THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

ISSUE 17

Chairman's message

Dear members

Thank you to all those who attended our AGM on 3rd July in person, virtually and/or voted. I apologise to those who attended on zoom and had to contend with the technical issues of not hearing everything or not being noticed when trying to attract attention. We will be trying to learn lessons from the experience and in future, as one of those virtual attendees suggested in their feedback, ensure those attending virtually will be treated with the same consideration as those attending in person and that the problems do not recur. Hopefully the minutes of the AGM will be on our website soon for those who want to get some idea of what happened.

On a lighter note, those at the AGM will have witnessed it was interrupted by a member wanting to make a self-invented annual award to another member. He called it The "Did I get up your nose Sir?" Award, which prompted another member to object to its confrontational attitude. Thankfully, some previous chairs asked if this was UKSA business and suggested I ask the members present whether or not we wanted to continue with the formal business and then close the meeting or continue with this distraction – on a show of hands we moved on from the brief interlude and continued with the formal AGM business. A lesson learned is that members at general meetings who want to interrupt proceedings with their own agenda items need to prepare the ground first.

We have updated "about us" on our website, highlighting that we are an independent not-for-profit membership organisation led by volunteers; enjoy the process of investing, especially in individual companies, believe we have responsibilities as investors to society as well as rights and also want to help investors and savers and to be a trusted source of truths that the financial sector will not willingly publicise. We also point out our priorities of helping individual investors to help themselves and others through pointing them towards reliable and independent sources of guidance and learning and by

Charles Henderson - Chairman

offering events for members to participate, listen, learn and socialise; and to increase public awareness to generate improvements to investment consumer interests and to restore the responsibilities, rights and influence for good of individual investors.

With this in mind, your board and policy team are focusing on two things in the near term. The first is replying to Sir Douglas Flint's Digitisation Taskforce's interim report - by the end of September (25th to be exact). This report is considering how best to obtain complete dematerialisation of shares and at the same time improve the engagement between companies and their real investors/shareholders, which the report calls underlying beneficial owners (UBOs in short). If you have any comments you would like considered in our response, please let us know by 20th August.

The second focus is on how we should push financial learning in this country so more people have the chance to manage their finances better, think about how they may invest for the future and try and avoid any pitfalls (which regulators will never be able to fully protect us from). Any thoughts on this would also be welcome.

Before I finish, I want to mention that I have been reminded by Sue Milton from her experiences with IAG/BA (see below) and the news around Coutts Bank that we all have red flags of signs on why not to invest in a company. Sue's (I think) is a company that does not put its customers first (as this means they will eventually not have a business) and the Coutts Bank one is if a company is a B Corp it may forget what its business and purpose actually are (which again will mean it eventually doesn't have a business). *Please let us know what your red flags are.*

Policy Team news

In addition to the issues mentioned by the Chairman above, our thoughts after the AGM are focused on how to produce informative and interesting content for the new YouTube channel. The question will also be a topic for the next board meeting. Our eyes are also on supply chain financing, where money is, in effect, being lent to the customer to settle supplier invoices. It is a form of lending that raises questions about why customers cannot pay in time, and it is rarely disclosed in a way that is transparent. The practice contributed to the fall of Carillion in 2018. More recently, the Financial Times reported that AT&T has a large amount of customer debt hidden in this way.

Dean Buckner - Policy Director

Didmarton

I was pleased to be invited to Didmarton in early July to speak on HonestMoneyNow and lead a discussion on financial learning.
I'm ashamed to say it was the first time I'd been to a SW region meeting physically, and the first shock was the beauty of the surroundings. A typical homely 'pub with rooms' set in a tiny village (church but no shops – or none that I noticed) with houses of all shapes, sizes and ages discreetly scattered about a couple of hundred yards of the A433.
There was an extremely knowledgeable and perceptive audience, contributing a number of interesting ideas. Two that I shall work on are to refine the HMN language to make it less 'masculine' and to follow my own advice in using the term 'uncertainty' more often in place of the much-misused 'risk'.
My thanks to Alan Cane and John Mulligan for their sympathetic steering. I hope I shall return.

John Hunter - former UKSA Chairman and creator of HonestMoneyNow

Obituary – Brian Hargreaves

Members will be sad to hear of the death of Brian Hargreaves. Brian ran a marketing business and was extremely helpful to UKSA a few years ago. He was also an internationally recognised expert in vintage Canadian stamps, a passionate advocate of baroque opera, a keen kitchen gardener, a loving husband, father and grandfather, and a good friend for nearly 60 years. I miss him already.

John Hunter

In brief

Jeff Prestidge of the Mail takes the UKSA line at a time when most media are seduced by the siren call of intermediaries.

He writes: "Let's be honest. No one knows whether now is the best time to invest, or whether further stock market volatility is around the corner. Not even Mystic Meg has a clue. The key, as far as investors are concerned, is to keep investing for the long term.

That means patiently dripping money into equities (preferably through a broad range of investment funds and investment trusts) every month via your tax-friendly pension or ISA." Sounds a lot like Honest Money Now.......

Malcolm Hurlston

The Justified Weakness of the London New Issue Market

John Mulligan - Policy Director

The outcome of the CAB Payments initial public offer does not reflect well on the LSE's ability to rebuild confidence in London as a good centre for companies to launch their initial public offers. The shares in CAB Payments were sold to the public at 335p per share but immediately fell to a discount and are currently selling on a discount of more than 15% to the offer price.

Not only was the valuation of the company badly misjudged, but I discovered that having been allotted a small holding in the offer process I was unable to get a dealing price online through Interactive Investor. The Interactive website was still unable to provide a dealing price several days after dealings started in this share, although live prices were available on competitor websites such as Hargreaves Lansdown. When I wrote to Richard Wilson, the Interactive CEO, about their website's failure he never bothered to reply.

If the City of London and the banks and brokers dealing with private investors are unable to improve their competence, in terms of issue pricing and technical efficiency, it is hardly surprising that companies such as WE Soda will seek other markets when considering a new listing.

Some developments since Newsletter 16

Martin White - UKSA Director

I'm going to talk about four topical matters in this issue. The first is the June Investors Chronicle / FT event "The future of private investing". The second is the FCA's new "consumer duty" that became effective at the end of July. The third is some reflections on the threats to shareholder interests involved in the government's initiative to try and get rid of certificated shareholdings. And the fourth is the lack of really constructive thinking on how we would want companies to behave.

But before I get into these main points, I have just had my attention drawn to a discussion available on YouTube on a topic that Sue talks about later in this newsletter. It's a discussion held in late July by the Z/Yen think tank called "artificial intelligence: our saviour or destroyer", for which the link is here. You might find it interesting.

FIRST: Investors Chronicle / FT event 15 June 2023: "future of private investing"

Readers will remember that newsletter 16 contained a piece about an event where the organisers had approached UKSA to see if we could support it, with an offer of a modest discount for members who attended. In the end, we agreed to do this and I was asked to represent UKSA as a panel member in a session entitled "Sustainable investing in the era of windfall tax and renewable revenue caps".

The session was skilfully chaired by Jennifer Johnson, an Investors' Chronicle reporter, and the other two panel members were Dama Sathianathan, Founder, Bethnal Green Ventures, and Sarah Teacher, Executive Director, Impact Investing Institute.

If you are interested, you can find out more about Dama's and Sarah's organisations here and here respectively.

The discussion on the day was quite wide-ranging. Before the event, the four of us had a couple of virtual meetings and from those conversations Jennifer put together a discussion plan so that we all knew roughly what to expect, with the questions directed to whichever panel member or members had the most relevant expertise.

Bethnal Green Ventures is a for-profit business that is towards the private-equity end of the spectrum. They aim to support and advise new businesses with a specific social purpose, and they also raise capital.

The Impact Investing Institute is a not-for-profit that aims to provide information to all businesses. You can get an idea of what they are about from this quote towards the top of their website: "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". They get funding from donors across the spectrum, some from financial institutions and some from central and local governments.

Clearly, I don't have the kinds of specialist knowledge that Dama and Sarah do, but I could talk from the perspective of a long-term private investor looking for positive financial returns but also caring about the impact that companies have in addition to the distributable profits they (hopefully) make.

Here are just a few of the topics that we touched on:

- It's not easy for someone running a small company that cares about its social and environmental impact to have the expertise to be properly aware of the complexities involved. My fellow panellists spoke to this one rather than me, you won't be surprised to hear.

- The fashion for much talk about ESG (environmental, social and governance) within the financial sector –some scepticism about the real value of this was expressed, including by me. My big concern is that ESG hot air distracts from the big questions around climate change and deteriorating biodiversity – measures to tackle these need to be led by governments if anything is to really happen. I also made the point that if governments want more investment by companies in productive capacity, it is within companies that decisions on capital allocation are made; trying to direct investors to invest more is not really the answer.

- One aspect of a company's "impact" that doesn't get discussed much in the "ESG" world is the psychological impact of the workplace on its employees. This is something I have written about a number of times. A great workplace, in my opinion, derives from a good open culture at the top, with the leaders having the humility and personal confidence not to pretend they know everything or are infallible. Unfortunately, too great a focus on today's declared profits and today's share price leads to a more toxic culture, and I fear that the short-termism that prevails in much of the fund management world and the financial world generally is a force for bad outcomes in corporate cultures rather than the reverse.

Overall, it was an enjoyable event, with a number of interesting new contacts made. It was good to see a few UKSA members there. And I managed a few words about my desired "troublemaker" status in an event where almost all the speakers were from the financial sector.

During the day, I managed to share my own "Frank Redington Prize" essay and my hard-hitting piece to the Treasury with a number of the IC journalists. The big challenge is get them to engage with us on the topic – which is quite simply that the entire financial services regime is allowed by government to continue to profit from its massive information advantage over its customers. More on this theme in my second topic below.

SECOND – The new Consumer Duty

Hands up who's heard about this one! I'm not sure it's something that many UKSA members, especially those that make their own investment decisions, will have noticed. However, there has been quite a fanfare about it within the financial sector. If you saw the paper FT on Saturday 22 July (online from evening of 21 July 2023), Claer Barrett had a massive piece about it.

Anyone who has read my Frank Redington essay will have seen my account that about every 10 years there is a series of financial scandals where individual savers and investors get ripped off. And then there is some form of regulatory investigation and response. But – but – but … that response is NEVER to put the consumer's interests first. All that happens is yet another pretty bonnet is devised to disguise the pig that is the exploitative financial sector.

The "Consumer Duty" is no exception. Yes, once again, the suggestion was made that financial advisers and managers should have fiduciary duty to their customers, and yes, once again, that suggestion was dismissed.

Claer's article is long, but it is carefully written. The headline to the article is "Can the UK financial regulator really end rip-offs?" She explains how consumer bodies don't think the new "duty" goes far enough – and also that the financial sector has to step through lots of hoops to comply with the requirements of the new duty. So nobody is happy.

Personally, I think that the real aim of the FCA and the Treasury (the real bosses) behind this is a) to be seen to be doing something good and b) to reduce the risks of embarrassing scandals and calls for compensation, whilst still allowing the financial sector to make big profits from what they can extract from their unsuspecting customers.

It would have been wonderful if Claer had quoted from us, with our unique position of genuine independence from the financial sector, about the deep “who to trust” gap that the new duty has done nothing to address. Something for the future, perhaps.

THIRD – Dematerialisation, and the loss of certificated shareholdings

Charles Henderson’s Chairman’s message at the beginning of this newsletter refers to this. It would be great to hear from members keen enough to wade through the various papers! For what it’s worth, here are my main concerns. First of all, think what your position is as a shareholder on the register – something which pretty well all UKSA members were back in 1992. You have:

A. A direct relationship with the company, with communications from and with the company (via the registrar) being paid for by the company, at no expense to you;

B. A right to attend and vote at AGMs and other events, such as EGMs;

C. Full and immediate communication on all corporate “events” such as rights issues, open offers, etc.;

D. No intermediary in the chain between you and the company;

E. The ability to contact and be contacted by other shareholders on the register (registrars are required to provide this information at a modest cost);

F. No exposure of any kind to a failure of fraud at an intermediary.

Now compare that, under each of the above headings A to F, with the forced introduction of a nominee company between you and the company:

A. No direct relationship with the company and no right to direct information and communication from the company. You are likely to have to put up with what the nominee provider will give you – unless there is a requirement imposed on the company to pay the nominee to fill the gap. Even if this happens, delays are inevitable, which can be a huge problem in the event of corporate actions.

B. Loss of these rights, unless there is a specific requirement that they be preserved, including in takeover activity and schemes of arrangement.

C. Any communications are likely to be delayed, if they do indeed happen.

D. Insertion of an intermediary can effectively disenfranchise the shareholder.

E. Complete loss of any ability to contact and be contacted by other shareholders

F. This last one is a huge concern. How do I even know they actually hold the shares on my behalf? I am really concerned at the possibility of a fraud or other circumstances at the intermediary that could result in my loss of title to the asset. Any financial services compensation scheme is useless – the amounts are limited. If we are to be forced by government to expose ourselves to additional intermediation, governments should provide an unlimited indemnity to put us into a similar position to what we currently have as shareholders on the register.

It is important to recognise the detriment that is almost inevitably caused by the insertion of an intermediary between you and the company. My response is to insist that shareholders on the register lose none of the protections and rights that they currently have.

This discussion also sheds a spotlight on the damage that nominees have done to shareholder rights and engagement between companies and their shareholders. I can understand why government has insisted on there being a nominee between the underlying owner and the company in ISAs and SIPPs. But many of the lost rights and inconveniences to the underlying owner could be addressed by requiring nominees to register the underlying holding with the company registrar, a “dual name on register” solution. Years ago this would not have been feasible, but with today’s technology it should be doable.

I don’t want to be negative about all aspects of the proposals; if we get changes that really do enfranchise people already in nominees, it will be a big plus. But I fear that the way this dematerialisation agenda has been tackled has the interests of the financial sector and the intermediaries involved all over it. Of course, I would be really pleased to be assured otherwise!

FOURTH – Company purpose, and all that.. and some big questions for investors

At our recent pre-AGM social lunch, we had a distinguished journalist, Clifford Longley, as a guest speaker. Clifford is well known as a writer and broadcaster on religious affairs. His topic was ethics in business, and the title of his talk was "Shareholders and stakeholders, an uneasy alliance".

The topic of “corporate purpose” comes up more and more. One of the examples Clifford gave was one that John Kay likes to tell. His article

"Chain reaction that burned out ICI" can be found on www.johnkay.com. ICI was once one of the most profitable and important British businesses.

Writer and broadcaster Clifford Longley speaking at the UKSA pre-AGM social event

As late as the 1980s, ICI's stated aim was to be "the world's leading chemical company, serving companies internationally through the innovative and responsible application of chemistry and related science. Through achievement of this aim, we will enhance the wealth and wellbeing of our shareholders, our employees, our customers and the communities which we serve and in which we operate".

However, it all went wrong. In response to threat of takeover, they listened to the "shareholder value" movement, and started to focus on the share price. Previously, ICI had been patiently developing new businesses; now the emphasis was on deal-making and managing the finances in the way the investment markets seemed to want. It didn't work.

The damage done by the short-termism of financial markets was the reason the UK government in 2010 asked John Kay to do a study, known as the "Kay Review", into the operation of equity markets. It's easy to find and is still worth a read if you are interested.

Now we come to the "so what" for us as investors. What principles should we be asking boards to follow when running businesses? What themes should we be challenging them on in AGMs and in any discussion meetings we manage to attend?

We have to face the fact that the sensible approach to long-term investment and savings for most people does not involve the selection of individual shares. It's what UKSA members do, of course, with at least some of their portfolio. But where people use pooling mechanisms, the research, and common sense, argues in favour of a passive, index-tracking type of approach that essentially buys a bit of everything, thus avoiding the massive long-term costs of active management. And the trend today is for increasing proportions of companies to be owned through passive funds.

But if we own "a bit of everything" in this way, doesn't that leave a governance gap? How can we still act as responsible owners if we invest through passive funds? The option of selling a company you think is performing badly does not exist if that company is part of the market segment you have decided to track. So any efforts that are made to influence companies to be run better for the long term have to be applied across the entire market. The massive passive investment funds could act as responsible owners at minimal cost, if there were a consensus on what they should be demanding and implementing through their voting policy.

This leads me to the question: what principles of operation should we be asking of all the companies that we own?

I'll not go further into this here, this piece is already too long, but I'd like to mention an interesting recent discovery. I met a gentleman called Simon Clarkson, who has founded a business called Purposecraft. He advises companies, and his specialism is in helping them to think about their purpose in a strategic way. We have already had some great conversations, and in order to help develop his own business he has offered to engage with us in the future. This is likely to start with an article in our next newsletter, so look out for that.

External relations roundup

Sue Milton - External Relations Director

Northern Rock

We have heard from several of our NRSAG members who have had 'phone calls from "First Prime Financial Services" who expressed an interest in purchasing their Northern Rock Shares. Please be aware this is a scam and First Prime have already been quoted in Money Saving Expert.

With regard to the NR campaign in general, the NRSAG committee is still considering the next steps.

Geopolitics - not quite Amigo

One of the Amigo retail shareholder campaigners, Paul Malone, is concerned about how little retail shareholders understand geopolitical risks.

Full UKSA members will have received an email invitation to attend by Zoom on the 17th August (if you have not received it, please contact the UKSA Office at officeatuksa@gmail.com). We will hear Paul's views based on personal experience and discuss whether and how we can 'future-proof' our investments from geopolitical risks.

A new relationship with the International Sustainability Standards Board (ISSB)

Members of the Policy Team met with two members of the ISSB. We have agreed to meet on a regular basis. This is a win/win as UKSA gets informed of sustainability developments from the international standard setters and the ISSB gets insights on the relevance of those standards before they are finalised from retail investors. If any member is interested in participating, please email the UKSA Office officeatuksa@gmail.com.

UKSA responded to the ISSB's first standards, due to be applied from 2025, based on 2024 company data. IS1 is the general standards that must be applied in all sustainability reporting. IS2 covers climate reporting.

In case you were not aware, UKSA participates in the Corporate Reporting Users Forum (The CRUF), with UKSA's chair, Charles, co-chairing the CRUF's ESG group.

More with SIGnet?

We have been asked by the Head of SIGnet, Bill Fawkner-Corbett, if we would like closer links.

In principle, yes, as the SIGnet meetings are regional with each group having a distinct approach and focus. This is very similar to our regional events and meetings, with each one having a distinct approach.

In practice? The Regions' chairmen and the UKSA Board are discussing this, aiming to get the best value for members in the least resource-intensive way for our volunteers. If you are interested in helping, please contact the UKSA Office officeatuksa@gmail.com.

Should we demand independent assurance over Artificial Intelligence (AI)?

There are good arguments to do so. AI is used increasingly by the organisations we own, in the investment platforms we use, by the fund and asset managers, and by the market analysts.

If retail investors and shareholders do not understand AI, we will either fear it or become complacent. In either case, we will be unable to challenge decisions based on AI.

AI is being used to analyse share performance, pick stocks, manage funds and recommend what we should be investing in. Here are five areas AI is used:

1. Algorithmic trading: AI algorithms analyse large datasets and trade at high speeds using market trends and patterns AI identified.

2. Sentiment analysis: AI helps traders and analysts assess market sentiment by collecting news articles, social media posts and other online activity to measure market sentiment and predict movements.

3. Portfolio optimisation: AI can suggest a balance around diversification, risk, income and growth, and state what is missing from the portfolio.

4. Risk management: AI's machine learning techniques are used to improve efficiency and effectiveness thereby reducing risks and costs.

5. Personalised investment advice: with interactive AI, such as ChatGPT, AI programs are gaining the ability to offer personalised investment advice.

The combination of lots of data, algorithms and high speed make AI opaque. Compared to traditional computing, AI uses little code (so there is little that can be independently verified) relying on algorithms (the math that most of us cannot understand) and huge amounts of data (difficult for humans to evaluate). The more data it has, the better the results. That means AI continually improves the answers to questions (is this a dog or a cat?), the analysis of situations (now is the best time to invest in AI) and carrying out activities (research). The sheer amount of data AI can process within seconds to obtain an answer means no human can understand how results were achieved. A rough estimate:

- The human neuron is able to process information in about 5 milliseconds. A computer system can do the same task in about 0.00004 milliseconds, making a computer system 125,000 times faster than a human being.

- In AI, the latest artificial neurons can fire up to one billion times per second, many orders of magnitude faster than human neurons. It does this with ten-thousandth of the amount of energy used by a human.

- Therefore, AI produces the equivalent of thousands of human lifetime's worth of mental activity each second.

This allows AI to provide precise decisions and results but both will be flawed if bias has entered the data AI uses. As human beings are unable to trace the route taken to arrive at each decision because of AI's sheer scale, without verification, we are at risk of GIGO, garbage in, garbage out.

AI is a reminder of how dependent we are on technology to act in our best interests. Governments are considering legislation but there is no globally agreed approach. The UK Government has set out five principles:

1. Safety, security, robustness.
2. Appropriate transparency and explainability.
3. Fairness.
4. Accountability and governance.
5. Contestability and redress.

The Government will require the UK Regulators to implement the legislation.

In summary, AI is developing fast. It achieves better results the more data it has but bias, data volumes and opaqueness make it unchallengeable by ordinary people.

Is the AI genie out of the bottle or can we develop regulation and demand assurance to help tame it?

Sources:

Artificial Intelligence for Beginners, ISBN 978-1-911452-36-2, Raef Meeuwisse (2023), Cyber Simplicity Limited, www.cybersimplicity.com

5 AI Applications in Investing | The Motley Fool

How fast can ai process information? - The AI Blog

Our emerging regulatory approach to Big Tech and Artificial Intelligence | FCA

A BA moral hazard?

Should shareholders say something if companies' treatment of customers is morally questionable?
I was both disrupted and downgraded by BA on a flight to Athens Having booked business class, I was put on a later flight in economy. My original flight was cancelled because neither it nor the later flight were full. One month on and I have received no compensation and the Executive Club points awarded were based on my economy flight.
Small in the scheme of things? Yes.
Is the cancellation rationale understandable? Yes.
A tick in the 'green' box because of combining two flights? Yes.
A potential for increasing profits for shareholders at the expense of customers? Yes.
Is the customer's treatment fair? No.
After spending several hours with various parts of BA Customer Support to get a rebate, I was advised to contact Customer Relations. One problem. You can't contact them. No phone number, no email address, no postal address. Not even a Chatbot. Customer Relations does not speak to its customers!
Customer relations are carried out by an online form the customer needs to complete based on a list of pre-determined scenarios plus a free text box in case the scenarios do not match the experience.
As a shareholder, I am ashamed of IAG/BA. I want dividends earned for good service. As the employer of the policymakers, I am ashamed of the board allowing the company to hide from its customers behind a website form. That is a sign of contempt that signals a red flag for IAG/BA.

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 8 August 2023