



GUNNS GOES FROM STRENGTH TO STRENGTH

GUNNS BATTLES FOR HEARTS AND MINDS IN EARNEST
WRITES CRIKEY EDITOR STEPHEN MAYNE

Whilst many institutions profess to have an ethical approach to investing - or at least a dedicated ethical fund - the share register of Tasmanian tree-loppers Gunns Ltd shows no sign of waning institutional support.

On February 6, Perpetual Investments revealed it had increased its stake from 8.89 per cent to 11.18 per cent and the AMP also told the ASX on January 13 that it had become a substantial shareholder.

However, the AMP took more than five months to admit this move as the share purchases took place on August 26 last year. Were they hoping to dodge the same grief that ANZ, Commonwealth Bank and National Australia Bank took from the Wilderness Society at their respective AGMs?

But like with most companies, institutions come and go from the Gunns register. Germany is arguably the most environmentally conscious nation in Europe, so it is interesting that Deutsche Asset Management revealed on January 20 that it was no longer a substantial shareholder in one of the world's most prolific tree-loppers.

Similarly, the Commonwealth Bank reduced its stake in Gunns from 16 per cent to 14.91 per cent in January but remains the largest shareholder ahead of executive chairman John Gay.

Gunns has been cranking up the PR lately. In early February they rolled out the red carpet over two days for five Melbourne-based business journalists - Andrew Dodd from The Australian, Phil Hopkins from The Age, Mark Skulley from the AFR, Nick Way from BRW and Bruce Brammall from the Herald Sun.

Helicopter rides, accommodation at the swanky Launceston International and a lovely boozy dinner at the exclusive Fee and Me restaurant - twice voted Australia's best - were turned on for the journalists who were kept well away from the company's old growth clear felling operations and any woodchipping.

Green activists must have an internal spy at Gunns as there were 40 of them waiting for the journalists on arrival at Launceston airport and at one stage they even forced the bus they were travelling in to pull over so business cards could be exchanged.

There is no doubting the financial success of Gunns, which is probably why the business journalists were targeted. Over the past three years its share

price has surged from \$1.50 to more than \$9 - making it one of the best performed stocks after it took out competitors Boral and North Forest Products.

But the company clearly has the support of its major institutional shareholders and it was able to rustle up some well-regarded mainland journalists to write more favourable stories than their Tasmanian counterparts.

With a market value of almost \$800 million, Australia's most controversial listed company is certainly big enough to throw resources at this battle in the longer term.

VOTING LEVELS ON THE IMPROVE

The Melbourne-based corporate governance advisory firm Institutional Analysis has surveyed voting patterns at Australian AGMs over the past three years and discovered some encouraging signs.

Participation rates jumped from 35 per cent of voting capital in 1999 to 42 per cent in 2002 but this is still almost half the voting level achieved in the US, which has just introduced compulsory disclosure of proxy votes.

The participation rate is 18 per cent higher for large cap companies so there is still plenty of poor governance going unnoticed in smaller companies where the media, analysts and activists are less likely to focus.

More encouraging is the increasing propensity for institutions to vote against controversial resolutions.



STEPHEN MAYNE

Stephen Mayne is editor of www.crikey.com.au

Of the 408 resolutions assessed by Institutional Analysis principal Dr Geof Stapledon to be in breach of the IFSA blue-book guidelines, an average 8.7 per cent of voting capital went "against". This sounds low, but is up from 6.42 per cent in 1999.

The focus of dissent remains on executive and non-executive remuneration although we are seeing the occasional votes against directors, notably the Perpetual opposition to NAB director Dr Ken Moss at the recent AGM in December.

Remember the \$23 million that Rob Ferguson scored in his final year at BT. It has taken four years but this has now been surpassed by the \$32 million that Chris Cuffe fetched from Commonwealth Bank shareholders.

Australia's top 10 fund managers - excluding those such as Robert Maple-Brown and Mike Fitzpatrick who are shareholders in their own funds management business - have probably made about \$150 million between them over the past five years.

With investment returns in negative

Think about it for a moment. Why should any director control a process by which he or she is supposed to be made accountable to shareholders.

We see the chairman stand down for their own election but why shouldn't they hand the whole procedure over to an independent person in charge of the meeting.

Veteran corporate activist Shann Turnbull has reviewed the constitutions of Australia's largest companies and discovered that the lawyers have institutionalised the power of the inhouse chairman.

Constitutions commonly state that the chairman of directors will have sole and absolute power to determine the conduct of the meeting including the voting arrangements.

Further, the constitutions expressly forbid any motion of dissent against the ruling of the chair of directors at a shareholder's meeting.

Afterall, independent electoral commissions count political votes, professional mediators sort out commercial disputes and judges in all courts are completely independent. Why shouldn't this drive for independence spread to the person running AGMs?

Naturally the inhouse chairman would still provide most of the answers to questions raised, it would only be the question of debate length, voting process and the putting of motions that would be handed over to the independent mediator. ♣

"In terms of excessive executive pay, there is no industry where it is more out of control."

STOP FUNDS MANAGEMENT PAYOUTS

The funds management industry carries a lot of responsibility for ensuring good corporate governance and ethical behaviour but in terms of excessive executive pay, there is no industry where it is more out of control.

If poor old asset consultants get paid by the hour, why not the same for fund managers? Forget these percentage deals. Superannuation assets catapulted from \$95 billion in 1988 to \$520 billion thanks to Paul Keating's reforms, so is it any wonder these fund managers are getting huge payouts.

territory over the past two years, it is time some of these fund manager pay packets went into reverse as well.

TIME FOR GENUINELY INDEPENDENT CHAIRS OF AGMS

This may sound strange but an area of corporate reform which no-one ever seems to talk about surrounds the issue of who should control the process at public company AGMs.

I've seen so many tricks pulled by chairmen over the years that the only sensible solution would be for a professional AGM mediator to sit in judgment of the process.