



The Editor
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Sir,

Jean-Louis Beffa and Xavier Ragot make a number of important points (*'The fall of the financial model of capitalism'*, February 22 2008) about the relationship between companies, shareholders and regulators. The key to resolving two of the three crises they highlight - the return of governments to the economic playing field and changes in company ownership - is the same.

Investors who have long term interests and liabilities to satisfy need to be better prepared to counter the incursions of governments and short term investors into public equity markets. It is correct to say that the role of boards in defining solutions that satisfy shareholders' divergent interests needs to be strengthened; but what is also required is for long term investors to be more coherent about their expectations of companies and more emphatic in their communication with boards and management teams.

The principal-agent relationship between the owners of public companies - the shareholders - and the boards that are appointed as stewards of the investors' capital only functions effectively if there is clear communication between the two parties. Short term investors, most notably some hedge funds, have identified this and make their views known to boards, albeit sometimes in ways that neither companies nor responsible investors would necessarily approve of. They also collaborate effectively to add weight to their views. The same cannot generally be said of long term investors.

The current model of investors with interests in the long term health of public companies being typically represented in their relationships with boards by fund managers who operate on, at best, medium term time horizons is flawed. Long term investors need to take their responsibilities as part owners of public companies more seriously. If they do not, they should not be surprised if short term investors take advantage of their ineffectiveness and if governments and regulators thus feel it necessary to assume greater roles in markets.

It is telling that Messrs Beffa and Ragot refer to a potential corporate governance model that '*encourages long-term strategies while satisfying shareholder interests*', implying that there is some natural mutual exclusivity between share owners' interests and long term strategies. Until those of us who have an interest in the long term make our views known more clearly, your contributors and company boards can be forgiven for assuming this to be the case.

Yours,



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