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SUPER FUNDS ASCEND

The superannuation sector is continuing to take an increasingly active approach to owning Australian assets. Companies must take this into account in the lead up to the 2019 AGM season.

Appropriate executive remuneration packages and environmental, social and governance (ESG) policies will become increasingly important as more super funds directly invest in ASX-listed companies. This is a key insight from Orient Capital's research into share ownership trends, voting and the role of proxy advisers in Australia across five years of data.

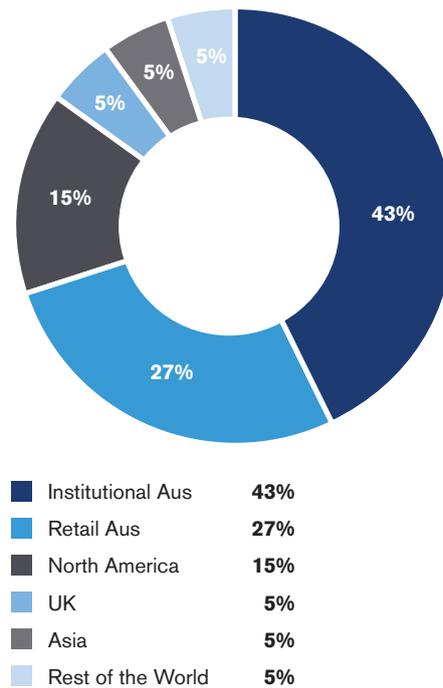
Direct investment by superannuation funds in the ASX 200 has doubled over the last five years, with funds continuing to bring investment management capabilities in-house. During last year's AGM season, funds continued to take greater control over their voting decisions. Superannuation funds' changing behaviour is a significant trend, which is placing pressures on boards.

Additionally, as at Jan 2019, on average 70 per cent of an ASX 200 company's share register is held by Australian investors, of which retail investors hold 27 per cent and institutional investors hold 43 per cent of issued capital. Asset owners from North America are the second most common investor in ASX 200 companies on a country basis, and hold 15 per cent of issued capital. Despite a recent blip, this has increased by nearly 20 per cent over the last five years. This has predominantly been driven by index investors, with the lion's share held by the big three managers, BlackRock, State Street Global Advisors and Vanguard.

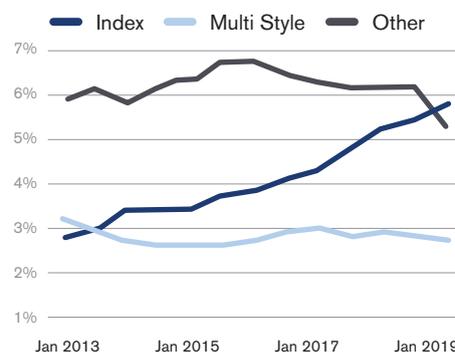
No votes on the rise

Last year there was a marked lift in investor 'against' votes on remuneration policies, with a 29 per cent rise from superannuation funds and a 14 per cent rise from investment managers. This shows proactive shareholder engagement is warranted, not just ahead of the AGM, but throughout the year. These results are an average of all votes made in line with governance

Average ASX 200 register (% issued capital)



Change driven by North American index investors



adviser recommendations, where meetings were held in 2018 and were deemed to be contentious. When referring to super funds and investment managers, their directions are only considered when they have voted in at least 10 campaigns.

Investors are also increasingly using voting power to send messages to boards. They are not afraid to speak out about what they consider to be low hurdles in achieving long- or short-term incentives, such as excessive pay or poor governance – themes they have consistently raised over a number of years. Investors also expect more focus and greater transparency around ESG and human rights issues. Superannuation funds are becoming much more active, with many taking voting intentions inhouse. This trend is expected to continue this year. As a result, it's now more important than ever for companies with a poor track record on remuneration and ESG concerns to address this.

Changing influences

While concerns have been raised in other markets about proxy advisers' influence, Orient Capital's research shows most investors and asset owners don't follow their proxy advisers' voting recommendations.

Proxy advisers do play an important role in providing guidance and insights. But data shows investment managers only voted in line with their proxy advisers 25.1 per cent of the time, with super funds following their advisers' recommendations 42.7 per cent of the time. This reinforces the idea that when investors retain voting discretion, they will vote the way they feel is most appropriate, irrespective of recommendations.

The dynamics highlighted here will only continue this year and into the future and listed companies need to be ready to face them.