MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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SHAREHOLDER ACTIVISM

EXPECT 'NOISIER' MEETINGS

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LAST week, four institutional investors, who were government-linked investment companies (GLICs), took part in a virtual panel discussion entitled "Why Malaysia?".

The panel discussion was jointly organised by Bursa Malaysia and Malayan Banking Bhd.

The four GLICs were Retirement Fund Inc (KWAP), Khazanah Nasional Bhd, Permodalan Nasional Bhd (PNB) and the Employees Provident Fund (EPF).

The panel discussion mainly centred on the environmental, social and governance (ESG) agenda. However, it is important to appreciate "governance" as the third pillar of ESG and, as such, includes the whole gamut of corporate governance practices, including those espoused in the Malaysian Code on Corporate Governance.

In fact, one way to connect the dots when it comes to ESG is to view the environmental and social aspects as resting on the bedrock of the governance aspect.

One local daily reported the event, which had several pronouncements that would change the landscape of shareholder activism. Based on that report, several forward-looking decisive approaches were made by the GLICs. The soundbite is encouraging for greater shareholder activism.

First, all four panel members were unanimous in being more vocal in their decision to push investee companies to be more ESG-compliant.

EPF chief executive officer (CEO) Datuk Seri Amir Hamzah Azizan stated that the EPF would be "more noisy" at shareholder meetings of its investee companies, as compared to its "fairly quiet and passive" presence in the past.

"Noisiness", in this context, is an important part of shareholder activism. Such "noisiness" is best noted at physical general meetings where questions and comments can be articulated from the floor with earnest passion and conviction.

Amir Hamzah went on to say that the EPF could influence the investee companies and raise motions at annual general meetings (AGMs). The alluded "noisiness" is something that we see very little of from GLICs. Votes are generally cast silently.

"Ultimately, one of our most powerful tools as a shareholder is the voting guidelines. We tell the company that if we don't see this (certain compliance), we can take steps to implement it. We can influence the company and we can raise motions at the AGM", he said.

GLICs raising motions at general meetings is seldom done and the pronounced approach augurs well as a proactive move to drive good governance.

Typically, the GLICs will either vote for, against or abstain on the resolutions proposed by others. Hardly do they raise motions at the AGMs.

He also highlighted that the fund had been publishing its voting decision on investee companies on its website since the beginning of this year.

And by next year, the expectation is to publish the voting decisions in advance before every AGM. He explained that this was part and parcel of the EPF laying its expectations as a shareholder and acting as a guide for its investee companies.

Nik Amlizan Mohamed, the CEO of KWAP, also indicated in no uncertain terms that it "will not hesitate" to sell-down if its investee companies did not improve in their ESG practices.

This is market discipline at work and can affect both the brand perception and price of the shares of the investee company.

KWAP's investment policy now contains two additional aspects.

First, KWAP will not invest in companies that are in violation of widely accepted ethical norms, standards and laws with regard to human rights, labour standards and environment as well as those mired in corruption.

Second, KWAP will not invest in companies that operate in an unsustainable manner with severe and irremediable damage to biodiversity, ecosystem, climate as well as community.

PNB chief investment officer for private and strategic investments Rick Ramli highlighted that it published its voting decision on its website at least five days before the AGM of its investee companies.

Such advance notice acts as a powerful tool to keep the company and other shareholders well informed much earlier as to what may transpire at the AGM.

First, it still gives an opportunity to the investee company to proactively engage with PNB if it thinks that PNB has misunderstood the resolution. Second, it also translates to how PNB tends to vote, and if PNB deviates or votes a "no", PNB will explain why. Third, it could give opportunities to minority shareholders to engage PNB and tell PNB of their stand on a resolution that may very well shape how PNB votes.

How GLICs vote is persuasive on minority shareholders' voting.

Rick also said PNB focused on evaluating the directors of an investee company — whether they had the right skillsets and dynamics, as well as whether the directors were asking the necessary questions in board meetings.

The rationale behind such an approach is very telling. It is the board that sets the tone at the top which, in turn, shapes the culture, ethos and attitude of the organisation.

It is the top that owes the fiduciary duty to act in the best interests of the company. Get the top right and all else should fall into place. Minority shareholders should also have a view as to the tone at the top before investing.

GLICs have the voting power to drive change through their shareholdings. Investee companies pay heed to the GLICs' expectations. In a nutshell, going forward, we can expect "noisier" AGMs. We can expect voting decisions to be published in advance. We can expect the GLICs' reasons as to why they choose to vote against resolutions. We can expect GLICs to even put forward motions at the AGMs.

Surely all these augur well for shareholder activism in the capital markets. The collateral beneficiaries will indeed be the minority shareholders.

> *We can expect voting decisions to be published in advance... We can expect GLICs (government-linked companies) to even put forward motions at the AGMs (annual general meetings).*

The writer is chief executive officer of Minority Shareholders Watch Group.