

THE UKSA NEWSLETTER

UKSA
UK Shareholders'
Association

ISSUE 11

UKSA's Policy Team

Policy work, including engagement with government and regulators, is at the heart of UKSA's activity. It often goes on unseen, but its breadth and depth are impressive. In next month's edition we will include minibiographies of the UKSA directors and members who regularly contribute to the Policy Team's work.

Details of current Policy work, projects and consultations can be found by clicking [here](#).

FRC guidance on AGMs

Members of UKSA have contributed to the new guidance for listed companies to enhance effective shareholder participation when planning and conducting AGMs.

The FRC promotes five principles, covering inclusion, access, disclosures, updates and voting, that apply before, during and after the AGM, as well as engagement throughout the year.

It also reminds companies that engagement with shareholders is more than an annual event, and that using new technologies will help maximise shareholder engagement.

The FRC document can be found [here](#).



*Sue Milton, External
Relations Director*

Northern Rock

The Committee is discussing a number of ways forward. Sadly, some of the Committee members are having to stand down because of poor health, so they are looking to put together a new NRSAG Committee. NRSAG needs active support from the Northern Rock members, so look out for news about the help required. In the meantime, if you are interested in assisting the Committee, please contact David Riches at nrssag@uksa.org.uk.

False advice advertising, Case 3 by John Hunter

Another misuse of conditional probability (see Case 1 in Newsletter 9 - people who ask for financial advice are likely to start with more money than those who don't).

An IFA referenced [research](#) from Royal London and the International Longevity Centre claimed that 'individuals who take advice on their investments can end up almost 40% better off in terms of liquid assets compared to those who receive no advice'. The research paper itself runs to some 50 pages of dense messaging of bar charts and percentages, but this finding supports the whole of a summary favourable to the industry on page 1.

Unusually, the paper admits the problem of conditional probability but claims to have overcome this by the use of '...an advanced statistical technique called propensity score matching which identifies two similar groups of individuals within the data and then compares the impact of advice on one group (the treatment group) versus the other (the control group)'. However, for this to work, 'opening wealth' needs to be one of the factors that is subjected to propensity score matching. It is not.

It may be significant that the research was entirely funded by Royal London!



*John Hunter, former
Chairman of UKSA*

UKSA on Twitter

The picture below 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



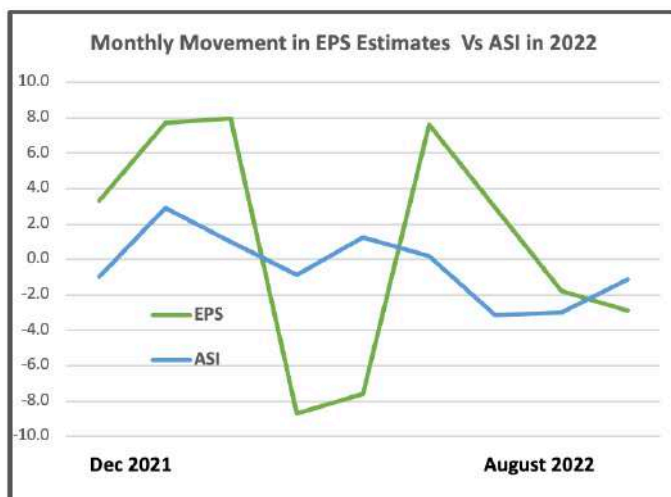
Introducing the Star Market Barometer by John Mulligan

Changes in Earnings Estimates

By October this year I will have been producing the STAR Newsletter every month for 30 years and for the past decade I have included, in the newsletter, charts that illustrate the movement in the consensus estimates of leading analysts relating to their expectations of the future trend in UK corporate earnings. The charts are derived from aggregated data provided by Sharescope that cover both historic and estimated forward earnings of the largest companies listed on the LSE main market.

The original aim of this exercise was to provide readers of the newsletter with a general indication of the changing trend in estimates month by month rather than the actual percentage movements per se, as I have found these often tend to be over-optimistic

The chart below illustrates the percentage change, month by month, in earnings estimates for the largest 450 LSE main market listed companies compared with the monthly movement in the All Share Index (ASI) over the same period. The movement in earnings estimates has been calculated by comparing the estimated total earnings for the next full reporting year (Year 2) of all the companies covered with the comparable aggregated estimates over the previous three months. Similarly, the change in the ASI compares the most recent monthly value with the mean of the index values for each of the past three months.



Source: STAR Newsletter chart derived from data supplied by Sharescope

It is interesting that the movement in the earnings line appears to be an exaggerated version of the movement in the wider market. There may be a temptation to deduce that the consensus estimates represent a magnified lagging indicator rather than a useful predictor of the future market direction, but whatever the conclusions I find it a visually useful component of the newsletter that provides an overview of the possible market direction.



John Mulligan, creator and editor of STAR

Comparisons in Capital Expenditure

The second series of charts that I have been developing in recent months are derived from data covering both the largest main market listed companies and over 200 of the largest companies listed on global markets. The second database relates principally, but not entirely, to corporations listed in the USA.

The chart below compares the capital expenditure as a percentage of the market capitalisation, where applicable, for each of the 450 LSE main market listed companies on my database with the comparable returns for more than 200 of the largest global businesses. To my considerable surprise the CAPEX figure for UK-listed companies (represented by the green bars) appears to be almost exactly double that for the global cohort.

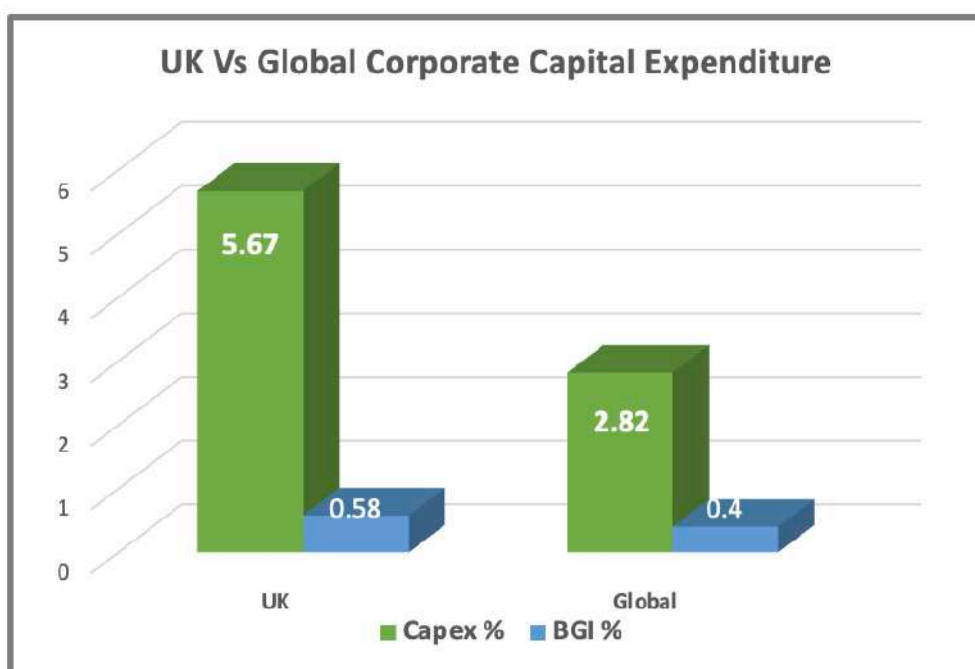
The BGI data (the blue columns) definitely needs a bit of explanation. BGI, or Business Growth Indicator, is a term that I coined many years ago as an attempt to indicate the possible growth in the future business of a company based on the historic rate of return on capital employed multiplied by the most recent reported capital expenditure expressed as a percentage of the total market capitalisation.

Clearly this is no more than an extremely rough indicator of the potential for future growth and does not include the important factor, in many fields, of the amount of money invested in research and development.

I guess the unexpectedly higher scores for London-listed companies is due to the higher weighting, in the London market, of the very large mining and oil companies that inevitably have huge capital expenditure requirements.

Each monthly edition of the STAR newsletter includes a page that tracks the movement in forward earnings estimates.

Here John explains what these charts show.



If any UKSA member would like to comment, raise queries or make suggestions, do please take a look at the News and Views section of the STAR website at www.starinvestorhub.uk or email me at johnmulligan01@gmail.com.

Cost barriers to shareholder engagement by Helen Gibbons

One of UKSA's long-standing objectives has been to rectify the anomaly of the nominee system whereby the ultimate beneficial owners of the shares are not the legal shareholders and thus lack the right to attend AGMs and vote.

Nominees have often claimed that there is minimal interest among their clients in exercising shareholder rights and engaging with the investee companies. Nonetheless, the number of do-it-yourself investors on the Interactive Investor platform who voted on shareholder resolutions reportedly increased sharply after the company automatically opted all clients into a voting and information service.

Better Finance, the European body of which UKSA is a member, is investigating barriers to shareholder engagement, particularly across borders. The results are expected in the autumn.

For some of my shares listed on Continental bourses I use the Dutch execution-only broker [DeGiro](#), which offers access to a wide range of stocks across multiple bourses, not just a limited subset as in the case of many UK-based brokers.

In order to assess the barriers to cross-border voting, I approached DeGiro with a view to attending and voting at AGMs in France and Ireland. This is what DeGiro said:

"We can arrange a proxy vote on your behalf where we will vote as you intend. This costs €10 per vote, so in your case it will be €20 for both votes.

*· We can arrange for you to attend the **online** shareholders' meeting, for €100 plus external costs.*

· You could request a UBO (Ultimate Beneficiary Owner) certificate and see if the company will accept this in order to attend. In my experience it would be very unlikely they would, but you could ask. The cost associated is €5."

In view of the cost, I decided not to attend. In fairness, DeGiro makes clear that it is an execution-only broker. Nonetheless, the charges for facilitating AGM attendance and voting represent a significant barrier to shareholder engagement.



Helen Gibbons, Europe Director

Member activities – conferences! *by Martin White*

In past years, we had a number of full weekend in-person events in hotels, starting on a Saturday morning promptly after breakfast, continuing until around tea time on Sunday, and most people stayed overnight on the Friday as well as the Saturday. These were extremely successful; members still speak of them fondly, and are keen for us to repeat them. They were, of course, quite expensive, which is inevitable when you have overnight stays.

Whilst Covid stopped us having in-person meetings for some time, it did prompt a number of online discussions that all full members could take part in if they wished. But it's not the same thing as in-person meetings.

UKSA's South-West Region recently held a hybrid meeting on Wednesday 3rd August in Didmarton, where members attending in person had two organised discussion topics, one before and one after a pub lunch, and members also dialled into those discussions on Zoom. All full members will have received an invitation to this event. That is a good model for adoption elsewhere too – and we can ensure that the lessons on how best to organise the online aspect are shared.

We now wish to try out some rather more ambitious in-person conferences, initially at a fairly central location that is convenient for guest speakers. We are thinking that a one-day event on a Saturday will be the first choice, as it is both convenient for travel and for people who can't make a weekday. Precise venues, etc. will be chosen when we know more about numbers.

Members have suggested that we shouldn't reject two-day events if there is demand for them. You can build a relaxed weekend event around just a Saturday night stay, and for members who want to stay longer, hotels will normally have lots of unused rooms on a Sunday night.

Ideas for a one-day conference: the sort of schedule we have initially in mind for the day is as follows:-

Start time	Duration (minutes)	Informal time together	Formal Sessions
09:30	30	Registration	
10:00	75		1:
11:15	15	Tea and coffee break	
11:30	60		2:
12:30	75	Lunch	
13:45	60		3:
14:45	45		4:
15:30	15	Break	
15:45	45		5:
16:30	30		6: Reflections on the day
17:00	75	Light evening meal	



Martin White, Director and Lead for Savers Take Control

The final session could be used to identify any major takeaway points, as well as to get feedback to inform future events.

As to the specific topics to cover, there is so much we could include.

Choosing topics, and assessing member interest for a one-day event

Here are some suggestions, with huge thanks to the members who contributed ideas:

1. Investment strategy ideas for the current difficult environment (low interest rates, inflation, political and economic crises). Including at what point does gold get overvalued?
2. Company speakers who can provide insights into their companies and the industries that they operate in.
3. Ideas for making judgements on individual companies, and how to find out relevant information to help with this.
4. Sharing of members' experiences of essential services like brokers or platforms, including experiences with holding foreign shares – dealing with withholding taxes, minimising foreign exchange transaction costs.
5. An update on the competitive landscape for long-term savers and investors – ideas for minimising the long-term impact of costs and charges.
6. Experience, lessons and insights from company meetings.
7. Investing for future generations.
8. Key investment and financial management lessons you would wish to pass to your children and grandchildren.
9. Does the UK need a genuinely independent source of essential financial information? – A discussion of UKSA's "[HonestMoneyNow](#)" website and the needs of adult education.
10. What are the essential ingredients of companies we would wish to own for decades? For example: "Svenska Handelsbanken AB" is a Swedish based bank that also operates in the UK. It is an interesting example of a company with an unconventional, genuinely long-term approach to management motivation and behaviour.
11. Some that got away – great companies that went private or were taken over. The challenge of finding great companies and holding onto them over time.
12. Political straws in the wind for shareholders. In the past we have hosted speakers from the major political parties; perhaps not something we would want to fit into a limited one-day event?
13. An update and discussion led by the Policy Team – matters of concern that we have been speaking up about.

Any comments and suggestions would be hugely appreciated to help us put together programmes of events that we can offer to you. We will be circulating questionnaires to members in the future to test interest and judge numbers. When you get those, do please reply promptly if you can, even if it is simply to say that you wouldn't be interested in attending and have no suggestions!

Thank you.

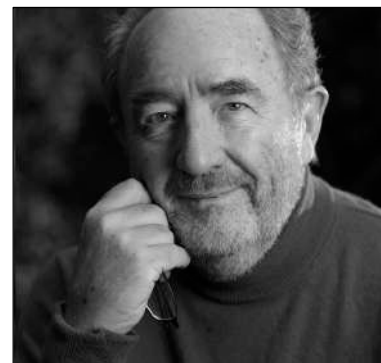
Participation in IPOs and fundraisers *by Malcolm Hurlston*

UKSA reached an arrangement last week for all members to enjoy a dedicated page on Investors Meet People, through which they will be able to take part in IPOs and fundraisers, as well as vote their holdings.

The move was welcomed in the Investors Chronicle today as "a levelling up of the playing field" which could happen in the coming weeks because the founders of Investor Meet Company are launching a new investment platform, BookBuild.

It couldn't have been more timely, as the recommendations released last week in the Secondary Capital Review stated that "due consideration should be given by a company conducting a fundraise as to how it will involve retail investors on the same terms and conditions". The default assumption should be that they will be. Supported by a number of investment banks, who represent over 450 quoted companies, BookBuild will enable any investment platform to make fundraises and IPOs from any registered investment bank available to retail investors through their existing brokerage accounts, ensuring that the position of existing shareholders can be fully considered.

The importance of not only providing the opportunity for retail investors to participate in a fundraise, but to do so on a more informed basis, while having a longer timeframe to do so, directly through their existing brokerage account, will be key to levelling up the playing field for individual investors. "It can't happen a moment too soon," commented Simon Thompson of the Investors Chronicle.



*Malcolm Hurlston,
Director*

Investment clubs

UKSA has set up a register of investment clubs, which is available on the website [here](#). If you belong to a club and would like it registered, please email the office at ic@uksa.org.uk. One club on the register meets at a pub near Bank/Liverpool Street and is looking for new members, while another is based in Stourbridge. We also have members looking for clubs to join in or near Bournemouth, Canterbury, Street and Bridgwater. If you belong to a club in these areas and would like new members, please email the office at ic@uksa.org.uk.