Financial

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Heavyweight puts pressure on HSBC

US pension fund backs demands for changes

Bank insists share price shows strategy is right

Jill Treanor

Stephen Green, chairman of HSBC, is coming under pressure from one of the world's biggest pension funds to improve the bank's performance.

Calpers, the US group which manages £125bn of funds for the state of California, is giving public support to a campaign led by activist investor Knight Vinke demanding changes at Britain's biggest bank.

Green, who has faced calls from Knight Vinke to relinquish his executive role to become a non-executive, will begin the new year with a fresh challenge to his management role.

Though Knight Vinke failed to win much support from City investors, support from Calpers may help it with any fresh initiatives aimed at the bank. Christy Wood, head of global equities at Calpers, has reportedly set the HSBC management team a six-month deadline to outline plans for sweeping changes designed to improve performance. Wood wants answers by July 1 and a set of precise metrics and milestones for the bank's management so that improvements can be measured.

A spokesman for Knight Vinke welcomed the support of Calpers. "This will put a lot of pressure on Stephen Green. This is the biggest pension fund in the world."

City sources noted that while the support of Calpers was not surprising given that the fund helped start Knight Vinke, the fact it was making its views public was important. Calpers provided some of the money to set up Knight Vinke four years ago and still owns a third of the group.

Calpers does not have a disclosable stake in HSBC – that is more than 3% – and is thought to own its shares through an index tracker fund.

HSBC last night continued to reject the calls for change, which followed the bank's first ever profits warning due to losses inflicted by mistakes in its sub-prime mortgage business in the US. A spokesman said: "Our share price out-performance in 2007 demonstrates our shareholders' confidence in the direction our management has set."

After a difficult 2006, HSBC's shares are the second-best performers in the UK banking sector this year, behind Standard Chartered, which has benefited from its lack of exposure to the US-centred sub-prime mortgage crisis. Until this year, however, HSBC's shares had underperformed in three years, rising 6% compared with an increase of 27% in the FTSE banking index.

This is why some City investors believe

6% **Three-year rise in HSBC shares to 2006, compared with 27% FTSE average. This year, though, they have beaten most banks**

Knight Vinke's assault may have come a year late. Led by Eric Knight, the group has accused the bank of breaking UK company law by paying top executives under a less testing bonus-share plan than the one that was voted for by shareholders, giving executives no incentive to question the bank's strategy.

Knight wants the bank to focus more on Asia after expansion into the developed world, notably in the US with the acquisition of Household in 2003 where the problems with the sub-prime mortgages emerged. He has also suggested selling operations in France and the US and selling the investment banking business.

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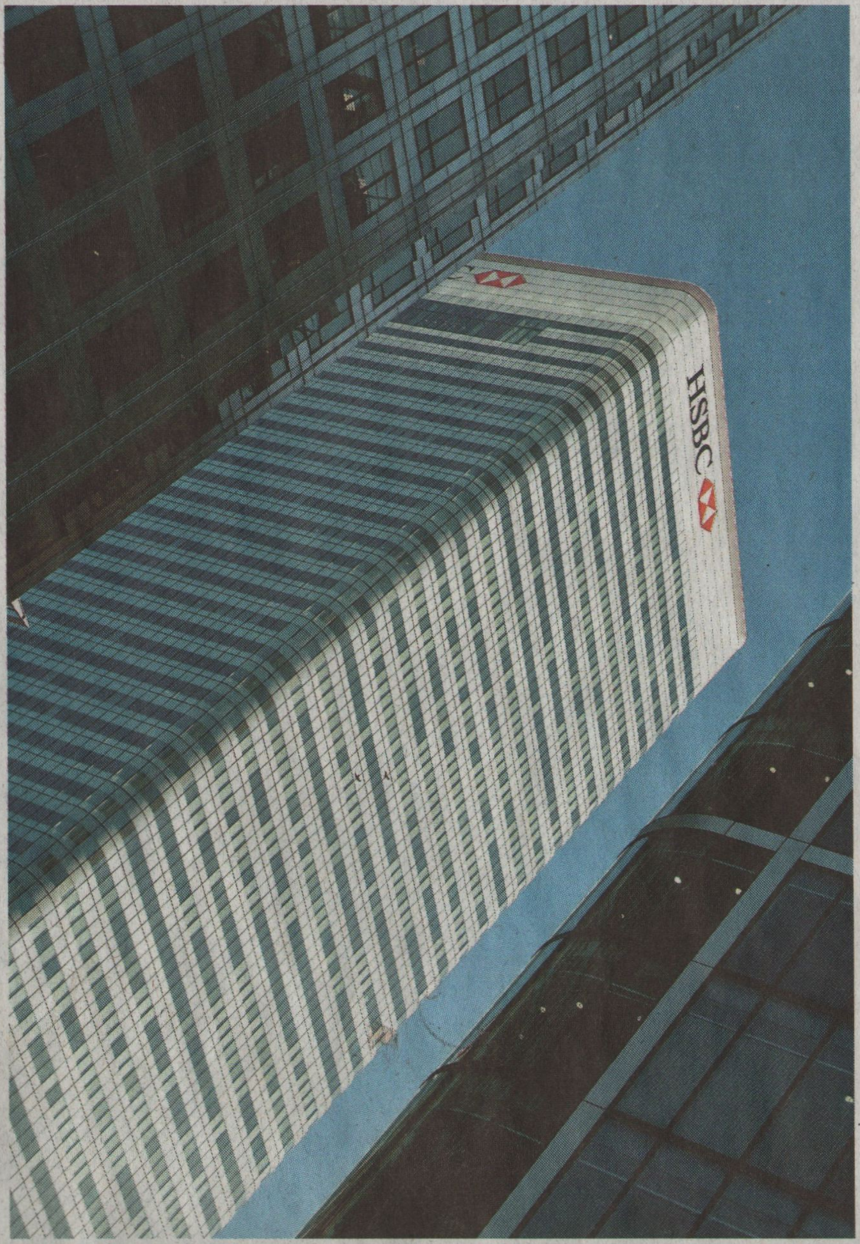

Calpers has given HSBC a six-month deadline for action Photograph: Alamy

Bacardi director quits after only eight months

Simon Bowers

Drinks industry veteran Graham Hetherington, formerly finance director at British firm Allied Domecq, will today quit a similar role at Bacardi eight months after taking up the post.

The resignation, which was quietly announced 10 days ago, will disappoint those who saw his appointment as part of wider preparations by one of the world's largest family-controlled companies to open up its share register to outside investors.

Bacardi, which is incorporated in Bermuda, is a fiercely private corporation. Hetherington, with former Allied Domecq chief executive Philip Bowman, had presided over the sale of the London-listed drinks group to a consortium of rivals led by smaller French group Pernod Ricard in 2005 for £7.6bn.

At the time, the two men won praise for making a dispassionate decision to sell in the interests of shareholders. Some industry observers had hoped for a similar attitude at Bacardi, which has for years toyed with the idea of attracting investment from outside the 600-plus descendents of the Cuban founder Facundo Bacardi y Masso.

Two years ago chief executive Andreas Gembler was brought in as chief executive from Philip Morris. He quickly continued the pattern of hiring external candidates for senior roles – often replacing relatives of family shareholders.

It was in this vein that Hetherington was appointed. In a short statement, Bacardi said a former chief financial officer, Ralph Morera, who had since been appointed executive vice-president, was returning to replace Hetherington, who had resigned "to pursue other opportunities".

Saviour takes on Equitable Life's embattled policyholders

Rupert Jones

Fifty thousand long-suffering Equitable Life policyholders will finally escape the scandal-hit insurer's clutches today when their policies will transfer to the Prudential after a £1.7bn deal announced in March.

Policyholders have not been allowed to leave the company since its near collapse in 2000, forcing them to watch their slashed the value of policyholders' investments after it lost a legal battle involving guaranteed annuity rates, sold as part of pension plans. While many investors jumped ship, those holding with-profits annuities had to stay put. Their policies pay an income in retirement linked to the performance of Equitable's with-profits fund, where some have seen their annual income drop by as much as 40%-50%.

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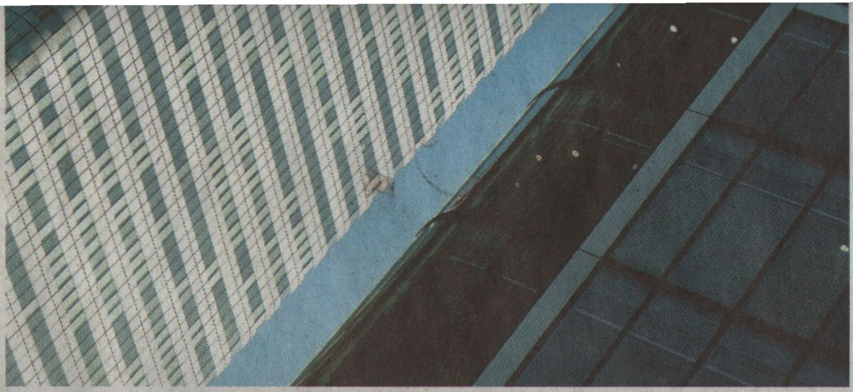

Calpers has given HSBC a six-month deadline for action Photograph: Alamy

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Policyholders have not been allowed to leave the company since its near collapse in 2000, forcing them to watch their retirement incomes wain as a result of the insurer's problems. They all hold with-profits annuities and are looking forward to a brighter future with the Pru. However, some fear that they could be jumping out of the frying pan into the fire. After years of wanting a greater exposure to the stockmarket, they are moving from a low-risk, low-return fund to one that has 70% of its investments in equities and property.

Equitable Life shut its doors to new customers in 2000 and later repeatedly slashed the value of policyholders' investments after it lost a legal battle involving guaranteed annuity rates, sold as part of pension plans. While many investors jumped ship, those holding with-profits annuities had to stay put. Their policies pay an income in retirement linked to the performance of Equitable's with-profits fund, where some have seen their annual income drop by as much as 40%-50%.

Prudential agreed a £1.7bn deal to take over Equitable's with-profits fund that had 50,000 policyholders

Therefore many were relieved when it was announced in March that the Pru was taking on Equitable's with-profits annuities. The transfer formally takes effect today, when the Pru will take over the running of such policies.

This month, Nick Prettejohn, the Pru's UK chief executive, said the deal would provide the annuitants with "improved prospects and greater security by being part of one of the largest and financially strongest funds in the UK". However, Equitable warned that "because of the riskier nature of assets such as equities, it is possible that investment returns ... could be lower than if your annuity had remained with Equitable Life".

Peter Scawen, a spokesman for the Equitable Life Trapped Annuitants group (Elta), said he considered this "a reasonable deal" and that in the long term, people would probably be better off – or, at least, the rate of decline would slow down.

Shell to outsource 3,200 IT jobs

Julia Kollewe

Royal Dutch Shell plans to outsource thousands of IT jobs in a drive to slash costs and simplify its structure, following in the footsteps of its arch-rival BP.

Shell's information technology division will bear the brunt of the changes with 3,200 staff thought likely to be affected by a decision to turn operations over to three outside companies.

Shell's chief financial officer, Peter Voser, has reportedly told staff that he wants "a leaner and meaner" finance division. The company said yesterday that it was seeking to move selected finance operations to shared (Shell-owned) service centres.

Shell has decided to outsource a "substantial" part of its IT infrastructure services, according to an email written by Goh Swee Chen, vice-president of IT infrastructure. The companies chosen from a list of six suppliers are named as EDS, T-Systems and AT&T.

According to the email, which has been posted on an anti-Shell website (royaldutchshellplc.com) and confirmed by the company as authentic, Shell intends to consult staff about the changes from January and plans to have the new arrangements in place by July 1.

An email from an unnamed IT employee posted on the website said that under the plan about 3,200 IT jobs would be outsourced and only 400 management positions retained.

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Which theoretical physicist accidentally went to Barbara Windsor's 70th birthday party?
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