RBS Resolution Supported by UKSA

Investment Trusts - part 2 - a Master Guide to the Sector!

The Putin and Trump Show!

The Private Investor

Chairman's Comment

Members will be sorry to learn of the death just before Christmas of Stan Grierson. I took over from Stan as Treasurer in about 2009 (I think). The books at that time were kept by an accountant in deepest Hampshire whose other job was as a civil airline pilot – giving Stan an excuse, as an ex-navigator in V-bombers, to dispense advice on how to roll a Vulcan. Stan and I shared a car to visit on a number of occasions and I like to think we became friends. When UKSA split he had divided loyalties which he handled with great honesty and he was for some years chairman of *ShareSoc.* Our condolences go to his family.

I've just completed the draft accounts for 2016 and we managed a profit of some £1,400 (subject to accountant's review – got to cover my back). The increased contribution from your voluntary donations played no small part in this, but the gentle revenue decline (associated with gentle membership decline) has continued. This is not entirely surprising because although we have a good position with those we try to influence we have not recently had the opportunity for a national campaign position of the sort that attracts new members. But with Helen Gibbons stepping up to the plate that is at least a start. We'll need volunteers to help her though (see Page 3).

Those with email will have seen that we accepted ShareSoc's invitation to join them in finding 100 Royal Bank of Scotland shareholders (the minimum required under S153 of the Companies Act) to submit a resolution to the RBS AGM in May for setting up a Shareholder Committee. The administration of this process was handled entirely by ShareSoc, and more specifically by Cliff Weight, a semi-retired remuneration consultant very active in policy work for ShareSoc. More on this from Peter Parry page 11. My take? The clause was clearly thrown into the Act as a sop to the individual shareholder in the expectation (hope?) that it would never be used. It requires professional organisations such as ShareSoc/ UKSA to put it together, is demanding of the time of the Company, requires legal knowledge and is barely fit for purpose. But we'll learn a lot from the journey and we've already gained valuable publicity. This is our first co-operation with ShareSoc since the split 10 years ago. There's no reason why we shouldn't do more. Peter Parry and Cliff Weight have benefited from their co-operation; and Mark Northway, the new Chairman of ShareSoc, is an active leader with whom I'll keep in touch.

I may have mentioned that Adrian Phillips, who writes regularly for TPI (see his latest article which appears on page 14), is helping David Lowe to arrange small-company and specialist meetings. This has now moved on a step, with Adrian taking full responsibility for the branch. We'll continue to see plenty of David at these and other meetings, but perhaps this is the moment to recognise his enormous contribution to UKSA and be thankful that he will still be willing to use his extensive contacts list to our benefit.

Finally may I wish you all a happy, healthy and prosperous New Year, and in the latter context…….
…. Good Luck!

John Hunter
Chairman

UKSA - The independent voice of the private shareholder

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Call for Volunteers

by Brian Hargreaves

You have just seen the message from our Chairman announcing the appointment of Helen Gibbons as UKSA's Media Director. Her range of responsibilities is wide, and will fill a crucial gap in UKSA's efforts to project a more visible presence to the wider community. However, like all our Board members, Helen volunteers her time to UKSA, but she is also works full time running her own company. Are there members out there willing and able to give Helen support? Some particular areas of expertise are listed below:

Media Relations

You may recall from the recent Membership Survey the striking statistic that nearly half our membership joined UKSA as a direct result of reading an article in the Press. We want to build a more professional public relations effort that can help make UKSA's name more visible wherever and whenever relevant articles about investment are being written. In earlier days media relations were restricted to the Press. Now this has of course widened to all sorts of media channels. UKSA would welcome hearing from anybody who has had experience from within this growing field.

Social Media

Many members may only be aware of Twitter and Facebook through their children and grandchildren. You may not be aware that these channels are increasingly being used by all sorts of organisations – not just private individuals - to complement their traditional communications activities.

UKSA would be particularly keen to hear if there are members out there who can help Helen exploit these new media opportunities. In particular Helen would like to hear from anyone with ideas for Twitter content. We plan to create a regular programme of tweets, for which any thoughts are welcome.

Web Site

An attractive and user friendly website is a vital tool for any organisation wanting to communicate with the outside world. After all, if somebody reads about UKSA in an article and wishes to find out more, our web site is THE opportunity for us to convert that interest into a new member.

Anybody with experience working with web sites in whatever capacity, and willing to offer help, is encouraged to come forward. Experience in content management would be particularly useful.

Conferences and Seminars

A recurring theme from members in the recent Research Survey was the request for UKSA to offer more education/advice etc about better investment. People were particularly interested in reinstating the late lamented conferences which ran some years ago.

In this regard we would be interested to hear from members who would be interested in the administration/organisation of such events.

In the recent Membership Survey members were very helpful in suggesting how UKSA could do better and in particular what new services they wanted to be introduced.
This is your opportunity to help make this happen! If you feel you have something to offer please contact either Helen Gibbons at bizlang@mac.com or Brian Hargreaves at bash87@email.com

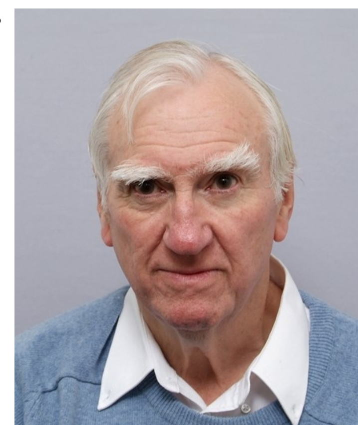
Members should put down Monday 24th April in their diaries for on that date UKSA' s AGM is due to be held in the RAF Club as usual. Watch this space for further details.

And having done that, turn the page immediately and see details of the competition that Malcolm Howard has devised for us!

The Alternative Investment Market (AIM). I don't get it! Do you?

by Malcolm Howard

According to academic theory the price of a share is the discounted value of its future earnings. Of course, reality is that the price of a share is determined by supply and demand. Over the long term academic theory and reality should be very close to each other. This is the assumption I use when valuing shares.



Malcolm Howard

First I assess a company's accounts to ensure the company passes my prime test. If they do I calculate 'Estimated earnings per share' (EEPS) which is cash inflow from operating activities before movement in working capital divided by the number of shares. I then discount EEPS if the company has debt at the rate of 25% of net debt per share. So, for example, if a company's EEPS was 30p and the company had net debt of 20p per share, I would use 25p as the EEPS. The reason for this is that the only thing that forces companies out of business is they run out of cash, the banks will not support them and they cannot pay their debts. Using the same process I calculate EEPS for four years to find out what compound growth was achieved in this time. Finally I calculate the growth built into the share price on the day of assessment to make a buy, hold or sell decision.

When I started assessing this way over twenty years ago, I had some spectacular gains, but also some horrendous losses. Then I realised that almost all my losses were in companies that were quoted on AIM, so I stopped buying such companies and my overall returns improved dramatically. So, as far as AIM is concerned I don't get it!

In the July 2016 edition of Private Investor I argued that investors relied on tips, rather than doing their own research, and in doing so were over reliant on brokers' recommendations. To demonstrate this I quoted Victoria plc, which I regarded as a 'bubble' stock. This company are carpet manufacturers operating primarily in the UK and Australia who recently have been on the acquisition trail. This brought a high level of growth in profitability, but at a price; debt soared. My view was that such growth had been bought and could not be repeated so with the market price assuming a high level of compound growth, the share was over-valued. I said a fair price was 750p per share, while the NOMAD was touting 1,750p. I asked: who do you believe? Since then Victoria plc issued 5 new shares for one old share, so the comparative prices are 150p and 350p. On 31 December 2016 the share was priced at 355p, so nobody should have believed me!

In the January 2016 edition of Private Investor I suggested that the then share price for Newmark Securities of 2.82p "could not represent a significant over-valuation." This company always makes a profit, maintains its dividend and relative to its size it holds a significant amount of cash. Prior to the 2016 result the company warned that profits would be down because it had taken longer for the market to accept its new products, but that it was confident of the long term future. As forecast, EEPS dropped 28.6% to 0.5p per share, but given its cash position even if it suffers a similar in 2017, the share should be worth 2.5p If 2017 profits turn out to be between its 2015 and 2016 level the shares should be 6p. On 31 December 2016 the shares were priced at 1.3p

	EEPS	**EEPS**	**Net cash/**	**Share price**	
	latest	**prior**	**debt**	**31/12/16**	**M**
Dart Group *	123.7	66.0	217.1	496.0	1,440.0
Newmark Security	0.5	0.7	0.9	1.4	2.5

Cohort	27.0	21.0	48.3	410.0	697.0
SQS Qual. Systems (€p)	86.3	75.1	(18.0)	622.5	990.0
Sprue Aegis	15.2	20.7	48.6	180.0	256.0
Finsbury Food Grp*	16.8	10.1	(15.1)	120.0	142.0
Brainjuicer Grp	29.9	26.3	48.1	550.0	570.0
Asos	90.2	66.3	150.0	4,964.0	4,670.0
IQE*	3.2	2.1	(2.3)	38.0	35.0
Playtech (€p)	72.1	69.3	91.2	826.0	755.0
Blue Prism Grp	7.5	5.5	13.8	445.0	404.0
Advanced Medical Sol.	9.2	8.0	16.4	221.8	195.0
Victoria*	28.8	17.8	(70.0)	355.0	307.0
Impellam Grp	94.0	71.7	(234.9)	712.5	470.0
Brooks Macdonald Grp	112.7	119.8	149.4	1,891.0	984.0
Abcam	24.9	23.7	29.7	767.0	306.0
Goals Soccer Centres	18.2	16.5	(62.7)	101.0	30.0
Majestic Wine	26.2	29.9	(34.8)	315.0	92.0
Park Grp	1.5	4.2	18.1	73.0	17.4
Mulberry	18.9	20.4	23.4	1,095.0	102.0
Hotel Chocolat	7.0	29.3	(0.5)	288.5	26.5
Access Intelligence	(0.5)	0.3	(0.8)	4.6	0.0
Castelton Technology	1.7	(2.9)	(12.7)	60.0	0.0
Hargreaves Services	3.2	123.9	(99.0)	272.0	0.0
Tissue Regenix	(1.2)	(1.2)	2.6	20.5	0.0

*In calculating 'value' compound growth is assumed to be less than that shown.
(€p) Figures shown are in €, but share prices are in pence.

As an experiment I chose 25 AIM shares at random and calculated EEPS for the current and prior year and priced each share purely on growth (positive or negative) after adjusting for net debt (as illustrated above). The results are as below (all in pence per share). M = my valuation.

It must be stressed that the above figures were just taken from each company's full year accounts and no attempt has been made to carry out further research to assess the reasons behind the numbers. For example, the numbers for Hotel Chocolat seem dire, having suffered a 76.1% decline in EEPS between 2015 and 2016. But what actually happened was that the company floated on AIM in February 2016 at an Initial Public Offering (IPO) price of 148p. On the first day of trading, 10 May 2016, the price surged 26% to

186p and finished the year at 288.5p Actual growth between 2015 and 2016 was 13% and EEPS obviously declined because the number of shares ('000) had increased from 24,379 to 112,838. At the year end price the market is assuming compound growth of 26% which is double what seems likely. On this basis my target price would be 143p, not the 26.5p shown in the above table. Another company I looked at was Hargreaves Services; I couldn't understand why a company I regarded as worthless was priced at 272p. The problem the company had was that it was involved too heavily in coal, which is no longer being produced in the UK. So the company's directors have spent two years restructuring and re-positioning. The Chairman suggests a strategy of unlocking the company's property and energy portfolio will generate cash, but with property valued at only 205p per share and net debt of 99p per share, I cannot see how you can possibly get to 272p per share. In short, when it comes to AIM, I don't get it. The question is: do you?

Members' Competition

Well now you chance to prove it. To help UKSA get back into the black we are running a £20 sweepstake. Simply look at the above list of shares and select FIVE shares you think will do the best in 2017 in PERCENTAGE terms. Select your nap, the one company out of your five who you think perform the best. The prices taken will be the closing 2017 prices as shown on the London Stock Exchange website and will be compared to the closing 2016 prices as shown in the above table. Dividends and transaction costs will NOT be taken into account. Points will be awarded as follows:

Company making the greatest percentage gain	- 5 points
Company making the second best percentage gain	- 4 points
3rd best	- 3 points
4th best	- 2 points
5th best	- 1 point

You score DOUBLE points for you nap selection. This means that the maximum points that can be scored is 20. As an example, if your nap selection finished 2nd and one of your other selections finished 5th you would score 9 points.

Dead heat rules apply. If no contestant scores a single point, the winner will be the one who has selected the highest ranking share.

The more entries (£20 per entry) we have will mean higher prize money, but fewer entries will make it easier to win. The 'pot' will be distributed as follow:

The winner will receive 50%, 2nd 20% and 3rd 10%. The remaining 20% will go into UKSA's funds. **This sweepstake is ONLY open to members of the United Kingdom Shareholders Association.** Members of UKSA's Board, the Company Secretary and the Administrator, the writer of this piece and their families are ineligible and may **not** enter.

The closing date for entries is Tuesday 28 February 2016. Entries and payment should be sent to the office, copied to me as I will keep all the records. Either online, email to the office at officeatuksa@gmail.com , copy to me at malcolmhoward.mh@gmail.com , payment to UKSA Account No. 31342606, Bank Code 40-46-21, ref COMP & surname: or mail to the office with cheque.

Finally, please note that none of the above shares constitute investment advice. They were chosen purely for the sake of having a bit of fun with a sweepstake.

Malcolm Howard

French Listed Companies

by Helen Gibbons

Helen Gibbons

At the end of last year I and a number of other UKSA members attended "Corporate Strategies and Investment Return Credentials", a presentation given by three French listed companies at the Clothworkers' Hall in the City of London.

This innovative event was moderated by a British representative of Interactions, a French corporate & financial media consulting firm. The aim was to use a 'Question Time' format to engage with the 100-strong audience and encourage individual shareholders to invest.

The companies were as follows:

	Revenues	P/E	1yr price change
Air Liquide	**€16.56bn**	**22**	**+11%**
Schneider Electric	**€25.64bn**	**26**	**+38%**
Total	**€116.26bn**	**32**	**+29%**

Each panellist started with a corporate pitch focusing on the usual performance metrics. Questions from the floor included matters such as potential French government interference, the effects of lower oil prices and prospects for automotive hydrogen as an alternative to battery power.

It was the second part of the event that was more directly relevant to individual shareholders. All panellists were of course keen to highlight their dividend yield and growth. Air Liquide, however, stood out in terms of its distinctive approach to individual shareholders. The company has a long history of encouraging individual shareholding in order to be less reliant on debt and thus maximise independence. Acquisitions are funded by share issues rather than debt, even when interest rates are historically low. 38% of Air Liquide's shareholders are individuals (compared to 8% in the case of Total). It pays a 10% bonus dividend on registered shares held for longer than two years. 62% of its shareholders have in fact held shares for longer than 10 years, compared to a French market average of 8%.

Air Liquide's Shareholder Services department has no fewer than 28 employees, reporting directly to the chairman. Shares can be held in three forms: bearer, registered administered (held by bank but registered with Air Liquide) and pure registered (held and managed by Air Liquide itself). In addition to the dividend bonus, registered holdings receive 10% additional shares during capital increases. Shareholders not resident in France would normally face a 30% withholding tax on dividends, but Air Liquide has negotiated a flat-tax arrangement limiting the deduction to 15%. The Shareholder Services department also handles the administration of inheritance and *inter vivos* gifts and the associated taxation. Shareholders can manage holdings through an iPhone app.

Prior to the event UKSA members had raised the matter of the French *Taxe sur les transactions financières*. All the companies attending this event are among the 109 issuers listed in the *Journal Officiel* as being subject to the TTF. Introduced in 2012, this Tobin-inspired tax was nominally intended to fund development projects, but the aim was also to curb speculative transactions. The fact that it applies only to 'spot' deals and not to forward and derivative transactions suggests that aim may be frustrated. The tax amounts to 0.30% of the value of purchases (up from 0.20% in 2016). When it was introduced, there were concerns that it could impact the liquidity of the companies' stock. Questioned on this point, the panellists were un-

concerned about any such impact. To illustrate the effect of the tax I placed a small trade in Air Liquide worth around €400 through a UK broker (pooled nominee account, traded on LSE). The figures came out as follows:

Commission and Charges
Total Consideration 328.76 GBP
French TTF 0.65 GBP
Commission 9.50 GBP

The event was hailed a success by the participating companies, who vowed to repeat it in the UK this year. For prospective shareholders it was certainly a convenient way to gain insight into key French stocks and the wider French market.

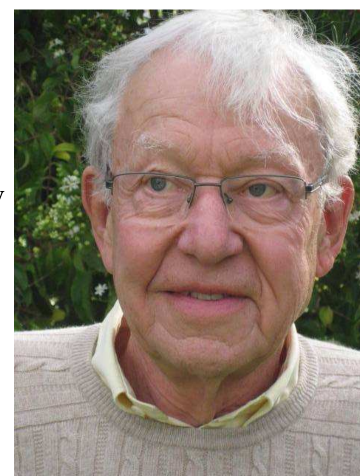
Helen Gibbons

Investment Trusts - a Part 2

by Roy Colbran

Discounts

In the November issue I promised to deal with discounts and performance this time. Discounts are often seen as worrying factors and I have known people being put off from considering investment trusts at all because of their existence. On the contrary, I suggest that they are something of which private investors can take advantage. As explained in the first article, investment trust shares trade at prices determined by the market and, commonly, these are below the value of the assets underlying the share. They are then said to be trading at a discount. This is quoted as a percentage of Net Asset Value per share and shown daily in the Financial Times. As I write, I see three major generalist trusts standing at discounts of 5.0%, 8.1% and 5.1%. Historically these are on the low side and in my first draft I had figures of 8.0%, 9.3% and 11.4%. The existence of the discount simply reflects the view of the market as based on supply and demand and has no effect on the value of the assets of the investment trust. Accordingly if you buy investment trust shares standing at a discount you are getting the benefit of the underlying portfolio of assets at a cut price.



Roy Colbran

Of course, the level of discount is merely one of many factors to be taken into account in buying investment trust shares - but certainly something nice to have when purchasing. The worry you may have is that the discount may still be there, or may be even bigger, when you want to sell. Purchasers of investment trust shares are likely to be long term holders and so this should not normally be too great a worry – certainly not enough to stop one buying them. While it is difficult to produce statistical evidence to prove this, I feel that discounts tend to widen when markets are depressed and to narrow when they are buoyant. This is logical in that when the market is buoyant there is likely to be more demand for the shares than when it is down. This means that it is even more important for investment trust shares than general industrials to try to buy at times of gloom.

The more specialist trusts often trade at a bigger discount than those I have quoted. One factor influencing this may be their higher level of charges; in some cases there could be a lack of confidence in the valuation of the underlying assets. On the other hand, a few of the large trusts regularly trade at prices slightly above NAV. This implies that purchasers have so much faith in the running of the trust and the ability of the manager that they are prepared to pay above NAV in the hope of exceptional performance. One such trust is Scottish Mortgage. Its performance figures really have been consistently outstanding and so it is

Investment Trusts - part 2 - a Master Guide to the Sector!

easy to see why the shares command a premium. Their portfolio can fairly be described as more adventurous than many and there must be a risk that one day it will take a tumble. Another is City of London which is well and very economically run but its performance has only been average and it is hard to work out why the shares command a premium.

Some Boards of Directors get worried when their shares go to a discount. They may come under pressure from shareholders, particularly institutional shareholders, to take some action. At each AGM there will normally be a resolution authorising the directors to buy back shares in the market. The prime logic of this is to push up the price and so reduce the discount. In practice it seems to me that the effect on the price of this action is only short-term and the market has to change its view of the particular investment trust to have a lasting effect on the discount. Moreover, buying back means reducing the number of shares in issue of a commodity which is in limited supply and of great potential for private investors. An additional reason given for buying back is that redeeming shares at less than NAV has a positive effect on the value underlying the remaining shares.

Quite recently Alliance Trust came under great pressure from Elliott Advisers, who had built up a substantial position in the trust's shares, to change its policies generally and, in particular, embark on a buying back approach that they had previously resisted. If Elliott could achieve a material increase in the share price they would, of course, have a substantial profit on their investment. Their campaign has in fact been largely successful and, as a result, there have been major changes in the way Alliance Trust is run including replacement of the Chairman and Chief Executive. The fear of a similar approach by predators is naturally a significant factor influencing the behaviour of trusts' boards.

When a trust's shares go to a premium it is then possible for the directors to issue shares either from treasury or by creating new shares. This has beneficial effects in the opposite direction from buying in shares at a discount but is a much rarer event. One trust which is an exception in this respect is Personal Assets which has a provision in its Articles obliging the directors to buy or sell shares in the market with the objective of keeping the share price as close as possible to NAV. Some investors find this a particular attraction knowing that the price is unlikely to stray far from the underlying value.

New Funds

The general prevalence of discounts makes it very difficult to launch a new investment trust. The initial subscriptions have to cover the expenses of launch and those of purchasing the initial portfolio. Thus it is inevitable that the subscription price will be above the initial NAV which is not very encouraging if you expect the new trust to go to a discount in line with the market. Nevertheless Fidelity was able to launch its China Special Situations fund in 2010. Subscribers were drawn in by the reputation of Anthony Bolton and put up £466 million initially at a price of £1.00 a share. This was followed by over £200 million more in the first year. In fact, his reputation did not serve him well because after a healthy first six months he had a pretty rough period. At the end of the second year the shares at 80.8p were well below issue price. Since then, with a new manager, the fund has done well and as I write the price is now £1.86. The shares have gone to a discount of 13.7% but on an NAV of £1.97 that's not looking too bad!

High charges did not deter subscribers. The investment management is charged at 1.0% of NAV leading to an Ongoing Charge of 1.2%. However, encouraged by the AIC, it seems that performance fees don't count in this figure! In fact, in the year ending in 2016, performance fees doubled the management fee. Whatever happens to the shareholders, Fidelity certainly do well out of this fund.

Another new fund is to be launched by Daniel Godfrey, formerly Chief Executive of the Investment Association, in the first half of 2017. Having fallen out with his previous employers through acting more

like a regulator than a trade body, he has decided to launch his own fund called The People's Trust which will be unattached to any one commercial entity. Charges will run at between 1.0% and 1.5% which is on the high side. It will be interesting to see how this one develops. He is reported as claiming that returns will be 7% pa.

Performance

The Association of Investment Companies ("AIC") provides a mass of statistics on its website, to the extent that at first sight they can be quite confusing. Each month the tables provide performance figures over the last one, three, five and 10 years on a total return basis for each of the trusts that is a member of the AIC (almost all of them). The trusts are grouped in sectors by type and for each sector size-weighted averages of the same performance periods are also provided. Looking at large general trusts of the type where an individual might put all or most of his equity investments, there are two important sectors, namely "Global" and "UK Equity Income". Between them these cover most of the big widely known trusts. The following figures extracted from the AIC tables show the percentage change in value over the period shown ending on 30 November 2016 for the size-weighted average of the sector.

Sector or index	3 years	10 years
Global trusts	39.1	119.2
UK Equity Income trusts	18.8	84.6
FTSE All share	15.7	69.0
MSCI World	46.2	128.4

The above figures are for NAV on a total return basis – so taking account of income. The AIC tables also show total return based on share price which differs from NAV performance due to variations in the level of discount. I prefer to quote NAV figures because they show what the manager has achieved on his own. As you can see from the figures, both types of fund have beaten the All-share index with Global being more successful than UK Equity Income - not surprising given the respective performance of the indices. Although, representing a large sum of money, around £80 billion in total, the investment trust community is still only a small part of the total funds managed by UK houses. For example at the end of 2015 the Investment Association reported UK domiciled open-ended funds as totalling £550 billion and there is lots of other money that they manage on top of that figure. Hence we can see that the investment trust movement is not so big that it cannot overall beat average returns. It does suggest that in general investment trusts have been successful performers and may be worth trusting with some or all of your money.

This article would not be complete without my thanks to George Miller in Auchterarder who made many helpful suggestions and comments on both parts. I will undoubtedly be seeking his help in the final part in which we will provide notes on a few specific trusts with which we are familiar.

Roy Colbran

RBS Gets Resolution Supported by UKSA

by Peter Parry

One of the unpublicised activities of the UKSA board is keeping in touch on an informal basis with our counterparts in ShareSoc. This is greatly helped by the fact that some of the directors of each organisation are also members of the other. Last November ShareSoc ran an event on 'Mobilising the Private Investor' at which Chris Philp MP was one of the speakers. Chris is a strong supporter of greater private shareholder involvement on issues such as pay and corporate governance and a strong supporter of the concept of shareholder committees which have recently been put forward as an option in the government's Green Paper on corporate governance reform.

At an informal meeting with ShareSoc on 9th December we agreed to run a joint campaign to submit a resolution at the Royal Bank of Scotland's (RBS) next AGM that the Bank should implement a Shareholder Committee. To get the resolution onto the agenda at the AGM in May 2017 a requisition supported by at least 100 RBS shareholders was required. The signed requisition forms had to be submitted to RBS's offices by 31st December. This left just three weeks to muster the necessary support.

Left to right: me, John Hunter, Cliff Weight of ShareSoc (centre), Mark Northway (ShareSoc Chairman) and Gavin Palmer of ShareSoc (blue suit)) outside RBS's offices in Bishopsgate on 30th December when we delivered the requisition documentation.

What Christmas holiday?

Cliff Weight at ShareSoc carried out a Herculean amount of work in the run up to Christmas. The resolution and supporting notes were drafted and circulated by email to all UKSA and ShareSoc members asking whether they were RBS shareholders and whether they would support the campaign. Cliff also drafted three separate response forms for those shareholders with shares in their own name, those with shares in a nominee account and for those who didn't own shares in RBS but wanted to be given one share in RBS in order to support the campaign. Gavin Palmer generously agreed to transfer RBS shares of his own to non-shareholders.

In the run-up to Christmas many UKSA and ShareSoc members had other priorities on their minds so a certain amount of 'chasing' was necessary. One of the biggest and most time consuming problems for Cliff was trying to find out who the nominees were for shareholders with shares in nominee accounts. In many case the investors were not sure themselves who the nominee was. This in itself highlights another unsatisfactory aspect of nominee accounts: you may be the beneficial owner and an intermediary may send you regular statements about your investments; but who actually owns your shares?

A race against time

An initial flurry of activity resulted in around sixty people pledging support to the campaign. A second email to members urging their support went round. Gradually, the number supporting the initiative increased. Registrars were prevailed upon to ensure that shares were transferred to new owners between Christmas and the New Year. Meanwhile, Cliff continued working furiously behind the scenes to ensure that all the documentation which had to be submitted to RBS met the legal requirements for the requisition to be successful. We knew that even a small error on a legal technicality could result in it being thrown out. Finally, by 28th December over 160 RBS shareholders had submitted all the necessary documentation for the requisition. On a cold grey morning on Friday, 30th December a delegation from ShareSoc and UKSA went to RBS's offices in Lombard Street to hand over the requisition forms.

Next steps

Delivery of the requisition documents to RBS marked the end of the beginning for the shareholder committee campaign. The next step, which is already under way, is to develop a dialogue with RBS to sell the concept of a share holder committee, discuss the composition of the committee and likely terms of reference. The aim is to ensure that RBS directors are supportive of the idea and ready to recommend its adoption at the AGM. That is the grand plan but there is a long way to go yet. Watch this space….!

Peter Parry
Policy Director

Gaga – or Garbage in, garbage out.

UKSA members will be aware of a recent comment by Andy Haldane, chief economist at the Bank of England, about the Bank's 'Michael Fish moment'. In response to this Natasha Landell-Mills of Sarasin and Partners LLP wrote a letter to the Financial Times which was published on 12th January 2017 and which was countersigned by, among others, UKSA. In her letter, which is reprinted below, she notes that despite significant intervention by regulators in the UK, Europe and elsewhere to strengthen the capital base of banks, there remains a deeper problem – namely, the poor quality of the numbers that are used to tell us what the banks' capital actually is.

In this age of 'big data' and with enormous computing power at the disposal of most organisations it seems absurd that regulators and others who oversee the banks and the wider financial services industry cannot define accurately what it is we need to measure and obtain reliable information to enable measurement to take place. Without this, systems of regulation will remain fatally flawed. Worse still, there is a real risk that the regulators will sit there enjoying the autumn sunshine (or maybe just their own reflected glory) as the next tornado sweeps in to engulf the banking system.

We reproduce the following letters to give you the full picture.

Peter Parry

Clearer picture of banks' capital is required to help avert crises

Sir,

Last week Andy Haldane, chief economist at the Bank of England, admitted that economists had failed to predict the financial crisis, and compared the situation with that of ill-informed weather forecasting in 1987—the "Michael Fish moment".

Sir John Vickers (Letters, January 10) added that, aside from better forecasting, the government must also "weatherproof" the banks by ensuring sufficient capital is held for the inevitable "rainy day".

But better forecasts and better weatherproofing both depend on a deeper problem being resolved: the poor quality of the numbers we are relying on to tell us what banks' capital actually is. Is the stated "capital" in fact capable of absorbing lending or trading losses that inevitably come in a downturn?

At the heart of the crisis would appear to sit faulty accounts and unreliable audits. In the EU alone, between September 2008 and the end of 2010, more than 300 banks went cap in hand to governments for support—in the form of capital injections, asset relief, liquidity aid or debt guarantees. Few banks were identified as having insufficient capital at the time.

The fact is that bank accounts — drawn up according to IFRS accounting standards—showed "profit" and "capital" that overstated their true strength. Supplementary regulatory disclosures of capital under the Basel framework help little as they lean heavily on these faulty accounting numbers, and are themselves unaudited.

The government's green paper to strengthen corporate governance provides an opportunity to tackle these problems: unless accounting rules are changed (or supplemented) to ensure a reliable—and not overstated—view of companies' profit and capital, it will be hard to improve executive accountability, ensure appropriate pay and promote long-term stewardship.

Specifically, companies must disclose what profit has been realised and what hasn't, and therefore what can be safely distributed as dividends without eating into capital (cash resources and regulatory requirements permitting). Without these changes, how will we be able to see the next crisis coming?

Natasha Landell-Mills, Sarasin & Partners LLP

Councillor Kieran Quinn, Local Authority Pension Fund Forum

Eric Tracey, GO Investment Partners LLP

Roger Collinge, UK Shareholders' Association

Robert Talbut, Pension fund and charity trustee

Frank Curtiss, Pension fund and charity trustee

In response to which the Financial Times published the following:

Sir,

The letter from Natasha Landell-Mills and others makes the point that "unless accounting rules are changed (or supplemented) to ensure a reliable – and not overstated – view of companies' profit and capital, it will be hard to improve executive accountability etc…"

Faulty accounts and unreliable audits did not help during the 2008 financial crisis however. Disturbingly it appears, in the case of the HBOS takeover by Lloyds, that the Regulators knowingly allowed Lloyds to treat as core tier one capital an "own credit" adjustment of £15.4bn. This was generated from the purchase of HBOS debt instruments which of themselves were not eligible for core tier one capital. HBOS's publicly listed debt was, at acquisition, trading at significantly below par because of market concerns as to its ability to repay its debts and so Lloyds effectively took over HBOS debt instruments at market value whereas it retained the obligation to repay the debt at par on maturity through the profit and loss account. This remarkable device enabled Lloyds to create the £15.4bn. "own credit" adjustment. This was totally illusory and wholly unsuitable to be treated as core tier one capital which GENPRU 2.2.9 defines as having the following characteristics:-
1) It is able to absorb losses
2) It is permanent
3) It ranks for repayment upon winding up, administration or similar procedure after all other debts and liabilities; and
4) It has no fixed costs, that is, there is no inescapable obligation to pay dividends or interest.

The "own credit" adjustment meets none of these criteria. In particular, it fails to meet the first two key tests.

The Prudential Regulation Authority's response to this is that under IFRS this is perfectly acceptable when plainly under GENPRU it is not. One would like to think that regulators could apply some common sense and see that in the instance referred to, applying IFRS was a nonsense. It is precisely in times of financial stress and crisis that prudential regulations should be applied. In this instance, they were interpreted to suit the Tripartite Authorities and shareholder interests were ignored.

Yours faithfully
Paul Sanders

Donald Trump's Wars

by Adrian Phillips

Adrian Phillips

The election of Donald Trump as US President in November triggered one immediate and striking reaction on Wall Street that has endured since then. The shares of defence companies rose by 10-15% in the days after the vote and have largely held onto their gains. European defence majors BAE and Safran performed in a similar fashion.

More remarkable still is that these gains were not compromised by the President elect's high profile complaints at supposedly over-generous pricing on government contracts, most notably for the new presidential aircraft, Air Force 1 and for a 10% price cut on the F-35 new generation combat aircraft. These have been vocal enough to trigger small falls in the relevant share prices, but not to an extent that suggests that anyone expects a new era of hard negotiating by the Pentagon. Perhaps Wall Street foresees that the phase in which Mr Trump applies his business skills and instincts to the business of government will not outlive the pre-inaugural period, during which they could be deployed to demonstrate the competencies which he is bringing to his new office. Once installed in the Oval Office, so this logic goes, he will unfailingly go native under the blandishments of a machine that has been well-oiled to propel politicians at all levels along harmless paths.

Nothing in Trump's rhetoric so far supports the idea that he will adopt policies that require a stronger military. Indeed, his scepticism about NATO ought to point in the other direction. NATO is the last home of heavy weaponry organized to fight an old-style war. Indeed Trump's vocally stated desire for rapprochement with President Putin of Russia may well express itself in a reduction in the scale of existing US forces in Europe as well as a reluctance to apply any diplomatic pressure against further moves by Putin to restore elements of the old Soviet empire.

The former US enthusiasm for EU expansion viewed the EU as part of the US sphere of diplomatic influence, if not a downright antechamber to NATO. Similar considerations underpinned, and perhaps dominated, the enthusiasm of former Communist states for EU membership. The death-knell for this policy had already been sounded by its lamentable failure in the instance of Ukraine, when its incompetent and ill-though-out application provided a narrative to support Russia's annexation of Crimea and the seizure of border areas with large ethnic Russian populations. France will likely have a pro-Putin President next year (Fillon or Le Pen) and the EU itself faces the destabilising practicalities of British departure.

It is practically Putin's choice whether Russia will continue to reverse the loss of territory (and diplomatic humiliation) of the 1990s. Direct investors in the Baltic republics (fortunately a minor region in financial markets) should proceed with extreme caution and damage to sentiment towards mainstream Europe majors as well as actual financial losses might have to reckoned with.

Beyond rhetoric at token level it is improbable that Putin will offer any real assistance to President Trump's anti-Chinese stance. Like his illustrious predecessor Josef Stalin he will be content to maintain all quiet on the eastern front; the easy laurels are to be had in the West. So far, Trump's policy statements have anyway focused above all on trade relations with little said about the numer-

ous territorial disputes in the region. Trump's public questioning of the one China policy has the flavour the flavour of openly fingering a purely diplomatic bargaining chip (US recognition of one China has never hurt business relations with Taiwan) in advance of what will be essentially trade negotiations.

The Putin and Trump Show!

Trump's isolationist instincts argue against any US military build-up in the East. Here again the ultimate choice will lie the other side of the negotiating table. Peking must decide whether sufficient concessions will be given on trade to allow the US to trumpet 'victory'. With no public opinion to worry about and little risk of incurring material damage to its economy, Peking ought to be cooperative.

Sadly all the above does not constitute advice to short the defence sector. None of it undermines a potent scenario that explains and justifies the rally. Once in office, Trump will face bitter criticism. His competence and ethics will inevitably be severely challenged. It is a very open question as to whether he can achieve enough in terms of job creation, trade policy or immigration control to offset this. He may yet have to manufacture a scenario in which his opponents may be castigated as unpatriotic: military engagement on a scale sufficient to be presented as of existential importance to the USA.

Adrian Phillips

Review of UKSA Brighton

I do like the reflective nature of a New Year.

We had six very enjoyable meetings in Brighton in 2016. The intention was to facilitate something educational as well as social, and to encourage people of different experiences to contribute and participate as much as possible. We met in a trendy Café Gallery in Central Brighton that kindly allowed us to have a private room and most evenings had a follow up drink in Brown's brasserie.
Each meeting had three parts:

- **A short presentation (Strategy, Investment Basics, Investment Trusts, ISA's)**
- **Q&A on any topic / latest news**
- **FUN competition – pick the biggest share price gain from the UK's largest 20 companies.**

Much thanks must go to the support of John Hunter, and in particular Helen Gibbons, as well as Roy Colbran for his excellent presentation on Investment Trusts.

Of course any review must also look at what didn't go so well and what can be improved for 2017. A large number of the attendees came from either current UKSA members on the south coast or through personal contacts of mine but we also generated some interest through a specific 'Meet-up' group. In 2017 we will try and we will keep the same format but endeavour to make more people aware of our meetings. We will also start to make use of the Facebook Group and will develop a FUN competition to enable those not physically attending to participate.

The meetings were informative and very enjoyable last year and I look forward to the year ahead.

Diarmuid O' Hare

UKSA Branches

Where no contact name or number is given contact the 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 Croy-don three times a year
London company visits	Nick Steiner	Individual meet-ing organisers	To arrange private meetings with companies	20/30 meetings per year individually arranged
Specialist company visits	Adrian Phillips adriangphil-lips@aol.com	Adrian Phillips adriangphil-lips@aol.com	To arrange and/or participate in events in conjunction with investor service companies	Meetings with small -company manage-ment, for experi-enced investors only
Croydon & Purley	Harry Braund 020 8680 5872 harrycb@ gmail.com	Tony Birks 01322 669 120 ahbirks@ btinternet.com	Social meetings to discuss investment issues	Meetings in Croydon monthly
South West and Midlands	Peter Wilson 01453 834 486 07712 591032	Peter Wilson 01453 834 486 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	Paul Waring 07754 725493 paul@xk7.net	Paul Waring 07754 725493 paul@xk7.net	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 075 6815 6725 dfohare@ hotmail.com	Dee O'Hare 075 6815 6725 dfohare@ hotmail.com	Education on basic investing, and discussion with local UKSA members	Monthly evening meeting - presenta-tion, Q&A, then socialising