

AUSTRALIAN INSTITUTIONAL SHARE VOTING AND COMMUNICATION

Exploring the links between Directors, Institutional
Shareholders and Proxy Advisors

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Key findings from the report

- Institutional share owners are more activist, more willing to vote 'against' than 10 years ago. 60% of share owners surveyed are of this view.
- Superannuation funds are doing more of their own voting and are less likely to defer to their fund managers. Companies now need to find ways to speak directly to super funds, not just to fund managers.
- The communication challenge for companies is two-fold: to communicate earlier (with institutional investors) and to communicate more broadly – not just at the highest levels of institutional share owners as voting decisions are usually made by governance officers, analysts and portfolio managers.
- Almost everyone agrees that proxy advisers are influential. Proxy firms are here to stay – and what they do (in terms of research and voting recommendations) is too expensive for most institutional share owners to do themselves.
- However, a significant minority of directors believe there is an improper degree of influence – that institutional share owners have improperly outsourced decision-making to proxy advisory firms.

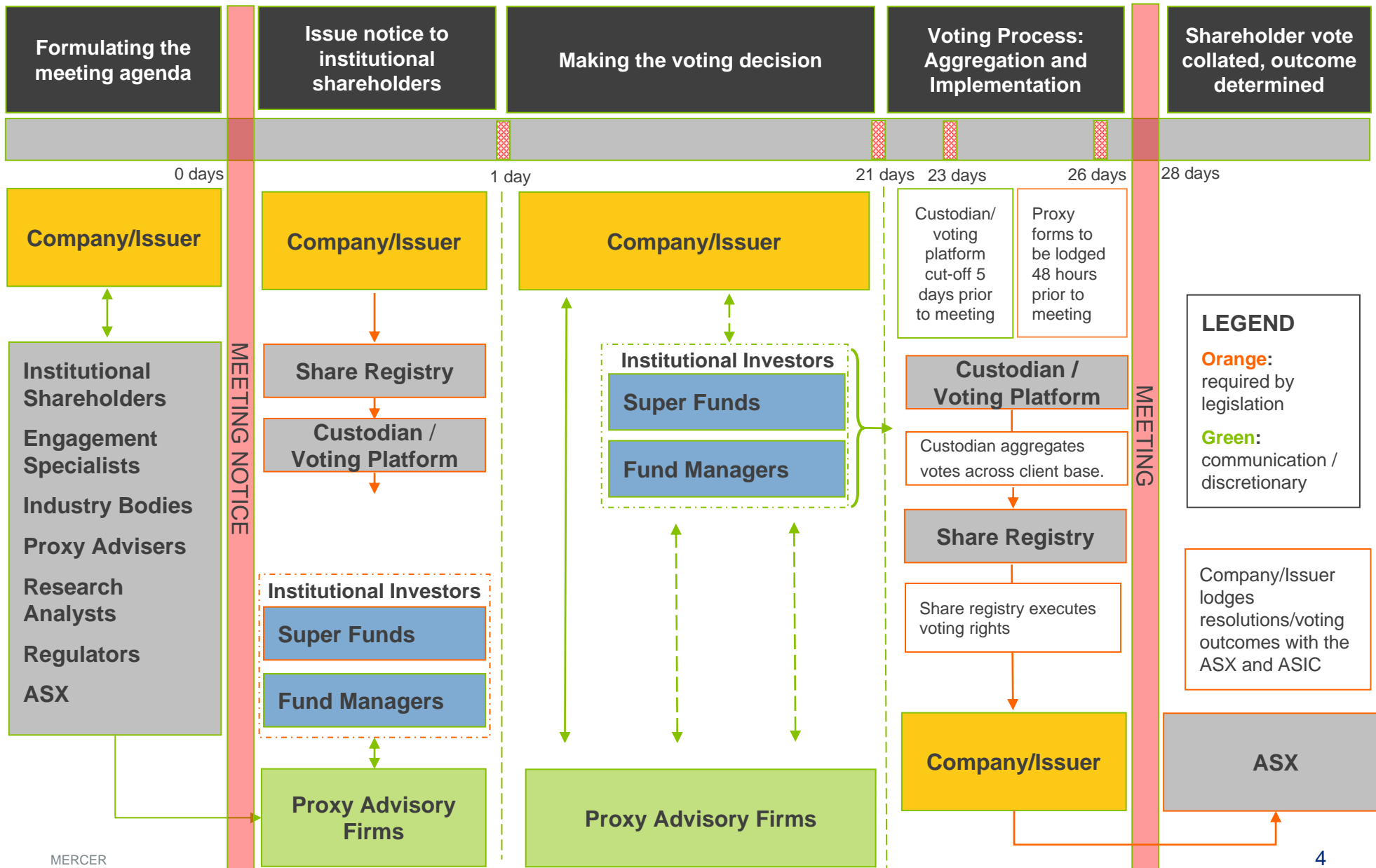
Room for improvement

- Custodians and sub-custodians aggregate all the votes of their institutional clients – and then fax their instructions to share registries
- About three quarters of all votes are faxed – (at p.83)
- There is still too much scope for votes to be lost or miscounted. AMP calculated (in 2009) a vote ‘loss’ rate of 4% - and things have not changed substantially so in a close run vote it can make all the difference
- Australia needs an electronic share voting system that is commonly used by institutional share owners, custodians and sub-custodians, and registries
- Voting is not transparent at the end point of the process (the company meeting). The shareowner cannot verify that its votes have been counted or counted correctly.
- Who pays to fix the paper based system: the company, the institutional share owner or the custodian?

Concluding thoughts and next steps

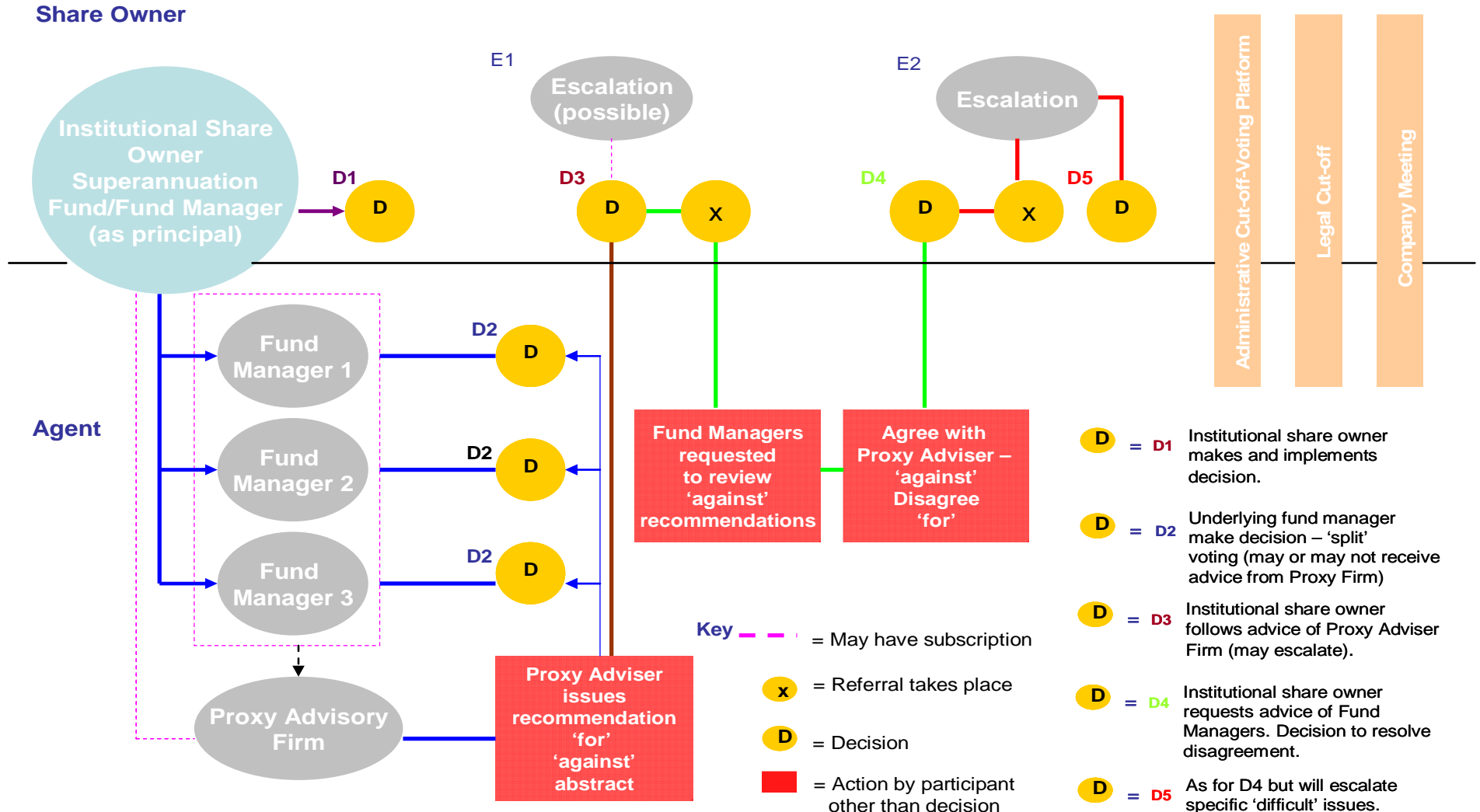
- The study does support the view that Australia does have high standards of governance and generally robust systems – but like any system there are challenges, and weaknesses that could be improved.
- There is a clear need to focus on engagement between all participants in the share voting process and a possible next step is a collaborative research study on engagement, how to evaluate it and how it works.
- What is good practice share voting? This requires further work.
- Electronic voting, missing votes and whether votes have been counted or counted correctly all require further investigation.

A View of the Australian Share Voting Process



A View of the Australian Share Voting Process

Institutional Share Voting – Main Decision – Making Models



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