Dear Shareholder: A chairpersons writes to investors

Whether a chairperson writes to the company's shareholders or issues a chairperson's statement, changes the tone and tenor of their message.

Photo by Trent Erwin on Unsplash

Warren Buffett has been publishing his annual letter to shareholders for more than half a century. It's a must-read for investors, who pore over each letter expecting to decode and translate his insights into exceptional performance for themselves. I also believe that the letters are enjoyable for their optimism tinged with self-deprecation and self-criticism.

There are a few other letters that are studiously read, maybe not with the same concentration as that of Warren Buffett but deserve focus.

The most cited of these is that of Larry Fink, chairman of Blackrock, the world's largest asset manager. For the past ten years he has been sending out two letters. One is to his shareholders and the second to the CEOs of the companies in which BlackRock invests, as a fiduciary on behalf of its clients, and lay out Larry Fink's – and Blackrock's, expectations for how these businesses are managed.

Blackrock has assets under management of some US$ 8 trillion. Its median ownership of the S&P 500 was at 7.7% in 2021, and together with Vanguard and State Street, owns 10% of all global equities, which gives Larry Finks letters heft.

For the past few years Larry Fink has focused on profits and purpose and exhorted companies to behave responsibly towards all stakeholders.

This year Larry Fink combined his two letters citing that "shareholders, clients, employees, partners, the communities where we operate, and the companies in which our clients are invested – are facing so many of the same issues" as being the reason for writing a single letter. This also explains postponing the publishing slot from January to mid-March.

This year's letter focuses on the price of the easy money policy pursued since the 2008 financial crisis and its unwinding, the fragmentation of the global economy post-Ukraine and the US-China standoff that which are reshaping the business environment. The focus is on the risks and opportunities these present and the responsibility of the board in identifying such risks and addressing them.

Given the pushback that Blackrock and Larry Fink has personally been facing this letter is an understandable departure from the last three when the focus has been on net-zero, sustainability, corporate purpose and stewardship through a stakeholder led governance model.

Jamie Dimon, chairman JP Morgan Chase, writes another eagerly awaited letter. In his eighteenth letter to shareholders Jamie Dimon touches on a range of issues from geopolitical risks to artificial intelligence, threat to banks from firms like Walmart and Apple. However, what he has to say about banking turmoil and its implications bears repeating.

Sent out just as the crisis Silicon Valley Bank was abating, Mr Dimon writes" that the risks were hiding in plain sight" and "the fair value of the held to maturity portfolio was known to regulators and the marketplace". Further that "the current crisis is not yet over, and even when it is behind us, there will be repercussions from it for years to come."

In this context Jamie Dimon spells out some of what regulators need to focus on. First is to strengthen regional, midsized and community banks as they fill a "critical role in small communities, offering local knowledge and local relationships that some large banks simply can't provide – or can't provide cost-effectively". This makes them essential to the (American) economic system. Second, the need for large and complex banks to play a role in the US and global markets. He reminds us that these banks are complex not because they want to be, but because the system itself is complex.

Jamie Dimon has some thoughtful observations on regulations as well. First that "the supervisory regime and the resolution regime currently in place did not stop SVB and Signature Bank from failing — and from causing systemwide issues. We should not aim for a regulatory regime that eliminates all failure but one that reduces the chance of failure and the odds of contagion." He is careful to argue that we should not overreact, and that the debate need not be about more or less regulation, but about what mix of regulations to ensure growth.

In India these are referred to as the 'chairman's statement' and not 'letter to shareholders '. Nonetheless, there are a few company chairperson's statements in India that are widely circulated such as the ones from ITC and Hindustan Unilever. However, in both these instances the companies overshadow their chairpersons.

The 2023 shareholder meeting season is now almost upon us – that time of the year when chairpersons have their say. Thousands of such letters will be sent out over this quarter and the next. It will be good to see how many focus on their company and industry and how many look beyond.

A modified version of this blog was published in Business Standard on 18 April 2023. The newspapers subscribers can access the blog by clicking this link or typing the following in your url: https://www.business-standard.com/opinion/columns/letters-to-shareholders-123041701161_1.html

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