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**60 MINUTES :
THE CHAIRMAN vs. THE SHARE-HOLDER**

by

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Overview

Investors are increasingly interested in forecasts and company results in order to manage their share portfolios accordingly. Of course, specialised analysts can inform and advise them, but sometimes views differ and it is not always easy to form an opinion before deciding to buy or sell shares. Companies listed on the Stock Market are clearly concerned about their share price, and this is why they organise meetings for analysts from time to time in order to explain their activities and to answer questions. Investors, however, often prefer to meet the people at the top of each company, even the CEO in order to assess both the company's strategy and its management. A CEO and a fund manager give their respective points of view on this type of 'one-to-one' meeting.

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INTRODUCTION

Michel BERRY : The press often refers to the tyrannical hold that financial markets have. The pressure the markets put on companies in order to reach the famous 15 % financial yield expected by their share-holders is enough to force heads of companies to perform the sort of acrobatics which may lead to the collapse of a company, as was the case in the Enron affair.

Pension fund managers, as well as other institutional investors, are often seen to be dangerous because they do not consider themselves responsible for the consequences of their actions on company life. It is often said that they make managers do exactly what they want, or even threaten their jobs. Gone are the days of capitalism described by Marx, where the rich and powerful exploited the workers. Today, the system is a little different : the capitalists are more likely to be retired men or men with families who buy unit trusts and are represented by fund managers who exercise their iron hand on companies and company managers. It is still a case of man exploiting man, but with a different cast of characters.

What then are the relations between heads of companies and share-holders ? How do these two worlds communicate with each other ? For many years financial communication has been playing an increasingly important role. Nearly three years ago, after Lafarge bought Redland, Bertrand Collomb came here to talk about how one should communicate and also about *savoir faire* : to know how to talk about financial markets and to know how to reply to analysts' questions. However, during the discussion, it appeared that when an analyst tries to assess the quality of the management of a company, hardly anyone ever listens to him. Bertrand Collomb added “ *when it is more than just a question of figures, it's me they want to see* ”.

Since then, people have become interested in the ritual of the ‘one to one’ – the company head meeting the share-holder – and what they say to each other. How can the person in charge of a company sell the idea of ‘long term’ to an institutional share-holder ? And vice versa, what does a fund manager want to find out when he meets the ‘big boss’ ? This is the subject of tonight's discussion.

The head of the company's point of view

Bertrand COLLOMB : The one-to-one is effectively what crystallises the relationship between the CEO of a company and the fund manager. However, this should be put in perspective, both in the general context of the development of the company and in practical terms with regards to the timetable of the chairman and his closest advisers, the types of communication used, and what can and cannot be said, etc.

Lafarge

In 1989, when I was appointed chairman and CEO of Lafarge, the company existed in Europe and North America. Its turnover was 5 billion Euros and it employed 34,000 people. Today, its turnover is 15 billion Euros and it has 83,000 employees. Forty percent of the share-holders were private, French individuals while sixty percent were institutional share-holders – two-thirds of whom were foreign – a fact which ranked us among the companies with the greatest number of foreign share-holders. Today, only 15 % of our share-holders are private individuals.

1991 : a collapsing market

In 1990, Lafarge was awarded the prize for the most profitable company in France. However, the recession then started, followed in quick succession by the Gulf War. Between 1991 and 1992, the construction market collapsed, especially in the United States. In the space of two years, our turnover had fallen by 7 %, and our financial results had been almost halved. Strangely enough, during this period, the share price hovered around 40 Euros, and the

proportion of individual share-holders remained stable. Therefore, the collapse of our results did not create a major upset among our share-holders, since people trusted us over the long term. However, we had to start to explain to them what we were doing.

A sturdy recovery

The United States, as ever, came out of the recession faster than Europe, but between 1993 and 1999, Lafarge still managed to double its turnover and triple its profits, which was not at all bad, considering the previous state. Why was this ?

- the market was expanding ;
- we had expanded a great deal thanks to the opening-up of the markets in many Mediterranean countries ;
- countries, privatised state enterprises ;
- the Berlin Wall fell and this opened up Eastern Europe ;
- after the 1998 crisis, Asia, which up till then had been inaccessible because of the Asian companies' extremely high valuations, finally opened up ;
- the Redland operation reinforced our position in the aggregates market and positioned us in the roofing sector ;
- and overall, we improved our performance.

A rising market capitalisation

Our market capitalisation also increased. In 1999, the proportion of individual share-holders dropped to 18 %. People were buying more and more unit trusts or mutual funds. The proportion of foreign institutional share-holders exceeded 50 %. This all took place in a climate of a significant increase in the number of shares : there were 60 million shares at the end of 1992 and 100 million at the end of 1999. There are currently 130 million.

The Blue Circle operation

In November 1999, it was rumoured that we might be interested in Blue Circle, a cement manufacturer which had a number of problems. Many of our share-holders were encouraging us ! We launched a unilateral take-over bid for Blue Circle. However, at the beginning of 2000, even though we produced a net result which represented an increase of 32 % on the two previous years, the price of the Lafarge share started to fall. People were preoccupied with the telecom industry and investors had their minds elsewhere. Furthermore, a number of problems had to be resolved if the project was to proceed. This took time, enough time in any case for the high-tech wave to fall and for the Blue Circle share-holders no longer wanting to sell their shares, since they no longer knew where to invest instead, and did not think that the price was attractive enough.

Therefore, the offer did not succeed. However, in the meantime, we had bought, without any condition, a billion Euros' worth of shares, which represented 30 % of the capital. This was a difficult situation in the short term, since we were a minority share-holder with no power. However, it was a situation which ensured our presence in "round two". During this period, we were underquoted by 30 % with regards to our sector. It was a hard year.

At the beginning of 2001, the market had reverted to the low tech sector, and so we were able to relaunch the Blue Circle deal in terms of a friendly buy-out to everyone's satisfaction. In the space of two weeks, our share price increased to 115 Euros. We were on the crest of a wave, with an 18 % growth in the year 2001, compared to the rest of the stock market which had mostly fallen.

Pitfalls

At the beginning of 2002, even though the construction markets were not very buoyant, our share price remained stable during the first six months, and we entered the Euro STOXX 50 in

the summer of 2002. To do so, we had had to be placed among the top fifty companies, and we gained our place as leader.

However, the asbestos story took a new turn, making Saint-Gobain fall by 20 to 30 %. A competitor in our sector, who had always said that there was no fear that he had any asbestos, finally discovered that he did have some, and as a result, we lost 15 % in a single session (of the stock market), even though we said we were not at risk.

The lack of any prospect of a future economic recovery made itself felt and resulted in Lafarge's return to the middle of the sector, and a return of the sector to the middle of the stock market. The result for 2002 was that we had developed exactly like an average company in the Stock Exchange, in other words, experiencing a decrease of 30 %, with a price of 67 Euros.

Unstable share prices

Thus, over two or three years, prices were very unstable. It is quite difficult to make a clear connection between results and prices since it was when we published our best results that our share price was at its lowest. It is even difficult to correlate prices and prospects or basic assessment, since the same analysts who currently advise selling, admit at the same time that Lafarge is a very good long-term buy, with an excellent fundamentals.

Some logical thinking

Logically, there are several ideas which make things difficult :

- the concept of *anticipation* : results reflect past events, whereas in economics, only the future, which is difficult to predict, counts ;
- the concept of *competition* between sectors : if someone offers something very enticing, and you offer something less attractive, then you are not in a good position ;
- the concept of *risk* : the same people who told you to get into debt subsequently reproach you for being in debt ; this is normal, since opinions change according to circumstances ;
- the concept of *the majority* ; it is not necessarily my opinion about a share which is important, but the interplay between my opinion and that of others : if I think that a share is very good but others think the opposite, then it is likely that the share price will fall.

Should one draw the conclusion, as Michel Berry suggested when he talked about shareholders, that they demand results which are so difficult to achieve that managers will go to any lengths to get them ? I think that the company has other partners who are equally demanding : its clients who demand cheaper products but which still need to be of excellent quality. Therefore, one should not be put off by the reaction of the share-holders, but one should still be aware of how difficult they are to satisfy and their different backgrounds.

In practice

Over the three years I have described, what have we done in practical terms, and with whom ?

People in the company

Among those in charge of relations with share-holders, there are people who look after individual share-holders (I shall not be talking about them today), and those who are responsible for the relationship with institutional investors. This function has taken on an important role in the company (and incidentally, business school students are not sufficiently aware of this fact). At Lafarge, the man in charge of financial communication is undoubtedly the person who knows the company the best. In practice, he can ask directly any one of the managers of any single department any specialised question he likes.

The other managers are obviously interested but, apart from those in charge of relations with

the share-holders, it is the financial director and the CEO himself who spend the most time dealing with financial communication. This activity takes up more and more of my time : at the beginning of my chairmanship, two or three days a year was enough but now I spend between twenty and thirty days per year.

Those concerned with financial institutions

Bankers and asset managers are the key people in financial institutions. Bankers can also carry out the very profitable activity of asset management.

In their capacity as bankers, they help companies find investors and carry out financial operations. They have networks of sales staff and analysts to help them. These analysts are called the 'sell side' analysts and they supply the sales staff and clients with information about companies which is sometimes a little optimistic.

Asset managers, on the other hand, buy shares, according to a principle of diversification and specialisation. They can also seek help from the analysts who advise them personally. These are the 'buy side' analysts.

A changing relationship

The relationship between all these partners has changed a great deal, firstly in intensity, secondly in its nature and finally in quality. Currently, the '60 minutes to persuade' slot between a chairman and analysts takes place in road shows and in the one-to-ones.

- Road shows. Hitherto, when only the annual results were considered important, the analysts only met once a year, in Paris and London, and only one or two meetings a year were organised for investors. Now, each year we organise several road shows, for example when the results are published, when there are special events (such as when bonds are issued, or for an operation like Blue Circle or Redland), or when we think that a certain number of investors want to know more about us.

A road show always includes a meeting of sell side analysts. Because plenary meetings are usually transmitted via the Internet, we have to be aware that the information which we give out is inevitably in the public domain. Regardless, these plenary meetings do not exclude direct relationships with analysts, in order to refine their analyses, and with certain investors.

Each of these road shows mobilises my immediate staff for two weeks. I spend five or six days myself on a road show, including the individual meetings which result from it.

- The one-to-one. We have progressively adopted a personal client approach. We meet important investors in the famous one-to-ones. We have to go to where they are, since large meetings no longer suit them. Instead, they prefer a face-to-face with the heads of companies and for these meetings they are often accompanied by buy side analysts.

A variety of scenarios

The setting of the meeting varies according to the time, the number of people involved, the reasons they want to talk to us, the type of investors, the traditions of each company, and so on.

Actually, there are times when they are not interested, and it is frustrating, and others when they are interested, and then the room is full and two typical situations can take place :

- in the audience, there are one or two buy side analysts who are very aware of what we are doing, particularly as a result of reports from sell side analysts and bankers, and whose only reason for being there is to complete their files. They monopolise the meeting by asking a number of specialised questions which does not allow for a well structured and persuasive

discussion, and this is also frustrating ;

- or alternatively, it can be a meeting of fund managers who want to understand our strategy, ask questions about our methods of management, and who find that this is indeed the moment to test you personally and to test the consistency and quality of what you are saying. This is all the more interesting since some fund managers, thanks to the contacts they have with many company heads, know the industry better than the managers themselves.

There is also a big difference between the pension funds which manage their own money and the investors who have their money managed by other people. Pension funds can be less sensitive to short term issues and more interested to the fundamentals of the business.

This all happens in a sensitive regulatory context. American rules forbid giving specific information to one share-holder and not to another. It is a complex game. One should of course give the same answers to everyone, but not everyone asks the same question.

Furthermore, the concerns of analysts and investors change from time to time. Depending on the trends of the market, they can be looking for development and growth, or performance and profitability, or even stability, financial security etc. This prompts analysts to classify companies by categories. As far as Lafarge is concerned, we were first classified in the "cyclical" group of companies, in other words, those whose results are very closely linked to the current economic situation. We were subsequently placed in the defensive company group. When the economic situation is bad, "defensive" companies are supposed to resist more. We are probably in the process of becoming cyclical again. It is for this reason that our share price is currently less satisfactory.

Also, an issue is the degree of transparency, the amount of information given and its degree of precision etc. All this information will be readily available to your competitors !

Other pitfalls lie close to the surface. In the one-to-one especially, the questions are sometimes so precise that even the CEO does not know the answer, which is not only normal because our companies are decentralised. But it is embarrassing, because, outside people cannot understand that a CEO cannot know in detail all what is happening in his company. As for the forecasts, they are a double-edged sword. They can undoubtedly be an attraction, but also a source of disappointment which may prove to be difficult to manage if they are not realised.

Remaining credible

From another point of view, there is obviously an inevitable change towards providing more information, but this is coupled with the difficulty of sorting out the information which is really significant. In this context, to which one can add very volatile markets, a great deal of competition and demands for high quality results, the company has to be careful to keep its share-holders' trust for the long term. I do not think that there is a magic solution to do this, apart from doing a good job in managing one's openness in order to remain credible.

The fund manager's point of view

Emmanuel SOUPRE : I am in charge of European management at NSM Gestion, a subsidiary of the NSMD bank, which is a member of the Dutch banking group ABN AMRO. Firstly I will give you some figures and then I will talk about my job and my relationships with companies.

Some figures

A portfolio of institutional shares generally includes between fifty and one hundred and fifty shares. Having said that, sometimes up to four hundred different companies can exist in some American portfolios. In such a situation, tens of billions of dollars' worth of assets are being

managed.

On August 31st, 2002, 1,500 billion Euros' worth of assets were managed in France. This is the equivalent of the French GDP, of which 890 billion Euros is in the form of collective management, and 460 billion Euros in the form of mandates in the form of trusts from private individuals, companies or institutions. There were eleven thousand managed funds. Clearly this is a huge industry and the heads of companies cannot fail to recognise its existence.

If you manage a portfolio with one hundred shares, and if you decide to choose five positive and five negative criteria for each company represented, you have to update regularly and systematically one thousand different pieces of information. The abundance of information to be treated and stored, and the obvious risk of deviating with regards to what is really happening in each company, makes this task relatively arduous.

Ten or twenty years ago, a manager in Paris had the choice of about three hundred shares. On a European scale, he now has ten times as many possibilities. It is because of this that the 'buy side' or 'sell side' analysts reduce the options to help investors choose, but where there is also the risk of being bogged down by too much information.

The forms of management

As far as the forms of management are concerned, one either tries to take into account the overall state of the economy according to an index which in general serves as a benchmark (such as the CAC 40, – the Paris Stock Exchange Index –, or the Euro STOXX 50, etc.), or by carefully selecting certain shares. These two approaches are complementary. During a strong economic growth period, why should one choose a specially selected group if all share prices are on the increase ? One might as well choose indexed management. If, on the other hand, economic activity is gloomy and the forecast is for three or four years of stagnation, then one has to choose, and run the risk of backing companies whose performances are not guaranteed at all.

Groups of companies

Bertrand Collomb mentioned that analysts had classified Lafarge in the cyclical group of companies, and then in the defensive group. These two groups are compatible. Generally speaking, one can divide companies into two large categories of shares :

- growth shares : these refer to companies whose growth is substantially greater than that of the macro-economy to which they belong, for example, the Internet which did not exist ten or fifteen years ago, and which has become a real growth sector ;
- value shares : these refer to companies which have a relatively weak rate of growth over the long term, roughly correlated to the GNP or the GDP of the country or the zone in which they exist. For example, the development of cement is linked to the growth of the economy, but also to the changing demography, which makes it a relatively predictable activity.

Companies considered to be defensive are also characterised by the performance which they have achieved or by heavy capital investment. The stereotype for being an adviser in the service industry, is that one needs a table, a chair and a telephone. On the other hand, if you want to make cement, steel, cars, or aeroplanes etc., one has to invest a great deal of capital before the company can get off the ground. Heavy capital investment is a form of protection particularly in these sectors.

The attitude of institutional investors

The attitude of institutional investors differs depending on whether they belong to continental Europe or the English-speaking world. Continental Europeans tend to be 'sleeping partners' : they do not interfere with companies' strategic decisions, but if they are not happy with the results, they sell. In the English-speaking world, the attitude of investors is much more

interventional, making judgements which are sometimes very clear-cut. Negative voting (voting 'no') in share-holders' meetings is much more common than in continental Europe. This is a tendency which will grow in the coming years, given the professional obligations of fund managers, regardless of where they are active.

The rules by which the system functions

This profession conforms to ethical rules and a working method dictated by the COB (*Commission des opérations de Bourse* : the French equivalent of the British Stock Exchange Watchdog body or the American Securities Exchange Commission) or its European equivalents, the CMF (*Conseil des marchés financiers* : advisory body for financial markets) and the AFG ASFFI (*Association française de la gestion* : French management association ; *Association des sociétés françaises de fonds d'investissement* : Association of French investment fund companies) an association which regroups all the fund managers.

The COB advised managers to use their right to vote at the share-holders' general meetings. As far as this is concerned, policies vary depending on each establishment. This is why we decided to draw up our own rules concerning the approval or otherwise of resolutions proposed by boards of directors, and I am responsible for making sure they are enforced. The aim of these rules is to maximise the financial performance and to make sure that interventions in companies are transparent.

Financial analyst and fund manager

The financial analyst provides help in the detailed treatment of mathematical financial information. Of course, he assesses the general structure of the company, but above all, he needs to know the accounts of companies in sufficient detail in order to detect the slightest fault.

The fund manager has a much more generalised view of each company and forms a qualitative judgement based on five aspects which concern the company. These are its management, its products, its industrial equipment, its financial equipment, and its environment. The first four aspects are strictly within the jurisdiction of the company. As for the fifth, the company can be a victim of its environment or be capable of coming out of it positively.

The assessment

As fund managers, the relationship which we may have with the head of a company is both simple and complex. Initially, we acquaint ourselves with the activity of the company, and then its strategy is explained to us so that we can assess it. We then go through all the parameters which have been previously identified as being important, so that we can grade them. In the end, this is how one can form an overall opinion about the company.

We obviously find the forecast of the results very important, since financial markets anticipate economic events six to twelve months in advance. In a period of favourable economic circumstances, it is easier to trust the forecasts and the share price may rise, but when the climate is unfavourable, we only buy if the price seems sufficiently undervalued (we insure against unfavourable circumstances), or we look for a share which is doing well.

When we have completed this investigative work for each company, we have to bring our assessments up to date, and at the same time refine the points which are a cause for worry or uncertainty. Let us take the case of asbestos. It all started in the United States. People realised that if they thought they had been contaminated, even if they had only passed by a pipe covered with a layer of asbestos, then they could lodge a complaint and claim an astronomic amount of money which, in the American judicial system, can easily be granted. This process runs the risk of being very costly to companies : lawyers have to be called in and spend a great

deal of time. This is how Saint-Gobain was affected by the “asbestos” affair.

The result of the rumour

Lafarge, who was not involved, was nevertheless penalised, despite all its attempts to communicate what was happening. Rumours place huge pressure on economic reasoning. Even though it is unreasonable to be influenced by rumours, why does one still take any notice of them ? Since everyone considers that the market is always right, fund managers should act carefully, since the people who give their proxy to them will most certainly blame them for losses in share prices which were the subject of rumour, even if the losses were inevitable, as in a generalised fall in Stock Exchange prices. Because of the manager’s professional obligations with respect to the people who give proxy, the relationship of the manager with them becomes complex and damaging, as does his relationship with the company.

Financial communication

This is why financial communication has become an essential area in listed companies. The person in charge of investor relations is the intermediary for our worries, preoccupations, and convictions with regards to the company. He occupies a central role in company management because he has to listen closely to everything that is said in the market and then be capable of transmitting this clearly and succinctly and adapting his talk to the preoccupations of investors.

Recommendations

Depending on their overall assessment of the shares, portfolio managers advise investors to buy or sell. In 80 % of cases, it is the purchase, the accumulation of shares or the decision to keep them which is recommended, whereas in only 20 % of cases is it advised to sell some shares or all of them. Why is this ? Sales always create a certain uneasiness : the selling of the shares is seen as a divorce from the company whose shares one intends to sell. Having said that, since the most natural position is to buy, the percentage of purchases and sales of an investor will be a useful indicator for us to determine what the investor considers important, since we will accurately analyse the reasons for selling.

The one to one

The one to one is a joyous occasion. I meet heads of companies who know how to captivate the people they are talking with by projecting into the future. Numbers fade into the background : strategy dominates.

DISCUSSION

Buying an index

Michel Berry : I had thought that when one entered into the Euro STOXX 50, it was a good way to find investors, and that it encourages acquisitions and mergers. However, fund managers and analysts tell me that this does not count for as much as one might think. What should we make of this ?

Bertrand Collomb : A certain number of investors, who realised that it was very difficult to do better than the index, simply decided to buy the index. This is less expensive for them in terms of management costs. Therefore, the person who has a fund indexed to the Euro STOXX 50 buys the fifty shares of this index in exactly the same proportions they have in the index, in order to have strictly the same performance as the index. This would be the same way if the fund were indexed to the CAC 40. A company which is included in such an index will be present in these funds.

Getting oneself known

Question : *Bertrand Collomb said that the large annual meetings of analysts took up three days of his time but since clients want a one-to-one, this activity takes up thirty days per year. If the CEO had to go to see all the clients himself, I do not know how the company could continue to function. This is a demand which personally I refuse.*

B. C. : My problem is not knowing whether the CEO should go or not, but trying to be efficient. Experience shows that devoting thirty days of my time is possible, provided that during my absence other people look after what is going on. Having said that, whereas a road show involves my close staff for three weeks, I only spend five or six days at it, which means that I do not see all the share-holders.

Emmanuel Soupre : You stress the fact that it is very difficult to be present everywhere. However, as fund managers, we are very keen to meet the CEO, as well as his financial director, a managing director, or the person in charge of investor relations. In general, only top management is capable of answering efficiently all our specialised questions, and certainly talking about strategy, and this is why we prefer to meet the CEO himself.

These meetings also prove to be useful for another reason. We have a great many shares to monitor and it is not easy to pinpoint those which are likely to do well. When a company tries to make itself better known by a particular action or activity, we seize the occasion. Of course, we use models to make it easier to sort shares, but the assessment that models provide is based exclusively on figures which are incapable of taking into account the policy or the strategic desires of a company.

M. B. : Do you rate the heads of companies ? Is there a mark for the way he looks ?

E. S. : It is true that we also assess the personality of the head of the company. Having said that, we have to make sure that we are not taken in by a charisma which does not match up to economic efficiency.

Opposing worlds ?

Q. : *As I listen to you, I get the impression that in a one-to-one, it seems as if two opposing worlds confront each other :*

- *the world of portfolio management ; its sphere of reference covers all sectors of activities and one gives it marks for performance, preferably on a weekly basis. Furthermore, there are fashions which change : in the 1990's, managers were only interested in economic growth whereas now they are interested in debt ;*
- *the world of the company ; the sphere of reference is limited to the sector of activity of the*

company ; with good reason, heads of companies hesitate about presenting quarterly results ; contrary to portfolio managers, they are constantly interested in all the economic factors.

Therefore, in a one-to-one, partners are on different wave lengths. This causes problems in the exchanges. Furthermore, since financial analysts lost some credibility in the Internet wave, heads of the company advanced their companies further forward, and their tendency is to advise solely the purchase of their own share s!

Finally, the only common point of interest is the Stock Exchange price : the fund manager tries to assess the likelihood of seeing the company share price rise and the head of the company tries to make it rise as high as possible. Yet, curiously, this is never discussed in the one-to-ones.

E. S. : There is no real conflict between the different people involved, because a manager cannot live without the companies and the company cannot live without share-holders. Therefore, even if their worlds are different and the work strategies quite firm, one can still agree perfectly well in areas whose end result is a form of assessment of the results and a Stock Exchange price.

B. C. : Despite accidents and slip-ups, in the end the interaction between these two worlds is a source of wealth. The efficiency of the industrial world increased thanks to the financial world which made it react. Of course, it is not very easy at certain times to reconcile different ideas, especially in the long term, but we are paid to live with difficulties.

A preference ?

Q. : *Does Bertrand Collomb have any preferences for certain investors ?*

B. C. : It is true that I prefer those who are interested in what the company is doing and who think in the long term. However, there are different investors and they all have a different role. To have the maximum number of investors, we look at all of these groups of investors. If we were to ignore some of them, they might act against us without our even knowing.

Financial performance

Q. : *Emmanuel Soupre talked mostly about financial performance. What are the reference points and the base for the calculation of this performance ?*

E. S. : Financial performance is merely the numerical version of my work as fund manager. In my portfolio, I include different shares taking into account their advantages and their disadvantages in order to optimise the results with regards to the objectives that I have been given. It is obvious that one can let oneself take some risks in a portfolio which includes a sufficient number of blue chip shares.

Having said that, financial performance enables one to make simple comparisons. Each week I have a look at the performance of my portfolio : this does not mean to say that I try to change it every week. My role consists of safeguarding the assets with which I have been entrusted, and to try to get the best performance possible out of them, either in an absolute way with regards to the portfolio itself, or in a relative way by comparing the portfolio with an index.

I will make every effort by using all the possible means of information to reach this objective. Of course, I have figures at my disposal which are the result of automated calculations or of the work of analysts, but I am sometimes confronted with diverging views and so I have to form my own opinion. Therefore, this is not an easy job. The work is partly based on one's own opinion, and partly on experience.

The human role

Q. : *Why does the CEO now spend thirty days per year meeting investors whereas before three days were enough ? It seems to me that this is all linked to changes in economic life. The aim of*

traditional economic analysis was to reveal things which did not change in the movement. Except that, year by year, there are less and less permanent things. Major events take place on a huge scale. Therefore, it is no longer possible to monitor series of events, nor to draw curves linked by points, so what can we do ? We have to show an interest in those taking part because in the face of the changing events, man's nature, his mind, his capacity to resist stress, and his optimism will play an essential role. Therefore, to hell with the curves, let's now take a look at the person.

E. S. : In one way, you say that the influence of the head of a company cannot be calculated, and you are right. This is why the meeting of the hierarchy of companies is useful to us. Publication of quarterly financial results is obviously useful, but we should not be influenced by results.

Index management

Q. : *Does the development of index management not run the risk of decreasing the role of analysts in their relationships with important companies, because once such companies are in an index, (such as the CAC 40 or the Euro STOXX 50), they will appear in the portfolio ?*

E. S. : Choosing index management is like choosing a representation of the majority of the companies of an economy. It is a simple and practical system, but if there is a downturn in the economy, the important companies do not fare well. Therefore, the combination of the use of indices and of very specific choices allows one to get better results in the end.

B. C. : Having said that, if many funds are managed according to one index, it is those which do not use this index which dictate the share price. If it rises, its influence in the index increases, and people with indexed funds buy it. This activity has a tendency to emphasise fluctuations.

A dangerous reputation

Q. : *Is it necessary to emphasise giving grades or noting people for their appearance or behaviour to finally see stories such as Enron come to light ?*

B. C. : When one pushes financial concepts to the limit, things get absurd. If, for example, the value of your stock options momentarily reaches such a level that you can sell them and make one thousand times your salary, then the system is going haywire since one has to be a brave man not to do everything possible to make it happen. Everyone thinks he can win the lottery, and we have always had to protect people against themselves and against those who can manipulate them in this way.

E. S. : But how do we combat these crooks ? If you turn a blind eye to people who doctor and fiddle accounts, the system gets carried away and the bubble explodes for all to see. In the case of Enron, the consequences on financial market stability were terrible. One cannot understand a financial market without respecting a certain number of ethical rules, and rules of how it works which are understood and accepted by everyone concerned.

Nevertheless, grading appearances does not really come into play in Stock Exchange prices, contrary to the impenetrability or the transparency of information whose influence is very clear. Since it is impossible to assess a company which refuses to answer managers' questions, managers obviously refrain from buying their shares, and their price drops. Financial transparency is necessary so that the Stock Exchange prices are maintained but this is obviously not enough.

Sustainable development

Q. : *It is now considered healthy to measure the performance of a company by durable phenomena such as the social environment. How do you integrate measures of this sort of performance in the management of your portfolios ?*

E. S. : In the idea of durable development, there is the concept of the length of time, which ties up with one of the preoccupations of a company, its longevity. Sociological analysts now assess companies beyond strict financial parameters. Companies such as Lafarge, L'Oréal, STMicroelectronics and many others show their concern for durable development. Nevertheless, one should analyse the financial consequences of this. Sometimes this approach calls for a certain rigour with regards to the use of materials and industrial equipment. The savings which come about as a result of this are totally compatible with financial logic.

B. C. : At the present time there is a consistent concern in companies for 100 % quality which includes the concern for sustainable development. Similarly, we no longer wonder if the quality of products costs too much money because we know that in the end, quality will be rewarded. The same is true of the protection of the environment or of sustainable development. It is one of the points on which the industrial and financial worlds agree.

Conclusions

E. S. : In the knowledge that it is impossible to understand a financial market without information, how then does one judge the quality or the management of a company ? Once companies make forecasts and stick to them and also communicate, this goes a long way towards helping fund managers, because this situation allows them to work in good conditions to satisfy the expectations of their clients.

B. C. : One can look at the recent events as dramatic examples of dysfunctional markets or dysfunctional companies. One could also think that in the last two years, some illusions have disappeared, including an excessive belief in financial markets, which had been a very financial and very short-term view of business. This could be an opportunity to come back to a more balanced view, with a multidimensional approach of management, closer to the traditional approach favoured by European and French managers. And this is really the challenge for me : to be competitive in the world while keeping the best part of our principles and traditions.

Presentation of the speakers :

Bertrand Collomb : Having been both chairman and CEO of Lafarge since 1989, he stepped down as CEO and remained purely chairman in May 2003. He is also a director of several companies, chairman of the Afep and member of the *Institut (Académie des sciences morales et politiques* : Academy of moral and political science).

Emmanuel Soupre : studied economic science and is a graduate of *Institut des Etudes Politiques (IEP)*. He is the director of European management at NSM Gestion. From 1981 to 1986, he was a financial analyst, graduate of the SFAF. He is also a member of the International Advisory Board of Euronext, of the commission *Gouvernement d'Entreprise* of AFG-ASFFI, of commissions *Valeurs moyennes* of the SFAF, and of Paris-Europlace, and senior lecturer at the *IEP* in financial markets.

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