

Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: MCDproxyadvice@treasury.gov.au

26 May 2021

Dear Sir or Madam

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.

Greencape Capital is a Equity funds management business that started in 2006 and is based in Melbourne. We manage over \$12B in funds for institutional and retail clients. We have a small team, and our process is all about proprietary research.

Our business subscribes for research on Annual General Meeting proposals for ASX listed entities. That research contains voting recommendations that our provider believes will advance our ownership interest in the company concerned.

The consultation paper implies that institutional investors are unduly influenced by the research provided by proxy advisers. This is not consistent with our experience. Proxy analysis is only one input into an independent process that is used to arrive at our voting determination. We frequently disagree with our provider's assessment. Sometimes we agree but for different reasons. We find the research valuable, but no more influential than any other investment research we consume. Our voting behaviour is determined by our independent views about what is in the best financial interests of our clients.

There is a competitive market for proxy analysis in Australia. We chose our current researcher knowing that it engages extensively with issuers, includes the issuer's perspective on the proposals and makes copies of its analysis available to companies free of charge at the same time it publishes to us. It was also important to us that our researcher had an Australian Financial Services Licence (AFSL) as every proxy analysis it provides to us makes detailed representations about the financial performance of the companies we own. We independently verify research before we act upon it, but we expect that research will be prepared with necessary care and diligence.

We wish to make specific comments on the following options canvassed:

Option 3: Facilitate engagement and ensure transparency... 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 ...

We disagree with this approach. Mandating the distribution of research recommendations to issuers in advance of publication to clients is 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 and delay its distribution to us. We want our provider to be independent of the influence of

the companies they are advising us about. Independent researchers should be able to rely on a company's public statements without any requirement to consult with them prior to publication.

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 proposal is unnecessary. 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 the investing public. We are frequently contacted directly by issuers seeking to provide additional information or a response to proxy analysis and the information flow is adequate.

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 in Australia with appropriate regulatory oversight and the necessary care and skill required.

Our current provider already has an AFSL and we note that all other providers in Australia also have a similar licence.

Each analysis of resolutions at AGMs or EGMs necessarily contains representations about a company's financials (historic and forward-looking). The best analysis is driven by excellent financial research. It seems regulatory overkill to superimpose additional regulatory conditions on any provider's AFSL solely because it makes a voting recommendation.

Further we note that the reforms being considered seek to mandate a method for producing research, which is a shift from the principles-based regulation that govern other investment researchers. The reforms proposed will increase the cost of research and (because of the pre-publication to issuers) limit the time that we have to consider it. This may have a negative impact on the quality of proxy research.

Our business is quite capable of determining whether any organisation we contract with can produce research with the necessary care and skill required. The recommendations of a proxy advisor are only an input into our process to make decisions in the best interests of our clients.

We are not aware of any proxy advice having 'a material impact on the conduct of business in Australia'.

Conclusion

We suggest that no action is required in relation to Options 3-5 contained in the Consultation Paper.

Yours faithfully

Matthew Ryland

Director

Greencape Capital.