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The Stronger Super Peak Consultation Group
Stronger Super
The Treasury
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Stronger Super – Issues paper on investment governance

The Australian Council of Superannuation Investors (ACSI) is pleased to provide the following submission in response to the Stronger Super Governance working Group's *Issues Paper on Investment Governance* released in March 2011. Among a range on investment governance issues discussed in the issues paper, we note that that 'Issue 4 – Voting behaviour' raises several questions in response to recommendation 3.6 of the Super System Review which recommended that all large APRA-regulated superannuation funds to publish their proxy voting policies, procedures and voting behaviour to members on their websites. It is also noted that implementing these changes may involve changes to the *Corporations Act 2001* in addition to the SIS Act.

ACSI represents the interests of thirty-nine superannuation funds who collectively manage over \$300 billion of Australia's retirement. ACSI provides its members with advice and information on the impact of corporate governance, environmental and social issues on the long-term performance of investee companies. Since our inception in 2001, ACSI has assisted funds to develop their own respective internal policy and implementation framework for monitoring corporate governance issues, and voting their shares.

ACSI welcomes the opportunity to make the following observations to the review on the implementation of these issues of investment governance, and specifically the voting behaviour of superannuation funds.

Superannuation funds and proxy voting

Providing proxy voting research, engagement and advice on governance issues has given ACSI extensive experience of the practical issues and challenges that investors face when exercising their voting rights. For superannuation funds, the exercise of voting rights is an important mechanism for monitoring governance issues in investee companies and managing governance risks over the long-term. It is for these reasons that ACSI believes that all superannuation funds should be, if possible, exercising all of the votes associated with their shares, all of the time.

ACSI regards the disclosure of these shareholder votes as a key platform by which trustees are able to demonstrate their approach to investment governance. It is also a tool by which funds are able to communicate their investment policies and provide assurance to members that their investment strategy is aligned with long-term investment objectives. Our experience in proxy voting has revealed that to a large extent, member funds already disclose their voting policies and outcomes on their websites.

Some member funds that already engage in this practice include AustralianSuper, ARIA, CARE Super, Cbus, HESTA, UniSuper, and VicSuper. These funds disclose this information on a voluntary basis so that members are aware of proxy voting policies and voting outcomes.

ACSI supports the disclosure of proxy voting policy and outcomes, but does not believe that regulation is the best way to improve transparency. ACSI recommends that a more effective approach would be to have APRA publish guidance confirming that the consideration of governance risks (including material environmental and social investment risks) in investment decision making is consistent with the definition of risk included in the sole purpose test contained in the SIS Act.

Legislation and APRA Regulation (Q4.2)

ACSI supports transparency on proxy voting policies and procedures by superannuation funds. However, we do not believe that mandating disclosure of proxy voting records will promote 'best practice' adoption.

ACSI strongly believes that the commitment to manage investment risk with a long-term perspective is more effective than compliance obligations. There is currently a distinct lack of alignment between investment risk and responsible investing at the regulatory level. Taking into account the issue of investment risk, it would be more beneficial for APRA to clarify the definition of risk included in the sole purpose test to include governance, environmental and social investment risks, as well as expectations of responsible investing behavior (of which voting policy and disclosure are important components).

Transition and implementation issues that industry may face (Q4.1 and 4.3)

ACSI notes a number of practical issues that the industry may face in implementing mandatory voting disclosure. Firstly, given the role of fund managers in the Australian superannuation system, it would be inconsistent to require APRA regulated superannuation funds to disclose their votes without having other major institutional investors subject to the same requirements. Indeed, in many cases it is fund managers who are exercising the votes of superannuation funds, not the superannuation trustee office itself. Therefore, any move to introduce mandatory voting disclosure for APRA regulated funds must require the major fund managers to do the same.

ACSI also notes that voting disclosure may be constrained by the structure of the investment. Many superannuation funds do not have the right to vote their shares, as they invest through pooled vehicles. This gives rise to a range of disclosure issues. For example, a superannuation fund may invest in Australian equities through a number of pooled trusts, which are all voted by the responsible entity of each trust. In some cases these investments will include 'fund of funds' vehicles with multiple underlying managers. In practice, aggregated reporting of these outcomes may prove difficult and convoluted.

ACSI notes that most funds who currently disclose voting outcomes are likely to limit reporting to the ASX200 companies. As large funds hold thousands of shares worldwide, disclosure of the full list of international voting results is likely to present challenges. Based on ACSI's experience, the policy by which shares are voted is more important than an exhaustive (and potentially confusing) list of all the fund's voting results. In any event, it would be prudent to limit reporting to a limited universe of stocks such as the ASX200.

APRA regulated funds are not required to list the companies they invest in, however disclosing the votes cast in all instances would provide a de facto list of holdings. This may include commercially sensitive information, such as holdings in small cap companies.

Last but not least, the industry may need to consider if there is a need to establish criteria to determine the disclosure of voting resolutions to ensure consistency across the funds. For example, should disclosure be limited to remuneration, director election, re-election issues and/or should it include contentious issues in a more general context as well?

These issues identified in this section warrant further dialogue as they are likely to have a significant impact on mandatory voting disclosure.

Conclusion

In conclusion, ACSI supports the disclosure of share voting policies, procedures and outcomes but we do not believe that regulation requiring all votes to be reported is the best way to improve transparency and governance standards. There are a number of examples where funds have already adopted transparent reporting practices. We propose that having APRA to clarify the sole purpose test and investment risk, to include material environmental, social and governance (ESG) investment risk would be a more useful regulatory response.

In this submission, ACSI has also identified a number of practical issues surrounding voting disclosure, especially for pooled investments. One of the key issues is the danger of inconsistency to have APRA regulated funds to disclose without requiring fund managers to do the same.

If you have any queries, please contact myself or Phil Spathis.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ann Byrne'. The signature is fluid and cursive, with a large loop at the end.

ANN BYRNE
Chief Executive Officer