THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

ISSUE 9

Welcome to the ninth issue of your **UKSA Newsletter**.

Chairman's message

I hope everyone managed to get a break and enjoy the Easter holiday.

Members may have seen the report by Ali Hussain in the Sunday Times in February on the case of UKSA member Chris Thorpe. He was trapped by pension transfer regulations into paying several thousand pounds for pension transfer advice from a tied adviser who directed him to expensive tied funds and refused to authorise investment elsewhere. His experience raises doubts about whether the disclosure rules for tied advisers are adequate to protect individuals from advice that may appear independent but is not. UKSA has raised these questions in a letter to the regulator (the Financial Conduct Authority) and called for transfer advice from tied advisers to be banned. Ali picked this up for the Sunday Times in the 24 April issue (see UKSA news story here). We await the FCA's reply.

We are planning to hold this year's AGM in person at the RAF Club on Monday 27 June 2022 at 3.30pm. We are exploring whether we can provide a hybrid AGM to allow members who cannot attend in person to join virtually by Zoom. There is also a plan for the next UKSA Social for full members, like January's, to be held at the RAF Club just before the AGM on the same day. We will keep you posted and there will be an AGM notice that full members will receive.

Talking of in-person meetings, Nick Steiner has organised one for full members at BP at 11am on Tuesday 10 May 2022. Company meetings are one of the reasons that UKSA members give for being members and they provide a good opportunity to engage with the companies that members are interested and invested in. Such in-person meetings have not been possible for over two years now due to Covid restrictions and I welcome their return. I believe it is not too late to register for the BP meeting as there are still some places left.

UKSA annual BP meeting 2022

Tuesday 10 May 2022, 10:30am

We have been invited to meet Craig Marshall, Head of Investor Relations, Alan Haywood, Head of ESG and Ben Mathews, Company Secretary. There will be a short presentation on BP's strategy, net-zero ambition and financial performance followed by a Q&A session. To apply please complete the short form at this link (preferred). Alternatively email the UKSA office at officeatuksa@gmail.com.

False advice advertising *by John Hunter*

Have you noticed how much advertising by financial advisers is false, proving the source to be either lying or intellectually challenged? Neither are good qualities for an adviser.

A common trick is to trumpet research that misuses conditional probability – giving a bias in the statistical sample that is favourable to the desired result. An example from medicine might be to sample 100 people who have visited their doctor in the last year and 100 people who haven't, then seeing how many of each sample die in the following five years. When this turns out to be 5 for the first group and 1 for the second this can be reported as 'visiting your doctor makes you five times more likely to die'.

In financial advice it is popular to compare the financial situation of those who have sought advice with those who haven't. Obviously, those who have sought advice are likely to be wealthier than those who haven't: with less wealth, advice is both less affordable and less needed. Here's one from a prominent tied adviser:

The Investment Funds Institute of Canada has found that the value of advice is compounded over time, with advised households having a net worth 2.73 times greater than non-advised households after 15 years.

Perhaps the multiple was four times when they started and only 2.73 when they finished? Who knows? As an aside, these investigations are often funded, as above, by those with more interest in the result than in intellectual rigour.

Let's see how many of these we can find. Please send us your examples, stating whether you agree to the adviser being named (and consequently shamed).

UKSA's policy work – UKSA's policy team continues to provide high-level input into consultations by UK government and international bodies. The table of current and recent work can be found here.

Campaign updates *by Sue Milton*

Northern Rock
Bill Brown continues to share with UKSA ways to revisit Northern Rock's case, for example contacting the Treasury Select Committee. The NRSAG (Northern Rock Shareholder Action Group) committee is still deliberating on what the next steps should be. Do we need to find a sympathetic MP and a friendly journalist to look at various documents NSRAG has, starting with Bill Brown's series of articles published in The Private Investor and on the UKSA website?

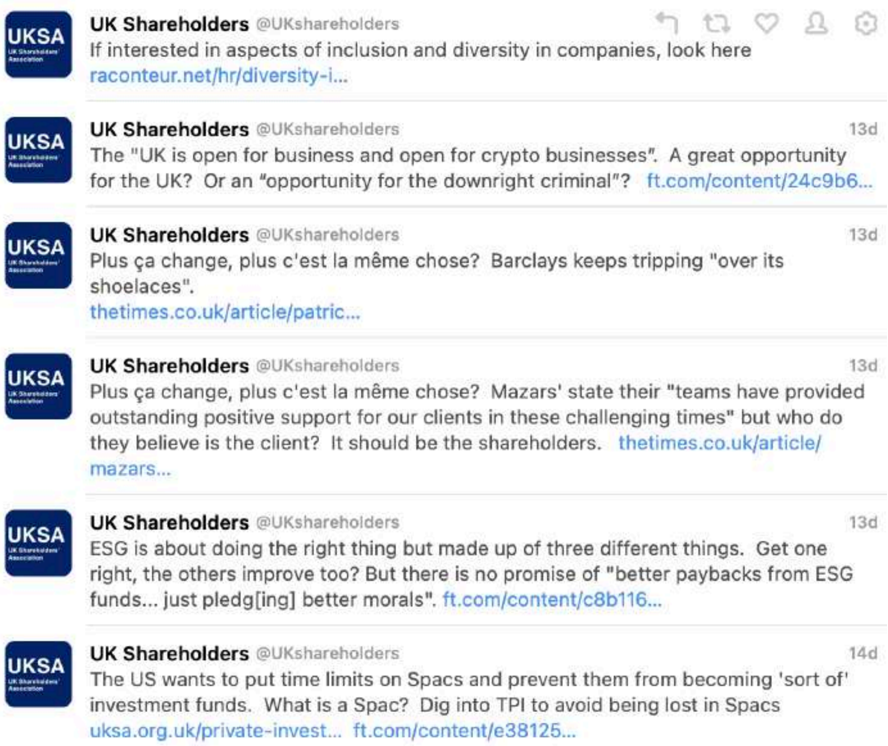
Amigo
ASAG (Amigo Shareholders Action Group) is liaising with the law firm Edwin Coe LLP to look at the previous judgment of 24 May 2021. Edwin Coe's review would help ASAG to prepare for the next court hearing covering the second Scheme of Arrangement, taking place on 23 and 24 May. ASAG believes that this second scheme, whilst much improved, also confuses the issue. This is because it combines the redress for creditors with the raise needed to grow the business. The former is about addressing the rights of creditors, the latter about managing the business once a new steady state has been achieved, which, for the moment, cannot be determined.

Halifax UK Growth Fund

An e-mail was recently sent out to UKSA members concerning this fund.

If you have invested in the Halifax UK Growth Fund via one of the many available share classes, Harcus Parker would like to hear from you as part of their investigation into possible closet tracking.

Please contact Harcus Parker by email at closettrackers@harcusparker.co.uk or by telephone on 020 3995 3878 if you are an investor in the Halifax UK Growth Fund and would be interested in hearing more about how you may help their investigation.



UKSA on Twitter

The picture on the left shows a selection of recent tweets published by UKSA.

Click the picture to go through to the UKSA Twitter page.

If you are already on Twitter, follow us at @UKShareholders

Are we Savers or Investors? *by John Hunter*

Why is leaving your money in cash described as 'saving', while putting it in some other asset is called 'investing'? What is so special about the cash asset that requires a different verb? Is it, perhaps, that it is a helpful product differentiator for the financial services industry?

At HonestMoneyNow we say there is no distinction – that you become a saver/investor whenever your income exceeds your spending. To think otherwise just encourages you to categorise yourself (and helps the industry to target you), when you should be doing the opposite – thinking flexibly.

But that gives us a problem. If 'saving' and 'investing' are the same thing, what word do we use for the saver/investor? At HonestMoneyNow we try to use the word 'saving' for creating the surplus and the word 'investing' for the act of deciding what to do with it and managing it. But in truth we often need both words at once and just chose the one that seems to make most sense. What do you think?

Stakeholderism versus shareholder primacy *by Helen Gibbons*

This debate has gathered pace in recent years. A significant new development is the formation of the Better Business Act campaign, which reportedly has the support of a thousand companies including the supermarket chain Iceland, the drinks producer Innocent and the vegetarian foodmaker Quorn, along with key personalities such as Mary Portas, who co-chairs the campaign.

The Campaign seeks to change the law governing corporate conduct by amending Section 172 of the Companies Act. Here's what the current Act says:

172 Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

(2) Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.

(3) The duty imposed by this section has effect subject to any enactment or rule of law requiring directors, in certain circumstances, to consider or act in the interests of creditors of the company.

The Campaign considers that this does not go far enough to promote the interests of stakeholders as a whole and has therefore drafted a proposed amendment to Section 172 to enshrine in law a much broader corporate purpose.

The recent example of egregious corporate behaviour by P&O Ferries could be seen as lending weight to the Campaign's cause.

Supporters of the Campaign include the Institute of Directors, as well as politicians such as Ed Miliband (although John Lewis Chair Dame Sharon White has withdrawn support, arguing that business is already responding to calls for a stronger social stance). A poll of the UK general public, commissioned by the B Labs non-profit group, found that three-quarters of respondents agreed that companies should have a legal responsibility to society and the environment.

At this stage opposition to the proposed amendment appears somewhat behind the curve. It centres on the argument that shareholder primacy fairly reflects the theoretically total risk that equity investors (particularly individuals) incur when investing in companies. Other opponents point to the efficient allocation of capital that results from the current system. One could also add the inevitable difficulty of defining what is ultimately in the long-term interest of employees and other stakeholders, for example, if a particular policy, while socially beneficial in the short term, actually jeopardises the survival of the company in the long term.

See also

The mission to redefine UK corporate purpose in the Financial Times, 13 April (£)

Briefing note by Eversheds Sutherland

What's new on our website

We have started creating the new writers' pages on our website. An example can be seen here. If you would be interested in writing for UKSA and would like to have a dedicated page on our website, please let Helen Gibbons know on 01273 901806 or helen.gibbons@cantab.net.

P1 Investment Net Zero Carbon Conference 2022 *by Peter Parry*

Readers may remember that Dr Quintin Rayer, Head of Research and Ethical Investing at P1 Investment Management, wrote a number of articles for The Private Investor on different aspects of sustainable investing a few years ago.

This relationship led to P1 Investment Management inviting us to send an UKSA delegate to their conference on Net Zero which P1 originally planned for November 2019. The date had to be rescheduled to early 2020, Covid then intervened and it finally took place on 24 March this year. During that two-year interval environmental issues have almost certainly moved up the investment agenda. We have had CoP26, several eye-catching announcements from government on environmental targets and a consultation from the FCA on enhancing climate-related disclosure. Amongst others, the FRC and the IFRS have been working on how companies should be reporting to investors on emissions and climate change – initiatives in which UKSA is directly involved.

Setting the scene

Dr Rayer opened the conference by introducing P1's Net Zero Carbon (NZC10 and NZC20) targets for investors to adopt. These are run by P1 on a non-profit basis and aim to promote net zero emissions by 2030. Investors adopting the targets use their equity or bond holdings to push for companies to develop strategies to become net zero by 2030. Funds with some £14 billion of assets have now adopted P1's 2030 net zero targets, across 10 fund houses. The conference was intended to provide a platform for the fund managers that had adopted the NZC10 and NZC20 targets.

The first talk was by Dr Richard Jones, a science Fellow at the UK Met Office. Amongst many other climate-related matters he has been working on regional climate information and the scope for different areas of the world to adapt to climate change. Dr Jones summarised how climate change is already happening. Already we are seeing increased instances of unusually high temperatures and drought in some areas along with unusually high rainfall and flooding in others. Unless rapid action is taken to control greenhouse gas emissions, our ability to limit global warming to 1.5˚C will be beyond our reach. The latest report (2022) from the International Panel on Climate Change (IPCC) makes it clear that climate change is a threat to human health and well-being as well as the health of the planet; any further delay in concerted global action will miss the rapidly closing window to secure a liveable future.

The talk did not, unfortunately, say what specifically needed to be done to reduce carbon emissions to net zero by 2050 – beyond the pronouncements already made by our own and other governments, some of which appear to be no more than aspirations. However, it is becoming increasingly clear that to tackle a global problem there needs to be a global strategy. This requires governments to work together on practical, coherent and coordinated plans to ensure that clearly defined emissions targets are met by agreed dates. Instead, what we are seeing is, in many cases, a fudge. For example, one of the key objectives of CoP26, that of 'consigning coal to history' was finally watered down with an agreement to 'phase down' the use of coal rather than phase it out.

While targets in some critical areas are vague, in other areas, they look excessively ambitious. At the same time, what is actually being achieved looks like too-little-too-late. This is accompanied by overly-optimistic assurances that we should be able to make up the lost ground as we get nearer the final deadlines. You know when we are down to reciting slogans proclaiming ‘Keep 1.5 alive!’ that we are scraping the barrel. I wonder what George Orwell would have made of this one.

The war in Ukraine has thrown some of the contradictions and apparent back-sliding closer to home into sharp relief. A new coalmine in Cumbria, the first in the UK in 20 years, is now firmly back on the agenda. We have also been treated to the spectacle of the Prime Minister making a visit to Saudi Arabia requesting an increase in supplies of oil – a point noted by Lord Deben in his presentation later in the afternoon. In the meantime, with UK’s energy strategy in disarray, we are still being told that all new cars sold in the UK must be electric from 2030. Quite why the UK government is so keen to commit to a single technology and one which presents so many uncertainties remains a mystery.

A view from the top

Dr Richard Jones’s presentation was followed by the Conference Keynote address given by the Rt. Hon John Gummer, Lord Deben. Lord Deben is the Chair of the UK’s Climate Change Committee. The Committee’s role is to hold the government to account in ensuring that Britain sticks to its stated commitments on climate change and delivers on those commitments. The overall theme of the address was that we must ‘win the 1.5˚C battle’.

Whilst generally supportive of the leadership that the UK government has shown on setting stretching targets to reduce carbon emissions and working to gain support for these targets from other countries, Lord Deben recognised that more needed to be done. He tacitly recognised that some actions by the government were less than helpful. The post-Brexit trade deal with Australia, for example, will put further competitive pressures on British industry (in particular agriculture), which is being encouraged to reduce carbon emissions. Australia, however, remains strongly committed to burning and exporting coal.

It was hardly surprising to hear John Gummer raising concerns about climate change and the future of UK agriculture. It was disappointing however, that there was no mention of the scourge of food-waste. One third of food produced globally goes to waste. Some is ploughed back into the soil without ever being harvested. A significant amount, having gone all the way through the supply chain, is sent to landfill. Worldwide food production is the biggest source of greenhouse gas emissions, by far the biggest user of fresh water and accounts for much of the world’s marine and river pollution. Reducing global food waste has surely to be a key area for action – and this is before we get onto the increasing health problems in many of the richest countries caused by obesity.

Raising the bar on investor engagement

The last talk of the conference was given by Peter Uhlenbruch, Interim Director of Financial Sector standards at ShareAction. As many of the members of the audience were from the fund management industry, Peter’s talk on ‘Net-zero active ownership’, or how to hold the financial sector to account on carbon emissions, was of direct relevance.

The main thesis of the presentation was that investors should set both general and sector-specific net-zero expectations for their investee companies and that these should be aligned with the overall objective of limiting global warming to 1.5˚C.

Peter made the point that net-zero stewardship has three key ingredients:

• Investors setting sufficiently demanding expectations on companies and their directors;

• Purposeful voting;

• Adopting escalation strategies across asset classes where expectations are not met.

‘Purposeful voting’ includes voting against the reappointment of directors at companies where net-zero expectations are not being met, voting against weak transition plans, voting consistently across all funds on all climate proposals and pre-disclosing voting intentions.

There also needs to be a clear 'engagement escalation' strategy from investors. For fund managers who can gain ready access to directors this might start with 'tea-and-cookies' engagement through to voting against boards and, ultimately, selective divestment if companies are failing to respond.

Practical concerns from investors

In between the presentations from the speakers there were a number of panel sessions. The panels were mainly made up of representatives from the fund managers that had adopted P1's NZC10 and NZC20 targets. There was agreement that achieving net-zero by 2050 was of critical importance but also agreement that we currently lack a clear path (in terms of practical action) for getting there. There was agreement that investor focus with regard to carbon reduction needed to be on the biggest emitters. Materiality matters and effort and attention must focus on the 20% or so of businesses that account for 80% of emissions. It was also agreed that measures needed to vary for different industry sectors to ensure relevance.

Other concerns included the need for a standard taxonomy and the need for different jurisdictions to come into line with reporting on environmental issues. Not only is this important when assessing the performance of multinational companies, it also has implications for the capture of 'Scope 3' data – the emissions caused by a company's suppliers further up the supply chain, some of which may be based overseas. As well as the problems of data capture there was concern about ensuring the comprehensiveness and reliability of data and how reporting by companies should be verified. Added to this there are the problems of ensuring that metrics set by boards are appropriate, adequately stretching and cannot be 'gamed' – particularly when there is an element of performance-related pay riding on them.

Where next?

While the conference provided few conclusive answers, it certainly provided plenty of food for thought. P1's own targets (NZC10 and NZC20) aim to encourage investors to use their influence to persuade more companies to work to become net zero by 2030, which is a step in the right direction. The conference both highlighted the need for net zero and provided a platform for those fund managers that have shown leadership by adopting 2030 net zero targets. Hopefully, the P1 Net Zero conference will become an annual event. With the pressure on to limit global warming to 1.5˚C and with time rapidly running out, an annual review of progress for investment managers has an important role to play in ensuring that the pressure is maintained.

Save the date!

UKSA's AGM will be held on Monday 27 June 2022 at the RAF Club, from 3:30pm.

There will also be an option to come earlier to pay to attend a social gathering with a buffet lunch at 12:30pm.

Don't forget, Associate Members can take advantage of **half-price full membership** of UKSA in the first year by clicking here.

The UKSA Board

26 April 2022