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Manager  
Market Conduct Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Submitted electronically: [MCDproxyadvice@treasury.gov.au](mailto:MCDproxyadvice@treasury.gov.au)

### **Re: Greater transparency of proxy advice**

Milford Asset Management welcome the opportunity to provide a submission in response to the Treasury's consultation on greater transparency of proxy advice.

Milford support greater transparency of proxy advice. We recommend implementation of the following options proposed in the consultation paper: option 1, an amended option 3, and option 4. We expand on our reasons for these recommendations below.

### **About Milford Asset Management**

Milford invest over NZ\$12 billion on behalf of both Australian and New Zealand retail and institutional investors. Milford's investment principles are founded on active management and engagement.

Milford actively exercise our proxy voting rights to clearly communicate our expectations regarding ESG factors to investee companies. Milford engage proxy advisers and their recommendations form the starting point for our own proxy voting analysis and engagement. We retain full discretion over all voting decisions. In the absence of well founded, strongly held views to the contrary, Milford's policy is to vote in line with the adviser's recommendations. We acknowledge this active, considered approach might not reflect the approach of all superannuation funds.

### **Our submission**

Milford support greater transparency of proxy advice. However we believe it should be implemented in a way that is not excessively costly or onerous for the proxy advisers. Proxy advice is already received on a tight deadline, therefore any decisions made as a result of this consultation should be balanced with superannuation funds' program of engaging with investee companies. It is also important that companies include well-reasoned rationale in the AGM pack so that all investors, not just superannuation funds, can have access to and understand that rationale. It would be disadvantageous to retail investors if companies focused only on responding to proxy adviser research, as this is only viewed by superannuation funds.

Our submission focuses only on consultation questions 1-11 (options 1-4). We do not hold a view on questions 12 & 13 (option 5).



### Our response to consultation questions 1-6:

1. Increasingly, superannuation funds are disclosing their voting decisions publicly in a range of formats. Option 1 would require all superannuation funds to disclose this data. This is supportive of greater transparency of proxy advice across the industry.

Milford, for example, use a platform hosted by our proxy adviser to disclose the list of meetings we were entitled to vote at and whether votes were cast. To our knowledge, the platform cannot disclose the following:

- whether advice was received from an adviser;
- who provided the advice;
- whether voting actions taken were consistent with that advice.

Hosts of such platforms would need to be given sufficient time to develop this capability if option 1 was chosen.

2. In our experience, the increased disclosure proposed in option 1 is not onerous or costly. Many funds are already disclosing a version of this information in a range of formats.
3. Increasingly, superannuation funds are disclosing more detail on their proxy voting policy. Usually this is done publicly on the fund's website, or to clients in an annual report. Disclosure of the policy is sometimes in line with other reporting requirements, such as the United Nations' Principles for Responsible Investment – although this is not a compulsory disclosure. We do not believe the repeated publication and distribution of a proxy voting policy to members ahead of an AMM is a good use of time or resource given the significant number of meetings superannuation funds are involved in every year.
4. Milford believe requiring superannuation funds to disclose whether any advice was received from a proxy adviser, and who provided that advice, is appropriate.

For disclosing how votes are exercised, we suggest superannuation funds disclose if each vote was in line with the proxy adviser's recommendation, and if each vote was in line with management's recommendation. This will give the fund's clients an understanding of how often the fund supports management or not. Superannuation funds should be mostly aligned with the company they invest in (unless they are activist investors), and much of the time the proxy adviser's recommendation aligns with management's recommendation.

Note that transition time will be required to enable proxy advisers to upgrade their offering to include this information on their hosted platform. It follows that this will be an increased cost to them.

5. We believe proxy advisers should be meaningfully independent from superannuation funds to ensure no undue influence on their research. We believe superannuation funds should engage meaningfully independent proxy advice.
6. Milford believe the independence requirement should apply to both superannuation funds and proxy advisers.



### **Our general comments on options 3 and 4:**

As outlined in the consultation paper, a high proportion of Australian AGMs happen in the last quarter of the year. Superannuation funds' capacity is already stretched at this time. Even outside of this busy quarter, there is often a tight turnaround between the time advisers release their research and the time superannuation funds are required to submit their votes. Implementing option 3 as proposed would add further pressure. Superannuation funds would receive the advice from the proxy adviser later than they currently do, reducing the time available to the investor to fully consider any issues. This time pressure could also interfere with the execution and effectiveness of the superannuation fund's overall engagement or stewardship program.

Generally, AGM notices appear 28 days before a meeting. Proxy advisers tend to release their recommendations approximately 14-18 days ahead of a meeting. This gives a superannuation fund up to 10 days to consider the research and engage with the company if required. Proxy votes are generally required to be cast 4-8 days before a meeting. The cut-off time for casting votes is set by registry providers; proxy advisers and superannuation funds (and to an extent the company itself) have no influence on this.

Requiring proxy advisers to share their research with a company prior to its release to subscribing investors significantly impacts their ability to provide considered, quality advice. The reduced time frame is simply too short. (While Milford recognise 5 days is just an example, advisers already have to turn research around quickly in approximately 10 days – halving that would be significantly onerous). Fundamentally it would call in to question the usefulness of the advice to superannuation funds, as time constraints would often require engagement with the company before receiving the adviser's recommendations. This could severely impact the business model of proxy advisers and diminish the usefulness of the proxy adviser service to superannuation funds.

We recommend Treasury consider following the United States' model. We advocate for an amended option 3 to be implemented alongside option 4 (suggested changes are in *italics*):

**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 *at the time it is provided* to subscribing investors.

Releasing the research to the company and subscribing investors at the same time would give the company approximately 5 days to respond. With this proposed option 3, superannuation funds have enough time to consider the adviser's research, arrange a meeting with the company, consider the company's response once it's released, and engage with the company prior to voting.

### **Our response to consultation questions 7-11:**

7. Milford cannot comment on the effect option 3 would have on the level of engagement between proxy advisers and companies. However, a contributing factor to Milford selecting our chosen proxy adviser was they do *not* consult with a company prior to



publication. We believe this results in the release of objective advice aligned with best practice standards (these standards are available on the proxy adviser's website).

8. We do not believe options 3 and 4 would necessarily mean investors are more aware of a company's position. It is standard practice for Milford to engage with companies prior to casting a vote, especially with more contentious resolutions. Increasingly, ASX-listed companies are engaging with Milford prior to a vote to discuss their position. We expect this will continue to increase as companies aim for best practice.
9. We suggest companies publish any response on their website. Proxy advisers could include a link to the company announcement page on their own website. This would not be costly or onerous and provides simple direction on how to find the company's response. Any more complex collation, or to require the proxy adviser to re-publish their research with the company's response included, would be costly and onerous for the advisers. Superannuation funds typically consult a company website prior to making a voting decision. It is not an arduous task to also check the latest news for the company's response. A company publishing their response on their website also ensures retail investors are equally informed.
10. Milford does not believe there is an appropriate length of time. We recommend Treasury consider following the United States' model and instruct advisers to release their research to the company and subscribing investors at the same time. Please refer to our general comments on options 3 and 4 above.
11. Milford does not believe option 3, as it is currently written, is appropriate. Please refer to our general comments on options 3 and 4 above.

### **Conclusion and further information**

Milford supports greater transparency of proxy advice. Decisions from this consultation should be made in consideration of proxy voting being part of a superannuation fund's wider engagement or stewardship program. Further, decisions should be implemented in a way that is not excessively costly or onerous for the proxy advisers.

Thank you for the opportunity to make this submission. Should you have any questions, we welcome the opportunity to speak with you to discuss this matter further.

Yours faithfully,

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