Market and Portfolio Update
November 2024

Shaping Corporate Decisions

By investing in a company and owning shares, you are a part owner of the company, which comes with benefits and responsibilities. For example, when a firm holds a shareholder meeting, they like to get their investors' opinions on key decisions like electing directors, executive pay or even deciding the company's stance on environmental policies. Decisions made via these votes can directly affect a company's future.

As the manager of your investments, Booster votes on these resolutions on your behalf. Our aim is to ensure that the companies you are invested in are well-governed, responsible corporate citizens, and acting in your best interests. Better corporate governance? Nice. Questionable CEO perks? Maybe not so nice.

Electing who steers the ship

Shareholders have the opportunity to vote on who gets a seat at the exclusive board of directors table. As the board is crucial in overseeing the company, electing an effective and diverse board of directors is vital. Therefore, we assess the history and experience of potential directors, aiming to vote against directors with a history of underperforming companies or unethical business involvements.

CEO Pay and Performance

Shareholders also get the opportunity to vote on executive pay. We vote with the philosophy that executive management should be compensated fairly, with the compensation structure aligned with shareholder interests through the likes of linking remuneration to company performance. Occasionally, we vote against the remuneration if we believe there is a misalignment between remuneration and shareholder interests.

idp INTERNATIONAL EDUCATION SPECIALISTS

For instance, at IDP Education's latest shareholder meeting, we voted against the resolution to pay the CEO an additional one-off A$1.4 million. We were concerned this one-off payment to incentivise and retain the CEO did not align with shareholders' best interests as there were no performance conditions applied to the payment. The proposal ultimately received strong pushback from shareholders, with the resolution receiving nearly 50% votes against it.

It's also worth recognising when a business improves its corporate governance in response to shareholder concerns. For instance, last year we elected to vote against Qantas's remuneration, as we were concerned by the large executive pay in light of a lawsuit, which saw Qantas misleading almost one million customers by selling tickets on flights it had already cancelled, causing significant reputational damage. However, at this year's shareholder meeting, we were pleased to see Qantas had made significant changes. For example, the Board required certain executives to forfeit some of last year's remuneration, totalling A$12.5 million in forfeits. Furthermore, Qantas has now increased the consideration of customer satisfaction and business reputation when determining executive pay. We decided to vote for this year's remuneration, as we felt Qantas sufficiently addressed our original concerns. Looking forward, we hope the remuneration changes incentivise management to effectively manage customer satisfaction, reducing the risks of further reputational costs and improving total shareholder return.

Benefits of Voting

At Booster, we believe engaging with the companies in your portfolio is a crucial aspect of responsible investing and helps to ensure the companies you are invested in are well-governed and acting in your best interests. These examples underscore the benefits of active engagement with these companies. While we consider the recommendation of a company's board of directors, our final voting decision is ultimately based on what we believe promotes good, transparent corporate governance. By actively engaging, instead of relying solely on the board's recommendations, shareholders can achieve better outcomes, ensuring that their investments align with their values and interests.

Market Update

- The Global equity market had a strong month, up +3.8%, driven by the US. Trump won the US election early in the month, which bolstered investor optimism surrounding potential corporate tax cuts. Furthermore, expectations for de-regulation boosted the US financials and energy sector, while the industrial sector was seen as one of the main beneficiaries of tax cuts and trade policy.
- Central banks globally continued to lower rates during November. England and the US central banks both lowered their respective rates by 0.25% in response to falling inflation.
- Moving closer to home - the Reserve Bank of New Zealand continued their interest-rate cutting cycle, reducing the Official Cash Rate from 4.75% to 4.25%, marking the second 0.50% cut in a row. The Reserve Bank noted households and businesses have not been spending as much as usual, however, lower interest rates should encourage households and businesses to spend more, supporting economic growth. The NZ share market didn't move much in reaction to the cut, as it was widely expected by the market. Nonetheless, the NZ share market index returned a healthy +3.4% in November, bringing the year-to-date return to +11.8%.