



FT MONEY - SPLITS AND SMALL SHAREHOLDERS: Sykes outburst widely deplored

By Kate Burgess
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Sir Richard Sykes, the former chairman of GlaxoSmithKline, rocked small shareholders last week when he said they should be barred from company meetings, complaining that their questions were disruptive.

In an interview with the FT, Sir Richard - the rector of Imperial College and newly appointed head of an independent inquiry into the relationship between investment and wealth creation - took private shareholders to task for wasting company time at annual shareholder meetings.

Small shareholders should have their own platform to air views, he said, but the AGMs should be where large shareholders grill the management.

Many directors would agree, especially in the investment trust sector, says Hermes Focus Asset Management, the activist fund that owns £300m in trust shares. But they are wrong, says Hermes, because it is not in the long-term interests of the sector, notorious for poor levels of corporate governance, to bar retail shareholders from meetings.

"Directors of investment trusts do not put shareholder value first," says Peter Butler, chief executive of HFAM. "Low attendance at meetings gives directors an easy life. But directors should encourage more retail investors, not less, to attend AGMs."

"It was a strange outburst," says Stuart Bell, research director at Pensions and Investment Research Consultants (Pirc), referring to Sir Richard's comments. "I understand the frustration that company chairmen can feel at the level of debate at AGMs. But that is improving and it is the right of all shareholders to attend meetings. And it is a fundamental part of company accountability to shareholders," says Bell. Boards complain that they have to prepare for unnecessary and awkward questions, but "for every irritating point raised there is a question that is pertinent and penetrating".

Angela Knight, chief executive of the Association of Private Client and Investment Managers (Apcims), says: "We wouldn't want some shareholders to be thought better than others."

AGMs force directors to address issues such as pay and environmental policies that may otherwise be skirted over.

Daniel Godfrey, director-general of the Association of Investment Trust Companies (AITC), itself a member of the Institutional Shareholders Committee that produced a "statement of best practice" in this area last year, says: "Big shareholders can always take companies to task outside the AGM, but the private investor only gets one opportunity at the AGM."

Activists say low attendance at AGMs is symbolic of shareholder inertia and that there is a clear link between low attendance and poor corporate governance.

"The investment trust industry stands out," says Bell. It has the worst record of shareholder attendance at annual meetings and "voting levels are pathetically low."

Ian Overgagge, head of investment trust marketing at Gartmore, says: "Investors may not turn up to meetings but they are still active. We get a high response in voting direction forms."

Nonetheless, most in the industry concede that shareholders are notoriously reluctant to vote and that, when

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they do, they usually back the management.

Private shareholders in investment trusts are known for their loyalty, say industry analysts. "But it is questionable whether it is loyalty or inertia that causes investors to back the management," says Stephen Westwood, head of investment trusts at Henderson Global Investments, which last year failed in its attempt to challenge and dislodge the board of Charter European, a trust managed by Dresdner RCM.

Westwood says the low attendance at meetings is "frustrating". Investors are historically disengaged. He would welcome more participation at AGMs with investors taking directors and managers to task on performance.

If more shareholders in Charter European had turned up to question the directors on the managers' record, performance might have improved, he suggests.

Industry leaders agree that the sector needs to modernise and consolidate, but that directors have been slow to back aggressive action against other trusts.

MPs and regulators are increasingly exercised by what they perceive to be a cosy network of trust directors in the pocket of the managers they are supposed to monitor on behalf of shareholders.

The Financial Services Authority, the City watchdog, has introduced new measures to address the problem by barring multi-directorships and insisting that chairmen of trust boards demonstrate their independence.