COMPETITION AND MARKETS AUTHORITY
Fox/Sky Merger Inquiry

Notes of a Teleconference Call with Legal and General
held at Competition and Markets Authority, Victoria House, Southampton Row,
London WC1B 4AD
on 18 October 2017

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY
Joel Bamford - Project Director (Chair)
Steven Pantling - Financial Business Advisor
Sabrina Basran - Project Manager
Timothy Ker - Legal Advisor

FOR LEGAL AND GENERAL
Sacha Sadan - Director of Corporate Governance
Angeli Benham - Corporate Governance Manager
Emma Carrington Smith - Regulatory Developments Manager, Compliance

Digital Transcription by WordWave International Ltd trading as DTI
8th Floor 165 Fleet Street London EC4A 2DY
Tel No: 0207 404 1400 4043 Fax No: 0207 404 1424
Email: ukclient@dtiglobal.eu
THE CHAIRMAN: So, thank you for making yourselves available for this call today. We have, in this investigation, so far published an administrative timetable setting out the steps that we are going to take and the dates that they will occur, and also an issues statement setting out the things that are at the top of our mind, and then in terms of this particular call, we are interested to understand how Legal and General have voted, and the rationale for those voting as a minority shareholder in Sky, and just on a process point from our side, we will be taking a recording of this call and we plan to publish a transcript on our website at a future date. We would send that transcript to you in draft to give you the chance to amend for accuracy or to redact for confidential information, and in terms of the information you provide today, you are welcome to add to or amend it, which you could do in writing, and we may have follow-up questions in writing, and just as a legal reminder - given I have my lawyer sat next to me - we need to remind you, as we remind everybody that it is a criminal offence under section 117 of the Enterprise Act 2002 to provide false or misleading information to the Competition and Markets Authority at any time, including during this conversation.

Before we move onto the substantive questions from our side, do you have any questions for us?

A. (Mr Sadan) [tí]

Q. [tí].

A. (Mr Sadan) [tí]

Q. [tí]

A. (Mr Sadan) [tí]
Q.  Hi, I have got a few questions. Hopefully I won't take up a huge
amount of your time. I really appreciate you taking the time out to talk to us.

One of the things that we are exploring is how much control Fox and the
Murdoch family have over Sky at the moment, and how this might change if
the transaction goes ahead, so we are calling you today to seek your views on
the influence that they currently have over Sky as a result of Fox's
shareholding, James's position as Chairman at Sky, and how the transaction
might change those things. Just to start with a few factual questions, just to
double check that I am talking to the right people, you voted against
James Murdoch's appointment as Chairman in 2016 at the AGM, didn't you?

A.  That's correct, and the decision was made by the Corporate
Governance team, and you've got Angeli Benham, who is the lead of the
sector, on it, and you've got the director who is in charge of the department …

Q.  Perfect. Would you be able to outline your concerns as to why
you voted against James?

A.  We had concerns because of his lack of independence and the
potential conflict of interest, because of the Murdoch connection.

A.  Again, to repeat, we have no problem - and we had no problem -
with James Murdoch being a member of the board, but Chairman of the company is a much more material position, and therefore the independent issue is more important for us, and important for us because of the large shareholding, as you have quite rightly mentioned.

Q.  (Mr Pantling)  When you say, "his lack of independence", are you specifically referring to the transaction or more broadly?

A.  (Mr Sadan)  No, no.  This was before the transaction.

Q.  (Mr Pantling)  Of course.

A.  (Mr Sadan)  This was before the transaction - 2016, so we had absolutely no idea that they were going to do it although they had obviously attempted to do it in the past, but, no, this was nothing to do with that; this is just the usual corporate governance standards that we would like the chairman to be independent.  Independence is a phrase that can be used in different ways, and obviously if someone has been there for more than nine years we do not think of them as independent if they have no shareholding in the company. Independence with relationships, and obviously when you have a material stake in the company, then that is obvious non-independence, and to be fair to them, they are not saying he is independent, and they are saying that there are things to mitigate it with the structures they have put in place.

Q.  (Mr Pantling)  Yes, but as corporate governance goes, it is kind of a "comply or explain", and Sky go down the "explain" route …

A.  (Mr Sadan)  We thought the explanation was fair but we would have preferred -- and we discussed it with them beforehand -- that they didn’t.  In general, we were involved in quite a lot of chairman searches -- and it is important that I just put that into context, because we cannot micro-manage companies, and
we don’t even try to. What we want is the right Board who can then be stewards of the company on behalf of our investors, and therefore the bit that we are quite involved in - and we try to be involved if we can be - it’s the quality of the Board, and it starts with the chairman obviously. So the succession of a chairman - sometimes we get quite involved, depending on the company and how much access they want us to have, but the process of how they find that chairman is extremely important, and I think Angeli will quite rightly back me up that it was unusual the way they found the chairman; they hadn’t gone through the process -- because that is just as important as the person that you get at the end.

(Ms Benham) I attended the meeting at the Investment Association, along with other investors, to question why they had come up with James Murdoch, and the reasons that were put forward was that the Nominations Committee had all put forward a name, but they were all conflicted. What they failed to explain thereafter was why James was less conflicted than everybody else, but their explanation was that it was because of his connections with Fox and the importance of Fox to their business, that he was the best candidate of all the conflicted candidates to be chairman.

(Mr Sadan) To be clear, we have no problem and we had supported James as a Board member of Sky after he left being chairman in whatever year that was, but going back to being chairman and the way that the process was done, in normal circumstances we would expect at least two candidates to be looked at, and sometimes if you have a very good internal candidate, you benchmark them against an external candidate before you make that decision, and we didn’t feel, from the conversations we had with other
investors - because we all shared the same concerns - that that had been
done in the correct process.

Q. (Mr Pantling) Through what mechanisms do you make these concerns known
to Sky and the Board?

A. (Mr Sadan) There are lots of different ways. In this instance, we, as in the
Institutions of the Investment Association, requested that the senior
independent director and the deputy chairman come to meet the investors to
explain how they had done it. So, we were not involved early in that process.
As we said, sometimes we are, but not always, but in this one we were not.
Therefore, after the event, we would like the company to explain how they got
to that decision.

Q. (Mr Pantling) Yes, and that kind of process - there is a decision that they
have made, you're not happy with it - is that something you can do fairly
easily, call in the independent directors to talk to?

A. (Mr Sadan) Yes, but there wasn’t a process. That was certainly not the
process at the time, it was, “Can you explain why, how and when you did this,
to investors?” Then, if you are not happy with the explanations, you have
things at your disposal: one of them is that at the next AGM you have the vote
on each director, and that is why you are talking to us today.

Q. (Mr Pantling) Okay. Did you talk to other shareholders about your concerns
about James?

A. (Mr Sadan) We met - this was after the event had been announced - and the
first thing we did was organise a roundtable to try and share those concerns
at the same time. Angeli attended. I don’t know who else attended, but the
Chair of that Committee is Trelawny Williams of Fidelity.
Q. (Mr Pantling) Thank you. In the event, you actually lost the vote. Last year, 2016, the majority of minority shareholders voted against him, but with Fox’s share of the vote, he quite comfortably got put through, but was that not inevitable, given Fox’s shareholding?

A. (Mr Sadan) Yes. If you start with 40 per cent then it is a good starting point is all I can say. Well, let's start with two things: both (?) companies have interpretations of votes. Some people would be very upset that the majority of minority shareholders voted against, and that would concern the Board members, because that is quite a big process, even though, as you correctly said, one shareholder has an extremely large position; others do not, but that does not mean that you could not win. That doesn’t mean we should not use our votes in the best way we can for the shares that we own [on behalf of our clients], because we care passionately about the investments that we own. So, I do not understand the question. Should we just have not bothered, is that the question?

Q. (Mr Pantling) No, no. There was more -- you clearly still see a benefit to publicly stating your position and trying to -- you do not feel it is clearly futile?

A. (Mr Sadan) We were not too vocal. What I am saying is I think it helps the independent directors, and they may be correct, but if they know that shareholders have those concerns, then maybe they can mitigate those concerns in other ways. So, it is not what we want, but we want the company to do well, so continuing - and I am sure other shareholders did, I can't speak for them - but they would protest because they are wanting to make sure that things were in place, and of course within quite a quick period the company

---

1 Clarification added by Legal and General following review of the draft transcript.
was then bid for. That hopefully helps them think about how they manage that bid process.

Q. (Mr Pantling) Okay, that is really helpful, thank you.

THE CHAIRMAN: So, do you think it has helped them? Is there anything you could point to and say, "Well, maybe that was a little bit different because of our decision in 2016?"

A. (Mr Sadan) Well, the deputy chairman and SID is one way that they have tried to allay concerns. They have tried to reach out more to explain the situation. We met the SID at a separate occasion afterwards, "We can agree to disagree, but this is how we are going to manage it going forward on your behalf". So, yes, I think a little bit, but it is not unusual for a company to disagree with us and do things differently, but we try to find a way forward going forward, but it is unusual that they are bid for that quickly.

Q. (Mr Pantling) Thank you very much. Just moving on from James - and I think you have actually already touched on this as well - but I believe you also voted in 2016 against the appointment of three of the independent directors. Is that true first of all?

A. (Ms Benham) Yes, certainly.

Q. (Mr Pantling) Could you outline why you voted against them?

A. (Mr Sadan) Who did we vote against? Tracy Clarke …

A. (Ms Benham) That was to do with remuneration.

A. (Mr Sadan) Our policy, if we have a problem with the pay policy and we continue to have a problem, and the company does not listen to our concerns or amend them - not just our concerns - in the second year of still having concerns -- so we give them a chance -- we vote against the pay policy; the
second year, the third year and the fourth year or whatever, we would vote
against the person that brought those remuneration policies to the
shareholders, and in that instance that is Tracy Clarke, and we voted against
her in 2016 for that, and we also voted against her re-election this year. She
is the Chair of the Remuneration Committee.

Q. (Mr Pantling) And the other independent directors you vote against because
they were Chairs of the Nominations Committee, as you previously outlined.
Is that right?

A. (Ms Benham) Yes, that is correct, Andrew Sukawaty and Martin Gilbert.

Q. (Mr Pantling) Thank you very much. I am going to put something to you now,
and hopefully I can get your view on what you think. Some people would
argue that to all intents and purposes Fox already has complete control of Sky
because of its current shareholder and James's position as Chairman,
whereas others would say that given it only has a 40 per cent stake it gives it
less than absolute control; the presence of independent directors and minority
shareholders like yourself means that Fox does not have complete control of
Sky at the moment. What is your view on that, and do you think this
transaction will increase Fox's control over Sky?

A. (Mr Sadan) Let's take the facts to start with. We, as minority shareholders --
majority shareholders, apart from the 40 per cent, so 60 per cent get the
economic value of the dividends and everything else that comes to the
company, so at the moment we do have some kind of control. So to say that
nothing will change cannot be the case, and I think independent directors do a
job. I cannot comment on the price for the takeover, because that is sensitive
information, but in terms of the company, it is making economic interest for
our investors at the moment, absolutely, and we are supportive of the company being a FTSE 100 company and helping dividend payments to our pensioners.

Q. (Mr Pantling) Okay. Would you say there are things at the moment that constrain Fox's influence and control over Sky?

A. (Mr Sadan) I don't really know, to be honest. I think there is an independent board, they do look at it; they have had a look at the bid. From public information, I think they rebuffed a few approaches at different prices, so that would suggest that there is some kind of mechanism there.

Q. (Mr Pantling) Okay. Then, moving away from Fox and thinking about the Murdoch family, what constrains the Murdoch family's influence at the moment over Sky?

A. (Mr Sadan) Jeremy Darroch is a very good CEO, and I would think his capital allocation decisions are made up of economic interests, which are hopefully long term and therefore in our interests as well. I could not comment on how much influence they have on the Board.

Q. (Mr Pantling) So you are not aware of the Murdoch family or Fox having a particular influence over Sky?

A. (Mr Sadan) Not any more than I would think any chairman of the Board has influence over any other company. It is obviously a political and high profile company, but we have many companies that have large minority shareholders, and they still run the companies in the interests of shareholders. That is where the checks and balances come in.

Q. (Mr Pantling) Obviously one of the things that we are looking at in our investigation is actually we are focused on Sky News, within Sky. Do you
A. (Mr Sadan) I remember the first time around when you were looking at it and came up with some remedies.

Q. (Mr Pantling) All right. We talked about the stewardship that minority shareholders have over a company like Sky, and the role that independent directors have in terms of safeguarding Sky and safeguarding the interests of minority shareholders. Do you think independent directors have any sort of role in terms of safeguarding the independence of something like Sky News or …?

A. (Mr Sadan) The only answer I could give really is that anything that is important to the value of Sky, all independent shareholders, board directors, should passionately care about, and I have not seen anything that has given me concerns particularly on Sky News. Have you, Angeli?

A. (Ms Benham) No.

Q. (Mr Pantling) That is really helpful. Just thinking about Fox's commercial interests, if the transaction goes ahead, do you think Fox would have an increased incentive to get Sky to pursue certain decisions that were in Fox's commercial interests?

A. (Mr Sadan) I would think that you would buy 100 per cent of the company so that you could have absolute control of things. Why else would you want to own a company? That is not the same as what they do in terms of capital allocation and things like that. If you own 100 per cent of something you wouldn’t have to get through independent board directors to do things. So, yes, I would think that would be a natural conclusion.

Q. (Mr Pantling) And it would apply to the entire business, so Sky and Sky News
equally?

A. (Mr Sadan) Yes. We have been very happy with the way Sky has been run in terms of the economic interests and how the shares have performed over a long period of time, so I don’t know what decisions they will do differently because I have no idea how they run things, but they will be able to make those decisions without having to have an independent board, and they vote at an AGM every year.

Q. (Mr Pantling) So you do not think currently there has been any sort of alignment of Fox and Sky's commercial interests and decisions taken …?

A. (Mr Sadan) All I can say is that any long-term shareholder, and we have many large minority shareholders, they have the interest of doing well over the long term, and that interest is normally aligned with independent shareholders.

Q. (Mr Pantling) That is really helpful, thank you.

A. (Mr Sadan) I would just add one thing, on a different subject. Lots of long-term shareholders who have got a big stake in a company sometimes make very good stewards, because they are genuinely thinking of the long term rather than some short term fluctuations, and so we can find quite a lot of alignment with them. Their intentions may be slightly different, their motivation might, but the long-term interest of having better cash flows and paying it out in different ways is normally quite aligned.

Q. (Mr Pantling) Thank you. We don’t know the results of how people voted in last week’s AGM, but are you able to tell us how you voted last week at the AGM?

A. (Mr Sadan) Yes, because we will publicly disclose that soon, and we will tell
our clients, so I am very happy to tell you that we voted against James Murdoch as Chairman as we did last year, for the reasons that we have discussed; we voted against Tracy Clarke, again, because we still have not seen any changes to the rem policy that we have asked for, and others have asked for. We voted against the rem policy and the report. We also voted against the deputy chairman, Martin Gilbert, for a different reason and a new reason. We have to vote on their ability to do the job as an independent director, and we feel, with the merger of Standard Life (Aberdeen), the intended merger integration, and he is co-CEO, and his new appointment, before we had the vote, as a main Board Director of Glencore, a large FTSE 100 global complicated mining company as a non-executive director, that would he have sufficient time to be the Deputy Chairman of Sky, when last year, there was a lot of things, including these kind of conversations that mean that there would be a lot of work to do over this period of time, or however long it takes, on the Sky deal, and also running Sky independently as it is at the moment, for the benefit of all shareholders.

Q. (Mr Pantling) So it is not his ability it is his capability at the moment given his other commitments?

A. (Mr Sadan) Yes. The phrase commonly used in the industry, is "overboarding". We did not have a problem last year, because he hadn't got the Glencore …

A. (Ms Benham) We also voted against the audit service …

A. (Mr Sadan) That is something that is in our policy, and we do that with other companies. In general, the reason it is in our policy is because we want the auditors to focus their time and independence on the audit and have less than
those fees in non-audit, in other services.

Q. (Mr Pantling) Will you publish reasons, or do you communicate these reasons to Sky and to Fox itself, or is going to go in the public domain?

A. (Mr Sadan) Yes. Not yet, but we do discuss that with them. Before the voting agencies had concerns and had similar voting intentions -- not the same one -- one of them they were abstaining from, so we received a letter from Sky explaining how they disagreed with those proxy voting agencies and their decisions, which we read. So they understood that there were concerns, and would have seen our votes, we will have discussions with them in the not too distant future.

Q. (Mr Pantling) Thank you. How common is this for other companies that you would have a similar stake in? How often does this arise in your experience, where you will vote against the deputy chairman and chairman and so on for these sorts of reasons?

A. (Mr Sadan) It is not completely unusual. I think the process is unusual. We have concerns over an engineering company at the moment that we are voting against for completely different reasons, but we do not think they are independent and they haven't got a contract of how they manage the controlling shareholders agreement. So there, again, we would be voting against the chairman and deputy chairman in that one. So it is not completely unusual. Is it unusual that we have to keep voting against a FTSE 100 company?

A. (Ms Benham) There are a few, not many.

A. (Mr Sadan) Not completely unusual but not common either. As you can see from the vote, we are not alone, so normally we come to some kind of middle
Q. (Mr Pantling) Are you saying that what is slightly more unusual is that it is slightly harder to come to middle ground in this instance than it might normally be, even if you have similar sorts of concerns?

A. (Mr Sadan) I think that is fair.

Q. (Mr Pantling) Just thinking back to last week's AGM, last year in 2016, by a narrow majority, the minority shareholders voted against James's appointment. That slightly reversed last week only by a few percentage points, but that was enough to say that a majority of minority shareholders approved his appointment. Are you able to explain that slight shift? There was quite a lot of noise before and advice to shareholders to vote against James's appointment.

A. (Mr Sadan) Shareholdings change. Our shareholding has not changed much, because we are very long-term supportive shareholders, but with the potential bid there has been more "arbs" involved, arbitrage funds and all sorts of things. If there is a different shareholder register, people use different decisions. I think you should talk -- we have not changed our decision. Obviously there is still a significant minority who have also got the same decisions but I can't answer for other people.

Q. (Mr Pantling) We are speaking to some other shareholders of Sky. So the last question I had was actually to get your view on the proposed transaction and the offer?

A. (Mr Sadan) First of all, we have got to wait until the transaction, if and when it gets approved by yourselves and others, before we make that decision, so we do not have to make that decision now. Obviously we would want to know
how they got to that decision, and we have discussed that. We would
normally like a company that has an unusual situation of this sort to have had
independent advice, and I do not think they had. That is not unusual in itself,
on a big M and A transaction, but it is something that we ask companies, and
a company like this we would like to have seen independent advice, and we
have mentioned that, so we will take that into account. We obviously take into
account who makes the decisions on that, the Independent Board.

A. (Ms Benham) Another thing that is unusual is that the executive was present
along with the independent directors at the negotiating table. It is unusual, because it is normally the independent directors that do that.

A. (Mr Sadan) But not totally unusual. So, we will take those things into
account, but we have not made a decision, because there is nothing to decide
on at the moment, and as you can imagine, with markets moving at the
moment upwards, but can move in any direction, we will make that decision
when and where we have a vote to make. We will take those things into
account and we will take the financial situation of the company, the results
that come out, and the ones that will come out before the vote, and our future
expectations of cash flow for our independent shareholders.

Q. (Mr Pantling) Thank you very much.

A. (Mr Sadan) I am sure you will appreciate, we can't really answer it any more
than that because we do not know.

Q. (Mr Pantling) No, that is fine. You will make the decision when you are
required to make it.

A. (Mr Sadan) With all the facts that we have available at the time, but I wanted

---

2 Clarification added by Legal and General following review of the draft transcript.
to give you those early facts.

Q. (Mr Pantling) Thank you. That's all the questions from our end. I'd just like to thank you for taking the time out to talk to us today, it has been really helpful. Is there anything else you would like to ask us?

A. (Mr Sadan) Not really. How are your discussions going? I know you can't talk about individuals, but are you having much luck speaking to people like ourselves? Are people being reasonably open?

Q. (Mr Pantling) We cannot comment on that at all I am afraid.

A. (Mr Sadan) You said you are speaking to other people?

Q. (Mr Pantling) Yes, we are definitely speaking to other shareholders. I can confirm that.

A. (Mr Sadan) One thing I would say is make sure you speak to the people that make the voting decisions.

Q. (Mr Pantling) Okay, yes, that's very helpful, thank you.

A. (Mr Sadan) I don't know how it works in other firms, but we are very happy here to talk to you because we have been involved in that.

Q. (Mr Pantling) Okay, thank you very much for taking the time to talk to us today.

A. (Mr Sadan) Thank you very much too. When do you think we will get a -- you said you had an initial timeframe?

Q. (Ms Basran) In relation to the transcript?

A. (Mr Sadan) Yes.

Q. (Ms Basran) We would hope to have something to send to you next week, about Wednesday.

A. (Mr Sadan) That is quick, okay.
Q. (Ms Basran) Sorry, hope to have something.

A. (Mr Sadan) Okay. I won't hold you to that.

Q. (Ms Basran) Thank you very much.

A. (Mr Sadan) Sorry, I need to know, when have you said that you think that this will be over publicly?

Q. (Mr Pantling) We have an administrative timetable that sets out, that we are aiming to publish a provisional findings before Christmas, and the statutory timetable is 6 March for us to send our recommendations to the Secretary of State, and then she has 30 working days to consider that before making her decision.

A. (Mr Sadan) Lovely, that's very much appreciated. Thank you very much and hopefully will speak to you soon, bye bye.
### Key to punctuation used in transcript

| --     | Double dashes are used at the end of a line to indicate that the person’s speech was cut off by someone else speaking |
| …     | Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn’t finish the sentence. |
| - xx xx xx - | A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption. |
| - | Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there? |