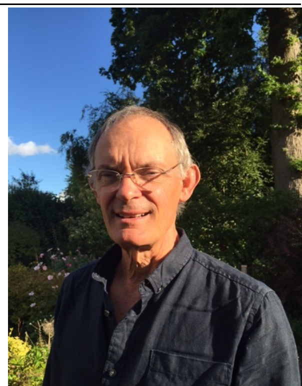
UK Shareholders' Association

The Private Investor *Issue 179 · November 2015*

Chairman's Comment



John Hunter

After the euphoria of developments on the policy front reported in the last issue I fell prey to a rather gloomy reaction. The removal of Daniel Godfrey – the notably investor-friendly head of the Investment Association (the fund managers' trade body) – and the removal of Martin Wheatley – the notably investor-friendly chief executive of the Financial Conduct Authority (FCA) - seemed to presage a shift in sentiment away from the interests of individual investors and back towards the interests of those who profit from them.

However this morning, as I write this, I attended the Wealth Management Association Annual Conference (or 'Summit' as they prefer to call it) and heard a keynote speech from John Griffith-Jones, Chairman of the FCA, which could not have been more oriented towards the needs of individuals. He even delivered a strong recommendation of John Kay's recent book, 'Other People's Money', which questions (to put it mildly) the economic benefit of much of the activity of the industry that the FCA is responsible for regulating. So I am optimistic again.

Developments on the website front. We have a new front page, and a maintenance contract with a professional firm – Will Hall Online – that will support future developments. Much of the material behind the front page is still in a bit of a jumble. Bear with us. My thanks to Richard Dickerson for re-writing one page that particularly needed it. Other offers of help welcome. Still with the website, Malcom Howard introduced me to a friend, Harry Wickens, who had been a webmaster in a previous life and has agreed to help us. He has to learn a new web language – Drupal, for those who know – but I'm expecting great things once he has done so.

The UKSA stand at the London Investor Show was prepared and manned as usual by members of London & South East Region and all day by Liz Baxter. Thanks to all. Reports appear on pages 4 and 5 in this issue.

Good Luck!
John Hunter

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In this issue...

UKSA Information	***2***
News Round Up	***3***
A New Venture for UKSA	***4-5***
Audit Quality Forum	***6-7***
Corporate Governance	***8-10***
Is Retail a Sector to Avoid?	***11-13***
Recent Policy Activity	***14-16***
Redx Pharma & Venture Life Group	***17***
Letters to the Editor	***18-19***
Non-executive Directors	***20-22***
Regional Information	***23***
UKSA Meetings' Programme	***24***

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The editor of Private Investor is not a shareholder in any of the companies mentioned in this edition, but a number of UKSA members may be.

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News Round Up

John Hunter was a guest of honour at the Reform Club for awards dinner of the ESOP Centre - promoters of employee share ownership of course. The ESOP Chairman is UKSA member (and indeed recent Private Investor contributor) Malcolm Hurlston (see photo). Our Chairman, as you might expect, took the opportunity to drive home the UKSA message in general - and in particular our campaign on pooled nominee accounts.

But there are indirect indications of the ever-increasing potency of our message. Readers of the FT on 2nd November saw an article by Attracta Mooney highly critical of the doleful fact of life that fund managers slavishly (90% of the time she says) back boards' pretty well willy-nilly, even on such issues as executive pay. Eric Chalker was quoted in the body of the article.

The FT stepped up to the plate again on 16th November when it published an article on systemic closet tracking saying that investment managers are charging for 'performance' (where have we heard that one?) but instead of a policy of active investment management, funnel the assets into tracker funds. A minor front in this country in the struggle against excessive investment management fees but an important one.

Talking of investment managers, Eric Chalker has received no response from the Aberdeen Asset Management Chairman. He notes that it is rare for him not to receive any reply to his letters (see Private Investors passim) and assumes that this is being because no satisfactory answer is possible.

The Chairman notes, incidentally, that the *Sharescope* training course to which he drew attention is now planned for April 2016 - but that the UKSA discount will still apply.

Finally we have seen a paper from Hardman&Co. Hardman specialises in raising investor understanding of quoted companies through the provision of high quality research. UKSA is all in favour of the idea that private investors should have as much information as possible. The full paper can be found on http://www.brabners.com/sites/default/files/Why%20AIM%20company%20management%20ignore%20retail%20investors%20at%20their%20peril.pdf

Bill Johnston

A New Venture for UKSA

In previous years, UKSA has been invited to provide speakers for free-of-charge sessions at the London Investor Show. This year, the UKSA board suggested a Q&A session instead and, despite the almost inevitable audibility problems at these events, it can be reported as a success. Indeed, one of those attending said it was the best event at the show and, as a result, she decided to become a member.

UKSA was well represented by its panel members, all experienced investors, who deserve recognition for their readiness to give their opinions in public on our behalf.

Frank Hayes, who before retirement was Chief Executive of Dussek Campbell Europe, a subsidiary of Burmah Castrol. Previous responsibilities were as Managing Director of Expandite in the antipodes, packaging development at Metal Box and research chemist for Monsanto. He has a BSc in chemistry and a PhD in Polymer Physics.

John Mulligan, an economist and financial analyst with more than 50 years' experience of the UK investment scene, has an MSc in overseas economic development which led to 25 years as a consultant economist working in developing countries for bodies such as the World Bank, UN agencies and the UK government.

Peter Parry, with a BA degree, a master's degree in business administration (MBA) and Diploma of the Institute of Marketing, is also a fully qualified member of the Chartered Institute of Purchasing & Supply. Peter started his career in manufacturing industry working in South America and Europe and is now a management consultant.

Monica Redenham, who has a BSc in geography – which also involved geology (she has been down coal and gold mines) and an MSc in information science. Monica set out to become a chartered accountant, but of necessity became a full time carer instead and an expert on social security provisions.

Nick Steiner, also with a BA degree, has a PhD in the study of fatal fires. He is a Member of the Institution of Fire Engineers and a Member of the Chartered Management Institute. He was a navigation officer in the Merchant Navy, spent 32 years in the London Fire Brigade which included pioneering research. He has been a JP, chairman of school governors and a senior trade union official.

The session was introduced to those attending the show with this message.

There is no single, right approach to investing in equities. We can all learn from each other and this session is an opportunity to do just that. Join a panel of members from the UK Shareholders' Association who will do their best to answer whatever questions are put to them, even though they may have differing opinions. We'll be glad to hear your thoughts too, if you have something to add. There are no taboo issues – except, of course, that we won't be saying whether or not any particular company is a good investment.

These are the questions the panel was asked.

- Do you use stop losses and if so how?
- When using charts to judge an investment, what kind of timeframe do you look at? [I.e. do you look at 1-year charts, 5-year charts, or what?]
- What is your opinion of Bitcoin?
- When you are considering investment, what particularly do you look for?
- What do you think of ETFs
- Since the £85K cash compensation limit has gone down to £75K, is the £50K shares compensation limit going down similarly?
- What are the difficulties of selling shares?
- What are the panel's most valuable sources of information?
- Is this a good time to start investing?
- Do the panel have any investment habits that are unusual, or amusing, or of which they are ever-so-slightly ashamed?
- What overseas markets do the panel invest in?

In my judgement the event is repeatable, but a different arrangement of the room should be sought to improve audibility, for audience, panel and whomever is given the task of chairing it.

Eric Chalker

Whose culture is it anyway?

by Peter Parry

The Audit Quality Forum was established in December 2004 at the request of the Secretary of State for Trade and Industry. The Forum claims to bring together representatives of auditors, investors, business and regulatory bodies and aims to encourage stakeholders to work together. Its purpose is to promote open and constructive dialogue about transparency, accountability, reporting and confidence in the independent audit. This contributes to the work of government and regulators and helps to generate practical ideas.

On behalf of UKSA I attended this event held by the Forum at Glaziers Hall on 12th November. It started at 5.00p.m and lasted two hours with a further hour for refreshments and networking. It was well supported with some 340 attendees packed into a room with a maximum capacity of 280. As one speaker wryly remarked, only an event organised by auditors could end up 20% overbooked. You might wonder how the dry and dusty world of company audits managed to achieve a response that other event-organisers dream of. However, there is significant debate going on about the scope of the annual audit, as well as both the role and remit of auditors. In part, this is fuelled by concerns about the failure of the auditors to spot signs of serious trouble in the run-up to the banking crisis – a concern that has received further impetus in the last few weeks from the (long-overdue) release of the Bank of England's report on the failure of HBOS.

The two keynote speakers were Baroness Neville Rolfe, Parliamentary Under Secretary of State for Business, Innovation and Skills (BIS) and Sir Win Bischoff, Chairman of the Financial Reporting Council (FRC). They were preceded by Mark Steel, a commentator and stand-up comedian, who was there to do the 'warm-up act'. In fact, the warm-up act made the rest of the event look tame. Mark Steel's performance was accomplished, entertaining and thought-provoking. He managed to lead out some of the largest elephants in the room to perform a few handstands for the audience. Companies that pay their directors too much, organisations that try to sell their customers things they neither want nor need and those that indiscriminately bombard people with unsolicited telephone calls were amongst those that were mercilessly parodied and lampooned.

Following a lively session that at times tested the borders of political correctness the talks from the two keynote speakers were always going to look bland. There were warm words about the need to develop cultures that resulted in long-term success for businesses and references to the revised Shareholder Rights Directive, along with the need to promote transparency and shareholder

engagement. Sir Win Bischoff made a veiled reference to cultural failings at Volkswagen – a comment safely aimed at a non-UK company but which still failed to give any clarification as to what the cultural shortcomings were, how they had arisen and how they might be addressed. 'Culture', he added sagely, 'is a long term thing; you can't change it overnight.' A sense of 'déjà vu' descended on the room.

Peter Parry

The last hour of the formal part of the event was covered by the panel session in which five senior people from industry, academia and the armed forces plus Mark Steel were asked to give their comments on different aspects of culture. Sadly, the debate failed to reveal anything new. We learnt that culture in the army was ingrained into the organisation and that it had changed little over the last two hundred years. The army grows its own leaders who rise from within the ranks and who are expected always to lead by example. There was a rather 'rosy' view presented of culture in academia in which research is unbiased, impartial and everyone works together to get to the 'the truth'. Some who have worked in academia, where in-fighting in the senior common room can be every bit as vicious and partisan as the rivalries in industry, may find this hard to believe. Other speakers mentioned the problems of introducing common cultural standards across national boundaries in multi-national organisations. Legal and General said that it was more than willing to take senior management to task over cultural attitudes which it believed were inappropriate and damaging to the organisation. The problem was that other large fund managers were often less supportive for reasons that couldn't be explained. There was a suggestion from one panel member that, despite widespread miss-selling by banks, branch staff had really tried hard to do what was best for customers and provide excellent service. The fact that branch staff were actually trying their hardest to please senior management, spurred on by financial incentives to miss-sell, seemed to have escaped her attention.
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Over canapés and a drink afterwards I chatted to a young woman from one of the large audit firms. 'What is your view of the audit team getting more involved in assessing corporate culture? I asked. 'I'm against it', she said without hesitation. 'You can't measure corporate culture or give a definitive assessment of it. You are just creating unrealistic expectations on the part of the shareholders and others of what the audit can sensibly do.' There speaks the voice of reason.

Peter Parry – Team Member, UKSA Policy Team

Corporate Governance: what is the role of the private shareholder?

By Sue Milton

This is the first of two articles concentrating on the barriers to, but also identifying where we can enhance, our role. The second article will cover some practical ideas on how, despite the barriers, private shareholders can be a positive influence on companies.

The theoretical answer to my question is that private shareholders have the same role as any other shareholder but the combination of four reasons makes it much more difficult to exercise: a lack of expertise in corporate affairs, no influence over those affairs because the level of shareholding is insignificant, most of our shares are managed by institutional investors on behalf of the trusts and pension funds in which we have invested, and there being no guidance on how to enforce private shareholder responsibility.

Therefore, the role that stands out for me as a private shareholder is one of a moral guide covering corporate social responsibility not just in the charitable work undertaken but also in how companies treat individuals, whether private shareholders or their clients and customers. Private shareholders are closer to the general public than any other shareholder, as we are 'the public', so we should be holding boards to account on the public's behalf. Corporate ethics and behaviours, areas neglected in the past, are now high on the governance agenda.

The codes of good practice provide reminders of how boards should behave. The fact that so many guidelines exist shows that the right sort of behaviour and shareholder engagement remain problematic. Shareholders 'holding the board to account' is an over-simplification as it ignores the reality that private shareholders are too distant from the companies they own, their shares too thinly spread to make proper engagement possible and there is no recognised guidance available to assist private shareholders on how to enact their responsibilities.

There is no mandated role for shareholders. Because there is no mandated role it has allowed markets to turn shareholding into an easily tradeable commodity, removing any sense of ownership. It defaults private shareholding into passive shareholding. Without a sense of ownership, shareholders can care only about dividends, very different to wanting the company to provide long-term value to society.

Corporate governance codes encourage dialogue between investors and companies. This guidance is helpful in principle but inaccessible to many private shareholder because it is not written from their point of view. That made we wonder if we were too small in number to influence the way guidance has been written. If you look at the numbers, we UK private shareholders have grown slightly in numbers within quoted companies, standing at 12% in 2014 from 10% in 2010 but this is down from 13% in 2006 and way below the 54% private investors owned in 1963.

Corporate investors are lucky in having professional company secretaries and/or lawyers to help them understand their obligations and required actions. Interpretation and application of the governance requirements are therefore understood.

Sue Milton - Biography

SUE MILTON specialises in institutional excellence, providing practical advice and solutions to achieving practices that fulfil the spirit of good governance.

Sue works with organisations to improve corporate and board-level effectiveness by assessing internal frameworks against outputs, outcomes and expectations. The quality in both the design and execution of the governance framework, including an understanding of how shareholders behave and react, provides a basis for the level of resilience needed against strategic, economic, political and operational shocks. Sue is now an UKSA member.

The result is that those with the greatest shareholdings not only have the greatest influence but also the greatest understanding of shareholder responsibilities. This allows a better dialogue with the board, thereby increasing corporate investors' ability to influence, both a good and bad thing. The good part is that the good corporate investor will provide a beneficial influence, allowing the remaining shareholders to benefit too. The bad part is that the influence through dialogue plus the sheer number of voting rights, subsumes the opinions of private shareholders. Either way, corporate investor influence may well discourage the private investor from voting.

That said, private shareholders also have some great opportunities. For a start, it is our money companies are using so we are inherently motivated to holding the boards to account. We just need to find the best mechanisms for doing so. The first is to decide what is sensible to do, such as what is best left to the institutional investors. The second is to make use of proxy voting forms that inform boards better of our understanding, or lack of it, of corporate affairs. The third is to look at the moral tone of the company. That is all for part 2.

In the next edition, I will share with you what I believe is missing from good corporate governance: 'shareholder governance', and provide some practical and pro-active ideas to increase both our role and our influence on the companies we own.

Sue Milton

Sources

See the Stewardship Code, created for firms managing assets on behalf of institutional shareholders such as pension funds and investment trusts. https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx.

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Is Retail a Sector to Avoid?

by Malcolm Howard

In May 1973, Ted Heath, the Conservative Prime Minister, upon answering questions with regard to the Lonrho affair, said, "It is the unpleasant and unacceptable face of capitalism, but one should not suggest that the whole of British industry consists of practices of this kind."

It could be argued that some food retailers and some restaurant chains represent the unpleasant and unacceptable face of capitalism, although all not by the same degree.

Many large retailers have become renowned for screwing their suppliers to the deck on price and then being very slow to pay them (see table below). On top of this, we have recently seen, on a television programme hosted by Hugh Fearnley Whittingstall, the absurdity of farmers have to destroy roughly a third of their crop as the fruit and vegetables were not of a standard shape and size. This is especially absurd when the squeeze is so bad that the farmer is forced to close down, which will inevitably lead to higher priced imported food.

Well, you might ask 'what is this to do with investors?' The simple answer is that this is just one example of how inefficient these large companies have become. Rather than rejecting any out of shape produce, why do retailers not agree to buy such produce at half price and sell it at half price? There are many people who would accept so called sub shaped produce if the price was right.

This, of course, leads to what can be regarded as another unacceptable face of capitalism. These companies always sell at the lowest price possible and to achieve this they pay low wages, very near the national minimum wage. The last Labour government realised that low wages led to poverty which consequently led to ill health and a strain on the NHS. But they were afraid to appear anti-business so rather than face the real problem they introduced tax credits. Low paid employees were now surviving, but the policy encouraged employers to keep wage rates low.

At this point, we need to differentiate between the 'minimum wage' and the 'living wage'. The 'minimum wage' was introduced by the Labour government and it set a mandatory minimum rate per hour that employers have to pay. The 'living wage' is a rate per hour set by an independent organisation called 'The Living Wage Foundation' and is the minimum rate someone could reasonably expect to live on if they worked full time. The current living wage is £8.25 per hour and the London living wage is £9.40 per hour. These figures compare with

the current minimum wage of £6.70 per hour. George Osborne, the Chancellor, said from next April 'the national living wage will be £7.20 per hour. I am afraid this is spin; the reality is that the national minimum wage is going up to £7.20 per hour.

Even this lower figure has caused executives from Whitbread plc and JD Wetherspoon plc to squeal that they cannot afford this increase. The Chief Executive of Tesco plc has also complained the company cannot afford business rates. An examination of the latest full year accounts clearly shows why they are moaning.

	Profit/(loss) (£'m)	Debt (£'m)	Creditor days (1)	Number (2)
J D Wetherspoon	44.8	641.1	73	17,885
Whitbread	366.1	601.8	84	31,005
Morrisons	(761.0)	2,340.0	50	+
Tesco	(5,741)	8,481.0	56	172,598
Sainsbury J	(166.0)	2,879.0	48	85,920

Note 1: Creditor days are calculated by dividing creditors by cost of sales and multiplying by 365. This is only a guide as 'cost of sales' will include items such as wages. This means that the actual creditor days will be greater than the figure shown.

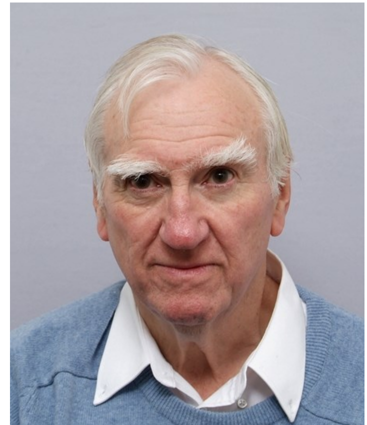
Note 2: JD Wetherspoon show the actual number of hourly paid employees. For other companies I have taken 80% of employees, based on full-time equivalents where shown. For companies operating internationally only UK figures are used where these are shown. For these reasons the numbers should be seen as merely a relative guideline.

+ No figures are available for Morrisons.

A significant problem these companies face is that the

Whitbread - 6-month share-price graph

Chancellor is of the opinion that the country cannot afford tax credits, but when he proposed to cut them the cuts were seen to be so savage that he was defeated in the House of Lords. This means that there will be pressure on companies not only to pay the revised minimum wage, but rather pay the real living wage. We can only guess what the average wage is currently being paid to hourly employees in the retail sector, but if we look at the number of employees involved it can be seen that any move to significantly uplift wage rates will cost each company several millions of pounds. What makes it worse for them is they cannot compete with the new kids on the bock, Aldi and Lidl, so it is difficult to see how they will cope as they cannot increase their prices to remain competitive.

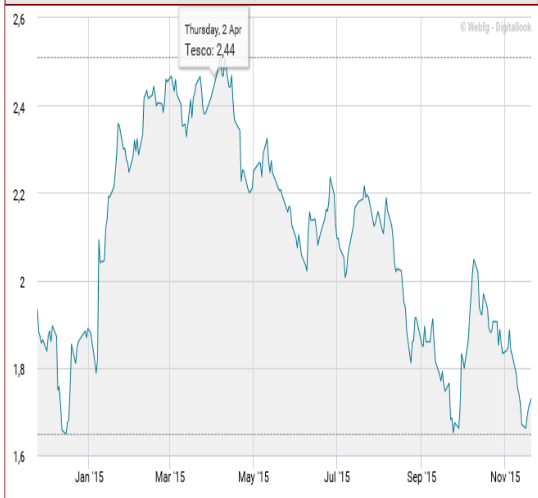


Malcolm Howard - our former Finance Director

The ready meal retailer, Cook, a minor retailer, is already an accredited member of the Living Wage Foundation. That will not worry the above companies, but the killer blow is that Lidl announced that from 1st October 2015 it will pay the official living wage and will increase its rates if they go up. Soon, they also will be another accredited member adding to the hundreds on the list. On top of this, suppliers report that they get a better deal from the two German companies, as these companies pay for what they have ordered and do not return unsold goods. All of which suggests there is a high level of inefficiency somewhere in UK retailers; maybe the result of bloated boardroom salaries and paying unaffordable dividends to keep investors quiet. Either way, lack of profitability, huge debt and the prospect of pressure to pay the living wage (note that all political parties support this) and you get the feeling that something will have to give; that something just might be the share price.

Malcolm Howard

Tesco - 12-month share-price graph



Recent Policy Activity

by Eric Chalker

Watching over smaller companies' accounting

This is a twofold task for UKSA. It began with the Financial Reporting Council's three year project to investigate how well and accurately smaller companies report to their members. Mark Gahagan was our representative in the first phase, now completed. I attended the meeting at which the FRC presented its first stage conclusions and felt obliged to criticise its failure to pay regard to the particular needs of private investors, who are probably the investors with greatest interest in small companies. Together with Mark and other policy team members, I also reviewed the FRC's published conclusions and found them wanting in several important respects which have been spelled out in our formal response.

The FRC has just started the second stage of its project on which it is too early to report, but we have also begun our own investigation into AIM companies' reporting. This was announced to members by email last month, inviting members to volunteer their assistance, since when four have done so. Led by Mark, the project will examine selected AIM companies' annual reports and publish UKSA's comments on our website. We will not be expressing an opinion on the suitability of any company as an investment, but we will say what we think of how these companies are reporting to their investors, giving praise or criticism as appropriate. We hope to highlight good practice and bad.

First up for examination are ASOS and Ithaca Energy, the first and last of Investors Chronicle AIM 100.

Lab project on dividend policy and capacity disclosure

This Financial Reporting Lab project, run by the FRC, is close to completing its work. Members were first informed about this in the May 2014 issue of this magazine, which mentioned our dissatisfaction with the terms of reference which we thought were too narrow. Our principal concern was that the project seemed unlikely to cover the extent to which companies' cash is used for share buybacks rather than – and sometimes to the prejudice of – dividends, on the pretext that this is just another form of profit distribution. Mohammed Amin ('Amin') was UKSA's representative on this occasion, but Roger Collinge also became involved as a member of the pension fund coalition in which he has long been prominent as UKSA's representative there.

When the draft report came out, all three of us were dissatisfied with what appeared about buybacks and I accordingly asked for stronger representation of our views and particular note to be taken of several constructive requests

that Amin had made. A revised draft appeared which, if anything, was even more unsatisfactory, so I prepared to challenge the report when it appeared in public. The subject of dividends is of acute interest to many private investors and it is an aspect of policy where our view may differ sharply from those who only invest other people's money, particularly over spending shareholder money on share buybacks for which the claimed benefit is usually very hard to see. Fortunately, I am pleased to say, a further, strong expression of our concerns did lead to a much better final draft which I am expecting soon to be made public.

Other contact with the Financial Reporting Council

From time to time we meet senior FRC staff members. Following a meeting with Stephen Haddrill, chief executive, in May 2011, we have been given many opportunities to attend events, contribute to its activities and make our opinions known. This has not yet led to much if any visible change in the aspects of corporate governance which most concern us, but we continue to press for these and our voice is being heard, most notably perhaps on the disenfranchised status of those using pooled nominee accounts. A year ago, at the FRC's annual open meeting, after I had mentioned that UK law does not recognise nominee accounts investors as shareholders having legal rights, the FRC chairman, Sir Win Bischoff, told me he didn't know that.

At this year's 'open' meeting I was accompanied by Amin, who asked what the FRC is doing to introduce a common format for online company reports – the answer being, effectively, not much (but there is an EU consultation running on this to which I hope we will be able to contribute).

At the beginning of October we were invited to participate in an FRC project to assess how well-run boards shape and embed culture in their organisations, with a view to promoting best practice. I am glad to report that UKSA member Sir Michael Darrington, who led the Greggs bakery chain for 24 years until his retirement in 2008, has volunteered for this, still in its preliminary stage.

We are regularly given opportunities to participate in Reporting Lab projects and other consultations, so I am constantly on the lookout for other volunteers to come forward to help us ensure that the independent voice of the private investor is heard to the fullest extent possible. If you have a particular interest, don't hesitate to tell me, directly or through the UKSA office. Although we have a much bigger policy team since I introduced the new structure outlined at this year's UKSA AGM, we could still do more if more came forward.

The Shareholder Voting Working Group

One consequence of my most recent meeting at the FRC was an introduction to the SVWG, yet another of the multiple bodies which exist in the (loosely termed) financial services industry. This is a *'multi-disciplinary team of individuals from across the UK voting chain, working together to identify, explore and document current issues with UK listed company voting processes and to suggest potential improvements'* established in 1999. Although a lot of the group's work is probably technical, I have expressed surprise that UKSA has not been invited to contribute in some way.

Nevertheless, having been given a copy of its latest, 68 page, report, on transparency of proxy voting, I found it necessary to send an email to the SVWG secretary (who is also a senior BP employee) detailing four factual errors in it concerning nominee accounts. At the same time, I complimented those responsible for the report which I described as '*impressive in the ground it covers and its careful description of the voting process.'*

My initial email was not acknowledged, but I wrote again with further comments and followed this with a 1,200 word letter detailing all the points I had raised, which was acknowledged. That was at the end of September, when the consultation closed, but I have yet to hear more.

The International Accounting Standards Board

Roger Collinge has established for UKSA a continuous, albeit critical working relationship with the IASB. Roger's 'Commentary' on an IASB member's explanation of that body's position on the accounting concept of 'prudence', published last July, can be found on the UKSA website. Now, after considerable study of the IASB's 'exposure draft' of its proposed 'conceptual framework', Roger has produced a 4,000 word critical assessment that has been submitted as UKSA's formal response. Martin White, a leading actuary working in the City and a past chairman of UKSA, has described this as '*a superb piece of work*.'

* * *

My report should give members some idea of the amount of policy activity now being carried on in their names. We strive to be representative in the views we express and we aim to speak out only on matters of concern to private investors generally – or on matters which would be of concern to them if they were aware of them. There is so much more we could do, if more would volunteer to contribute, but I am very grateful indeed to those whose names I have mentioned and others – particularly Peter Parry, who has a separate article in this issue – who also contribute.

Eric Chalker, Policy Director

Redx Pharma plc and Venture Life Group plc

By coincidence a single week in October brought visits to two interesting early-stage companies operating in different niches of the enormous Healthcare space. Both started in 2010, both are recent arrivals on AIM, both have tiny revenues and slightly less tiny costs, both are therefore more compelling as investment cases based on prospects rather than the past. Both CEOs presented and both were excellent.

Any chance of a UKSA-member discount?

Redx Pharma aims to capitalise on the trend for big pharma to rely on early-stage partnering to deliver a drug pipeline. Redx says (I quote) 'the evolution of structural biology and chemical modelling has again opened up rational approaches to small molecule drugs. Focussing on validated targets removes the risks of novel biology'. Redx claims to have produced best-in-class new drug candidates faster and cheaper than big pharma. Redx also emphasises its skill in 'progressing to value inflection points and striking deals at different stages of development'. In my language, they don't take a single drug through the total R&D process (the big pharma route) but try to pick intermediate entry and exit points on terms that maximise opportunity and minimise risk. The current pipeline consists of 13 programs at different stages of progression. Redx has sales of £6m and is capitalised at £64m.

Venture Life Group (VLG) operates in the space between food and pharma. It develops, commercialises and manufactures products for the ageing population. These are sold in pharmacies under the regulations for OTC sales and with the pharmacists' recommendation and can be medical devices, food supplements or dermo-cosmetics. VLG brands its products and distributes them through an international network of sales and marketing partners. It aims both to broaden its product base and extend its marketing deals to build up its revenues rapidly, using its existing operational gearing to translate revenue growth into profit growth. It is capitalised at £27m.

On both visits about 15 UKSA members received two hours of the Chief Executive's time, supported by other senior executives, with good opportunity for questions, and debate to form an investment conclusion. And a very good lunch.

John Hunter

Letters to the Editor

Dear Sir

The annual reports of AIM companies are of variable quality. The Financial Reporting Council is looking into this, but I want UKSA to bring its influence to bear on the subject too, with public comment on what is good, what is indifferent and what is downright bad.

I am pleased to announce that UKSA member Mark Gahagan has agreed to take the lead in a new project for us, in which selected AIM company annual reports will be assessed for the quality of their reporting to investors. We shall be looking at the clarity of information (text and visual appearance), what it covers and what it does not, whether any key or desirable information is missing and the extent to which the report does or does not give investors the information they are likely to need to form a judgement about the company. We shall give praise or criticism as appropriate, but we will not be expressing an opinion on the suitability of any company as an investment.

Mark has begun his work by looking at ASOS and Ithaca Energy, the top and bottom of the Investors Chronicle top 100 AIM shares last April. He could do with some help, though, so please let him know if you are interested. He would like suggestions as to which companies should receive his attention next (preferably from that top 100 list) and he would be glad to have other members giving him their thoughts on the annual reports we shall be examining.

Members can contact Mark directly on mark.a.gahagan@gmail.com. You can find information about him in *The Private Investor* of November 2014.

Eric Chalker

Dear Sir,

I would hate to do anything to blunt Malcolm Howard's frequent breaths of fresh air which enliven the pages of The Private Investor. But I really can't let him get away with some of the comments in his counter to Eric Chalker's article on the new strategy reporting regulations.

First I would gently tweak Malcolm by commenting that the fact that he himself understood corporate strategy as Business Planning Manager (which he claimed in his letter) is not a sufficient logical basis for deducing that all company directors do so. He seems to think that one follows from the other. I might, if feeling unkind, say that if he as BPM was 'responsible for strategy' as

he says, that suggests that the directors felt that they weren't, which rather disproves his point.

Moving on, Malcolm states that there are only two business strategies: 'pile it high and sell it cheap' or 'develop premium products and accordingly premium price'. This just isn't true, though I suppose it might be true for simple businesses with a narrow product range operating in one country and with no ambition to become anything different from what they are. I'm not sure the contra-argument needs spelling out, though Malcolm is welcome, if he likes, to describe how either of his strategies could be useful as a complete strategy statement for any FTSE100 company.

Finally Malcolm opines that the new Companies Act regulations requiring main-market companies to spell out their business strategies are a complete waste of time. 'They will all say the same – that they intend to be the best followed by pages of gobbledegook'. I sympathise with this view, and with his later comment that businesses will reveal as little as possible for commercial reasons; indeed that is precisely the circumstance that Eric has identified (though he expresses it less colourfully). But that is a consequence of the regulations and guidance (as drafted by the Financial Reporting Council), which allow companies to get away with it.

The owners of a business have a right to be told what the managers of that business are trying to do and how they plan to do it. UKSA's complaint, which we will be pursuing, is that a regulation designed to ensure that directors do have a strategy for the business – the premise surely being that in the past directors have been found wanting in this respect – has been obfuscated rather than clarified by FRC "guidance".

John Hunter

Dear Sir

Please pass on my thanks to your contributor, Roy Colbran, for his article on the new Dividend Tax and particularly for signposting the HMRC factsheet on the subject. His article and the factsheet both very useful to me. Keep up the good work!

Anthony Weston Smith

The Importance of Training and Development for Non-Executive Directors

by Oliver Parry, Institute of Directors

It is hugely surprising to me that within our complex and regulated economy, almost anyone over the age of 16 can become the director of an organisation with no preparation or training whatsoever.

This freedom may be the hallmark of a free economy but it shouldn't mean a directorship can be entered into without a full and clear understanding of the responsibilities that the role demands of the post-holder.

The reasons why more directors aren't trained before they set foot in a boardroom are probably many and varied, from lack of awareness that training is available, to not fully appreciating the complexity of their new role and the legal and regulatory requirements inherent within it. There may be an element of ego attached as well - having reached the exalted heights of sitting in the black chair, who needs training?

But no one should be under any illusion about the challenges executive directors now face having to juggle operational responsibilities with the need for ensuring proper corporate governance across their organisations. The latter requires (among other things) a general overview of its operational activities, an understanding of the exposure to risk, and the identification of the strategic direction of a company.

It is not an easy task, particularly with the ever-growing diversity of large organisations, which makes full and proper oversight extremely difficult. It was the failure of governance procedures in a number of multi-national financial institutions that lead to the banking crisis, as highlighted in the Walker Report and which in turn led to revisions to the UK Corporate Governance Code in 2010, 2012 and most recently in 2014.

The IoD runs one of the few dedicated professional director development programmes in the UK. Delegates who complete both the programme and associated exams achieve the status of Chartered Director. Around 6,000 course places are filled every year, not just in the UK but also overseas supported by local training partners. It’s interesting to see how Western values and corporate governance principles can be applied to very different cultures to support business growth in emergent markets. Companies from across the world, including parts of Asia, Russia, Continental Europe and the Middle East, have come to the IoD to train their directors to understand their

fiduciary duties and governance best practice. Indeed, understanding these are relevant to both private and, in some countries, state-owned companies, and ultimately should improve international investor confidence.

The work of the IoD's training team aims to help overcome the limitations imposed by existing offerings of corporate governance best practices, as well as provide support and training techniques and tools for directors across the globe, thereby hopefully helping to create new opportunities for British businesses overseas.

Oliver Parry is Senior Corporate Governance Adviser, Institute of Directors

The IoD offers courses ranging from the director's role in strategy and marketing all through to the role of the director and the board. Most importantly, we offer a course on finance for non-financial Directors.

Although chartered directors do make up a small minority of NED positions in UK plc and beyond, the majority have no finance related degree and therefore it becomes important, if not imperative, that there is some deep understanding of finance, reporting and accounting. This course provides vital knowledge of the financial terms and concepts needed by all directors in today's business world. Whilst in no way a panacea, one cannot help but espouse the benefits of such training. And yet, as I've already mentioned, there is no requirement for NEDs to have minimum training. It is hard to say if such training and
development might have helped NEDs during the financial crisis, but it most certainly would have had some benefit.

However, legislation, regulation and codes of best practice can only go so far in shaping behaviour inside the boardroom. Of greater importance is the presence on boards of able and motivated directors with a detailed understanding of their distinctive role.

One way to take the guesswork (and any concerns about egos) out of how a board might operate better and/or might benefit from particular skills or experience is through a board evaluation. This can not only identify what the board is doing well and target areas for improvement, but also serve to identify gaps in the board's knowledge when looking to expand, train, or refresh the board.

Many new directors, however, are given precious little opportunity to learn about their roles before joining a board. For some, this can lead to a lack of confidence in speaking up about concerns for fear of ‘saying the wrong thing' - something that can be tackled with an effective board induction.

All board members must also apply critical and independent thought to the challenges they face, avoiding where possible the perils and limitations inherent in ‘group think' that may mean decisions are insufficiently thought through. One way to avoid this is through diversity, for example in terms of members' gender, ages or backgrounds.

Most organisations, however, still follow traditional paths of recruiting onto their board via the ranks of management, and this can lead to a very homogenous group. The appointment of a non-executive director from an entirely different background, which can neatly address this issue, is often dismissed as ‘too left field' because of the perceived requirement for executive experience. But any shortfall in a candidate's experience can, at least in part, be plugged through proper training.

The value of high quality professional development for directors, we believe, should be considered an essential component in equipping first-time directors, and indeed be a requirement for established directors, ensuring they are up to date on the political, social and the ever changing business landscape.

Oliver Parry

Mr Parry’s article coincides with the long-awaited report on HBOS which was of course released last week. Not the least germane aspect of his definitive views on the subject is reflected in the sorry tale of the non-executive directors of the once and former would-be banking colossus.

Many thousands of words have been and no doubt will be addressed to the story of the collapse; a very high-profile target is that of the non-executive chairman Lord Stevenson it being witheringly pointed out (albeit to be fair, with hindsight) that (and this is something he shared astonishingly with his chief executive) he had no background in banking. However, my favourite story is anecdotal and I didn’t see any mention of it last week - that of an unnamed former non-exec of HBOS who heatedly told the board of enquiry that in terms of good judgement, gravitas and good fellowship he had never sat in a boardroom the likes of HBOS. Mr Parry has much to do.

Bill Johnston

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 8680 5872 or email harrycb@gmail.com

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 834 486 or 07712 591 032 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.

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 834 486 or 07712 591 032 or petertwilson@dsl.pipex.com

SCOTLAND

Volunteers sought

NORTH-WEST

Paul Waring 07754 725 493 or paul@xk7.net

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 Julian Mole at Julian.mole@btinternet.com or Brian Peart, 01388 488419.

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.

Pearson plc	London	Friday, 27th November 2015 - 11:30pm	**presentation**	Nick Steiner 020 8874 0977 **n.steiner @btinternet.com**
Regional meeting	Knaresborough	Saturday, 28th November 2015 - 10:00am	**meeting**	Julian Mole **julian.mole @btinternet.com**
Vodafone Group plc	London	Thursday, 22nd October 2015 - 12:15pm	**presentation**	Nick Steiner 020 8874 0977 **n.steiner @btinternet.com**
UKSA South West Christmas meeting	Didmarton	Tuesday, 1st December 2015 - 10:00am	**Discussion and Lunch £20**	Peter Wilson **petertwilson @dsl.pipes.com**
Balfour Beatty plc	London	Tuesday, 1st December 2015 - 11:00am	**presentation**	Phil Clarke 01689 834479 **pjejclarke @tiscali.co.uk**
McKay Securities plc	London	Wednesday, 2nd December 2015 - 11:00am	**presentation**	Harry Braund 020 88680 5872 **harrybraund @yahoo.co.uk**
Young and Co.'s Brewery plc	London	Tuesday, 8th December 2015 - 11:00am	**presentation**	Nick Steiner 020 8874 0977 **n.steiner @btinternet.com**
Xmas Dinner	York	Tuesday, 8th December 2015—12:00pm	**Christmas Dinner**	Julian Mole **julian.mole@ btinternet.com**