Bringing Sexy Back to Proxy Assessments

Perspectives: August 21st, 2024

Our investment team recently assessed the latest annual proxy documentation of three of our global listed fund holdings – Alphabet, Disney, and 3M.

The first observation is their *length* – Alphabet's is 116 pages, Disney's is 166 pages, and 3M's is 151 pages. In comparison, their latest annual reports are respectively 97, 140, and 168 pages. What on earth is going on here?

To short-term market participants, tipsters, traders, and speculators, these two annual company documents are boring, meaningless, and ignored. Only a small fraction of individual minority shareholders cast their annual proxy votes. After all, why bother paying attention or voting if their average holding period nowadays is measured in days or weeks.

To intentioned responsible, truly long-term owners of businesses, such as Perspective, these two annual documents are 'sexy' treasure troves of business information – for what they show *and* for what they *do not* show.

As anyone knows that has attended one, board meetings of any size business, in any industry and country, be it listed or private, were designed and are meant to be serious and formal affairs. *Side note – if they are not, I recommend you stop reading because – respectfully - you have probably got something else to attend to.*

Proxies are incredibly important, because they are the key high impact business decisions being proposed and voted on by all the shareholders collectively. One bizarre thing about shareholder voting rights is that it gives zero consideration to how long they have owned their shares in the past, how long they intend owning them in the future, their qualifications, and their intentions.

Thankfully, the proxy documentation of South African listed companies is a *lot* shorter in comparison – Foschini's is 27 pages, and Pick 'n Pay's is 16 pages.

A few years ago, a bright spark somewhere in the echelons of power in America decided it would be a terrific idea to offer every single shareholder of a listed company – regardless of their number of shares held, their ownership tenure, or their intentions – an equal opportunity to propose proxies for the Board and all other shareholders' consideration. Negative consequences include the waste of preciously valuable executive time and energy, and the insanely increased length of proxy documentation. Of even greater concern to us, this has opened the window for so-called 'shareholder activists' to meaningfully infiltrate and influence listed company boards, leadership, business strategy, and capital allocation. This can easily end in *disastrous* outcomes for all the locked-in truly long-term stakeholders of listed companies – including employees & their families and dependents, customers, suppliers, communities, governments, and countries.

My key point is the importance of recognizing there is a *helluva* lot more 'sexy' going on beneath the surface of 'boring' board meetings and 'boring' proxy voting than meets the eye.

We want to be invested only in listed businesses governed and led by people that understand this and that know how to design and adapt their businesses to effectively manage these realities and remain focused on driving long-term sustainability for all truly long-term stakeholders, in equal measure.

Our work continues…

Daniel Malan, CFA
Founder, Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

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Investment Management