

# *When being an active shareholder can make a difference*

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When Investors Mutual buys shares in any Australian listed company, we consider ourselves not just as a shareholder, but more as a part-owner of that business. As such, to many investors in IML's Funds, it is not always obvious how active IML is when engaging with the Boards and management teams of the companies whose shares we own. And while when we do decide to buy shares in any company, we do not do this with the intention of getting involved in any of the company's day-to-day affairs, IML will step up and agitate for changes when we believe that we can influence Boards of companies to take actions that in our view are in the best interests of all shareholders, including our investors.

Recently, shareholders in **Vitalharvest Freehold Trust** got a special 2.5 cents per unit payment. While this may not sound like much of a payout, it only happened because of IML's intervention.

Macquarie Infrastructure and Real Assets (MIRA) bid for listed trust Vitalharvest late last year, a company in which IML is a shareholder through all our smaller companies funds. Vitalharvest owns strategic agricultural land in New South Wales, Tasmania, and South Australia, leased to tenant Costa Group, with the leased properties accounting for up to 30% of Costa Group's total citrus and berry production.

MIRA's bid of \$1 per unit had been accepted by Perpetual Trustees, the trust's responsible entity, which had seemingly endorsed the bid with undue haste and had agreed to waive unitholders' right to any dividend. IML took the view that a dividend had rightly accrued to unitholders for the December half, and that the bidder should not withhold this payment. IML actively engaged with Perpetual for the payment of a special distribution to all Vitalharvest's unitholders from the trust's previous six months' earnings. We did this because we were firmly of the view that existing shareholders were entitled to receive a six-monthly distribution before any takeover proceeded.

We were the only unitholder to agitate for this, and after writing a strong letter setting out our case for this payment, we were successful in pressuring MIRA to authorise the trustee to pay the bonus 2.5 cents distribution.

On a similar and much larger scale, during 2019 and 2020 IML lobbied the Board of **Tabcorp Holdings** to make what we believed were some very necessary changes. We believed that the company had underachieved in terms of performance given the valuable licences and strong market positions that the company enjoys in the areas in which it operates. In our view, these poor returns were the result of several poor management decisions, and of poor execution in some areas of the company – such as in the integration of the IT systems and the extraction of the synergies promised following Tabcorp's acquisition of Tatts Group.

In letters to the then Chairperson and Board of Tabcorp during 2019 and 2020, IML pointed out how instead of delivering the cost synergies promised by the company at the time of the Tatts merger, that in fact Tabcorp's underlying costs had increased. We therefore asked the Board to consider an urgent and detailed review of the wagering business' overheads and cost structures. In our view, Tabcorp's share price was wallowing because of the poor execution of several key integration decisions.

After further engagement with the company and through the involvement of other large shareholders, Tabcorp last year announced the retirements of the incumbent Chairperson and CEO, as the company recognised the need for change and the need to accelerate the streamlining of the merged wagering operations as well as other necessary changes to the company's operations.

Through our letters to the Board, we also pushed the company to seriously consider a demerger of the lotteries business to unlock value for shareholders. In our view a standalone lotteries division would be a very attractive business and would trade at a significant premium to the sharemarket, given the very strong cashflows and steady growth expected from this division.

It is interesting to note that in recent weeks there has been speculation that Tabcorp may have attracted attention from third parties interested in buying its wagering division. This interest was confirmed when the company announced to the ASX on 2 February 2021 that it had received a number of unsolicited approaches and proposals for the wagering business.

We continue to maintain a close eye on Tabcorp to ensure that as they carefully consider all offers from interested parties in the wagering business that they keep the best long-term interests of all shareholders – including investors in our Funds – at the forefront of their decision-making.

### *Examples of how IML advocates successfully for investors*

Vitalharvest and Tabcorp are just two examples of IML's history over our 22 years of existence of acting to keep the Boards and management of the companies we invest in always fully accountable on behalf of investors in our Funds.

As mentioned earlier, at IML we always consider ourselves to be a part-owner of a company, rather than simply a temporary shareholder of the company's shares. It is very clear (to us) that shareholders are the owners of the company, and the Board and management are there to work for the shareholders – although at times some Boards seem to have to be reminded of this!

In the last decade we have seen an increasing proportion of the share registers of Australian listed companies being occupied by passive or index fund managers, which often have little or no engagement with the Boards of the companies they invest in. This makes it even more important for active fund managers like IML to exercise our right as the part-owner of the businesses on behalf of investors in our Funds to hold Boards and managements accountable to their shareholders.

We are extremely aware of the responsibility of managing the hard-earned savings of our investors, and we take this role very seriously. As a shareholder who is very protective of our clients' monies, we believe that it is our duty to do everything in our power to ensure that the investment we have made in any company is safeguarded from any potentially poor decisions, and that Boards always work towards maximising their shareholders' long-term value.

This means that there are times when we engage with the Boards of companies we own to express our views strongly, reminding the Board about its fiduciary duty towards shareholders. We do this usually by writing a letter to the Chairman that we ask to be distributed to the Board for discussion. This is generally followed by a meeting with the Board and management of the company to discuss our concerns.

This can mean arguing for a dividend payment that has been withheld when we believe investors are entitled to it, as was the case with Vitalharvest. It can also mean advocating for change in the company's Board and management or arguing for the sale of part of the business, as is also the case with Tabcorp. Or it can mean arguing for returning capital to shareholders through share buybacks, or preventing proposed acquisitions that we believe are not in investors' long-term best interests. This happened when **Insurance Australia Group** looked at one stage as though it was going to make a hasty \$1 billion acquisition of a Chinese insurance company at a time when IAG's return on assets from its existing Asian operations had been very poor.

### **Conclusion**

As the recent examples of our engagement with Vitalharvest and Tabcorp demonstrate, IML remains an activist investor focused on influencing the activities and behaviour of the companies we are invested in to seek a beneficial outcome for all shareholders. We believe that as an active manager, we have to always be ready to voice our concerns in the appropriate manner, to keep Boards, management, or independent responsible entities accountable to shareholders.

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