Italian pensions starting to move on activist shareholding

Raquel Pichardo-Allison reports on a new wave of activism starting to swell in Italy

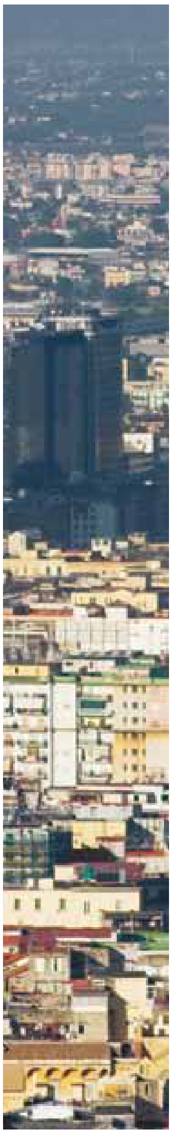
Publicly traded Italian companies have a new investor to answer to – Italian pension funds. There is a nascent movement among these funds to become active shareholders, with at least two of the country's largest pension funds – Cometa Pension Fund and Fondo Pegaso – leading the way.

Consultants and asset managers expect more pension funds to pick up on this trend as activities like voting on proxies are proven to be beneficial to long-term shareholders. Investors are also using this as a sort of risk management tool in the wake of the financial crisis.

"Italian pension funds are starting to become more active investors, they're starting to vote at shareholder meetings," said Andrea Canavesio, partner at consultancy MangustaRisk. "This is a sort of new world for them."

Guiseppe Chianese, president of Fondo Pegaso, agreed that pension funds historically have not exercised their rights to vote, but said that is changing.

He said: "The issue of socially responsible investing has been repeatedly analysed and, in recent years, it has been transformed into the criteria of ESG (environmental, social and governance) meaning the possibility to invest where there is a strong commitment to ESG issues. It is probably the right time to start considering that funds can begin to take ownership for specific issues, like budget and corporate governance issues."



Asset allocation

Industry experts say the main reason most don't participate in activist shareholder activities simply comes down to asset allocation – many have only a small percentage in equities, and an even smaller amount in direct holdings in Italian companies.

Italian pension funds typically hold only 5% to 15% of their holding in equities, said Canavesio.

Meanwhile, most Italian pension funds include the MSCI World or MSCI Europe indices in their portfolios which have a limited weighting to Italy, added Lorenzo Randazzo, institutional sales manager at AXA Investment Managers Italia.

Cometa, among the largest pension funds in Italy, has €6bn ($5.2bn) in assets, but only a mere 0.61% is invested directly in shares of Italian companies, said Mauricio Agazzi, general manager. That hasn't stopped the fund from increasing its shareholder activity.

UN PRI

In the past year, Cometa became signatories of the United Nations Principles for Responsible Investment, guidelines followed by investors worldwide. The UNPRI encourage investors to be active participants in the companies in which they invest and to incorporate ESG principals into their investment practices.

"In the coming months, the board will be expected to approve the implementation of these principles in the policy of the fund. We expect the example to be followed by other closed (contractual) pension funds with active shareholding becoming a generalised tool," said Agazzi.

(In Italy, contractual pension funds are those offered by a company or set up as an industry-wide pension fund offered by employers' associations and trade unions).

Randazzo said he has started to have conversations with a small number of investors about the benefits of activist shareholder activities, but that the movement is not widespread.

"You have to consider the instruments in which you are exposed to the equity markets," added Randazzo. "You can own the shares and you can take part, or you can own a mutual fund, ETF or a derivative and you can't take part." He said those invested in mutual funds indirectly take part in shareholder activism as many managers will vote proxies on behalf of their clients.

The €500m Fondo Pegaso has already actively participated in the board meetings of Italy's largest companies: Unicredit, Intesa Sanpaolo, Impregilio, and others.

"I think pension funds may exercise a significant role in the financial market due to their characteristic of being a long-term investor and not a speculative one. This message of stability should be appreciated by companies that suffer passively the mood of the financial market. Preferring pension funds to hedge fund managers or mutual funds should be obvious," said Chianese.

This was one of the messages at an April 13 meeting of pension fund representatives and managers held at the Italian senate in Rome. The meeting was held to discuss the European directive on shareholder rights of 11 July 2007. The directive encourages shareholders across Europe to be active participants in the companies in which they invest by voting on proxies and promotes remotely participating in company meetings.

The meeting encouraged Italian pension funds to work together to strengthen local companies. Chianese said there was scope for pension funds to form a collective participating in company meetings, which could even lead to the presence of a director elected by pension funds.

"Pension funds need to begin exercising their role as investors through an active participation in meetings in a well informed way, being aware of the decisions taken and issues to be addressed," said Chianese. "Pegaso believes it is time for Italian pension funds to take on a leading role."

Still many pension funds hold back in the belief their holdings are too small to make a difference. But with two bellwether funds leading the way, it's no surprise industry experts expect Italian companies to have to face up to local schemes in the near future. ■