

## Mutual funds' support over pay is not surprising

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Published: April 14 2009 03:00 | Last updated: April 14 2009 03:00

*From Prof Eric De Keuleneer.*

Sir, That mutual funds support management proposals on remuneration (report, April 6) should not come as a surprise; they do say they have a fiduciary duty to look after the fundholders' interests, but it is difficult to define what this fiduciary duty is, and it is always easy for them to follow slogans like "You have to pay top salaries for top talent".

Some mutual funds have good reasons to be soft on chief executives from whom they expect fund management business; it is also tempting for fund managers to be generous about management remuneration because they are themselves managers, and thus indirectly their remunerations will be, with some delay but quite automatically, positively affected by the general inflation in managers' remuneration (they like to think they are also "top talent").

Pension funds managers also seem disinclined to behave as vigilant shareholders, and tend to support CEOs on remuneration or nomination issues: not surprising either, since in many cases CEOs have a strong influence on their selection. This may explain why public sector pension funds seem to be by far the most active in shareholder meetings.

Unless the conflict of interest of fund managers – in fact a kind of agency problem that compounds the CEO's agency problem – is seriously addressed, relying on "market forces" to improve corporate governance and limit remuneration excesses will be little more than wishful thinking.

In a way, this is a worse system than the old soviet one: the Supreme Soviet claimed that it represented the people and was acting in their best interests, but it could only fool itself. The conflicted funds system might be more difficult to eliminate, because so many people believe it is a normal part of a reliable system of checks and balances, whereas it in fact neutralises them.

The quest for good governance should probably concentrate less on getting the kind of "top talent" that mostly concerns itself with excessive compensation (look where they have brought us) and more on selecting managers who are able to look after the company's interests and monitoring them. Do not bank on too many fund managers helping us get there.

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