THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

Issue 23 – November 2024

Chairman's message

Charles Henderson - Chairman of UKSA

Dear members

Here are some eclectic individual investor matters since the last newsletter.

BHP company meeting on 3 September 2024

On 3 September, we held a well-attended in-person company meeting with BHP, where Vandita Pant, BHP's new CFO, provided a very knowledgeable overview of the group's 2024 financial results and answers to our and ShareSoc's members' questions.

Vandita explained the main differences between reported profits of $7.9 billion and underlying profits of $13.7 billion, mainly being the Western Australia nickel impairment provision on its temporary suspension (no timeline given here) and what they hoped would be the final Samarco dam failure charge.

While there are continuing risks to revenues from China, there should be little impact from the problems there in the residential property market, as its needs for steel are relatively small. BHP is looking to grow its business in India, which is not currently significant.

My meeting with Pearson's Remuneration Committee chair on 11 September 2024

I met Pearson's Remuneration Committee chair, Sherry Coutu, and some of her Pearson colleagues to discuss their executive remuneration. I was interested to hear Pearson's reaction to the ISS recommendation and dissenting vote. I asked whether the 2023 policy vote outcome was a reflection of the prior shareholder engagement and they confirmed that it was and that the vote outcome was not a surprise. They also noted our disappointment in the 2024 AGM vote on the Directors' Remuneration Report (DRR) (largely thought to be a result of the ISS negative recommendation) and stated that they are considering how to approach things differently going forward, in terms of engagement and disclosure.

I reflected on my disappointment in passive shareholders simply following ISS, without seeking to engage with Pearson directly. I appreciated potential frustrations with ISS from my previous role at Invesco, where I had relied

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primarily on the Investment Association's IVIS service as being more thoughtful in its proxy voting analysis and guidance. I also agreed with Pearson's approach following the policy vote, as I wouldn't expect a company to make changes to its policy following a significant minority vote against if the company had already engaged with shareholders, particularly as the majority of those negative voters are passive voters who won't directly engage. How would a company know to change a policy if the dissenters don't engage and tell them?

I confirmed that I was not aware of any UKSA members exercised about Pearson's remuneration policy and that the company should continue with its current approach. From a personal perspective, I asked that Pearson try to keep the DRR as short and succinct as possible and that the report should show how much of the total pay is in cash and shares for executive directors. I also mentioned that it would be useful to have actual figures as well as percentages throughout the DRR.

I thought Pearson's explanation of the US influence on remuneration, especially as the US is where most revenue comes from, was reasonable and is key to justifying Pearson's approach and it should be drawn out further where possible in the DRR. If interested, you need to refer to the 2023 Annual Report's DDR for the detail, which, as I've mentioned, I thought was too long but does have a useful summary at its start.

As an aside, I found it interesting that Pearson competes with Duolingo through Mondly.

Other company meetings

Our company meetings team volunteers have arranged meetings with Smiths Group on 24 October, Pearson on 30 October and Young's on 27 November. If you are a full member and not getting emails inviting you to these meetings, please let us know. These will probably be the last company meetings of this year.

Investor Meet Company is a good potential source of virtual company meetings. If you haven't registered with them, it is worth doing so. It is free to individual investors, as the companies you may engage with pay for it. You can also list in your account the companies you are interested in, for which you will get notifications if they are signed up, or, if not, Investor Meet Company will persuade the relevant companies to join. There is also now provision of RNS announcements.

What if anything is wrong with UK stock markets?

After reading Martin Vander Weyer's column in the 21 September edition of The Spectator, I wrote the following in a letter to the journal, which did not get published but reflects my views on what may be wrong with our UK stock markets:

> *Glad to see that Martin, as an ex-banker, recognises that financial services as intermediaries can only be facilitators of wealth creation or growth and, as a result, banks need to support businesses in the UK.*
>
> *We at the UK Shareholders' Association are surprised that the Labour government and in particular the Chancellor, Rachel Reeves as a former Bank*

of England employee, does not seem to understand this – as suggested by a recent FT article headed 'Reeves to tell UK financial watchdog to prove it will support growth' by backing expansion of financial services. I'm not sure anyone, including me, knows totally where economic growth comes from, but I'm pretty sure it mainly comes from enterprising, sustainable, long-term businesses and not from financial services, which, as intermediaries in the system, should be supporting those businesses in all their stages – early, middle and late – as should their shareholders. We also think that a regulator, especially a financial services one, should only look after consumers and not have any other objectives such as growth.

It is interesting that your leader, 'Labour vs Labour', in the same edition as Martin's article, intimates that it is getting harder to reconcile Keir Starmer's policies (and actions) that his government seems determined to deliver with their growth priority that got them elected. Time will tell, but I expect that this will change a lot of votes next time around.

My view was confirmed by the launch event of New Financial's report on The Future of Smaller Company Capital Markets in the UK - Searching for growth: the future of EU capital markets - New Financial (usrfiles.com) – at the London Stock Exchange on 17 October. A pipeline of decent quality businesses looking to IPO is essential to having stock market shares to invest in. It made me wonder whether there's any information on and/or monitoring of such pipeline businesses so that both we and governments know that they are healthy and supporting the future UK economy. I am hoping to organise an UKSA full member Zoom meeting where New Financial come and talk to us about this report and maybe answer this question.

Investment trust cost disclosures

We are keeping an eye on this. Recently I emailed the Chief Investment Officer at Hawksmoor Investment Management, Ben Conway, as follows:

UKSA's view is investment trust Statements of Operating Expenses (SOEs), as presented in the Murray International example you provided, are clear, useful and should be understood easily by any informed individual or retail investor.

SOEs will work for the retail investor and should be adopted by the industry, whether required by regulation or not.

Those who are of a view that SOEs are 'too complex for retail investors to understand' are patronising, too self-interested and want to retain their monopoly of taking advantage of retail investors, usually to the detriment of those investors and deliberately not in consumers' interests.

The example SOE may be found here.

Digitisation Taskforce

Finally, I thought I should mention that UKSA, ShareSoc and ShareAction met the Digitisation Taskforce on 18 September and we are now waiting to see its final report published before the end of the year. While the meeting allayed some of our concerns, mainly in respect of certificated shareholders retaining their on-register rights, some of us are not optimistic about its

recommendations. This is because we feel the issue is being addressed for the benefit of the providers of the shareholder infrastructure rather than the shareholders. We would like to see the right digitisation solution – which should not be technologically difficult nowadays – of having the names of all beneficial owners of shares on registers, whether intermediated or not.

The disconnect of Underlying Beneficial Owners (UBOs) from their shareholder rights is symbolic of the broken governance of accountability apparent in so many areas of the UK, most recently in the cases of the Post Office, Grenfell and Thames Water. The claimed inability to maintain a single list of all shareholders for each public company (equivalent to a customer list) reflects the industry's determination to retain unnecessary intermediation in a simple transaction. Committing to a single register would be a good advertisement for the government's admirable drive for a new approach to improving productivity.

Season's greetings and best wishes for 2025

As this is potentially the last newsletter of the year, I would like to wish you all a Happy Christmas and prosperous new year.

We are planning to provide at least one social if not two in 2025 and to have the AGM on Monday 30 June 2025. Please look out for details.

Recent open letter from Mervyn King to Chancellor Rachel Reeves: *"keep it simple and be ruthlessly honest with the public"*

We were kindly provided with a copy by Mervyn King, which we reproduce in full starting on page 9.

This triggers all sorts of interesting issues from the perspective of shareholders interested in the success of the UK, and we will no doubt continue the discussion in many UKSA forums, including future newsletters.

Martin White has written a related article, which can be found on page 11.

External relations round-up

Sue Milton - External Affairs Director

Digital reporting: just what are XBRL and iXBRL?

How many of us read paper or paper-equivalent (pdf formatted) reports? These are easier for humans to read but less easy to analyse within and across reports.

That is why the IFRS and financial regulators have been introducing computing capabilities to analyse reports via XBRL and iXBRL.

XBRL (eXtensible Business Reporting Language) is a way of classifying information so that the reports can be read and understood by computers.

iXBRL (inline eXtensible Business Reporting Language) produces financial reports that look like traditional financial statements yet appeal to the eye whilst enabling us to interrogate the detail.

iXBRL links classifications to the underlying data so that humans can find and analyse information within and across company reports. The classifications must follow rules, known as taxonomies.

The strengths of the taxonomies are that companies can retain their own jargon such as 'net profit', 'net loss', 'profit for the year' and 'net earnings', whilst we can search on the word 'profit' to get an individual company's or several companies' profit numbers without needing to know what they call it.

The downsides are that companies have to apply taxonomies correctly and update their classifications when taxonomies change, which they do each time accounting standards change. The main downside is divergence between standard setters.

The IFRS (International Financial Reporting Standards) introduced its taxonomy for financial reporting in 2013 (I think, given the first update was in 2014) and the most recent update was in March 2024 IFRS - IFRS Foundation publishes IFRS Accounting Taxonomy 2024.

The IFRS, via the ISSB (international Sustainability Standards Board), introduced an ESG-related taxonomy on 30 April 2024 IFRS - ISSB publishes its digital sustainability taxonomy, helping investors analyse sustainability disclosures efficiently.

The European Single Electronic Framework (ESEF) taxonomy is the EU's version of the IFRS Accounting Taxonomy.

The FRC (Financial Reporting Council) has created UKSEF (UK Single Electronic framework) based on the ESEF taxonomy with additional UK-specific tagging information that is legally required by Companies House.

Here are some helpful sites for a broader understanding:

- https://www.ifrs.org/content/dam/ifrs/standards/taxonomy/digital-financial-reporting/digitalreportingarticle-april2024.pdf
- eXtensible Business Reporting Language (XBRL): Investor's Guide (investopedia.com)
- What are XBRL and iXBRL? – CtrlPrint Support
- UKSEF, ESEF and iXBRL: Insights of Financial Reporting Compliance (lucanet.com)

What happens next in the UK? The FRC has issued a discussion paper (Discussion Paper launched on the Future of Digital Reporting in the UK (frc.org.uk)) on the "Opportunities for future UK digital reporting" to understand how best we achieve accessible, valuable and high-quality data that is useful to investors, analysts and regulators.

Why can it be difficult to get a useful response from a regulator?

I had a conversation with one of our members, who continues to be ignored by the FCA regarding his query (deliberately not shared in the newsletter). I was not surprised. The FCA does not feel any need to engage with the public, whom it is supposed to be protecting.

I have not worked directly for a regulator but have worked with regulators on various projects. Here is my explanation, based on that experience, of the FCA's role in practice.

The first is that regulators tend to say nothing unless they are forced to. I have been part of policy meetings covering the banking sector, and the regulators (PRA and FCA) will say nothing. They actively listen to get a feel of how others think about issues but contribute little. This is, in part, to ensure regulation and its enforcement approach are not made 'on the hoof' and can be considered in light of the bigger picture, but always within the confines of the regulator's remit.

The second thing is that regulators have to have a high degree of certainty before they act. That means they need to be presented with a watertight case from those who wish them to act. This, of course, never happens because the whistleblowers, and concerned citizens asking basic questions, have incomplete information.

Of course, regulators do act, but the third thing is that I cannot predict what would make them act except in the event of a catastrophe. A catastrophe is a form of certainty – the potentially 'bad thing' has 'gone bad' even though the catastrophe might have been avoided if the regulators had acted earlier.

The fourth thing is that many of the grassroots regulators are underpaid, underqualified and overworked, requiring a range of skills that takes years to obtain – sector understanding, corporate behavioural skills, auditing, forensic

capability, the law, judgement, assertiveness and taking risks to pursue investigations further against tight budgets. Those skills make them more akin to a good prosecutor, which is what many consumers want, but regulators must also avoid demonising the sector they are regulating to avoid a breakdown in trust between the consumer, the company and the market.

All of which lead to the fifth thing, that the skills used by regulators are conciliatory to avoid being provocative. This does tend to keep the regulated organisations and the market 'onside'.

My conclusions:

- The 'conciliatory' approach works well for getting a pragmatic set of regulations that supports good governance.

- There is no counter approach to support regulatory enforcement such as regulators needing to believe the worst and be more punctilious.

Back to the specifics of the FCA. The FCA has a set of principles against which it can judge whether to act or not against an organisation, but they are not easy to apply consistently.

Principles (PRIN 2.1 The Principles - FCA Handbook) are ideals too difficult to assess because they are intangible. How practical it is to enforce them is down to how well the FCA's enforcement guidelines (see EG 2.8 Enforcement and the FCA's Principles for Business ('the Principles') - FCA Handbook) and industry codes can be applied. They exist to turn the intangible into the tangible, but there is no mandatory obligation for organisations to comply with either the guidance or the codes. The best route to accountability and redress would be through the senior managers regime, because that is quite prescriptive, but it is difficult for consumers to use as it targets the individual, not the organisation, so we would have to make a case against all the senior managers and board members.

To show the FCA has enforced the principles over the years, have a look here What are FCA Principles of Business? | Principle 11 | Skillcast and 20 Biggest FCA Fines of All Time | Skillcast. The dates seem to range from 2007 to 2021.

UKSA has sound relationships with many of the financial regulators. They are not the enemy, but we are robust when we don't like or understand what they do. We will also tell them when we believe they have got things right.

Another NR scam

Another one of our Northern Rock shareholders was contacted by yet another Northern Rock share scammer, this time from a firm called Dean-Baron Corporate Group llp. The firm telephoned, wanting to buy shares at approximately £11 per share and requiring a signed Non- Disclosure Agreement (NDA).

Address:	230 W 38th Street, New York, NY, USA, 10018
Telephone:	+16467559606
Fax:	+16465584124
Email:	info@dean-baroncorpgrp.com
Website:	www.dean-baroncorpgrp.com

A bit of research identified three red flags:

1. The firm has no licence to operate in the UK. From the FCA website DEAN-BARON CORPORATE GROUP LLP | FCA: DEAN-BARON CORPORATE GROUP LLP Warnings First published: 02/09/2024 Last updated: 02/09/2024. This firm may be providing or promoting financial services or products without our permission. You should avoid dealing with this firm and beware of scams.

2. The website is classified as 'not secure' by Norton, a great giveaway that the site is not valid.

3. Just why do they require an NDA?

This is one of many scams coming from the USA. What is in it for them is unclear, so I assume they are treading softly to gain trust before hitting hard at a later stage. Only one scammer has, so far as I know, demanded money upfront.

What are resilience and robustness?

A quick thought: do companies understand what they mean by 'resilience'? Do all staff, from the chairman to the doorman, share the same understanding?

It is worth shareholders asking to ensure the right actions take place.

I understand resilience to mean coming back from the brink using tools such as incident response, contingency planning and disaster recovery.

I understand robustness as being able to take a battering yet avoid getting anywhere close to the brink. This involves good corporate governance, great risk management and brilliant controls. These are stress-tested across strategy, budgets, operations, technology and supply chains, with companies adjusting controls and contingencies in as near to 'real time' as possible to avoid the brink.

Corporate governance compared

Students of corporate governance may be interested in comparing two of the more recent corporate governance codes published in Europe, namely those of the UK (here) and the Netherlands (here in English).

Open letter to Rachel Reeves

From Mervyn King, Baron King of Lothbury

This letter its reproduced with the author's kind permission.

Dear Rachel,

I know from your time at the Bank of England that you will not be daunted by the formidable challenges facing you as Chancellor. Your first Budget will set the tone and path for the new Government. I hope you will approach this task with the same intellectual self-confidence and toughness that you showed at the Bank. Although you will be inundated with advice, let me offer just three points:

1. Keep it simple and be ruthlessly honest with the public. If you believe that the UK requires higher investment to overcome the perception that "nothing works any more" – and I do not disagree – then you should argue for the merits of that even if it means higher borrowing for a while. Pretending that stability of the public finances is achieved by changing the definition of debt, deficits, or the fiscal rule, is an illusion. Financial markets know that higher borrowing means higher borrowing. A new fiscal rule – such as taking into account public assets as well as public liabilities – will not make your task easier. The reason is simple. Unlike the private sector, investment in the public sector does not in most cases generate an income to the government which can be used to pay the interest on the debt that was taken out to finance the investment in the first place. Many worthy public investments are unlikely to raise output and increase revenue to the government, certainly within the lifetime of this Parliament, and some are classified as current spending. So avoid slogans such as "borrowing for investment". There is only one sensible definition of fiscal sustainability. It is that the structure of tax rates will generate sufficient revenue to allow the ratio of debt to national income to fall slowly but steadily in normal years. That allows for the possibility that when major events occur, such as a pandemic or war, national debt can rise sharply to cope with the need for emergency government expenditure. The current fiscal rule, that the ratio of debt to national income is projected to fall in the fifth year of the forecast horizon, makes little sense. It is Augustinian – make me fiscally stable but not yet. But not even Saint Augustine believed in a five-year rolling horizon. The problem with the current rule is that it is too loose not too tight (Do read the House of Lords Economic Affairs Committee Report on debt published last month). Your challenge is to justify a temporary Augustinian deviation from the objective of a falling debt to national income ratio because of the need to finance higher investment without cutting day-to-day public spending. Only a convincing and credible strategy for raising investment while achieving fiscal sustainability

by the end of this Parliament will help to reduce the upward pressure on long-term interest rates resulting from higher borrowing.

2. Create a narrative that links the justification of higher investment to reform of public services and a credible path for the debt to GDP ratio. Over the lifetime of this Parliament, painful choices over spending and tax cannot be avoided. On the former, the biggest challenge facing you and your colleagues will be to tackle the vested interests that will resist reform, whether the NHS bureaucracy, teachers in schools and universities, planning authorities, trade unions and the many others who will defend their current interests. On the latter, before the General Election, both major parties were irresponsible in either making, or promising not to reverse, cuts in national insurance contributions. It was a reckless increase in the future national debt – an attempt to bribe voters with their children's and grandchildren's pocket money. An honest approach would be to say that such a commitment now appears a mistake and to return NI contributions to their previous level. You might be surprised by how many citizens would accept such honesty. Better to tackle the problem now and not a year or so before the next General Election.

3. Recognise that if we are to increase the share of investment, and I would add exports, in our national income, the share of consumption must fall. We cannot afford to invest more unless we save more. We are already borrowing from abroad to finance our low level of investment through a current account deficit. Our national saving rate is the lowest in the G7 and at the bottom of the G20 league table. To raise our saving rate is an imperative. It requires two changes: first, a reduction in budget deficits in the medium term and, second, more incentives for private saving. I have dealt with the former. On the latter, you should avoid measures that might depress private saving. Resist the temptation to fiddle with the tax system. It is time to take a proper look at the various schemes that have been introduced by successive Chancellors since the last major overhaul by Nigel Lawson. The time is also ripe for a fundamental change to our system of pensions. Thirty years ago, the UK had a defined benefit pension systems that was the envy of the world. Today, because of the unintended consequences of both regulation and low interest rates, it has virtually disappeared for new entrants in the private sector. But it is not too late to re-establish a career-average defined benefit pension system that will provide economic security to ordinary working people. It will require radical reform and a switch away from employer-based pension schemes. Why not commission a review on pension provision to be completed within a year?

Economic growth has been weak since the financial crisis – around 1 ½% a year. But the return of interest rates to more sustainable levels means that

there is every reason to believe that growth will return to the 2 ½% or so a year that we experienced before the crisis as resources are allocated more efficiently. In the long run productivity reflects innovation, and we are not short of that. The reforms that you can make will take years to affect growth rates. But since we are bequeathing a high level of national debt to our grandchildren, we owe it to them to start now on reforms to improve our economic performance.

I remember your telling me one day that the reason you enjoyed working at the Bank of England was the opportunity to work with other very bright young people. Your generation is now in charge. Be courageous, be bold, and ensure that the economic inheritance we leave to our grandchildren is one of which both they and we can be proud. One day you will look back on your time as Chancellor and you will want to remember the far-reaching changes you made, not the political compromises that others will urge on you.

My very best wishes

Mervyn King

The Martin White column

Martin White - Director and creator of Savers Take Control

Mervyn King's October 2024 Open Letter – some issues it raises and some thoughts for later discussion

Mervyn King's letter makes three main points, each of which is expanded on in the rest of the text.

1) Keep it simple and be ruthlessly honest with the public.
2) Create a narrative that links the justification of higher investment to reform of public services and a credible path for the debt to GDP ratio.
3) Recognise that if we are to increase the share of investment, and I would add exports, in our national income, the share of consumption must fall.

And his letter ends with encouragement to think long term, to think of future generations and to resist political compromises.

In newsletter 19, UKSANewsletter19.pdf (see page 8), I reported on an event that took place on 25 October 2023 with the following title: "Risk and uncertainty in the pensions world: Correcting the biggest avoidable UK public policy failure of recent decades". This was organised by Lord King and Sir John Kay, and in my report I concentrated on Lord King's summing-up

remarks. The really big takeaway was that we are not saving enough in the UK.

So, back to Lord King's recent open letter to Rachel Reeves: "To raise our saving rate is an imperative. It requires two changes: first, a reduction in budget deficits in the medium term and, second, more incentives for private saving." And he mentions the demise of final salary pensions in the private sector.

It's time to ask what the relevance of this is for us, as a campaigning and membership organisation for individual investors. How are individuals to be encouraged to consume less and save more? That, of course, leads to masses of questions. What should those savings be put into? Simply lending them all to a borrower, which is what keeping it in the bank or buying government debt amounts to, is not going to yield a worthwhile return. The 25 October 2023 event discussed in some depth the massive sell-off of UK equities by UK pension funds. Many people say that the UK market is really cheap now, compared to overseas markets, especially the US, and if so this may be one of the drivers for really good UK companies disappearing through takeover. Personally, I believe that the UK's persistent trade deficit is a massive threat that needs facing up to, just as Lord King urges the Chancellor to be ruthlessly honest with the public about the public finances.

I believe that low national savings rates and trade deficits are not unrelated. We could regard the aggregate selling of UK assets by UK residents as the inevitable consequence of trade deficits. And higher savings would tend to mean there would be less such selling to overseas investors.

For one thing, I think it's time for us to revise and perhaps expand UKSA's "Responsible Investing" document. The difficulties the UK is facing are now much more obvious than they were when that document was written.

I'll finish by going back to the first point in the open letter: "Keep it simple and be ruthlessly honest with the public". That was to do with the public finances and the choices around taxation and government spending. I'd extend this to bringing honesty to the public in relation to savings, since one of the headwinds facing private savings is the lack of a well-recognised solution to the "who to trust" problem. I'd guess that the chance of the Chancellor being ruthlessly honest about the public finances is much, much higher than the authorities changing their policy towards the financial sector. Unfortunately, the Labour Party's pre-election publications that regarded the financial sector as a source of increased tax revenue continue the rot, and our campaigns in relation to financial education and transparency around costs and charges are going to be needed as much as ever.

The diminishing London equity market

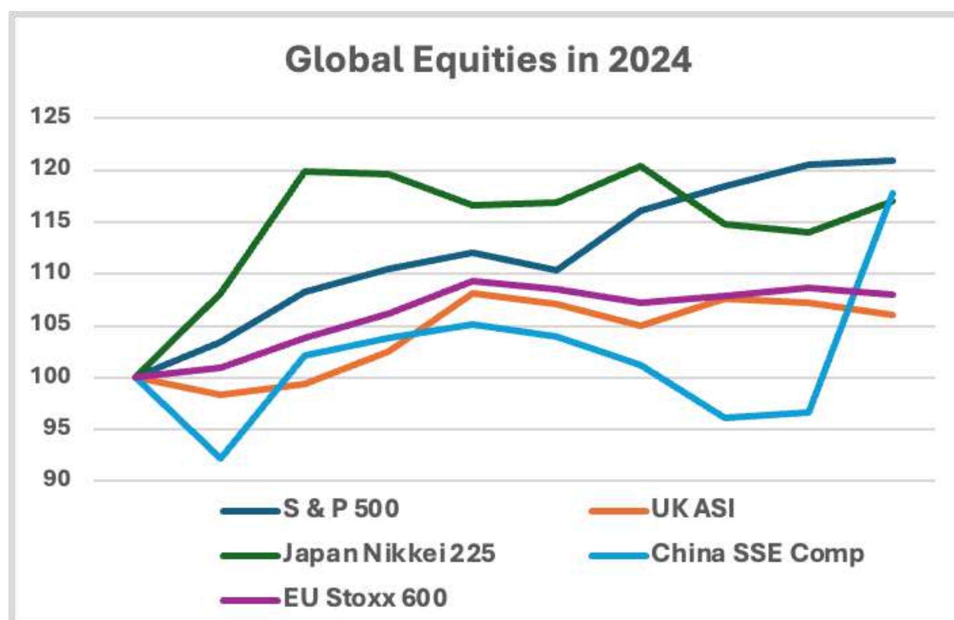
John Mulligan -UKSA South-West Chairman and creator of STAR

For the past thirty years I have been writing the monthly STAR newsletter and every month I check the updated database of companies whose shares are listed on the London Stock Exchange main market. This database I use, supplied by ShareScope, covers all the larger companies on the main market that are directly involved in selling products or services but excludes those, such as investment trusts, whose business is that of investing in other listed businesses.

In my latest monthly check I have become extremely concerned at the continual reduction in the number of shares that are contained in this list. During the past couple of months I have had to delete a further eight shares from the database. These have included Redrow and Tyman. Both of these were takeover targets in the construction sector. Other deletions have been Network International and Global Ports Holdings. Of particular concern is the fact that over the past three years the STAR main market database has fallen from around 450 companies to the current level of 390. This represents a fall of 13% in the number of main market listed companies on this database over a relatively short period of time.

Global equities in 2024

The latest STAR chart of global market indices, below, demonstrates the continued strong performance of the US share market with the S&P 500 Index up over 20% so far this year. However, the dramatic movement during the past month has been the recovery in the Chinese equity market, which is now almost 18% above the January 2024 level. Sadly, the worst performance is that of the UK All Share Index.



The outlook for UK earnings growth

The latest UK corporate earnings chart calculated by STAR as at 10 October compares the percentage movement in total estimated earnings of the largest UK main market shares as estimated by leading analysts one year ahead and two years ahead as at the end of September against the estimates at the end of the previous month. It can be seen that there has been a minor reduction in expectations of corporate earnings growth over the next year and the following compared with the consensus estimates at the end of August.

Source: Derived from data supplied by ShareScope

For more information on the **Star Investor Hub** developed and maintained by John Mulligan, click on the image below.

Exposing Europe's most visible investment scams luring investors

We are delighted to reproduce this article by Edith Balázs, Chief Editor of BrokerChooser

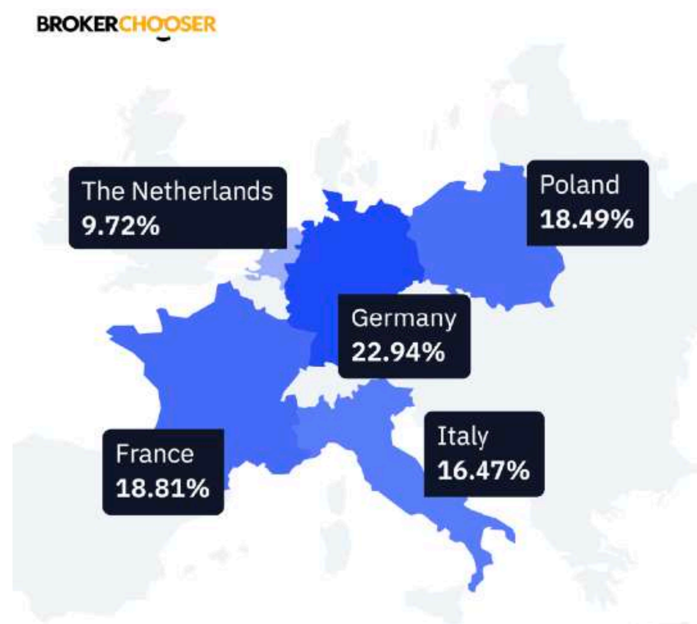
www.brokerchooser.com

The digital revolution in finance has a dark underbelly: an alarming surge in online investment scams. A recent research by BrokerChooser, a global brokerage comparison and financial education platform, sheds light on this shadowy world, revealing a landscape far more treacherous than many European investors realise. Leveraging its exclusive dataset and cutting-edge research techniques, BrokerChooser has uncovered disturbing trends in both the scale and sophistication of these fraudulent operations. The findings serve as a stark wake-up call for investors and regulators alike, painting a picture of a financial battlefield where unsuspecting individuals are increasingly outgunned by tech-savvy scammers.

Geography of deception

The study identified 67 entities flagged as "not recommended" – a polite euphemism for potentially fraudulent operators actively targeting EU citizens. These dubious entities generated a staggering 1.3 million Google search impressions from European locations in the first half of 2024. The figure not only highlights the pervasiveness of these schemes but also signals a troubling level of public engagement with these risky platforms. Whether driven by curiosity or desperation, millions of Europeans are potentially just one click away from financial ruin.

Perhaps most striking is the geographical concentration of this activity. Five EU member states - Germany, France, Poland, Italy and the Netherlands - account for 86.4% of the total search volume. This localisation suggests



either disproportionate targeting by scammers or heightened awareness among populations in these countries.

Anatomy of a scam

A thorough legal examination of the top 10 most frequently searched entities confirmed that all displayed scam-like characteristics, with each being featured on the warning list of at least one European regulator.

Transparency is noticeably absent, including crucial information about ownership and operations. Proper licensing – the bedrock of legitimate financial services – is missing. All 10 entities display a misrepresentation of services, and a conspicuous deficiency in legitimate business practices.

The following entities have been identified as the most frequently searched, suggesting they may pose the greatest risk to potential investors:

Name	Regulator warning
1. Immediate Edge	FCA, BaFin, CNMV, AFM
2. Pocket Option	FCA, FINMA, CNMV
3. Quantum Ai Trading	ASIC, CNMV, CONSOB
4. T4Trade	FCA, CNMV, FSMA Belgium
5. Bit Lidex 360 /Bitsoft 360	CSSF, FSMA Belgium
6. Roboforex	SC Malaysia, NSMC Ukraine
7. Apex Bitcoin Mining	FCA, BaFin
8. Mountain Wolf	FMA Austria
9. Igenius Fx	FCA
10. Real Fx	CFTC, FCA

By naming and detailing the *modus operandi* of these fraudulent operations, the research strives to transform the abstract concept of "investment scams" into concrete, actionable intelligence.

Cryptocurrency: the dominant lure

Unsurprisingly, cryptocurrency-related assets dominate the offerings of these fraudulent entities. Six out of the top 10 feature cryptocurrency trading as their primary service. Scammers exploit the complex and often misunderstood nature of digital assets, capitalising on their reputation for rapid value appreciation and the general public's limited understanding of the underlying technology.

However, the remaining entities showcase a diverse array of purported assets, including Forex trading, Contracts for Difference (CFDs), real estate, and precious metals. This diversification allows scammers to cast a wider net, aiming to capture the interest of diverse investor profiles.

Recommendations for action

BrokerChooser isn't content to simply sound the alarm. Drawing on the comprehensive analysis, the research proposes several recommendations to erect stronger defences against these sophisticated scams and create a safer investment landscape. At the heart of the proposed action steps lies a powerful premise: prevention is the ultimate weapon in the war against online investment fraud. This isn't about damage control or picking up the pieces after a scam has run its course. It's about stopping the digital predators in their tracks before they can claim a single victim.

1. **Integration of regulatory warnings in search engine results**: Develop a system that incorporates regulatory warning lists into major search engines, automatically displaying prominent warning signs alongside search results featuring entities on these lists.
2. **Enhanced scrutiny of digital advertising**: Implement more rigorous monitoring and analysis of paid advertisements from fraudulent entities to identify persons/business behind such entities.
3. **Collaborative efforts with domain hosting companies**: Establish a formalised collaboration framework between regulatory bodies and domain hosting companies to expedite the process of discontinuing hosting services for URLs associated with identified fraudulent entities.
4. **Amplification of regulatory warning lists through public awareness campaigns**: Develop and implement targeted public awareness campaigns to increase the visibility and efficacy of regulatory warning lists, which currently have limited impact on investor behaviour.

Uniting against a common threat: a call to arms

The sheer scale and sophistication of these scams make one thing abundantly clear: no single entity can stem this rising tide of fraud alone. What's needed is a coordinated alliance of regulators, tech giants, financial institutions and key stakeholders, all working in lockstep to fortify the EU's financial borders.

The study envisions a future where EU citizens can invest with confidence, knowing they're shielded by an interconnected web of protection. But achieving this safer investment landscape will require **unprecedented collaboration, innovative thinking and a shared commitment** to staying one step ahead of those who would exploit the unwary.

The question now is: are we ready to rise to the challenge and usher in a new era of financial security for all Europeans?

Quilters Cheviot (QC) and the Financial Ombudsman Service (FOS)

Members may be interested in the case of new member Hans Schmidt. He is engaged in a long-running dispute with Quilters Cheviot (QC) and the Financial Ombudsman Service (FOS) concerning the management of his pension pot from 2010. The point at issue is that QC reported the return on his portfolio gross of fees (not clearly explained) until 2017 and claimed on that basis that his fund had outperformed its benchmark.

The reporting system changed to 'net of fees' in 2017 (when Quilter merged with Cheviot), but historical records were not updated. The cumulative performance figures became a compound of gross returns to 2017 and net returns thereafter, but this was not explained to clients and the false claim that his fund had 'cumulatively outperformed its benchmark' continued to be made. It was this change that alerted Hans to the misreporting that had occurred from the start.

Hans made a claim with the FOS in 2021, on the basis that if the returns had been properly declared he would have moved his fund to another wealth manager. The Ombudsman agreed that QC had provided misleading information but seemed to regard this as a trivial matter, awarding only £750 'compensation for stress and inconvenience caused' – a sum that bore no relation to the underperformance.

Hans is now working on a claim under the FOS Wider Implication Review (WIR). He would be interested to hear from others with similar experiences – whether of QC or other wealth managers. Contact him on hhs4000@gmail.com.

Report on ShareTalk presentation by Richard Beddard, June 2024

by Alan Cane

The King's Arms, Didmarton, Gloucestershire, venue for meetings of UKSA South-

'I wish I'd known that... '

In an engaging and very illuminating discussion led by Richard Beddard and John Mulligan, members had the chance to consider their investment strategies.

Richard is a veteran and regular contributor to Interactive Investor. His commentary on the companies he has identified for potential investment, using his own analysis, is widely followed and appreciated. He stresses that he looks at individual companies, not markets.

We structured our meeting to allow Richard and John Mulligan (whose STAR system we have considered earlier) to compare notes. Unfortunately, due to family illness, Richard was unable to join members at Didmarton in person. We're especially grateful that he persevered with remote communication through Zoom, despite technical hiccups, to give a very clear explanation of his approach. Good discussion was generated and by the end I wished – this is not unusual in UKSA meetings – that I had known before about several of the points raised.

It's clear that both Richard and John Mulligan follow a structured and disciplined path. It's also clear that very considerable effort is expended to identify 'good' companies: probably more than most of us could commit to. The underlying quantitative analysis requires consistent and high-quality data. The associated costs can be high and are increasing. Both agreed that 'buyers should beware'. Such considerations may nudge the would-be investor towards collective vehicles such as investment trusts, particularly at an early stage in life when our free time is limited and family commitments prevail. Of course, UKSA folk are sceptical. Few fund managers outperform their benchmark, whether it's a market index or more complex comparator. However, this is an important stage because the most years of compounding returns lie ahead.

Do such arguments make a good case for what we might call 'guided investment', i.e. taking notice of a trusted role model. I'm thinking aloud and choosing my words carefully. We can't give financial advice, we don't want a packaged 'product' with its associated costs, we like the feeling of a stake in an individual company with whose produce and (we hope) leaders we can engage. Where do we turn for inspiration? I believe that the ideas debated in this 'ShareTalk' provide confidence in Richard and John's approaches and conclusions. And both can demonstrate good track records.

I also believe that this approach can be adapted to cater for the varying financial needs of a lifetime. One doesn't invest in a vacuum; as well as

foreseeable needs the unexpected happens (and often costs!). Sadly, 'forever funds' are the stuff of dreams, because companies have their own life-cycles as well as the need to adapt to change. So regular review and flexibility are part of the required approach.

Richard explained the origins and development of his methodology. It draws on Joel Greenblatt's 'Magic Formula', popularised in his 'Little Book that Beats the Market'. Greenblatt considers the best companies for investment to be those that display the best combination of two factors: a high return on capital and a high earnings yield. Finding such companies at a 'low' price is the approach followed by Warren Buffett and the late Charlie Munger.

Another book that was praised in discussion (and was said to be highly regarded by John Kay) was 'Good Strategy, Bad Strategy' by Richard P. Rumelt. He defines good strategy as 'a coherent set of analyses, concepts, policies, arguments and actions that respond to a high-stakes challenge'. As one might say, the reasoning behind the choices that are made. The common pitfalls that lead to bad strategy are also discussed. He is particularly dismissive of hype, business-speak, motivational slogans and popular culture. Several members endorsed the above as worthwhile reading; all worth bearing in mind as we listen to company and (if I dare say it) political presentations.

How do such considerations fit into Richard Beddard's approach? In his own words: '.... strategy involves choices. A good guiding principle directs the business - it rules certain activities out (which is why goals aren't strategies). In business, deciding what you do not do differentiates you from competitors. In investing, deciding what you do not do differentiates you from the market, or the herd. That is, at least, the way I see it.'

Again, this underlines the value to shareholders of getting to know and understand a company's management.

He started investing with workmates in the late 1990s, then developed his understanding through extensive discussion with company executives and other investors. He began writing a monthly feature - 'Share Sleuth' – based on his share selections, for Money Observer in 2009. Interestingly, he doesn't attempt to beat any particular index, simply seeking the best returns. He sticks to UK-listed shares. Dividends are reinvested, though not necessarily in the same shares, and dealing costs taken into account when calculating returns.

One of Richard's key theses is that numbers tell you only a small part of a company's story. How little part they can play in his decision engine is striking. An example of his template, which allocated a total score up to (max) 10:

Score 0 to 3 on 'the Past': is there profitable growth? Are the finances strong? Do they deliver through thick and thin?

Score 0 to 3 on the Present: how distinctive? – is there a discernible business? With experienced people? That creates value for customers?

Score 0 to 3 on the Future: are they addressing challenges? With coherent actions? That reward the stakeholders fairly?

Score -3 to +3 on the Price: share price values the enterprise at how many times the normalised profit?

The meeting had great fun trying to apply this approach to some of our 'favourite' companies. No, I shan't be telling you these answers.

We concluded by exploring the holding size in a portfolio that would be ideally allocated to shares that gained different scores as above, with the suggestion that shares scoring 10 should merit 10%, scores of 8 merited a 6% allocation, scores of 6 merit 2% and 5 or below are to be avoided.

A copy of Richard's slides can be found here.

HonestMoneyNews

By John Hunter

Last month I trailed the creation of a new UKSA website to address the advice gap and '.... move responsibility to consumers while giving them the tools to exercise that responsibility'. We have now agreed a name for the site, which is PlainHonestMoney.

The ambitious, long-term objective is to create a site that enables effective money management by 'those who hate doing it, or avoid it because of ignorance or fears'. An intermediate objective is to shame the Money & Pensions Service into upgrading its advice site MoneyHelper on issues which might conflict with industry profits.

We would now welcome critique of the draft, which is publicly available at https://www.plainhonestmoney.org.uk/. As yet there is no site design, no visuals and only limited use of creative linkages. But the content and the way it is laid out and related forms the essential framework. Now is the time for constructive advice. Please also share the link with creative friends. I would be happy to Zoom with interest groups.

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Keeping up with tech – Royal Mail

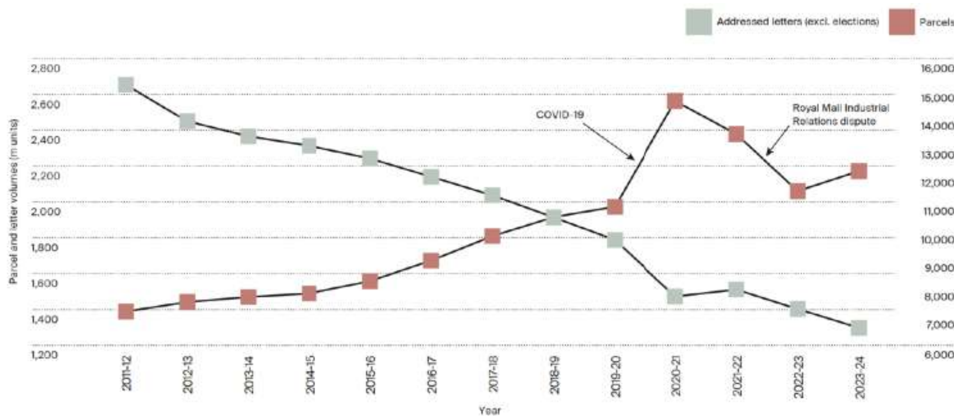
by John Crosse
Director of Investor Relations
International Distribution Services plc

> From time to time we have conversations with companies about their business and how they communicate with retail shareholders.
>
> The proposed sale of Royal Mail was such an occasion and this article from the company is the result.
>
> Our contact with Royal Mail arose after our views on the offer document were reported in the Daily Mail.

Like many businesses, Royal Mail has had to adapt to changing customer preferences, increased competition and advancements in technology over the last decade.

A business that was founded over 500 years ago by Henry VIII has, for most of that time, largely concerned itself with delivering letters across the whole of the UK. However, the number of letters sent has fallen from 20 billion in 2004-2005 to 6.7 billion last year, while the number of addresses has increased by four million over that same period.

That's still an awful lot of letters, but clearly a significant reduction of roughly two-thirds from their peak. Unfortunately, this means the cost of each delivery continues to rise, as Royal Mail is still obliged to maintain an extensive network and incur significant costs to get every letter across the country for a single price - travelling on trucks, planes, ferries, drones and vans - to every household six days a week, in line with the USO or "Universal Service Obligation". The USO also requires Royal Mail to deliver parcels five days a week, but we have already moved to seven days a week, including Sunday, due to changing customer preferences.



Source: IDS plc Annual Report and Accounts 2023-2024

That's why we have been urging the regulator Ofcom for over four years to reform the USO, and we submitted our own proposal to them back in April 2024. Ofcom calculates that providing the current Universal Service has a net cost to Royal Mail of £325 million to £675 million every year[1] – put another way, it costs us approximately £1 million to £2 million every day to provide the Universal Service to the UK. Royal Mail's proposal for USO reform is designed to protect what matters most to customers, with no changes to:

- The one-price-goes-anywhere service to all parts of the United Kingdom;
- First Class letters delivered daily, six days a week (Monday to Saturday) to recognise the importance of next-day and Saturday deliveries, especially for the NHS, publishers and senders of greeting cards;
- The option of First Class and Second Class letters, giving people the choice of price and speed;
- Parcels delivered up to seven days a week as currently.

The need for change is urgent. The UK risks getting left behind its international peers, many of whom have already acted and successfully reformed their Universal Service. More detail on our proposal is on our website: The future of letter deliveries (internationaldistributionservices.com).

However, as shown in the chart above, whilst letters are declining parcels are growing. Although letters are expected to continue to play a vital role, as a business if we want to grow then clearly parcels are the future for Royal Mail. In 2023-2024, the number of parcels Royal Mail delivered grew 6% year on year. The growth of online shopping has led to a significant increase in parcels flowing through our network, and commonly people now expect items bought online to be delivered within one or two days.

But alongside USO reform, we also need to change the way our business operates, to adapt to the market trends above. Whilst our network is already highly automated for letters, the business has invested heavily in recent years in increasing parcel automation, with automatic parcel sorting machines installed in almost all of our 37 Mail Centres (large sites that sort and direct mail around the country), and two new "SuperHubs" recently built, one in the north-west of England (Warrington) and one in the Midlands (Daventry). The latter was able to process 950,000 parcels in a 21-hour shift last year. More of your mail is also now being transported by road which is more reliable, has greater capacity for the growing numbers of parcels, and is better for the environment.

You can see this change – the decline of letters and growth in parcels – in the financials of Royal Mail, with over 50% of annual revenue now coming from parcels.

This change in the market also means we've had to make changes to how we deliver to your front door. Some of you may have noticed that Royal Mail now delivers parcels later in the afternoon and also on Sundays, and can also collect a parcel from your doorstep. Many customers don't realise that you can book a collection online for the next day, and if you don't have a printer at home, your postie can even bring the address label with them to put on the parcel.

We're also expanding our offering to make sending and receiving parcels as convenient as possible. Last year Royal Mail launched a partnership with

PayPoint that allows customers to drop off parcels at Collect+ locations across the UK. The business also announced plans to install lockers across the UK in partnership with both Quadient and Yeep!.

We realise on Quality of Service there is more to do, but considerable action has already been taken to improve quality of service for First and Second Class letters and parcels, including the biggest operational changes to our network in over 20 years, increased recruitment of permanent employees, new initiatives to reduce sick absence and improve retention, and the deployment of a Quality Control Centre to manage disruption, all of which are contributing to improvements in reliability and quality.

The transformation of Royal Mail continues, although I'm not sure Henry VIII could have imagined what it would look like today when he founded the business in 1516. I wonder what it will look like in another 500 years?

1. Ofcom: "Universal postal service must modernise", call for evidence, published 24 January 2024

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 November 2024

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