THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

ISSUE 16

Chairman's message

Charles Henderson - Chairman

Dear members

At the time of writing we have recently witnessed the coronation of our King on 6th May. Whatever we may think of King Charles III or our members of parliament, we should recognise our constitutional monarchy is unique and provides more political stability than regimes that elect their heads of state. It makes me wonder what will happen when our royal family runs out of people who are prepared to do the job.

Your board has concluded on what the UK Shareholders' Association is about and you can find this on our website. Please let us know what you think. This is not set in stone and should be guided by you and what you would like to get from UKSA.

With this in mind, I would like to make two requests. The first is to help boost our paying membership. I ask each paying full member to recruit from their families and/or friends one new paying member by the end of 2023. If we can all achieve this, it will double our full membership and help towards being viable financially for longer than we currently expect.

The second is to help with board composition and succession planning. Dean is looking to stand down as Policy Director at 2024's AGM and I am looking to stand down as Chairman at 2025's AGM. I am also responsible for the Association's finances and would like another director to take this on as soon as possible. If you are interested in becoming an UKSA director, please let me know by emailing me at charles.henderson@uksa.org.uk. If you are interested in taking on one of the Chairman, Policy Director or Finance Director roles, please also email me.

Further to my previous newsletter comments on banks, I continue to wonder if deposit protection schemes are a good thing or not. While it is nice to think that if your bank fails you will get up to £85,000 of your deposits in separate banks back, this may not be a guaranteed outcome. Deposit protection schemes depend on the system having enough money behind them to cover all the deposits that need protection. If more things than expected go wrong, then the system may not have enough money to cover all the deposits affected. The logical conclusion is not to have deposit protection and rely on depositors to make their own risk assessments of whether to deposit money with a bank under the legal principle of caveat emptor (buyer beware). This also points to the good practice to always do your own due diligence on where you are investing and saving your money. There is also the consideration of Charlie Munger's recent warning on potentially toxic/failing property loans within banks' asset portfolios.

The UK stock markets continue to get a bad press but I am pretty sure no one knows what the main reasons are for their comparable weakness to other stock markets, especially the USA's. For me, the possible two main reasons are the lack of available capital for companies hungry for public money to develop their businesses and the lack of a supply pipeline of such companies of interest to investors. And I am pretty sure that the government do not know how to resolve these issues, despite saying they are trying to do something about them. The supply of capital would be helped if UK pensions, of all descriptions, put more money into companies' shares than government or corporate debt. The supply of viable long-term businesses to invest in is more difficult to resolve as this depends on numerous factors, not least getting our education system to provide a steady supply of skilled workers and entrepreneurs. I also feel that this negativity may indicate a turning point for the long time out of favour UK shares, especially with private equity showing an increasing interest in such shares.

We will be holding this year's AGM on Monday 3 July 2023 at 3.30pm at the RAF Club. It will again be a hybrid meeting allowing for in-person and virtual on Zoom attendance. Please note it for your diaries and look out for more details in the coming month.

Policy Team news

Courstesy of UKSA's Policy Director Dean Buckner, here is a run-down of the latest Policy activity:

FCA Discussion Paper (DP) 23/2

Our main work March-April 2023 was to reply to the Financial Conduct Authority (FCA) Discussion Paper (DP) 23/2 on potential moves to update the regulatory regime surrounding asset managers in February of this year.

The asset management industry in the UK consists of around 2,600 firms which together manage around £11 trillion of assets. That is a substantial industry by any standards. But wait a moment, take a look at this! The FCA tells us that us that this paper will be of interest to you if you are:

• an authorised fund manager

Dean Buckner - Policy Director

• an alternative investment fund manager

• a portfolio manager, including portfolio managers providing services to both professional and retail clients

• a depositary of authorised funds or alternative investment funds

• an investment platform provider

• a financial adviser

• an investment consultant or a professional investment adviser.

This in itself gives an indication (not explicit elsewhere in the paper) of just how multi-layered this industry is. Have you ever struggled to understand where all those fees go that you pay for the management of your SIPP or other investments? Well, now you know!

If that didn't worry you, you will, perhaps, be concerned to hear that these organisations are regulated by a hotchpotch of rules and regulations, many of which have evolved over time. Consequently, some are out of date, some are inconsistent in the way they govern different groups, some overlap, some involve unnecessary duplication, some have gaps in them, some are vague or unclear and some are simply not fit for purpose and are long overdue for overhaul. And the cost to the consumer of all this……? No details are given but one suspects that it cannot be insignificant.

The specific questions asked in the DP are often rhetorical in nature while at other times they seem slightly naïve. For example:

'Do you think that we should amend our fund rules or add guidance either to make clearer the requirements on portfolio managers of funds, or to set minimum contractual requirements between host AFMs and portfolio managers?'

If the requirements are unclear then the only logical answer to the first part of this question is 'yes'. As far as explicit minimum contractual requirements between host AFM's and portfolio managers are concerned, this indicates the lax way in which the financial services industry still tends to operate. In any other industry there would be clear contractual requirements (in terms of service standards, cost, performance and so on) agreed between the buyer and the supplier. But not in the FS industry, it seems. It all harks back to the age of an industry dominated by a 'chums' network of informal relationships and a guiding principle of 'My word is my bond' – long since replaced by the mantra of what Professor John Kay would call 'Other people's money'.

What are we suggesting to the regulator?

In its response to the FCA, UKSA has identified three fundamental requirements, namely:

- The need for clarity - rules must be understandable to the investing public not just to the industry.
- The need for consistency, proportionality, relevance and coherence when defining the information that should be given to consumers

to help them make investment decisions.

- Better recognition of the continuing impact of modern technology - both in the operation of the industry and on the regulatory and reporting regimes. This includes regulation of the technology itself as well the scope to make better use of it.

We certainly welcome new technology. However, within the financial services industry its introduction seems too often have had an underlying objective of ensuring benefit to the industry rather than its customers.

We have made the point to the FCA that while the growth of online payment firms and digital-only banks has brought customers increased choice, speedy technology and lower costs, their advance has been accompanied by growing complaints as users are hit by everyday mishaps and by financial fraudsters. Investors must be able to invest and trade assets with confidence and must be certain that they can do so without unnecessary delays or interruptions to the service.

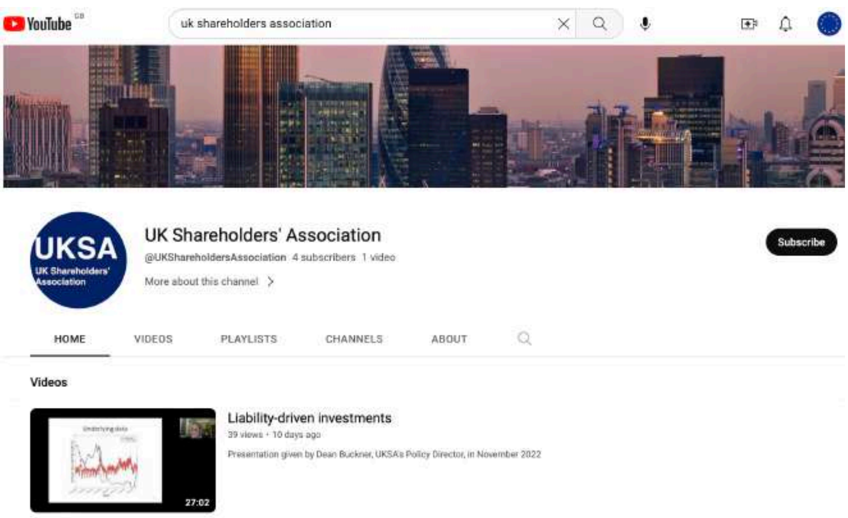
The recent rapid advances in artificial intelligence (AI) are not mentioned in the DP. Yet systems such as ChatGPT and Bard could potentially transform the provision of guidance. The opportunities to apply AI in financial services look very clear. But at the same time there are already clear indications that serious risk of harm to consumers could easily emerge.

What next?

The closing date for responses to the FCA's Discussion Paper is 23 May. It will be interesting to see what comes of this.

UKSA now on YouTube

We have a new YouTube channel. The first video is a presentation given in November by our Policy Director Dean Buckner, on the Liability Driven Investment disaster. Be sure to visit and add a 'like'! There will be more to come.



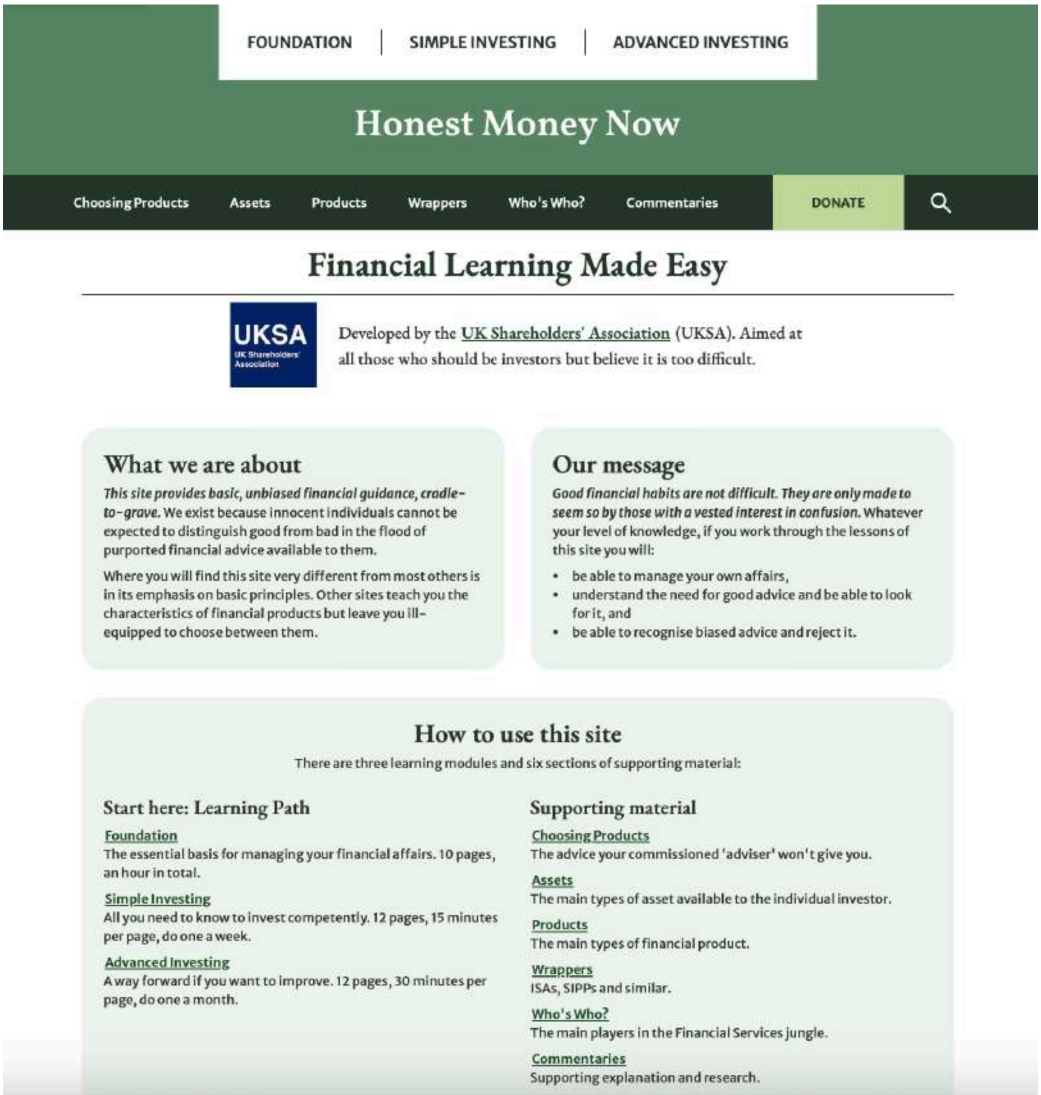
The HonestMoneyNow website

UKSA's HonestMoneyNow is a unique, independent resource. It continues to be updated to keep it in line with current issues. Recent additions include:

- A new **Commentary** page, 'Counterparty Risk', (previously covered briefly in the 'Risk' page of Advanced Investing)
- A new **Who's Who?** page 'Financial Coaches' to give more emphasis to this growing element of the Advice market
- Greatly expanded 'Advisers' page to attempt to clarify this complicated market
- Update of 'Personal Pensions' to include Workplace Pensions
- Addition of a few honest truths to the 'Treasury 'page in the **Who's Who?** section.

Comments and critique are welcome.

John Hunter - former UKSA Chairman and creator of HonestMoneyNow



Investor Meet Company: Revolutionising Investor Communication

UKSA is grateful to Marc Downes, CEO of Investor Meet Company, for this overview of the company's activities. Find out more here on the company's website.

Investor Meet Company (IMC), the innovative digital platform, is changing the game when it comes to effective investor communication. In the current challenging market conditions, it has become more important than ever to provide a modern solution that enables companies to communicate with all investors on the same basis, at the same time.

Founded with a mission to ensure that all investors can make an informed decision regardless of the number of shares they owned or their location, IMC is the largest investor engagement platform in the UK. With over 750 listed companies, it connects investors with listed companies, allowing them to participate in live presentations around results, capital markets day, and the Annual General Meeting from any location on any device.

In the past, individual investors have been left in the dark, relying solely on a company's RNS relating to performance to make their investment decision, while larger funds and institutions had meetings with the company, presentations, and the ability to ask questions. This created a two-tier system that prevented individual investors from making informed investment decisions. IMC changes that by providing a level playing field and enabling companies to communicate with all investors at the same time.

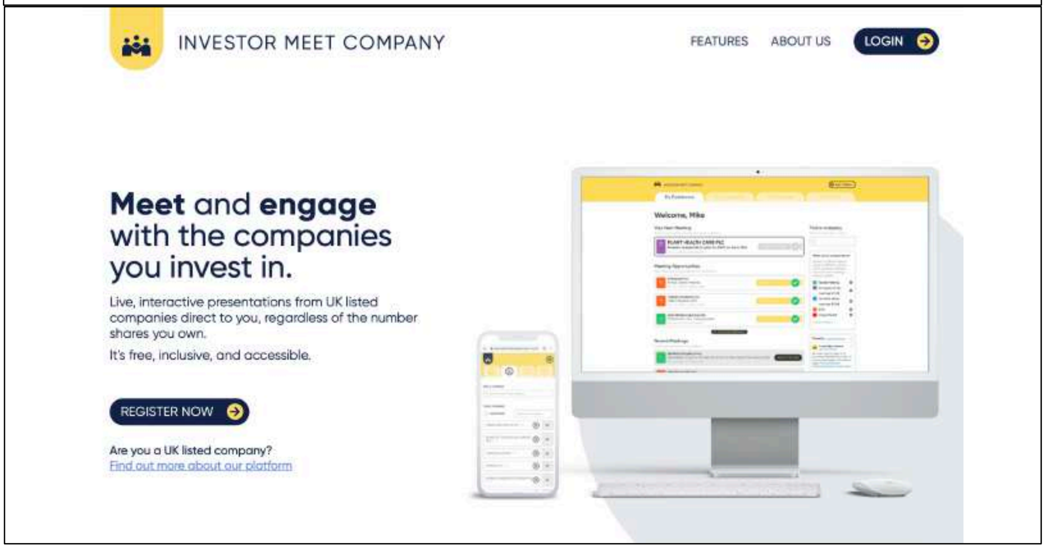
The platform offers an array of features designed to enhance the investor experience, including the ability to pre-submit questions, ask questions in real-time, and give feedback, ensuring that the company hears the investor's voice. Companies can benefit from the platform's ability to connect them with a wider range of potential investors, increasing their visibility, reach, enhancing liquidity and building trust with its shareholders.

In December 2022, IMC launched BookBuild, a B2B retail capital-raising platform that enables individual investors to participate in retail offers alongside an institutional raise. Historically, individual investors have been overlooked when it came to access to secondary capital raises. In fact in 2021 there were over 600 accelerated book builds versus six rights issues and 38 open offers, which resulted in significant dilution for existing individual shareholders. IMC through BookBuild is changing that by providing individual investors with equal access to secondary capital raises and IPOs on the same terms as institutional investors.

In 2023, with significant industry support, the BookBuild platform has launched more retail offers in the UK than any other provider, enabling individual investors to participate in secondary capital raises directly through the intermediary where they hold their shareholder, enabling companies in so far as is possible to persevere the pre-emptive position of existing shareholders.

In conclusion, IMC's mission is to democratise access not only to the company's meetings but also to its capital raise and doing so on a fair and equal basis.

This is levelling the playing field, delivering the institutional experience for the individual investor.



Events news

UKSA-arranged KPMG Investor Insights events:

We had our second UKSA/KPMG virtual event on 17 May covering the scope, purpose and role of the audit today. Key points:

• Audit teams are getting larger, with a greater mix of specialist skills to cover technology, data analytics, tax and ESG.

• We are moving towards integrated reporting, with focus not only on financial success (or otherwise) but also on the added value (or not) to society via ESG activity, all of which requires in depth scrutiny by the audit team of management's interpretation of the data.

Look out for more of our series of virtual, hourly events for full UKSA members being run jointly with KPMG's Investor Relations team.

We expect to host future meetings in June or July 2023, November 2023 and March 2024.

UKSA/FT/Investors Chronical opportunity:

On 15 June 2023, the Financial Times and Investors Chronical are offering a full-day, in-person event on the subject of "the future of private investing". We have negotiated a discounted price for full UKSA members. There will be opportunities to network as well as attend formal sessions from tackling markets in difficult times to managing investment costs. Watch out for the emails that will provide registration details.

No more physical AGMs?

This contribution comes from Danny Wallace, who is an UKSA member and a supporter of the Engagement Appeal (see references below)

Well, quite an interesting month. Archie Norman of M&S has appointed himself as the champion of investor fairness. He has written a letter to the Business Secretary Kemi Badenoch in order to give all shareholders a voice and has encouraged us all to sign. How wonderful! But is it? Do we really want a singular person, in this case, the Chairman of a £3b company, advocating for what he feels our rights should be?

I have read the letter, I read it with my investor hat on. That means that I read the meaning behind the words and I read between the lines. This is the well-practised approach to reading company reports. We investors have to decipher the code within.

I find investing a wonderful and incredibly challenging study. When making an investment there are so many factors to consider. Yes, there are numbers and ratios but there are also other aspects, the personal ones. I know of investors who research what a company is like to work for, reading such sites as Glassdoor.co.uk. They also research the management, skin in the game and so on. They like to get a feel for the company, the people running it and the people working within it.

Which brings us to the physical AGM, Lord Lee of Trafford is a well-known and keen advocate of the physical AGM and really encourages investors to attend. You get so much more from the actual meeting. You want to look them in the eye as you ask the question, you want to read their body language and check for sincerity. Do I trust them? Often, you can catch a conversation after the meeting, take a look under the bonnet, listen to the engine, check for leaks....

In my view, maintaining the physical AGM as the anchor point is essential. I do not believe that we should lose this. I certainly don't believe that we should be the actual ones that vote to do so, vote to move ourselves outside and help them close the door behind us. Supporting the physical with online as a hybrid meeting is the way forward and should be encouraged. The best of both worlds, there is no need to trade one world for another.

I am a firm believer in gathering all the facts, presenting them and debating them in a non-emotional constructive approach. Along with the work I do within the investor groups, chairing the UKSA Northern Investor Group and supporting many others, I have also been working on the Engagement Appeal which is working for better engagement between companies and investors. We have written a whitepaper which can be downloaded from the website.

I would encourage you all to read both, Archie Norman and The Engagement Appeal. I would welcome your feedback. This to me is one of those points in time where you head off to the garage to construct a placard before joining a march on Downing Street.

I would like to applaud UKSA in delivering some really valid investor engagement. I attended the BP pre AGM meeting and also the HSBC pre AGM. This is what good engagement looks like. This is what other companies can learn from.

Please don't sell us engagement whilst disengaging us.

For more information, click the links below:

Give all shareholders a voice by bringing Company Law into the 21st Century - Share Your Voice Campaign | Marks & Spencer (marksandspencer.com)

Give all shareholders a voice by bringing Company Law into the 21st Century - Petitions (parliament.uk)

The Engagement Appeal

UKSA company meetings

We have had in-person UKSA investor meetings with BP and HSBC on the 19 and 26 April respectively.

Both companies appear to be meeting their strategic objectives but both are having to manage growing risks to strategic targets.

BP is having to cope with its own 'just transition' to ensure the global demand for energy can be met. Does that mean a slowdown to the transition to green energy sources? There are concerns that the lack of 'drop dead' dates increases the ability to shift deadlines delaying the transition. BP believes it is on track by optimising what I call 'country arbitrage' – as one country's conditions become more challenging, others become less so, keeping the strategic goals for 2030 and 2050 alive and well.

HSBC has identified areas of the business that are no longer relevant to HSBC's strategy or are not attracting enough business for a global bank because national competitors can tailor services to local needs more effectively (HSBC – the demise of the world's local bank?). Global trends, both business and political, are closely monitored to ensure its various banking businesses remain pro-active to ensure the bank thrives. HSBC remains in the top three banks for UK's retail and commercial banking.

AGMs and engagement – a personal view

Malcolm Hurlston
Director

In the current debate about AGMs, there is a strong case to be made for individual investors' attending in person when they have a significant holding. At the same time there are different ways to skin this particular cat.

Many UKSA members have been employed and benefit from work-related pensions. They are in a different game, even though participants in pension schemes are indirect shareholders who also need an eye on the ball.

By contrast my wife and I operate our own Small Self-Administered Scheme without advice other than occasional and *ad hoc*. I can't recommend the SSAS highly enough to anybody to whom it is appropriate. It is rarely mentioned in the media or in simple guides, mainly because the media rely on the expertise of intermediaries, whose preference is for the better known SIPPs from which they can feed. But if a SSAS might suit you, it's worth spending time researching it. Watch out though for the gov.uk website and Moneyhelper from DWP. They make no mention at all of the SSAS in the context of personal pensions!

The HMRC website is pretty clear – anyway clear of the spin you get elsewhere. You don't need to retain a professional adviser. It is enough to have access to professional advice should you need it, and that is what we do. The fewer people stand between you and your investments the better off you are. As the old saying goes "Where are the clients' yachts?"

Even though I invest internationally in seven jurisdictions, I take steps to have open paths to the chairmen or CEOs concerned.

No 1 investment is quoted in Amsterdam. I have become a customer of the chairman's personal UK business to open an entirely separate line of approach.

No 2 is UK quoted, but its centre of activity has moved to the USA. The holding goes back to 1999. It was clear the new CEO would be an improvement on his predecessor and, as it turned out, he was much better. I understand the corporate dynamics well enough to watch from afar. If the dynamics were to change, so would the approach.

No 3 is an unquoted Czech bank. Its corporate game is extremely transparent. It is easy to follow the threads online, watch analyst meetings and make common cause with fellow investors. It makes sense to watch analyst meetings whenever they are open to you. Even if analysts are not always the brightest buttons, it's useful to see how the chairman and CEO handle their questions.

No 4 is a UK-quoted mining company with a valuable spin-off. They play with their cards on the table so it is enough to attend analyst briefings remotely.

No 5 is a highflying ship broker. Luckily my son is in a similar business in the private sector, which gives clear understanding of how the land lies. His bonuses reflect the well-being of the sector.

No 6 I bought after reading an analysis by UKSA's own John Mulligan. I follow his monthly updates and can attend his meetings, as can any of you, if the updates are not enough! I recommend both his monthly analysis and the meetings he convenes – worth every penny of the UKSA subscription.

Then there is number X, the mystery number. I have it down as worth 82 times more than my wife and co-investor does. You can see why it is X. I have taken the opportunity to watch the chairman at Dublin AGMs and am totally satisfied that his interests are aligned with ours.

Indeed alignment of interest is the key question. How often do you hear of the executive rewards needed to save shareholders from temptations to wander? But what is the serious likelihood of modestly skilled UK executives being poached? You may accept the idea of an outstanding chairman or CEO – but it stretches credulity to apply that to other members of the management team, who just benefit from the CEO's fear of standing out as too tall a poppy.

I trust you benefit from these cats being let out of the bag, unskinned.

Are you on LinkedIn? Follow us there by clicking the image:

Central Bank Digital Currency (CBDC)

Five key questions: what, why, how, when, where?

More is being reported in the press about CBDC. How seriously must we take this new form of currency? What do we need to know? Here is some introductory information.

What is it?

The easiest way is to see CBDC as digital cash coexisting with fiat money, i.e. money that the government has designated as legal tender. CBDC will hold the same value as its fiat equivalent. Of course, the fact that it is digital, means that we need the technology to be able to use it.

That makes CBDC very similar to electronically held money – mobile money – in our bank accounts. The differences are nuanced. Currently, fiat money is distributed by the central bank to commercial banks from which private individuals obtain fiat money. The central bank is liable for what it issues to commercial banks and commercial banks for what they issue to their customers.

Here are the nuances. CBDC systems could, should central banks permit this, provide private individuals direct access to CBDC, thereby bypassing commercial banks. The central bank is directly liable for its CBDC as the issuer, meaning holders of CBDC have a direct claim on the central bank whilst commercial banks remain liable for the mobile money. Confusing? It could be, especially in terms of regulation and consumer protection.

But central banks could retain the current form of distribution, so that they issue CBDC to commercial banks who then issue it to their customers. The latter approach retains the status quo when physical cash was the only option so society may miss out on potential benefits CBDC and the underlying technology offer.

This is a helpful website covering the basics in more detail The Big Differences Between CBDC and Mobile Money (progressoft.com).

Why are central banks looking at CBDC?

There is no consensus but the underlying reason is that more people are interested in trading in digital coins and that causes potential societal risks as such trades sit outside the regulated banking environment, creating a new form of 'shadow banking'. The related concerns are: gambling; tax evasion and avoidance; fraudulent and money laundering activities. For crypto users the attractions are: crypto arbitrage for a quick profit; an exciting and new investment; a currency within a closed market offering trust through non-repudiation and secrecy.

For some central banks, the driver for a national CBDC is to have visibility and control over the flow of funds within the nation

Sue Milton - External Relations Director (autocracies). For others, it is to achieve financial inclusion (parts of Africa). For the rest, to shore up financial stability. It will be a political decision that drives the scope and focus.

How will it work?

Central banks can leverage the technology used by regulated and non-regulated organisations for local and cross-border transactions and settlement. The inter-bank messaging system, the Society for Worldwide Interbank Financial Telecommunication (SWIFT), has already proven the technical concept of each central bank's digital currency system linking to the SWIFT system for international CBDC transfers.

If you want to take a deeper dive, try Project Atlas: Mapping the world of decentralised finance (bis.org), and the BIS Innovation Hub projects.

When will it be available?

Until there is greater alignment between central banks on the purpose of their CBDC, we are more likely to see national rather than international usage in the medium term. Some central banks have already issued digital currency.

Who is working on CBDC?

India, Canada and France are at the pilot stage. A diverse range of countries are at the "Proof of concept" stage, such as China, Japan, Norway and Kazakhstan. Most are still at the research stage, such as the UK, most of the EU, Eastern and Southern Africa, Australia, USA and Argentina. We can track this at Central Bank Digital Currency (CBDC) Tracker (cbdctracker.org).

Northern Rock

The UKSA Board wants to ensure there is a smooth transition from the old to the new NRSAG (Northern Rock Shareholders' Action Group) committee. The Board has always provided financial oversight to ensure NRSAG funds are used and protected appropriately. We also want to make sure that the committee functions effectively with full support from the NRSAG members. We have shared our ideas with Mo Majid and Pradeep Chand.

Amigo

UKSA members have been engaged with the company since the company paused its lending in 2020. In 2023, the company became unviable. Even with the best endeavours of the second shareholders' committee, RRSG (Reward Rate Shareholders' Group), Amigo was unable to raise the necessary funds. The well thought-through approaches to keep the company going, originally by the ASAG (Amigo Shareholders' Action Group) and then RRSG, illustrate barriers to getting retail shareholders' voices heard within the clamour of market and regulatory forces.

We are grateful to George Mills, Marketing Executive for FT Specialist, for news of this upcoming event in London. UKSA director Martin White will be among the speakers.

George writes:

Future of Private Investing

15 June 2023 at Leonardo Royal Hotel London City

The Investors' Chronicle, a Financial Times publication, is hosting its Future of Private Investing event this June. Join us as we assess and explain the best strategies for private investors' to invest for short and long-term goals.

We will explore ways of managing your portfolio through the current climate and how the thinking on asset allocation has changed. What is the outlook for key markets including the US, where the tech sector will be emerging from a stormy period? And what about the UK, where there may be a significant shift in attitudes to its undervalued companies?

The Future of Private Investing will bring together a lineup of expert commentators, from award-winning journalists to the UK's top fund managers, to answer your burning investment questions in a full day of thought-provoking debates, keynotes and evening networking opportunities.

This event will feature 38 speakers and moderators including:

- Martin White, BSc, FIA, Director, UK Shareholders Association (UKSA)
- Claer Barrett, Consumer Editor, Financial Times
- Lord John Lee, The UK's first ISA millionaire
- Alpesh Patel, CEO, Praefinium
- Vanessa Warwick, Co-founder, Property Tribes
- Rosie Carr, Editor, Investors' Chronicle

We are delighted to have partnered with UKSA to offer you a 10% discount on your ticket. Use the code UKSA10 or book through this link to get hold of your discounted pass.

For more information, including the full agenda and speaker lineup, please visit our website:
futureofprivateinvesting.investorschronicle.co.uk

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

19 May 2023

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