

Media Statement

For use 24 August 2015

Shareholder confidence slide continues

- **Weak banking and resources sectors plus continuing fears about the Chinese market are major contributors**
- **Investors want greater institutional activism**

The **GPS – Melbourne Institute Leading Index of Shareholder Confidence** fell by 2.5 per cent in August after falling by 3.3 per cent in May, reinforcing a downward trend that began over a year ago. The Index is now 9.4 per cent below its value in August 2014.

The trend predominantly reflects declining current confidence which fell by 6.2 per cent (whereas expected confidence rose slightly by 1.1 per cent during the quarter). Recent weakness in the banking and resources sectors, coupled with sharp repricing in the Chinese sharemarket, appear to have driven the decline in current confidence, although shareholders expect relative conditions to improve in the coming quarters.

While relatively stronger buying preferences for industrial and utilities stocks are indicated, recent buyers have been primarily motivated by the global economy and personal reasons (see Chart 2).

However, sellers have also cited global economic conditions as a reason for selling, suggesting significant shareholder uncertainty regarding the global economy and the presence of opportunistic trading.

Shareholder activism

In supplementary questions asked during the Index survey, shareholders agreed overwhelmingly that large institutional investors should take a more active role in the companies they invest in and that they should encourage or support activist investors who are seeking major changes to a company's operations, board or management.

Over 57 per cent said that institutions should take a more active role and also encourage and support activist investors. Twenty-seven per cent disagreed and 15.6 per cent were undecided.

The **GPS-MI Index** measure of volatility pressure – which tracks the **S&P/ASX 200 VIX** and is derived as the difference between expected and current volatility – indicates that volatility in the next three months will be greater than that observed over the previous three months.

The **GPS-MI Index** and the **S&P/ASX** Index have co-moved with roughly similar changes since the Index was established six years ago.

Dr Sam Tsiaplias of the **Melbourne Institute** said that the trend of negative investor sentiment is a continuation that commenced mid-2014.

“The negative continuation was not wholly unexpected, given the volatility in global markets and the continuing weakness in Australia, which itself is to some degree being powered by lack of business confidence.”

“There's a glimmer of optimism in the findings too, in that the future confidence index is slightly positive, but realistically, it's being overshadowed by the persistent fall in current confidence”, Dr Tsiaplias said.

GPS Director Andrew Thain said that falling investor confidence is likely to have reinforced the views of retail shareholders that the major institutions should be more active and support other activist investors.

“Increasingly shareholders are reading about – or even experiencing in their own portfolios – poor performance and dissident events that very often result in changes that they as individuals want but have little power to effect. The reporting season has kicked off weakly with forecasts failing to hit analysts' expectations with the market flip flopping between global investor selling and some local investor buying. We think that fund managers will inevitably come under pressure from their clients to either take activist positions or support activist events to try and generate the best returns possible.”

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About the GPS – Melbourne Institute Leading Index of Shareholder Confidence

GPS and the Melbourne Institute have partnered to undertake and publish market-leading research to address the question of shareholder confidence among Australians who invest in shares.

The GPS - Melbourne Institute Leading Index of Shareholder Confidence™ is a summary balance measure of shareholders' confidence in the Australian share market. It is based on shareholders' assessment of three factors: Returns, Volatility and Trading Intentions (whether to buy or sell). Information from these factors are summarised and presented as component Indices. The components are then compiled into the Shareholder Confidence Index.

The first survey was conducted during March 2009 and the latest survey was conducted during the third week of August 2015. All surveys are conducted over the telephone and are based on 1000 respondents aged 18 years and over across Australia who directly own shares in companies listed on the Australian Securities Exchange. The survey is published quarterly. The Index is designed for easy interpretation - a value below 100 is suggestive of 'bearish' sentiment while a value above 100 is suggestive of 'bullish' sentiment.

ABOUT GPS

GPS is Australia's leading shareholder engagement firm and assists boards & management with engagement, governance and proxy strategies. Services support company meetings, M&A events and capital raisings. GPS acts for ASX listed and foreign companies, private equity, hedge funds and activist investors. Since 2007 GPS has conducted many hundreds of campaigns for transactions valued at more than \$550 billion.

Further information on GPS can be found at www.gpsproxy.com.au

ABOUT THE MELBOURNE INSTITUTE OF APPLIED ECONOMIC AND SOCIAL RESEARCH

The Melbourne Institute is the first University-based research institute of its kind in Australia, established for the purpose of conducting research into a wide range of macroeconomic, microeconomic and social economic issues. It was established in 1962 as a research Department of the Faculty of Economics and Commerce at the University of Melbourne.

The Melbourne Institute is a major centre for applied economic and social research that is nationally and internationally renowned in academia, government, business and community groups. The Melbourne Institute seeks to promote a deeper understanding and discussion of economic and social issues of national significance as well as to foster effective policy responses to these issues.

As well as contributing strongly to the academic literature in economics, the Melbourne Institute has a long-standing tradition of collaborating with major organisations by providing consultancy services and evidence-based quantitative research.

Further information on the Melbourne Institute can be found at www.melbourneinstitute.com