What is active ownership and why does it matter?

By Perpetual Asset Management

19 February 2025



While active ownership is not for the faint of heart, it's in Perpetual's DNA. Head of Australian equities Vince Pezzullo explains how it works and why it matters

- Active ownership is not a new concept
- It aims to influence investee companies
- Find out more about Perpetual's Strategic Capital Fund

Most investors understand the difference between passive funds (which aim to match the market) and active fund managers (who aim to outperform the market).

But active owners go a step further, aiming to influence the strategies and actions of investee companies to improve shareholder value.

"When you invest, you can index – follow the market and not worry about picking stocks. You can actively manage by buying and selling stocks. Or you can actively own," says Vince Pezzullo, head of equities at Perpetual.

"At Perpetual we think about active ownership as essential in nature and our responsibility to investors who seek outcomes which unfortunately at times management teams are not prioritising"

Active ownership is not a new concept. Its modern origins can be traced back to Benjamin Graham, the father of value investing and mentor to Warren Buffet.

Graham famously convinced investors with more than 100 shares in a company called Norther Pipeline, including the Rockefeller Foundation, to force management to pay dividends, rather than sit on millions of dollars' worth of securities.

Graham, in that instance, was an active owner. He was prepared to create the catalyst to improve the trajectory of a company's earnings.

"Maybe a company should demerge a business and sell a division or launch a strategic review. Maybe they are carrying too much cash on their balance sheet," Pezzullo says.

"Maybe the remuneration structure needs to be changed, or the board or management need a tweak. Someone needs to tell them."

The difference between active investing and active ownership is the difference between waiting for a catalyst or triggering one, he says.



"The concept of active ownership has been reborn more recently," Pezzullo explains. "It has been growing for decades in the highly contested US market. It has also grown in Japan, where the government has encouraged greater contestability."

While it has taken longer to emerge in Australia, Perpetual is one of the few, large managers to have embraced active ownership, having done so for decades.

"As an active owner, we have influence over the companies we hold in our portfolio. It is like being a private equity investor in public markets," Pezzullo says.
Active ownership is not for the faint hearted.

"There is an art to it, so having experience in active ownership is important. Also, you have to be able to engage with management of a company, so having scale matters," Pezzullo explains.

"Perpetual has always had managers that were heavily engaged in talking to companies to try and improve shareholder returns. It is embedded in our DNA."

"We like companies that have passed our strict quality filters of good businesses, clean balance sheets, recurring earnings and sound management. We then focus on those companies that have become the underperforming market leaders and where there is room for improvement. By improving them we can give the market the opportunity to restore their quality valuation".

Perpetual's Strategic Capital Fund focuses on active ownership. It holds between 10 and 20 stocks with at least 50 per cent local listed shares and up to 30 per cent international shares.

At any given time, up to half of the portfolio will be current activist opportunities, with the balance comprising future opportunities or best investment ideas. A longer ownership timeframe of stocks means lower portfolio turnover and focus on absolute returns.

About Vince Pezzullo and Perpetual Strategic Capital Fund

Vince is Perpetual's head of equities and portfolio manager of Perpetual Strategic Capital Fund.

Vince has more than 20 years of experience in financial services including global experience as an analyst and portfolio manager.

Perpetual Strategic Capital Fund is a concentrated, high conviction portfolio with a focus on active ownership.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

We have a track record of contributing value through "active ownership" and deep research.

Find out more about Perpetual's Strategic Capital Fund
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Portfolio Manager





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