

1  
2  
3 **COMPETITION AND MARKETS AUTHORITY**  
4 **21<sup>st</sup> CENTURY FOX/SKY MERGER INQUIRY**  
5  
6

7 **Notes of a teleconference with Templeton Global Advisors**  
8 **held at Competition and Markets Authority, Southampton Row, London**  
9 **on Monday 30 October 2017**  
10

11  
12 *PRESENT:*  
13

14 **FOR THE STAFF**

15 Sabrina Basran - Project Manager  
16 Timothy Ker - Legal Adviser  
17 Steven Pantling - Finance and Business Adviser  
18

19 **FOR TEMPLETON GLOBAL ADVISORS**

20 Herbert Arnett - Vice-President and Research Analyst  
21 Heather Arnold - Director of Research  
22 Breda Beckerle - Chief Compliance Officer  
23 Norm Boersma - President and CIO  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

48 Digital Transcription by WordWave International Ltd trading as DTI  
49 8<sup>th</sup> Floor 165 Fleet Street London EC4A 2DY  
50 Tel No: 0207 404 1400 4043 Fax No: 0207 404 1424  
51 Email: ukclient@dtiglobal.eu  
52

- 1 Q. (Ms Basran) Thank you for letting us know. That is noted.
- 2 A. (Mr Arnett) [✂]
- 3 Q. (Ms Basran) Okay. I think that is fine. That should not interfere. I will pass  
4 over to Steven to fire away with questions.
- 5 Q. (Mr Pantling) We are speaking to a number of Sky shareholders, and we are  
6 asking similar questions to all of you. We have put these questions to other  
7 Sky shareholders. You voted against James Murdoch's appointment as  
8 chairman in 2016, and I believe you voted against his reappointment in 2017.  
9 I was wondering if you could start by outlining your position as to why you  
10 voted against him.
- 11 A. (Mr Arnett) The primary basis is we do not view him as an independent  
12 member of the board and we would rather have an independent director. We  
13 basically adhere to ESG practices. Considering Fox's holding in Sky and  
14 James's position in Fox, we would have preferred an independent director.  
15 This does not reflect that we do not believe that James is competent to hold  
16 such a position, and it does not reflect on his competence or ability. We  
17 would just prefer an independent director, given the position that Fox holds in  
18 Sky. It is just a question of good governance.
- 19 A. (Ms Arnold) This is something that we do across our holdings. We have a  
20 preference for separation of that functionality between chairman and CEO.  
21 Although we do acknowledge that a number of companies choose to have  
22 these roles combined, we just tried to express a preference when asked for  
23 that separation of role.
- 24 Q. (Mr Pantling) How did you let these concerns be known to Sky, and how did  
25 they respond to you?
- 26 A. (Mr Arnett) The primary method was our vote, as you mentioned, in 2016, we

1 voted again that way this year, and in meetings with the company expressed  
2 that. They of course expressed their view that on any decisions that would  
3 impact on this offer the Fox members are excused from the board and it is  
4 independent. That, basically, was their response: that they believe that he  
5 would be, basically, a good director and when it comes to a decision related to  
6 21<sup>st</sup> Century Fox James and the other two shareholders that represent Fox on  
7 the board would be excused from decisions.

8 Q. (Mr Pantling) In a shareholding listing we have been provided by Sky I think  
9 your shareholding in Sky has increased, quite significantly, actually, from  
10 2016 to 2017. This suggests that you are not necessarily overly concerned.

11 A. (Mr Arnett) That is one of the factors we looked at when we examined  
12 whether we should invest in particular stock. If you remember, the stock  
13 came up quite a bit after the Premier League offer, and we saw it as a  
14 long-term-value opportunity. Weighing that in the balance, that is one of the  
15 things that we weighed, and that impacts on how we look at our potential  
16 return. Weighing that along with the other factors, we still thought that it was  
17 an attractive investment opportunity for our shareholders.

18 Q. (Mr Pantling) My last question in relation to James Murdoch as the chairman:  
19 did you expect when you voted against him that you had a chance of actually  
20 winning the vote, given Fox's shareholding?

21 A. (Mr Arnett) I do not think that entered our thought process. As we said  
22 earlier, we have a process; we adhere to ESG. It does not matter what other  
23 firms do. We try to protect our shareholders. When we make a decision of  
24 that nature we do not consider what others think; we consider what is best for  
25 our shareholders.

26 Q. (Mr Pantling) Do you think there is still a benefit of voting against him even

1           though the chances are you may not win? What is the wider benefit of  
2           publicly stating your opposition to his appointment?

3   A.    (Ms Arnold) It is not personal. What we are expressing is a strong preference  
4           for the separation of these two roles, as stated, and this is something that we  
5           do across all of our holdings. As we said, this is just our stated preference in  
6           terms of the separation of the chairmanship from the CEO. Many companies  
7           choose to combine these roles. It is what it is. It was not a personal comment  
8           on our part on the capabilities of James.

9   A.    (Ms Beckerle) Hello, this is Breda. I apologise. I just joined. Thank you for  
10          the instructions, Heather.

11   Q.    (Mr Pantling) I have one other question just on James. Obviously, James  
12          Murdoch has a long history with Sky and involvement with it. Did you have  
13          any concerns about him being a director, and did you feel that he had any  
14          undue influence while he was a director?

15   A.    (Mr Arnett) Fox currently owns 31 per cent of Sky, the Murdochs control  
16          39 per cent of Fox voting, and so they basically already have effective control.  
17          What we are saying is since they already have effective control of the majority  
18          shareholding in Sky and exert influence there is no need for James, who is  
19          the CEO of Fox, to be the CEO of Sky. We would prefer an independent CEO  
20          there.

21   Q.    (Mr Pantling) You mean chairman?

22   A.    (Mr Arnett) Chairman, sorry; thank you for clarifying. We would prefer to  
23          have an independent chairman, since Fox already has representation on the  
24          Sky board. We have nothing against them having representation on the Sky  
25          board. It absolutely makes sense – but, as Heather said, we would prefer  
26          those duties to be separated. It does not reflect on the competence of James

1 or anything of that nature. It is just a separation of duties.

2 Q. (Mr Pantling) How else do you see or did you see James having influence on  
3 Sky either when he is chairman or when he was a director that was not  
4 necessarily purely connected to his role?

5 A. (Mr Arnett) We believe that they already exert a high level of influence or  
6 control, simply because not only of the position that he currently holds but he  
7 was a CEO of BSkyB before and so has intimate knowledge of the company.  
8 We already believed that, and this is one of the reasons why we would prefer  
9 that separation.

10 Q. (Mr Pantling) Can you think of any examples of actions that Sky has taken  
11 that you think are directed by Fox or the Murdochs and possibly not in the  
12 interests of minority shareholders like yourself?

13 A. (Mr Arnett) Not one incidence; not immediately, no.

14 Q. (Mr Pantling) You said they already have effective control over Sky. Do you  
15 think there is anything that constrains or tempers that control?

16 A. (Mr Arnett) I would assume by regulators et cetera; so, it is not a free-for-all!

17 Q. (Mr Pantling) If I could just have a general question on governance at Sky,  
18 what is your overall view of governance at Sky at the moment and the Sky  
19 board?

20 A. (Mr Arnett) That is our biggest issue. We currently have no other issue with  
21 the Sky board. Like I said, for a group that owns such a substantial holding in  
22 a company, there is nothing wrong with them having representation on the  
23 board. We have no other issues with the board.

24 Q. (Mr Pantling) In terms of that, just going a little bit below looking at the entire  
25 board, how would you describe the overall effectiveness of the independent  
26 directors at Sky?

- 1 A. (Mr Arnett) Effectiveness in running the company or with regards to this  
2 offer?
- 3 Q. (Mr Pantling) In a couple of ways: one, in terms of running the company; but  
4 also in terms of representing the interests of minority shareholders like  
5 yourselves.
- 6 A. (Mr Arnett) I think the board does a pretty good job of running the company. I  
7 think it is a well-run company. I have no issues with them representing  
8 shareholders' interests.
- 9 Q. (Mr Pantling) Is that because you think they do represent your interests? Do  
10 you get to speak to them? Do you think they do represent your voice in the  
11 boardroom?
- 12 A. (Mr Arnett) I think they do. I have access to them. I have met with both the  
13 CEO and the CFO in the past, and they have an open-door policy, certainly to  
14 us. We have no issues with them in that regard.
- 15 Q. (Mr Pantling) Could you think of any examples that you could give us where  
16 you have relayed concerns to independent directors and possibly they have  
17 given you assurances that they are taking on board your concerns?
- 18 A. (Mr Arnett) Just for clarification purposes, normally when we are dealing with  
19 companies we are not dealing with the board; we are dealing with  
20 management of the company. We are expressing our concerns and having  
21 discussions with the people running the company, not the people setting  
22 direction at the board level, and if there are issues with the people running the  
23 company then we would deal with the board, but that would not be the normal  
24 contact point.
- 25 Q. (Mr Pantling) In your dealings with management of Sky do you get the  
26 impression that they are running the company independently or that they have

1 significant influence from Fox or the Murdochs?

2 A. (Mr Arnett) I have not come across any information over the years that would  
3 lead me to think that they are not running the company independently.

4 Q. (Mr Pantling) You have said that you think Fox have effective control over  
5 Sky. Minority shareholders make up 60 per cent of the ownership of Sky at  
6 the moment. How would you describe the influence of that 60 per cent of  
7 minority shareholders?

8 A. (Mr Arnett) From our perspective, just as we said earlier, we are not active as  
9 shareholders. We do not go in and try to influence policy of a particular  
10 company. We basically try to find out the direction of the company, where it is  
11 going, with long-time shareholders. We are not active as shareholders. That  
12 is a very, very difficult question to answer, because we are not looking to try to  
13 influence the company per se; we are trying to basically research information  
14 to give us a sense of where the company is going.

15 Q. (Mr Pantling) Generally you are fairly happy with the way the company is and  
16 has been going and so have not necessarily had to step in with that, is that  
17 right?

18 A. (Mr Arnett) When we started accumulating the shares in this company we  
19 came to the conclusion that this would be an opportunity for our shareholders.

20 Q. (Mr Pantling) Our investigation actually relates to Sky News specifically. As a  
21 shareholder in Sky, how important would you say Sky News is to Sky?

22 A. (Mr Arnett) I think the benefits of this acquisition would still suffice without Sky  
23 News. I think that is one component based on the numbers that we believe  
24 contribute to the overall earnings of the company. I think Sky News has an  
25 impact but it would not basically take away from the benefits of this merger as  
26 the management presents it.

1 Q. (Mr Pantling) If Sky News was not part of the deal or closed down, it would  
2 not ...? Are you saying it is not a significant part of the deal?

3 A. (Mr Arnett) I do not think it would take away from the attractiveness of the  
4 deal.

5 Q. (Mr Pantling) What do you think Sky News adds to the brand of Sky? You  
6 talked about maybe the underlying position of contribution to the business, but  
7 does it add more in terms of brand value to the business?

8 A. (Mr Arnett) That is a broad question. I think, when you look at what is going  
9 on with how consumers now consume their news and media, news is almost  
10 a commodity. I think the Sky brand is bigger than the Sky News brand itself,  
11 simply because consumers, especially younger consumers, those millennials,  
12 source their news from different formats.

13 Q. (Mr Pantling) Just sticking with Sky News, if the head of Sky News was  
14 removed tomorrow and replaced by, say, a close aide of Rupert Murdoch,  
15 how would you react, and how do you think other minority shareholders in Sky  
16 would react?

17 A. (Mr Arnett) That is a very difficult analogy; I am going to guess that there  
18 would be a reaction and whether it was a good or a bad one is difficult to tell  
19 you!

20 A. (Ms Arnold) I think perhaps what you are getting at is what it would be like for  
21 British society of this shifting in definition and how this would look if Sky News  
22 was operated as a satellite of Fox News. I have moved recently from the UK,  
23 having lived there for a number of years, and maybe if Nigel Farage were  
24 sitting in the UK right now there is something we should all get horribly  
25 concerned about! But I just think that the systems are so different politically  
26 and the likelihood of this being the motivation of Fox is non-existent. I do not

1 think this would be their intention, and I think, as Herbert has tried to gently  
2 suggest, the value of Sky is not driven, according to our assessment of the  
3 company, by Sky News. It is something they do.

4 I think at one point it did create some value, but I think as the way people  
5 consume news continues to shift what we have been trying to say, and  
6 Herbert has said very clearly what is in our mind, news is not a rich part of the  
7 content; it is the non-commoditized part. Does having yet another news  
8 source in the UK add to the diversity of voice? Perhaps. Is Sky News critical  
9 to the quality and diversity of views available in the UK? I would question  
10 that. I do not think for sure it is at all a driver of the rationale behind this  
11 proposed deal.

12 Q. (Mr Pantling) That is really helpful. Thank you. Just to press that a little bit  
13 further in terms of if Fox tried to influence, say, the output of Sky News, your  
14 only concern would be if you considered that that influence affected the value  
15 of Sky overall, and you would not necessarily be concerned other than that?

16 A. (Ms Arnold) I am going to talk here wearing a director of research hat. With  
17 every investment we hold we hold companies to the highest standard that  
18 exists, and, as we stated, we are very much active integrators and users of  
19 adherence to the process that we know as an ESG. Within that, governance  
20 and social standards are really important to us, and we take them very  
21 seriously.

22 Having said that, as Herbert has tried to indicate, while we engage with  
23 management we discuss these types of issues with them very, very closely,  
24 we do not try to ultimately put ourselves in the position of knowing how to  
25 better manage companies than do the management teams themselves.  
26 There are a few instances we have taken exception with things that have

1 happened, but in the case of Sky, again, we think that they have been running  
2 the company quite ably. Possibly the family's interest optically poses some  
3 difficulties, but we think that the family and perhaps the newer generation as  
4 well understand a lot of these issues and are moving the company forward in  
5 a better direction. We are not at all advocates of companies being run for  
6 interests that really, really conflict with the best interests of shareholders,  
7 which are long-term but being part of companies that are very, very well run  
8 but ultimately focused on generating growth, wealth and returns to  
9 shareholders by being run to the best of management's ability. We just want  
10 to be careful in saying yes, you may not like many of the things of Rupert of  
11 old, but, based on our observations of Sky itself and the way James and the  
12 board have conducted themselves we would say that the company is well run.

13 Q. (Mr Pantling) That is a really good answer. Thank you. Moving on a little bit,  
14 just thinking about Sky today, to what degree do you think Sky today has an  
15 eye for the commercial incentives of Fox? Do you think today Sky is  
16 completely independent and does not really in its commercial transactions  
17 have any consideration of what Fox is doing, or do you think, because of the  
18 relationship of the Murdochs and Fox, in its dealings you can see Sky it is  
19 paying attention to the commercial considerations of Fox?

20 A. (Mr Arnett) I am not sure I totally got your question, but I would say that there  
21 is content that Sky purchases from Fox that other content companies or  
22 media companies, television companies, around the world does. Fox is a  
23 holder of pretty-sought-after content globally. Sky is one of their customers. I  
24 am not sure if that was what you were leaning towards.

25 Q. (Mr Pantling) I am thinking if the transaction goes ahead whether Sky would  
26 have a greater incentive to pursue decisions that are in Fox's commercial

1 interest as opposed to Sky's commercial interest.

2 A. (Mr Arnett) I think the commercial interests would be combined and one of  
3 the benefits of the merger from Sky's perspective is you are basically sourcing  
4 content that is sought-after in the European market at a much cheaper price.  
5 You will have more scale, your costs will go down, and this would be better for  
6 consumers in Europe from Sky's perspective.

7 Q. (Mr Pantling) You do not think there is really any conflict of interest and that  
8 their incentives actually align?

9 A. (Mr Arnett) I think their incentives align, because it will be better for the Sky  
10 platform and for Sky customers. One of the most expensive lines in the P&L  
11 for a television company or content broadcaster is programming costs, and  
12 this would benefit Sky by creating a bigger scale, lowering their costs for  
13 content for their European customers.

14 Q. (Mr Pantling) I know this may be one step too far for you guys to answer, but  
15 I will chance it anyway: do you think that sort of alignment of incentives would  
16 go down to the level of news programming, say with Fox News and Sky  
17 News, and that they would be mutually beneficial to support each other,  
18 particularly as Fox News is very profitable in America?

19 A. (Mr Arnett) Probably on the back end; I cannot see it on the front end, but I  
20 would say at the back end, probably technology-wise as we are in the digital  
21 age how one platform benefits from digital, for example ... But when you look  
22 at Fox News, it caters to a certain segment in the US. That would not be  
23 transferable in Europe at all. You are talking about two totally different  
24 platforms. As far as the technology, for targeted advertising, for example, for  
25 distribution of that content across digital platforms, that probably does not  
26 happen a lot as it probably would. With the content itself, I do not see that

1 transferable. These are two different platforms catering to two different  
2 segments. That is not transferable.

3 Q. (Mr Pantling) In 2016 a majority of the minority shareholders voted against  
4 James's appointment. This year, in 2017, that changed slightly so that  
5 actually a majority of minority shareholders voted in favour of his  
6 reappointment as chairman of Sky, and that is despite quite a lot of advisory  
7 houses advising minority shareholders to vote against his appointment ahead  
8 of the AGM. Why do you think that was, that the majority of independent  
9 shareholders this year have decided to approve his reappointment?

10 A. (Mr Arnett) In 2016, if you go back, an independent director was leaving the  
11 board. I think that was probably the main reason why the vote was so high  
12 against him, because shareholders probably wanted an independent director  
13 to fill that seat.

14 Q. (Mr Pantling) My final question to you guys is I wondered what your views  
15 were of the proposed transaction; are you positive towards the proposed  
16 acquisition by Fox?

17 A. (Mr Arnett) That is not really something that we want public.

18 Q. (Mr Pantling) Okay. No, that is fine. There are no further questions from our  
19 end. Is there anything you would like to tell us or any further questions to  
20 have for us?

21 A. (Mr Arnett) No, nothing here.

22 Q. (Mr Pantling) All right. Thank you for taking the time to talk to us. It has been  
23 really helpful to us.

24 A. (Mr Arnett) When should I expect the transcript?

25 Q. (Ms Basran) Hopefully by the end of the week or next week.

26 A. (Mr Arnett) Okay. Next week would be fine. Thank you.

1 | Q. (Ms Basran) Thank you.

### 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?