



Review of 2007 chairmen meetings

An important strand of Insight's work to improve the governance of companies in which we invest is a rolling programme of meetings with company chairmen. In the past, Insight met with chairmen on an ad hoc or reactive basis. But for the last four years, we have taken a more structured approach to building these relationships, by, for example, seeking to meet with all new chairmen of FTSE 100 companies and with the chairmen of companies in which we have a significant stake. We also aim to meet with senior independent directors (SIDs), where the chairmen are not independent on a regular basis. In 2007, we had 54 such meetings with chairmen or SIDs.

Our meetings generally follow a structured agenda, focusing on succession planning, business strategy, the financing strategy, as well as incentives and rewards. These meetings not only improve our understanding of a company's governance, but can inform our investment decisions. While the majority of meetings focus on company-specific issues, we find that they also provide an opportunity to discuss broader corporate governance and market issues.

A number of interesting themes emerged in our meetings this year.

CEO Succession planning

For the vast majority of companies, succession planning is high on the board's agenda and/or that of the nomination committee. The large number of FTSE companies who changed either their chairman or chief executive (CEO) during 2007 highlights the importance of succession planning. For example, on 7 December 2007 James Murdoch, Chief Executive of BritishSkyBroadcasting was appointed Non-Executive Chairman, after his father Rupert Murdoch stepped

down from the Board. Prior to this appointment, Insight held a routine meeting with the SID. Following the announcement, the SID called Insight to communicate the appointment and discuss succession planning in more detail.

Insight's view is that succession planning for executive directors should normally be an issue for the board as a whole, and investors should not be involved in individual appointments. The role of investors should be to ensure that boards are taking responsibility for succession planning and that it is being addressed appropriately. Most company chairmen take the lead during periods of change, such as when a CEO is being replaced. We therefore use our routine meetings with company chairmen as an opportunity to address the issue of succession planning.

Audit Committees

The second theme that arose is that the role of the audit committee is attracting more attention. The pressures seen in the financial systems this year have accentuated the importance of these committees. We believe that the board, as a unitary structure, should take overall responsibility for auditing issues, but allow sub-committees to play their role. It seems to be becoming common practice for all board members to receive Audit Committee papers, both prior to and after meetings, to ensure that all board members are fully up to speed with relevant issues. Several companies such as British American Tobacco, HSBC, and Royal Bank of Scotland have set up regional Audit Committees to allow individuals to be closer to different business units. We support these moves, as we believe they provide companies with better oversight.

Additionally, some companies have been struggling to find the right person to chair their audit committees due to the significant time commitment the role requires. As a result, some chairmen have been kept on for longer than anticipated, for example, Rupert Pennant-Rea at British American Tobacco, as the board was not able to appoint a natural successor from within the current membership of the audit committee initially. An additional pre-requisite for the chair of an audit committee is recent relevant financial experience. This is critical as global companies become more complex and higher risk.

Board Meetings

The third theme, not surprisingly, is that many companies are now holding board meetings abroad. This is a true reflection of the global nature of many companies. For example, the full Rolls-Royce board met over two days in Singapore to discuss its plans for the region, and two non-executives from the SAB Miller board visited smaller operations in China. We support these kinds of meetings, as we believe that they provide a valuable opportunity for non-executives, who would perhaps not get the opportunity, to see company operations and meet local management.

Remuneration

Finally, remuneration – specifically our concerns relating to the emergence of a CEO premium salary relative to other directors – was a recurring theme during our meetings. Interestingly, this trend, which is common in the US, now seems to be reversing in the UK. There are several recent high profile cases where the replacement of a long-term CEO has led to a reduction in the CEO salary differential, including at BP. We support these changes, as we do not believe that paying one executive director significantly more than others creates the right balance between directors. As part of the unitary board structure, all directors should have equal levels of responsibility and remuneration.

Conclusions

Our meetings with chairmen and SIDs have become an essential part of our governance engagement activities. These meetings allow us to have a two-way dialogue and to build important relationships, which we believe adds value to both parties. The meetings enable us to better understand companies, their respective agendas and priorities, as well as the day-to-day challenges faced in running successful businesses. Not only do such meetings stand us in good stead if difficulties arise, but, perhaps more importantly, they provide us with another route to gain reassurance that the company is being run in the long-term interests of its shareholders. Although investors are increasingly having meetings with company chairmen, it is clear that Insight is still in a minority meeting regularly with company chairmen and SIDs.

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