THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

Issue 22 – August 2024

Chairman's message

Charles Henderson - UKSA Chairman

Dear members

We had our 2024 AGM on 1 July, swiftly followed on 4 July by the election of a new Labour government. We look forward to the coming year, engaging with the new government on shareholder concerns. These concerns are executive remuneration, UK stock markets, retaining and restoring shareholder-on-register rights and digitisation or dematerialisation of share certificates. If you think there are other concerns, please let me know.

Before the AGM at the RAF Club, we had an excellent social, where Paul Jackson, the Investors' Chronicle 'No Free Lunch' correspondent, talked to us about HSBC, executive remuneration and other topics he's covered in the IC. Thank you to Malcolm Hurlston for introducing Paul to UKSA and persuading him to come and speak to us. We hope to remain in touch with Paul and the IC.

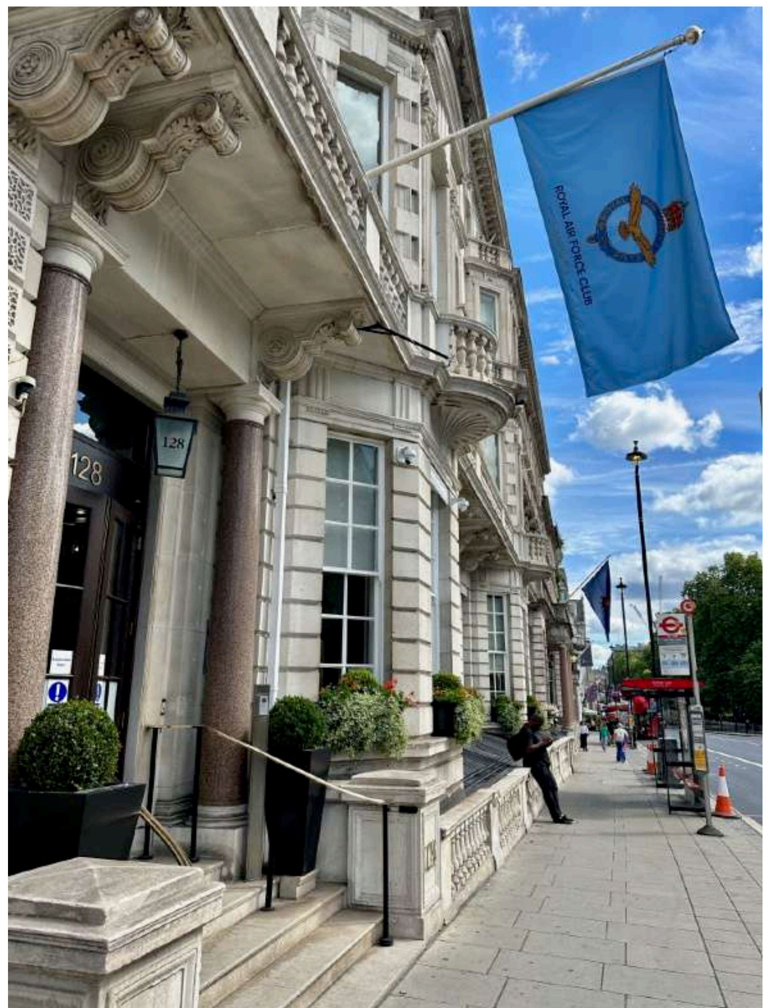
Your policy team met on 25 July to discuss what it should be concentrating on. This resulted in three projects that all the team will be working on in the coming months:

- Me producing guidance on executive remuneration. The aim is to provide some executive remuneration principles that we think your companies and your investment funds' fund managers should be applying in their corporate governance and stewardship activities respectively; and if they aren't, you can challenge them;
- Martin White producing a paper on concerns in respect of the long-term viability of the UK equity markets, their constituents and whether anything may be done to mitigate these concerns. The aim here is to conclude whether there are any problems to solve and, if there are, to point out to the government who we think should be resolving them;
- Mohammed Amin producing a short paper on what we (UKSA), ShareSoc and ShareAction expect in the Digitisation Taskforce's final

report in order to publicise this as widely as possible before the report comes out (expected in September).

Mentioning our new Labour government, I find it odd that they are referred to as socialists. I believe most British people are not socialists, as they will be in favour of private ownership (as opposed to social or collective ownership (of the means of production)). For us who mainly own our savings, pensions and other things privately, it will be interesting to see how socialist the new government behaves in the coming five years and how much they can keep us onside.

Finally, I want to mention a Douglas Murray article I read recently in The Spectator suggesting we are in a new Dark Age (the previous one being the six centuries before the Norman invasion in 1066, when information was not recorded and readily accessible, and the Doomsday Book subsequently starting to change this). Douglas Murray suggests we are in this new Dark Age because there's too much information; we cannot sort or prioritise it and as a result it is really difficult to know what is right or not. This emphasised to me the need for our companies to report better by prioritising useful information for shareholders in their annual reports. They, close to the business, are the best people to do this. We are the best people to challenge them, especially if things don't make sense to us. This is one of the reasons why I participate in the [Corporate Reporting Users' Forum] (CRUF) and I expect other UKSA members do too. CRUF believes that corporate reports should provide information that is clear, understandable, consistent and relevant. Hopefully its work will continue to push our companies to shed light on what they do in this new Dark Age.



Top: Paul Jackson, the Investors' Chronicle 'No Free Lunch' correspondent, was UKSA's guest at our pre-AGM lunch. He talked to us about HSBC, executive remuneration and other topics. Bottom: Our AGM venue, the RAF Club in Piccadilly

External relations round-up

Sue Milton - External Affairs Director

A £ symbol next to a link to an online resource indicates that the resource is behind a paywall.

AI – a global race to where exactly?

The US company Nvidia has it all when it comes to AI development. Nvidia provides all the hardware parts needed to make AI work.

AI is expanding, so Nvidia sounds like a great investment, but does the market value reflect societal value? If it does not, will the share price crash?

With Big Tech investing sovereign-sized sums in AI research and development, the FOME effect is taking place. FOME is the 'fear of missing out' and governments have got it badly for two reasons:

- Governments will lose out to Big Tech when it comes to governing and using AI;
- Other nations' investments in AI are creating a weird and fiercely competitive market across governments.

Public announcements have resulted in multi-hundred million and even billion-dollar spending plans from several nations (Saudi Arabia, Singapore, Germany, UK, India). This spend will go toward supporting the AI environment alongside or in spite of Big Tech's sovereign-sized investments. This FT article The next wave of AI hype will be geopolitical. You're paying (ft.com) (£) is a good summary of the situation.

But there is a cost that goes way beyond the $$$$$.

AI continually needs more data to grow in knowledge to retain competitive advantage. That requires more technically advanced hardware as well as more data centres, incurring ever greater costs for its manufacturers, its users and the environment.

There are security issues. At the societal level, AI can dupe us into doing things we don't want to do. Misuse of AI is the lever to breach corporate and national security. We are having to develop AI to fight AI to remain secure.

As a result, we have two drivers for investment in AI. The first is to expand its general usage; the second is to develop AI to keep us secure. The former is a commercial driver; the latter is a national security driver which then becomes another commercial opportunity and so on.....

All this takes money, but the understandable fear factor of protecting citizens whilst retaining a competitive advantage means that governments will spend prolifically to feel they are keeping us safe without checking the value of their investments. Because how can you, with AI increasing its capabilities and reach seemingly forever? To quote the FT out of context: "they don't know what they are buying, or why they need it, but are sure they have to have it".

With both commercial companies and governments on a race to somewhere yet to be defined, the AI component industry is seemingly an opportunity for investors before the bubble eventually bursts.

Which takes us back to where I started, Nvidia.

Environmental and social impacts on business models

Some of UKSA's policy team members are puzzled as to why companies are not saying more about the impact that climate change, net zero transition and societal expectations are having on their business models.

The FT has noted in its focus on impact investors that "investors have not, so far, made widespread use of a company's business model to assess potential investment opportunities" (Investors widen focus to business models in assessing ESG impact (ft.com) (£), but I feel it is true of most investors, retail and institutional.

What is a business model?

- It is the company's foundational plan for making a profit by identifying the products or services the business plans to sell, target markets and anticipated expenses.
- It describes what an organisation does to systematically create long-term value for its customers.
- It provides a stronger direction on how the company wants to operate and what its financial future appears to be.
- It enables investors to find out exactly how it makes its money; not just what it sells but how it sells it.
- In summary, it is describing how something will be created that sufficient customers will want; the product or service will be and continue to be 'market fit'.

A new business must factor into its model the resources it needs until it makes a profit, yet established businesses do not regularly update their business models. They are at risk of failing to anticipate trends and challenges ahead. But why is that?

What is absent from the model is stating the risks to the business. That is why I believe investors forget about the model. We are more likely to focus on strategy, and risks to strategic objectives, as these impact financial returns, but we do not consider whether the strategy and risks are now at odds with the model.

Example: a manufacturer of leather shoes and handbags relies on skins supplied as a by-product from the meat industry. But what happens if meat is no longer being consumed in large enough quantities for there to be enough leather? Plant-based options are available, so we should be asking if the manufacturer is adjusting its business model to reflect this.

Business models tend to be written once and then forgotten. It is time to resurrect them.

Those ESG elephants

A slightly different version of Sue's last newsletter article on AI and ESG is now live here on the Corporate Reporting Users Forum (CRUF) website

Where are we with sustainability assurance?

There are not enough assurers and those that we do have do not know enough to provide assurance.

That was the main finding at a roundtable hosted by the Financial Reporting Council (FRC) on 27 June 2024. Preparers, assurers and investors, including UKSA, participated.

One preparer said that the problem was exacerbated with FTSE companies feeling they must engage the BIG4. Does this sound familiar?

It should, as this was what the Competition and Markets Authority (CMA) was trying to address for financial assurance way back in 2019. It has not been addressed and you can see our consultation response here and the publication of the recommendations here.

Sadly, we are set to repeat ourselves.

There were four other findings from the discussion that stood out for me.

- Non-complementary timeframes. Annual financial reporting and budgets are just that, annual. The timeframe for sustainability is over the longer term, whilst budgets remain annual, making it difficult for companies to budget sensibly for sustainability-related activity that will not show returns for many years. Companies feel they know what to do but need a better framework that is acceptable to the market.

- Confusion for companies and assurers. With so many standards and guidelines, companies and assurers may be confused as to which ones to follow and comply with.

- Disincentives for assurers. They feel that sustainability reporting offers no tangible value to investors in what is reported in the non-financial part of the report. And why do it if there is no requirement for assurers to state an opinion on sustainability reporting?

- Understanding the relevance of 'modified' and 'limited' assurance opinions. Assurers say they would apply these opinions if there were errors that could not be resolved for the reporting period, e.g. faulty HR data, or the processes used to provide data were found to be inadequate. Assurers feel that most ESG misreporting would have limited impact on the financials. Reputation will be another matter if such errors persist.

What is the UK doing on sustainability reporting? The UK will adopt IS1 and IS2, maybe from 2026. Meanwhile, and depending on size and sector, UK companies must report compliance with:

- Disclosure Guidance and Transparency Rules (DTR).

- The UK Corporate Governance Code (UKCGC).

Associate Member?

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

- The Companies Act 2006.
- The Modern Slavery Act 2015.
- Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.
- An easy-to-read summary is here ESG Reporting Requirements in the UK: Comprehensive Guide (board-room.org). And more is to come with The Taskforce on Nature-related Financial Disclosures (tnfd.global).
- The EU Corporate Sustainability Reporting Directive (CSRD) | Climate Disclosure Standarwilds Board (cdsb.net) is applicable, I believe, from 2024 for EU companies and 2028 for non-EU parent companies.

NRSAG latest scammer alert

Another member has informed us of another scam, this one asking for over £4,000 to cover 20% of a supposed insurance indemnity (via Fidelity) before receiving a payout of £12 per share (currently valued at £2.50).

The scammers are targeting Northern Rock shareholders as representatives of Virgin Money with regard to a 'potential upcoming hostile takeover' and asking you to complete an NDA (non-disclosure agreement). The 'hostile takeover' relates to Nationwide's acquisition of Virgin Money. Scammers are taking advantage of uncertainty and change.

Please remember that NR shares have zero value and that Virgin Money no longer has any interest or involvement in Northern Rock, which means Nationwide will not have any either.

The scamming firm is going by the name of Emerge Corporate Partners, using information as follows:

Emerge Corporate Partners, LLP.

Address: 3 Columbus Cir, New York, NY 10019, USA.

Phone: 1 718 514 7680.

Fax: 1 718 691 4056.

Email: info@emergecorppartners.com

They have also used this phone number: 1 770 283 8084.

The caller has used the name 'David Larsen'.

Policy news

Dean Buckner - Policy Director

Earlier this year we responded to the FCA discussion paper that rethinks the way advice and support are delivered to consumers, particularly with the aim of breaking down the rigid division between 'advice' and 'guidance' that has proved detrimental to some sectors of the market. We argued for moving responsibility to consumers while giving them the tools to exercise that responsibility. The main vehicle for meeting this target should be online learning (citing our HonestMoneyNow website as a model), and this model should be integrated with the initiatives currently being undertaken by government under the 'education' umbrella, so that what emerges is a genuine 'cradle to grave' learning process independent of commercial interests.

We recommended that the initiative be overseen by a cross-departmental committee covering an understanding of finance, learning, systems and human psychology, and that the focus of regulation be switched from control of advice to strengthening of understanding, executed as consumer tools become available.

We also responded to the Primary Markets Policy Team, Financial Conduct Authority, regarding their detailed proposals for listing rules reforms.

There is still a drive to make UK stock markets more attractive, but we thought that changing the listing rules would not necessarily make them so. We argued that a primary competitive driver of stock markets is having a pipeline of good, long-term viable businesses seeking public money at the right time and being attractive to investors.

So, yes to making the UK Listing Regime more accessible, effective, easier to understand and competitive for the benefit of both issuers and investors, especially in providing information transparency to investors.

But no to either the market itself or its rules being made the main competitive drivers.

We pointed out, in some cases again, that:

- We do not like dual class shares;
- Sponsors should be appointed to mark a company's own homework on major transactions;
- Changes to the listing rules must not detract from high-quality disclosures;
- We would like to see the same related party definition used as is used in IFRS accounting standards; and
- Boards should think for themselves under the UK Corporate Governance Code.

In April we worked with ShareSoc to respond to the FCA's new approach to enforcement. We welcomed the FCA's proposals to increase transparency over enforcement actions, citing a longstanding complaint of our members about the lack of transparency and visibility of the current enforcement process. We agreed in principle with the proposal to announce investigations in advance, rather than after the event, reasoning that it would cause firms to focus more carefully on the interpretation boundaries of regulations. Firms will clearly want to avoid any investigation given that (unlike now) its existence will immediately become public. However, we did not without qualification support naming individuals at the enforcement stage of the investigation.

Click the picture on the left to go to the 2024 edition of the UK's Corporate Governance Code

Lithuania June 2024

UKSA was represented at this year's Better Finance conference on Capital Markets Union held at the magnificent University of Vilnius

Lithuania's finance minister Gintarė Skaistė talking on Baltic finance

Better Finance delegates viewing an exhibition at Vilnius University library

Financial Coaching: helping you navigate the world of finance

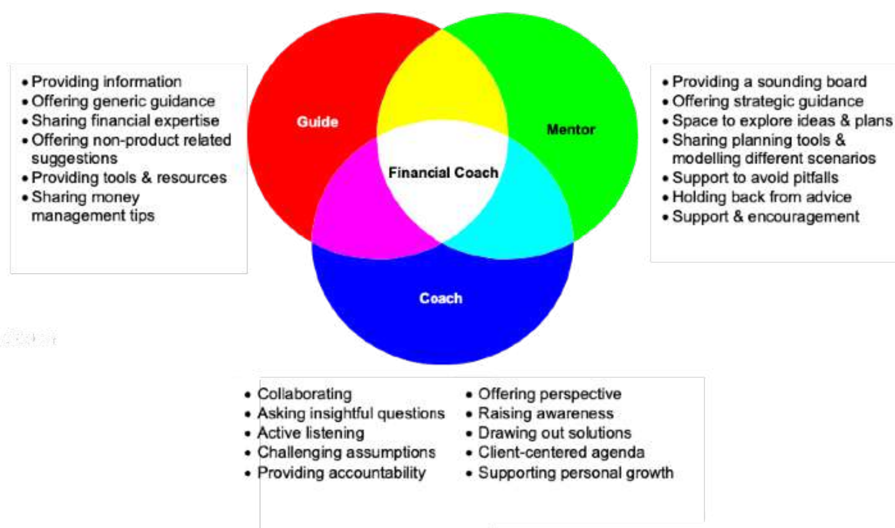
Simonne Gnessen - Founder of Wise Monkey Financial Coaching

Financial coaching didn't exist in the UK when I began to consider alternative ways to work with clients on their finances beyond the traditional advice model. After 10 years as an independent financial adviser, I became disillusioned with the industry and how advice mostly focused on clients who had already accumulated sizeable assets. I also felt that the sale of products as such a significant component of the advisory service muddied the water, not allowing time for the full range of support many people really needed to help them understand and navigate all the complexities surrounding their financial decisions and relationship with money.

In 2002, I launched Wise Monkey Financial Coaching, with a mission to demystify the world of finance, relieve people's stress relating to their financial worries and help them use their resources effectively so that they could reach their highest aspirations in life. By following my own course, I formed the UK's first Financial Coach service. The service changed and developed over the years as I integrated new coaching skills, tools and methodologies into my work. And in 2010, I developed the training arm of the business, training others in the skills and techniques to build their own Financial Coaching practice.

UKSA is delighted to include this article by Simonne Gnessen, founder of Brighton-based Wise Monkey Financial Coaching

The role of a Financial Coach: Guide, Mentor and Coach



The version of Financial Coaching that I practise and teach offers an integration of different roles, blended together in an intuitive way depending on the needs of the client.

As a guide, we can help clients navigate the complex world of finance, offering clarity on the options available. **As a mentor**, we share knowledge and experience to support informed decision-making. But the most transformative aspect of our work is **coaching**, where the client is the expert, not us. Coaching helps clients gain clarity on what truly matters to them and identify any obstacles that may be holding them back. This process allows clients to understand themselves better through the lens of money, shedding light on their mindset and financial behaviours. As they become more aware of these factors, they are empowered to take actionable steps that align with their deepest values and aspirations.

How Financial Coaching differs from traditional Financial Advice

Financial coaches are not regulated to give advice. Our sole focus is on empowering clients to make informed decisions that are truly aligned with their values and goals. There's no bias or agenda – just a commitment to helping people develop a healthier, more empowered relationship with their finances.

Unlike traditional financial advice, which is often limited to specific goals or financial products, financial coaching offers a neutral space for clients to deeply consider their goals, build financial knowledge, explore options and hold them to account on action. We take a broader approach that addresses both the practical and emotional/psychological aspects of personal finance. Coaching can help clients delve into the beliefs and habits that influence their financial decisions, providing a holistic approach that helps them fully navigate their relationship with money.

Plus, the ongoing nature of the financial coaching relationship allows for greater accountability and support. Clients work closely with their coach to develop action plans, overcome obstacles, and stay motivated – a level of personalised support tailored precisely to the needs of the client. This could be in the form of a few one-off sessions, or it could be monthly sessions for a period of time. We provide whatever level of coaching, guidance and support they need, ultimately aiming to empower clients so that they no longer need to work with us.

Addressing the emotional and psychological aspects of money

Money is not just a matter of numbers; it's deeply intertwined with our emotions and psychology. Many of us have ingrained beliefs and habits around money, often formed unconsciously, that shape our financial choices.

This holistic approach is particularly valuable for individuals who may be struggling with money-related mindset issues or behaviours that are holding them back from achieving their financial goals. As a financial coach, we can work with clients to uncover the underlying beliefs, assumptions and narratives that are driving their habits and decisions.

"This holistic approach is particularly valuable for individuals who may be struggling with money-related mindset issues or behaviours that are holding them back from achieving their financial goals"

By helping clients gain a deeper understanding of their own money mindset, we can start to address any barriers that may be preventing them from taking action and help them align their financial decisions with their values and goals. This process isn't just about achieving financial stability; it's about helping clients transform their relationship with money to build and sustain a healthier and more empowered relationship with money.

The benefits of Financial Coaching

The benefits of financial coaching are extensive. Clients receive personalised guidance and accountability, helping them stay on track with their financial plans and work through anything that is getting in the way. This ongoing support empowers individuals to make informed decisions that are aligned with their personal values and long-term objectives. The coaching process addresses not only practical financial management but also the emotional aspects of personal finance, providing more holistic support.

The growth of Financial Coaching in the UK

Financial coaching is a relatively new field in the UK, but it's gaining traction as more people seek comprehensive, client-centred financial guidance and support. This holistic approach fills a crucial "advice gap" left by traditional financial services, particularly for those who feel underserved by the conventional focus on products.

Despite the fact that most people are still unaware that financial coaching exists, the demand is growing. People are increasingly recognising the importance of not only managing their finances effectively but also understanding their relationship with money. As a result, the field is expanding, offering new opportunities for those seeking a deeper, more personalised approach to financial well-being.

I'm proud to be at the forefront of this movement through my own Wise Monkey Financial Coaching service as well as our training and the community of Financial Coaches that we're supporting. Our collective mission is to offer a compassionate and empowering service that extends beyond the traditional boundaries of financial advice.

Whether you're at the beginning of your financial journey or looking to refine your existing strategies, Financial Coaching can support you, helping you create profound and lasting changes in your financial life.

Editor's note: we are always pleased to include members' reports of their own investing experience. At the AGM I reiterated our interest and I'm delighted that Monica Redenham has risen to the occasion and sent us a contribution to this newsletter.

"Circular" certificates – or back to square one ....

by Monica Redenham

Dear fellow UKSA members

As the following was mentioned at the AGM, I thought a note for those unable to attend could be of interest.

Brief background

I started more serious share ownership in 1998/9 and everything was on certificates without problems. Collecting dividend vouchers was easy and with a "buy and hold" style limited CGT calculations were needed for tax.

Over the last 15 years many of these certificates were transferred into nominee accounts - a situation which has now gone into reverse.

Current situation

Even with an MSc. in Information Science, I always find the AGM a better source of information than the internet, sometimes for holdings entirely unrelated to the meeting I was attending. Most conversations are pre or post the "business" and so off record. Other shareholders' experiences are also a great help for cross-referencing data.

Due to a SIPP and ISAs, I now have many more holdings in nominee accounts with platforms. With the low limit of investors' compensation, and platforms at risk of company/IT issues, I use at least two at the same time. This is also a help when having to transfer an ISA, because it is not possible to move part of one, however large the accumulated holdings. To avoid confusion, only one platform is online.

Annual reports are much longer than years ago and are difficult to read on screen, especially when across pages with grey type. It is also not ideal to scan them at the AGM before it starts.

Problems with the nominee accounts have been escalating due to:

1) Platforms now charge or outsource letters to attend meetings;

2) Letters fail to arrive or are late (post problems);

3) Registrars are not always told, so one can only attend as a visitor and not ask questions;

4) Annual reports hardly ever arrive and can be for the wrong year;

5) Notice of meeting only comes for certain if the company or registrar has me on an internal list – not always possible.

As a consequence of 1 to 5, the times/dates/locations of meetings have to be checked with numerous telephone calls to obtain missing items.

A direct call to the registrar with my own shareholder code avoids all third-party difficulties and problems are dealt with directly. In addition, this code usually gives access to any online meetings.

The future?

Larger platforms have over one million clients and, even with help from AI, the standard of service will remain under pressure. Outsourcing also adds another layer of admin.

I value my time and have given up on the endless telephone calls/reminders in favour of rebuilding my certificated holdings.

As the internet has more holes than a fishing net and in now under attack from many directions, I will continue with multiple platforms and refuse, when possible, to put any banking details online.

This is a summary of the last three years and multiple examples of the problems can be provided to anyone interested.

Happy investing to all.

What's the latest on Sir Douglas Flint and his Digitisation Taskforce?

Prompted by our recent discussions with Euroclear, registrars and ShareAction, we are seeking through ShareAction a follow up meeting before the Taskforce publishes its final report, expected by the end of September.

During March, UKSA and ShareSoc agreed a joint position paper on digitisation. The conclusion is thatUKSA's and ShareSoc's position is that none of the proposed models as described in the Taskforce's interim report satisfactorily address the dual requirements of enhancing the rights of intermediated investors/UBOs and protecting the rights of existing shareholders. In our view, the nominee system needs to be improved so that UBOs enjoy the universal ability to exercise the rights associated with share ownership irrespective of the intermediary that an investor uses as required by the terms of reference.

Since then, there's been an election resulting in a new Labour government and we're not sure where Sir Douglas is going with his review and recommendations for digitising the remaining certificated shares. As a result, UKSA, ShareSoc, registrars and ShareAction met to discuss what we should do and we are now in the process of getting a follow-up meeting with Sir Douglas.

On 21 July, we noticed an FT story headlined 'BP and Shell among UK companies mounting push to ditch paper shares' by Michael O'Dwyer. On the face of it, the article suggests that issuers are pushing the Taskforce for total decertification in the interests of saving money and without any consideration that they should be paying for retaining shareholder-on-register rights, as it is shareholders that provide their financial capital.

We need to continue to make sure that the Taskforce gets the balance right, making sure it meets its terms of reference and retains shareholder-on-register rights for those with paper shares and restores shareholder-on-register rights to those whose shares are and will be held in nominee accounts.

This story was first published on the News section of the UKSA website on 22 July 2024

Northern Rock: ‘Timing is everything’

by Peter Camponi

Well, we can certainly vouch for the above inimitable phrase, after months of intense work gathering and formulating information and details to include in our proposed submission to the TSC. We prepared, reviewed and finalised our compelling submission with all-round approval. In good spirits we forwarded it to the TSC and it was duly acknowledged, and we had an immense feeling of relief and satisfaction at a job well done, only to hear a week later that a General Election was announced – the rug truly pulled from under our feet!

The submission was only part of the campaign – a succession of targeted emails to every MP, to members requesting support and to media connections throughout the UK raising awareness of our campaign (for which we are profoundly grateful to UKSA for their fantastic support). However, the spotlight had shifted immeasurably – it was now firmly in the direction of the General Election – the TSC was immediately disbanded with no further activities taking place until a new committee is formed after the General Election.

You can imagine our disappointment and yes, our wounds are still healing, slowly. But we also have a great deal of positivity to review and go forward upon:

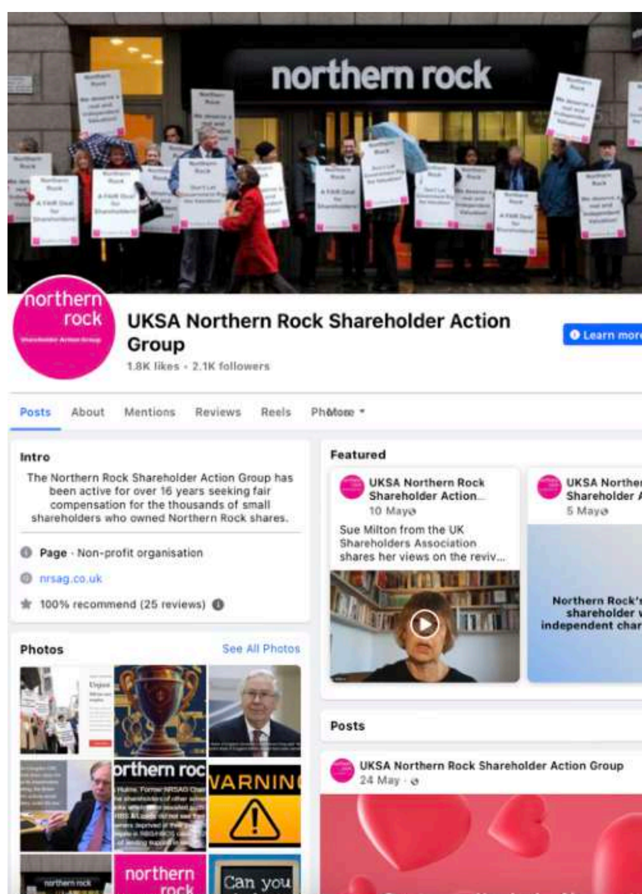
- The media response was also positive with coverage in The Times, BBC and Lexology;
- We received many responses from MPs who supported our claim for compensation;
- The successful launch of our website;
- Last but not least the fantastic response by our NRSAG members not just lobbying their MP but also sending us the replies they received – we received hundreds of responses, we have noted the comments and indeed acted upon many. Unfortunately we have not been able to respond to everyone as we would have liked to.

So, as they say, ‘all is not lost’ – we may have lost the battle, but the war is not over!

We are regrouping and updating our strategy ready to fight on hopefully with the help of the many newly elected MPs in support of our campaign for justice and our message to the Conservative party with the disgraceful generic and disingenuous response to our appeal for help – we would suggest that we were not the real losers following Mr Sunak’s election call after all.

To all our members we beseech you to continue your efforts to spread the word for justice far and wide.

We are also again aware of further scams by organisations trying to purchase individuals’ shares – please be vigilant and report any such efforts and as always stay up to date by either our Facebook page (click picture below) or our website.



The Martin White Column

Martin White - UKSA Director and creator of Savers Take Control

The main piece below is entitled "what's happening with companies quoted on the UK Stock market". This is followed by a shorter piece with the following not so short title: *Welcoming young members, the potential of financial coaching to tackle the "who to trust" vacuum, and how to keep the intermediaries at bay.*

What's common across both pieces, but it applies especially to the first, is that I'm keen to hear from UKSA members with an interest in discussing the issues raised, whether you are keen to play a major or minor part. We have a diverse and very well-informed membership and our collective knowledge and insight is capable of making valuable contributions in a number of ways. And the more good thinking we do, the more we will be able to raise our profile and grow our membership and our effectiveness, whilst having a great deal of fun in the process.

What's happening with companies quoted on the UK Stock market?

No, I don't mean let's discuss whether share prices are generally high or low. But what's happening to the UK quoted sector is extremely relevant to the new Government's agenda, and also to all of us as shareholders.

The purpose of this article is not to pretend I know much on this subject, but rather to ask any members with ideas about it to contact me. I'm hoping that we can reach out to people who have practical knowledge of the relevant factors and learn from them, with a view to seeing if we can put together a big picture and host an online event or events to test that big picture. That is clearly going to include managements of companies who find the hassle of being on the public market a thankless task.

I'm sure there is some authoritative work out there that describes how the pattern of companies quoted on the UK market, including UK companies quoted on the UK market, has changed. The impression I get is of a worrying trend, with fewer new companies coming to the market, and with companies going private or being taken over by overseas buyers. And I know that lots of my fellow UKSA members will have a very good knowledge of the detail and be able to speak with much more authority on the subject.

In an earlier newsletter, I wrote about an event organised by John Kay and Mervyn King that was relevant to this topic. Their agenda concentrated on what has happened in the pensions space, where the virtual cessation of the accrual of company defined benefit pensions has led to a large sell-off of equities. I suspect that the buyers will largely not have been from the UK. John Kay wrote a background essay in preparation for that event, which can be found here: The Biggest Avoidable Policy Disaster in British Politics - John Kay. The final paragraph in that piece is as follows:-

The collapse of private sector defined benefit pensions may constitute the most serious avoidable policy disaster in Britain this century. We have damaged the retirement prospects of a generation and the growth potential of the British economy. We need to start again with a different philosophical approach.

As someone said in an online UKSA discussion the other day, all the issues that are relevant to us are related to each other in some way. That's another way of saying that we live in a complex, continually evolving system, with lots of moving parts and influences, where attempting to look at things at a high level (economists use the word "macro") will miss out so much that is important. You can eventually see outcomes as they play out, but predicting them in advance is not really possible. The term often used to describe this is "radical uncertainty".

Back to our specific topic: governments still need to make policy decisions in the face of uncertainty. However, I am nervous that our leaders may not have done enough work on the vital question: "What is really going on here?". So that's my question – and here are some ideas:

- The demise of UK defined benefit pensions, with most pension saving now being in defined contribution (DC) form, has led to net sales of equities by the pensions sector, and possibly less of a long-term perspective for whoever is managing the DC money;

- Generally low savings rates in the UK, which may or may not be related to a persistent deficit in international trade;

- Low savings rates and high rates of debt may have some link to low levels of financial awareness and empowerment, which themselves may have something to do with a lack of anyone to trust around consumer finance and an exploitative financial sector;

- Where the financial sector is supposed to act as a responsible steward, especially given that it has in theory effective control over the quoted corporate sector, it may be largely to blame for a short-term attitude that deters company managers from taking sufficiently long-term perspective when deciding on the deployment (new investment, or dividends, or share buybacks) of shareholders' funds;

- Even in the case of passive fund managers, who do not, unlike active managers, have any interest in trying to identify shares that will outperform in the short term, and who could have a large influence very cheaply through their voting policies, there just doesn't seem to be the deep thinking needed to decide the principles that the voting policies should follow. That deep thinking needs to recognise both how society, if asked, would want companies to behave, and also to recognise the unintended consequences of linking incentives for managers to short term measures of "shareholder value". That is how share options, and targets like improving earnings per share came about. (Anyone wishing to take part in informal UKSA discussions specifically on principles for voting policies that passive managers could implement – please do contact me.);

- Turning now to how it feels for managers running quoted companies, the feeling I think we get from many of the discussions that take place specifically with UKSA members is that they find our interest in the company's strategic challenges and the longer-term picture refreshing. Sadly, however, policymakers generally seem to think that the individual shareholder is defunct. (We would rather say that the individual shareholder is largely disenfranchised, with the situation under serious threat from plans around dematerialisation – a topic you will be used to hearing about from us a lot at the moment!);

- A growth in the private equity sector – which is designed to make private equity managers very wealthy, and which is a powerful lobby in its own interest. Find a company you can buy cheaply, use significant debt to buy it from the shareholders, work on it to improve its appeal to a new purchaser, and then sell it. Already, we hear threats to the government about the impact of a less generous tax treatment of the "carried interest", akin to share options, granted to the managers of private equity firms;

- Here's an uncomfortable question: is the UK such a good place to invest these days, compared to other places? If not, why not? The best businesses to own in the long term, it seems to me, are businesses that can export profitably to world markets. The long-term return on shareholder equity is very closely related to the rate of return that companies achieve on the deployment of marginal capital. In practice, companies will have a hurdle rate to aim for when making new capital deployment decisions – such as 10% real post tax. I don't think that that is quite what is achieved, as optimism bias and sod's law could come into it. But the key conclusion is that investment will follow opportunities for profit, not the other way round;

- Which gets us to the question of what are the many factors that improve the opportunities for greater amounts of sufficiently profitable investment. And this leads to all sorts of supply-side issues. Such as availability of sufficiently trained employees, access to the right technology, capability to address overseas markets, and vitally a defensible competitive position;

- Many of these matters are being discussed in some depth at the moment in a quite new government-supported body called "The Productivity Institute". Its HQ is in Manchester, but there is a lot of co-operation with a much longer established body in London, called The National Institute of Economic and Social Research, the NIESR, which is based close to Parliament. There are masses of online resources if you choose to look for them, and it is frequently possible for members of the public to dial into their meetings or even to attend them in person. Go to https://www.productivity.ac.uk and look around. Another thing you can do is go onto YouTube and make searches such as "UK productivity institute" or "UK competitiveness". Not everything you turn up from general searches will be good-quality informative stuff, of course – most people are trying to lobby for something, or to sell something,

- I have mentioned the work of Andrew Smithers quite a lot in this newsletter, so I will not repeat that messages. But another interesting commentator is Lord David Sainsbury, who has had a long interest in productivity, and unlike many academics is not reticent in expressing his opinions. Two lectures of his that I would particularly recommend are on YouTube and you can find them both from the following titles:
    - Innovation, competitive advantage and the productivity puzzle – hosted by the Bennett Institute for Public Policy;
    - The Prais Lecture: How to solve the productivity puzzle;
- Now I think that both of the above lectures were associated with the book "Windows of opportunity: how nations create wealth" by David Sainsbury, published in 2020;
- Of the two talks above, the first has a minute or so of sound missing early on, which is a nuisance – patience needed but worth the wait. And later on, he mentions individual shareholders in a way that should definitely spark our interest. It's rare to get a serious economic discussion that talks much about shareholders;
- The active role of government in all this is something that has arguably taken a back seat for well over a decade. This is certain to change, and I think that with our position of complete independence from the financial sector we should try and play our part and get engaged in the discussion. We know what happens if most of the lobbying effort is directly or indirectly supported by the financial sector – more profits in the financial sector, but not necessarily outcomes that are in the interests of the country as a whole.

Welcoming young members, the potential of financial coaching to tackle the "who to trust" vacuum, and how to keep the intermediaries at bay

On page 9 of this newsletter we include an article by Simonne Gnessen, the UK's leading financial coach. See Wise Monkey Financial Coaching (financial-coaching.co.uk). Quoting from the background information included on her site, she founded Wise Monkey Financial Coaching in 2002 after working as a fee-based independent financial adviser for a decade. She stepped away from the traditional industry because she saw a huge gap in the support people really needed around finance.

We have had some good discussions with Simonne, and it is clear that we have a great deal in common. Her business is giving financial coaching to individuals, as well as training individuals to become financial coaches. We are a community of investors that have come together to share ideas with each other, to play a part in the governance of companies, and also to share our knowledge and speak up in the public interest. But I am increasingly coming to the conclusion that for ordinary mortals who have not had an interest in personal finance from a young age, and who have not read widely or experimented with shares, etc., a really good starting point is to

spend some time (you pay by the hour) with a financial coach. UKSA members are often the money-management people for their family. But what happens when the next generation has to take over? How well equipped will they be? One of the attractions of UKSA as a network to join can be that it's not all that easy, if you are interested in investment, to talk about it around the dinner table, not in the UK anyway. But coaching is a very personal thing; coaches are expert and independent listeners who are able to engage family members in conversations and discuss the future in a way that can be difficult with people that we are very close to.

I have had the experience of a number of people approaching me with the question: "How do I find out what I need to in relation to personal finance to help me plan for the future?" People have to be pretty smart even to ask the question; they recognise they need help, guidance and information, but are smart enough to realise that it is extremely hard to work out who they can trust. What I generally do when asked this question is this:

- Explain what regulated "financial advice" is, and that there is a line that you can't cross unless you are regulated by the FCA and meet all the standards and requirements that they set out, which are pretty onerous if you do it properly;
- Explain that "independent financial advisers" are not really independent unless they charge by the hour only, and have no commercial interest of any kind in what decisions you actually make with your money;
- Explain that very few IFAs are prepared to work on an hourly basis only, preferring to take a regular percentage of your wealth. Which is why they are interested in wealthy clients;
- With this background, I suggest that the first stage is to consult a financial coach, but that if they would like to read around the subject first, or at the same time, there are a few books and online sources that I recommend, including what they can find freely on the web from UKSA, which itself includes www.honestmoneynow.co.uk. But I explain that financial coaches are not permitted to make specific financial recommendations, though they will often point clients to sources of information. I recommend that they only use a financial coach that is completely independent of any financial firm – sometimes people working within, or feeding clients to IFAs, describe themselves as giving financial coaching as part of their service;
- I also recommend that if they do use an IFA, after consulting a financial coach, to ensure that the IFA charges by the hour only.

Through this route, we are getting a few younger people interested in UKSA membership, and I look forward to welcoming them into our activities. But if this sparks any thoughts, whether suggestions in support or disagreement, it would be really good to hear from you.

Wiesbaden December 2024

UKSA will be represented at this year's Better Finance conference "Europe at a crossroads - are we still competitive?"

This is a perfect opportunity to network with other shareholder organisations in Europe and with officials from the nearby financial centre of Frankfurt.

As always, UKSA directors attending the event will fund their own travel and accommodation.

HonestMoneyNews

Last month Dean Buckner's 'policy update' summarised our policy response to the FCA's 'Advice Guidance Boundary Review' with this paragraph:

UKSA argued for moving responsibility to consumers while giving them the tools to exercise that responsibility. The main vehicle for meeting this target should be online learning (citing our HonestMoneyNow website as a model) and this model should be integrated with the initiatives currently being undertaken by government under the 'education' umbrella, so that what emerges is a genuine 'cradle-to-grave' learning process independent of commercial interests.

This month I have been working on a skeleton of a website to meet this objective. I am learning SquareSpace to do this (HonestMoneyNow was originally written using Dreamweaver – not a lot of use now) and learning also that I'm the same age as Joe Biden. Early drafts are circulating among reliably polite friends. In the next month or so we'll decide how to take it forward.

Expressions of interest, including getting involved in the UKSA Financial Learning project team, are welcome.

John Hunter - former UKSA Chairman and creator of HonestMoneyNow

Click the image on the right to go straight to HonestMoneyNow

Financial Learning Made Easy

Developed by the UK Shareholders' Association (UKSA). Aimed at all those who should be investors but believe it is too difficult.

The Business Growth Indicator

John Mulligan - UKSA South-West Chairman and creator of STAR

What is it?

The Business Growth Indicator (BGI) was first created by John Mulligan's STAR share screens in the early 2000s and subsequently included in the monthly screens published in the STAR Newsletter but never fully tested in isolation for its ability to identify potentially successful investment templates.

This note describes a detailed exercise to test the correlation between various BGI metrics and the subsequent share performance of share selection lists generated from variations in the BGI metrics employed in the screening process.

The Business Growth Indicator (BGI)

The STAR screening methodology has been used to test four specific BGI measures over a six year period from 2018 to 2024. The objective of this exercise, updated in August 2024, was to see if there was any positive correlation between shares scoring highly on the basis of their BGI values at the start of the year and their subsequent share price movements during the year. The tests have been based on databases covering larger-cap shares listed on both the LSE and global markets.

More specifically, the BGI value equations are summarised below:

The basic equations employed in the test are:

BGI A = 100*R x (C / P) where R is return on capital employed expressed as a percentage (multiplied by 100) and C is the most recent published figure for capital expenditure (in pence) and P is the latest price per share (in pence).

BGI B = 100*R x (C / P) uses the same initial screening process as BGI A except that all shares with an estimated decline in future earnings per share are excluded from selection.

BGI C = 100*R x ((EPS0 - DIV0) /P) where R is return on capital employed expressed as a percentage of annual earnings retentions (most recent earnings per share minus latest annual dividend per share in pence) and P is the latest price per share (in pence). In the case of global markets the data is expressed in US cents.

BGI D uses the same screening criteria as BGI C but with the exclusion of all shares with an estimated decline in future earnings over the next two-yearly reporting periods.

The tests

The tests have employed large main market databases covering the six-year period from 2018 to 2024. This research has used a database of all the

largest main market shares listed on the LSE as supplied by ShareScope. The database has comprised approximately 450 shares at the start of each year. However, as from 2023, the total LSE main market cohort has reduced to around 400 shares. The selection process excludes all shares in the extractive industries (mining, oil and gas) as a DCF-based methodology is generally considered a more appropriate way of evaluating extractive businesses that are fundamentally based on asset depletion.

The method used was to evaluate, in descending order, all shares according to their BGI values. The initial prices of the highest-scoring shares as at the start of the year were then compared with their prices twelve months later and the percentage movement in values of the twenty shares with the highest values aggregated. The average values for each 20-share cohort each year are those shown in the tables below.

The prices used are those supplied by the daily update service provided by ShareScope and are based on mid-market values at the close of business on the relevant date. In this exercise no attempt has been made to allow for dealing expenses or arbitrage margins, nor has there been any allowance for dividend payments. The purpose has been to record the overall correlation between the various mechanical share selection metrics in order to ascertain whether there is any potential value in using the basic BGI concept.

The LSE main market selections

The first table shows the annual results of Testing London-listed Main Market Shares for BGI Values between 2018 and 2023

Table I Annual Movements

Year	ASI at start	ASI Change	BGI A	BGI B	BGI C	BGI D
2018	4202	-13	-35	-28	-29.8	-10.9
2019	3681	15	26	12	45.6	50.2
2020	4231	-12	-20	-10	-12.8	-15.7
2021	3724	15	15	25	30.6	29
2022	4276	-3	-17.6	-5	-25.4	-35
2023	4131	2	10	7	8.2	12.6

Notes to Table 1

1) The ASI column is the value of the UK All Share Index at the start of each year
2) ASI Change measures the percentage movement in the ASI in each year
3) The BGI A column is the percentage movement during the year in the share price of the 20 shares with the highest BGI value at the start of the year excluding shares in the extractive industries
4) BGI B is the BG1 list minus any shares whose EPS two years ahead was estimated to be less than the latest reported value
5) BGI C in column 6 lists shares in descending order of potential return according to net retention metrics
6) BGI D in column 7 has the added screen of excluding shares with negative future earnings estimates

The second table (below) shows the cumulative totals resulting from ranking London-listed Main Market Shares according to BGI Values between 2018 and 2023

Table 2 Cumulative Results

Year	asi	BG1 A	BGI B	BGI C	BGI D
2018	87	65	72	70.2	89.1
2019	100	81.9	80.6	102.2	133.8
2020	88	65.5	72.57	89.12	112.8
2021	101	75.3	90.7	116.4	145.5
2022	98	62.1	86.12	86.8	94.6
2023	100	68.3	97.1	93.9	106.5

Notes to Table 2
1) The ASI value in column 2 records the cumulative All Share Index total year by year starting from January 2018
2) The BG1 A column records the cumulative total annual values of the twenty main market shares with the highest BGI values after excluding all shares in the extractive industries
3) The BG1 B column is as the above but excluding all shares whose earnings was estimated to be negative over the future two years
4) BGI C is the annual cumulative value of shares selected according to potential return on net retentions
5) BGI D is the annual cumulative value of shares selected according to potential return on net retentions having excluded all shares with estimated negative growth in future earnings per share

The global market selections

The third table (below) shows the cumulative totals resulting from ranking more than 200 of the largest shares listed on the leading global markets between 2018 and 2023

Table 3 Results of Testing Globally listed Shares for BGI D Values 2018 to 2023

Year	Annual MSCI AWI	Cumulative Total	Annual BGI	Cumulative Total
2018	-8.7	91.3	-2.2	97.8
2019	27.7	116.6	31.7	128.8
2020	15.9	135.1	14.8	147.9
2021	14.7	155	27.2	185.1
2022	-21	122.4	-11.1	167.2
2023	12.7	138	36.7	228.6

Notes to Table 3
1) The MSCI AWI value in column 2 records the annual percentage movement in the index from January 2018
2) Column 3 is the cumulative total of the global index from January 2018
3) Column 4 records the annual percentage movement in the BGI D values from January 2018
4) Column 4 is the cumulative value of shares selected according to BGI D metrics

Chart 1 Cumulative global movements using the BGI metrics.

Observations

The test results highlight the following:

A) The extreme weakness in UK-listed shares over the past six years;

B) Associated with this absence of economic growth in the UK and the gradual decline in relative strength of the London equity market there appears to have been an increase in churn as investors move between sectors rather than any sustained rise in total equity value;

C) As a result of this underlying weakness, mechanical screens have proved to possess little overall value for the London market although the application of BGI D has marginally outperformed over the whole period reviewed albeit with significant inter-year volatility;

D) Turning to Global markets in Table 3, it is apparent that the BGI D screen has proved remarkably successful in outperforming the global index and generating substantial nominal capital gains;

E) It should be noted that the BGI scores produce values that are relatively small in relation to the other metrics influencing share prices, hence the use of the multiplier to raise the ROCE figure in the equations;

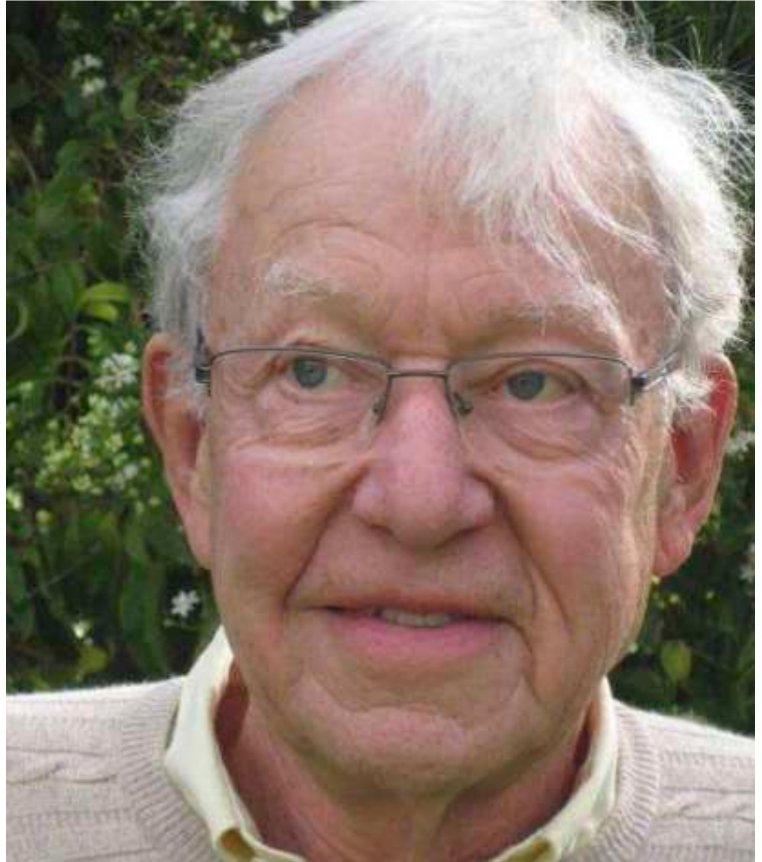
F) The update results to early August 2024 indicate a continuation of the BGI outperformance with the LSE;

G) The BGI outperformance has continued through the first seven months of 2024 with the UK main market BGI high-scoring shares rising by 12.7% against 7.6% for the All Share Index. The global BGI shares have risen by 11.6% against 9.6% for the MSCI ACWI index figure in the equations.

Roy Colbran

A major contributor to UKSA's independent and public interest ethos

Roy Colbran died recently, aged 93. His contributions to UKSA, and also through UKSA to the public interest, are worthy of special mention.



Roy joined UKSA in around 2000 and soon after was making a major contribution to our various representations to government and to arms of government. He was a keen advocate of long-term equity investment and ensured that we also spoke up in the interests of ordinary people who were being sold services and products by an industry that naturally put its own profits first. He masterminded the UKSA submission to the "Retail Distribution Review" (RDR) consultation by the FSA (the regulator FCA's predecessor) that led in 2012 to the almost complete banning of initial and trail commission paid by product providers to financial advisers and wealth managers. The way the industry worked at the time was particularly opaque, and after the RDR advisers have to make their incomes much more transparent by charging the customer directly.

Roy was a qualified actuary with a wide spread of interests and exceptional ability, as evidenced by the respect in which he was held by his professional colleagues and by all who worked with him. More importantly, he was a good friend and a very good man. Our sympathies go to his wife Jackie, his stepdaughter Debbie, and to all his family.

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