

Quick Take: Misbehaving Managers

January 2025

Despite Australia's reputation for strong corporate governance, recent scandals highlight the importance for investors of assessing management behaviour alongside traditional governance standards.

Governance: A False Sense of Security?

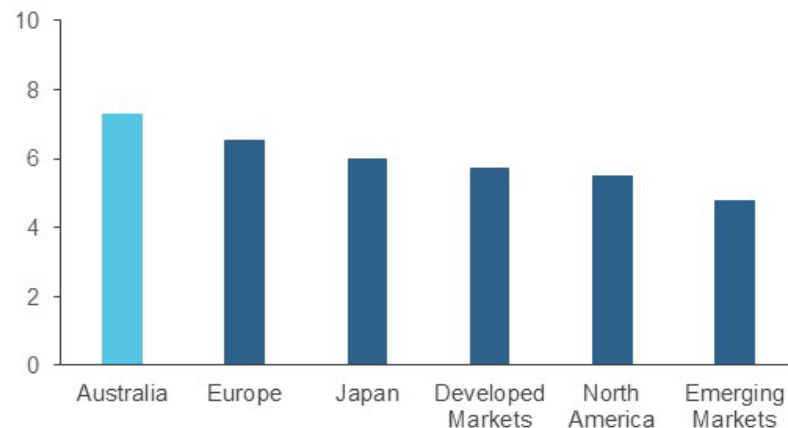
- Corporate Australia has traditionally been known for its strong governance practices, operating with remuneration policies and structures that are widely accepted as best practice relative to global peers (top chart).
- While management behavior may be harder to monitor and measure than traditional governance standards, underappreciation of this important predictor may have caught some Australian investors off guard in 2024. Examples include scandals that often attract regulatory scrutiny and lead to director resignations.

Australian Management Scandals Rife in 2024

- 2024 saw numerous management indiscretions across corporate Australia. These events can lead to financial consequences that are inconsistent with shareholders' interests.
- We calculate the average monthly share price performance difference between companies that ranked the poorest on Acadian's proprietary management behaviour signal at the beginning of the month and those that ranked the strongest (bottom chart). Companies considered to have misbehaving managers generally underperform their better-behaved peers. This performance difference is significantly larger in Australia in 2024 compared to broader developed markets, and larger than it has been over the prior 10 years.

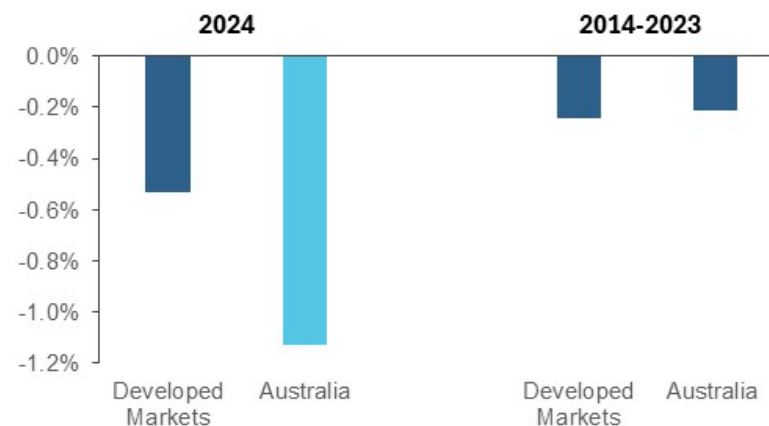
Average Governance Ratings Across Major Markets

Index-weighted MSCI Governance Pillar Ratings (December 2024)

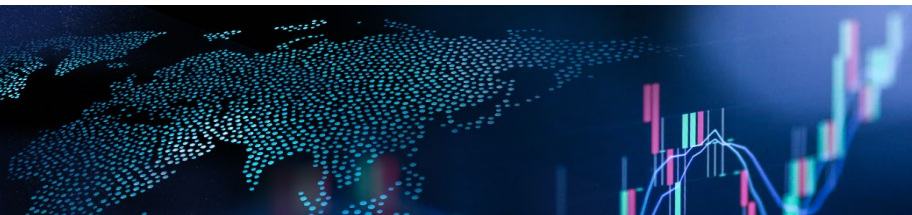


Acadian Proprietary Management Behaviour Signal

Average Monthly Return Difference Between Bottom- and Top-Ranked Companies



Top chart: For illustrative purposes only. Based on the S&P/ASX300 Index, MSCI Europe Index, MSCI Japan Index, MSCI World Index, MSCI North America Index and MSCI EM Index. Governance Pillar Ratings provided by MSCI. Bottom chart: Returns to Acadian's proprietary Management Behaviour signal. Companies within MSCI World and S&P/ASX300 Indexes are grouped into 3 equal terciles and root-cap weighted average monthly return of each group is calculated. The average differences between the bottom and top terciles are shown. Source: Acadian based on MSCI data Copyright MSCI 2025. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future returns.



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