Survey of the responsible investment policies and related voting transparency of selected Australian asset owners and fund managers

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Executive Summary

Economic historians distinguish three stages of capitalism – entrepreneurial, managerial and fiduciary. Entrepreneurial capitalism is characterised by a situation where founding individuals or families dominate corporate activity. Managerial capitalism is characterised by a situation where managers are the central agents of corporate power. Fiduciary capitalism is characterised by a situation where 'universal owners'[2] (for example, super funds with broad portfolio holdings) exercise effective control over company boards and management. They ensure corporate focus reflects the long-term interests of the beneficiaries of the funds managed by the universal owners.[3]

Superannuation and the broader funds management industry have grown rapidly in Australia in the past three decades. Between 1986 and 2016, total super assets as a fraction of Australian GDP increased from 9% to 127%.[4] In 2016 Australia had the fourth largest private pension fund industry in the world.[5] Clearly, from a purely dollar-based perspective there has been a very significant maturing of the Australian superannuation industry. Does that maturity mean, at least for ASX listed companies, Australian capitalism is now better characterised as fiduciary rather than managerial? To address this high-level question we framed a further set of questions.

Do our super funds 'talk' like they are universal owners? Do they describe, for actual and potential members, their policy attitudes to long term environmental, social and governance (ESG) issues, and how these attitudes determine their investment, engagement and proxy voting decisions?[6]

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2 Institutional investors with highly diversified and long-term portfolios. Such portfolios are exposed to environmental and social costs caused by any one investee company which affect other investees.

3 Robert Monks co-founder of the proxy advisory business Institutional Shareholder Services (ISS) - envisaged fiduciary capitalism would see shareholders become an "effective, informed, competent counter force to whom management must be accountable," he envisaged much of what citizens might otherwise seek through the political process would be available to them as shareholders and that fiduciary capitalism would "restore ancient values of ownership that preceded the corporate form… ". See p 145 of Bakan, J The Corporation: The Pathological Pursuit of Profit and Power, 2005 at http://new_words.enacademic.com/1278/fiduciary_capitalism .

4 See Murphy,P Australian Superannuation System Overview, 2017 p 8 at https://static.vgcontent.info/crp/intl/auw/docs/literature/research/Australian_Superannuation_System_Overview_2017.pdf?20180522|11 .

5 Id p 23.

6 It is, evidently, very difficult to assess this issue by looking at Director voting because so many issues can come into play. Consequently, this paper focuses on the use of 'thematic' ie issued focussed shareholder resolutions, but that is not the only approach. See, for example, in the UK http://redlinevoting.org/what-is-red-line-voting/ . By way of an alternative to the lodgement of 'thematic' shareholder resolutions Redline supporters commit to vote against re-election of a specific class of directors in specific circumstances. For example, they will "Vote against the re-election of the chair of the nomination committee if there is no strategy in place to address any under- representation of women at board level and fewer than 25% of the company's board members are female." The ACCR knows of no similar Australian initiative.

Do they 'walk' like universal owners? Do they publicise how they vote? If so, do they vote at AGMs on ESG proposals in a manner that reflects their own policy and the long-term interests of their members?

Is their membership of various investor 'trade' associations with a universal owner focus – for example, the United Nations Principles for Responsible Investment (UNPRI) and the Responsible Investment Association of Australasia (RIAA) correlated with patterns in the way they 'walk' and/or 'talk'?

This paper sets out to address these questions. To do this we reviewed the ESG policies, proxy voting policies and proxy voting disclosure records of a sample of 56 large Australian funds/fund managers, mostly super funds.[7]

We found:

- as regards 'talk', a very broad range of conduct. Six funds had no policy and no proxy voting record disclosure, the 'average fund' had a clear (albeit fairly basic) public statement of its policy on ESG issues. But, a quarter of sampled funds had no such policy available. Members of the UNPRI and RIAA were more likely than other funds to make publicly available a policy which disclosed their attitude to various ESG issues;
- a mixed bag in regard to 'walk' and proxy voting record disclosure. About a third of funds sampled did not disclose how they voted at ASX AGMs by resolution. Almost two thirds of public sector funds provide no disclosure how they voted at ASX AGMs by resolution. FSC and RIAA members scored better on disclosure than the 'average fund';
- a widespread failure to 'walk the talk' when it comes to actual voting on sampled ESG resolutions, particularly at ASX companies. Where disclosure was available, we sampled 11 possible recent ESG resolutions at ASX AGMs, scored funds plus one when they voted in support, minus one for against and zero for abstain or no holding and then summed. Only a fifth of funds scored a net positive. We did a similar calculation for US/UK voting; about a quarter of funds scored a net positive. Members of UNPRI and RIAA were no more likely than other funds to vote in support of the sampled resolutions.

So far as we can see, Australia's superannuation and funds management industry (though certainly now a 'fully matured adult' from the financial perspective) is, viewed from the 'universal owner'/fiduciary capitalism perspective, still best pictured as being in an adolescent phase. Sometimes asserting itself but just as often fearful of confronting company boards and management on policy issues significant to the long-term interests of beneficiaries.

In conclusion, Robert Monks' image of 'fiduciary capitalism' does show signs of emergence in Australia but it is far from mature.

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[7] The 56 funds were chosen to ensure we had coverage of a broad spectrum of the Australian industry. The list included all super trustees managing funds with total assets over $10b. It also included some public sector funds both super and non-super and retail funds, with both local and foreign operators.

Glossary

Ethical or Socially Responsible Investment (SRI) is a generic term covering "investment processes that combine investors' financial objectives with their concerns about ESG issues". *Ethical investment* is generally defined to encompass three activities - portfolio screening (based on ESG considerations), shareholder engagement and community finance/impact investment.

ESG stands for Environmental, Social and Governance issues. A person might have numerous possible motivations for wanting to understand these issues as they apply to a particular company or companies. For example, they might want to impose an ethical screen, they might want to decide how best to vote on an ESG resolution at a company AGM or they might be concerned about the future price impact of some ESG issue.

ESG Integration is defined by the OECD as recognition that ESG factors may impact portfolio performance and the use of those potential impacts to inform decision-making.[8]

Portfolio screening is about restricting a stock universe. It can have two quite different motivations. An individual green investor might screen out coal miners out of concern for the carbon emission externality. A fund manager might screen out coal miners out of concern for the likely impact on the value of the stock as a result of government action to address the externality. *Portfolio screening* for ethical or responsible investment purposes is about deliberately including or excluding companies or sectors. The companies excluded by a negative screen must be legally open for investment.[9] It might involve absolute "lexicographic preferences" e.g. no nuclear power plant operators whatsoever or it might involve materiality trade-offs e.g. I'll own electricity suppliers provided coal fired power generation isn't more than x percent of revenue.

Norms-based exclusion is a specific form of negative screening. It involves excluding from a portfolio companies that are not compliant with international norms and standards such as those issued by the Organisation for Economic Co-operation and Development (OECD), the International Labour Organisation (ILO), the United Nations (UN), the United Nations Children's Fund (UNICEF), etc.

Private Engagement refers to private, informal dialogue between investors and companies, with the aim of influencing company practices. The style and approach used varies significantly between different actors and in different countries.

Shareholder advocacy aka Active Ownership is private engagement plus filing and public support for resolutions with a view to improving returns and/or improving company performance on ESG issues.

Engagement is also sometimes used as an umbrella term covering private engagement plus voting on board-initiated resolutions and the remuneration report plus filing or supporting shareholder resolutions. Involvement by fund managers in shareholder

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8 See Investment governance and the integration of environmental, social and governance factors, OECD, 2017 at https://www.oecd.org/finance/Investment-Governance-Integration-ESG-Factors.pdf .

9 For example, in Belgium it is illegal to be indirectly involved in financing a company which produces cluster munitions. So, avoidance of companies involved in cluster munitions production isn't "ethical investment" in Belgium.

advocacy is more common in the US and Canada than it has traditionally been in Australia.[10] Private engagement appears stronger in the UK than in the US.

Responsible investment as defined by the UNPRI is "based on the premise that ESG issues can affect investment performance and that the appropriate consideration of these issues is part of delivering superior risk adjusted returns and is therefore firmly within the bounds of investor fiduciary duties". Responsible Investment almost always involves *private engagement* and it often involves *shareholder advocacy* (see above). It also involves *integration* which is the explicit inclusion of ESG risk into traditional financial analysis. It also, often, involves some *portfolio screening.*

Universal Owner is an institutional investor with a highly diversified portfolio managed with a focus on long-term risk and return. Such portfolios are exposed to environmental and social costs caused by any one investee company which affect other investees. Universal owners are, also, often described as investors with large, passively managed portfolios but neither scale nor passive management is essential to the concept.

10 Primarily, this reflects legal differences, see *Shareholder resolutions at listed public companies in major English-speaking countries: comparative arrangements,* Pender, H and Sheppard, J, ACCR March 2014 at https://d3n8a8pro7vhmx.cloudfront.net/accr/pages/521/attachments/original/1446331972/ACCR_intl_cf_sh_res_final.pdf?1446331972 and *Shareholder Resolutions in Australia*, ACSI, October 2017 at https://www.acsi.org.au/publications-1/research-reports.html Australian shareholders with an interest in company engagement which might include resolution lodgement should also see the manual on this subject produced by the ACCR.

Overview

This paper deals with the responsible investment policies and related voting transparency of selected Australian asset owners and fund managers.[11] It uses a scoring metric developed by the ACCR to assess ESG and proxy voting policies and disclosure. The metric is loosely based on survey metrics developed by two UK based organisations - Share Action and Preventable Surprises.[12]

This paper adapts the approach used in those surveys to the Australian situation. It describes a study of 56 Australian asset owners and fund managers. It is split into three sections - section 1 deals with comparative approaches to proxy voting and ESG policy disclosure in the US, the UK and Australia, section 2 briefly describes the methodology used, section 3 presents results from the study. Appendices A and B cover, in more detail, sources and methods.

Because of the focus on transparency the methodology used in this paper deliberately eschews:

- the use of information not available to the general public; and
- reference to the private engagement practices of asset owners and fund managers.[13]

1 Comparative international approaches to screening, proxy voting policy and disclosure – Australia, the US and the UK

1.1 Screening

For many decades there has been an ongoing debate about the extent to which it is permissible and desirable for 'plain vanilla' trustees14 to screen their portfolios for responsible investment purposes. The OECD has summarised the situation in Australia as follows:

"… trustees are expected to demonstrate via appropriate analysis that investment strategies with an ESG focus are in the best interests of beneficiaries, including in terms of liquidity

[11] Together, referred to as institutional investors.

[12] Share Action **u**ndertakes regular surveys of the responsible investment performance of segments of the UK funds management marketplace. For example, See, for example, *Entrusted with our Future*, Share Action, 2014 at http://shareaction.org/entrusted-with-our-future and *Asset Manager Voting Practices*, Share Action, 2016 https://shareaction.org/wp-content/uploads/2016/01/AssetManagerVotingPracticesFinal.pdf .
See also https://preventablesurprises.com/missing55/ .

[13] For a description of current engagement practices see RIAA *Super Fund Responsible Investment Benchmark Report 2018* at https://responsibleinvestment.org/wp-content/uploads/2018/05/RIAA-Super-Fund-Responsible-Investment-Benchmark-Report-2018-web.pdf especially pp 22 and 28.

[14] That is, trustees who don't have particular ethical or responsible investment obligations set out in their trust deed.

and diversification. However, in practice a moderate degree of ethically motivated investing is tolerated (e.g. tobacco divestment)."[15]

In Australia, unlike the situation in the US, the UK and the EU[16] there has been no regulatory clarification of this issue.[17]

In general, private sector asset owners in Australia are obliged to disclose their approach to ESG, similar to arrangements in the UK. Disclosure is not mandatory in the US.[18]

1.2 Voting and filing

1.2.1 US

In the US voting by private pension fund trustees is regulated by the Department of Labour. Its views are set out in Interpretive Bulletin IB 2016 – 01 which states its:

"… longstanding position is that the fiduciary act of managing plan assets which are shares of corporate stock includes decisions on the voting of proxies …" and,

"An investment policy that contemplates activities intended to monitor or influence the management of corporations in which the plan owns stock is consistent with a fiduciary's obligations… . Active monitoring and communication activities would … [cover issues such as] … governance structures and practices, particularly those involving board composition, executive compensation, …the nature of long-term business plans including plans on climate change preparedness and sustainability, governance and compliance policies and practices for avoiding criminal liability and ensuring employees comply with applicable laws and regulations, the corporation's workforce practices (e.g. investment in training to develop its work force, diversity, equal employment opportunity), policies and practices to address environmental or social factors that have an impact on shareholder value, and other financial and non-financial measures … . Active monitoring and communication may be carried out through a variety of methods including by means of correspondence and meetings with corporate management as well as by exercising the legal rights of a shareholder.[19]

Proxy voting disclosure by US mutual funds has been mandatory since 2004. 20 Recent voting records are available on the SEC's EDGAR database and also, generally, on the

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[15] See op cit OECD, 2017, p 12.
[16] Proposed IORP directive 2019.
[17] See op cit OECD, 2017 p 13 which describes the content of proposed IORP 2019 - guidance dealing with pension fund governance and investment. It contains explicit reference to ESG factors within the discussion of prudential standards.
[18] Id, p 15.
[19] See https://www.dol.gov/sites/default/files/ebsa/2016-31515.pdf , particularly pp 17 and 18.
[20] See Final Rule: Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies, US SEC, 2003 at https://www.sec.gov/rules/final/33-8188.htm . Similar disclosure has been mandatory in Canada since 2006.

website of the fund.[21] A review of US proxy voting practice reveals two important forms of specialisation. Firstly, there is a set of funds which often lead file or co-file resolutions, for example, ICCR members. Another set of funds may publicly declare their support for particular resolutions but do not generally lead or co-file. Secondly, amongst those funds which lead or co-file resolutions there is a degree of thematic specialisation.[22,23]

1.2.2 UK

In the UK, the Financial Reporting Council publishes the UK Stewardship Code. Under Principle 6 the Code states "Institutional investors should have a clear policy on voting and disclosure of voting activity. … Institutional investors should seek to vote all shares held. … Institutional investors should disclose publicly voting records. … Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services."[24] Asset owners are not obliged to comply with the code but the regulator, the FSA requires fund managers to disclose their commitment to the code.[25]

1.2.3 Australia

There is no regulatory equivalent in Australia of US guidance for private pension fund trustees as to the exercise of shareholder rights. Super funds[26] are required to provide on their website disclosure of proxy voting policy and summary voting records.[27]

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[21] In addition, there are proprietary databases with compilations of fund voting history such as http://www.fundvotes.com/index.php and https://www.proxyinsight.com/about/overview/ .

[22] For example, Arjuna - a Boston fund manager has specialised in gender pay equity resolutions. See https://www.prnewswire.com/news-releases/arjuna-capital-applauds-ebay-closing-gender-pay-gap-making-it-6th-company-to-respond-to-shareholder-campaign-targeting-silicon-valley-300345158.html .

[23] There is a long history of shareholders seeking to change the conduct of public company boards on ESG matters in the US. For a description of that history in regard gay, gender, racial and disability equity see https://accr.org.au/wp-content/uploads/Report-on-Social-Equity-Related-Proxy-Voting-in-the-USA.pdf

[24] See *The UK Stewardship Code*, UK Financial Reporting Council, September 2012 at https://www.frc.org.uk/getattachment/d67933f9-ca38-4233-b603-3d24b2f62c5f/UK-Stewardship-Code-(September-2012).pdf especially p 9.

[25] Id p 4.

[26] These obligations apply to ÁPRA- regulated super funds. SMSF's and exempt public-sector superannuation schemes are not covered. These latter schemes are listed in Schedule 1AA of the SIS Regulations.

[27] Provisions for mandatory disclosure of certain information by super trustees is set out in *Superannuation Industry Supervision Act 1993* s 29QB and related regulations 2.37 and 2.38. Regulation 2.38 requires disclosure of proxy voting policies at 2(n) and a summary voting record at 2(o). 2(o) requires disclosure of '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'.
ASIC's understanding of the meaning of these provisions is further spelt-out in RG 252 June 2014 p 17. See http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-252-keeping-superannuation-websites-up-to-date/ . RG 252 contains no guidance as to the required content of a proxy voting policy. But it does state, in regards the required summary voting record 'Note: A summary may include brief details of the vote on every relevant resolution.' This summary is required to be posted to the institution's website within 20 days of the end of the relevant financial year. See also ASIC Superannuation (RSE Websites) Instrument 2017/570. Some exemptions to disclosure obligations extend to

Many of the large institutional fund managers in Australia are members of a trade association – the Financial Services Council (FSC). Members are obliged to comply with FSC standards. Standard 13 'Voting Policy, Voting Record and Disclosure' requires members who operate investment schemes to have and make available to members a Voting Policy and to publish annually, within 3 months after the end of the relevant financial year, a Voting Record.[28]

2 Methodology

The focus of the methodology is to assess claimed and actual Australian institutional investor interest and activity in regard to E and S issues. Detail of the coverage and specific queries addressed are set out in Appendices A and B below. The metric:

- scores investors as to whether they have a clear Responsible Investment policy dealing with E, S and G issues;
- collects, where available, voting record information. Scores rate the extent of voting disclosure and its timeliness;
- records voting on a set of chosen, representative, shareholder resolutions on climate change, human rights and advisory resolution related issues in Australia, the US[29] and the UK;
- records those situations where the investor has lead-filed or co-filed a shareholder resolution; and
- comments on the level of congruence between the Responsible Investment policy and the observable voting and resolution lodgement pattern in regard a small sample of E and S advisory resolutions.

Note that the survey focuses more on E and S issues than G issues. It does score investors on the extent of their disclosure of their policies on G issues. It also scores them on their overall voting record disclosure, which includes disclosure of their voting on Director election/re-election and remuneration reports. However, it does not make any attempt to assess congruence between stated G policy and voting on board member election and remuneration reports. In the absence of policies like those used by Redline in the UK[30] such an assessment is not feasible.

2019 but proxy voting policy and record don't fall within this category. ASIC itself has observed significant non-compliance with these provisions. See http://asic.gov.au/about-asic/media-centre/find-a-media-release/2017-releases/17-222mr-asic-acts-to-improve-transparency-of-super-websites/ .

[28] See https://www.fsc.org.au/resources/standards/13s-voting-policy-voting-record-and-disclosure-final-updated-standard-13-issued-26-march-2013.pdf . See clauses 9.7 and 9.8 on pp 12 & 13. An operator must maintain a Voting Record which specifies for every meeting, resolutions, management recommendation, operated vote etc. This Voting Record must be posted to the operator's website. A model voting policy and voting record are provided. Some FSC members are exempted by this policy for some of their operations, for example, multi-manager funds, private wholesale mandates and retail client portfolios where the client retains voting rights.

[29] Nine US climate change resolutions were used because they had been evaluated by Preventable Surprises, op cit Missing 55 report.

[30] See http://redlinevoting.org/what-is-red-line-voting/ .

Also, note that though information about membership of investor trade associations [31] is collected the methodology gives no weight to claims made by the investor about their 'private engagement' practices. That is not because the ACCR holds the view private engagement is not important. To the contrary, in our view it is a vital step in the process of responsible investment practice. The problem is that it is very often impossible for an outside observer to assess the veracity of claims made about private engagement.[32] Furthermore, we have repeatedly observed situations where institutional investors profess to having had extensive private engagement on a particular issue with a set of companies whilst simultaneously those companies claim they were unaware their investors gave any weight to that issue.

We would encourage greater and more timely disclosure by investors of private engagement practices, against measurable performance indicators.

3. Results

We set out to answer a range of questions about the ESG policies and practices of the institutional investors we surveyed – as follows. Firstly, we sought to establish whether more "talk"[33] is primarily, simply, reflective of increased fund size. It is not. Secondly, we looked at whether more "talk" is associated with "better walk."[34] It is not. Thirdly, we looked at membership of particular industry groupings. We asked - is membership of a particular industry grouping, for example, the UNPRI or RIAA, associated with *more* "talk"? Yes, for those two trade associations. Finally, we assessed whether membership of trade associations is associated with more frequent support for sampled shareholder resolutions. We found that it is not for UNPRI or RIAA, but that IGCC members were more frequent supporters of sampled resolutions.

A summary of our questions and answers are set out in Table 1 below.

[31] Both industrywide like the FSC and ESG focused like the UNPRI.
[32] A partial exception to this observation arises when funds provide their members a detailed review of their engagement activities over a previous period, see, for example, the report provided by CBUS at https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Proxy-Voting-Corporate-Engagement-Report.pdf .
[33] Ie clearer policies with better coverage of a fund's approach to ESG issues.
[34] Ie a greater propensity to support the sampled shareholder-initiated resolutions.

Table 1: Summary of results

No.	Question	Answer	Statistic
1.	Is a better[35] fund ESG/proxy voting policy[36] correlated with increased funds under management?	Only to a minor extent	Measured correlation coefficient = 0.2.
2.	Is better fund voting record disclosure correlated with increased funds under management?	No	Measured correlation coefficient = 0.
3.	Is better fund ESG/proxy voting policy correlated with better voting record disclosure?	Yes, to a fair extent.	Measured correlation coefficient = 0.5.
4.	Is a better fund ESG/proxy voting policy correlated with an increased level of support for sampled climate change response/human rights/political expenditure disclosure resolutions at ASX companies?	No, slightly the reverse.	Measured correlation coefficient = -0.1

[35] By 'better' in this in this context we mean, so far as an outsider is concerned, more clarity and more coverage – ie, getting a higher score on the metric described in appendix B, item 4.

[36] We looked for statements of attitude to ESG issues in documents styled as 'Responsible Investment 'or similar as well as those styled proxy voting policy or similar. We found a significant difference the nature of the material in these 2 sorts of documents. 'Responsible Investment' policy or similarly styled documents were generally fairly true to label. However, many of the 'Proxy Voting Policy or Guidelines' published by the Australian institutional investors surveyed don't actually contain 'how we might vote on particular issues' guidelines. As they generally do in the US. See, for example, the list of Proxy Voting Guidelines available at http://www.fundvotes.com/VotingGuidelines.php . See, by way of example under different category headings, the proxy voting guidelines of the New York State Common Retirement Fund, Christian Brothers Investment Services or As You Sow. Guidelines with this content assist an institution's own staff, their service provider's staff, boards and shareholders of investee companies assess likely attitudes to potential future resolutions and consistency between policy and actual voting record. Australian institutional investors proxy voting policy or guidelines are generally procedurally focussed and 'inward looking' - more often containing information about: why they can't vote (use of pooled vehicles); don't vote (easier to leave it to our mandate managers, expensive, not worth the hassle); when and how they override proxy advisor or manager recommendations and/or when we will vote (internally managed, ASX shareholdings).

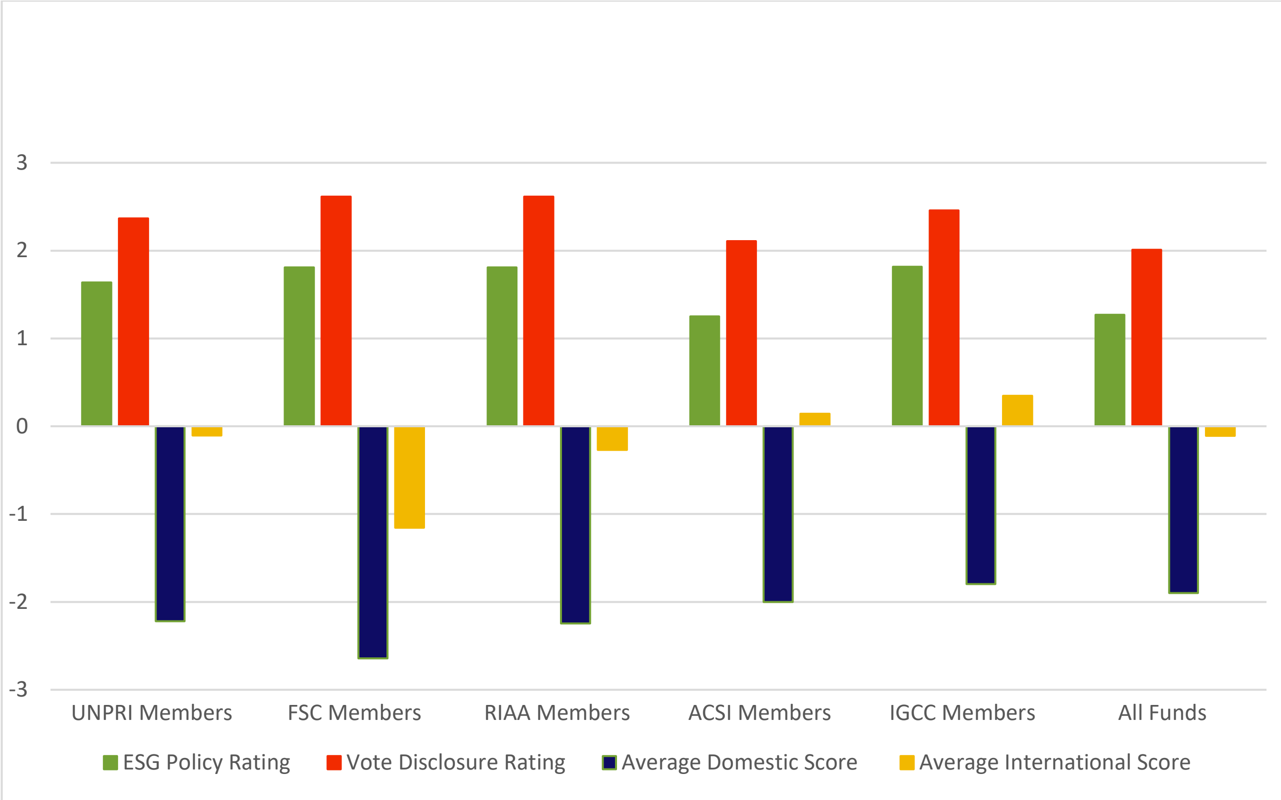
5.	Is a better fund ESG/proxy voting policy correlated with an increased level of support for sampled climate change response/human rights/political expenditure disclosure resolutions at US/UK companies?	No	Measured correlation coefficient = 0
6.	Did UNPRI members have better ESG/proxy voting policies?	Yes, to a significant extent.	The average ESG/proxy voting policy score of UNPRI members was 1.6 out of a maximum of 3. The average score for all funds was 1.25.
7.	Did UNPRI members have better proxy voting record disclosure?	Yes, to a small extent.	The average voting disclosure score of UNPRI members was 2.4 out of a maximum of 5. The average score for all funds was 2.0.
8.	Were UNPRI members more likely to support sampled climate change response/human rights/political expenditure disclosure resolutions?	No	At the ASX AGMs sampled UNPRI members were a little less likely to support these resolutions. At US/UK company AGMs sampled UNPRI members were about as likely to support these resolutions as the average fund.
9.	Were IGCC members more likely to support sampled climate change response resolutions at sampled US utilities by comparison with other Australian funds?	Yes	IGCC members voted more often in support of the sampled US climate change resolutions than the average Australian fund.

10.	Were IGCC members more likely to support sampled climate change response resolutions at sampled US utilities by comparison with major global fund managers?[37]	Yes	IGCC members voted more often in support of the sampled US climate change resolutions.
11.	Which fund member grouping[38] had the poorest voting record disclosure?	Public sector funds.	64% of public sector funds provide no voting record disclosure by resolution.
12.	Which fund member grouping had the best voting record disclosure?	Both FSC and RIAA members.	85% of RIAA members and 85% of FSC members provide voting record disclosure by resolution. Only 68% of all funds do this for the ASX.
13.	Are funds more likely to support sampled climate change response/human rights/political expenditure disclosure resolutions at ASX company AGMs or US/UK company AGMs?	US/UK company AGMs	The 'average fund' voted against as many sampled international resolutions as it voted for BUT voted more often against sampled Australian resolutions than in support of them.

Chart 1 below sets out the average scores of various fund groupings on some of the criteria evaluated.

[37] See Preventable Surprises op cit p 7. The unweighted average of the voting score of 10 global fund managers at 9 US utilities on climate change response resolutions in 2017 was -0.6, the sampled managers were Vanguard, BlackRock & BNY Mellon, Invesco, Geode, Franklin Templeton, Goldman Sachs, State Street and Northern Trust. The average vote in support of the 9 resolutions at the AGMs by all shareholders was 47%. See p 3.
[38] The following fund member groupings were assessed: UNPRI, FSC, RIAA, IGCC, ACSI and public sector. The obligations on each of these groupings vary as a result of both law and 'private ordering'. For example, FSC members are obliged to comply with the FSC voting disclosure standard. All the non-public-sector super funds are obliged to comply with requirements in the SIS regulations. See the discussion in section 2.2.3 above.

Chart 1: Scores by fund groupings



Box 1 below sets out amongst the individual funds some of the better and worse scoring funds on various indicators.

Box 1: Leaders and Laggards

Best for transparency and intention: Overall the best performing fund in terms of the breadth of the ESG and proxy voting policy and voting disclosure was Australian Ethical. The fund scored a total of 2.5 out of three in its ESG rating and 5 out of 5 for its voting disclosure.

Best in terms of action: Both HESTA and Local Government Super were found to have a high level of support for resolutions and although in the domestic market the two funds scored similarly; overall HESTA 'walked the talk' a little more with a higher support rate in 2017. In the ASX market HESTA proved to have an 88% willingness to support ethically minded shareholder resolutions. In the International market HESTA performed slightly better, resulting in a 92% willingness to support the sampled shareholder resolutions in the UK/US market. These results are based on an averaging of the support provided by each fund in 2017 given the resolutions they were able to vote on. It is important to note that some companies deliberately screen out stocks and so a comparison between their voting tally and that of another fund, say, a passive manager could be misleading.

Laggards: According to the methodology used, six funds rated equally poorly as the worst performers of all funds reviewed. Each of these funds scored zero in terms of their ESG policy and their voting disclosure. Therefore, they were unable to be rated in terms of how they voted. Although no one can tell whether or not they were supportive of such resolutions; the low scores on transparency and policy indicators might suggest the funds do not put the support of such resolutions as a high priority. These funds are AvSuper, LegalSuper, LGIA Super, State Super, Suncorp and WA GESB.

Three further high-level comments arise from an analysis of these results.

Firstly, with the notable exceptions of First State Super, Local Government Super, Vicsuper and the ACT Government Superannuation Provision Account, standards of public sector fund disclosure to their members of their voting record are often dismal. Despite the fact the Federal government has passed laws requiring super fund voting record disclosure[39] its own Future Fund's[40] disclosure provides no detail as to how it has voted on particular resolutions. Its voting record disclosure is worse than what it would be if it were a complying member of the private industry body - the FSC. A similar comment could be made about the super fund for Commonwealth public servants - the CSC.

Secondly, some funds would appear to be vulnerable to the criticism that they have failed to comply - in their voting decisions - with their own stated policy. For example, UniSuper states in its proxy voting policy that it intends to "direct its proxy votes in support of reasonable and coherent climate change and greenhouse management shareholder resolutions". We identified five climate change response resolutions at ASX companies in

[39] By APRA regulated funds.
[40] Which is not an APRA-regulated fund.

the period July 2015 to December 2017. UniSuper voted in support of none of these. At one AGM, Santos, UniSuper did provide a rationale for its decision not to support a climate change response resolution – that the company had already addressed the issue[41] - but the rationale contains no reference to the stated policy. We found no rationale given for the other four decisions to vote against climate-related resolutions.

Thirdly, there is an inconsistency in the voting behaviour of a substantial number of Australian fund managers where they commonly vote in support of ESG resolutions, for example, climate change response resolutions at US company AGMs but less frequently at Australian company AGMs. Anecdotally, we have heard reports that this is because funds believe that more can be achieved through greater access to boards for private engagement in Australia than in the US, however, as far as we are aware no evidence has been presented for this proposition.

[41] See p 5 of https://www.unisuper.com.au/~/media/files/forms%20and%20downloads/proxy%20voting%20reports/responsible-investment-update-january2017-june2017.pdf .

Appendix A:

Sources and methods: ACCR Australian asset owner and fund manager survey

The subject of this survey is an Australian based 'institutional investor'. The survey is intended to straddle a number of segments of the Australian institutional investment market. As a consequence of the differing legal arrangements in each segment the strict legal meaning of the questions posed in the metric can vary across segments.

The segments are:

- stand-alone ASX-listed fund managers providing public offer super funds and retail managed investment schemes, for example, AMP and Perpetual;
- 'related' funds management businesses operated as a subsidiary or business unit of a larger (sometimes foreign) financial institution such as a bank, for example, MLC or CFS;
- 'industry' super funds such as AustralianSuper and Cbus;
- funds operated by government bodies, for example, the Future Fund or the Victorian Funds Management Corporation;
- specialist ethical and religious fund managers, for example Australian Ethical and Christian Super.

The relevant entity (to use as the subject of the questions) is clear for the latter three segments. In the case of the stand-alone ASX listed fund managers the subject of the queries is taken to be a named flagship fund operated by the listed manager. In the case of the 'related' funds management operations the subject of the query is taken to be that related business unit where separate information is available. In the first two segments where the one business operates both super funds and managed investment schemes the policies and records of the super fund have been used.

The following are the main sources used for the compilation of answers to the questions, (provided they are publicly available), the entity's:

- Responsible Investment Policy;
- UNPRI Transparency Report;
- Proxy Voting Policy and Record;

Drafts of the reports were circulated for comment to each institutional investor prior to finalisation.

The work for this survey was undertaken in the period February to May 2018. All results reflect surveyed policies and disclosure during that period.

Appendix B: detailed assessment tool - template

For each institutional investor covered the information set out in the following data sheet was collected. The completed report for each institutional investor is available at https://accr.org.au/find-out-more-about-your-super/

1. **Name of asset owner/ fund manager & fund name chosen to assist with queries below:**

2. **Brief Description of Asset Owner**

Funds Under Management:

3. **Memberships**

Association	Membership
UNPRI	
FSC	
RIAA	
ACSI	

4. **Do they publicly disclose a clear policy on how ESG issues are incorporated in all of their equity investment activities (i.e not just for SRI funds?) and do they screen any particular industry?**

Note:

- a policy is outward looking content describing the operator's attitude to specific E, S and G issues so as to assist an outsider (such as a fund member or investee company Director) understand how the fund is likely to conduct itself in regards assembling its portfolio, assessing investee companies, voting on resolutions etc;
- a definitional description does not attract any points. Many funds, provide in their policies definitional material as to what they consider, for example, environmental risks to be – these definitions do not constitute policy content;
- If the fund provides a general policy document on their responsible investment approach: +1 point;
- If a detailed policy on just governance issues is provided: +1 point;
- An additional +1 point is awarded if an overview on the fund's approach to a number of specific E and S issues has also been disclosed.
  Note: Reference to governance issues ensures one whole vote, where reference to environment or social issues generate only half a point on their own.

URL:

Score (out of max 3) (please include rationale - fractional scores are fine)

5. **Do they publicly disclose their voting record for either or both their ASX and international holdings?**

Here the aim is to provide an overview of the standards of the Fund's past disclosure of proxy voting records. Changes to a few characteristics of the voting record provided may vastly change its transparency.

If no, score 0.

If yes, follow the below table - note the points earnt are those in the last relevant column to the right.

Does the voting Record include Summary Statistics?	Does the Record list ALL voting instructions? [1]	Does the record list voting instructions for all International and Domestic holdings?	Does the record list votes by company?	Does the record list votes by proposal description?
Yes (score 1)	Yes (1)	Yes (1)	Yes (2)	Yes (3)
				No (2)
			No (1)	Yes (2)
				No (1)
		No (1)	Yes (2)	Yes (2)
				No (2)
			No (1)	Yes (2)
				No (1)
	No (1)			
No (score 0)	Yes (1)	Yes (2)	Yes (2)	Yes (3)
				No (2)
			No (1)	Yes (2)
				No (1)
		No (1)	Yes (2)	Yes (2)
				No (2)
			No (1)	Yes (2)
				No (1)
	No (0)			

Further points available in addition to the above table:

- Provide the rationale for **all** votes against management and abstentions?
  OR
  Provide the rationale when they have voted FOR shareholder proposals?
  Score additional 1 point.
- Provide the rationale for their attitude to contentious issues (multiple). Score additional 1 point.

URL:

Score (out of 5)

6. DOMESTIC VOTING[42]

July to December 2017 ASX						
	Theme of Proposal	**For**	**Against**	**Abstain**	**Not Holding**	**Score**
	Amendment of Constitution Item no.22					
	Climate Change Item no.23					
	Amendment of Constitution item no.7a					
	Human Rights Item no.7b					
				URL: (Max score 4)Total		

January to June 2017 ASX						
	Theme of Proposal	**For**	**Against**	**Abstain**	**Not Holding**	**Score**
	Climate Change item no.7					
	Human rights					
	Amendment of Constitution item no.5a.					
	Climate Change item no.5b. (Strategic Resilience for 2035 and Beyond)					
				URL: (Max score 4)Total		

[42] A FOR vote scores 1, AGAINST scores 0, ABSTAIN or not holding scores 0.

July to December 2015 ASX						
		For	**Against**	**Abstain**	**Not Holding**	**Score**
	Corporate governance resolution no.6a					
	Climate change resolution no.6b					
Origin Energy	Climate change resolution no.11					
AGL Energy	Climate change resolution no.5 "change to constitution"					
				URL: (Max score 4)Total		

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7. INTERNATIONAL VOTING

International 2017 Resolutions						
	Theme of Proposal	**For**	**Against**	**Abstain**	**Not Holding**	**Score**
The AES Corporation	Climate Change					
Ameren (item 6.)	Climate Change					
Dominion (item 8.)	Climate Change					
DTE (item 5.)	Climate Change					
Duke Energy Corporation (item 7.)	Climate Change					
FirstEnergy (item 10.)	Climate Change					
PNM	Climate Change					
PPL (item 6.)	Climate Change					
The Southern Company (item 6.)	Climate Change					

AT&T (item 5)	Political Expenditure					
Alphabet Inc (item 8)	Political Expenditure					
Wells Fargo (item 5)	Consumer Rights (Retail Banking Sales Practices Report)					
UK Royal Dutch Shell (item 21)	Climate Change (GHG Reduction Targets)					
UK Sports Direct (item 19)	Human Capital Management (2016)					
				(Max score 14) Total		

8. LAGGING

What is the lag present between the end of the financial year and publishing of the documentation? What is the extent of time in which the company will continue to keep its proxy voting records available?

Note the lagging section is only scored where the fund provides a voting record with its vote on specific resolutions listed. If a fund provides a summary record which contains no resolution specific material it scores 0 on these questions.

DOMESTIC RECORDS			
	Yes	**No**	**Score**
2017 Records available within 2 months of 2017 financial/calendar year end			
Records available for current year to date, no more than two months ago available			
Financial year ending June 2016 records are available			
		(Max score 3) Total	

INTERNATIONAL RECORDS			
	Yes	**No**	**Score**
2017 Records available within 2 months of 2017 financial/calendar year end			
Records available for current year to date, no more than two months ago available			
Financial year ending June 2016 Records are available			
		(Max score 3) Total	

Proxy Advisor used:

Since June 2015 has the Fund lead filed or co-filed any ESG related shareholder resolutions at ASX 100 listed companies?

Prose:

Appendix C: Covered Funds/Managers

ACT Government Super Provision Account (SPA)
AMP
ANZ staff super
Australian Catholic Superannuation
Australian Ethical
Australian Super
Avsuper
Blackrock Australia
BT Financial Group
CareSuper
Catholic Super
Cbus (aka United Super)
Christian Super
Colonial First State/ CBA Wealth
Commonwealth Bank Officers Superannuation
CSC
Energy Super
Equip
First State Super
FIRST Super
Future Fund
HESTA
Hostplus
IOOF
legalsuper
LGIA Super
Local Government Super (LGS)
LUCRF Super
Macquarie Asset Management
Maritime Super
Media Super
Mercer
Mine Super
MLC/ NAB Wealth
MTAA Super
NGS Super
Perpetual
Qantas Super
QIC
Qsuper
REST Super
Russell Total Risk management
State Street Australia
State Super NSW (SAS) Trustee Corporation
StatewideSuper
Suncorp
Sunsuper
Tasplan
Telstra Super
TWUSUPER
UniSuper
Vanguard Australia
VicSuper
Victoria Funds Management Corporation
Vision Super
WA GESB