to the AGM which is necessary to allow for processing through custodians, sub custodians to the issuer's share registry.

As noted earlier Cbus discloses its voting outcome as soon as the company's AGM is held.

Cbus also contacts companies pre or post vote when in members best interests for example on issues of strategic importance to the company such as climate change and human rights management.

As with any service provider due diligence is performed prior to appointment, the quality of proxy advice services is governed by the commercial contracts and performance and quality is monitored regularly and at least annually.

Cbus Response to Option 3

If this option were imposed costs would rise in order to meet volume and time constraints through the need for increases in proxy adviser resourcing (the cost of which would be borne by their clients) and/or resourcing from an investor perspective, placing an unnecessary additional cost on members which would not be in their best financial interests.

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.

It may also be useful for Treasury to note that where a company has formed a view that their governance arrangements/disclosures have been misrepresented or an factual error has been made in a voting report, our experience is that they have typically responded in one of three ways:

- Advised the proxy adviser who then updates its clients
- Contacts Cbus directly via email with its views
- Makes an announcement to the market through the ASX.

⁶ ASIC review of proxy adviser engagement practices, page 7, June 2018

Cbus Response to Option 4

While we have no opposition to responses from companies being passed on through proxy advisors, to ensure that the market is kept informed, good practice would indicate in such instances that the company make a release to the market through the ASX.