
Investors Needed in the Boardroom

Shareholders used to be such pushovers. Investing legend Benjamin Graham once stated it was a '*notorious fact... that the typical American stockholder is the most docile and apathetic animal in captivity*'.

That always struck me as a dreadful state of affairs, and thankfully times have changed. Investor activism is in vogue. In North America investors like Carl Icahn and Bill Ackman are not only engaging with companies but showing outright forcefulness. Progress in Australia has been slower, but it was heartening recently to see Perpetual's Vince Perzuzullo stop **Insurance Australia Group** from proceeding with its expansion plans in China.

Shareholders don't always have the right answers, but this is unquestionably change for the good. Engaged shareholders keep directors and executives on their toes, mitigating conflicts of interest between [principals and agents](#), overcoming corporate lethargy, trimming excessive remuneration and sometimes simply forcing uncomfortable decisions to be made. Closer interaction between investors and directors should be applauded.

But I think we need investor input from *within* the boardroom as well. If you look at the resumes of directors of your standard public company, there's lots of experience in governance, compliance, management, commercial, finance, accounting, legal and (hopefully) plenty of industry experience.

Boards need those skills, obviously, but few directors possess serious *investing* experience, and that's a shame. Though most investors don't know how to run a big company, they are skilled in assessing value, and that's crucial for making acquisitions and setting a company's strategic decision. Executives and directors typically have experience in one industry and a handful of companies, whereas a well-travelled investor has seen fortunes wax and wane at several hundred companies from many different industries. That corporate worldliness helps.

Investors are also practiced at actually living with the consequences of good and bad decisions. Having seen my share of mining services businesses lately, I can't tell you how many (though I might capriciously single out **Boom Logistics** and **Macmahon Holdings**...) spent a fortune buying 20 year assets in the boom period of a cyclical industry. They made decent profits for all of about two years, and then had to write-off most of the investment when the boom ended and the assets were left stranded. When questioned, company officers shrug it off as one of those unlucky things that's outside their control and not their fault.

That's a classic mistake from a decision maker enjoying the first boom they've seen in the only industry they've worked in. It feels at the moment like the good times will last forever. That's the moment when the exuberance of your chief executive needs to be curtailed. An investor who has seen many booms come unstuck in many industries can be a voice of moderation.

I'd like to see the increase in shareholder activism go hand in hand with an increase in board members with specific investing skills. Many are understandably reluctant to be on boards when they own shares in the company because they may lose their cherished freedom to trade if they

possess inside information. But surely there are many more suitable investors than what we see on boards today?

Forager Funds will be holding a presentation in both Sydney and Melbourne during November – to find out more and to register, please visit the links below: