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Academic study confirms shareholder engagement adds value

by Peter Butler, Founder Partner and CEO, Governance for Owners Group

A new multi-region study covering around 2000 cases has concluded that shareholder activism in public companies leads to 'high abnormal returns'. The results of the study by Marco Becht (Solvay Brussels School and ECGI), Julian Franks (London Business School) and Jeremy Grant (University of Cambridge) were presented at a seminar at London Business School at the end of March 2011. The study included traditional and 'new' activists such as Governance for Owners and researched both public and some non-public examples of shareholder activism across Europe, Asia and North America over the period 1997 to 2009.

My experience as far back as 1997 led me to believe then that shareowner engagement by a credible team and across a small portfolio of 10 to 20 public companies would provide high returns to investors. Returns are volatile but over any 3 to 5 year period this proposition has held up for long-term investors in the best managed funds. It was severely tested in the economic conditions of 2008 and 2009 and there has been a shake out of asset managers involved in this asset category since then. Only the best have survived and the old adage that you cannot beat experience again seems to apply.

Governance for Owners recognised in late 2007 that because most of our investments are in the €300m to €10bn market cap range, the most appropriate benchmark against which to judge our European Focus Funds is the MSCI Small and Mid-cap Index (SMID) which had been established in May that year. All new money invested in our funds since June 2008 has used this benchmark and the results over very nearly three years have been very pleasing and in-line with the conclusions of the London Business School study.

The GO European Focus Funds that are managed against

the MSCI Europe SMID Index achieved an annualised composite gross return (before management and performance fees) of 11.1% p.a. from their inception on 1/6/08 to 31/03/11, whereas the return on the benchmark SMID Index was 4.1% p.a. over the same period. This represents a relative outperformance by the Funds of 7.0% p.a.

Steve Brown, who is Chairman of GO's Investment Committee, and I have now been working together for nearly 15 years. During this time we have successfully launched, managed, recruited and mentored teams for four Focus Funds covering UK and Continental Europe as well as being responsible for monitoring a significant investment for a major UK pension fund in the largest equivalent US fund. Our friend and mentor Bob Monks, former GO chairman and still a Senior Advisor, set us a challenge in 1998 to prove the concept would also work in Japan.

We have been working on this with our Japanese partners Tokio Marine Asset Management (TMAM) for over two years. Now is an excellent time to invest in Japan and we are incredibly excited by the team of Japanese nationals we have gathered in Tokyo to release value in Japanese equities for investors in our new TMAM-GO Japan Engagement Fund. More details are on page 2 of this GO Update.

There has been considerable debate recently about the level of fees charged by specialist asset managers who operate shareholder engagement funds. GO has always charged at the lower end of the fee scales commonly charged by other similar funds but having said that, outperformance over a reasonable time period is a prerequisite for a sustainable engagement fund. We are proud of our performance over a particularly difficult period. But the costs of operating the GO European Focus Funds are high because of the diversity of languages, legal and regulatory systems across European countries in whose companies we invest. For example 17 partners (13 full time equivalent) are involved in managing the 18 stocks in our GO European Focus Funds. It is the application

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of this team's diverse range of skills and nationalities allied to the knowledge and networks of our European Advisory Board that drives the performance. By investing in our pooled funds investors can share the costs and benefits of this skill base which most single long term investors would not want to afford.

We remain confident that the relational engagement approach, when managed well, will continue to deliver

strong outperformance over rolling 3 to 5 year periods. The ripple effect that this style of intensive shareowner engagement has on improving director accountability to shareowners in the wider markets is an important spin-off benefit of this activity. We firmly believe that this approach to shareowner stewardship is a significant driver of value in global equity markets.

Launch of the TMAM-GO Japan Engagement Fund

During Q1 2011, Tokio Marine Asset Management (TMAM) and GO announced their intention to launch the TMAM-GO Japan Engagement Fund (JEF). The fund will invest in underachieving quoted companies in Japan and will engage with management and boards to improve long-term performance by using a 'Japanese way' of engagement. The JEF is a collaborative venture between TMAM and GO and aims to invest in 10-30 small to mid-cap Japanese companies, with an investment time horizon of 3-4 years, and to be a leading shareholder in each firm. It is a pooled fund which will allow institutional investors in Japan and internationally to co-operate in helping to add long-term value to Japanese companies. The fund has the potential to grow over time to JPY100 billion (US\$1.2 billion).

TMAM, Japan's 4th largest asset manager in the pension market with more than 20 years of experience in managing Japanese equities and a strong commitment to furthering good corporate governance practices, will act as JEF's discretionary investment manager. The JEF also draws upon the engagement expertise of GO Japan, which has pioneered a Japanese way of engagement over the past two years at more than 15 leading Japanese companies through our first Japanese product, the GO Japan Engagement Consortium (JEC).

The JEC was launched in 2009 and is a joint venture between GO and TMAM. It currently has 3 members: Railpen, USS and TMAM. GO's representative director, Toshiaki Oguchi, heads up the GO Japan team working on the JEC. Toshi has over 20 years of business experience in Japan, the US and the UK and has extensive experience in both corporate governance and institutional relations. Newly appointed Kenji Iwamoto, Head of Engagement, has responsibility for developing engagement approaches, and has over 18 years of corporate experience, as well as 4 years as a Director

at Taiyo Pacific Partners, a US-based engagement fund which invests in Japanese equities. The team is supported by Yoshikazu Maeda, Senior Investment and ESG analyst.

London-based GO possesses unmatched experience in relational investing, engagement and shareowner stewardship globally and will act as an adviser to the operations in Japan. The JEF will have additional support from an advisory committee comprising leading Japanese industrialists and executives.

A full team of Japanese executives has been recruited to manage the JEF. It is led by Managing Director Noboru Akahane, who brings more than 25 years of banking and corporate experience, as well as Investment Director Ken Kobayashi, who has more than 20 years investment experience, and Senior Investment Analyst Tomishi Ishida, both of whom join from TMAM. GO Japan Representative Director Toshiaki Oguchi and Kenji Iwamoto will actively contribute to identifying prospective investment candidates and engaging with companies in the JEF portfolio.

The full press release giving further detail on the launch on the TMAM-GO Japan Engagement Fund is available on our website www.g4owners.com. We would welcome the opportunity to discuss the JEF in more detail with interested parties – **for more information, please contact Hattie Burgess, Marketing Director, on h.burgess@g4owners.com or on +44 20 7614 4759.** Full CVs of all TMAM and GO personnel involved in the Japan Engagement Fund are also available.

Expanding the GO team worldwide

We continue to expand the GO team worldwide and we were very pleased to have made two valuable appointments to the senior board and executive team earlier this year.



Firstly, we have appointed Yoichiro Iwama to our board of directors. Iwama-san, who brings extensive experience in insurance and investment management, is Chairman of the Japan Securities Investment Advisers Association and is based in Tokyo. Prior to assuming the JSIAA role in June 2010, he spent more than 40 years in progressively senior management roles in the Tokio Marine and Fire Insurance group, culminating as President and CEO of Tokio Marine Asset Management (TMAM). Iwama has served on the boards of Aozora Bank and DCM Japan Holdings and is a member of the Corporate Governance Study Group of the Japan Ministry of Economy, Trade & Industry (METI). With the addition of Iwama, the GO board now comprises members from North America, Europe, Africa and Asia.



Secondly, we are delighted to have strengthened our top level team involved in European company engagements and investment with the appointment of Ian Smith, who has 30 years of business experience across several sectors in the UK, Continental Europe and Middle East. Ian joined GO in March in a part-time executive capacity.

Ian has 10 years of experience on public company boards, including as Chief Executive at Reed Elsevier, Taylor Woodrow and Exel Europe, and non-executive director of Howden's Joinery (formerly MFI). Previously, he was CEO at General Healthcare Group (a private equity-owned company), and CEO at Monitor Company Europe, a leading strategic consultancy. Ian began his business career with Shell, working mostly in the Middle East. Aside from his GO responsibilities, Ian will continue in his current role as special business and economic advisor to the Office of the Quartet Representative, led by Tony Blair, which is engaged in the peace process in Israel/Palestine.

GO Dinner & Debate 2011

We would like to invite you to Save the Date for our fifth GO Dinner & Debate which will take place in London on 31st October 2011. We look forward to seeing you there and you will receive further details of the event in due course. If you have any questions, please contact Hattie Burgess.



About Governance for Owners

Governance for Owners LLP is an independent partnership between major financial institutions, shareowners and executives dedicated to adding long-term value for clients by exercising owners' rights. GO has four main offerings: the **GO European Focus Fund**, which invests in a small number of European public companies where value can be added through exercising owners' rights to address strategic, financial or governance issues which have historically impaired a company's performance; **GO Stewardship Services**, which offers independent

ESG voting advice and engagement covering all of the world's major markets; the **GO Japan Engagement Consortium** and the **TMAM-GO Japan Engagement Fund**, both of which seek to improve long-term shareholders returns by utilising a Japanese way of engagement with Japanese companies. GO has its group and European headquarters in London, and has offices in New York and Tokyo. Please visit www.g4owners.com for further information.

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