



27 July 2018

ASX Corporate Governance Council
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Attention: Mavis Tan
By email: mavis.tan@asx.com.au

Dear Ms Tan,

Vanguard Investments Australia welcomes the opportunity to respond to the consultation draft of the 4th edition of the *Corporate Governance Principles and Recommendations* (Consultation Draft).

Background and general comments

With more than AUD \$6.4 trillion in assets under management as at 31 March 2018, Vanguard is one of the world's largest investment management companies, serving over 20 million investors in 170 countries across the globe.

In Australia, Vanguard has been serving financial advisers, retail clients and institutional investors for over 20 years, with Australia being the longest-established presence for Vanguard outside the US. With over AUD \$130 billion of Australian-sourced assets managed out of our Melbourne office, Vanguard Investments Australia is a major provider of low cost investment management services to all segments of the Australian superannuation, managed investments, exchange traded fund and retail wealth management sectors.

At 30 June 2018, Vanguard's total ASX-listed equity assets under management were approximately AU\$87 billion, representing over 4% of average weighted market capitalisation of the ASX300. This total includes the Australian equity and listed property trust components of: (a) our Australian-domiciled managed investment and ETF products; (b) international equity portfolios managed by our US parent and other global affiliates, and (c) separately-managed portfolios managed by our Australian business for institutional clients such as large superannuation funds. On a relevant interest basis, our global group is currently a substantial shareholder in over 40 large ASX-listed companies, a number that is expected to grow with the continued funds under management growth of our business globally.

These numbers highlight the significance of Vanguard's presence in the Australian market, and the vital importance of sound corporate governance policies and practices to the long-term economic interests of our investors.

Vanguard's Approach to Corporate Governance and Investment Stewardship

At Vanguard, our core purpose is "to take a stand for all investors, to treat them fairly and to give them the best chance for investment success".

Internally, with regard to our own organisation and its stakeholders, our stewardship is reflected in a commitment to keep costs low and to protect our clients from undue risk. We believe that responsible investment is inherently part of Vanguard's culture and is consistent with our fiduciary duty to manage investments in the best interest of our clients.

Likewise, externally, in our capacity as a large institutional investor, a long-term perspective naturally informs every aspect of our investment approach. Our index funds which comprise approximately 80% of our global business are *structurally* long-term, holding their investments almost indefinitely. And our active equity assets (including those managed by external managers) are *behaviourally* long-term, with most positions being held longer than peer averages. The typical dollar invested with Vanguard stays for more than ten years.

In line with this approach, our Investment Stewardship program starts with the core belief that well-governed companies are more likely to perform well over the long run.

To this end, we consider four pillars when we evaluate corporate governance practices of companies in which we invest on behalf of our clients:

- *The board*: A high-functioning, well-composed, independent, diverse, and experienced board with effective ongoing evaluation practices.
- *Governance structures*: Provisions and structures that empower shareholders and protect their rights.
- *Appropriate remuneration*: Pay that incentivizes relative outperformance over the long term.
- *Risk oversight*: Effective, integrated, and ongoing oversight of relevant industry- and company-specific risks.

Further details on each of these pillars, along with details of our approach to company engagement, proxy voting guidelines and reports on proxy voting and company engagement activities, can be found on our website at <https://www.vanguardinvestments.com.au/institutional/inst/about-us/investment-stewardship.jsp>.

Vanguard's global corporate governance and company engagement functions are overseen by a dedicated Investment Stewardship Team (IST) based in Vanguard's head office in the US. The IST comprises more than twenty full time research and policy analysts, and is charged with advocating, engaging and voting on behalf of Vanguard listed equity holdings, which number more than 13,000 public companies around the world. The specific comments below on the Consultation Draft have been developed in collaboration with leadership of the IST.

Specific Feedback on the Consultation Draft

At the overall level, the ASXCGC Principles & Recommendations are very aligned with Vanguard's approach, and with contemporary best practice in corporate governance policy frameworks internationally.

Some of the key foundational aspects of the ASX Principles & Recommendations that have been in place since the inaugural edition in 2003 - such as the "if not why not" disclosure framework, and the highly inclusive nature of the Council that oversees the maintenance of the Principles – are truly pioneering elements, and a testament to the ability of Australia's investor and corporate communities to constructively collaborate on ways to advance the public interest, absent the need for more prescriptive regulatory intervention.

In a similar vein, Vanguard strongly endorses the majority of the proposed amendments being proposed in the Consultation Draft for the Fourth Edition. These amendments succinctly capture best practice in key areas such as board diversity, whistle-blower protections, anti-bribery and corruption policies, and disclosure of climate change risks, ensuring that the Principles & Recommendations remain at the forefront of contemporary governance guidance codes among advanced economies globally.

Some of the proposed amendments we would especially like to call out for strong support, based on our particular perspective as a major global investors in Australian listed companies, are:

- *Recommendation 6.4: A listed entity should ensure that all resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.*

The show of hands approach is a fundamentally flawed manner of voting, and particularly disadvantages the underlying clients of offshore investors.

We therefore fully support the recommendation to implement poll voting for all resolutions at meetings of ASX listed companies, in line with similar reforms recently in other markets such as Hong Kong and Singapore.

- *Recommendation 7.2: Enhanced disclosure that a board should satisfy itself that the entity is operating with due regard to the risk appetite set by the board.*

This new recommendation aligns very strongly with the fourth pillar of Vanguard's Investment Stewardship program noted above – Oversight of Strategy and Risk.

In our engagements with companies we spend a lot of time asking questions about the board's oversight of risk. We strongly believe that better disclosure on this topic as contemplated by the proposed amendment to Recommendation 7.2 will be beneficial to investors.

The one topic on which we have some reservations about the wording in the Consultation Draft relates to the commentary associated with the proposed amendment to Principle 3.

While supporting the updated wording of the Principle itself - that "*a listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and in a socially responsible manner*" – we are concerned that some of the associated commentary around the company's "social licence to operate" and conducting business in a "socially responsible manner" is somewhat vague, and risks leading to misaligned expectations between listed entities, security holders, and other stakeholders.

In our view, the specific language regarding social purpose in this section is not necessary given the additional guidance on management of environmental and social risks proposed elsewhere in the Consultation Draft, in the strengthened wording of Recommendation 7.4.

Consequently, we encourage the Council to consider whether if the social purpose language in Principle 3 and associated recommendations might be modified given the enhanced disclosure of these types of risks as required by Recommendation 7.4.

Conclusion

As noted above, Vanguard is strongly supportive of the overall framework and philosophy underpinning the ASX Corporate Governance Council Principle and Recommendations, and of the success of the Consultation Draft in capturing the essentials of contemporary best practice in this critical area of corporate accountability.

Should the Council wish to discuss our perspective in more detail, we would be delighted to set up a discussion with senior leaders in our global Investment Stewardship team in the US, who are actively involved in comparable corporate governance disclosure initiatives and disclosure frameworks across all major markets in which Vanguard operates globally.

Please contact me or Paul Murphy, Senior Manager Government Relations & Industry Policy (paul.murphy@vanguard.com.au or 03 8888 3566), should you wish to pursue this option, or require any further information.

Yours sincerely,



Robin Bowerman
Head of Corporate Affairs
Vanguard Investments Australia Limited