

Answer to question on notice:

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

**INQUIRY INTO THE IMPLICATIONS OF COMMON OWNERSHIP AND CAPITAL CONCENTRATION
IN AUSTRALIA**

CO-VG01QON:

***Dr LEIGH:** I have two final questions. You may have to take them both on notice. When I look through your voting record, it looks as though you've overwhelmingly voted with management. I wonder if you might tell me, on notice, what percentage of the time you voted against the management recommendation. Secondly, could you let me know how much money you give each year to ICI?*

Answer:

Regarding the first part of the question on Notice –

Detailed information on Vanguard's aggregate proxy voting record for the most recent two full calendar years (2019 and 2020) is contained in our most recent [Investment Stewardship Annual Report](#).

This is a public document available for download from Vanguard's Australian and other global websites, but we have also enclosed a copy for the information of Committee members.

The Table on p. 35 of the Report notes that Vanguard voted 'For' 93% of proposals considered at AGMs during 2020, of which there were 176,834 in total.

These figures are in turn broken down by the key thematic or Stewardship principle that different subsets of proxy votes fell into.

- So, for example, it can be seen that Vanguard voted with management on 98% of resolutions relating to capitalisation and merger & acquisition-related proposals initiated by management, but only 88% of Governance-related shareholder rights proposals.

It should be noted that this tabular representation records *all* "For" proposals at company meetings, including occasions on which Vanguard voted for resolutions proposed by shareholders (most, though not all, of which were not supported by management). Consequently, the aggregate 93% "For" vote in calendar 2020 does not exactly correlate with votes with management.

As a general observation, we believe that this outcome reflects the fact that the vast majority of items considered at company AGMs are relatively routine and not contentious.

We would challenge any suggestion that a high percentage of votes with management signifies a lower level of engagement or interest in the subject-matter. On the contrary, we believe that constructive engagement on key issues of governance and risk can drive positive long term shareholder outcomes without the need for a vote.

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If Committee members are interested in following up a more granular level of data about Vanguard's voting record, this can be done by accessing an online disclosure database at <https://www.vanguard.com.au/personal/en/how-our-funds-voted>.

Regarding the second part of the question on Notice –

The ICI is a US-based trade association and Vanguard's relationship is entirely managed by our US parent company. Vanguard Australia makes no financial contribution towards the parent company membership fee.

Vanguard's membership fee covers a wide range of services provided by ICI and is not required to be disclosed in the US. As ICI receives fees from other asset manager members for similar services, we consider this information to be commercially sensitive.

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CO-VG02QON:

Dr LEIGH: *Can you characterise the nature of the engagements with those 27 firms?*

Mr Bowerman: *Yes. In fact, we'd probably say it as part of our report. Perhaps I can take it on notice and send it to you. There would be a componentry around board composition, around executive compensation, about understanding the firm's strategy and particularly how it's disclosing risk et cetera. The fourth category we look at is shareholder rights and the voice of the shareholder getting through. Typically those engagements would involve engagement with the chair but also the independent directors.*

Answer:

The attached Investment Stewardship Annual Report contains details of all companies with which our Stewardship Team engaged during 2020 globally, by region and by percentage of Vanguard's total equity AUM covered in each relevant region.

Page 6 of the Report shows that in the Australia/New Zealand region, there were 29 company engagements for the year, representing some \$32.9 billion of equity assets, or some 42% of Vanguard's total equity assets in the region.

While this figure is reported at the regional level including New Zealand, all 29 of the companies engaged with in 2020 were in fact Australian domiciled.

Please note that this figure is slightly higher than the 27 companies we cited in our evidence to the Committee and reflected in the text of the Question on Notice. We have asked that the official Hansard record be amended to reflect the correct number.

Towards the end of the report (on pp. 36-53) there is a full listing of all companies with which Vanguard undertook engagement discussions globally, together with an indication of which of our four major engagement themes the engagement(s) related to in each case. It should be noted that many companies were the subject of multiple engagement discussions, relating to more than one theme or issue.

This listing in the Report covers the entire global set of 655 companies with which engagement discussions were held in calendar year 2020. All of the 29 Australian companies are on the list in alphabetical order, but for ease of reference we have broken them out into a separate Table as follows:

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Company Name	Primary topic(s)			
	Board composition	Oversight of strategy and risk	Executive compensation	Shareholder rights
AGL Energy Ltd	•	•	•	
AMP Limited	•	•	•	
ANZ Banking Group	•		•	
BHP Group Ltd	•	•	•	
Carsales.com.au	•	•	•	
Coca-Cola Amatil Ltd	•	•	•	
Commonwealth Bank		•	•	
Computershare Ltd		•		
Fortescue Metals Group		•	•	
Growthpoint Properties Australia Ltd	•			
Growthpoint Properties Ltd		•		
Kogan.com Ltd	•	•		
Macmahon Holdings Ltd			•	
Macquarie Group Ltd	•	•	•	
Magellan Financial Group			•	
National Australia Bank	•	•	•	
Origin Energy Ltd		•	•	
Resolute Mining Ltd			•	
Rio Tinto Ltd	•	•	•	
Sandfire Resources Ltd		•		
Santos Ltd	•		•	
Scentre Group	•	•	•	
South 32 Ltd	•	•	•	
Transurban Group	•	•	•	
Vicinity Centres		•		
Webjet Ltd		•		
Wesfarmers Ltd		•	•	
Westpac Banking Corp	•	•	•	
Woodside Petroleum Ltd	•	•	•	

In addition to this consolidated listing of companies engaged with, the main body of the report includes case studies that are intended to highlight the types of engagement discussions that were held and how they illustrate the four primary topics that drive Vanguard’s Investment Stewardship program.

In combination with our extensive public disclosure of proxy voting decisions (detailed in our response to Question **CO-VG01QON**), we believe that these reports demonstrate our commitment to explaining and being accountable for our investment stewardship activities to our investors, but also to companies, regulators, and other stakeholders.

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CO-VG03QON:

***Dr LEIGH:** Thank you, Chair. I was going to follow up on your excellent question about the beneficial ownership register and ask Vanguard about their view about an Australian version of 13F disclosures and bringing down the substantial shareholder threshold from five per cent to a lower figure. I wonder if perhaps on notice you might give us your views on those two proposals?*

***Mr Bowerman:** I'm happy to take that on notice.*

Answer:

We believe that proposed regulatory reforms should be based on a clear benefit to investors or clear evidence of a problem, with consideration given to the risk of unintended consequences, costs or potential harm to investors who have benefitted greatly from the rise of low fee, broadly diversified investments.

In practice, greater transparency of superannuation fund holdings will be delivered by the portfolio holdings disclosure rules now being introduced as part of the Your Future Your Super legislative reforms, which Vanguard supports. But we accept that this scope will not cover many non-super or offshore institutional investors (other than in their capacity as suppliers to superannuation funds).

Vanguard is supportive of greater market transparency in principle and in this regard, we would have no objections to further exploration of a public register of beneficial ownership. There are number of market participants who have relevant expertise in this area such as custodians, sell-side researchers, exchange operators, share registries and corporate advisers. We would encourage the Government to consult broadly with these stakeholders in considering how best to implement such a register.

Regarding some of the specific policy measures foreshadowed in the question on notice:

US 13F Disclosures

From our consultation within our Group, we suggest that the US SEC Form 13F disclosure framework may not be an ideal precedent to follow in improving the transparency and utility of portfolio holding disclosures.

This is primarily because 13F disclosure practices are not uniform across issuers, so there may be some concerns about the comparability of data reported.

However, directionally, the 13F framework does serve a similar purpose to that envisaged by a beneficial ownership register, and Australian authorities could learn from the US experience in devising a suitable disclosure framework for Australia.

Reduction in 5% Substantial Shareholder reporting threshold

In Vanguard's view, lowering the substantial shareholding threshold from its current 5% level raises a number of issues with the potential to negatively impact investors, increase costs and work against market efficiency.

On that basis this is not a proposal we can support without a detailed cost-benefit analysis and broad industry consultation.