



Greater Transparency of Proxy Advice

**Submission by TWUSUPER to The Treasury
on issues raised in discussion paper
Greater Transparency of Proxy Advice.**

June 2021

1. Introduction and about TWUSUPER

Established in 1984, TWUSUPER is a profit-to-member Industry Super Fund with over \$6 billion in funds under management and more than 100,000 members across the transport, freight, and logistics industry which includes but is not limited to trucking, buses, couriers, waste and recycling, airline and logistics sectors.

The Fund was created for and by the transport industry and is completely aligned with the interests of transport workers, with services tailored to the unique conditions of transport.

TWUSUPER is focused on strong returns over the long term and investment returns for the Balanced (MySuper) option over the past year have been in the top quartile of all super funds¹. This is delivering net investment returns to TWUSUPER members for the one year to 30 April 2021 of 19.3% for the Balanced (MySuper) Option, and the Equity Plus Option returning members 25.2% over the same period.²

In coming months TWUSUPER will have cut fees charged to members by a combined 33 basis points.

TWUSUPER is proud to be an industry fund with strong governance, risk management, and accountability, and a much-lauded model of cooperative and representative decision making.

TWUSUPER places the interest of its members at the centre of all decisions. This includes those related to investments and proxy voting, led by the Fund's trustee directors on the board Investment Committee with the support of Fund staff and external advisers.

As a signatory to the Australian Asset Owner Stewardship Code (the 'Code') established in 2018, TWUSUPER supports the principles of greater transparency and accountability of stewardship practices in pursuit of improved outcomes for fund members as part of the Fund's obligation to members.

TWUSUPER welcomes the opportunity to comment on Treasury's recent discussion paper *Greater transparency of proxy advice* published in April 2021.

TWUSUPER is deeply concerned many of the proposals presented in the Consultation Paper could impede the ability of trustees to act in the best financial interests of their members, and would lead to unintended consequences such as increased costs and the compromise of quality and independence of proxy advice.

TWUSUPER trusts that this submission will provide Treasury and relevant stakeholders with adequate facts and context to understand TWUSUPER's approach to proxy voting, and the Fund's position on the proposals presented in the Consultation Paper.

¹ SuperRatings performance data, which compares performance relative to peers

² <https://www.twusuper.com.au/investments/investment-returns>

2. Proposed measures significant impact on ability to act in members' best interests

TWUSUPER believes that environmental, social and governance (ESG) risks and opportunities can materially affect investment outcomes and the long-term viability of companies, and this is a principle widely recognised both in Australia and globally.

Led by the Fund's trustee directors on the Board, Investment Committee, and with the support of Fund staff TWUSUPER has developed and implemented a set of investment beliefs that governs all investment related decisions and places members' best interests first and foremost.

As part of its investment beliefs, TWUSUPER considers that the appropriate management of ESG factors contributes to higher long-term investment returns, mitigates risk, and supports the Fund's role as a responsible member of the Australian investment community.

TWUSUPER is committed to integrating ESG considerations within the Fund's investment process via active ownership efforts which includes proxy voting, and notes guidance from APRA on such matters.

For example, the recent release of APRA's Draft Prudential Practice Guide – CPG 229 Climate Change Financial Risks in April 2021 recommends the identification, measurement, monitoring, management and reporting of climate change financial risks and opportunities as part of an entity's risk management framework.

This is consistent with comments made in 2017 by APRA member Geoff Summerhayes, which were widely reported and well explained the role of assessing risk as they relate to ESG:

*"... while climate risks have been broadly recognised, they have often been seen as a future problem or a non-financial problem. The key point I want to make today, and that APRA wants to be explicit about, is that this is no longer the case. Some climate risks are distinctly 'financial' in nature. Many of these risks are foreseeable, material, and actionable now. Climate risks also have potential system-wide implications that APRA and other regulators here and abroad are paying much closer attention to."*³

TWUSUPER believes there are cost and resourcing efficiencies to be gained in engaging proxy advisers for research and engagements with investee companies on climate-related matters to meet the expectations of APRA, and the best interests of members.

Undertaken on behalf of the Fund's members, proxy voting affords investors the opportunity to promote good governance of investee companies which increases shareholder value over the long-term, and is therefore, in the best financial interests of members.

There is clear merit in engaging proxy advisers for proxy research and engagement given the economies of scale that can be realized, making efficient use of Fund resources on behalf of its members.

It would otherwise be a substantial undertaking for the Fund, including significant cost and resourcing requirements, if TWUSUPER were to solely replicate the rigour and breadth of stewardship activities undertaken by engagement and research providers. Such an undertaking would be especially onerous

³ <https://www.apra.gov.au/news-and-publications/australias-new-horizon-climate-change-challenges-and-prudential-risk>

when considered against the quantum of listed companies (domestic and global) that TWUSUPER invests in.

While TWUSUPER benefits from the efficiencies of subscribing to an engagement and research provider, TWUSUPER retains absolute discretion in proxy voting decisions and does not collaborate with other superannuation funds when determining how to vote.

TWUSUPER generally supports improved disclosure in relation to proxy voting and currently discloses the Fund's proxy voting approach, as well as past voting records by resolution, and specifies the proxy voting guidelines TWUSUPER has chosen to be informed by.

Notably, TWUSUPER's current disclosures demonstrates the Fund's support for transparency and accountability and exceeds the current regulatory requirement.

TWUSUPER disagrees with the proposals in Option 1 of the Consultation Paper, particularly on the proposed disclosure of voting actions on individual votes alongside proxy adviser recommendations. This is potentially misleading and gives the appearance of proxy advice as the only input into voting decisions.

TWUSUPER also disagrees with the proposal for detailed narrative disclosure of inputs into individual voting decisions and considers this will impose undue regulatory burden and costs, for which the Fund's members will ultimately incur no demonstrable benefit.

3. TWUSUPER's proxy voting approach demonstrates independence & high standards of governance

TWUSUPER publicly discloses its proxy voting approach and the various inputs that feed into the Fund's proxy voting process in its Responsible Investment Policy which can be found on the Fund's website⁴, and as described above.

TWUSUPER engages Institutional Shareholder Services (ISS) as proxy adviser to provide voting advice in relation to Australian listed equity investments for which the Fund has direct discretion to exercise ownership rights. The Fund receives research and recommendations that are aligned to ISS' Sustainability Proxy Voting Guidelines⁵ which seek to promote the adoption of ESG considerations and are aligned with ESG-related initiatives such as the United Nations backed Principles for Responsible Investment (PRI).

While ISS' proxy research serves as a primary source of proxy advice, it is by no means the only avenue of information that TWUSUPER employs in its proxy voting decision process.

On a case-by-case basis, TWUSUPER can and will exercise discretion to override ISS' recommendations on resolutions where TWUSUPER has a divergent view and where it is considered in members' best financial interests.

TWUSUPER is a member of Australian Council of Superannuation Investors (ACSI) and is subscribed to ACSI's company engagement services.

Through ACSI's company engagement program and in tandem with other superannuation fund members, TWUSUPER participates in interactive discussions with company boards about material ESG issues, with the aim of promoting long-term shareholder value and minimizing risks for TWUSUPER's members. This forum of engagement allows ACSI members to understand a company's perspective on issues, particularly if contentious and discuss any concerns in respect of its member interests.

These collaborative engagements are a vital component of TWUSUPER's active ownership efforts and function as additional inputs into the Fund's proxy voting process, whilst ensuring ESG issues are consistently assessed and integrated within the Fund's investment process and consistent with the best outcomes for TWUSUPER members.

Importantly, TWUSUPER does not subscribe to ACSI's proxy voting services and does not receive voting advice from ACSI. ACSI's proxy voting services is a separate optional subscription that is not required as part of ACSI membership.

TWUSUPER also canvasses the views of its investment managers on resolutions relating to significant corporate actions (mergers and acquisitions), as it is expected that they are better placed to assess the financial merits of these types of proposals.

On occasion, TWUSUPER receives unsolicited supplementary information from investee companies directed through global strategy consultancies (such as Morrow Sodali⁶ and Georgeson⁷) which companies appoint to engage shareholders on their behalf.

⁴ <https://www.twusuper.com.au/investments/responsible-investment/>

⁵ <https://www.issgovernance.com/file/policy/active/specialty/Sustainability-International-Voting-Guidelines.pdf>

⁶ <https://morrow sodali.com/>

⁷ www.georgeson.com

Companies and investors are free to determine the process of engagement that best suits their business, which is preferable to mandating a particular process.

Where supplementary information is provided, TWUSUPER assesses it as part of the Fund's proxy voting decision-making approach.

Again, these additional inputs underscore the fact that TWUSUPER does not rely solely on one information source when making proxy voting decisions, particularly on contentious resolutions.

TWUSUPER acts independently when assessing the abovementioned research inputs, with final proxy voting discretion and accountability residing with TWUSUPER.

TWUSUPER is not beholden to ISS' voting recommendations or any other inputs and execute proxy voting decisions that are expected to promote members' best financial interests.

4. Proposals would compromise independence and quality of proxy research

More importantly, TWUSUPER is not involved, jointly or otherwise, in determining the voting recommendations of ISS, ACSI or any other proxy adviser and nor is the Fund involved in the preparation of proxy research.

The latter would be counterintuitive and would defeat the purpose of paying for specialist and independent proxy advice.

TWUSUPER considers the key conflict of interest that should warrant further governance would be in ensuring that proxy advisers remain independent of the companies they conduct proxy research on, much like how sell-side investment analysts should be independent of the companies they research and place stock recommendations on.

Moreover, TWUSUPER considers that the proposals in Option 3 of the Consultation Paper, which seek to regulate company engagements, could have adverse unintended effects if implemented.

TWUSUPER believes the proposed requirements by the Consultation Paper for proxy advisers to provide proxy research reports ahead of paying clients compromises the independence of proxy research and is an inconsistent practice across the market, one that is currently not applied to sell-side investment analysts.

Furthermore, the suggested imposition of a five-day window for companies to review a proxy adviser's research report for factual inaccuracies, could consequently be detrimental to the quality of proxy research as the compressed timelines will reduce the time available for company analysts to thoroughly research and evaluate company data and/or an investor's time to evaluate research and form their own opinions prior to making final voting decisions.

The imposition of a five-day window to accommodate company board's comments on proxy research reports would also see less time available for ample engagement between companies and investors on issues that may have not yet been discussed such as shareholder proposals. That said, TWUSUPER is not aware of factual inaccuracies being a significant problem in proxy research.

If enacted, the proposal's unintended effects – the compromise of proxy research independence and quality – will adversely impact the best financial interests of TWUSUPER's members, and therefore, TWUSUPER does not believe this proposal (Option 3) warrants support.

TWUSUPER does not intend to provide feedback on Options 4 and 5 at this stage.

5. Conclusions and Recommendations

Treasury's consultation paper has not made a compelling case for the need for greater regulatory intervention on proxy advice. It has also neglected to consider the adverse unintended effects on proxy research independence and quality, which would have further flow-on negative impacts on TWUSUPER members' best interests.

TWUSUPER maintains its support for transparency and accountability and has demonstrated this commitment as a signatory to the Australian Asset Owner Stewardship Code and at all times the Fund has sought to uphold the Code's six principles.

At all times, TWUSUPER places the interest of its members at the centre of all decisions, including those related to investments and proxy voting.

Proxy advice and engagement research are cost-efficient tools for TWUSUPER in fulfilling active ownership efforts, and by extension, fiduciary duty to members.

TWUSUPER is supportive of and recommends the concept of an industry-wide standard of disclosure that would govern asset owners, asset managers and services providers, and points to the UK Stewardship Code as an example.

The UK Stewardship Code, a voluntary code established in 2010, sets out high stewardship standards for those investing money on behalf of UK savers and pensioners and comprises a set of twelve 'comply or explain' principles for asset managers and asset owners, and a separate set of six principles for service providers.

The implementation of such a code in Australia would serve to ensure there is a benchmark standard that will be consistently observed and upheld by all market participants, if they choose to do so, and can lead to increased transparency and accountability across the industry.

TWUSUPER considers that the proposed five-day advance release of proxy research reports to investee companies, ahead of paying clients, potentially threatens the independence and governance of proxy advisers.

Instead, TWUSUPER is supportive of a simultaneous same-day release of reports to both paying clients, company boards and management, and considers this is a more pragmatic option that preserves the high level of independence and quality of proxy research.

TWUSUPER welcomes opportunities to further discuss the issues raised, and thanks Treasury for the opportunity to make this submission.

To discuss the content of this submission or for further information please contact Matthew Rocks at TWUSUPER on matthew_rocks@twusuper.com.au or 03 9635 5900.

TWUSUPER

GPO Box 779
MELBOURNE VIC 3001

TWUSUPER.COM.AU

TWU Superannuation Fund (TWUSUPER) ABN: 77 343 563 307
Registration No: R1000283
Australian Financial Services Licence (AFSL): 239163
Registrable Superannuation Entity Licence No: L000024

