UK Shareholders' Association

The Private Investor Issue 167 · November 2013

Life at the Top

Matterhorn (15,000 ft); a Swiss referendum suggests reducing it to 2,000 ft. (metaphorically speaking of course.

It is not very long ago that we heard the tragic news of the chief executive of Swisscom having taken his own life, due it was said, to the never-ending stress of the job.

This week Sir Hector Sants, whose past activities as head of the Financial Services Authority brought him within the purview of UKSA on more than one occasion, has told Barclays (he is on sick leave at the moment) that he will not be coming back to the job. On the completion of his public service he had joined the bank as head of compliance and government and regulatory relations.

Whilst greybeards like myself wonder how on earth jobs - peace-time jobs anyway - became so stressful, one wonders if the stunning executive remuneration packages on offer make at least some of the recipients feel that if they are not constantly engaging with their task they are guilty of some sort of misdemeanour - Sir Hector's package is reported at being circa £3 million per annum for example.

The Swiss may be coming to the rescue of the harassed plutocrats and doing the private shareholder a bit of good as well. Having already voted in favour of forcing big companies to give their shareholders the final say on executive pay, a new referendum is now suggesting that a new law be passed which would limit the salary of the highest-paid person in the company to 12-times that of the lowest-paid person. The current ratio averages out at 93-times.

Will it happen? Could it ever happen here? Of course our own major political parties are very susceptible to arguments about the need for companies to attract and retain 'top talent'. The answer is almost certainly no. The alternative, or even a moderate variant of it is just too delicious a prospect to contemplate.

Bill Johnston

UKSA - The independent voice of the private shareholder

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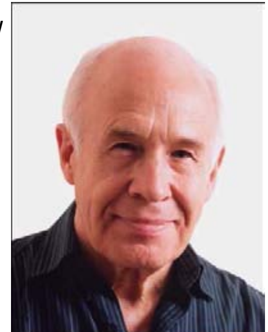
Some Good News to Report


Eric Chalker

Five months ago, UKSA received an invitation to join a new committee to be established by the Financial Conduct Authority. The FCA is the successor body to the FSA – the Financial Services Authority. Whereas the latter seemed so often to protect the financial services industry rather than individuals, there is evidence that the new body is keen to protect the savers and investors for whom one has always supposed such bodies should exist.

The initial purpose of the committee was 'to scope a potential project to see if.... recommendations [can be made] to improve investor protection and investor rights [for] assets held in nominees,' coupled with a desire to see if investor protection can be enhanced when a broker goes bust (as they sometimes do). This invitation seems to be the first official recognition ever that investors suffer a loss of rights when holding shares in nominee accounts. Perhaps coincidentally, it came shortly before our conference on the dematerialisation of shareholdings, to which we had invited ministers from both the Treasury and the Department for Business, with the encouraging response received from Jo Swinson MP which was quoted on the front page of this magazine last July.

The committee has now met twice and a further meeting is scheduled for the first week of December. The committee comprises representatives from the three main share registrars, the stockbrokers' association (previously known as APCIMS which recently changed its name to The Wealth Association), the Department of Business, HM Treasury and a significant body of representatives from the FCA itself. John Hunter and I represent the private investor interest. The Bank of England has been invited to send a representative but has so far declined.

Matters being investigated

The chairman of the committee, Derek Young, whose initiative it is, has commented that the issues surrounding nominee accounts comprise a bigger subject than he first thought. The committee is beginning to examine individual aspects and is currently focused on four matters in particular, namely the HMRC guidelines to ISA providers, takeovers by schemes of arrangement, the 'information rights' enabling part of the Companies Act and dematerialisation proposals emanating from the EU.

As our leading policy team member, Roy Colbran, discovered some time ago, the HMRC guidelines for ISA providers actually suggest that the names of beneficial owners should be placed on share registers alongside their nominees. This goes far further than the 'information rights' envisaged by the Companies Act, but HMRC has been unable to explain to UKSA how this suggestion is to work. The FCA may be able to get a better response.

The obstacles preventing nominee account users voting on takeovers by schemes of arrangement has been dealt with several times in this magazine. As this is now the predominant method of executing takeovers in the UK it is of considerable significance and much more worthy of remedying than trying to disenfranchise hedge funds and the like (as the parliamentary BIS Committee needs to be told). Roy Colbran's article elsewhere in this issue tells us that the Takeover Panel wants to continue allowing speculative short-term shareholders to have their say, but when it was asked to take up the cause of disenfranchised long-term investors using nominee accounts it just didn't want to know, thus making a nonsense of its publicly declared *'central objective'* being *'to ensure fair treatment for all.'* The Panel will now be asked to discuss its position with the FCA.

The FCA committee has also begun to look at Part 9 of the Companies Act. This deals with the concept of 'information rights'. Section 145 of the Act enables individual companies to grant powers to their beneficial owners holding shares through nominees, but sections 146/7 give similar powers to the nominee providers themselves (although not for shares on the AIM). In effect, for main-listed shares, a nominee can grant every right that a certificated shareholder has except legal ownership and the right to vote. Section 151 allows the Secretary of State to extend these rights to AIM shares and to extend the rights themselves.

The currently available rights are often misrepresented in the media. No user of a nominee account has the right to be given 'information rights'. It is entirely up to the nominee itself. Very few do this – I have been told it is only two – but there does seem to be something of a mystery about the subject. Some brokers don't like being asked whether they provide the service, some provide it sometimes but not always and some like to charge for what ought to be a relatively costless service. This is now being investigated by a combination of brokers and registrars, with information supplied by UKSA. Information rights as limited by sections 146/7 of the Act will never be a substitute for full legal rights so better provision of them will not satisfy UKSA, but the Act is not being used as it should be and that should be remedied.

Dematerialisation deferred, but should it be?

The FCA committee began, the Tuesday after our conference, with the subject of dematerialisation, as expected to be mandated by the EU. The committee seems to be the only body – within the array of government bodies which ought to be concerned with how and when the 'industry model' (as it is now officially known) will be implemented – which is focused on it. Shortly after the last meeting we learned that the CSD Regulation which is to be the dematerialisation instrument was still in draft form but the process was still 'on schedule' for completion by the end of the year. In so far as dematerialisation is concerned, there were at that time (early October, my latest information) two versions: the European Parliament text requiring January 2015 for new issues and 2025 for existing shares, but the European Council text setting 2025 for everything.

The UK government has been opposed to mandatory dematerialisation from the start and although it was thought by the ICSA Registrars' Group and others that it would not be able to win that argument, it now looks as though it quite possibly has. However, whereas two years ago we might have heaved a great sigh of relief at that news, now we have reason not to. Now the 'enemy' is not Brussels but the situation within the UK which is increasingly driving investors into pooled nominee accounts without power or security. The 'industry model' devised to put private investors' names back on share registrars but in dematerialised form – ie an electronic record in place of a paper certificate – will surely enable us to restore full shareholder rights to all who want them, without cost other than that of the investment itself, which is exactly as it should be. More on this anon.

More to come

Before ending this report, there are three things to add. First, although putting investors' names on share registers is the priority, which should idestep the need for compensation in the event of a nominee failure, the pitifully low level of compensation currently offered will be challenged as the committee's work proceeds. Second, I am pleased to report that a matter of concern to a long-standing UKSA member, Peter Morgan, has been placed on the committee's agenda: this is the absence of any 'information rights' provision for holders of permanent interest bearing shares (PIBS) issued by building societies. Third, I have been asked to address the Chartered Institute for Securities & Investment (CISI) on the subject of nominee account penalties. All in all, I think it is reasonable to believe that some progress is being made, albeit slowly.

Eric Chalker, Policy Co-ordinator

Making the most of your UKSA membership

Malcolm Howard, FCMA

I joined UKSA by pure chance. In 2007, I had written a book, published by Elsevier, entitled 'Accounting and Business Valuation Methods' and a member of the Croydon branch asked me to give a talk on how to value companies and assess what their share price should be. As a matter of principle, I explained that provided a company's accounts did not indicate a financial problem then it was a relatively simple matter to assess what a fair valuation might be and therefore what the share price should be. For manufacturing and trading companies the first step is to calculate what I call the 'diluted effective earnings per share' (deeps). This is simply 'cash inflow from operating activities' before movement in working capital, divided by the number of shares. It is 'diluted' because outstanding share options are added to the total number of shares. From 'deeps' it is possible to calculate the growth built into a share price at any one time. Now, if the growth built into the share price is less than the potential growth, then you will obviously have a 'buy' opportunity. The problem is that how do you know what the potential growth should be? You can base this decision on historical records; but what happened in the past might not correlate with the future. For property companies for example the valuation would be based on 'net asset value' (NAV), but how do you know what the correct NAV really is - and, again, what potential there is for growth? This is where UKSA came in.

I found that UKSA provided the missing link through the organising a series of company visits each year. At each visit we were given an 'analyst' style presentation and the opportunity to question senior management as to what they were doing to ensure future growth. Not only did some of these visits offer extremely good investment opportunities, all were very interesting and educational. As examples, we have been shown how coffee is made from a variety of beans at Costa Coffee (*Whitbread)* and how aircraft wings are made in Bristol at EADS (*European Airbus Defence Systems*). We have had a presentation in a theatre in Pinewood Studios (*One Media IP Group*) and given a tour of London (*Capital & Counties and Shaftesbury*). We have been taken into an unfinished building overlooking Wembley Stadium by *Quintain Estates*, using a constructor's lift to get to the 12th floor (scary!). At many of the visits we are provided lunch free of charge that in itself pays for an annual subscription.

Below is a list of some of the other companies UKSA have visited in 2013:

Balfour Beaty, BG Group, BHP, BP, British Polythene. Carrs Milling, Compass Group, Consort Medical, Cranswick, Croda International. HSBC Innovation,

Land Securities, Man Group, National Grid. Rexam, Rolls Royce, RSA. Sanderson, Share plc, Smiths News, Tate and Lyle, Tristel, Vodafone, Youngs Brewery, and *Wolseley.* The board would like to thank Harry Braund, Alan Cane, Phil Clarke, John Hillman, David Lowe, Nick Steiner, Peter Wilson and others for organising these visits.

I recently attended a meeting at the Financial Reporting Council (FRC) to discuss their project to make annual company reports more interesting for investors and especially for private investors. Delegates comprised on one side institutional and private investors and on the other side those responsible for preparing annual reports. What I found most illuminating that that the compilers were genuinely interested to find out what investors really wanted. So in 2014, try to go on a company visit and have your say.

Malcolm Howard joined the board as Finance Director in August and is already making a highly effective contribution to our organisation. Incidentally, referring to him in our last issue I inadvertently described him as an FCA (Chartered Accountants in England & Wales). He is of course an FCMA (Chartered Management Accountants.)

The fame of UKSA spreads wider.

Members will be aware of the work UKSA has been doing to lobby for more conservative accounting. Much to our surprise we were invited to meet members of a delegation from the Japanese Ministry of enterprise, trade and industry (METI) in London recently.

Apparently the Japanese have for some years been considering full adoption of International Financial Reporting Standards (IFRS) but are still uncomfortable with several aspects of them. In particular they listed fair values, prudence (or its absence) and capital maintenance, concerns remarkably similar to ours. The meeting took place at Daiwa Bank in the city and was led by the chairman of a METI committee supported by a civil servant, a professor, a translator, and the commercial attaché from their embassy. They were perplexed by the fact that the official UK line on IFRS was not always supported and wanted to learn of alternative views. They said they were under pressure from the accounting profession to fully support IFRS.

We are still pushing for changes in IFRS and have also attended a meeting with representatives of the ABI, the IMA and NAPF, the trade bodies for insurers, investment managers and pension funds respectively. A further meeting at the Bank of England followed.

It would appear that we are winning the intellectual argument but still have to win the political one.

Roger Collinge

Financial Reporting Council (FRC)

As the reporting season approaches, Roger Marshall, Director of the Financial Reporting Council sets out a series of calls to action for preparers and auditors to consider improving the quality of disclosures in annual reports. These calls to action are based on feedback received on the FRC's thought leadership paper *'Thinking about disclosures in a broader context'.*

Roger Marshall, Director of FRC

In line with the FRC's Corporate Governance Code, we believe that the guiding principle for annual reports as a whole to be fair balanced and understandable is crucial to high quality financial reporting.

The FRC recommends that:

- Disclosures should focus on communication of relevant information to investors.
- Core information that is relevant for investors is separated from supplementary information that only meets the needs of a wider stakeholder group.
- Placement of information outside the annual report may be more appropriate for supplementary information, where the law permits this.
- Immaterial information should be excluded.
- Boilerplate language should be avoided with a focus on entity specific disclosures.

There is global momentum for improving disclosures and FRC is pleased to note that the Financial Accounting Standards Board (FASB) is also advancing in its project on the Disclosure Framework.

Related information is linked to tell the story of a company.

Mr Marshall noted that the International Accounting Standards Board (IASB) intends to update references on the exclusion of immaterial information;

provide guidance on the application of materiality; and focus on disclosure objectives and the use of less prescriptive language. Mr Marshall adds that in addition the FRC would recommend that the IASB develops a disclosure framework that considers disclosures in the financial report as a whole that defines the boundaries of financial reporting, develops placement criteria, reduces and defines the 'magnitude' terms used; especially such as 'significant', 'key' and 'critical'.

Members will be fully aware of the multi-faceted relationship which UKSA seeks to achieve with the Financial Reporting Council ; and it was only in our September issue that Eric Chalker noted that the body is becoming increasingly assertive.

Hans Hoogervorst

Mr Marshall notes that FRC has read Hans Hoogervorst's speech 'Breaking the boilerplate'. Mr Hoogervorst's speech he says echoes the FRC's thinking on disclosures. 'We are pleased to note that the IASB intends to develop a disclosure framework and we will continue to support the International Accounting Standards Board's (IASB) project' he said.

Who is Hans Hoogervorst?

Hans Hoogervorst began his initial term on 1st July 2011, succeeding Sir David Tweedie on his retirement as chairman of the IASB at the end of June 2011. Mr Hoogervorst was previously the chairman of the Netherlands Authority for the Financial Markets (AFM), the Dutch securities and market regulator, chairman of the Technical Committee of the International Organization of Securities Commissions (IOSCO) and co-chair of the Financial Crisis Advisory Group (FCAG), an independent body of senior leaders formed to advise accounting standard-setters on their response to the global financial crisis. Mr Hoogervorst holds a Masters degree in modern history (University of Amsterdam, 1981) and a Master of Arts degree in international relations (Johns Hopkins University school of advanced international relations, majoring in international economics and Latin American studies). His term expires in June 2016.

Votes for short-term holders in Takeovers (and more on Kay)

If little else the Kay Review is certainly responsible for a torrent of words. The latest is the Government response to the Select Committee's report (see September Private Investor). The fact that this has taken over three months continues to tell us that there is no sense of urgency. In fact we are beginning to come into sight of Summer 2014 when the Government is to report on progress – a date which we originally said was much too far away. The comments by Adrian Bailey (Chairman of the Committee) on the response sum it up although possibly politer than the Government really deserves:

'I am pleased that the Government recognises the need to play an active role in implementing the recommendations of the Kay Review, and note that it has not ruled out legislative and regulatory measures to bring about change. In a number of areas, however, the Government appears to reject our recommendations on how it can drive reform. Warm words must be backed up by action if progress is not forthcoming.

'The 12 years of inaction following the Myners Review is proof enough that cultural change will not happen without a catalyst. The Government must be willing to provide that catalyst and pick up a regulatory stick if necessary.

'The Committee will watch this area closely and will want to see evidence of significant progress by the time the Government's progress report is published in 2014.'

The comment on Recommendation 17 (rights for shareholders in nominee accounts) is a little more encouraging than previously. Hitherto the Government has been pretending that requirements from the EU for dematerialisation need not be taken seriously, to strengthen their hand in negotiations. Now they say that they are involved in discussions with the FCA and key stakeholders about options for direct electronic shareholding allowing individuals to exercise their rights.

The last part of the Response includes an invitation to comment on the possibility of disenfranchising short-term shareholders during a takeover bid. It is not clear what they hope to achieve from this since they begin by telling us why the Takeover Panel decided against the change, continue with seven reasons of their own why the idea should not proceed and finally tell us that

Kay did not favour such measures. Even so, at the end they say they welcome suggestions about how the issues that prevent such measures being workable could be overcome. The full paper is available at www.parliament.uk/bis. There is no mention of enfranchising those holding shares through nominees but nothing to stop UKSA and our individual members raising the issue in responding. If you are moved to get involved or have views you would like us to take into account do tell us at policy@uksa.org.uk

Roy Colbran

Edinburgh Investment Trust

Both Roy Colbran and George Miller have long been exercised about what they consider is the unnecessary costs of management of this business, centred aa they are around commanding the services of one Neil Woodford (see The Private Investors *passim.)*

Now the Trust has issued the following statement:

'On 15 October 2013, the Board was informed by its Manager, Invesco Asset Management Limited, that Neil Woodford, the Company's portfolio manager, will be leaving Invesco Perpetual in April 2014. The Board has been assured by Invesco Perpetual that this will not result in any immediate change to the Company's management.

'The Board has met with senior management at Invesco Perpetual, including Mark Armour, the CEO, to discuss the management arrangements for the Company and has been assured that Neil Woodford remains committed to the management of the Company's portfolio until his departure.

'The Board would like to take some time to consider the options for the future management of the Company before it makes a decision, but in the meantime it is satisfied with the assurances that have been received from Invesco Perpetual. The Board is also mindful that, as has been the case since we appointed Invesco Perpetual, working with Neil Woodford is a highly experienced investment team backed by the resources of a global company.'

Time maybe for re-think on the (£17.5 million!!) cost front?

Bill Johnston

EuroFinUse

'Europe is setting up institutions specifically created for financial repression.'
Edin Mujagic, Tilburg University

For the first time 'Financial Repression' was the topic of an international conference organised in Vienna, attended by prominent authorities from the world of finance.

Financial Repression is broadly defined as anything Public Authorities do to force money to flow to the governments' coffers instead of going into the real economy. Jean Berthon, President of *EuroFinUse*, likened Financial Repression to the 'Hydra of Lerna, possessing many heads and growing two more each time one is cut off...Indeed, Financial Repression takes on many forms ranging from artificially low interest rates to increased taxation on nominal investment income and inflationary economic policies.... 'low-cost long-term saving products. The good news is that there's one product that was invented a very long time ago: it is called equities.'

Vienna 2013 - first performance of the Mujagic Flume

A consensus emerged during the conference on the actual impact. Financial repression causes all savers - institutional as well as individual - to lose money. In short, 'individual savers are being punished for doing the right thing whereas the people responsible are not'. Moreover, experts agreed that money is essentially being driven into the acquisition of government bonds and not into the real economy, thus lowering potential and actual economic growth. This contradicts the green paper issued by the European Commission on the long term financing of the European economy that states that the primary provider of long term financing should be, yes, individual savers. the European households. In the words of Jean Berthon again: 'what a nice way to reward all the small savers and investors who have successfully managed their budgets, which is not the case of all politicians'.

And what can be done to alleviate the burden of financial repression? Whereas a lot of answers were provided, one was reiterated over and over again and echoed by most participants at the conference and Guillaume Prache of EuroFinUse: 'it is time to go back to basics and return to simple low-cost long-term saving products. The good news is that there's one product that was invented a very long time ago: it is called equities.'

EuroFinUse leaders have been busy on other fronts too.

Plans to improve protection for retail investors in Europe have been left in tatters after compromise proposals were blocked in Brussels. The European parliament will now re-examine proposed new rules for packaged retail investment products (Prips), which threatens further delay to the legislation. It is feared the rules are increasingly unlikely to be passed before elections to the European parliament in May 2014.

Pervenche Berès, the French MEP leading the process as rapporteur, said she had 'never seen such a betrayal' after a parliament committee unexpectedly refused to let the Prips plans move forward.

Guillaume Prache, managing director of *EuroFinUse* said a key initiative to restore European citizens' confidence in financial markets was now at risk.
Ms Berès said she was determined to press forward with the Prips legislation. But Syed Kamall MEP, the UK Conservative spokesman on economic and monetary affairs, said he would look to 'remove more of the unnecessary Additions' to the legislation at the next plenary sitting when all members of the European parliament will have an opportunity to vote on the plans. Mr Kamall said he could not support Ms Berès' compromise proposals as they would still involve regulating the sale of corporate bonds and pension packages to retail investors.

Two fresh amendments were included at the suggestion of Sharon Bowles, the UK Liberal Democrat MEP and chairwoman of the economic and monetary affairs committee. An online fund calculator is to be developed to help investors understand the impact of fees and expenses on the value of their investment funds. In addition, products that a manufacturer deems unsuitable for retail investors must now display a 'complex' label at the top of the key information document.

'I'm not convinced many consumers will find this useful at all,' said Mr Kamall. The Prips legislation had been embellished with additions that were 'at best pointless and at worst hugely burdensome', said Mr Kamall, adding that it remained to be seen how much support the revised plans would muster on their return to parliament.

Copy of a Letter to The Right Honourable Vince Cable MP, Secretary of State for Business, Innovation and Skills

from John Hunter

John Hunter

Dear Secretary of State,

Single figure for remuneration: Long term Incentive Plan (LTIP) component

The UK Shareholders' Association (UKSA) has followed with approval your initiative in addressing the issue of excessive and poorly controlled executive pay. It is therefore not lightly that we draw attention to a fundamental weakness in the way that LTIPs are to be treated.

We agree with your analysis that incomprehensible reporting contributed to the problem you have addressed and we applaud your early determination that each Remuneration Report should include 'one single figure for remuneration for each director'. We are aware that the period of consultation and review (in which UKSA participated) is over and that the outcome has been enacted through 'The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013'. Nevertheless, we urge you to revisit the question of how LTIPs are to be treated.

Page 4 of the Financial Reporting Council's (FRC) June 2012 Financial Reporting Lab Report includes the following statement: '*Investors believe that in order to keep the calculation as simple as possible, long-term awards … should not be recognised until the end of the performance period, when the actual vesting rates are able to be determined'.* This interpretation has been carried forward into the regulations. There is no further comment on how 'investors' arrived at this belief, but we suggest that it is illogical, ill-judged and potentially damaging.

LTIPs accumulate rights to future benefits over a long period of time. These benefits have a current economic value that usually increases. To conceal this quantum in order to 'keep it simple' is to sweep the whole remuneration measurement problem under the carpet until the end of the performance

period, and to invite ridicule in intervening years when the gap between reported number and economic value will become increasingly unarguable. Further, it is hard to see how benefits accumulated over several years can be described in the single year they fall due as 'remuneration related to current performance in the financial year being reported,' which was the majority view of the Lab Report participants of what the single figure should represent.

Vince Cable

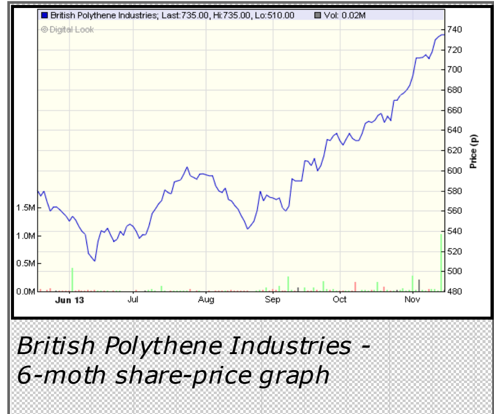
We strongly believe that the method by which LTIPs are to be reported is a serious flaw in otherwise very sound proposals. However, we also believe that the adverse consequences can be limited without the need to legislate again and that it will be possible to remain ahead of the argument if there were to be more innovative use of optional disclosures supported by 'best practice' guidance. We would be happy to discuss these ideas with you, but we urge the Department, under your leadership, to do further work on this one particular aspect.

Ultimately, all executive pay restraint depends upon interested investors exercising the stewardship which the FRC and Professor John Kay so earnestly seek. This is aligned with UKSA's principal campaign objective, which is to end the disenfranchisement of beneficial investors obliged to use pooled nominee accounts and so transfer to them the voting power currently residing in the hands of potentially disinterested or conflicted agents.

John Hunter

Visit to British Polythene Industries

UKSA wrapped up its visit to British Polythene Industries (BPI) in the week following the announcement of a 5p levy on supermarket bags. Ten members and guests touring BPI's manufacturing and recycling plant in Stroud were naturally curious as to its possible effects on the business. If anything it was thought that the levy might increase demand for black dustbin bags, which are among BPI's products (carrier bags are not).



British Polythene Industries - 6-moth share-price graph

In his excellent presentation, Group FD David Harris ranged from the origins of the company as a maker of jute sacks in Dundee to the geopolitics of plastics production (e.g. backdoor export of Iranian materials by Chinese manufacturers).

The range of products and the quality and breadth of BPI's customer base are impressive. By end use, 32% is turnover goes into the agricultural / horticultural sector; another 32% into the retail food chain; and 9% into healthcare and waste services, all of these relatively resilient in a downturn. Construction accounts for 11% of turnover, with recent tentative signs of growth. Industrial and non-food applications account for the remainder. By destination, 55% of sales are made in the UK. BPI is targeting a further increase in overseas sales.

It was an eye-opener to discover that so many everyday items originate in the company. From bread bags to damp- and gas-proof membranes for building (Visqueen) to agricultural baling (Silotite) to timber substitute (Plaswood), BPI is there, often with the leading brand, and with many products made mostly or completely from recycled material.

In contrast to the perception that plastics are environmentally unfriendly, it was informative to hear an example from Germany in which packaging using 40,000 tonnes of glass had been replaced by one tenth that weight of polythene. Use of recycled plastics far outstrips their biodegradable equivalents and (taking the overall life-cycle equation) recycling is probably much more eco-friendly. Stroud is one of 16 UK BPI manufacturing sites (the total is 22 worldwide, including Canada, China and continental Europe). It contributes about 20% to a total that is reckoned to make BPI Europe's largest recycler of

low density poly-ethylene.

It was clear that BPI is conservatively managed, with more than a hint of Scots prudence (and no promise of progressive dividends!) This year's interim statement (August) is duly cautious, but the latest dividend does represent a 7% increase, and recently-reported operating profit per tonne is the best since the mid-90s. The company has re-structured during the recession and now feels ready to take advantage of growth. R&D is not accounted separately, but we were assured of emphasis on continuously developing the products (e.g. thinner but stronger films; co-operative work with farmers).

Agriculture - one-third of sales

We greatly enjoyed our visit to BPI. As an actual or prospective shareholder, nothing beats the opportunity to meet directors on their own turf and to feel for oneself the enthusiasm and energy of a business. Hearty thanks to our hosts.

Members need to make their own assessments of BPI as an investment. This article does not constitute advice. Any opinions expressed are those of the author and not necessarily of UKSA.

Alan Cane

BPI's Investment in recycling

Company Visits

RSA Insurance Group

The planned meeting with RSA on November 29th certainly comes at a good time.

RSA Insurance Group - 6-moth share-price graph

The group's underwriting profit has been affected by extreme weather events in this year; the Canadian business was affected by the worst Canadian natural catastrophe on record in June; then on 27 and 28 October, the severe windstorm which battered England also affected Scandinavia and the Baltics. Whereas it turned out to be something of a non-event here, Scandinavia, in contrast, experienced very strong winds in several heavily populated areas - the highest wind speed ever measured in Denmark for example. This was reflected in the level of building damage with an exceptionally high level of roof damage. In addition, the storm tracked directly over the heavily insured areas of Aarhus and Copenhagen, and Malmo and Gothenburg in Sweden. The average wind speed was 88mph and the damage was primarily caused by wind damage with minimal impact from rainfall. The initial estimate of the net loss across RSA's UK, Scandinavian and Baltics businesses is £45 to £65 million.

RSA Insurance has also announced that RSA Insurance Ireland has suspended its chief executive as well as its finance and claims directors pending the outcome of an investigation into issues in the Irish claims and finance functions which were identified during a routine internal audit.

As a result of these issues, RSA estimates that its 2013 operating result will be £70 million lower than current market expectations. This review is continuing and it is too early at this stage to draw any firm conclusions or to reliably estimate the likely financial impact. As a result of the above, RSA has injected capital into RSA Insurance Ireland to ensure its solvency ratio is comfortably in excess of 200%. No policyholders have been affected.

Do profit warnings come in threes? Or has the storm blown itself out?

Vodafone

Members have an outstanding chance to get a take on Vodafone right from the horse's mouth. The meeting is arranged for 2nd December.

Vodafone - 6-moth share-price graph

An £18 billion pound tax credit related to losses in Germany and Luxembourg puts in context guidance for a full-year operating profit of £5 billion (ex-Verizon) and suggested that a turn in Europe is in sight. Will investment improve its competitive position the 3G and 4G networks space as conditions brighten? The problem is a short-term earnings impact, with the enhanced plan only becoming ebitda-neutral in 2016-17.

The company has announced its biggest-ever investment programme. It is spending £19 billion over the next two years on upgrading networks, mostly in Europe. Having just disposed of its stake in America's Verizon for $82 billion, it has ample cash. Lower revenues in Europe appear to be the key problem.

Moreover, competition has intensified of late. The advent of mobile broadband has made life easier for former telecoms monopolies and cable companies, who can combine offerings such as fixed-line telephony and TV with cheap mobile services.

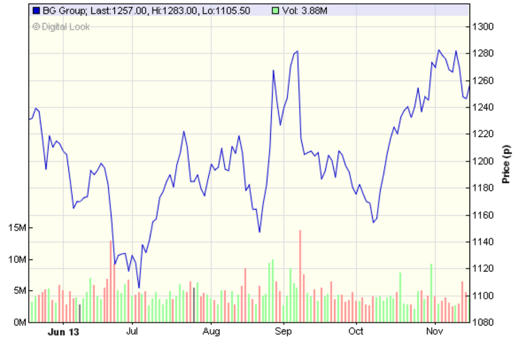
Can the share-price increase be maintained? Go along and judge for yourself.

BG Group

In its latest dispatch to shareholders, BG Group's Chief Executive Chris Finlayson said:

'Earnings in the quarter were down 4% to $1.1 billion, largely as a result of lower volumes in both the Upstream and LNG segments. The primary driver for the decline in Upstream volumes is the US, where BG Group has reduced its rig count in line with its strategy of pursuing value over volume. We will see production recover in the fourth quarter with the completion of our North Sea maintenance shutdowns and new projects coming onstream, most notably Jasmine.'

Another recent statement told of *Ophir Energy* and BG Group having reported further successful appraisal of the Mzia discovery in block one, Tanzania.



BG Group - 6-month share price graph

Ophir holds 40% of blocks one, three and four, with the remaining controlling 60% held by BG Group. The well, which was drilled approximately six kilometres north of the original Mzia-1 discovery well, encountered 56 million of net pay has confirmed reservoir quality in-line with that seen in the Mzia-1 and Mzia-2 wells. Provisional interpretation of the Mzia-3 result has increased the overall mean contingent recoverable resource for the Mzia discovery by around 0.7 trillion cubic feet (tcf) to around 5.2 tcf.

The BG presentation is on Monday 25th November.

'Quinquireme of Nineveh from distant Ophir...' (John Masefield)

That recent announcement might give a chance for investors to have a look at AIM-quoted Ophir Energy holding the other 40% at Mzia. This company now boasts a diversified exploration portfolio encompassing 17 projects in nine different African jurisdictions. Its founders comprise of a strong technical team with over 160 years of combined regional experience and the idea was to seek commercial discoveries of oil and gas, proven and under-explored basins as well as extensions of established plays into overlooked frontier basins.

Young and Co.'s Brewery

Young's evolution into a pure pubs group after the disposal of its brewing interests has transformed it.

Young's managed operation revenue was up 7.0%, with like-for-like growth of 5.0%. Total revenue benefited from a number of key factors; the Plough (Clapham Junction) and the Shaftesbury (Richmond), having been transferred from our tenanted operation in the previous year; the more recent additions of the King's Head (Roehampton), the Cutty Sark (Greenwich) and the Narrow Boat (Islington); and from the runaway success of the recently re-opened Wheatsheaf (Borough Market). The impact of the poor weather that plagued the year was partly offset by strong trading at many sites during the London events of summer 2012. Riverside pubs performed strongly over the Jubilee weekend and sites such as the Dial Arch (Woolwich), and Wimbledon pubs and those close to transport hubs all benefited from Olympic crowds.

Tenanted strategy is to reposition our estate by focussing on fewer but better quality and well invested tenanted pubs. We have reduced the estate from 97 to 78 over the past two years. It sold 13 tenanted pubs, generating proceeds of £8.8 million and an exceptional profit of £2.2 million; this includes the seven pubs we have sold this year. In addition, our leases expired on two further sites and the company transferred the Princess of Wales (Clapton) to our Geronimo operation. This smaller estate generated 6.0% of group revenue in the year. As a result, revenue in our tenanted division was down 2.4% on a like-for-like basis and in total down 14.3% to £11.6 million. Total operating profit before exceptional items reduced by 2.6% on a like-for-like basis and by 19.7% to £4.2 million in total. The remaining 78 pubs generated an average EBITDA per outlet of £68,000.

The presentation is on 10th December. Members are asked not to make the mistake of a previous questioner who meant to ask if things were a bit flatter and asked instead if things were a flat bitter - not recommended. The meeting is on 10th December.

Regional Information

These events are open to members from all regions, and their guests, unless otherwise indicated. For 'waiting list' events all places are taken but there is a waiting list for cancellations.

LONDON & SOUTH-EAST

All events must be booked in advance via the specific organiser. Future events are shown in this magazine and on the UKSA website. Members from other regions are very welcome. For more information please contact Harry Braund on 020 7731 5942 or email harrybraund@yahoo.co.uk

Within this region there is a separate Croydon and Purley Group which meets in Croydon, usually on the second Monday of each month, at the Spread Eagle pub, next to the Town Hall. Please contact Tony Birks on 01322 669 120 or by email ahbirks@btinternet.com ,who will confirm actual dates. There is no charge and no booking necessary.

MIDLANDS

For general information, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

At the present time no meetings are being arranged specifically for the region, but members are cordially invited to attend meetings in the North or South West regions where they will be made very welcome; or indeed London if that is more convenient.

SOUTH-WEST AND SOUTH WALES

All South-West events must be booked in advance, and are open to all members and their guests subject to availability.

Tewkesbury: Gupshill Manor, Tewkesbury: cost is £20, including coffees and lunch. Events are at 10 for 10.30am. To book, contact Mark Pagliaro, 01594 516218.

SCOTLAND

For information on Scotland please contact Mr George Miller at g.miller1010@btinternet.com

Didmarton: The King's Arms, Didmarton: cost is £22.50, including coffees and lunch. Events are at 10 for 10.30am. To book, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

Tyntesfield: To book contact Lesley Reed on 0117 968 7963 or lesley @bigskyhouse.co.uk

Torquay: Orestone Manor Hotel, near Torquay: cost is £25, including coffees and lunch. Events are at 10 for 10.30am. To book, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

Yeovil: Haynes Conference Centre £22.50 book with Robin Clark ajxp.woodford@tiscali.co.uk Company visits:cost is £5. To book, Peter Wilson 01453 834486 peterwilson@dsl.pipex.com

NORTH-EAST

Advance notice is required for all company visits and lunches. Knaresborough: venue is the Public Library, The Market Place, Knaresborough. For more information (except where stated otherwise), please contact Brian Peart, 01388 488419.

NORTH-WEST & NORTH WALES

For details of events, please contact D. L. King, 01829 751 153

Rowan Dartington are holding a seminar in Bristol on 26th November and anyone interested in attending should contact Peter Wilson who might be able to arrange a personal invitation.

As can be seen, the running this month (see back page) has been made by Nick Steiner (n.steiner@btinternet.com) who has arranged a stunning line-up of grade-A meetings in a run up to Christmas. Only shortage of space prevented us from giving a thumbnail sketch on National Grid (Monday 9th December) and Tate & Lyle (Tuesday 17th December).

As I have said on many occasions (and which point has been made afresh by Malcolm Howard in this issue) normally only institutional investors and journalists get access to the kind of first-hand exposure to companies that UKSA members do. Every serious investor within geographical reach should fill their boots.

Bill Johnston

UNITED KINGDOM SHAREHOLDERS' ASSOCIATION
CURRENT UKSA EVENTS

Company	Location	Date	Event	Contact
BG Group plc	London	Monday, 25 November 11:00am	**Presentation**	Nick Steiner n.steiner@btinternet.com
RSA Insurance Matt Hotson (IR Dir) & Ellie Klonarides (ACS)	London	Friday, 29 November 11:00am	**Analyst-style meeting**	Nick Steiner n.steiner@btinternet.com
Vodafone Group Gerard Kleisterlee (Chairman) & Kirsty Law (IRE)	London	Monday, 2 December 14:00pm	**Presentation**	Nick Steiner n.steiner@btinternet.com
National Grid Steve Holliday (CE)	London	Monday, 9 December 10:00am	**Analyst-style meeting**	Nick Steiner n.steiner@btinternet.com
Young and Co.'s Brewery plc Stephen Good-year (CEO) & Peter Whitehead (FD)	London	Tuesday, 10 December 11:00am	**Presentation**	Nick Steiner n.steiner@btinternet.com
Tate & Lyle Tim Lodge (CFO)	London	Tuesday, 17 December 11:00am	**Presentation**	Nick Steiner n.steiner@btinternet.com

UKSA members who have not attended one of these meetings may not appreciate how valuable they are. They are invariably addressed by one or other of the three principal directors and the information presented is the same as that given to City analysts. For some of those who do attend, these occasions are UKSA's most valuable membership benefit and, for this reason, there is often competition for places.