


Minority shareholder's money: what consideration for "small holders"?

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defended. Deminor was one of the first companies in the European Union to defend shareholders interest, and develop related codes of best practices. That is why Deminor's activities improve the Corporate Social Responsibility of many companies, in particular by promoting the implementation of decent Corporate Governance structures in a company. The fundamental objective of this for profit organization is to assist minority shareholders and improve the fluidity of the financial markets. Over the past 2 years, workshops have been held to address this issue and strengthen the concept.

The conference started with an introduction of the issue – Minority Shareholders Money by Mr. Flamand. Then, Mr. Pierre Nothomb (President of Deminor) gave a brief overview of Deminor's activities. Deminor is the leading European company focusing on services to both private and institutional investors in Continental-European companies. Their service offering comprises corporate finance, corporate governance & engagement, damage/asset recovery and focused asset management services. The Company is active in Belgium, France, The Netherlands, Italy, Switzerland and Germany. Their wide range of services is aimed at safeguarding clients' investments against certain risks, maximizing value and, where possible, recovering assets when losses occur. Their services cover both listed companies and non-listed (privately-held) companies.

According to Mr. Nothomb, individual shareholders' interests are frequently not

The trend of invoking corporate governance as a pillar in the management of an organization stems back more than 15 years ago. However, back then corporate governance was more talk than action and was rarely reflected in the company's ownership. Prior to the financial crisis, shareholder value was the only criterium used to assess the company's performance.

Today corporate governance is a key component for both managers and investors when analyzing a company. Investors are now actively questioning the source of revenues and stressing the need for transparency. The Financial Crisis has created substantial losses for many shareholders, stressing the importance of sustainable investments. Shareholders are now not only focusing on their bottom line return of their portfolio, but also the corporate social responsibility of the firm. Similar to the organic food movement, investors will soon demand that their

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investments are managed in a socially responsible manner. The rise of hedge funds has increased the volatility in the global markets, making the system riskier for all participants. The destruction of value by the financial crisis was in part due to the speculation of hedge funds that offered asset managers a small premium for lending their shares to banks who in turn would lend it to hedge funds. The hedge funds would in turn short sell the stocks. In short selling, hedge funds sell shares they do not own yet, speculating that they will be able to buy the share later for a lower price. To cover their risks, hedge funds would also purchase call options from banks in order to mitigate the risk of losses. Banks benefit from these transactions as they charge a small premium on them, leading to a symbiosis of hedge funds and banks.

In the last 10 years, the financial landscape has changed considerably. Nowadays, lots more investment funds are available to investors, leading to two classes of private investors: those who manage their portfolio themselves and those who participate in mutual funds. In order to manage their own portfolio, private investors generally rely on publicly available information such as newspapers or company press releases to make their investment decisions. Mr. Nothomb referred to the private investors who base their investment decisions on this publicly available information as being the 5th in line to learn relevant company information. The « fifth in line » refers to four parties receiving and filtering the information prior to obtaining it.

As investors in companies, they are entitled to the same information as professional assets managers; if this principle is not adhered then the information asymmetry will result in a biased game which will cause a general distrust in the markets. The issue now is that the company has to provide information to small shareholders, but are there many weaknesses in the transparency of information? The company information first comes from the analyst to the managers, and finally to the Board of Management who can decide whether to publish the information or not.

Best practices:

- To reinforce related regulations by the authorities (because of the failure of self-regulation).
- To limit lending the shares and leverage of the hedge funds.
- Modification of IFRS to reflect the real value of the company on the Balance Sheet (marked to market value).
- The possibility of small shareholders to call a General Meeting.
- The involvement of lots of small shareholders in the company.
- Companies: under-promise, over-deliver; this will improve the long term relationship.

Questions and Answers:

- *Toxic assets and securitization?*

These assets may have a value, but they are synthetic. This will cause that the intrinsic value of i.e. a securitized credit is not calculated with the knowledge of the

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nature of the debtor and/or the debt itself in mind.

- *What can minority shareholders in not listed companies do?*

Here rises the difficult question how to value a interest of a minority shareholder, especially when there are 'family shareholders' involved (tension is created because the passive shareholder parties do not have control but neither have a diversified portfolio), because it will be the majority shareholder who buy the part of the minority shareholder.

- *What CSR related points will you consider when investing in a company?*

It depends on many factors: objectives, value creation, social issues, environmental issues, sustainable activities of the company.

Quelques questions posées par les participants:

- *What systems or laws and regulation do you foresee being implemented to protect minority shareholders interests?*

Nothomb suggest numerous regulations and suggestions that should be implemented:

1. Shares lending should be banned. Funds lend shares of a company in order to pool them to guarantee the minority shareholders rights. The banker will then lend them to a Hedge Fund that sells short, while putting pressure on the

company. So the fund thinks it helps its shareholder, but it is not.

2 Decrease the leverage level of Hedge Funds. Hedge Funds have a too big power on the market. That causes problems.

3 Rating agencies should more regulated. We should think about a new business model.

4 Oblige banks to hold some of their own securitisation on their balance sheet.

5 IFRS: Good, but on the crisis it had a bad effect.

6 The bonuses policy should be accepted (in principle) by the General Shareholders Meeting.

7 Lower the 10% quorum to call a General Shareholders Meeting to 2%.

8 Be able to add a point to the agenda of the General Shareholders Meeting when you got 1 or 2% of the shares.

9 There should be some centralised and multi-national instance that controls this.

Given that independent directors are appointed to ensure that minority shareholders interests are represented how can you really assesses the « independence » of directors?

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Independent Directors are in theory supposed to be independent. In Belgium approximately one third of the board has to be independent. The independence of directors really depends on the individual rather than the company.