UKSA
UK Shareholders' Association

What do auditors do all day?

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The strategic report – FRC guidance

The Private Investor

Chairman's Comment

The end of an era this month. As those with e-mail will already know (see page 3), Bill Johnston steps down as editor and Helen Gibbons steps up to add to her already considerable portfolio of responsibilities. An appreciation of Bill by Charles Breese appears on page 3. From my much shorter acquaintance it is easy to echo Charles' comments on Bill's extraordinary insight, always expressed with a winning and self-deprecating humour. He was also a joy to work with.

Until reading Charles' note I had not known about Bill's background in helping build an AIM analysis website in the 2000s. As it happens I relied on it totally when building an AIM portfolio for my mother-in-law, which in due course passed to my wife. I now realise I owe him a lot of money, but hope he will accept a good dinner in lieu if we ever get in the same country together.

Not a good month for UKSA's interests. When Theresa May became Prime Minister her first major speech was on corporate governance – the inefficiencies of the current system, the inequities of executive pay, the resulting economic damage and social division. Action was promised.

A Green Paper followed, full of suggestions for progress. The consultation phase generated enormous response, UKSA and ShareSoc submitted a joint response of several thousand words with a range of ideas, repeating many of those that have been current for at least the 10 years since Lord Myners coined the phrase 'ownerless corporations'. The possibility of real change was in the air. The government's intentions in response to the Green Paper were published in August. 'Cop-out' is the word that springs to mind. The desire to do nothing at all for a while in view of the enormous pressures of pending-Brexit would have been a defensible position; closing the door on obvious possibilities for improvement was not.

Looking on the bright side, the head-in-sand approach to executive pay will make it that much easier to kick into open goals as some of the more egregious long-term incentive plans (not included in the pay figures until they vest) unwind in the next few years. Peter Parry's thoughts are on page 4.

Let us cheer ourselves up with a hint of a more informed future (see the news on Henley Business School on page 3). Good luck!

John Hunter
Chairman

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Note that the share-price graphs are courtesy of leading investment website Digital Look www.digitallook.com.

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In this issue…

Changes at The Private Investor

The note below was sent to members by e-mail on 2 September:

For some time now Bill Johnston has been producing and editing TPI under some difficulty due to health problems. You may have noticed the absence of his usual trenchant and amusing material. He has now decided it is time to step down as editor.

I am extremely pleased that Helen Gibbons has agreed to take over with immediate effect. She has produced and edited this edition, which includes a full appreciation of Bill. Helen's first thoughts are below.

John Hunter, Chairman

"I'm very pleased to have an opportunity to continue Bill Johnston's fine work on The Private Investor. Bill has built up a loyal following over the years and has given TPI an engaging and challenging style. I very much hope he will still be able to write for TPI from time to time. My aim is to preserve the essential character and gradually add new elements such as more company meeting reports, social media highlights, more international coverage of shareholder rights, news from London and other regional groups as well as regular guest columns of the kind recently introduced with Proactive Investors. I'd also like to include news from other groups such as ShareSoc and ShareAction. I want to make sure the magazine works for readers both on screen and in hard copy. Your feedback will be most welcome. Please feel free to call or e-mail me at any time.

Helen Gibbons, Europe & Media Director

Henley Business School

John Hunter recently fulfilled a promise to address a 60-strong BA class in accounting and business at Henley Business School at the invitation of UKSA member Posi Olatubosun. Posi is a lecturer at Henley, researching in environmental, social and governance issues in the UK. He wanted the class to hear from John directly about UKSA and will require eight members of the class to join in order to participate in company visits; he is expecting many more when we repeat in March next year. There could be great opportunities here.

The Strategic Report - something to get you thinking

by Peter Parry

Once again Ian McDonald Wood of Future Value has contributed a thoughtful article (below) based on his regular blog. This time he discusses the changes and amendments that the FRC has included in its revised guidance to companies when drafting the Strategic Report. The FRC has asked for comments and feedback on its proposals. The revised guidance can be found by going to: https://tinyurl.com/ybguytf9

This takes you to a link: Staff Draft Guidance on Strategic Report which when you click on it will open a PDF copy of the draft guidance. It is helpfully marked up showing all the proposed amendments. The draft guidance raises many issues, some of the most important of which Ian has picked up in his article. UKSA will be submitting a response to the consultation which is likely to echo many of Ian's thoughts and add to them. In formulating our response it would be good to receive the views and comments of as many UKSA members as possible. Please do send any feedback to officeatuksa@gmail.com. The closing date for submissions to the FRC is 24 October 2017, so we shall need your comments by at least 17 October.

It is easy to be critical of some of the outputs from the FRC. However, there can be little doubt that as part of its work the FRC is often shining a light on reporting issues that should have been reviewed a long time ago. The mere fact that the Regulator is prompting an open debate, consulting stakeholders and asking investors for their views and comments are reasons for us to support and applaud the FRC and its work while also providing constructive criticism.

An untimely excess of reporting guidance

by Ian McDonald Wood

A belated consultation on extensive changes to the Strategic Report just launched will make life difficult for all the reporting companies with 31/12 year-ends, creating twin challenges of timing and scope. Did it really all have to happen like this in an unseemly hurried rush?

The FRC has just published draft guidance on revisions to the Strategic Report and launched a consultation inviting comment by 24 October. The primary reason for the guidance is to address the incorporation of the EU Directive on Non-financial reporting into the Strategic Report. Companies with 31/12/2017 year-ends will be the first to apply the changes. There are two challenges here.

The first challenge is a matter of timing. The underlying statutory reporting requirements on which the guidance is based first applies to companies with year-ends on 31 December 2017. Over 60% of FTSE350 reporting companies at least will be hanging on for the final guidance. So, there will follow an unseemly rush in November to assimilate the consultation replies, assess them and incorporate consequent changes into the final guidance before the end of November. And in the scramble how good will that final guidance be?

The second challenge is a matter of scope. FRC has added an extra degree of difficulty to the process by deciding in the same draft guidance to make substantial revisions to the content of the Strategic Report that go beyond the requirements of the EU directive. These additional changes are intended to remedy shortcomings in the original 2013 guidance. They also address FRC's belated realisation that reporting is the means with which Directors should demonstrate that they are promoting the success of their companies as defined in Section 172 of the Companies Act.

Some of the additions in the Guidance are to be applauded. The regulator is using the EU directive as the means to make the content of the strategic report more accurately reflective of its title and more demonstrably 'strategic'. And, looking at this draft guidance with a strategist's eye, this amounts to a significant improvement on the 2013 guidance. However, the new draft still demonstrates a lack of intuitive understanding of strategy by those within the FRC charged with making the revisions and with writing the guidance.

On the plus side FRC is asking Boards to take a longer term and holistic view of their businesses. The guidance is also putting some emphasis on intangibles, hidden assets and other resources that have been expensed off the balance sheet. There is the addition of 'purpose'. FRC has also added 'position'. The regulator at last sees the business model as having primarily strategic value and not optionally as some explanation of an entity's operational processes. The guidance additionally talks about alignment. It also asks companies to address sources of value. These are all positive additions from the strategist's perspective.

But, despite the positives, the guidance does not build the structure of a simple, logical strategy framework that will convey instinctive meaning about long term value to shareholders. In adding 'purpose' the guidance explicitly drops 'objectives'. 'Purpose' is the constant that tells investors why an entity exists. 'Mission' should then add strategic direction to 'purpose', while 'objectives' are the measurable outcomes along the way. So, why aren't 'objectives' essential still in FRC's estimation? 'Position' to the strategist is key, but FRC offers no definition of what it means here, leaving it open to misinterpretation. FRC may now see 'business model' as more strategic than operational, but it still does not see the model as the fundamental determinant of an entity's strategy and the setting of its objectives. In fact, the guidance now bizarrely describes objectives as the consequence of purpose. Intangibles are also about more than just relationships.

The strategy framework proposed by the FRC's guidance simply doesn't hang together. And if strategists cannot follow the strategic logic, then neither will investors looking to improve their sense of certainty about the future potential of a business.

And how will the new guidance and its precursory consultation go down with FRC's various stakeholders? A large proportion of reporting entities will start working on their 2017 Strategic Reports long before the consultation responses are due in. So, they are unlikely to see the FRC's actions and timing here in a positive light. As for investors, the added scope and additional material is more likely to add confusion than clarity. It will probably only be the wider groups of stakeholders who will welcome the changes, largely due to the inclusion of non-financial aspects covering social and environmental dimensions.

The reality is that the FRC is using the EU directive and its incorporation into UK legislation as some sort of trojan horse to conceal other quite complex changes – although there are no gifts for anyone here. FRC says that its "*aim is to encourage companies to be innovative in this space [….]*". 'Innovative reporting' is an oxymoron to virtually all FTSE350 companies. Most are constantly looking to see what others have done before introducing any reporting change. And since few companies have yet to produce truly useful strategic reports, these relatively far-reaching revisions will challenge most companies yet further.

If FRC can't provide more directive guidance that gives reporting companies a simple, logical framework to adopt and follow, then we will continue to see an abundance of mediocre, design-led, content-weak, uninformative Strategic Reports that are of limited value to investors. Giving clear direction does not amount to being prescriptive.

Executive Pay: the Government's blind eye

by John Hunter

Peter Parry reports elsewhere on the disappointingly tepid outcome to the government's consultation on corporate governance reform. From the point of view of UKSA's parochial interests the complete lack of progress on 'ownerless corporations' is the most disappointing. But the question of executive pay has more general significance for the public.

We are social animals as well as economic ones. The widening pay gap between the rich and the poor is beginning to inflict social damage. The 'runaway remuneration train' – to borrow the phrase of a prominent FT columnist – is a major factor. Government should lead, but in its executive pay proposals has spectacularly failed to do so. In the words of the same columnist: 'The proposal to hang out a few flags in the hope they will slow [the train] is risible.'

This article is my attempt, on behalf of UKSA members, to fight for something better.

Let me remind you of the way senior executive pay is set. A remuneration consultant is retained, paid for by the company, his appointment heavily influenced by the executives concerned. The consultant makes a report to the remuneration committee of sufficient complexity (that's what he's paid for) to confuse the committee, which is anyway composed of other passengers on the runaway train. The pay structure recommended will not show any evidence of knowledge of the academic research into effective incentives. The committee produces a 20-page remuneration report for the shareholders - according to governance guidelines and therefore impenetrable.

The shareholders – predominately conflicted intermediaries such as fund and nominee account managers – vote each year on the report (not on the awards specifically, just the report on the awards). This vote is non-binding, therefore useless. However, every three years shareholders have a binding vote on the remuneration *policy* (i.e. not the actual pay). This will have been written by lawyers and will take three pages to say that everyone is paid extremely carefully with lots of oversight, lots of external comparisons and lots of attention to special interests who would otherwise complain (environmental, social, employees). If it fails to pass at AGM the lawyers will be fired and a new set employed to write a better policy statement. It will take another three years for them to be fired, if necessary. The effect on actual pay? Zero.

In short, executives set their own pay. And it corrupts honest and talented men and women (because that's what most executives are) into believing they are worth the ridiculous amounts that emerge once compound interest has done its work. The process is one of which Jacob Zuma would be proud; and diminishes respect for executives, both individually and as a class.

And there's an easy solution (well, not actually a solution but an essential first step). That is for senior executive remuneration contracts, and any discretionary awards under those contracts, to be approved by shareholders. The reason this perfectly obvious measure has not been taken is that government will have been under enormous lobbying pressure to retain the status quo. In particular they will have been advised that it is 'impossible' (I have seen the word used). Well, I had a career in the corporate world and I can tell you that getting these sorts of things done in a quoted company is an everyday skill. Any company secretary who suggested that this was 'impossible' would quite rightly be fired.

Distance lends perspective. UKSA was formed in the early 90s on the back of public outrage at the pay increases of utility company chairmen following privatisation – the argument being that able, even outstanding, civil servants had been magically transformed into corporate titans. In the case of Cedric Brown, Chairman of British Gas and poster man for this movement, this meant an increase from £275,000 to £475,000. These would be £450,000 and £800,000 in today's money. The average FTSE100 CEO today makes £5m. The CEO of Centrica (successor to British Gas) made £4.2m in 2016. Now, whatever the merits of these gentlemen, it is hard to believe that the economic imperatives have altered enough in the last 25 years to justify a 5-10 times multiplier (depending on which starting number you think is reasonable) in what they are worth.

One has some sympathy with the government – caught as it is in the headlights of another runaway train, the Brexit negotiations – and therefore unwilling to make any move in any direction on any other issue. But its insouciant lack of attention to this pressing social issue is shameful.

An appreciation of Bill and Kateřina Johnston

by Charles Breese

Bill Johnston and I met around 2000, a time when the dot com bubble had burst. The cause of our meeting was that we had independently realised that the internet could be harnessed to significantly improve the flow of data to private investors, thereby assisting the levelling of the playing field as between private and institutional investors. We had each set up a website covering the Alternative Investment Market (AIM) because we both realised that wealth creation starts with smallcaps and, because of capital market inefficiency in relation to smallcaps, AIM provides an exceptional opportunity for the well-informed private investor to make above-average returns.

Bill and I came at investing from complementary standpoints inasmuch as I am a very long-term investor whilst Bill enjoyed commenting on companies but didn't actually invest. What he brought to his commentary was a very dour Scottish eye able to look through the superficiality which pervades so many AIM companies. In addition, he wrote in a pithy and entertaining manner which, I am sure, many TPI readers will have enjoyed over the years!

Bill has enormous intellectual energy, evidenced not only in his prodigious output of company commentaries but also in his remarkable perception of how to use the internet to provide a time-efficient tool to enable investors to quickly scour his website to find companies of the profile which they were targeting by introducing a Company Grading Key. This facility continues to be available on my website (www.smartcoresearch.com) today; its benefit with regard to my Investment Template is that it cuts down the AIM universe of c.1,000 companies to around 60 companies. The imagination required of Bill to envision this and then to implement it was remarkable.

When Bill was looking for additional editorial work, I had no hesitation in introducing him to UKSA to edit TPI. This role also illustrated the wonders of the internet, because he was able to continue doing this role, with valuable support from his wife Kateřina, even after he moved to Czechoslovakia.

Editor's note: readers who would like to be registered to use the site should e-mail Charles Breese at charles.breese@larpentnewton.com.

Interest rate rise ahead but sustainable dividends still the better bet

by John Harrington

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With interest rates looking like they are likely to go up before the end of the year, income stocks might come under a bit of pressure. Let's not kid ourselves, though; returns offered by savings accounts are unlikely to get people salivating, even if the Old Lady of Threadneedle Street ups the reference rate by half a point.

Better returns are available in equities, though the problem with dividends is that they are not guaranteed. If you are a real risk-averse income investor, then dividend cover – earnings per share divided by dividend per share – of two or more is a good level to aim for.

You'll find just 51 FTSE 100 companies have dividend cover of two or more based on forecast earnings; only 149 FTSE 350 companies meet the criteria.

Reinvested dividends have accounted for around two-thirds of total returns from the FTSE All Share index over the past 30 years, so the argument for having a high proportion of dividend payers in the portfolio is a strong one.

Some people will still like the prospect of a bit of sizzle, however, which was why we set up the "**Aim sustainable dividends portfolio**", to identify growth stocks (though the terms "Aim-listed" and "growth stock" are not necessarily synonymous) that are paying dividends, and likely to go on doing so.

Portfolio is showing a small profit and outperforming the FTSE 100

Created in April of this year the portfolio is showing a small profit – and that's even after factoring in dealing costs and bid/offer spreads - whereas the FTSE 100 over the same period is down 0.7%. There are just three stocks in the portfolio, because the criteria for inclusion are fairly demanding, and in fact only one of them – **Zytronic** PLC (**LON:ZYT**) - is showing a profit, but it's an impressive 37% gain that has more than offset the thus-far disappointing performance of **James Halstead PLC** (**LON:JHD**) and **Miton Group PLC** (**LON:MGR**).

Halstead is a manufacturer of flooring products, so its shares have been affected by the slow-down in the housing market.

Miton is an investment management company focused, appropriately enough, on small companies that pay sustainable dividends. It had a bit of a summer slump but the shares have been picking up recently; it rose 2.7% today on the back of some well-received half-year results. Assets under management rose to £3,354mln at the end of June from £2,542mln a year earlier, but had dipped to £3,490mln by the end of August. Adjusted profit before tax declined to £2.9mln from £5.1mln the previous year, and trading for the full year is expected to be at least in line with current market expectations. The group does not pay interim dividends but with cash of £18.2mln, and last year's dividend soaking up just £1.5mln, the dividend looks set to be at least maintained, and hopefully improved.

Halstead will report its full-year results on 2 October, at which point we will review whether it deserves to stay in the portfolio.

The software screen will be the ultimate arbiter but it is tempting sometimes to override the machine and seize on a dividend company that catches the eye, particularly as there was nothing this month that cropped up on the stock filter that was worthy of consideration.

Bowled over by one stock

One stock to attract my notice was **Ten Entertainment Group PLC** (**LON:TEG**), the ten-pin bowling alleys operator, which recently surprised the market by announcing a dividend of 3p in its first set of interim results as a public company. That's certainly a good start, and it seemed to catch broker Numis Securities on the hop.

READ Ten Entertainment's current trading picks up as wet weather drives leisure seekers indoors

Numis increased its forecast for the full-year dividend to 9.7p; if it proves to be on the money, the shares are yielding 4.9%. It is not always wise to go for the biggest yielders, however, so we'll have to see whether Ten Entertainment has what it takes to tick the other boxes required for inclusion in the 'Aim sustainable dividends portfolio'.

In the meantime, here's a quick check on how the portfolio is doing:

Company	Number of shares	Total cost	Average price per share	Current bid price	Current value	Profit/loss (£)	Profit/loss (%)
James Halstead	195	£998	511.69p	425.5p	£830	-£168	-17%
Miton Group	2,240	£1,000	44.67p	40p	£896	-£105	-10%
Zytronic	229	£1,000	436.55p	590p	£1,351	£351	+35%

- Cash: £6,940
- Market value of current holdings: £3,076
- Market value (including cash): £10,017
- Unrealised profit on current positions: +£79
- Dividends received: £44
- Profit/loss from closed positions: -£105
- Total realised profit/loss + dividends: -£61

Lost share certificates – update

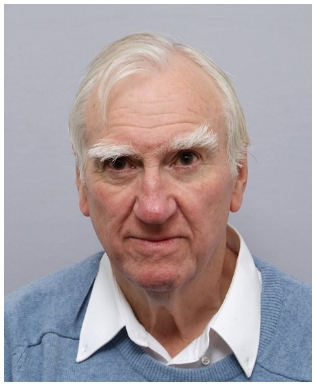
We have reported previously on the battle waged against Capita Registrars by shareholders Deryn and Derek Hemment, who owned £1.5 million of Compass shares. They faced an attempted charge of £25,000 by to indemnify against the consequences of a lost share certificate. The certificate had been mailed to Capita so that a small part-sale could be made. The balance certificate had been returned by regular mail and had been lost.

The story has a happy ending. After a two-year battle the Hemments resorted to the Small Claims Court, which found in their favour, citing negligence by the registrar.

Charging for unnecessary indemnities is a standard piece of gouging by registrars. A past survey of UKSA members revealed a number of examples. Such certificates are no longer legal proof of ownership and if fraudulently presented as such would be exposed by the electronic ownership records which the registrar operates.

What do auditors do all day?

by Malcolm Howard



On 24 August 2016, Carillion plc announced that their Finance Director, Richard Adam, had decided to retire as he approached his 60th birthday. He would leave the company at the end of the year. Whenever a Finance Director suddenly resigns, it is possible that the resignation is not for the reason given. If the announcement had said that Mr Adam would be 60 before the year end, then it would be more convincing. The real reason *may be* that he was unhappy and was unwilling to sign off the 2016 accounts as things stood. We have no evidence that this is the case and have to accept the reason given, but as investors we must retain the right to be suspicious. At the end of August that year the company's shares were trading at 272p.

On 1 January the company appointed Zafar Khan to be the new Finance Director succeeding Richard Adam. On 1 March 2017 the 2016 accounts were signed off by the new Finance Director, but clearly he cannot be responsible for them. KPMG LLP, the statutory auditor, carried out the audit of the accounts shown in the 2016 Annual Report, charging the company £1.4 million. This was broken down as £300,000 for the audit of the annual accounts, £900,000 for the audit of the company's subsidiaries, £100,000 for the audit of the company's pension scheme and £100,000 for the audit of joint ventures.

In their audit report KPMG stated that their audit accounted for 87% of Group revenue and 89% of Group profit before tax. This suggests that the majority of accounting transactions had been audited, which seems comprehensive. They also said that components subject to specific risk accounted for 8% of Group revenue. By specific risk they can only mean that they were looking at contracts to verify their validity. Their audit report states that for the Group as a whole an error in excess of £8 million would be regarded as material. In other words, if they found (for example) that inventories had been overstated by £5 million, they would not regard this as material given the overall size of the company. The audit report reads, "*For the remaining components (excluding the 8%, as above) we performed analysis at Group level to re-examine our assessment that there were no significant risks of material misstatement within them. Our opinion is that we have not identified material misstatements in those reports.*"

In their report, the directors restated that the Group had a progressive dividend policy which aims to increase the dividend each year broadly in line with the growth in underlying earnings per share. Given in 2016 the EPS was shown as 28.9p, slightly lower than 30.9p in 2015, shareholders could expect roughly an unchanged dividend.

Analysis of the accounts (below) reveals that there could be problems. Cash Inflow from Operating Activities should be higher than earnings because earnings are arrived at after charging non-cash items such as depreciation and amortisation. When the 'prime check' is negative, as in this case, there is a problem with either inventories, debtors, or the company pension scheme, or indeed all three could be a problem.

Revenue was split 52% support services, 6% public private partnership projects, 13% Middle East construction and 29% construction excluding the Middle East. Geographically, 74% of the business was in the UK, 11% was in Canada and 15% was in the Middle East and North Africa.

Analysis of the Cash Flow Statement shows that the company's pension scheme is a major problem, with £47m paid into it in 2016 and 2015. £46m was paid in 2014 and £39m in 2013. In 2016, debtors were up £291m and £35m was lost on foreign exchange contracts.

	2016	2015	2014	2013
	£m	£m	£m	£m
Revenue	4,395	3,951	3,494	3,333
Operating profit	181	207	190	150
Earnings	130	139	128	106
Cash inflow from operating activities	73	73	124	(78)
Prime check	(57)	(66)	(4)	(184)
Inventory days	7	7	6	6
Debtor days	138	117	138	133
Net debt per share (pence)	43	39	47	53

Any accountant looking at these figures would conclude that given the pension scheme had been audited and the problem therefore understood, the only potential concerns would be debtors and increasing debt. Given this, I would expect the auditor to be more concerned with specific risk, that being ensuring outstanding contracts were on target.

On 30 June 2017, the company announced that Baroness Sally Morgan was appointed a non-executive director with effect from 1 July 2017 to serve on the Audit, Remuneration, Nomination and Sustainability and Business Integrity Committee. Five days later the shares were trading at 189p. However, it wasn't long before she must have wondered what she had signed up to, when on 10 July 2017, just over four months after the 2016 annual accounts were signed off, the company dropped a bombshell. The Board said that it had come to their attention that there were major problems with some contracts with the result that they were making £845m worth of provisions, having carried out an initial review. This provision was over one hundred times greater than the auditor's definition of materiality. The company appointed Keith Cochrane as Interim Chief Executive, presumably believing he could work with the new Finance Director, given that he was previously a Finance Director with the Weir Group. The share price collapsed to 78p.

On 17 July 2017, EY was appointed to carry out a strategic review; on this news the share price fell to 64p.

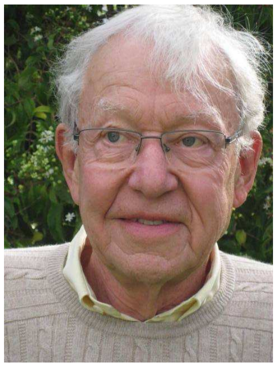
On 22 August 2017, the company disclosed its interim results, where details of the £845m provision were provided. This provision related to the Middle East, exiting the construction market in Canada and certain construction markets in the UK. The enhanced contracts review had been completed and lessons had been learnt. Fifty per cent of operations in Oman had been sold and more sales were in the pipeline. Because of all this, there would be no dividend in 2017 and the Board would review dividend policy in 2018. Zafah Khan, the Finance Director, said his priorities were to reduce debt and increase financial reporting transparency. The full interim statement would be issued on 29 September 2017. The shares fell to 48p.

Now given that the auditors charged a fee of £1.4m to audit the 2016 accounts, you would have thought they, at least, would have foreseen some of the impending disaster. One has to ask what they do all day.

What has happened is completely unacceptable. Auditors should be held to account. Internal audit papers held by the auditors (not by the company) should be published, so we can find out what had been happening behind the scenes. We are supposed to have a Financial Conduct Authority; maybe shareholders should be advised what this organisation actually does. Now, in case you are wondering if this is personal, you can be assured it is not; I never invest in any company that fails my 'prime test' for three consecutive accounting periods. I don't rely on audit reports, but feel very sorry for shareholders that do. It really is time for shareholders to fight back.

Investment trust performance

by Roy Colbran



Further to the series of articles on investment trusts that George Miller and I produced it has been suggested that it could be useful for readers to see some performance figures. (By the way, the articles are still available on the UKSA website at http://www.uksa.org.uk/education/other). The following figures are all taken directly from the website of the Association of Investment Companies, where far more detailed information is available including returns by share price. I have used net asset value ("NAV") returns because these are the results achieved directly by the manager, whereas share price returns are affected by movements in the discounts, outside of the managers' control.

The trusts chosen are the ones that we illustrated in the third of our articles. They were chosen purely as an attempt to give a selection of various types of trusts and there is no particular significance in the inclusion or exclusion of any trust. And of course one has to say that past performance must never be taken as a guide to the future.

Also included in the table are corresponding figures for three indices that may be considered relevant. I think we can claim that the figures generally bear out our contention that investment trusts do perform despite all the doubts as to whether active management is worthwhile. Don't forget NAV returns show what has been achieved after all costs.

Writing this on the last weekend before the copy date for this issue of Private Investor, I note that RIT Capital Partners is quoted in the FT as standing at a premium of 7.8%. This is despite what seems to have been a relatively indifferent performance. Caledonia, on the other hand, stands at a discount of 15.4%. Scottish Mortgage can be seen to have continued its outstanding performance and stands at a premium of just 1.3%. City of London, by comparison, stands at a premium of 2.2%. I can only suggest that the illogicality of discounts gives something of which private investors can take advantage.

NAV Total return to 31 August 2017				
Trust	**1 year**	**3 years**	**5 years**	**10 years**
Foreign & Colonial	21.1	58.9	110.3	138.4
City of London	10.3	27.2	75.1	100.8
Bankers	23.9	56.2	110.6	138.0
Alliance Trust	23.3	57.2	97.6	124.4
Scottish Mortgage	41.4	94.9	211.2	275.2
Witan	22.5	53.8	119.6	152.2
Law Debenture	20.7	29.9	81.2	139.1
Caledonia	14.2	40.1	91.5	87.7
European	31.6	37.2	97.5	53.5
Herald	28.6	61.5	105.9	198.7
RIT Capital Partners*	15.0	52.0	82.8	99.8
TR Property	10.8	58.6	142.2	121.5
FTSE All Share	14.3	24.8	63.7	79.2
FTSE World	19.4	54.5	110.3	154.0
MSCI World	18.1	53.2	108.7	142.4

* Share price return – NAV figures not provided

The People's Trust

For some time UKSA has been taking a close interest in the creation of The People's Trust, a new investment trust whose purpose is to deliver better returns to investors and have a better impact on society. The May issue of TPI (188) carried an article written by Daniel Godfrey, Co-Founder of the Trust.

The People's Trust has now been accepted as a Member of the Social Stock Exchange. It intends to list its shares on the Social Stock Exchange simultaneously with a Premium Listing on the Main Board of the London Stock Exchange on 17 October.

Daniel Godfrey

Commenting on the launch, Daniel Godfrey said: "Most people think that investing isn't for them. We intend to change that and our partnership with the Social Stock Exchange reflects our assertion that the purpose of investment is sustainable wealth creation and not the dominant industry business model, whose success depends on short-term relative returns."

"Successful, sustainable wealth creation delivers above-inflation returns that compound beautifully over time for investors, but it also funds better jobs, more innovation and environmental protection. For society, it's the only way to build the productivity and GDP growth that underpins better education, infrastructure and the welfare state."

"By contrast, focus on short-term relative returns incentivises and pressurises companies to chop down the trees in their orchard because the value of the wood is worth more than the value of this year's apple harvest. Investors and society, by contrast, want and need more trees."

Full details can be found at www.thepeoplestrust.co.uk

Comment from John Hunter:

It's good to see that Peter Parry has been appointed as a member of The People's Trust's Shareholder Committee.

Readers will recall that in its proposals following the corporate governance consultations, the Government dismissed the concept of shareholder committees in general and ignored the matter of individual shareholder concerns in particular. A progressive fund manager has now shown how it can be done!

Letters to the Editor

From Michael Clarkson Webb

Dear Editor,

Once again the current issue of The Private Investor is very readable and topical; thank you and your team. I would comment on Cliff Weight's article on page 4. Yes, of course, it is good investment policy to spread your savings geographically and invest overseas, but there are disadvantages. At age 89 I am recognising that the realisation of overseas assets is going to be a burden for my executors. I am also finding that the return of overseas income on my UK tax return is becoming increasingly complicated. For these reasons I am attempting steadily to repatriate my overseas investments, but then CGT becomes a burden! You cannot win.

From Ben Longrigg

Dear Editor,

In Issue 187 I agree with Hubert Beaumont that AIM shares have the benefit of potential IHT savings. They also have the potential of very large capital gains.

I was CEO and then Chairman of a small company that we floated on the secondary market (now AIM) and then moved to a full listing on the stock market. At our AGMs I noted that the private investors understand the company and asked in-depth questions, whereas the institutional investors just looked at the computer. There is very little reliable analysis of such companies and I prefer to rely on my own judgement. I ran a discretionary Trust that included 15 AIM Shares at 30 June 2017. Comparing the tax cost with the valuation, five have achieved the distinction of gaining over £100,000 in value, namely:

James Cropper	4.9 x purchase price (tax cost)
James Latham	4.5 x purchase price
Nichols Ord.	6.3 x purchase price
Anpario	2.7 x purchase price
Dart Group	10 x purchase price

The next group that have performed with credit and made good gains are NWF Group, Majestic Wine, Sanderson Group and Michelmersh Bricks. On 24 August Questor in the Daily Telegraph wrote this share up and the price rose from 79p to 96p, a 21% rise overnight.

The other six just pass my hold threshold for one reason or another. John Lewis of Hungerford have good assets, Stanley Gibbons had a takeover offer, Cromer Security Solutions because I believe the security has a great future. Northridge Industrial Services are recovering and Sutton Harbour is included because one day Plymouth Airport, which is now closed, will be redeveloped. Peel Hotels I have now sold because I thought there was limited demand for their four-star hotels.

My views will not apply to everybody, but I am a long-term value investor with a policy of cutting my losses and running my gains. I have sold some AIM shares where I felt there was no future and taken some profits from the best like Dart. Most Companies hold their AGMs in London, so my policy is to catch the 7.32am train to London reading the annual report on the train and arriving in good time for an 11.00am meeting. Coffee is usually available and it is a great chance to meet other investors who usually know more about the company than I do. After the Chairman's statement there is a chance for questions and answers and the clue is to listen carefully to ascertain whether the questioner has hit a weak spot.

I will give just two examples: I had shares in a company called Hill Station and during the AGM concluded that the Directors were clueless. So I rang my broker to sell for anything he could get and sure enough they soon went bust. In the early days I had doubts about Dart and was thinking of selling, but at the AGM totally changed my mind and increased my holding. To many UKSA members this will sound very simplistic and I have not quoted any statistics. For example, the Questor article on Michelmersh Bricks quotes the market value, turnover, pre-tax profits, yields, dividend, net debt, Return on Capital, Cash Conversion ratio and p/l ratio, which many will feel is a proper report. This is mostly available in the annual report and important, but what I try to establish in my mind is whether the Directors know the business and will drive it forward. If so the key numbers will improve in the long run.

I agree with Hubert Beaumont that "there is very little reliable analysis" of AIM shares, but find AGMs provide invaluable information. To get the benefit of attending it is vital to listen carefully to what other investors say.

From Malcolm Howard

Dear Editor,

I make all my investment decisions on company's annual reports, especially analysing the accounts in detail. I disagree with Ian McDonald (TPI July 2017) that annual reports are second rate. My view is that they contain sufficient information to make sensible and profitable investment decisions. But as Peter Parry says, very few investors read them.

On a different point, the real problem with the three-yearly vote on Remuneration Policy is that Boards can easily ignore what shareholders vote for. What should happen is that directors (on the ground of a conflict of interest) should not be allowed to vote at AGMs and that any vote of more than 50% should be legally binding, every year, not every third year.

Stop press – Northern Rock

On the 10th anniversary of the Northern Rock crisis, the Northern Rock Small Shareholders Action Group, led by Chairman Dennis Grainger, delivered a letter to the Prime Minister seeking fair compensation as the government now expects to make £9.6bn on the sale of the bank's assets.

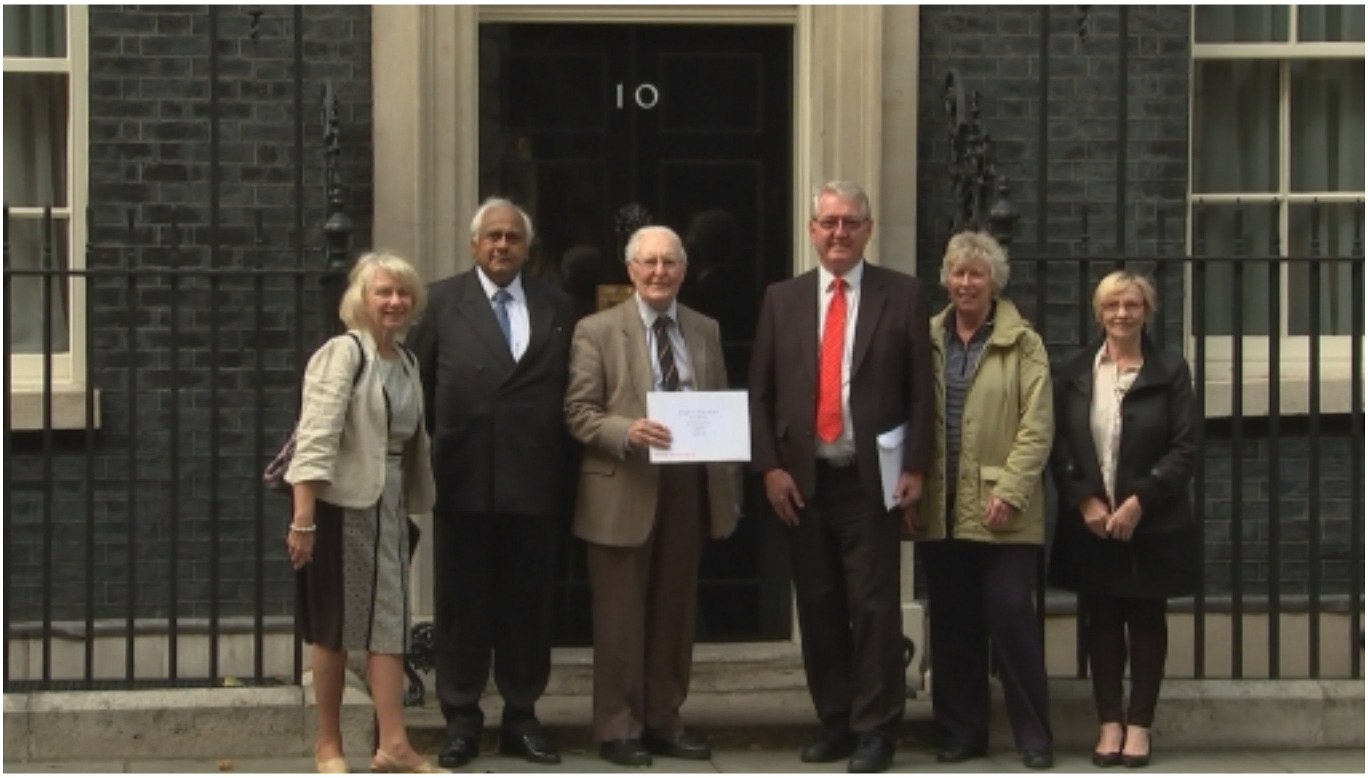


Photo courtesy of ITV

CURRENT UKSA EVENTS

A photo ID is requested, please bring it with you!

PRESENTATION BY ANGLO PACIFIC GROUP PLC FOLLOWED BY Q&A - Wednesday 4 October 2017

Location	**Redleaf Communications, First Floor, 4 London Wall Buildings, Blomfield Street, London EC2M 5NT**
Assembly	**10:30 onwards**
Meeting start 11:00	**Room capacity 20**
Company contact	**Rachel Dare**
Group leader / UKSA organiser	**Nick Steiner 020 8874 0977 e-mail: n.steiner@btinternet.com**

SHAREHOLDER MEETING WITH BT Group - Thursday 5 October 2017

Location	**Best Western Dower House Hotel & Spa, Bond End, Knaresborough, North Yorkshire HG5 9AL**
Assembly	**12:30 onwards**
Meeting start 13:00	**Room capacity 25**
Company contact	**Evelyne Bull**
Group leader / UKSA organiser	**Julian Mole 07870 890973 e-mail: julian.mole@btinternet.com**

UKSA BRANCHES - If no contact name or number is given, please contact UKSA office

Branch name	Leader	Administration	Main purpose	Description
London & South East Region	Harry Braund 020 8680 5872 harrycb@ gmail.com	Tony Birks 01322 669 120 ahbirks@btinternet.com	To co-ordinate activities in London and the South-East	Meetings in Croydon three times a year
London company visits	Nick Steiner	Individual meeting organisers	To arrange private meetings with companies	20/30 meetings per year individually arranged
Specialist company visits	David Lowe Adrian Phillips	Under review	To arrange and/or participate in events in conjunction with investor service companies	Meetings with small-company management, for experienced investors only
Croydon & Purley	Harry Braund 020 8680 5872 harrycb@ gmail.com	Tony Birks 01322 669120 ahbirks@btinternet.com	Social meetings to discuss investment issues	Meetings in Croydon monthly
South West	Peter Wilson 01453 834486 07712 591032	Peter Wilson 01453 834486 07712 591032	To arrange and develop activities for members in the region	Company visits and social events as arranged
North East	Brian Peart 01388 488419	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
North West	Julian Mole 07870 890973 julian.mole@ btinternet.com	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
SmartCo	Charles Breese	Charles Breese	Arranging access to 'Smart Companies' - those with the potential to make good investment returns from benefiting society at large	Programme awaiting start-up
Brighton	Dee O'Hare 07568 156725 dfohare@ hotmail.com	Dee O'Hare 07568 156725 dfohare@ hotmail.com	Education on basic investing, and discussion with local UKSA members	Monthly evening meeting - presentation, Q&A, then socialising