



Feb 14 2003

John Sunderland, Cadbury Schweppes Chief Executive



Changing the UK's investment climate

Tomorrow's Company, a business led think-tank, has launched an inquiry into the effectiveness of the UK's current investment system and the problems and pressures it faces as a consequence of the falling value of stock markets.

In a statement, the 21st Century Investment inquiry said that unlike previous reviews, it would look at the whole system from saver through intermediaries to companies.

Why the inquiry was initiated

Q.

What exactly is this inquiry about?

A.

It's about examining the role of investment in wealth creation, in the provision of protection of people's long-term financial security.

Q.

But isn't it just a reaction to recent bear market conditions?

A.

No. We could have had an inquiry with aims of that kind at any stage. It just happens to be now, although we've been thinking about it for the last 12 to 18 months. It would be as relevant in a bull market as a bear market.

Q.

In effect, you're calling for a sea change in the attitude of the City towards corporate Britain, a major change in the quality and attitude of fund managers and analysts.

Having seen so much shareholder value destroyed in recent months, do you think they're ready to learn?

A.

I do think the inquiry is broader than just that point. We're looking at the entire spectrum of wealth creation. It is as important to have an educated investor as it is to have responsible corporations, as it is to have the agents and principals in the middle acting responsibly and taking a slightly longer term perspective.

Q.

Is it time to manage investors' expectations about the likely returns from equities more realistically? In that way, they may take the longer-term approach that you want them to adopt.

A.

I agree. I think it's very important to have an educated investor who understands the complexity of some of these issues, and whose expectations are also realistic. After all, if you go back two decades or longer, most investors looked to dividends as the primary source of their income. We've been spoilt and misled by the raging bull market of the last 20 years to think that capital appreciation is something that will go on forever. Clearly, that's fallacious. So, I think getting expectations realistic is very, very important.

Long term investors better than short term

Q.

Don't you have any reservations about increased shareholder activism? Couldn't it make life more uncomfortable for company chiefs?

A.

Well, talking as one, I am entirely prepared to be answerable to what I call the 'genuine share owners' of my business. They, after all, do own it. And of course, my accountability is to them. I welcome their interest. I welcome discussions with them, collectively or

IN THE NEWS

individually if appropriate. But I welcome most those who are serious long term owners of the stock, who take a longterm view and have a different perspective on those people I know who are just trading and working against relative benchmarks, literally on a day-to-day basis, whose time horizons are much shorter. And I think the alignment of their interests and ours, on a long term basis, are not really terribly well-matched.

Q.

Pension funds are hugely important to corporate Britain. How will you convince them that their members' interests can coincide with the longterm aims of British companies?

A.

British companies are the producers of wealth in this country. Within a balanced portfolio, I think it's very important that any investor sees a share of their income, the provision for their longer-term financial security, coming from the corporate sector. If not, where else do they go?

Q.

But you must be concerned that the life offices and pension funds have been rebalancing their portfolios away from equities. Will your inquiry help to halt that trend?

A.

Again, I think the inquiry's perspective is much broader term than what is happening currently in the equity markets. I think we're addressing the issue of long term wealth creation and where, within that, equities and the corporate sector can play a part in a balanced portfolio. I'm sure it always will. The proportions are really for others to decide, not me and I suspect not the inquiry, in the sense that we're looking to provide a view, rather than ultimately the answers.

Attracting the sceptics back to equities

Q.

Europe seems to have been largely immune to Enron-type accounting scandals, so much so that some optimists are suggesting that this could be the decade of the European equities. Do you share that optimism?

A.

I do think that standards of corporate governance, on the whole, are tighter here in the UK, and we're seeing a very rapid attempt by the US to try and catch up at the moment. At the same time, we're moving the game forward here in the UK. All of which when done sensibly, I think, is good for the corporate sector and good for the investor.

As to European equities and the opportunity, I think probably the answer to that is 'yes'. After all, the European markets are still more lowly valued than their US equivalents, despite what has happened. Therefore, I would certainly share the view that probably they will have their moment. That is coming.

Q.

For many retail investors scarred by their dotcom investments, all of this may sound like jam tomorrow. How do you convince the sceptical investor that equities can provide the earnings growth that they want?

A.

I think the task of the inquiry is entirely relevant to that question. After all, if we had completed our inquiry, we might have been able to point out to people that it's important to look at the underlying strategy, and not to get carried away in tulip-mania. After all, dotcom companies were being valued on their revenues, with no prospect of income in sight any time in the foreseeable future. Under any definition, that wasn't probably a terribly wise investment route to go chasing down, at least not with too high a proportion of your personal funds in that type of investment. I like to think that the inquiry would be a provider of information about how to take longer-term and more sensible perspectives on the role of investment in wealth creation.

Links in the investment chain

Q.

So, what do you see as the main objectives of this inquiry?

A.

IN THE NEWS

I would personally like to see an outcome from the inquiry's work which looks at all the elements in the investment chain, and sees them aligned in a way that is going to best ensure long-term value creation for all the parties in it.

Q.

In an ideal world, what would the practical effect of your inquiry be?

A.

I think what we've seen over the last 20 or 25 years, as we increased specialisation, and rather like in business, as any corporate gets bigger, you get greater and greater specialisation and the task of management is to make sure that all the pieces of that jigsaw are aligned and joined up in their decision-making processes. Believe me, it's not always the way it happens. And I think there's a good analogy there with the whole of the financial markets. The importance of getting greater alignment and joined-up realisation of how the pieces fit together and common objectives so they're all working toward the same end, would be an ideal outcome of what is going to be a very complex inquiry.

Q.

Why did you decide to become involved in this?

A.

I think the subject is very important. The inquiry team is represented by elements from all parts of the value chain in investment; the pension funds, corporate people like myself, insurance companies and so on. Everybody has a different angle. I happen to think, personally, that the role of the corporate sector in wealth creation is a key and critical element of that value chain. Therefore, our voice should be heard. I have the good fortune to be working with some very, very able people in trying to take this holistic perspective on the wealth creation process.