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14 January 2011

Mr Adam Gray
Long-term Focus Consultation
Corporate Law and Governance
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Dear Mr Gray,

A LONG-TERM FOCUS FOR CORPORATE BRITAIN
Call for Evidence - Response from MM&K

MM & K Limited ("MM&K) is an independent firm of strategic pay and reward consultants. We have limited our responses primarily to those aspects that relate to remuneration, which is our main area of expertise.

We think there is a problem in relation to short-termism and that your call for evidence is timely. These are complex problems and need careful thought. In summary, we have two key recommendations.

1. Proposed changes for CEO pay disclosure

We think the Directors' Remuneration Report Regulations are not working. Remuneration Reports are hopelessly complex. It is difficult to see the wood from the trees.

We propose changes to the reporting of remuneration so that the amounts paid to the CEO in each of the past five years are clearly displayed alongside a table or graph of total shareholder return (TSR) and other key performance indicators.

If this approach were adopted, we would favour significantly reduced remuneration reporting in the annual report, with most of the information currently in the remuneration report being merely reported on the company website. This would reduce much of the clutter in the annual report and make it clearer and easier to read. Shareholders wishing to examine the detail of remuneration could access this via the company website. Hence no transparency would be lost.

Currently there are too much data in annual reports and not enough information. The distinction between data and information is important. Our suggestions would improve the information flow to shareholders. This would help them understand the long-term.

2. Fees paid to remuneration consultants should be disclosed

In our view, the level of fees paid to some large remuneration consultants may result in a conflict of interest. Publishing the fees paid for remuneration committee advice and separately for other services to the company (in a similar way that audit fees are disclosed) would improve the transparency.

Chairmen and Non-Executive Directors are strongly in favour of this proposal. Only 20% disagree. The source of these data is the MM&K 2011 Chairman and Non-Executive Director Survey. 308 directors - 189 chairmen and 119 non-executive directors - contributed to the survey.

Detailed answers to your consultation questions are attached.

Yours sincerely,

Cliff Weight
Director

Attachments

Appendix 1 About MM&K
Appendix 2 Consultation response form

Appendix 1 - About MM&K

MM&K is a leading independent consultancy specialising in the planning, design and implementation of pay and reward strategies.

Founded in 1973, MM&K focuses on directors' and senior executives' remuneration, but we have added other services through the acquisitions of Independent Remuneration Solutions and The Share Option Centre and the launch of higher talent, our specialist recruiter of HR professionals. MM&K is owned by its employees and directors.

Our consultants' expertise areas include HR, share schemes, law, accountancy, tax, corporate governance, business management and statistics. Our multi-disciplinary approach to remuneration is always tailored to individual client requirements.

MM & K Limited is owned by its employees and directors.

MM & K Limited is authorised and regulated by the FSA.

Who We Are

Paul Norris, Chief Executive

Master's graduate in Law and Barrister. Paul started his career with MWP Incentives Limited, and then spent a period in merchant banking before joining the buy-in team that created MM&K in 1985. He advises a number of remuneration committees on business-linked remuneration strategies and is experienced in the design and implementation of cash and share based incentive plans.

Nigel Mills, Director

PPE graduate and chartered accountant. Nigel joined MM&K in 1985 having spent 6 years at Price Waterhouse after graduating from Oxford. He is an authority on executive and all-employee cash and equity based incentive schemes for public and private companies. He also leads the Private Equity business of MM&K and is an expert on carried interest and co-investment plans for Private Equity houses.

Cliff Weight, Director

Graduate in Mathematics and Statistics from Cambridge. Cliff has over 20 years' experience as a remuneration consultant. He was a Director of Independent Remuneration Solutions, which merged with MM&K in November 2006. He specialises in advising companies on executive directors' remuneration, annual and long-term incentives and non-executive directors' fees. He is a regular speaker at conferences and is co-author of Tottel's Corporate Governance Handbook, for which he wrote the chapters on directors' remuneration.

David Henderson, Non-Executive Director

David has been Chairman of Kleinwort Benson Private Banking since November 2004. David began his career specialising in personal tax and UK trusts. He subsequently spent ten years (1974-1984) as a banker at Morgan Grenfell and, following that, eleven years in financial services executive recruitment with Russell Reynolds Associates before joining the Board of Kleinwort Benson Group plc as Personnel Director in 1995. He was appointed Chief Executive of its private banking business in June 1997. David is also a non-executive director of Novae Group Plc, Price Forbes & Partners Ltd and Camp Hopson & Co.

Allan Johnston, Non-Executive Director

MA and Chartered Fellow of CIPD. Allan was an Executive Director of Corus Group plc with responsibility for HR and some of the devolved businesses of the company until he retired from them in 2005. He is Chairman of UK Steel Enterprise Limited and Chairman of the Trustees of the £9.8Bn British Steel Pension Scheme. He is a Councillor of the City and Guilds of London Institute. Specialist in all areas of HR with particular expertise in change management.

Damien Knight, Executive Compensation Director

Physics graduate. After a period in construction management, Damien has followed a career in human resources and remuneration consulting, spanning 30 years. Damien was a director of the Hay group where he worked for over 20 years and most recently Damien was Senior Consultant with Watson Wyatt. For the past 15 years he has specialised in executive remuneration and has advised the remuneration committees and management of a wide range of companies in the UK and elsewhere in Europe, including several FTSE 100 and other major corporations.

Michael Landon, Executive Compensation Director

BA in Economics & Politics and MBA from London Business School. Mike has more than 25 years of experience as a remuneration consultant and over this period has been at the forefront in developing innovative share and cash-based incentive arrangements for executives and employees generally.

Department for Business Innovation & Skills

A LONG-TERM FOCUS FOR CORPORATE BRITAIN
Call for Evidence Response Form

A copy of the consultation available at: http://www.bis.gov.uk/consultations.

Responses to the Consultation should be received by 14 January 2011.

Completed copies of the response form should be returned:

Via email to: clgconsultations@bis.gsi.gov.uk

Via post to:

Adam Gray
Long-term Focus Consultation
Corporate Law and Governance
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Name: **Cliff Weight**

Organisation (if applicable): **MM & K Limited**

Address: 1 Bengal Court, Birchin Lane, London EC3V 9DD

Email: cliff.weight@MM-K.com

Please tick the box from the following list of options that best describes you:

	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
Yes, remuneration consultants	**Other (e.g. consultant or private individual)**

The Board of Directors

<u>Question 1</u>: Do UK boards have a long-term focus – if not, why not?

Comments
Clearly the answers vary between companies and sectors. However it should be recognised that UK boards are subjected to various factors that do not assist them to have a long-term focus: 1. Their professional advisers (who include accountants, tax advisers, lawyers, bankers, strategy and management consultants, corporate finance advisers and brokers) all receive fees when companies do deals. They actively promote takeovers, divestments, spin-offs, mergers, reconstructions, refinancing and tax planning opportunities. Unlike directors, they are not subject to clawback if the deals they advise upon prove to be unsuccessful. As a consequence, there are far too many takeovers, as is evidenced by the widely reported fact that 60 to 70% of takeovers do not create value for the company making the takeover. 2. Some fund managers do not have a long-term focus. As a result, when they are communicating with UK boards, their focus is on the short-term . Fund managers are assumed to represent shareholders, and so UK boards have acted in what they see as their shareholders' requirements. 3. The above are ably and enthusiastically supported by the media, who, when they write their stories, focus on what has changed and this inevitably has a short-term bias. Writing about long-term performance is not considered to be newsworthy. 4. There are also problems in the performance measures that are used to judge companies' success. There is an over-focus on performance versus budget in many companies. As a result, executives who are successful in negotiating lower budgets are rewarded when they beat their budgets. There is also a focus, in some companies, on meeting fund managers' and analysts' expectations. Such companies pay too much attention to short-term issues in order to satisfy the short-term needs of fund managers and analysts. Quarterly reporting of results adds to this short-term focus. 5. One key requirement for a company to be successful in the long term is to create sustainable competitive advantage. This can be reflected in terms of beating competitors over the medium to long term. Financial operating performance measured relative to other companies should be reviewed by the board, but this is rarely done at present. (Methods to do this are available, and we are working with our associate company Obermatt to assist companies in the UK to do this. See www.obermatt.com for more information on this subject.) 6. Achieving a return on capital employed greater than the cost of capital employed is also a key to long-term success. (Hermes looks at this measure, in particular, when considering long-term investments.) However, changes in accounting rules mean that for some companies the capital employed shown in the balance sheet is not a true reflection of the amount of money that has been put into the company in terms of capital expenditure, or the cost of acquisitions.

<u>Question 2:</u> Does the legal framework sufficiently allow the boards of listed companies to access full and up-to-date information on the beneficial ownership of company shares?

Comments
Others are more qualified than us to respond to this question.

Shareholders and their role in equity markets

<u>Question 3:</u> What are the implications of the changing nature of UK share ownership for corporate governance and equity markets?

Comments
Others are more qualified than us to respond to this question.

<u>Question 4</u>: What are the most effective forms of engagement?

Comments

1. Engagements with shareholders are most effective when the shareholders have a significant percentage stake of the company.
2. In contrast, attempting to engage with large numbers of shareholders with relatively minor stakes tends to add much less value. Our experience of this comes primarily from remuneration consulting, where many shareholders hold strong and different views about the underlying issues. As a result engaging with such a disparate group is highly complex.
3. It is generally less effective to engage with short-term shareholders, except when a takeover bid has been announced.

<u>Question 5</u>: Is there sufficient dialogue within investment firms between managers with different functions (i.e. corporate governance and investment teams)?

Comments
Others are more qualified than us to respond to this question.

<u>Question 6</u>: How important is voting as a form of engagement? What are the benefits and costs of institutional shareholders and fund managers disclosing publically how they have voted?

Comments
Others are more qualified than us to respond to this question.

<u>Question 7</u>: Is short-termism in equity markets a problem and, if so, how should it be addressed?

Comments

Yes.

1. Financial incentives for fund managers should be changed. If we want fund managers to think long term (and we define long term for the large companies such as FTSE 100 as 5 to 10 years), then much of the pay of fund managers should deferred for several years. The FSA has recommended that for banks, only 20% of any bonus for higher earners should be paid in the year to which it has been awarded and the remainder should be vested over 3 to 5 years. Similar arrangements could apply to fund managers, although there are reasons why the deferral should be even longer.
2. Most fund managers' performance is measured over three months, one year and three years. The reason for this is a commercial one. Fund managers wish to gather additional funds to manage (as they are income is usually a percentage of the funds under management). The sales and marketing team can only be successful if they have a successful track record to market.
3. This pressure to perform over the short-term is one of the reasons for the excessive churn which occurs in many fund managers portfolios. As noted in paragraph 4.25 of the consultation document, excessive churn can reduce the value of a pension fund by around 30%. As most of this excessive churn is between fund managers of different companies, this is in many cases, a zero-sum game in terms of performance, and is detrimental to the end customer.
4. Paragraphs 4.23 and 4.24 of the consultation document referred to the difficulties of measuring performance. We have already commented on this in our answer to question one. We also recommend that key performance indicators and directors' remuneration should be reported over a five-year period, so that shareholders can see the alignment of the two (or the lack thereof).
5. In the private equity industry, the fund managers receive the majority of their variable remuneration in the form of carried interest arrangements. These only pay out after a long period, often as much a 6 to 8 years. These arrangements have been successful in making fund managers take a very long-term view, not only about their own loyalty to their company, but also in their investments. The other key aspect of the private equity industry is that these incentives are only paid out when a liquidity event occurs. They do not pay for paper profits, but only for cash returns. There are lessons to be learnt from private equity.

<u>Question 8</u>: What action, if any, should be taken to encourage a long-term focus in UK equity investment decisions? What are the benefits and costs of possible actions to encourage longer holding periods?

Comments
1. Ultimately, the value of a share for a long-term shareholder is the net present value of the future dividend income stream. So long-term shareholders will not be unduly concerned if short-term shareholders sell the shares and drive down the share price. Nor will they be affected if liquidity reduces and the bid offer spread rises temporarily. Hence we do not see any significant concerns about additional costs of actions which encourage longer shareholding periods (which by definition will reduce the proportion of shares held by short-term shareholders). 2. We can see significant benefits of having more long-term shareholders with more of a long-term focus. 3. Therefore, there is merit in the government considering enhanced dividends or voting rights and tax incentives for longer-term shareholders.

<u>Question 9</u>: Are there agency problems in the investment chain and, if so, how should they be addressed?

Comments
1. Yes. We think there are agency problems in the investment chain, for the reasons stated above in answer to Q7. 2. They should be addressed, partly by having more of fund managers' pay deferred.

<u>10</u>: What would be the benefits and costs of more transparency in the role of fund managers, their mandates and their pay?

Comments
1. Disclosure of the pay of individual star fund managers would be similar to that of football payers and promote much press coverage. Like football players, it would not constrain pay levels and would be likely to lead to further increases as high profile fund managers would be able to command even higher pay. However discussion of individuals' pay would be a diversion from the much more important issues of promoting lower churn, lower costs and longer-term thinking. Hence we oppose disclosure of individual fund managers' pay, other than that currently required by the Companies Act, Directors' Remuneration Report Regulations and FSA disclosures.

Directors' Remuneration

<u>Question 11</u>: What are the main reasons for the increase in directors' remuneration? Are these appropriate?

Comments

1. The data provided on pages 25 to 29 of the consultation document refer to FTSE 100 chief executive average remuneration. It is important to understand that the pay of directors of FTSE 100 companies is not representative of the rest of companies in corporate Britain.
2. Pay increases in Small Cap and AIM companies over the last 10 years have been modest. According to the Manifest/MM & K survey salary, increases for Small Cap and AIM have averaged 5% per annum over the last 10 years. Total remuneration in Small Cap companies is twice the level of salary, and in AIM companies is 1.5 times. This is significantly different from the FTSE 100, where total remuneration is nearly 4 times the level of salary and confirms that the levels of performance-related pay in Small Cap and AIM companies is not excessive, nor have they grown egregiously.
3. There is no evidence to suggest that pay levels, in general, in Small Cap and AIM companies are excessive. Nor has there been wide condemnation of pay in Small Cap and AIM companies: this is in sharp contrast to the amount of negative publicity about pay in FTSE 100 companies and in the large banks.
4. Total remuneration has grown fastest in the largest companies. The biggest growth has been in long-term incentive awards, with many companies now using two or sometimes three plans, e.g. options, LTIPs and bonus matching plans. Bonus opportunities and pay-outs have also increased significantly. Since 1998, FTSE 100 average CEO remuneration has grown rapidly, whilst the FTSE 100 share price index has declined:

Figure 1: FTSE 100 Average CEO Pay - Cumulative Growth Rates (source MM&K/Manifest survey)

Element	% Growth 1998-2009 Cumulative	% Growth 1998-2009 Average P.A.
Salaries	96%	7%
Bonus	251%	13%
Options	33%	3%
LTIPs	1,982%	35%
Sub-total of Options & LTIPs	879%	26%
Pension	309%	15%
Total Remuneration	274%	14%
Average UK earnings	49%	4%
RPI	32%	2.5%
FTSE 100	-8%	-1%
FTSE 250	76%	6%

5. We do not have comparative data for FTSE 250 remuneration over the same period, but we believe that pay has not increased at such a fast rate as for the FTSE 100 companies. The share price performance over the last 10 years of the FTSE 250 was significantly better than the FTSE 100. The FTSE 250 share price index has nearly

doubled and the FTSE 100 one has declined 19%. The share price index excludes dividends, so shareholders have had a positive return, albeit a small one.)

6. From 1998 to the end of 2009, average FTSE 100 CEO salaries rose by 96% (c. 7% p.a. compound) whilst their Total Remuneration went up by 274% (c. 14% p.a. compound). In the same period average UK average earnings went up 49%, retail prices by 32% and the FTSE 100 share price index fell 19%. Directors benefited significantly more than shareholders and employees.

7. Salaries have increased more rapidly for executive directors than other employees. Some of the reasons were:

   - Salary increases of 7% p.a. did not attract shareholder criticism to the same extent as contract length and design features of incentive plans. Salary increases can usually be explained by changes in the role, increased scope of the company's operations and the need to pay competitively.

   - Many institutions have traditionally focused on incentive plan award quantums as a multiple of salary, rather than looking at the amount in £ terms. They had neither the methodology nor the expertise to review total remuneration.

   - The knock-on effect to the value of pension. Many of the largest companies still have defined benefit pension arrangements for directors, often with 30th accrual rates. This makes the benefit very valuable - for the average FTSE 100 CEO, who is in a DB plan, the transfer value of the increase in pension accrued was about 80% of salary.

8. Total remuneration in smaller companies has not grown as fast as in the largest companies. There is, however, a trickledown effect as smaller companies review their remuneration arrangements to ensure they remain competitive, both in amount and structure. The proportion of remuneration that is performance-related is noticeably less in smaller companies.

9. Banking pay is a particular issue and needs to be addressed differently. Pay is high because bank profits are high, which are high because of the structure of the industry. This point was ably explained by Philip Augar in the Financial Times on January 11 2011: use this link to reference the article - http://www.ft.com/cms/s/0/29c6d950-1d96-11e0-a163-00144feab49a.html#ixzz1AqOffJE8 "Only global action can curb bonuses" in which he wrote:

   The UK government's current embarrassment over banking bonuses illustrates three uncomfortable truths. ....High bonus payments are a symptom of a problem, not its cause. The banking settlement was deficient because it did little to address the asymmetries in the universal banking business model. This model causes investment banks to jeopardise global financial stability in bad times whilst allowing bankers to cream off film star compensation in the good times. The global reforms have done a bit to improve financial stability but almost nothing to constrain the profitability that produces the bonuses. That profitability arises from a business model that gives banks in general and investment banks in particular the best possible view of global economies and markets. They are able to use this information advantage to load the dice and generate super-profits. This is where the bonuses come from and this is why the banking lobby worked so hard and so successfully to defend the model.

10. The number of quoted companies is reducing. Private equity offers bigger incentives than small quoted companies. To retain and motivate executive directors, quoted companies will have to increase the amount of performance-related pay.

11. Four other factors influenced pay trends:

- Globalisation led to executive remuneration to move closer to US norms. Bigger companies led the way in increasing pay. A big change happened around 2000. GlaxoSmithKline, Vodafone and BP were the bellwethers. Other companies followed in their footsteps.

- Acquisitions of US businesses came with US executives on US style pay packages. In order to retain US executives, everyone's pay tended to average up to US levels.

- Private equity offers much larger rewards, often for running simpler businesses.

- Many lawyers, accountants, consultants, investment bankers, hedge fund and long only fund managers are paid more than the executive directors of trading companies.

12. This has led to remuneration inflation. There was little to restrain it:

- Institutional investors set overall dilution limits for share schemes. They focused on excessive rewards for failure and argued for reduced contract lengths. They also focused on increasing the proportion of performance-related pay. They tried to set individual limits as a % of salary for share schemes, but were ignored by many companies which argued theirs was a special case.

- Until recently, many institutional investors ignored salary and pension issues.

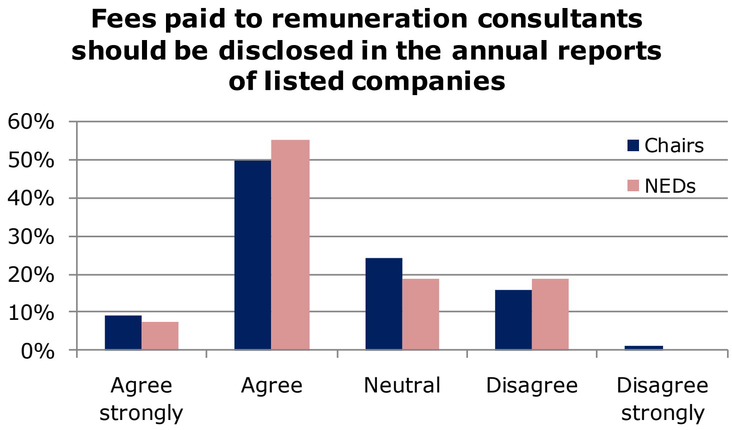
- Government action was intended to increase transparency and increase accountability through the annual advisory vote on the Remuneration Report. This has failed, as there has been no requirement to disclose a single figure for total remuneration, so companies spread the data over many pages of the annual report. Only a very few experts can decipher what is hidden in the 16 or so pages of the Remuneration Committee Report.

- Many consultants suffer from a conflict of interest. They work too closely with management - their recommendations favour executives rather than the company and its shareholders. The consultants' fees are large. They also sell other consulting assignments to their clients. They are unwilling to make recommendations that might upset the CEOs and other buyers of their services. If they keep the CEO happy, there is a better chance of selling other work. In some cases the Group auditors were also the remuneration consultants. Many people believe that such remuneration consultants ratchet up pay.

13. Another concern is the way in which some remuneration committees have operated. In many companies the remuneration consultants also advise management. They can be in receipt of fees for services to management far in excess of the fees they receive for advice given to the remuneration committee. For this reason, we favour the publication of

fees paid to remuneration consultants for services to the remuneration committee, and separately for other services to the company.

14. In the 2011 MM&K Life in the Boardroom survey, completed by 189 Chairmen and 119 non-executive directors who collectively held 858 appointments), we asked if fees for remuneration consultants should be disclosed in the annual reports of listed companies. Respondents are in favour of this, with 60% agreeing or strongly agreeing, and only 20% disagreed.



<u>Question 12</u>: What would be the effect of widening the membership of the remuneration committee on directors' remuneration?

Comments
1. We can see no benefit of widening the membership of the remuneration committee to include people other than the chairman and non-executive directors of the company. 2. What is really critical, here, is that the committee does its job well. Remuneration is an increasingly complex area. The committee needs to ensure that it has the necessary skill set to understand the issues, or that it receives appropriate **<u>independent</u>** advice.

<u>Question 13</u>: Are shareholders effective in holding companies to account over pay? Are there further areas of pay, e.g. golden parachutes, it would be beneficial to subject to shareholder approval?

Comments
1. When a problem becomes apparent, there are effective mechanisms for shareholders to engage with companies to make their views known. In almost all cases a constructive dialogue occurs. 2. However, current disclosures are in many cases not transparent. As noted in the consultation document, it is difficult to see the wood for the trees. Nowhere in the listing rules, directors' remuneration report regulations and UK corporate governance code is there any requirement for the total remuneration to be added up and reported as a single number. (This is an SEC requirement in the USA and the UK has fallen behind in this respect.) The current regulations require that the total shareholder return has to be shown on a graph over a five-year period. We think it would be helpful if the total remuneration of the CEO was also shown over the same period, as this would encourage

remuneration committees to give an explanation of why pay had increased or decreased faster or slower than total shareholder return - and any other key performance indicators that the company chooses to report on.

3. We do not think that any further areas of pay should be subject to shareholder approval. This would add to the volume of reporting and the cost thereof, without providing any benefit to shareholders. As noted above, there are already adequate mechanisms for shareholders to engage with directors and make their feelings known. There are many examples of where they have done this in respect of contracts and potential termination payments.

Question 14: What would be the impact of greater transparency of directors' pay on the:

- **linkage between pay and meeting corporate objectives**
- **performance criteria for annual bonus schemes**
- **relationship between directors' pay and employees' pay?**

Comments

1. The impact would be a reduced cost of capital for those companies which did this. Shareholders would have a better understanding of the company, its strategy, key performance indicators, how it plans to measure its future success and how it is doing to date. It would build trust between shareholders and directors. This would increase their desire to hold shares in the company, and it would also attract new shareholders. With higher demand for shares, the share price would increase and so the cost of capital for the company would fall.
2. The second benefit would be greater harmony between directors and employees who could more easily understand and assess the logic behind the directors pay. The same might apply to suppliers and customers.
3. It is important to recognise that merely publishing mathematical ratios will not by itself solve the problem. In many cases it is the reasons for the changes in the ratio which shed light on what is truly happening in the company. Future thinking companies will therefore give a useful commentary on the data. (An example might help. A company outsources its call centre to India and the average pay of the employees who are left increases: thus the ratio of directors pay to average employee pay goes down. Some years later, in a bid to improve customer service, the company wishes to close its outsource arrangement in India and opens a new call centre in Essex, and as a result the average pay of its employees decreases and the ratio of directors' pay to employees' pay increases. Only when the data are supported by useful commentary and interpretation can meaningful conclusions be drawn.)

Takeovers

<u>Question 15</u>: Do boards understand the long-term implications of takeovers, and communicate the long-term implications of bids effectively?

Comments
1. We think some are misled by advisers, who are driven by their own shorter-term profit considerations. 2. Many board members have been brought up in this culture of acquisitions and assume that they are in general a good thing, whereas academic research suggests otherwise. 3. Once a takeover bid has been announced, the target’s board has a duty to shareholders. If the bid is at a significant premium to the pre-announcement price, the board's duty usually is to gain the highest maximum price for shareholders (and communicating the long-term implications is only part of the board’s role).

<u>Question 16</u>: Should the shareholders of an acquiring company in all cases be invited to vote on takeover bids, and what would be the benefits and costs of this?

Comments
1. This has, at first sight, some appeal as it will reduce the number of takeover bids. 2. However, it is totally impractical in a global economy. It would put UK companies at a huge disadvantage to international competitors.

<u>Question 17:</u> Do you have any further comments on issues related to this consultation?

Comments
1. If we truly believe a long-term focus is right for Britain, Britain should have a tax system which encourages long-term ownership of shares. 2. In respect of individuals owning shares, the previous tax regime with its taper relief over 10 years encouraged longer-term shareholding. The new capital gains tax rules have removed this incentive. 3. Many individuals hold shares via pension schemes, life insurance products, investment bonds, unit trusts and investment trusts. Whilst the individuals will be seeking absolute returns, the goals of the fund managers are often very different, as: i. Fund managers are remunerated on how well their fund performs over short periods (3 months, 1 year and 3 years being the key) ii. Fund managers need upper quartile performance to win mandates from pension funds and other institutional investors; and they need top 3 in their sector performance to win retail business. iii. Fund managers receive fees as a proportion of funds under management, so winning new business is key (and losing business is potentially disastrous. The recent example of Gartmore comes to mind.). 4. Individuals should be encouraged to hold shares in companies for the long term and not penalised for doing so. Government should consider enhanced voting rights for long-term shareholders and enhanced dividends (or reduce the tax on dividends on shares held for the long term.), or a rebate of stamp duty for shares held for the long term. 5. Debt has tax advantages over equity as interest on debt is tax deductible and dividends are not. This can encourage a number of things that may not support a long-term perspective: i. Use of excessive leverage as a means of boosting returns on equity; ii. Restructuring and refinancing as a way to reduce tax; iii. Acquisitions as a way to boost debt and reduce tax bills and increase returns on equity. 6. This is not an easy problem to solve, but we think it should have been part of the call for evidence. 7. Fees for advisers on acquisitions are paid when the deal is done. Directors are now becoming subject to clawback with regard to their bonuses. Consideration should be given as to whether advisers on acquisitions should have the same requirement.