

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Prime Super

CO-PS01QON

CHAIR: When it comes down to utilising their advice, how often do you depart from their advice?

Mr Baird: We use two different forms and then our own. We have advice coming through from the manager, who manages the portfolio, and then ISS as well, and then we have our own decision-making process that sits across the top. We set out our rules on how we will vote generally. We vary regularly; I can give you the details on exactly how often we vary, but it's all published on our website.

CHAIR: That would be helpful—even if it's on the website—just for the sake of the committee's processes.

Answer:

Prime Super actively votes at Shareholder meetings of listed Companies of which Prime Super is a shareholder. Details of proxy voting are published on the Prime Super website, the report for the period from 1 January 2021 to 30 June 2021 is available at the following website address:

http://www.primesuper.com.au/assets/Vote_Summary_Report_Jan_Jun_2021.PDF

Past reports are also available on the website.

Prime Super has the ultimate responsibility for the votes cast in respect of voting decisions at Company meetings. To determine the vote to be cast, Prime Super reviews all voting recommendations from Investment Managers that hold and trade the shares owned by Prime Super, and reviews analysis and recommendations put forward by the proxy voting research adviser – ISS (Institutional Shareholder Services Inc.). Where the voting intentions differ between the recommendation from the Investment Manager and from ISS, Prime Super will review the reason to ascertain a voting position.

Prime Super regularly votes against the advice from ISS or the investment manager on matters relating to remuneration. For example, the advice from the independent shareholders' advocate is typically to vote in favour of remuneration reports for the major banks, Prime Super typically votes against the report, as the salaries paid to senior executives of the banks are excessive in absolute terms, or excessively above the industry standard.

The tables below provide the voting activities of Prime Super for the period 1 January 2021 to 30 June 2021. There were 294 votable resolutions on which Prime Super voted.

The votes being cast are categorised as follows:

For	vote is cast in favour of the resolution put forward by the company;
Against/Other	vote is cast against the resolution put forward by the company, or in some situations Prime Super may abstain from voting;
Against ISS Advice	vote is cast against the recommendation of the independent shareholder's advocate;

The following table summarises Prime Super's voting by resolutions for the period:

Number of Meetings	Number of Resolutions	For	Against/Other*	Against ISS Advice
46	294	235	59	22

*Other: Abstain, Do Not Vote, No Vote

The following table summarises voting details in relation to remuneration resolutions:

Total Remuneration Resolutions	For	Against/Other*	As per ISS Advice	Against ISS Advice
96	61	35	85	11

*Other: Abstain, Do Not Vote, No Vote

In terms of resolutions in relation to remuneration Prime Super has voted against the recommendation of the company roughly one third of the time.

The following table summarises voting resolutions broken down by remuneration categories:

Details	For	Against/Other	Against ISS Advice
Short Term Incentive Scheme	2	0	0
Long Term Incentive Scheme	3	0	0
Termination Payment	0	0	0
Non-Executive Director Remuneration	2	2	0
Remuneration Report	17	9	8
Other Remuneration Items*	37	24	3

*Other Remuneration Items: Deferred Equity Plan, Performance Rights, Options, Issuance of Shares and Associated Loan, Financial Assistance, Employee Option Plan, Performance Shares, Executive Compensation Approach

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CO-PS02QON: **CHAIR:** Where would you say that's prominent at the moment?

Mr Baird: It's getting more and more prominent within listed companies broadly. There are different categories, depending on the size of the business. Numbers are big. From an average Australian's point of view, remuneration is high, so we need to be careful where that goes.

CHAIR: When you say 'listed generally', that's, with respect, almost a nothing answer; it's of course across the board. Are there particular examples in recent years or, say, in the past financial reporting season where you've seen it and voted against it because you thought it had become excessive?

Mr Baird: Not that I can recall directly, but I can provide you with those details.

CHAIR: That would be good.

Answer:

We have provided a response on the number of times Prime Super has voted against company recommendations on remuneration in the response to question CO-PS02QON.

The response to this question does remain general. The key point being that remuneration across listed entities is high, this is a reflection of the greater responsibility and risk Executives in these business have. However, as an investor, where income yields are low and price to earnings ratios are above long term averages, we need to be focused on the return we derive as an investor.

As an investor we need to ensure that shareholders are appropriately rewarded for the provision of capital on which a business runs, this requirement must be balanced with the needs to appropriately remunerate and retains high performing individuals that are responsible for the management of the businesses that we invest in. Performance measures that are established can overly reward Executives for performance that is in line with market growth in general, as opposed to out-performance by the Company itself.

The S&P/ASX300 as at 30 September 2021 has a trailing Price to Earnings (P/E) ratio of 25.92, well above long term averages, whilst the projected P/E ratio was 17.16 at this date. The dividend yield from the S&P/ASX300 is currently at 3.4%, which is above that of

official cash rates of 0.10%, but is a low income return for the asset class. Across the broad range of companies in the S&P/ASX300 the price being paid for earnings is high, and expectations are that this will not remain the case.

In an environment of low interest rates investors are seeking a return, as holding cash is a cost (in terms of lost return opportunity). This is driving more money to be invested in equities, which in turn is driving the price of shares up. This dynamic is outside of the individual drivers of a business. Prime Super takes the view that Executives should not be remunerated for an increase in share price, or P/E ratio where the driver is external and is not driven by the core metrics of the business.

Prime Super votes against Executive remuneration that is above the average for any particular industry, particularly where long term incentives are excessive, and do not adequately provide for the risks faced by those business both now and into the future. Where base salaries are generally multi-million dollar packages we also vote against Remuneration Reports on the basis that the Executive salary is far in excess of the average employee within the organisation. There is a wealth of information available on the ratio of CEO salary to the average salary of employees within an organisation, both in Australia and from around the world.

Our view is not that a simplistic ratio is a guide to the level of remuneration for a CEO nor any Executive. However, where there is a significant amount (millions of dollars) paid to an Executive as a base salary, and further short-term and long-term incentives are also payable on meeting certain targets the best interests of shareholders may not be met. The balance between what is in the best interests of a shareholder for its investment may be in conflict with what is in the best interests of Executives.

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CO-PS03QON: **CHAIR:** On that we absolutely agree. One of the suggestions is to have some sort of beneficial register for where trustees exercise voting rights and ownership of shares on behalf of others. Do you think there is a justification for such a system?

Mr Baird: I would have to take that on notice to think it through a bit more.

Answer:

The disclosure obligations as they currently stand are sufficient. Prime Super provides the details in relation to all proxy voting activities on the website. This information is accessible to members of the Fund and the general public.