

Nathan Hughes: Why CEO pay matters to investors

By Perpetual Asset Management
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An increasing number of remuneration strikes against ASX companies indicates rising shareholder activism. Perpetual's Nathan Hughes explains what's driving the protest votes and

why it matters.

- Rising rate of first- and second-strike votes
- Protecting shareholder return
- Find out about [Perpetual ESG Australian Share Fund \(ASX:GIVE\)](#)

A shift towards more active shareholder engagement from institutional investors is seeing a rising rate of “second strike” protest votes at this year’s annual meetings, says Perpetual’s Nathan Hughes.

Australian law requires companies to seek a non-binding shareholder vote on a remuneration report detailing executive pay.

If more than 25 per cent of shareholders vote against the report in two consecutive years, it triggers a vote to spill the board, potentially forcing all directors to stand for re-election.

In 2024, so-called ‘second strike’ protests have been triggered by uncapped cash bonuses, short vesting periods, emphasis on growth rather than dividends, and pay being set above peers.

“We see our role as very much trying to advocate for positive change to improve governance where necessary, and we think that is reflected ultimately in share prices,” says Hughes, who manages Perpetual’s ESG Australian Share Fund [GIVE:ASX].

“It’s about shareholder return. But it’s also about good practice and ensuring alignment between the people who have entrusted their savings to us and the people running the companies that we have invested those savings in.

“If governance is poor, and companies are being run purely for the benefit of executives, things can awry. We’ve seen a few examples of that in Australia very recently.”

Second strikes

Four companies saw a second strike in 2024 – Dicker Data, Brainchip Holdings, Clinuvel Pharmaceuticals, and Dexus – from a total of 21 strike votes this year. A further 20 companies saw elevated votes against remuneration reports.

“That’s a higher-than-usual number of remuneration reports getting voted down at AGMs which is indicative of shareholders becoming more vocal,” says Hughes.

Hughes says the votes represent a return to shareholders playing a more active role in corporate governance.

“The rise of passive investing in recent decades has seen voting become a bit more mechanical. There was almost a level of apathy across shareholder registers.

“Now you’re seeing people be more vocal – whether that’s industry super funds or active managers like ourselves.”

Board spills unlikely

Voting against a remuneration report does not necessarily indicate shareholders are willing to incite a board spill. Often the vote is a protest about poor performance or a message to board members to be more accountable, says Hughes.

“A second strike goes to a resolution for a board spill.

“Typically shareholders do not then vote to spill the board. But a lot of the votes this year have been quite comprehensive.

“These are not small strikes, they are big protest votes.”

Shareholder activism

If they are not seeking to elect new directors, why are shareholders voting down remuneration reports?

“Firstly, it’s our duty,” says Hughes.

“We’re managing money on behalf of many smaller investors that don’t have the same access or power that our large holdings confer on us.

“But it’s also our responsibility – we have many tools in our toolbox to help agitate for positive change and voting at AGMs and EGMs is just one.

“Equally, we can engage ahead of the AGM so certain resolutions might get changed or dropped. We can advocate a strong case in the best interests of shareholders.

“We have voted against certain remuneration reports, but we have also voted for others and subsequently sent letters encouraging the boards to change on certain things.

“It’s an ongoing process – there is a lot of engagement pre- and post-AGMs, it’s not just a one off that you deal with once a year.”

Hughes says engagement with commercial property group Dexus encouraged the board to withdraw plans to issue long term incentive options to its CEO.

“In layman’s terms, they had moved the goal posts. It looked too easy for management, and we had concerns around how some of the equity that was going to be granted to them was priced.

“We were not the only shareholders to raise concerns, and the board has ultimately changed its tune and withdrawn the resolution from the meeting.”

At pathology provider Healius, engagement ahead of the AGM helped the board structure a remuneration plan that aligned with shareholder value and was ultimately welcomed by investors.

“Healius took out the short-term component of the CEO’s package completely and made it all long term built around three key things – the sale of a division, reduction in corporate overhead, and margin targets for a turnaround in their core pathology business,” says Hughes.

“It’s simple, measurable, and focused on key drivers of shareholder value. It is also reflective of a company in a unique situation that needed something a little bit different. It’s not a cookie cutter remuneration response and we were happy to support that.”

Shareholder value

Hughes says engagement is ultimately about structuring management incentives to maximise shareholder value.

“Some remuneration structures are not focused on the right things - they have inappropriate benchmarks.

“To the extent that we can agitate for change and push them in the right direction, we have a better chance of improving shareholder returns.”

So, what does good look like?

Hughes says a case-by-case approach is needed because each company’s circumstances are unique.

“But generally, simple is better - you want to focus on a few key things,” he says.

A key focus is some measure of return on capital or return on equity.

“Companies can grow earnings for growth’s sake and might lever the balance sheet to make EPS rise but the returns for investors might be quite low.

“You also want to see that any relativities around says shareholder return or margin performance are set to an appropriate peer group.

“Sometimes we don’t see appropriate peer groups in the measurement component.

“You also want sufficient stretch so it’s not easy and becomes a gift to the management team – but equally, it should be achievable as well.

“And we want to avoid encouraging short term things like balance sheet speculation.”

About Nathan Hughes and Perpetual ESG Australian Share Fund (ASX:GIVE)

Nathan Hughes is a portfolio manager with Perpetual's Australian equities team.

Nathan manages Perpetual ESG Australian Share Fund and Perpetual Income Share Fund.

He joined Perpetual in 2010 and has more than 20 years of investing experience.

Find out about [Perpetual ESG Australian Share Fund \(ASX:GIVE\)](#).

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