



Taking Responsibility for your Actions...

So you've invested money with a company and you think it's perfectly safe. That's wrong! Rating agencies just put an A-rating on a company and you jump to invest in its stock for the long haul. That's also wrong! You have invested your hard-earned capital into a company in which you have full faith and two years later the company goes belly-up. Who do you blame? Professional advisors? Managers or maybe your next door neighbor? I guess maybe you are thinking managers. That's a fair guess but guess what? Yes, that's wrong. As a shareholder, you have a vested interest in a company; as such it is your responsibility to look after your investment. Immense blame has been passed for the current global financial crisis but how many shareholders have actually considered that their actions or lack thereof is a major contributing factor towards the current state of firms throughout the world?

But why shareholders? Why should they bear the weight of what happens to a company? Why not the managers? Simply put, shareholders are the owners of a company. Whether they are preferred shareholders or common stockholders, these are the people responsible for providing the capital for the firm. Common shareholders, however, have the voting rights in the company while preferred shareholders receive a fixed dividend but do not always have the privilege of voting at annual or specially requested meetings. Common shareholders reap the benefits and suffer the consequences of highly successful or loss-making companies respectively. They are last in line to receive profit distributions and stand the risk of not receiving dividends in times of losses. With voting privileges and the risk of not earning a return on their investment, these shareholders have a key positioning in any institution. They are ideally positioned to drive the success or failure of the company, and success increases the probability of earning a return in the form of dividends. Hence, shareholders are to a large extent responsible for the health and longevity of an organization.

In an attempt to effectively manage the company, shareholders vote for a Board of Directors to whom they assign the responsibility of running the company's operations. The Board in turn hires the respective personnel to manage each department. This brings us to the typical organization chart in which delegation occurs but ultimately, responsibility remains at the higher levels in the organization. Having said this, the responsibility usually remains with the Board of Directors to oversee the overall running of the company. They then report to shareholders on important changes in the organization. Within recent times, there has been a disconnect as shareholders have not been holding boards accountable and answerable about the financial health of the firm.

The composition of the board can be a positive or negative factor for a firm. When majority shareholders are members of the board, management and shareholders' interests are somewhat synonymous. However, where the Board does not comprise of shareholders with majority ownership, the Principal-Agent problem exists. This occurs when the agent

(directors or managers) does not act in the best interest of the principal (shareholders). For a more practical example, look at the occurrences at firms such as Bear Stearns, Lehman Brothers and hundreds of firms across the world that invested in instruments linked to subprime mortgages or even worse, those financial institutions that granted such loans in the first place! The agent (managers etc.) in an attempt to meet/exceed profit expectations took on excessive risk by investing in subprime or subprime-linked securities. The principal (shareholders) on the other hand, wants managers to meet/exceed profit expectations without jeopardizing the continuity or long-run sustainability of the firm. When people work towards different goals, harmonious outcomes are less likely. If shareholders had more of an interest in the risk profile of these respective firms, maybe we could have avoided some of the carnage on Wall Street and the negative multiplier effects on the global economy.

So what measures can shareholders take to be more effective/active owners of a company? There are a few solutions and these range from addressing the Principal-Agent problem more adequately to recognizing and increasing awareness of the corporate legislation. The Principal-Agent problem comes from the Agency theory which is one of the several theories in corporate governance. Theoretically, shareholders can reduce the principal-agent conflict of interest by having performance-related pay. This has been introduced in firms across the globe but its effectiveness is still somewhat questionable as executive personnel in firms are rewarded by performance related pay but choose to ignore the risk involved in the methods chosen to earn superior returns. This is evidenced by the number of firms suffering from investments in subprime instruments. Some solutions to the principal-agent conflict also include a closer 'monitoring' of the risk parameters of the firm. Another solution to the principal-agent problem would be a move to a better, more reliable, more collective form of governance such as that mentioned in the Stewardship Theory. The Stewardship Theory focuses on the motivation of executive staff and the need for working towards the collective goals of the firm. Rather than each individual seeking his/her interests, under the Stewardship theory, they would now seek the interest of shareholders. Such managers are intrinsically motivated and have the best interest of the shareholders in mind. However, obtaining such intrinsically driven staff is somewhat difficult but when they are found, they are key assets to an organization.

On a broader basis, where majority shareholders are not part of the board, shareholders must be aware of their rights under the applicable legislation and be ready and willing to exercise those rights. US legislation, for example, in Chapter 7 of the Model Business Corporation Act 2002 deals with shareholders of a corporation. Publicly-traded corporations must also comply with federal securities laws, the most important of which are the Securities Act of 1933 (1933 Act) and Securities Exchange Act of 1934 (1934 Act). The Sarbanes-Oxley Act of 2002 (SOXA) is also noteworthy. With a more specific reference to Trinidad and Tobago, shareholders rights are addressed in various pieces of legislation such as the Securities Industry (Take-Over) By-Laws, 2005 and the Companies Act 1995 which was later amended in 1997. Although the debate on shareholders rights is currently ongoing, where the law permits, shareholders must exercise their rights to appoint and dismiss directors so that boards can be held accountable for the performance of the company.

Where majority shareholders are a part of the board, the interests of overall shareholders may be represented. However, minority shareholders should not ignore the role they play in the functioning of the organization. Yes, they have minimal voting rights but they do have legal recourse in matters in which they deem are not representative of the interests of the minority shareholders. As such, minority shareholders should be more aware of their rights in the governance of the enterprise.

Finally, voting arrangements must allow minority shareholders or all shareholders for that matter to exercise votes across the borders. Shareholders must ensure they have a say and lobby for a well functioning voting system.

Much of the blame for the subprime crisis has been placed on the regulators and their lack of legislation to prevent investment in risky products such as subprime mortgages. Some have even ventured to accuse the rating agencies. For example, if Lehman Brothers took on too much risk, shouldn't this have been reflected in the company's rating? Instead, Lehman was rated a highly acclaimed 'A'! Yes, it would be easy to say rating agencies mislead us into thinking all is fine but the key player in this entire situation who is in the position to make a difference and who should have a vested interest in the continuity of the firm, are the shareholders of the company. Whether shareholders have been taking a back-seat or whether there is just a lack of awareness of the legislation available at their disposal, shareholders need to have a keener interest in the running of a firm and be more vigilant. Shareholders, take responsibility for your investments!! In the words of Carl Icahn who is one of the most controversial and ardent supporters of the fine tuning an organization by becoming a shareholders or a board member - *"A lot of people die fighting tyranny. The least I can do is vote against it."*

FINANCIAL & ECONOMIC INDICATORS

As at 9 April, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	100.44	99.52
Euro	1.32	1.35
Jamaica	88.86	88.74
Guyana	206.00	205.20

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	50.96	52.64
Natural Gas (US\$/mmbtu)	3.51	3.70
Gold (US\$/Troy Ounce)	881.62	904.05

Eurobond Indices (As at 9-April-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	-3.69
JP Morgan EMBI+ (Basis points)	559
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	7.17

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0-0.25	0-0.25
Euro Zone	1.25	1.25
Japan	0.10	0.11
Brazil	11.25	11.25
Trinidad	8.50	8.50
Jamaica	17.00	17.00
Barbados	3.00	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.18	0.21
US 10-Yr Treasury	2.92	2.77
3-month UK Libor	1.56	1.62
Japan 90-day T-Bill	0.38	0.37
Brazil 90-day T-Bill	10.54	10.17
TT 90-day T-Bill	3.28	3.26
Jamaica 90-day T-Bill	20.51	20.51
Barbados 90-day T-Bill	3.85	3.85

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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