THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

ISSUE 19

Chairman's message

Dear Members

Having just watched a YouTube video by Vlad Vexler called 'Broken World; the collapse of the post-1989 global order', in which he argues that the first step to keeping our democracy is to take responsibility for it, sharing a political landscape not just with the ideas and things we like but also with the ideas and things we do not like, I would like to think that most of us try and take responsibility for our democracy. This is reflected in our individual investing and share ownership of companies and feeling responsible for those businesses. As a result, this underpins the importance of engaging with our investments and of an investment infrastructure that enables us to do so. With this in mind, UKSA will continue to keep an eye on where Sir Douglas Flint's Digitisation Taskforce is going; even though it has gone very quiet since publishing its interim report four months ago and having received a lot of feedback just under two months ago. However, I have managed to organise an UKSA and ShareSoc meeting with Sir Douglas Flint and Mark Austin on 11th December and will report back.

We are lucky to have members who organise company meetings; another way to engage with our investments. These meetings usually start with a member accosting (not sure our company meetings volunteers would use this word) one or more of the directors at AGMs they attend, forming a relationship, introducing them to UKSA and the idea of company meetings and getting those companies to agree to them on a regular basis. These companies tend to recognise the benefits of individual investor engagement and to show themselves as good long-term viable businesses. If you attend AGMs regularly and would like to volunteer to help arrange company meetings with one or more of your companies, please let us know.

Which reminds me, I don't think I or anyone else on our board or in our policy team have seen any members' suggested red or green flags to look out for when investing. If any of you have such red (eg value of goodwill exceeding total equity, share buybacks (although nuances here could make it a green flag)) and green (eg gender-balanced companies do better) flags from your investing experience, please let me have them.

Charles Henderson - Chairman of UKSA

They will be considered by our policy team and potentially posted to our website as guidance for all our members.

I would like to remind you we are still looking for new UKSA board members: please see the message in this newsletter and reply if you are interested.

Another priority we have is improving financial awareness and/or capabilities of individuals of all sorts. The root causes of some of our economic problems are potentially attributable to financial ignorance. We are thinking a lot about how we should do this in a productive and constructive way, as introduced in John Hunter's article in this newsletter.

With this in mind and Christmas approaching, I would like to suggest we should focus on the constructive rather than the destructive. We need to find ways to be helpful and try and stop ourselves from being negative. This tends to result in more effort and time (as quick fixes don't tend to work), which is always worth it if it reduces suffering, despair and darkness. Our economy seems to have defied the negative predictions of recessions for some time now. There are still a lot of good businesses out there that are worth investing in and by which people are happy to be employed (good news never makes the news?). Wishing everyone a happy Christmas and goodwill and prosperity in 2024 and the years to come.

Please see our message on director recruitment on page 14

UKSA's new financial learning priority

There's never been a time when financial capability of individuals of all sorts has been more necessary. Low savings levels are leading many towards a retirement crisis; the complexity of pensions regulations makes individual understanding difficult; industry regulatory standards are weakening in the interests of 'competitiveness' (translation: allowing traders of products to extract more money from ignorant consumers); and poor public understanding of the economic strengths and weaknesses of a services economy is allowing bloated intermediation to be confused with constructive services, without any political consequences at the ballot box. These provide the breeding ground for a weakening economy and an uncertain financial future.

To be fair, there is also increasing awareness of this, with many private initiatives to educate the young, some effort to include money management in education syllabuses and greatly improved government-sponsored advice led by the MoneyHelper brand name. The trouble is that it's infected by the commercial interests of sponsors and, in the case of MoneyHelper, its desire not to constrain tax revenues. There is almost too much advice and information out there, too little guidance and those who most need it are not able to distinguish good from bad. They don't know who to trust.

UKSA is going to do something about it.

We have one unique characteristic, and it *is* unique: we are completely independent of all commercial pressures. We are a membership organisation funded entirely by membership subscriptions and voluntary donations. We accept no sponsorship for individual projects. We accept no donations that are sufficiently large to influence our future (although we are voraciously fond of small donations). Our directors accept no expenses unless individually reported to the members; they are elected and periodically re-elected by the members and have no commercially conflicting interests. Our guidance, if we chose to offer it, may occasionally be wrong (because we are human) but it will always be honest and it will be informed by the knowledge of people with a wide spread of relevant experience. Our policy team is a good example).

We can be trusted.

We have no money and limited volunteer capacity, so we must start small. Our financial learning website HonestMoneyNow is an example of what can be done given time and energy, but it is just the tip of the iceberg that needs to be constructed. We will concentrate initially on small tweaks to the site. We will also focus on filling the MoneyHelper gaps where we feel its advice has been impeded by its conflicting obligations. And we will report progress each month under the heading Honest Money News.

John Hunter - former UKSA Chairman and creator of HonestMoneyNow

Policy work update

Dean Buckner, UKSA Policy Director

Digitisation

Over 20 years ago, most paper share certificates were replaced by electronic records in Euroclear's CREST system. (This is called dematerialisation.) While this has reduced costs and risks in the process of paying for share sales and the related share transfers, it has made life much worse for individual investors.

The reason is that individuals find themselves having to hold their shares through nominee firms run by stockbrokers, which means that the individual is not the legal owner of the shares. Special steps need to be taken to allow attendance at AGMs etc.

At present, while most shares (by value) have been dematerialised, there are large numbers of mostly small shareholdings held by individuals with paper certificates. The Government and the financial services industry would like to tidy up by forcing these holdings to also be dematerialised.

In December 2022, UKSA published its position on Dematerialisation, as an aid to policy thinking.

In June 2023, the Digitisation Task Force led by Sir Douglas Flint published an interim report setting out its thinking. UKSA found this quite unsatisfactory. In September, we sent a detailed response to the interim report jointly with ShareSoc. Mohammed Amin of the Policy Team was the lead author of the response, with input from many UKSA and ShareSoc colleagues.

Financial promotions on social media and a ban on cold calling for consumer financial services and products

In July 2023 the FCA issued a consultation on updating its guidance for promotions on social media. A few weeks later the Treasury issued a consultation on banning cold calling for consumer financial services and products.

Our view is that such cold calling should be banned and we supported the Treasury. Cold calling *per se* is not currently banned in the UK, but the Privacy and Electronic Communications Regulations 2003 impose restrictions on marketing via cold calls, unsolicited texts, emails and faxes.

There were some intriguing links between these two consultations. The FCA consultation was proposing that the guidance on the use of social media for financial promotions should be updated. Much of the current guidance was last reviewed in 2015. Social media, their use and 'reach' have changed dramatically since then.

The consultation document was in many respects good. It gave plenty of good examples (including screenshots) of acceptable and unacceptable social media posts. It also contained many useful, relevant and interesting links to research and current regulation relating to the use of social media for financial promotions.

However, it did not mention the dramatic advances in the algorithms now used by the social media platforms, which allow precise targeting of messages to consumers based on detailed insights into their perceived wants, needs and preferences. The targeting is designed to ensure that the recipient will be disposed towards acting on the message, which can make the marketing highly manipulative. The arrival of artificial intelligence (AI) is likely to reinforce this trend.

Promotions on social media are attractive to the financial services industry. They are an easy way to reach younger consumers; they are inexpensive, efficient and very effective. However, many promotions using social media are not in the spirit of the New Consumer Duty, which requires financial services firms to act primarily in ways designed to achieve good outcomes for retail customers. Much of what is presented on social media and the way it is presented simply plays to consumers' biases, concerns, worries, ignorance and greed. It is often designed to encourage an impulsive response.

The FCA itself noted the rapid rise of the so-called 'finfluencers'. Its research revealed that 62% of 18- to 29-year-olds follow social media influencers, with 74% of them saying they trust their advice. It went on to add:

"Often these influencers have little knowledge of what they are promoting. This lack of expertise is reflected in the large number of promotions that are either illegal or non-compliant, making it likely that consumers will see poor quality information on social media."

All this, of course, is before one considers the possibility of professional scammers and fraudsters (who are totally outside the FCA's 'regulatory perimeter') taking advantage of consumers using social media.

We therefore had serious doubts about the likely effectiveness of the FCA's ability to provide better consumer protection simply by improving its guidance to authorised firms on their use of social media for financial promotions. Our conclusion was that financial promotions on social media should be banned.

Banning financial promotions on social media will not stop them. However, it would send a very clear message to consumers that it is illegal and that they should ignore these communications. We put our proposal to the FCA at a meeting that they organised to discuss the consultation. We also mentioned the Treasury's consultation which was going on at the same time. The FCA's response was that a ban would be 'disproportionate'.

This takes us to the intriguing link between the FCA's consultation and the Treasury's proposal to ban cold calling. Messaging via social media is simply a form of cold calling, so the FCA's position seems to be at odds with that of the Treasury. Yet HM Treasury is the government department which sponsors the FCA!

We await with interest the final outcome from the two consultations.

Beyond ethics: understanding strategic purpose as a catalyst for value creation

Simon Clarkson, founder of Purposecraft

In the lexicon of modern business, 'company purpose' frequently conjures up images of ethical business practice. However, when 'purposeful' becomes a euphemism for 'ethical', there's a risk: a creeping strategic neglect. This insidious shift can lead to a homogenisation of companies, where distinctiveness and competitive edge are sacrificed on the altar of a misunderstood term. Unlike the non-negotiable baseline of ethics, strategic purpose signifies much more—a company's capacity to create unique value, forecast superior performance and promise an attractive return on investment. This article aims to dissect the true essence of strategic purpose, revealing how it operates as a driving force for future value creation, distinctly and substantially beyond the bounds of ethics alone.

The strategic imperative of purpose

The strategic purpose is a business's unique blueprint for value creation, integral to its competitive strategy. It propels innovation and confers a distinct identity within the marketplace. This is exemplified by LEGO's mission to "inspire and develop the builders of tomorrow", a strategic purpose that goes beyond ethical considerations to articulate a unique value proposition — fostering creativity and systematic thinking in children. Similarly, Mars Petcare's purpose of creating "a better world for pets" propelled the company beyond commoditised confines of pet food to the forefront of pet health services, catalysing unprecedented growth and establishing it as the most significant division within Mars Inc.

The insidious effects of purpose neglect

A lack of a well-defined strategic purpose brings serious vulnerabilities. Often, the first signs are not overt — they may manifest as a talent drain, a botched merger or faltering market presence. Yet, when examined, a poorly defined or misaligned purpose is frequently the underlying issue. Leaders fail to identify an enduring source of value that matches the organisation's strengths, rendering strategy myopic. As market conditions shift or disruptions occur, the absence of a clear purpose can lead to a crisis of confidence and cultural schisms, diminishing productivity and inflating costs.

The alarming extent of the problem

The prevalence of this strategic oversight is worrying. A mere fraction of company purposes effectively drive impact or performance, and alarmingly, most are disconnected from the actual revenue-generating activities of the business. The disconnect extends internally, with a scant percentage of employees believing in their company's stated purpose.

Most concerning, however, is the revelation that nine out of ten CEOs are unable to articulate the specific problem their company exists to solve or how it leverages their capabilities. This finding, from a 2020 PwC survey of 2,000 chief executives, indicates a systemic failure in strategic purpose alignment.

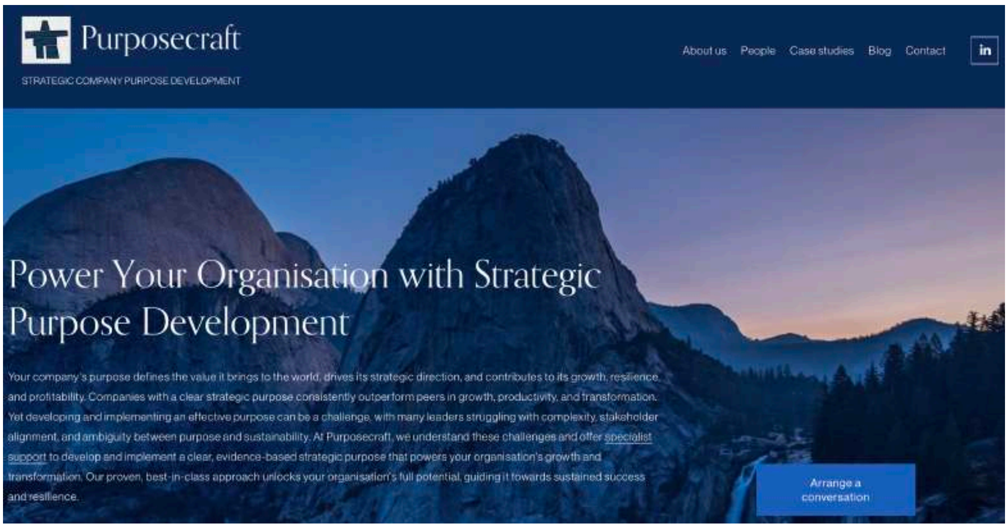
A call to action for investors

Given these insights, it is imperative for investors to expect more than ethical conduct, and critically evaluate a company's strategic purpose. It is not enough for CEOs to offer platitudes about "making the world a better place". Instead, investors should demand clarity on how a company's purpose drives its strategy, innovation and competitive differentiation. When considering where to allocate capital, investors must seek out those rare entities that can articulate and implement a strategic purpose aligned with their core strengths and market opportunities.

Concluding thoughts

Strategic purpose is not merely a tagline; it's the engine of growth, differentiation and adaptability. It promises not just ethical conduct but a blueprint for sustained value creation and superior performance. For founders, entrepreneurs and CEOs, it's crucial to crystallise and integrate a strategic purpose from the outset, shaping a company's trajectory and market authenticity. And for investors, recognising and valuing strategic purpose is key to identifying companies that are primed not just for success, but for enduring significance in a rapidly evolving business landscape.

The author is the founder of Purposecraft, a consultancy that empowers organisations to identify and implement their unique strategic purpose, fostering growth, transformation and standout performance in the process. Click the image below for further information.



Reflections on some recent developments

Martin White - UKSA Director and creator of [Savers Take Control]

On 25 October 2023, I took part in an event with the following title:

"Risk and uncertainty in the pensions world: Correcting the biggest avoidable UK public policy failure of recent decades"

The event was designed by Sir John Kay and Lord Mervyn King, with a wide range of speakers. I was invited wearing a Savers Take Control / UKSA hat, and was given 10 minutes to give my thoughts on the way forward. I do hope that the recording of the whole event will be freely available to the public, so that everyone can hear all the ideas and opinions expressed, but I am beginning to doubt whether that is going to happen. So I plan to put the talk I gave and the slides I used onto the UKSA website soon.

The thrust of the event was first how accounting and other changes have led to the closure of private sector defined benefit schemes and secondly the massive reduction of total equity holdings of UK pension schemes. Most of the speakers were critical of all aspects of this, but not all; the programme was designed to achieve a certain amount of balance.

The most memorable contribution was the summing-up talk by Mervyn King. Here's my approximate, but fairly close version of part of his talk:

"The fiddling at the margins, as in current government plans to consolidate small pension funds, is completely irrelevant to the real problem.

One final remark about the challenges that we face. If you were to go to a parliamentary debate, you would hear lots of good ideas about things that the UK could invest in, whether it's to do with a greener economy, whether it's to improve the National Health Service, whether it's to improve our infrastructure, the transport system. We have lots of good ideas about what we might invest in.

But unfortunately we don't have a mechanism for financing them. We already start with a large current account deficit. The investment we do make in this country is not high by international standards, is financed in part by borrowing from abroad and there is no margin to significantly increase the national investment rate by further borrowing from abroad.

It needs to come from higher national savings. Britain has the lowest national saving rate of any country in the G20. That should be a national disgrace. It should be one of the big questions confronting the electorate at the next election. How can we raise our national saving rate?

One of the ways to do it is to reform radically the provision of pensions and reduce future demands on the Government budget from those who are likely to receive inadequate pensions. How do we do it? Well, it seems pretty obvious that only a bipartisan approach will work. Because you can't really expect the significant transformation of the pension system by one government, if the opposition opposes it and commits itself to unwinding the change if they were to win the following general election. Maybe a group of both houses of Parliament would be the right way to do it."

Mervyn King has spoken for many years about the low savings rate in the UK. It's clear that it is not in our long-term interests to have a large current account deficit. Greater savings by individuals are needed. Of course, there are plenty of people who have very little scope to save from their present incomes. But it would greatly help if more individuals felt that saving more was worthwhile and that there were savings options out there which were good value. This is the "Who To Trust" agenda, and we are working hard to play our part, by speaking up about those messages which the financial sector would be happy for the public not to know about.

Another recent development – financial education

On 16 November, the House of Commons Education Committee launched an inquiry into strengthening financial education, asking for responses by 15 December, which is an unusually short deadline.
Here is the list of questions they have set out:

• What should we be teaching young people about money? What should financial education include and are there any aspects missing from the current provision?

• Where should financial education sit within the National Curriculum between the ages of 11 and 16? To what extent does its current position within the curriculum limit the amount of delivery time it receives? Should financial education form part of a core subject, such as mathematics?

• What steps should be taken to support teachers and schools in their delivery of financial education?

• Should the provision of financial education in schools be extended beyond key stages 3 and 4. Is there scope for it to be embedded more extensively at primary-school level?

• The Government has outlined proposals to ensure that all students study some form of maths up until the age of 18 – should financial education be included in these plans and, if so, how?

We are planning to respond, and if you have any suggestions to offer, please don't hesitate to throw them to me at stc@uksa.org.uk

One of the things we will say is that financial education is not enough. People need trusted sources of information and advice. Financial service providers are always conflicted, so it's the information and advice that needs to be available. But how can you trust advisers (or sales people) who are remunerated depending on the decisions you take? So I look forward to stirring the pot a little!

A reminder that...

UKSA is home to two associated initiatives. Click the logos below for more details:

HMN
HonestMoneyNow

STC
Savers Take Control

Recent news from Martin White

Charlie Munger: an inspiration for investment thinkers

Born 1 Jan 1924, died 29 November 2023

Most of you will have heard of Charlie Munger. He played a big part in the success of Berkshire Hathaway, and was a famous investment thinker in his own right, albeit that the media focuses rather more on Warren Buffett. He was the ultimate advocate of lifelong learning, and when he died he was just a few weeks short of his 100th birthday.

I expect there will be a number of programmes featuring his life and achievements. One of his talks that I particularly like is called "the psychology of human misjudgement". If you search the internet, you will find a recording of the talk he gave in 1995 on The Psychology of Human Misjudgment. And he wrote a follow-up document too, which you can find here.

Visit of Tristel plc to the King's Arms, Didmarton, Friday 1 December 2023

I attended this company's visit to UKSA's Western region on Friday. Paul Swinney and Liz Dixon from the company gave a compelling presentation on the rude health of their infection-prevention business (sorry about that). I found their open and relaxed style in response to sometimes very challenging questions to be very refreshing. This isn't an investment recommendation of course, and I think everyone would agree that the current share price anticipates a great deal of future growth.

Paul and Liz also brought their investor relations adviser, Paul McManus from Walbrook, with them. Meeting him was interesting too; the Walbrook firm just do investor relations work and consequently are completely independent of any other players in the financial sector such as investment banks, brokers, remuneration consultants, etc., etc. I found this refreshing too.

Tristel is a company that really appreciates its private investors, especially their loyalty in the past. The current live issues around shareholder disenfranchisement, nominees etc. came up in the lunchtime conversation with Paul McManus after the presentation.

Another hot topic in politics at the moment is the "growth" agenda. Tristel is a useful case study, an example of a successful and innovative UK company that exports profitably from the UK to the world. But if you understand the current dynamics of the business, you have to conclude that they are well able to grow their business from their current resources and you can't make the business grow faster in a sustainable way by just throwing money at it. There is a lot of hard grind. So I feel there may be a bit of naivety in the idea that the UK's problems can be solved by simply pushing money into private equity, for example. A discussion for another time.

Alan Cane adds: *I declare an interest as a long-term shareholder in TSTL. Martin is right. In my opinion Tristel's approach to private investors is a model that others would do well to follow. It's worth knowing that existing and potential shareholders may, on request, attend presentations of the interim and full-year results in London, usually by the Chief Executive and Finance Director. These meetings can also be viewed online and questions raised. An annual open day at Tristel's HQ near Newmarket gives every opportunity to meet staff and other board members. You can see the manufacturing and packaging of the products, along with the laboratory facilities including testing and quality control. And, perhaps most importantly, absorb some of their culture.*

External relations round-up

Sue Milton - External Relations Director

Northern Rock: the Good, and then there is the Bad and Ugly.

The Good

We have our new Northern Rock Shareholders' Action Group (NRSAG) committee. All NRSAG members will have received an email from UKSA introducing the committee members. From a governance perspective, Sue Milton has drafted an MOU that sets out the 'rules of engagement' between the Committee, who will organise all the NRSAG activity, and the UKSA Board, who will provide financial and operational oversight. The next steps for the MOU are to obtain board approval before passing the MOU to the Committee for theirs.

The Bad and the Ugly

A number of our NRSAG members are being contacted by organisations by means of phone calls and emails wanting to purchase members' Northern Rock shares. The member is asked to complete a non-disclosure agreement (NDA) and complete forms that provide considerable personal information. We believe these are scams, professionally put together. The companies look genuine. Our concern is that they have been set up just to scam us or they have cloned genuine companies' websites.

REMEMBER, OUR NORTHERN ROCK SHARES ARE WORTHLESS until something changes to suggest the shares are worth holding. We know this and we have suffered a lot of pain, hence NRSAG's continued existence to fight for compensation.

Three of the organisations involved are:

First Prime Financial Services based in New York.

Destiny Stellar Business Associates
Address: 200 Vesey St, New York, NY 10285, USA
Phone.: 1 917 720 3662
Fax.: 1 917 993 6285
Email: info@destinystellarbusinessassoc.com
Website: www.destinystellarbusinessassoc.com

Mergers & Acquisition Department
Robinson-Murray Consulting
Email: info@robinson-murrayconsultinggrp.com , or Fax: +1 646 558 4154.

Whilst not proof in itself, one test to see if the company is genuine is to check the start of the website address. First Prime Financial Services and Destiny Business Associates have insecure websites. The web address starts with http, not https. I have not been able to find a website for Robinson-Murray Consulting.

Latest on UKSA's engagement with regulators and standard setters

We had our second meeting in mid-November with the International Sustainability Standards Board. The first two standards are ready for use. To quote the International Financial Standards Board (IFRS) IFRS - Ten things to know about the first ISSB Standards, "S1 requires companies to communicate the sustainability risks and opportunities they face over the short, medium and long term. The requirements are designed to ensure that companies provide investors information relevant to decision-making. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. Both Standards are based on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)."

The next stage is to encourage nation states to accept and apply the standards. UKSA offers the ISSB its full support because the standards help us retail investors in our decision-making. Our earlier involvement can be found here: UKSA and ShareSoc respond to ISSB's recent sustainability reporting standards consultation | UKSA.

No sooner have these two standards been launched into the world of corporate reporting than we have to look out for the Task Force on Nature-related Financial Disclosures (TNFD) and its recommendations. These cover a broad range of 14 nature-related issues relating to, for example, land/water change, pollution/pollution removal, resource use/replenishment, nature-related risks, nature-related opportunities. It will make Climate Change reporting feel like a walk in the park.

Any reporting will be as good as the board's governance over the company. The Financial Reporting Council (FRC) has shared with us its annual review of the quality of corporate governance reporting in the UK. The report finds there are "ongoing improvements in the quality of reporting against the UK Corporate Governance Code", but also identifies areas where many companies are still falling short. The main culprits are companies' generic statements that offer no useful information, including information about critical risks.

AI and Retail Investors AI Has a Limited Role in Investing — That Could Change (etftrends.com)

AI can be useful in helping people to learn about retail investment. This recent survey of Americans found that younger investors are more likely to use AI for financial advice.

AI tools offer ways for retail investors to get some basic knowledge across industries and sectors and to learn about the historical performance of certain investments, but they cannot yet be stock-pickers or show us the best way to obtain an optimum investment portfolio.

AI gets stronger every day because the more we use it, the more data it has to provide us with analysis, predictions and information. AI may not be perfect yet, but watch this space……

Director recruitment

UKSA needs directors who can contribute their skills and experience in any of the areas that help ensure the success of an organisation such as ours and provide help and guidance to members and others, such as public relations, journalism, marketing and financial services.

UKSA is enthusiastic about progressing several causes, such as share digitisation, the removal of intermediation between the real owners of shares (or underlying beneficial owners (UBOs)) and their companies and restoring these owners' rights, financial learning (see Honest Money Now), Savers Take Control (STC), company meetings and events. If you would like to get involved and help with these or other potentially relevant initiatives, please consider replying to this advertisement for new directors.

We are looking to add up to three new directors to the UKSA board.

If you are interested in becoming an UKSA director, please let the chairman know by emailing him by the end of 2023 at charles.henderson@uksa.org.uk.

Dean Buckner is also looking to stand down as Policy Director at 2024's AGM and Charles Henderson is looking to stand down as Chairman at 2025's AGM. Charles is 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 taking on one of the Chairman, Policy Director or Finance Director roles, please also mention this in your email to the chairman.

We will contact those who have put their names forward early in the new year with details of the criteria looked for – which will include being a team player and supportiveness of our independence – and the recruitment process.

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 4 December 2023