Australian Government
Commonwealth Superannuation Corporation

CSC proxy voting and engagement principles

Commonwealth Superannuation Corporation

Commonwealth Superannuation Corporation (CSC) values good governance in its own operations, in its service providers and in the companies in which it invests (investee companies).

Principles

The following is an extract from our Active Ownership Policy, which sets out how we manage our owner rights as an asset. We employ a principles-based approach to proxy voting and engagement and that guides our own decision-making and that of our intermediary agents. These principles are:

- **Respect:** The UN sustainable development goals as global aspirations for a better world with fewer common risks
- **Leverage**: The tailored corporate-level research and insights derived by our agents
- **Seek**: Input from domain experts
- **Reflect**: Our own ethical value propositions and experience of excellence in governance, social and environmental practice and the elements required to deliver this
- **Seek**: Excellence in the use of all the factors of production inclusive of financial capital ("F"); human capital ("S"); natural capital ("E"); and organisational capital ("G")
- **Resist:** The temptation to jargon and orthodoxy in favour of genuine insight; honest recognition of constraints to enduring impact; and action on what we can do to relax those constraints.

Our primary obligation in voting…. is to the long-term interests of our members

Well-exercised proxy voting rights

We recognise that **well-exercised voting rights** that support robust consideration and management of not just financial (F)- but all factor risks - natural (E), human (S), and organisational (G) - are a way to contribute to the achievement of enduring long-term returns on invested capital.

CSC votes on all matters brought to shareholders by the companies in which our members are invested. **Our default proxy voting position** is to vote in line with our public company management's recommendation(s), as our base assumption is that corporate management teams in which we invest, take decisions with sustained shareholder (and thereby franchise) value in mind. Exceptions arise if:

- CSC's active managers (who manage the stock) raise an objection; or
- An objection is raised by CSC's proxy-voting advisors and the shareholder resolution is in conflict with CSC's proxy voting principles and policy.

In each of these cases, the resolution is actively reviewed by CSC, according to the principles of our voting policy, a judgement made, and a vote cast. We refer to best-practice proxy voting guidelines established in the marketplace, but we are ultimately responsible for making the voting decision based on:

- Our primary obligation in voting, which is to the long-term interests of our members;
- CSC Proxy Voting Principles; and
- Consideration of all available information.

Any exceptional vote - one cast by CSC *against* the recommendation of an investee company - is reported to the Board. If a resolution relates to the appointment or reappointment of a CSC Director to the Board of a listed public company, the CSC vote is exercised in accordance with the above. Should one of the exceptions noted above arise, CSC will abstain from voting.
On at least a semi-annual basis, CSC will disclose in summary form proxy voting activities on our website at csc.gov.au.

Constructive, informed engagement

We recognise that effective governance and the value of strategic capital requires constructive, knowledge-based engagement between a company and its shareholders.

- Exercising all voting rights is one way CSC communicates its expectations to investee companies, where we are a minority shareholder.
- Constructive, pro-active engagement on material issues, backed by insight, particularly where CSC members are a material share of the company register, is a way to turn that communication into dialogue.
- Where appropriate, CSC seeks to ensure voting and engagement reinforce each other (for example, where we vote "against" management resolutions, we communicate and explain our rationale to material investee companies).
- The majority of our engagement operates continuously through our public equity investment managers.

Clear delineation of- and pre-emptive reconciliation of long-term strategy to shorter-term operational and financial outcomes or challenges

As a set of minimum conditions, and framing our public company voting decisions, CSC expects its investee public-companies to build:

a) Strategic capacity via skilled, fit-for-purpose Boards.

We recognise the expertise brought by Boards and management of the companies in which we invest. We also recognise the challenges to strong, sustainable cash flow creation from the perpetual nature of public markets which can create ambiguity and lack of personal responsibility amongst management and board teams that rotate over relatively short horizons.

Skilled-for-purpose, thoughtful, strategic boards are critical to effective governance, robust distributed decision-making, and sustainable delivery to purpose. **Board quality is signalled in evidence of:**

- A capacity to remove distraction (extract information from volumes of data) and focus on what really matters for management to get right;
- A capacity to agilely design and enforce controls for failure-mitigation;
- Realisation of corporate policies and processes in decisions, operating actions and ultimately, outcomes;
- Access to and growth of skilled resources, with alignment to corporate purpose, principles, values and succession planning;
- Clear delineation of- and pre-emptive reconciliation of long-term strategy to shorter-term operational and financial outcomes or challenges.

We value:

- The distinction between director-alignment derived from business knowledge and capacity for impact (which eliminates informational asymmetry between management and Board) versus independence.
- "Independence" can be defined by formal criteria tied to legal or financial concepts. "Alignment" reflects in a capacity to contest functions performed by the firm; perspective and judgement drawn from the ecosystem in which the firm operates and indicative of quality and integrity in decision-making. This distinction can be particularly relevant for shareholder interests at the sub-committee level.
- Evidence of Board Directors lending their relevant experience and expertise to mentor management initiatives.
- Board directors having the capacity to devote the time required to be effective contributors. Learning the intricacies of a corporation and its material prospective challenges is time-consuming and challenging.
- Over-governance can be just as detrimental as under-governance, and lead to unintended risks, poor business strategy, inactivity, and heightened operational fragility.

b) **Creation of advocates via transparent reporting and accountability**

We recognise that capital markets cannot function robustly in the absence of risk transparency. Reporting should consistently address all relevant risks associated with the factors of production (natural, human, technological, capital), inclusive of those relevant to franchise value over indeterminate and potentially long-horizons.

We value:

- Demonstrated capacity to build a narrative consistent with building a better firm.
- Demonstrated execution consistent with that narrative; that enables public companies to avoid being stifled by oversight. Over-governance is just as dangerous as inadequate oversight.

Sustainable shareholder value depends on robust customer, employee and broader stakeholder value propositions

c) **Cultural and conduct integrity via alignment**

We recognise that sustainable shareholder value depends on robust customer, employee and broader stakeholder value propositions.

We support compensation arrangements for management, directors and employees that are reasonable and fit-for-the-purpose of:

- Attracting the right skills with the values; and
- Aligning reward with the delivery of robust outcomes, consistent with organisational purpose and valued.
- Remuneration should reflect well-developed human-capital management principles, respectful of the complex interaction across all factors of production, not just financial capital, and of the broader ecosystem in which the corporation operates.

We value:

- Non-executive directors investing a meaningful proportion of their own net worth into the company alongside investors.
- KPIs that are not immediately linked to greater earnings or cashflow, but allow monitoring of management progress towards specific goals over the course of a long-term strategy. And respect the fact that no corporation operates independently of the influence of ecosystem trends.

Shareholder and stakeholder rights are aligned by avoiding myopic horizons and framing

- Remuneration structures that support long-term transformational change and sustainable growth and lean against risk aversion arising from an over-emphasis of compliance obligations to the detriment of strategic focus.

d) **Sustainable mandates via shareholder rights**

We recognise the importance of shareholder equity.

Shareholders should be entitled to exercise control over the composition of the Board of directors of an investee organisation and over major capital transactions, as stipulated by relevant segments of the company constitution.

We believe that shareholder and stakeholder rights are aligned by avoiding myopic horizons and framing.

We value:

- Corporations aware of their capability to attract long-term investors by providing a return on financial *and* strategic capital.
- This involves delivery of outcomes consistent with strategic intent; being aware and mindful of operating consequences for all stakeholders; engaging in transparent communication as strategy evolves, as it must in a complex and fast-evolving world.