

21ST CENTURY FOX/SKY MERGER INQUIRY

Summary of hearing with MFS Investment Management held on 2 November 2017

1. MFS Investment Management (MFS) is a global active investment manager. Some of the views expressed in this summary are those of the MFS portfolio manager who participated in the hearing, whose portfolio is invested in Sky plc (Sky), and which do not necessarily represent the view of other MFS portfolio managers.

Governance standards at Sky Plc

2. MFS said that the current executive management of Sky were good professional managers that had executed very well.
3. On the effectiveness of the Sky Board, MFS noted that there are non-executive independent directors on the Board which included Martin Gilbert (MG). MFS said it was familiar with MG and perceived him as an independent person. MFS was not familiar with the other non-executive independent members of the board.
4. MFS said it was aware that the independent directors were involved in negotiations with Fox for the purchase of Sky.
5. MFS stated that it had no views on the effectiveness of the independent directors at Sky and thought they were similar to non-executives found on the Board of other similar-quoted companies.
6. MFS said that it maintained a good dialogue with the executive management and the CFO and investor relations team in particular at Sky to discuss issues and concerns. MFS did not recall an example where the minority shareholders had driven a particular different outcome to what was originally proposed by the Sky Board during the time of its ownership.

AGM Voting in 2016

7. MFS said that its main reason for voting against the reappointment of James Murdoch (JM) as Sky Chairman in 2016 was in relation to concerns around

JM's independence because of his then role as CEO of 21st Century Fox. These concerns were based on MFS's approach to investing over the long term economic interests of its clients as shareholders of the company.

8. MFS said that it had concerns that JM would not be able to commit to the interests of all shareholders given his simultaneous role as CEO of 21st Century Fox (Fox).
9. MFS conveyed its concerns to Sky prior to the shareholder meeting where it voted against the reappointment of JM.
10. MFS said that it exercises its votes in accordance with the long term economic interests of its clients and to effect positive change where positive change is required. By voting against JM's reappointment MFS was expressing the view that JM was not independent and should not be the chairman of Sky.
11. MFS's recollection was that a sizable number of minority shareholders voted against the reappointment of JM in the last two elections. MFS did not recall the exact number.
12. MFS said that, in response to the observation that a majority of minority shareholders in 2017 approved the reappointment of JM, MFS did not consider it unusual for the controlling shareholder to appoint the chairman, although MFS prefers a chairman to be independent.

Views on Fox's influence over Sky

13. MFS considered that Fox had a substantial influence over Sky by being the de facto controlling shareholder with 40% ownership and that key appointments were made by Fox. MFS indicated that this would be the same with any other company with one 40% shareholder and no other large shareholder to counterbalance.
14. MFS stated that in its view, there were no constraints on Fox's influence at an operational level. MFS raised that there were constraints in place for certain strategic decisions which required shareholder approval for example Fox could not vote for the acquisition of Sky in Europe because it was a related party to the merger and therefore required the backing of other shareholders. MFS considered Fox to be very good operators of the assets over the years.
15. MFS stated that it did not know exact shareholding of the Murdoch family in Sky plc but understood that the Murdoch family exercised its influence via Fox.

Views on Sky News

16. MFS viewed Sky News to be relatively unimportant to Sky's overall business because the key offering of Sky was its content with sports being paramount followed by entertainment.
17. MFS believed that Sky News was consumed less in terms of Sky's other services and was also a free service. However, it still had brand value as a credible news source, like the BBC.
18. MFS said, in response to the hypothetical question as to how shareholders would react if the Head of Sky News were to be replaced post-transaction, that MFS would view it as a business decision and whether the person is competent to perform the role. The decision to replace the existing Head of Sky News was not important to investors unless it harmed or benefited the value of Sky. MFS would look at whether the way in which a franchise is managed compromises the long-term value of the franchise and therefore the long term value of the business. MFS does not consider Sky News to be a focus as an investor in Sky.
19. MFS stated that the costs associated with news production at Sky were low relative to the costs of programming content such as sport and entertainment, and thus, not a very important feature from its perspective as an investor.
20. MFS views Sky News as part of the Sky package for Fox but not an important part of the deal. MFS believes it to be a financially driven transaction.