CORPORATE GOVERNANCE: DEFINING THE END GAME

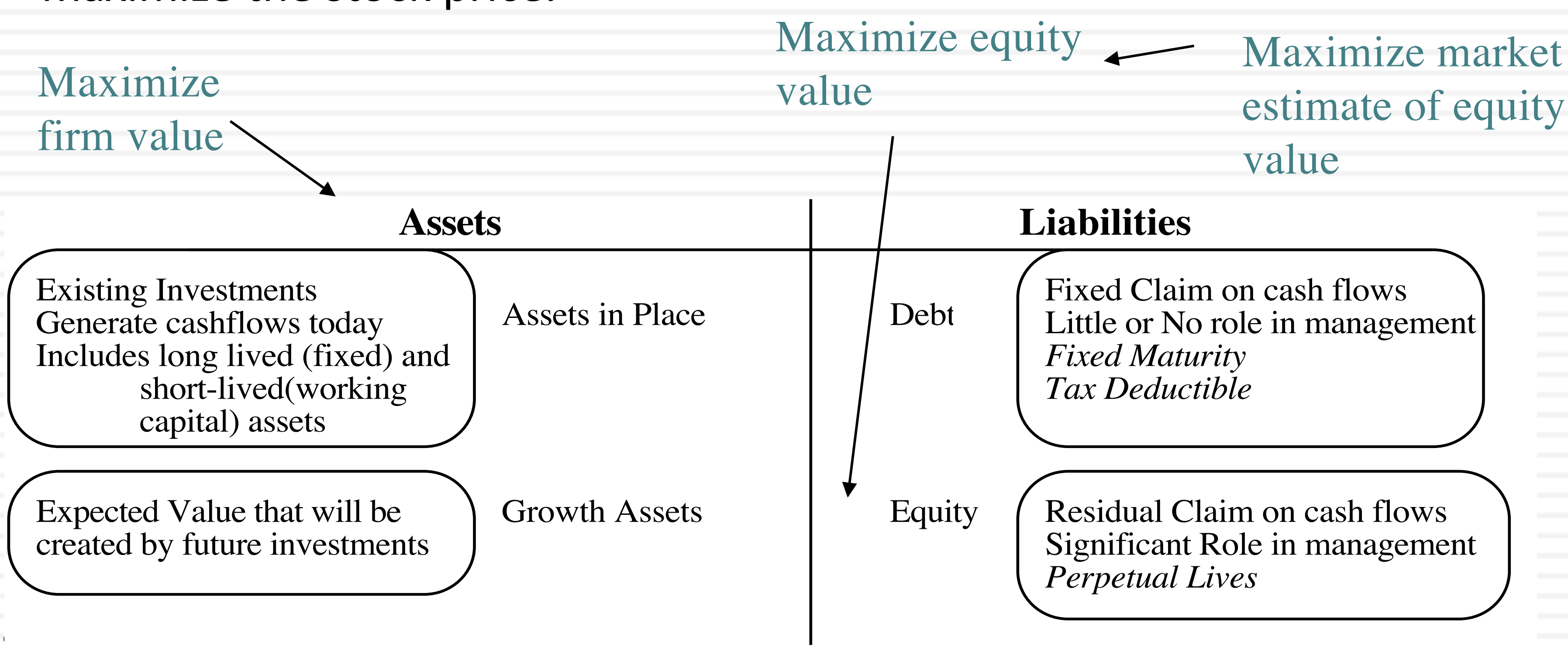
"If I have to choose between you and me - I like me better."

First Principles

- Maximize the value of the business (firm)
  - **The Investment Decision** Invest in assets that earn a return greater than the minimum acceptable hurdle rate
    - The **hurdle rate** should reflect the riskiness of the investment and the mix of debt and equity used to fund it.
    - The **return** should reflect the magnitude and the timing of the cashflows as well as all side effects.
  - **The Financing Decision** Find the right kind of debt for your firm and the right mix of debt and equity to fund your operations
    - The **optimal mix** of debt and equity maximizes firm value
    - The **right kind** of debt matches the tenor of your assets
  - **The Dividend Decision** If you cannot find investments that make your minimum acceptable rate, return the cash to owners of your business
    - **How much cash** you can return depends upon current & potential investment opportunities
    - **How you choose** to return cash to the owners will depend on whether they prefer dividends or buybacks

The Objective in Decision Making

- In traditional corporate finance, the objective in decision making is to maximize the value of the firm.
- A narrower objective is to maximize stockholder wealth. When the stock is traded and markets are viewed to be efficient, the objective is to maximize the stock price.



Maximizing Stock Prices is too "narrow" an objective: A preliminary response

- Maximizing stock price is not incompatible with meeting employee needs/objectives. In particular:
  - Employees are often stockholders in many firms
  - Firms that maximize stock price generally are profitable firms that can afford to treat employees well.
- Maximizing stock price does not mean that customers are not critical to success. In most businesses, keeping customers happy is the route to stock price maximization.
- Maximizing stock price does not imply that a company has to be a social outlaw.

The Classical Objective Function

STOCKHOLDERS

Hire & fire managers
- Board
- Annual Meeting

Maximize stockholder wealth

Lend Money

BONDHOLDERS/ LENDERS ⟷ **Managers** ⟷ SOCIETY

Protect bondholder Interests

No Social Costs

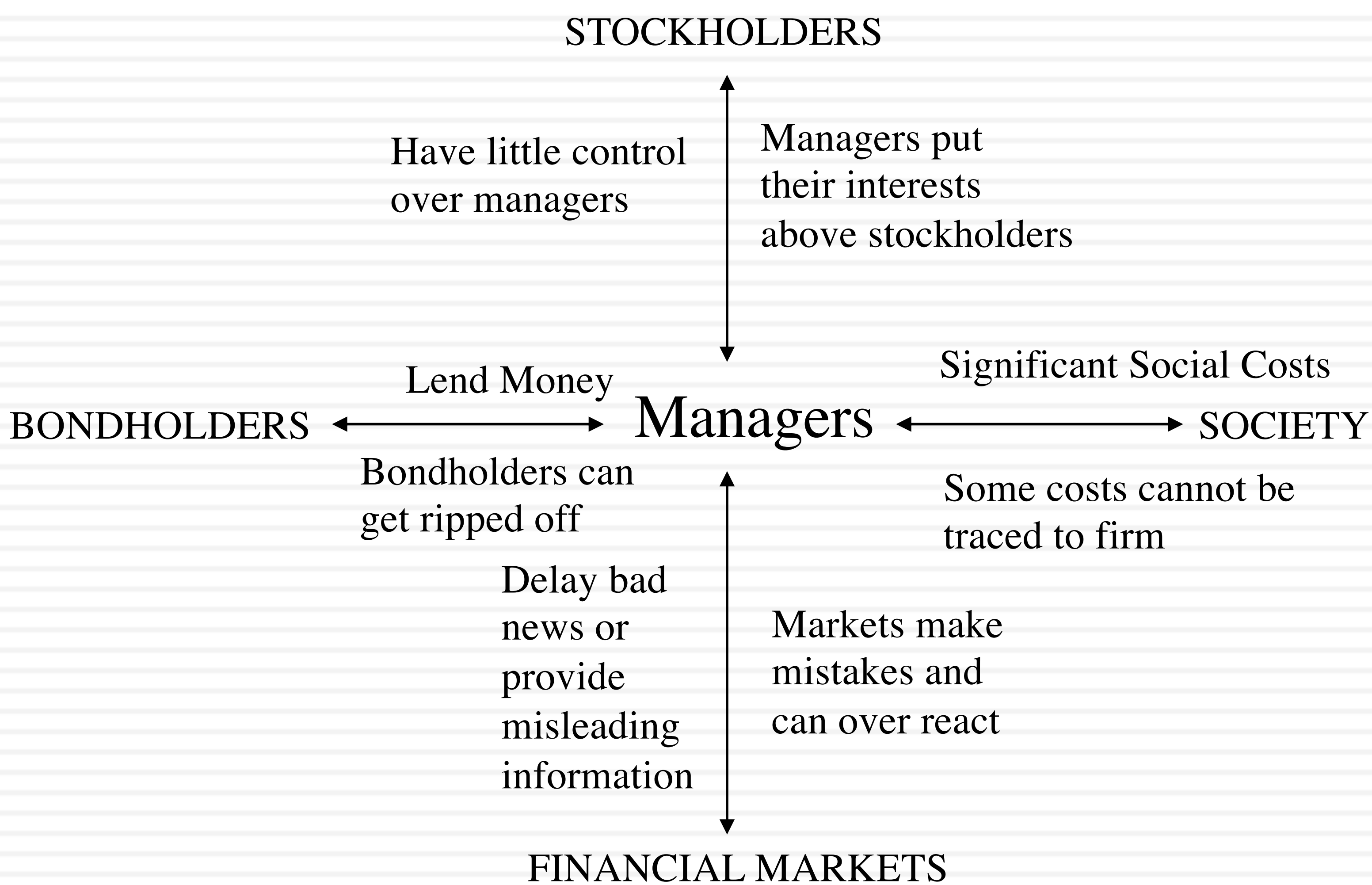
All costs can be traced to firm

Reveal information honestly and on time

Markets are efficient and assess effect on value

FINANCIAL MARKETS

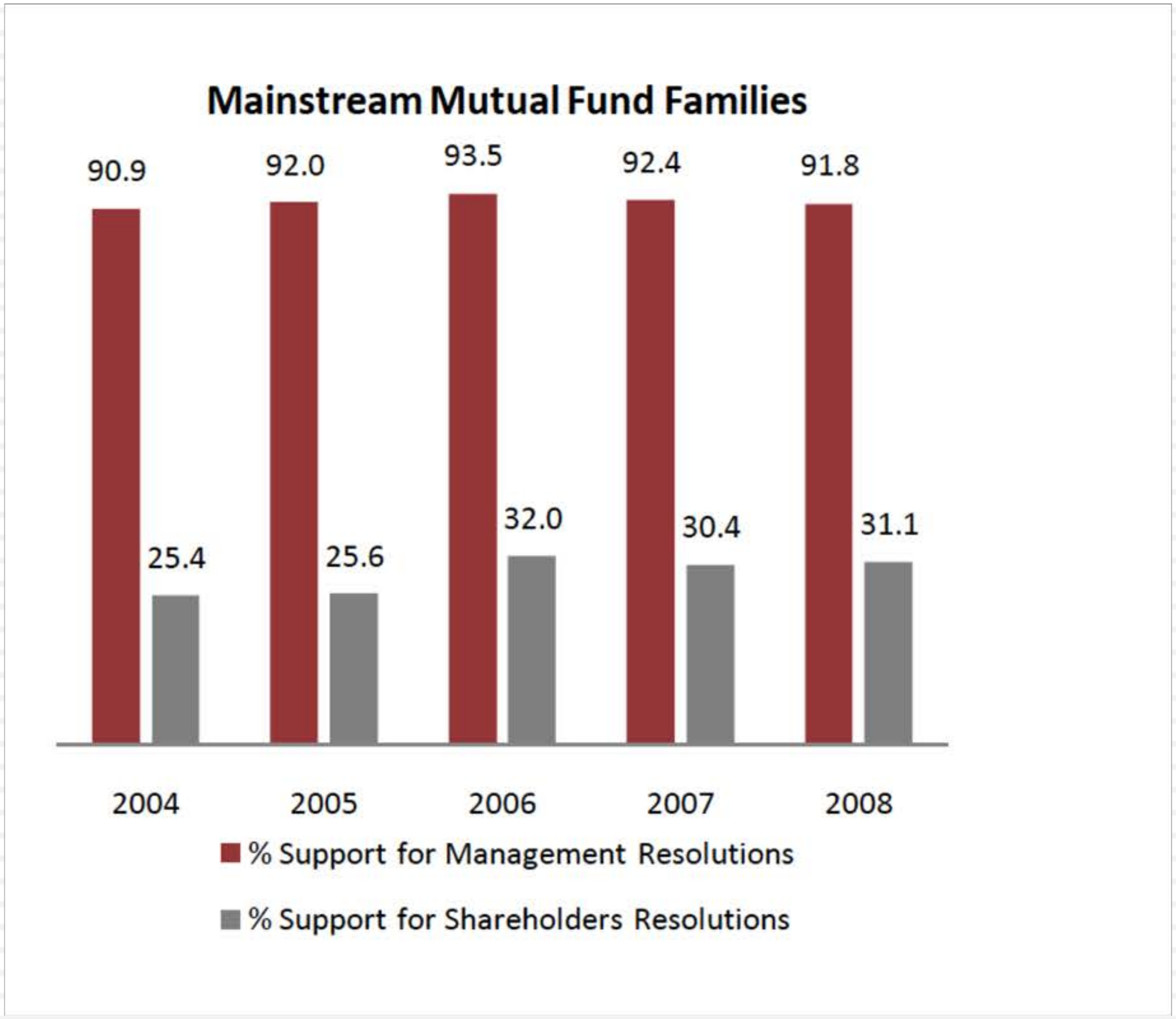
What can go wrong?



The Annual Meeting as a disciplinary venue

- The power of stockholders to act at annual meetings is diluted by three factors
  - Most small stockholders do not go to meetings because the cost of going to the meeting exceeds the value of their holdings.
  - Incumbent management starts off with a clear advantage when it comes to the exercise of proxies. Proxies that are not voted becomes votes for incumbent management.
  - For large stockholders, the path of least resistance, when confronted by managers that they do not like, is to vote with their feet.
- Annual meetings are also tightly scripted and controlled events, making it difficult for outsiders and rebels to bring up issues that are not to the management's liking.

And institutional investors go along with incumbent managers…



Board of Directors as a disciplinary mechanism

- Directors are paid well: In 2010, the median board member at a Fortune 500 company was paid $212,512, with 54% coming in stock and the remaining 46% in cash. If a board member was a non-executive chair, he or she received about $150,000 more in compensation.
- Spend more time on their directorial duties than they used to: A board member worked, on average, about 227.5 hours a year (and that is being generous), or 4.4 hours a week, according to the National Associate of Corporate Directors. Of this, about 24 hours a year are for board meetings. Those numbers are up from what they were a decade ago.
- Even those hours are not very productive: While the time spent on being a director has gone up, a significant portion of that time was spent on making sure that they are legally protected (regulations & lawsuits).
- And they have many loyalties: Many directors serve on three or more boards, and some are full time chief executives of other companies.

The CEO often hand-picks directors..

- CEOs pick directors: A 1992 survey by Korn/Ferry revealed that 74% of companies relied on recommendations from the CEO to come up with new directors and only 16% used an outside search firm. While that number has changed in recent years, CEOs still determine who sits on their boards. While more companies have outsiders involved in picking directors now, CEOs exercise significant influence over the process.
- Directors don’t have big equity stakes: Directors often hold only token stakes in their companies. Most directors in companies today still receive more compensation as directors than they gain from their stockholdings. While share ownership is up among directors today, they usually get these shares from the firm (rather than buy them).
- And some directors are CEOs of other firms: Many directors are themselves CEOs of other firms. Worse still, there are cases where CEOs sit on each other’s boards.

Directors lack the expertise (and the willingness) to ask the necessary tough questions..

- Robert's Rules of Order? In most boards, the CEO continues to be the chair. Not surprisingly, the CEO sets the agenda, chairs the meeting and controls the information provided to directors.
- Be a team player? The search for consensus overwhelms any attempts at confrontation.
- The CEO as authority figure: Studies of social psychology have noted that loyalty is hardwired into human behavior. While this loyalty is an important tool in building up organizations, it can also lead people to suppress internal ethical standards if they conflict with loyalty to an authority figure. In a board meeting, the CEO generally becomes the authority figure.

The worst board ever? The Disney Experience - 1997

Reveta F. Bowers 1,5
Head of School
Center for Early Education

Roy E . Disney 3
Vice Chairman
The Walt Disney Company

Michael D. Eisner 3
Chairman and Chief Executive Officer
The Walt Disney Company

Stanley P. Gold 4,5
President and Chief Executive Officer
Shamrock Holdings, Inc.

Sanford M. Litvack
Senior Executive Vice President
and Chief of Corporate Operations
The Walt Disney Company

Ignacio E. Lozano, Jr. 1,2,4
Editor-in-Chief, LA OPINION

George J. Mitchell 5
Special Counsel
Verner, Liipfert, Bernard, McPherson and Hand

Thomas S. Murphy
Former Chairman
Capital Cities/ABC, Inc.

Richard A. Nunis
Chairman
Walt Disney Attractions

Leo J. O'Donovan, S.J.
President
Georgetown University

Michael S. Ovitz 3
President
The Walt Disney Company

Sidney Poitier 2,4
Chief Executive Officer
Verdon-Cedric Productions

Irwin E. Russell 2,4
Attorney at Law

Robert A.M. Stern
Senior Partner Productions

E. Cardon Walker 1
Former Chairman and Chief Executive Officer
The Walt Disney Company

Raymond L. Watson 1,2,3
Vice Chairman
The Irvine Company

Gary L. Wilson 5
Co-Chairman
Northwest Airlines Corporation

1 Member of Audit Review Committee
2 Member of Compensation Committee
3 Member of Executive Committee
4 Member of Executive Performance Plan Committee
5 Member of Nominating Committee

Application Test: Who's on board?

- Look at the board of directors for your firm.
  - How many of the directors are inside directors (Employees of the firm, ex-managers)?
  - Is there any information on how independent the directors in the firm are from the managers?
- Are there any external measures of the quality of corporate governance of your firm?
  - Yahoo! Finance now reports on a corporate governance score for firms, where it ranks firms against the rest of the market and against their sectors.
- Is there tangible evidence that your board acts independently of management?
  - Check news stories to see if there are actions that the CEO has wanted to take that the board has stopped him or her from taking or at least slowed him or her down.

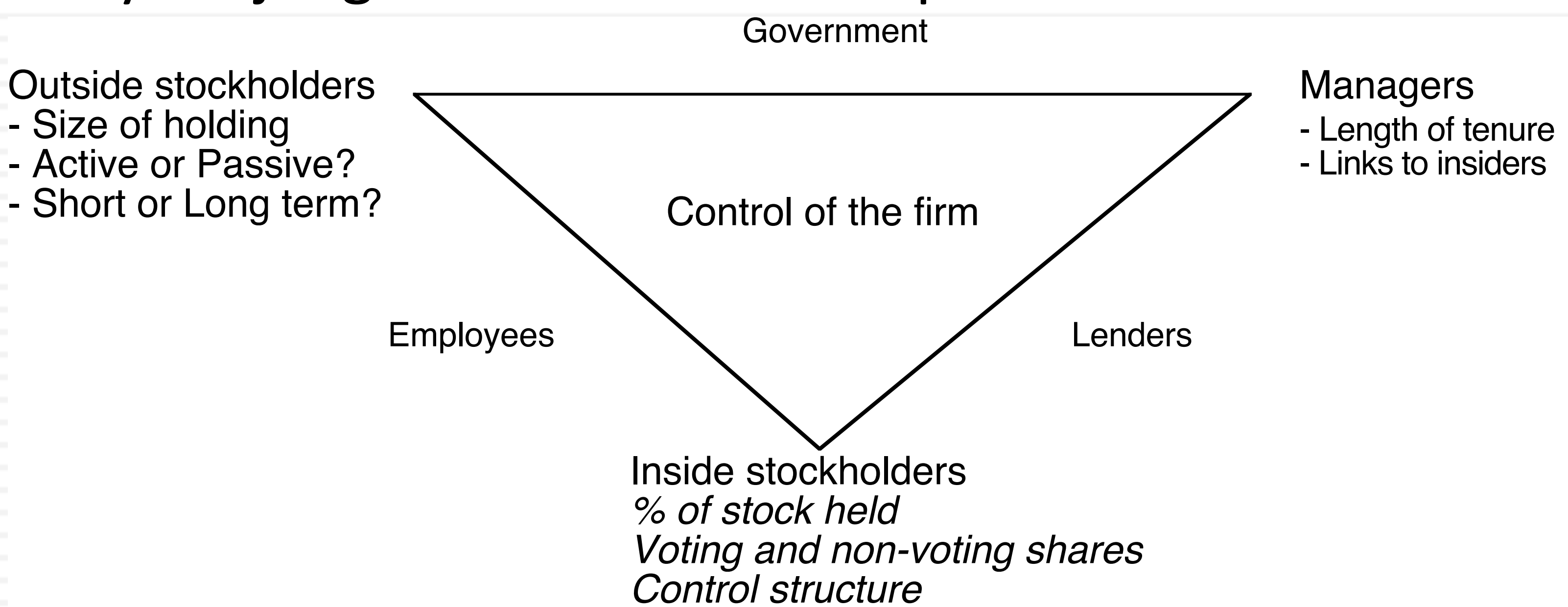
So, what next? When the cat is idle, the mice will play ....

- When managers do not fear stockholders, they will often put their interests over stockholder interests
  - Greenmail: The (managers of) target of a hostile takeover buy out the potential acquirer's existing stake, at a price much greater than the price paid by the raider, in return for the signing of a 'standstill' agreement.
  - Golden Parachutes: Provisions in employment contracts, that allows for the payment of a lump-sum or cash flows over a period, if managers covered by these contracts lose their jobs in a takeover.
  - Poison Pills: A security, the rights or cashflows on which are triggered by an outside event, generally a hostile takeover, is called a poison pill.
  - Shark Repellents: Anti-takeover amendments are also aimed at dissuading hostile takeovers, but differ on one very important count. They require the assent of stockholders to be instituted.
  - Overpaying on takeovers: Acquisitions often are driven by management interests rather than stockholder interests.

No stockholder approval **needed….. Stockholder Approval needed**

Application Test: Who owns/runs your firm?

- Look at the top shareholders in your firm.
  - Who are the top stockholders in your firm?
  - What are the potential conflicts of interests that you see emerging from this stockholding structure?
- Make your judgment on where the power lies.



Source for data: Will vary across markets. 13F is SEC filing for US mutual/pension funds

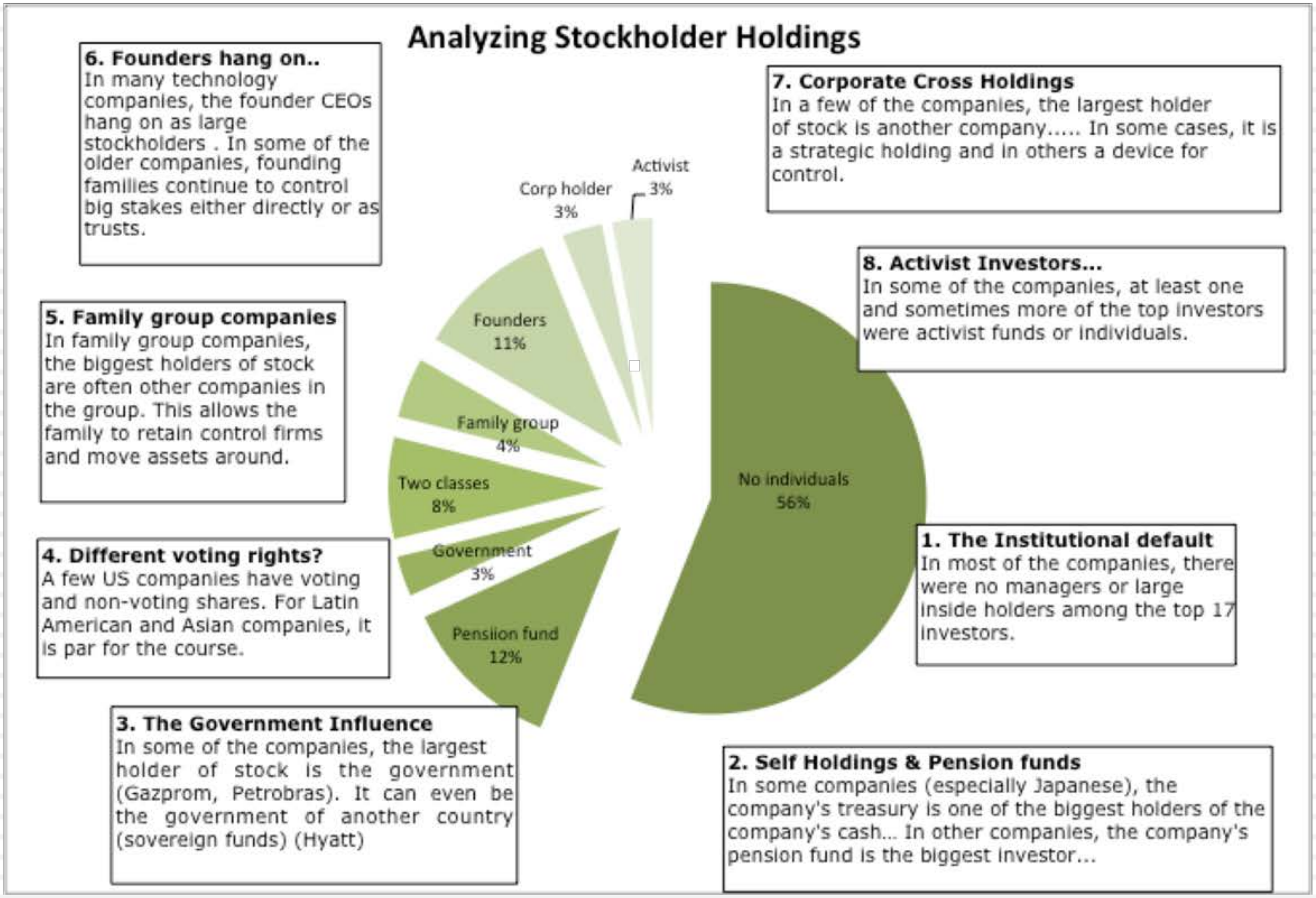
Percent of outstanding shares in company

CLX US $ ↓ 67.69 -.68 N Z67.69/67.70N 2x2 EquityHDS
DELAY 12:46 Vol 477,149 Op 68.02 T Hi 68.15 D Lo 67.69 D ValTrd 32406448
CLX US Equity | 94) Matrix | 95) Searches | 96) Actions | Page 1/59 | Holdings Search
Clorox Co/The CUSIP 18905410
21) Sources | 22) Types | 23) Countries | 24) Metro Areas | 25) Advanced Filters
Name Filter Sort By Amount Held

	Holder Name	Portfolio Name	Source	Amt Held	% Out	Latest Chg	File Dt
1)	STATE STREET CORP	STATE STREET CORP	13F	7,146,776	5.42	-17,404	9/30/11
2)	T ROWE PRICE ASSOCIA	T ROWE PRICE ASSO	13F	5,720,708	4.34	-932,710	9/30/11
3)	ICAHN CAPITAL LP	n/a	13D	5,269,902	4.00	-409,040	12/1/11
4)	VANGUARD GROUP INC	VANGUARD GROUP I	13F	5,245,936	3.98	14,804	9/30/11
5)	BANK OF NEW YORK MEL	BANK OF NEW YORK	13F	3,598,774	2.73	534,429	9/30/11
6)	BLACKROCK INSTITUTI	BLACKROCK INSTITU	13F	3,292,072	2.50	99,924	9/30/11
7)	CEDAR ROCK CAPITAL L	CEDAR ROCK CAPITA	13F	3,039,579	2.30	0	9/30/11
8)	BLACKROCK FUND ADVI	BLACKROCK FUND A	13F	3,037,674	2.30	260,898	9/30/11
9)	YACKTMAN ASSET MANA	YACKTMAN ASSET M	13F	2,838,416	2.15	43,451	9/30/11
10)	AMERICAN CENTURY CO	AMERICAN CENTURY	13F	2,482,939	1.88	547,080	9/30/11
11)	NORTHERN TRUST CORP	NORTHERN TRUST C	13F	1,626,955	1.23	21,579	9/30/11
12)	BANK OF AMERICA COR	BANK OF AMERICA	13F	1,494,001	1.13	-154,787	9/30/11
13)	WELLS FARGO ADVISOR	WELLS FARGO ADVIS	13F	1,492,126	1.13	205,296	9/30/11
14)	ICAHN ASSOCIATES COR	n/a	13D	1,317,476	1.00	-10,721,720	12/1/11
15)	ANCHOR CAPITAL ADVIS	ANCHOR CAPITAL AD	13F	1,043,507	0.79	-375,230	9/30/11
16)	HUSSMAN ECONOMETRIC	HUSSMAN ECONOMET	13F	921,000	0.70	-477,000	9/30/11
17)	PRINCIPAL FINANCIAL	PRINCIPAL FINANCI	13F	860,976	0.65	9,528	9/30/11

26) Latest Chg 27) Hist Held % Out on Page 38.23

Corporate Governance: Assessing where the power lies and potential conflicts of interest



1. Institutional Default

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HPQ US Equity | 25) Settings | 99) Feedback | Holdings: Current

Hewlett-Packard Co — CUSIP 42823610

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- 21) Save 22) Delete 3) Saved Searche 24) Refine Search
Text Search Holder Group All Holders 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
			All Sources	All				
1.	DODGE & COX	DODGE & COX	13F		141,998,035	7.29	2,538,835	09/30/12
2.	STATE STREET	n/a	ULT-AGG		104,721,550	5.38	2,870,834	12/28/12
3.	BLACKROCK	n/a	ULT-AGG		100,546,792	5.16	-4,441,951	12/28/12
4.	VANGUARD GROUP INC	VANGUARD GROUP INC	13F		83,141,560	4.27	1,212,215	09/30/12
5.	CAPITAL RESEARCH	n/a	ULT-AGG		50,315,000	2.58	21,625,000	09/30/12
6.	GRANTHAM MAYO VAN OTTER	GRANTHAM MAYO VAN O	13F		47,567,526	2.44	9,602,200	09/30/12
7.	STATE FARM MUTUAL AUTO I	STATE FARM MUTUAL AU	13F		42,070,800	2.16	0	09/30/12
8.	FRANKLIN RESOURCES	n/a	ULT-AGG		39,696,005	2.04	26,479,660	09/30/12
9.	FMR LLC	n/a	ULT-AGG		37,551,632	1.93	-753,470	09/30/12
10.	ALLIANCEBERNSTEIN LP	ALLIANCEBERNSTEIN LP	13F		36,808,143	1.89	-4,276,525	09/30/12
11.	PZENA INVESTMENT MANAGE	PZENA INVESTMENT MAN	13F		34,873,319	1.79	14,170,597	09/30/12
12.	RELATIONAL INVESTORS LLC	n/a	Research		34,534,517	1.77	0	10/01/12
13.	HOTCHKIS & WILEY CAPITAL	HOTCHKIS AND WILEY	13F		31,144,881	1.60	5,023,811	09/30/12
14.	JP MORGAN	n/a	ULT-AGG		28,618,780	1.47	14,038,781	09/30/12
15.	NORTHERN TRUST CORPORAT	NORTHERN TRUST CORP	13F		26,353,281	1.35	-150,615	09/30/12
16.	BANK OF NEW YORK MELLON	BANK OF NEW YORK MEL	13F		21,567,642	1.11	-415,573	09/30/12
17.	INVESCO LTD	INVESCO LTD	13F		18,473,372	0.95	-2,635,679	09/30/12
18.	NWQ INVESTMENT MANAGEME	NWQ INVESTMENT MANA	13F		17,510,297	0.90	2,309,213	09/30/12

Loading ..... % Out 83.48 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 15:03:04

2. Self Holdings?

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..... At 3:01 d Vol 12,373,324 O 90.85H H 91.55H L 90.55H Val 1.128B

941 HK Equity | 25) Settings | 99) Feedback | Holdings: Current

China Mobile Ltd ISIN HK0941009539

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- | 20) Save | 21) Delete | 3) Saved Searches | 24) Refine Search
Text Search | Holder Group All Holders | 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
			All Sources	All				
1.	CHINA MOBILE HK BVI LTD	n/a	20F		14,885,998,621	74.06	0	03/31/12
2.	VANGUARD GROUP INC	Multiple Portfolios	MF-AGG		262,749,186	1.31	-1,822,221	09/30/12
3.	BLACKROCK	n/a	ULT-AGG		215,614,152	1.07	-1,731,934	12/31/12
4.	ABERDEEN	n/a	ULT-AGG		112,969,308	0.56	3,657,996	11/30/12
5.	ABERDEEN INVESTMENT SERV	Multiple Portfolios	MF-AGG		85,485,171	0.43	8,456,000	11/12/12
6.	HARBOR CAPITAL ADVISORS	Multiple Portfolios	MF-AGG		53,719,500	0.27	0	09/30/12
7.	STATE STREET GLOBAL ADVI	Multiple Portfolios	MF-AGG		50,172,025	0.25	-2,772,371	06/30/12
8.	SCHRODER INVESTMENT MGM	Multiple Portfolios	MF-AGG		49,542,500	0.25	-10,869,500	09/30/12
9.	FMR LLC	n/a	ULT-AGG		48,525,535	0.24	5,018,757	11/30/12
10.	FRANKLIN RESOURCES	n/a	ULT-AGG		42,655,767	0.21	-4,918,141	09/30/12
11.	BANK OF NEW YORK MELLON	Multiple Portfolios	MF-AGG		36,470,447	0.18	-720,500	12/28/12
12.	GRANTHAM MAYO VAN OTTER	Multiple Portfolios	MF-AGG		35,979,737	0.18	0	05/31/12
13.	PICTET ASSET MANAGEMENT	Multiple Portfolios	MF-AGG		30,288,907	0.15	-802,575	09/30/12
14.	WILLIAM BLAIR & COMPANY	WILLIAM BLAIR & COMP	13F		26,734,255	0.13	9,704,000	09/30/12
15.	INVESCO LTD	Multiple Portfolios	MF-AGG		23,786,000	0.12	-868,000	12/31/12
16.	PICTET & CIE	Multiple Portfolios	MF-AGG		20,994,500	0.10	-11,000	09/30/12
17.	SCHRODER KOREA LTD	Multiple Portfolios	MF-AGG		17,363,500	0.09	-1,224,000	06/30/12
18.	ALLIANZ ASSET MANAGEMENT	n/a	ULT-AGG		17,225,200	0.09	1,266,000	11/30/12

% Out 82.74 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P.
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 15:32:32

3. The Government Influence?

GSZ FP € ↑ **15.815** +.24 P15.795 /15.815P 500 x 1098
..... At 11:35 d Vol 4,157,737 O 15.93P H 15.94P L 15.73P Val 65.793M

GSZ FP Equity | 25) Settings | 99) Feedback | Holdings: Current

GDF Suez ISIN FR0010208488

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- 21) Save 22) Delete 3) Saved Searches 24) Refine Search
Text Search Holder Group All Holders 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
			All Sources	All				
1.	FRENCH STATE	n/a	Co File		810,927,246	33.61	0	12/31/11
2.	CAPITAL RESEARCH	n/a	ULT-AGG		221,944,746	9.20	-3,202,572	09/30/12
3.	GROUPE BRUXELLES LAMBER	n/a	Research		116,911,820	4.85	0	03/15/12
4.	CAISSE DES DEPOTS ET CON	n/a	Co File		45,051,514	1.87	0	12/31/11
5.	GDF SUEZ	n/a	Co File		38,293,787	1.59	0	12/31/11
6.	CNP ASSURANCES	n/a	Co File		24,778,333	1.03	0	12/31/11
7.	FRANKLIN RESOURCES	n/a	ULT-AGG		23,548,711	0.98	-1,225,690	09/30/12
8.	NATIXIS ASSET MANAGEMENT	Multiple Portfolios	MF-AGG		21,774,289	0.90	-2,577,580	07/01/12
9.	BLACKROCK	n/a	ULT-AGG		19,134,703	0.79	-2,571,752	12/31/12
10.	AMUNDI	Multiple Portfolios	MF-AGG		19,113,590	0.79	-99,124	08/31/12
11.	VANGUARD GROUP INC	Multiple Portfolios	MF-AGG		15,229,574	0.63	755,382	09/30/12
12.	SOFINA SA	n/a	Co File		13,515,454	0.56	0	12/31/11
13.	THORNBURG INVESTMENT MG	Multiple Portfolios	MF-AGG		12,236,400	0.51	0	10/31/12
14.	PICTET ASSET MANAGEMENT	Multiple Portfolios	MF-AGG		10,300,152	0.43	-353,358	09/30/12
15.	INTERNATIONAL VALUE ADVI	Multiple Portfolios	MF-AGG		9,286,222	0.38	282,671	06/30/12
16.	LBPAM	Multiple Portfolios	MF-AGG		8,677,868	0.36	-116,606	09/28/12
17.	BNP PARIBAS INV PARTNERS	n/a	ULT-AGG		7,171,417	0.30	17,318	09/30/12
18.	AVIVA PLC	Multiple Portfolios	MF-AGG		6,336,957	0.26	146,212	10/31/12

Loading ..... % Out 64.69 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 14:27:29

4. Different voting rights?

FB US $ ↓27.992 +1.372 P27.99/28.00Q 33x72
At 15:15 d Vol 61,816,809 O 27.44K H 28.18D L 27.42Q Val 1.721B

FB US Equity | 25) Settings | 99) Feedback | Holdings: Current

Facebook Inc CUSIP 30303M10

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- | 21) Save | 22) Delete | 23) Saved Searches | 24) Refine Search

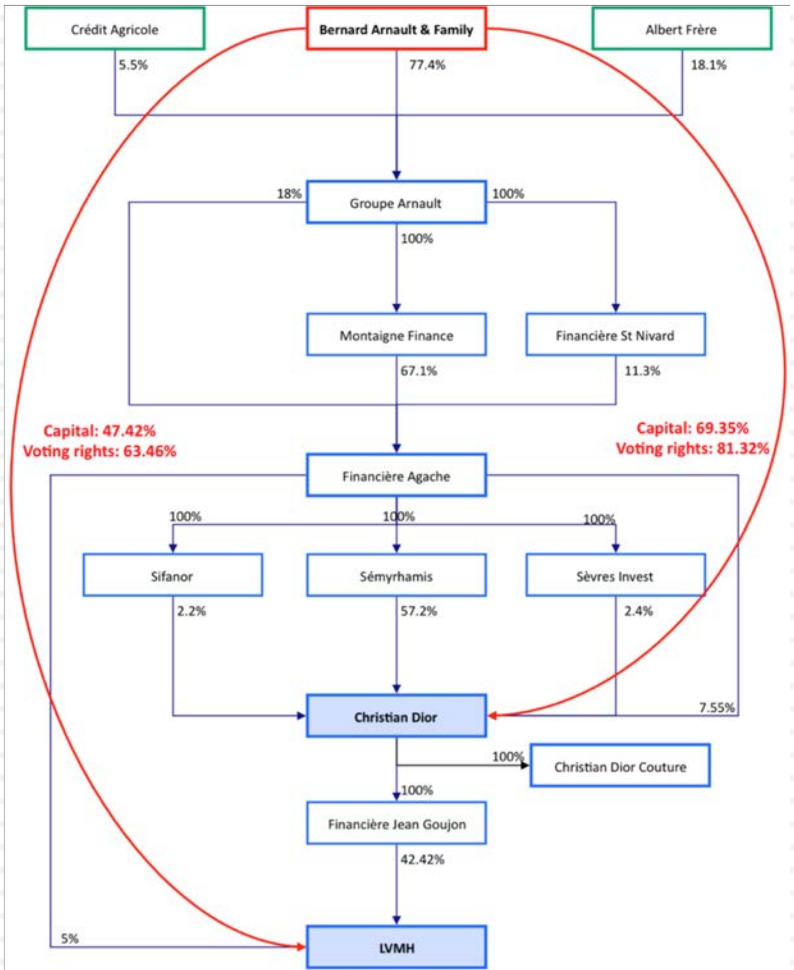
Text Search | Holder Group All Holders | 20) Export

30) Further Details | Please see "Further Details" for information on voting agreements with Mark ...

	Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
			All Sources	All				
1.	FMR LLC	n/a	ULT-AGG		40,140,149	3.65	20,859,734	09/30/12
2.	GOLDMAN SACHS GROUP INC	GOLDMAN SACHS GROUP	13F	Y	38,565,572	3.51	-7,576,773	09/30/12
3.	CAPITAL RESEARCH	n/a	ULT-AGG		23,373,200	2.13	13,949,700	09/30/12
4.	BAILLIE GIFFORD AND COMP	BAILLIE GIFFORD & COM	13F		20,214,256	1.84	833,816	09/30/12
5.	MORGAN STANLEY	n/a	ULT-AGG		19,516,929	1.78	1,610,955	09/30/12
6.	T ROWE PRICE ASSOCIATES	T ROWE PRICE ASSOCIA	13F		19,404,306	1.76	740,309	09/30/12
7.	SANDBERG SHERYL KARA	n/a	Form 4		18,348,293	1.67	-309,807	12/18/12
8.	SANDS CAPITAL MANAGEMEN	SANDS CAPITAL MANAGE	13F		17,111,785	1.56	5,462,493	09/30/12
9.	UBS	n/a	ULT-AGG	Y	16,556,310	1.51	2,296,616	10/31/12
10.	BLACKROCK	n/a	ULT-AGG		16,367,361	1.49	817,916	12/28/12
11.	VANGUARD GROUP INC	VANGUARD GROUP INC	13F		13,900,765	1.26	4,318,285	09/30/12
12.	JENNISON ASSOCIATES LLC	JENNISON ASSOCIATES	13F		12,701,638	1.16	3,009,813	09/30/12
13.	TIGER GLOBAL MANAGEMENT	TIGER GLOBAL MANAGEM	13F		11,749,221	1.07	9,790,773	09/30/12
14.	BREYER JAMES W	n/a	Form 4		11,668,007	1.06	3,247,952	12/14/12
15.	ALLIANZ ASSET MANAGEMENT	n/a	ULT-AGG		10,333,369	0.94	9,936,143	11/30/12
16.	OPPENHEIMERFUNDS INCORP	OPPENHEIMER FUNDS IN	13F		7,761,978	0.71	1,428,518	09/30/12
17.	MACKAY SHIELDS LLC	Multiple Portfolios	MF-AGG		7,041,000	0.64	7,041,000	10/31/12

% Out 45.58 Zoom 100%

5. Family Group Companies



Sources: annual reports, Natixis, Viel Tradition, news. Perfect accuracy is not guaranteed.

MC FP € ↑ **142.15** +3.35 P142.15 / 142.20P 9431 x 8041
..... At 11:36 d Vol 737,152 O 140.80P H 142.85P L 140.30P Val 104.496M

MC FP Equity | 25) Settings | 99) Feedback | Holdings: Current

LVMH Moet Hennessy Louis Vuitt ISIN FR0000121014

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- 1) Save 2) Delete 3) Saved Searches 24) Refine Search
Text Search Holder Group All Holders 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held↑	% Out	Latest Chg	File Dt
			All Sources	All				
1.	GROUPE ARNAULT SAS	n/a	Research		235,886,503	46.44	-147,143	10/01/12
2.	LVMH MOET HENNESSY LOUI	n/a	Co File		9,536,678	1.88	0	12/31/11
3.	QATAR HOLDINGS LLC	n/a	Research		5,230,723	1.03	0	03/15/12
4.	NATIXIS ASSET MANAGEMENT	Multiple Portfolios	MF-AGG		4,338,845	0.85	3,184	06/29/12
5.	CARMIGNAC GESTION	Multiple Portfolios	MF-AGG		4,195,337	0.83	29,593	09/28/12
6.	FMR LLC	n/a	ULT-AGG		4,086,057	0.80	111,124	11/30/12
7.	THORNBURG INVESTMENT MG	Multiple Portfolios	MF-AGG		4,085,056	0.80	0	10/31/12
8.	MASSACHUSETTS FINANCIAL	Multiple Portfolios	MF-AGG		4,059,815	0.80	82,604	10/31/12
9.	VANGUARD GROUP INC	Multiple Portfolios	MF-AGG		3,682,070	0.72	-6,030	09/30/12
10.	BLACKROCK	n/a	ULT-AGG		3,414,452	0.67	-80,882	12/31/12
11.	AMUNDI	Multiple Portfolios	MF-AGG		2,169,800	0.43	895	08/31/12
12.	OPPENHEIMERFUNDS INCORP	Multiple Portfolios	MF-AGG		1,629,910	0.32	2,870	10/31/12
13.	TRAPANI FRANCESCO	n/a	Co File		1,561,592	0.31	0	12/31/11
14.	CAPITAL RESEARCH	n/a	ULT-AGG		1,528,000	0.30	0	09/30/12
15.	DEUTSCHE BANK AG	Multiple Portfolios	MF-AGG		1,395,345	0.27	-35,850	11/30/12
16.	ALLIANZ ASSET MANAGEMENT	n/a	ULT-AGG		1,359,549	0.27	44,132	11/30/12
17.	AVIVA PLC	Multiple Portfolios	MF-AGG		1,356,226	0.27	0	10/31/12
18.	BNP PARIBAS INV PARTNERS	n/a	ULT-AGG		1,202,125	0.24	-129	09/30/12

Loading ..... % Out 62.32 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P.
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 14:29:01

6. Founders hang on…

LVS US $ ↓48.64 +2.48 T48.64/48.65T 6x27
At 14:35 d Vol 12,561,899 O 48.08P H 50.14D L 47.99T Val 618.969M

LVS US Equity | 25) Settings | 99) Feedback | Holdings: Current

Las Vegas Sands Corp — CUSIP 51783410

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- | 21) Save | 22) Delete | 3) Saved Searches | 24) Refine Search
Text Search | Holder Group All Holders | 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
			All Sources	All				
1.	ADELSON SHELDON GARY	n/a	Form 4		424,018,564	51.49	0	03/08/12
2.	CAPITAL RESEARCH	n/a	ULT-AGG		30,128,776	3.66	12,498,776	09/30/12
3.	T ROWE PRICE ASSOCIATES	T ROWE PRICE ASSOCIA	13F		26,855,384	3.26	2,417,810	09/30/12
4.	SANDS CAPITAL MANAGEMEN	SANDS CAPITAL MANAGE	13F		16,634,796	2.02	3,327,080	09/30/12
5.	BLACKROCK	n/a	ULT-AGG		16,355,298	1.99	-728,908	09/30/12
6.	CARMIGNAC GESTION	Multiple Portfolios	MF-AGG		13,652,699	1.66	991,984	09/28/12
7.	ADFAM INVESTMENT CO LLC	n/a	13D		12,566,710	1.53	0	03/02/12
8.	VANGUARD GROUP INC	VANGUARD GROUP INC	13F		11,843,050	1.44	-181,801	09/30/12
9.	UBS	n/a	ULT-AGG	Y	10,628,990	1.29	326,915	10/31/12
10.	FMR LLC	n/a	ULT-AGG		9,929,844	1.21	-5,710,109	09/30/12
11.	AMERIPRISE FINANCIAL INC	AMERIPRISE FINANCIAL	13F		9,531,643	1.16	653,328	09/30/12
12.	WINSLOW CAPITAL MANAGEM	WINSLOW CAPITAL MANA	13F		7,658,345	0.93	-4,925,880	09/30/12
13.	STATE STREET	n/a	ULT-AGG		6,069,547	0.74	148,210	12/28/12
14.	TIAA CREF INVESTMENT MAN	TIAA-CREF INVESTMENT	13F		4,987,313	0.61	2,214,911	09/30/12
15.	WADDELL & REED FINANCIAL	WADDELL & REED FINAN	13F		4,801,367	0.58	756,089	09/30/12
16.	OZ MANAGEMENT LP	OZ MANAGEMENT	13F	Y	4,458,983	0.54	4,458,983	09/30/12
17.	MACKAY SHIELDS LLC	Multiple Portfolios	MF-AGG		4,409,801	0.54	-23,000	10/31/12
18.	BANK OF NEW YORK MELLON	BANK OF NEW YORK MEL	13F		4,340,186	0.53	722,166	09/30/12

% Out 93.82 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P.
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 14:50:47

7. Corporate Cross Holdings

23

CO FP € ↑ **74.42** +2.32 P74.38 /74.42P 4293 x 560
..... At 11:35 d Vol 177,067 O 72.87P H 74.42P L 72.71P Val 13.088M

CO FP Equity | 25) Settings | 99) Feedback | Holdings: Current

Casino Guichard Perrachon SA — ISIN FR0000125585

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Search Name -- | 21) Save | 22) Delete | 3) Saved Searche | 24) Refine Search

Text Search | Holder Group: All Holders | 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
			All Sources	All				
1.	RALLYE SA	n/a	Co File		22,970,255	20.39	0	02/29/12
2.	ALPETROL	n/a	Co File		12,381,366	10.99	0	02/29/12
3.	COBIVIA SAS	n/a	Co File		9,382,840	8.33	0	02/29/12
4.	MATIGNON SABLONS	n/a	Co File		5,919,598	5.25	0	02/29/12
5.	L'HABITATION MODERNE BO	n/a	Co File		4,580,773	4.07	0	02/29/12
6.	GALERIES LAFAYETTE	n/a	Co File		2,049,747	1.82	0	02/29/12
7.	CNP ASSURANCES	n/a	Co File		1,866,582	1.66	0	02/29/12
8.	DNCA FINANCE	Multiple Portfolios	MF-AGG		1,118,908	0.99	-5,000	08/31/12
9.	ABERDEEN	n/a	ULT-AGG		1,039,700	0.92	9,700	11/30/12
10.	LBPAM	Multiple Portfolios	MF-AGG		647,627	0.57	61,789	09/28/12
11.	VANGUARD GROUP INC	Multiple Portfolios	MF-AGG		617,604	0.55	23,340	09/30/12
12.	BLACKROCK	n/a	ULT-AGG		426,027	0.38	-246	12/31/12
13.	NATIXIS ASSET MANAGEMENT	Multiple Portfolios	MF-AGG		378,115	0.34	-4,550	06/29/12
14.	BNP ASSET MANAGEMENT PA	Multiple Portfolios	MF-AGG		328,979	0.29	6,204	08/31/12
15.	BNP PARIBAS INV PARTNERS	n/a	ULT-AGG		324,428	0.29	3,142	09/30/12
16.	ABERDEEN INVESTMENT SERV	Multiple Portfolios	MF-AGG		242,600	0.22	-3,900	11/12/12
17.	UNION INVESTMENT LUXEMBO	Multiple Portfolios	MF-AGG		231,158	0.21	-1,958	09/28/12
18.	ROYAL BANK OF CANADA	n/a	ULT-AGG		224,862	0.20	-334	10/31/12

Loading ..... % Out 61.75 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P.
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 14:48:37

8. Activist investors

BN FP € ↑ 50.65 +.745 P50.55 /50.65P 402 x 8130
..... At 11:35 d Vol 1,673,754 O 50.19P H 50.66P L 50.14P Val 84.454M

BN FP Equity | 25) Settings | 99) Feedback | Holdings: Current

Danone SA — ISIN FR0000120644

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

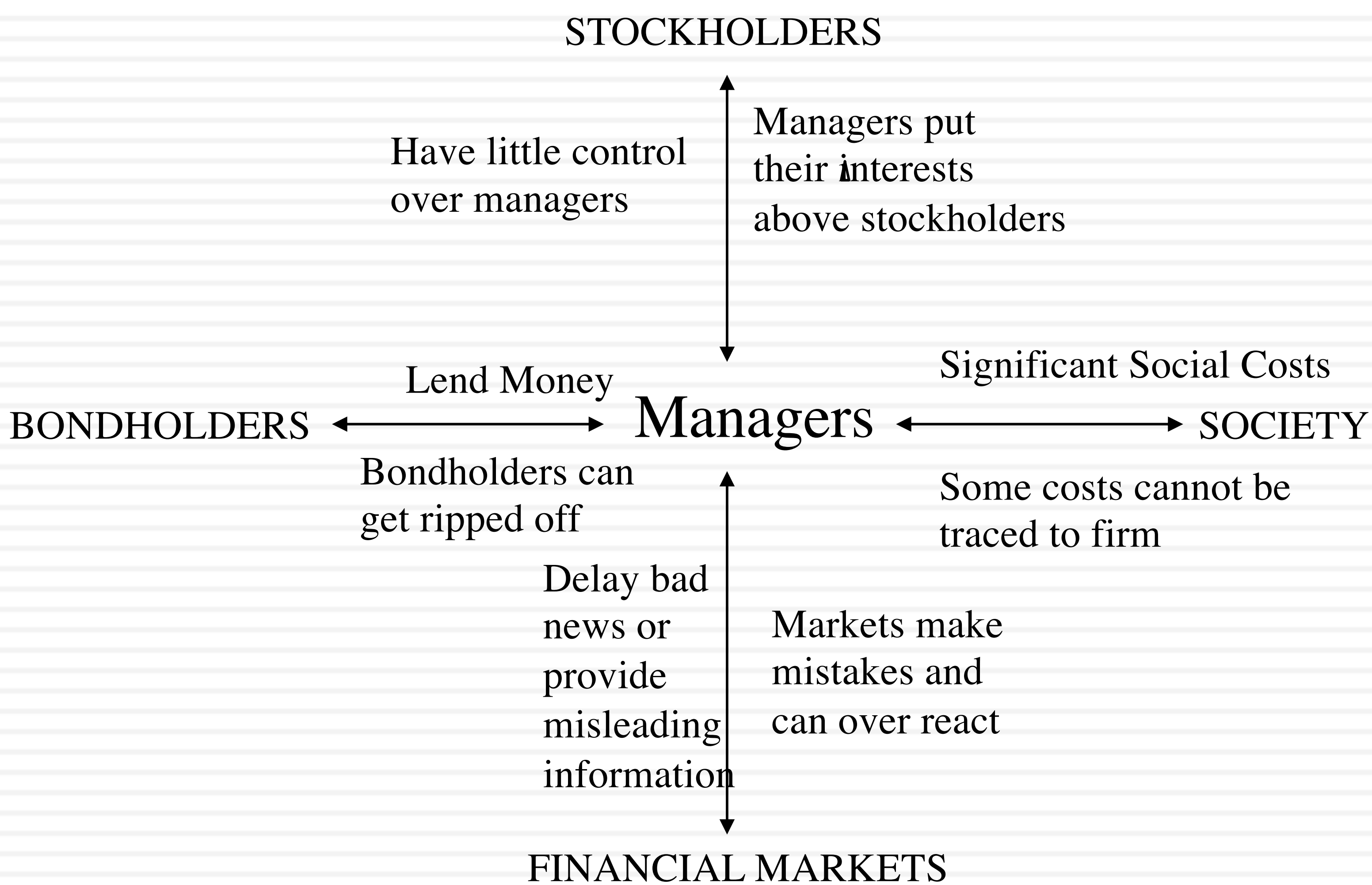
Search Name -- | 21) Save | 22) Delete | 3) Saved Searches | 24) Refine Search
Text Search | Holder Group All Holders | 20) Export

	Holder Name	Portfolio Name	Source	Opt	Amt Held↑	% Out	Latest Chg	File Dt
			All Sources	All				
1.	MASSACHUSETTS FINANCIAL	n/a	Research		39,168,842	6.09	0	08/08/12
2.	GROUPE DANONE	n/a	Co File		35,825,460	5.57	0	12/31/11
3.	AMUNDI SA	n/a	Research		28,864,287	4.49	-3,844,941	05/15/12
4.	LEGENDRE HOLDING 22	n/a	Research		17,581,174	2.73	0	07/13/10
5.	EURAZEO	n/a	Co File		16,433,370	2.56	0	12/31/11
6.	SOFINA & HENEX GROUP	n/a	Co File		13,584,541	2.11	0	12/31/11
7.	NATIXIS ASSET MANAGEMENT	Multiple Portfolios	MF-AGG		11,780,226	1.83	-419,410	06/29/12
8.	CAISSE DES DEPOTS ET CON	n/a	Co File		11,688,114	1.82	0	12/31/11
9.	HARBOR CAPITAL ADVISORS	Multiple Portfolios	MF-AGG		10,057,189	1.56	114,061	09/30/12
10.	FCPE FONDS GROUPE DANON	n/a	Co File		8,804,680	1.37	0	12/31/11
11.	FMR LLC	n/a	ULT-AGG		8,599,802	1.34	12,006	11/30/12
12.	CAPITAL RESEARCH	n/a	ULT-AGG		8,438,890	1.31	-6,556,386	09/30/12
13.	VANGUARD GROUP INC	Multiple Portfolios	MF-AGG		8,190,890	1.27	-393,500	09/30/12
14.	BLACKROCK	n/a	ULT-AGG		6,647,668	1.03	9,868	12/31/12
15.	TRIAN FUND MANAGEMENT L	n/a	Research		6,431,620	1.00	0	11/07/12
16.	ALLIANZ ASSET MANAGEMENT	n/a	ULT-AGG		5,713,463	0.89	225,306	11/30/12
17.	AMUNDI	Multiple Portfolios	MF-AGG		4,267,652	0.66	-319,931	09/28/12
18.	MACKENZIE FINANCIAL CORP	Multiple Portfolios	MF-AGG		3,830,016	0.60	-26,950	09/30/12

Loading ..... % Out 49.73 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
SN 636136 EST GMT-5:00 G531-2652-0 02-Jan-2013 15:23:15

So this is what can go wrong...



Traditional corporate financial theory breaks down when ...

- Managerial self-interest: The interests/objectives of the decision makers in the firm conflict with the interests of stockholders.
- Unprotected debt holders: Bondholders (Lenders) are not protected against expropriation by stockholders.
- Inefficient markets: Financial markets do not operate efficiently, and stock prices do not reflect the underlying value of the firm.
- Large social side costs: Significant social costs can be created as a by-product of stock price maximization.

When traditional corporate financial theory breaks down, the solution is:

- A non-stockholder based governance system: To choose a different mechanism for corporate governance, i.e, assign the responsibility for monitoring managers to someone other than stockholders.
- A better objective than maximizing stock prices? To choose a different objective for the firm.
- Maximize stock prices but minimize side costs: To maximize stock price, but reduce the potential for conflict and breakdown:
  - Making managers (decision makers) and employees into stockholders
  - Protect lenders from expropriation
  - By providing information honestly and promptly to financial markets
  - Minimize social costs

I. An Alternative Corporate Governance System

- Germany and Japan developed a different mechanism for corporate governance, based upon corporate cross holdings.
  - In Germany, the banks form the core of this system.
  - In Japan, it is the keiretsus
  - Other Asian countries have modeled their system after Japan, with family companies forming the core of the new corporate families
- At their best, the most efficient firms in the group work at bringing the less efficient firms up to par. They provide a corporate welfare system that makes for a more stable corporate structure
- At their worst, the least efficient and poorly run firms in the group pull down the most efficient and best run firms down. The nature of the cross holdings makes its very difficult for outsiders (including investors in these firms) to figure out how well or badly the group is doing.

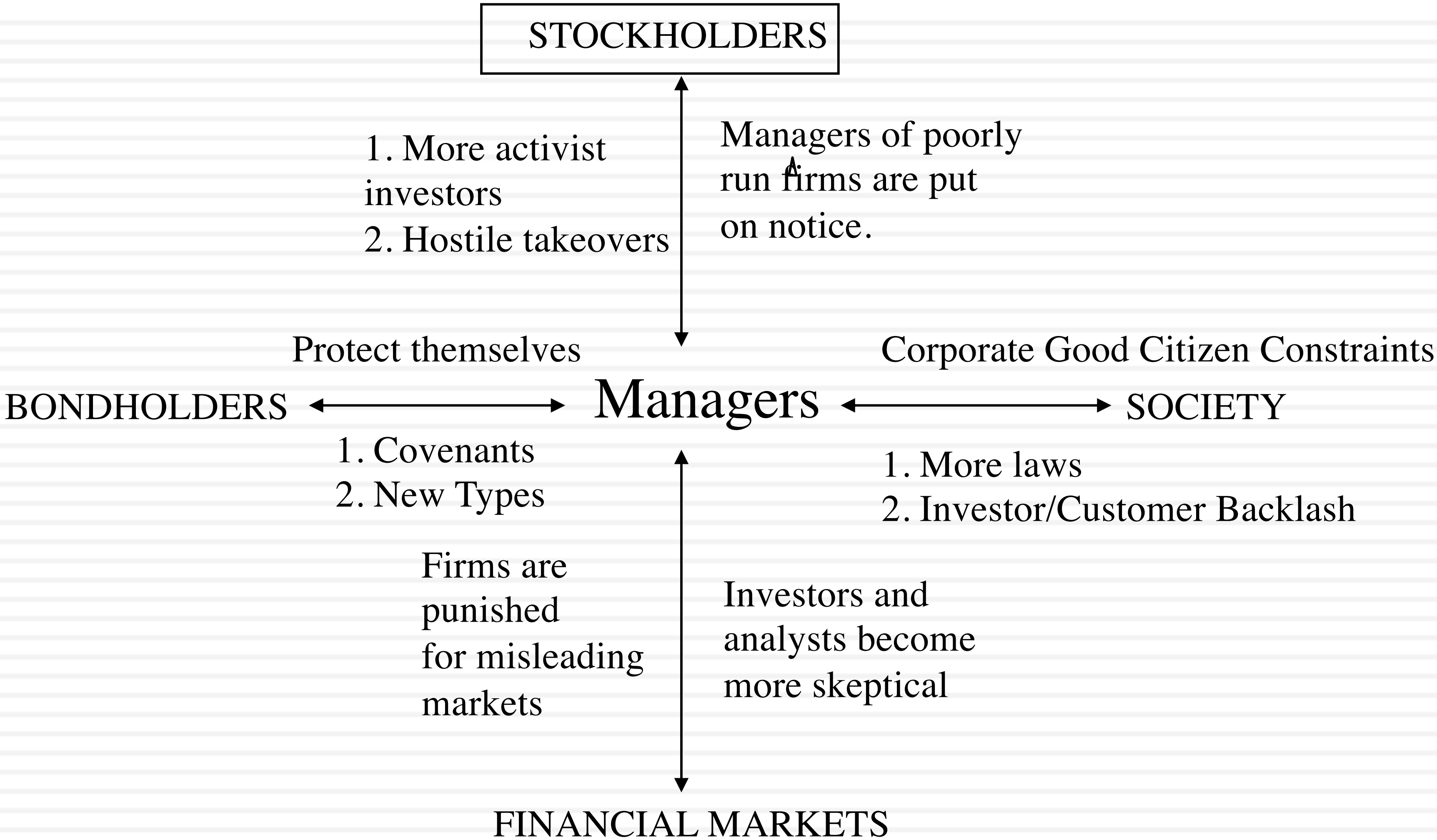
II. Choose a Different Objective Function

- Firms can always focus on a different objective function. Examples would include
  - maximizing earnings
  - maximizing revenues
  - maximizing firm size
  - maximizing market share
  - maximizing EVA
- The key thing to remember is that these are intermediate objective functions.
  - To the degree that they are correlated with the long term health and value of the company, they work well.
  - To the degree that they do not, the firm can end up with a disaster

III. Maximize Stock Price, subject to ..

- The strength of the stock price maximization objective function is its internal self correction mechanism. Excesses on any of the linkages lead, if unregulated, to counter actions which reduce or eliminate these excesses
- In the context of our discussion,
  - managers taking advantage of stockholders has led to a much more active market for corporate control.
  - stockholders taking advantage of bondholders has led to bondholders protecting themselves at the time of the issue.
  - firms revealing incorrect or delayed information to markets has led to markets becoming more "skeptical" and "punitive"
  - firms creating social costs has led to more regulations, as well as investor and customer backlashes.

The Counter Reaction



Eisner's exit… and a new age dawns? Disney's board in 2008

Board Members	*Occupation*
John E. Pepper, Jr. (Chairman)	Retired Chairman and CEO, Procter & Gamble Co.
Susan E. Arnold	President, Global Business Units, Procter & Gamble Co.
John E. Bryson	Retired Chairman and CEO, Edison International
John S. Chen	Chairman,, CEO & President, Sybase, Inc.
Judith L. Estrin	CEO, JLabs, LLC.
Robert A. Iger	CEO, Disney
Steven P. Jobs	CEO, Apple
Fred Langhammer	Chairman, Global Affairs, The Estee Lauder Companies
Aylwin B. Lewis	President and CEO, Potbelly Sandwich Works
Monica Lozano	Publisher and CEO, La Opinion
Robert W. Matschullat	Retired Vice Chairman and CFO, The Seagram Co.
Orin C. Smith	Retired President and CEO, Starbucks Corporation

Disney: Eisner's rise & fall from grace

- In his early years at Disney, Michael Eisner brought about long-delayed changes in the company and put it on the path to being an entertainment giant that it is today. His success allowed him to consolidate power and the boards that he created were increasingly captive ones (see the 1997 board).
- In 1996, Eisner spearheaded the push to buy ABC and the board rubberstamped his decision, as they had with other major decisions. In the years following, the company ran into problems both on its ABC acquisition and on its other operations and stockholders started to get restive, especially as the stock price halved between 1998 and 2002.
- In 2003, Roy Disney and Stanley Gold resigned from the Disney board, arguing against Eisner's autocratic style.
- In early 2004, Comcast made a hostile bid for Disney and later in the year, 43% of Disney shareholders withheld their votes for Eisner's reelection to the board of directors. Following that vote, the board of directors at Disney voted unanimously to elect George Mitchell as the Chair of the board, replacing Eisner, who vowed to stay on as CEO.

But as a CEO's tenure lengthens, does corporate governance suffer?

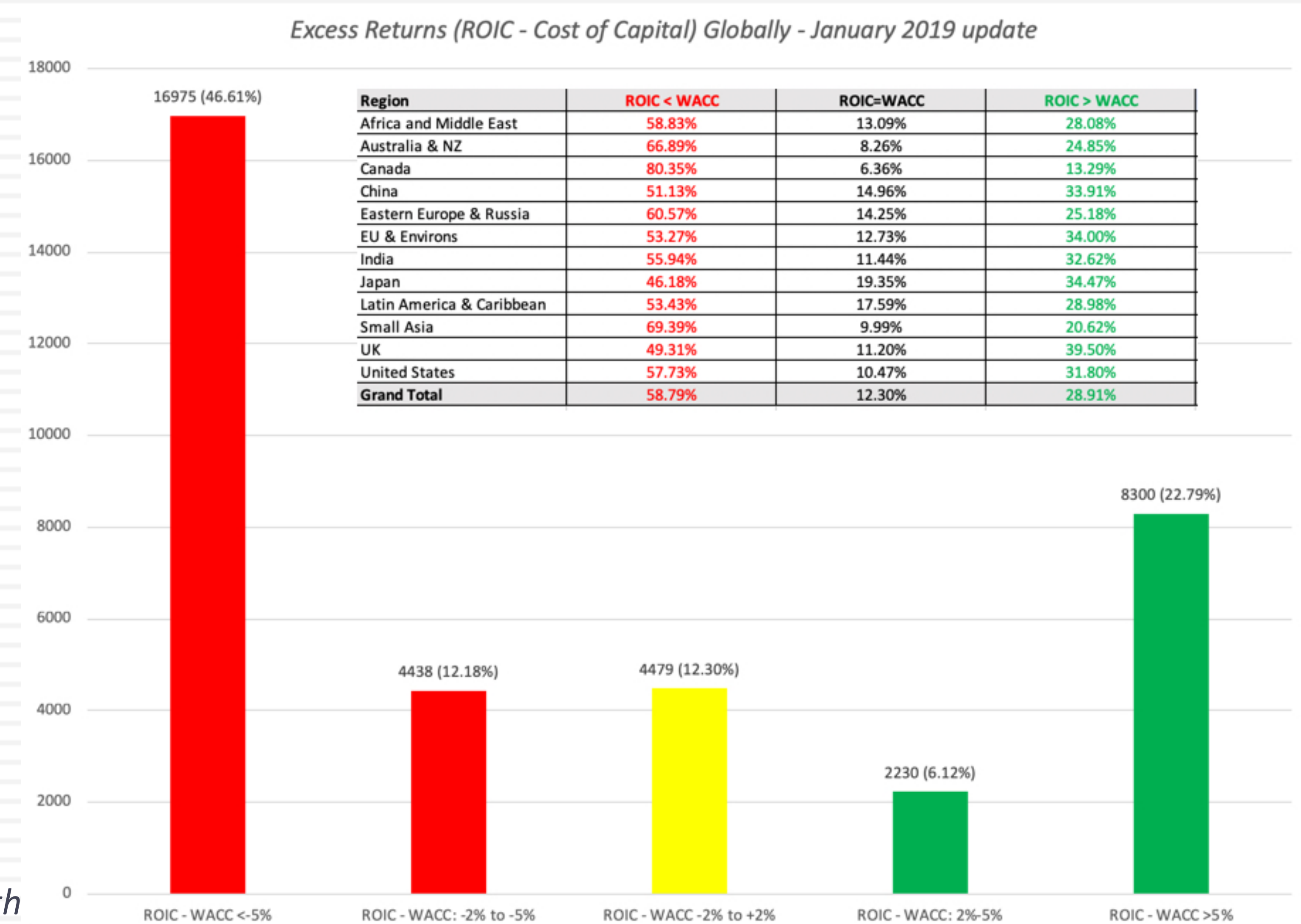
1. In 2011, Iger announced his intent to step down as CEO in 2015 to allow a successor to be groomed.
2. The board voted reinstate Iger as chair of the board in 2011, reversing a decision made to separate the CEO and Chair positions after the Eisner years.
3. There were signs of restiveness among Disney's stockholders, especially those interested in corporate governance. Activist investors (CalSTRS) starting making noise and Institutional Shareholder Services (ISS), which gauges corporate governance at companies, raised red flags about compensation and board monitoring at Disney.

Iger’s non-exit and the Domino effect

1. In 2015 but Disney’s board convinced Iger to stay on as CEO for an extra year, for the “the good of the company”.
2. In 2016, Thomas Staggs who was considered heir apparent to Iger left Disney. Others who were considered potential CEOs also left.
3. In 2017, Disney acquired Fox and announced that Iger’s term would be extended to 2019 (and perhaps beyond) because his stewardship was essential for the merger to work.

- Now, what?

Do we need good corporate governance? Managers do a good job, don't they?



Region	ROIC < WACC	ROIC=WACC	ROIC > WACC
Africa and Middle East	58.83%	13.09%	28.08%
Australia & NZ	66.89%	8.26%	24.85%
Canada	80.35%	6.36%	13.29%
China	51.13%	14.96%	33.91%
Eastern Europe & Russia	60.57%	14.25%	25.18%
EU & Environs	53.27%	12.73%	34.00%
India	55.94%	11.44%	32.62%
Japan	46.18%	19.35%	34.47%
Latin America & Caribbean	53.43%	17.59%	28.98%
Small Asia	69.39%	9.99%	20.62%
UK	49.31%	11.20%	39.50%
United States	57.73%	10.47%	31.80%
Grand Total	58.79%	12.30%	28.91%

Is there a payoff to better corporate governance?

- In the most comprehensive study of the effect of corporate governance on value, a governance index was created for each of 1500 firms based upon 24 distinct corporate governance provisions.
  - Buying stocks that had the strongest investor protections while simultaneously selling shares with the weakest protections generated an annual excess return of 8.5%.
  - Every one point increase in the index towards fewer investor protections decreased market value by 8.9% in 1999
  - Firms that scored high in investor protections also had higher profits, higher sales growth and made fewer acquisitions.
- The link between the composition of the board of directors and firm value is weak. Smaller boards do tend to be more effective.
- On a purely anecdotal basis, a common theme at problem companies and is an ineffective board that fails to ask tough questions of an imperial CEO.

Should we legislate it?

- Every corporate scandal creates impetus for a legislative response. The scandals at Enron and WorldCom laid the groundwork for Sarbanes-Oxley.
- You cannot legislate good corporate governance.
  - The costs of meeting legal requirements often exceed the benefits
  - Laws always have unintended consequences
  - In general, laws tend to be blunderbusses that penalize good companies more than they punish the bad companies.