UKSA
UK Shareholders' Association

The Rise of Financial Education

UKSA Donation Appeal

ShareSoc Survey Report

The Private Investor

Chairman's Comment

As always I enjoyed the AGM in April. Some 40 members attended and the contribution from the floor was well up to standard. In my speech I mentioned our attempts during the year to make UKSA less parochial. Promoting the role of the Private Shareholder has always been a hard sell in the political arena (image of rich people engaged in incomprehensible activity), and this will be even harder as Brexit ties up the resources of the Civil Service over the next two years and after. We are therefore focussing more on broader saving/investment themes where private savers can be seen as part of the solution, rather than direct pitches for increased private shareholder advantage. The consultation responses reported in the last issue are examples.

I also mentioned that we are paying more attention to establishing working relationships with organisations that share our values, and this edition includes articles from three such – Transparency Task Force, FutureValue and The People's Trust. On the same theme I am encouraging more guest attendance at the Board. Most of what we do can only benefit from the knowledge and experience of others. This also helps to counteract the tendency of all Boards to turn into some sort of remote priesthood, and keeps us in better touch with individual initiatives throughout the organisation.

An important part of the AGM was the announcement and discussion of the results of the survey of members' opinions on our future relationship with ShareSoc. 87 members responded (see page 11). The results give a clear mandate for continuing cooperation but raise some very proper concerns about full merger. This is a very helpful steer and will guide us over the coming year. My thanks to all who took the trouble to contribute.

Finally, a welcome to Rob McDonald whose appointment to the Board was announced by email (see left). It is many years since we had a Membership Director – i.e. a director specifically responsible for membership liaison. The UKSA Bye Laws direct that we have one, 'or, failing such appointment, the UKSA Chairman is required to act as Regional Liaison Officer'. It's not a job that I am conscious of having done well and Rob's appointment should provide a welcome improvement.
Good luck!

John Hunter
Chairman

Email from the Chairman previously sent to members

Rob McDonald
Membership Director and Company Secretary

I am pleased to announce that Rob McDonald, currently Company Secretary, has agreed to join the Board as Membership Director. He will concentrate on the recruitment, care and retention of members, including liaison with established regions. He has a number of personal commitments to resolve in the next couple of months before he becomes fully active but will continue as Company Secretary until a replacement can be found. I invite members willing to apply for that position (if desired, as Minutes Secretary only) to contact me.

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In this issue…

UKSA Contacts	*2*
The Rise of Financial Education	*3*
The Secret of Gambling	*4 – 5*
Refocusing Corporate Reporting	*6 - 7*
UKSA Donation Appeal	*7*
Transparency Task Force	*8 - 10*
ShareSoc Survey Report	*11*
The People's Trust	*12 - 13*
Letters to the Editor	*14 - 15*
Current UKSA Events and UKSA Branches	*16*

The Rise of Financial Education

Helen Gibbons

Helen is now media director and will be taking a particular interest in social media, needing a consistent appearance for the UKSA brand across all platforms.

We are in the midst of the AGM season again and this year's meetings have brought the usual mix of theatre, marathon question sessions and lambasting of directors.

Among the more notable meetings have been those of the UK's domestic banks. Lloyds and Barclays in particular have presented contrasting pictures. Barclays CEO Jes Staley looked awkward and contrite as chairman John McFarlane defended him against repeated calls for resignation following allegations relating to a whistleblowing incident. Over at Lloyds the mood was more upbeat. CEO António Horta-Osório looked serene as he reported a much-improved financial position ahead of the Government's imminent sale of its remaining stake. His confidence was evinced a few days later by his own purchase of 50,000 shares in the Group.

Away from the headlines both Barclays and Lloyds have been divesting non-core and overseas operations, assuming a smaller, more domestically focused footprint that is more closely aligned with the social and economic development of the UK. To demonstrate their social commitment to the UK, both banks are pursuing initiatives in financial education. Money skills are part of Barclays' 'LifeSkills' programme, alongside people skills and work skills. Lloyds has a more focused 'Money for Life' programme. These initiatives are aimed at schoolchildren and young adults and could be seen as a timely response to the financial illiteracy that contributed to the 2008 financial crisis. From the ethical investors' perspective they are important building blocks in the 'societal' pillar of corporate social responsibility, the others being environmental and governance. To that extent they are part of the banks' efforts to restore reputations that were tarnished during the crisis years.

The moves in the UK are mirrored elsewhere. In Spain, where the 2008 crisis was exacerbated by mis-selling of financial products such as preference shares and mortgages secured on near-worthless real estate, the retail bank BBVA (formerly Banco de Bilbao, whose London presence dates from 1918) has founded the Center for Financial Education and Capability, a digital platform focused particularly on Spain and the Americas. I have been invited to attend the Center's events as an arm's length observer and look forward to hearing examples of best practice in financial education.

UKSA's own educational endeavours have centred on the classes run by Diarmuid (Dee) O'Hare in Brighton. Now in the second year, Dee has compiled and hosted a series of evening presentations on subjects including investment basics, retail shares, ISAs, executive pay, investment trusts, tracker funds and financial statements, in some cases with much-appreciated support from other UKSA members.

The need for education on share investing is clear. Having talked to individual shareholders at around a dozen AGMs this year, I am left in no doubt that many investors are unaware of the risk of disenfranchisement resulting particularly from the use of pooled nominee accounts and the dominance of institutional shareholders.

The challenge in a local group is to manage the inevitably mixed knowledge levels. Dee succeeds by delivering serious content leavened by fun elements such as the monthly top-20 UK companies share competition. The sessions typically run for up to two hours from 6pm at the Victory pub in the centre of Brighton. All current and potential UKSA members are warmly invited. To find out about upcoming events, call the UKSA office, look for UKSA Brighton & Hove on Facebook or follow @UKShareholders on Twitter.

By Helen Gibbons
Media Director

The Secret of Gambling

By Malcolm Howard

Being basically idle and wanting to earn money without too much effort, I have spent many years researching the secret of gambling. The discovery came about when I researched why it was so difficult to win on the horses. The secret is that you can only win on the horses in the long term when the bookmakers get the odds wrong; but they are experts and rarely do. Those with inside knowledge may win because the opening odds will reflect the horse's form and will not take into account the improvement they know about, but once their bet is on the odds will come tumbling down. In other words, the betting market is a 'perfect market' as just before the off the odds will reflect all known information. Now, given this, as bookmakers build into the odds a margin in their favour they are guaranteed to win in the long term. Therefore it follows that punters betting at starting prices must lose in the long term.

That is not to say that those gambling against the odds cannot win. Some get lucky and some make fortunes by betting on the lottery. But what we can say for certain is that the majority of gamblers lose. So what is the difference between a gambler and an investor? Well, they can be defined as follows:

A gambler (for example, a punter) is someone who bets when the odds are against him.
An investor (for example, a bookmaker) is someone who bets only when the odds are in their favour.

Unlike the horse race betting market, the stock market is imperfect and therefore it gives investors the chance to win when the market has 'got the odds wrong'.

You can classify companies on the stock exchange into two categories:

- Speculative investments; and
- Assessable investments.

Anyone investing in speculative investments is gambling; they cannot know the future and are merely hoping their investments will come good. Such companies often experience volatility in their share price. Examples of speculative investments:

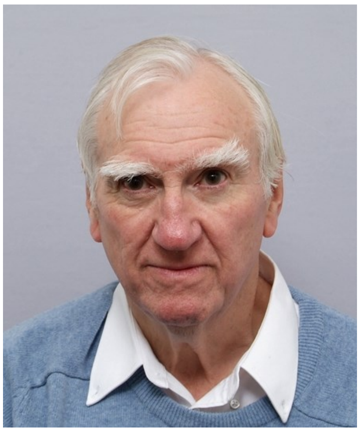
Rolls Royce – made a £4 billion loss in 2016 (but generated operating cash of £1.4 billion in the process) and at 31 December 2016 had a net debt of nearly £6 billion, although £5 billion of this related to derivatives. Given these derivatives what happens next is merely speculation.

Royal Bank of Scotland – never made a profit since being bailed out by the government. The bank lost £7 billion in 2016, after losing £2 billion the previous year. Asset backing for the share price is steadily deteriorating.

Tesco – Lost close to £6 billion in 2015, but made a profit of £129 million in 2016. However, at 27 February 2016 had net debt of £8.6 billion, equal to 106p per share. Booker takeover might improve things, but it is impossible to predict the future. Being embroiled in false accounting accusations adds mud to the water.

BHP Billiton – Lost $6.4 billion in 2016 after making a profit of $1.9 billion in 2015. At 30 June 2016 net debt stood at a staggering $25 billion. Add into the equation commodity prices and we have a great deal of uncertainty.

Assessable investments relate to companies that make a profit, generate cash and usually pay a dividend. In these cases it is possible to compare the growth built into the share price with the projected growth



Malcolm Howard

based on historical values and what can be gleaned from 'analyst' style meetings. This, of course, is where UKSA meetings can be extremely useful although you have to remember that 'investor relations managers' tend to be over-optimistic and you have to be able to read between the lines. BP plc is an example of this:

BP – Lost $9.6 billion before tax in 2015 and a further $2.2 billion in 2016. The problem is that Income Statements include judgemental adjustments and only the Cash Flow Statement shows the true picture. Here it could be seen that the company is in a downward spiral. $33 billion of cash was generated in 2014, but this fell to $19 billion in 2015 and $11 billion in 2016. At the UKSA meeting we were told that $9 billion of cost and capital had been delivered one year early, so why had net debt increased from $27 billion in 2015 to $35 billion in 2016? The 'gearing ratio' is defined as 'long term debt divided by capital employed x 100'. On this basis, the company's gearing ratio was 36.9%, yet we were told that by the end of 2017 this ratio would be between 20% and 30%. We were told that the strategy was 'getting back to growth' but whether this happens or not is purely speculative.

Growth calculations are based on 'effective earnings per share' (eeps). This is defined as 'cash inflow from operating activities before movement in working capital, divided by the number of diluted shares.' Having assessed what a share price should be, the figure calculated should be discounted for risk. The greatest risk is debt because being unable to borrow more when a key payment is due (such as corporation tax) is what leads to liquidation. Having high and increasing inventory days or receivable days is a potential problem, as is having significant liabilities on the company's pension scheme. But after all this, we are asking: has the market got the odds wrong? Examples of assessable companies and potential risk are as below:

Waterman Group – Annualised EEPS = year to 30/6/15 – 7.6p, year to 30/6/16 – 11.3p and six months to 31/12/16 – 13.9p. The company had no debt and cash balances in the same three accounting periods were £4.7 million, £5.9 million and £7.0 million. The company had no inventories and debtor days were 137 days, 123 days and 121 days. There was no retirement benefit deficit. There was no assessable risk and at 75p the share price was suggesting 11% negative growth when the company was clearly growing in terms of both profit and cash generation. The market had clearly got it wrong as was confirmed in mid-May when the company received and accepted a takeover bid of 140p per share.

Titon Group – This is another company visit organised by UKSA. EEPS from 30/9/14 to 30/9/16 moved from 15.6p per share to 17.9p per share and 19.6p per share. The company had consistent cash balances of around £2.5 million and no debt, which was proved by the fact that each year the company earned interest rather than paid it. There were no pension liabilities. At 120p per share there was 7% negative growth built into the share price, whereas the company was clearly growing, but there was a potential problem in that inventory days had moved from 88 days to 100 days and debtor days had moved from 82 days to 103 days. This was a risk and the assessment had to be made whether this was a temporary problem or a major problem that would become significant. Then the company issued its interim figures for the half year to 31 March 2017. Growth was still there (the rate had slowed slightly) but inventory days were back down to 91 days and debtor days were down to 88 days. The share price shot up to 168p. Readers can make their own judgement as to what it should be.

The message is that if you are a lucky gambler you might win, but overall and in the long term investors will achieve a better return.

by Malcolm Howard

Reflections on corporate governance issues – the purpose of company reports.

The following article was written by Ian McDonald Wood. Ian runs his own business, FutureValue, which specialises in assessing standards of corporate governance. One of FutureValue's main beliefs is that there is a strong link between high standards of corporate governance in businesses and the levels of shareholder value that they create over the medium to long term. FutureValue's analysis of corporate governance standards is based on information contained in the annual report – information which is in the public domain and available to anyone who cares to seek it out. Over a number of years the Company has devised a comprehensive set of metrics which it uses to make its assessments.

Ian regularly posts blogs on the FutureValue website. Members can read these and view a summary analysis of FutureValue's assessment of corporate governance performance for FTSE100 companies by going to: www.futurevalue.co.uk

Ian's article (below) prompts some interesting thoughts for shareholders.

Re-focusing corporate reporting

by Ian McDonald Wood

A core pillar of UK corporate governance is the pivotal role that shareholders play in supervising both the performance of Boards and the enforcement of their rights as owners of the company. That is why corporate reporting addresses shareholders to enable them in this role. But do shareholders remain the right primary audience for Annual Reports? The globalisation of equity investment driven by digital technology has changed radically the shareholding profile of UK-listed public companies over the last decade. Altered composition and reduced duration of share ownership have eroded a mainstay of the joint stock company concept – the effective separation of ownership and management where shareholders oversee the performance of their executive. Arguably, corporate governance needs to evolve faster and more radically than the outgoing Government envisaged if the UK is to retain its vaunted role as a global leader in corporate governance. The options and most suitable course of action may not be desirable to all parties.

The FRC maintains unequivocally that: "*The overriding objective of the strategic report is to provide information for shareholders …*". Much of reporting regulation and legislation of the last two decades has been aimed at stimulating this. Indeed, the most recent BEIS Committee Report on Corporate Governance (5/4/2017) foresees considerable evolution of corporate governance, yet still sees a central role for shareholders as enforcers of that governance, supported by a more effective, better resourced regulator. Yet the proportion of active shareholders in UK companies prepared to engage with their respective Boards dwindles at an alarming pace. While BEIS has acknowledged this reality in its recent report, using data confirmed also by other expert commentators, it has recoiled from any truly radical solution.

The statistics are various and all point in the same direction. BEIS reports that institutional shareholders are tending to have more diverse portfolios with small shareholdings in many companies. Chris Hodge in his authoritative paper on the Future of Governance (ICSA) adds some colour to this. UK pension funds and insurance companies owned just 10% of UK equities in 2014, down from more than 50% in the early 1990s. He adds that the UK equity market is much less important to UK investors than it used to be with the majority of UK shares held by institutions outside the UK. The speed of this reduction is remarkable, as represented in figures from the Investment Association whose members, Chris says, hold and manage only 13% of their assets invested in UK equities in 2016, down from 25% as recently as 2007. Over a similar period the percentage of assets allocated by defined benefit pension schemes to UK equities fell from 32% to 10%.

Not only is the proportion of UK equities held by UK investors diminishing rapidly, the duration for which these dwindling percentages are held is also contracting. The average period for which shares are held today is only 6 months – it was reportedly 6 years in 1950. This rapid decline in UK equity holdings relates to individual investors as well. Around 10% of equities are held by individuals today where it was more than 50% fifty years ago, although one suspects individual investors remain more likely to hold for the longer term.

Can it be right then for UK corporate governance to continue to rely on shareholders as the overseers and enforcers? BEIS quotes Andy Haldane of the Bank of England who talks of: "*a more dispersed and disinterested ownership structure*" with what he refers to as "*ownerless*" companies. It is small wonder then that executive pay has got out of control if there is no longer either adequate check or balance on this burning issue by way of engaged ownership.

So, why retain shareholders as the primary audience of corporate reporting? The answer is probably because the only two other options are less than palatable while at the same time challenging. The first option is more stringent legislation that moves away from a principles based reporting framework, with its 'comply or explain' philosophy, to a rules-based approach. Here Government and its regulator would take over fully as the enforcers of good behaviour by Boards and the corporate executive. Who would this serve and what value would there be to investors in purely compliant reporting that will ultimately observe merely the letter of the law? The second option is to give the oversight and enforcement role to a broader group of stakeholders of which shareholders are primus inter pares. BEIS recognises the role of stakeholder advisory panels as being "*a useful forum in which meaningful collaboration, consultation and dialogue with all stakeholders can take place*" and wants to see companies report on how they engage with the various parties, but seems to shrink from any more enshrined enforcement role. If the UK is to retain its vaunted role as a leader in corporate governance Government and its regulator will need to think and act more radically. Corporate reporting will need to re-focus accordingly.

by Ian McDonald Wood

UKSA donation appeal

Members with email will already have received the following Appeal:

Dear Member,
You will remember that last year we asked for special donations from members who can afford it and appreciate the work that UKSA is doing. We are extremely grateful for the response, which enabled UKSA to make a small profit, the first for several years. We want to continue the practice rather than raise the subscription, charge for specific benefits or compromise our independence by accepting commercial funding.

To quote last year's appeal: 'we are prevented from doing many of the things that we want to do by a shortage of funds'. To put it more bluntly, the more we get the more we can do. If you value UKSA please make a donation at HSBC, sort code 40-46-21, account number 31342606, ref DONATION, or by cheque to UKSA at Chislehurst Business Centre, 1 Bromley Lane, Chislehurst, Kent BR7 6LH.

Thank you

John Hunter
Chairman

Andy Agathangelou

Andy Agathangelou

All of Andy's work revolves around the idea of 'enlightened self-interest' – the business ethics philosophy that by doing good you can do well. Andy believes that collaborative, campaigning communities are a pragmatic approach for like-minded people to drive positive change.

He is the Founding Chair of the Transparency Task Force, the collaborative, campaigning community dedicated to driving up the levels of transparency in financial services, right around the world.

Andy is also: Founding Chair at the Technology Task Force, Governor at the Pensions Policy Institute, Member of the Independent Advisory Board to the Investment Association, Founding Chair at Friends of the Association of Member Nominated Trustees, Founding Chair at Friends of Automatic Enrolment and Chair of Pensions BIB.

Transparency Task Force

by Andy Agathangelou

1. The purpose of this article

This article has been put together to explain why the Transparency Task Force was formed, what it is doing and why it is superbly aligned with UKSA.

2. About the Transparency Task Force

The Transparency Task Force is the collaborative, campaigning community, dedicated to driving up the levels of transparency in financial services, right around the world.

We believe that higher levels of transparency are a pre-requisite for fairer, safer and more efficient markets being able to deliver better value for money and better outcomes to the consumer.

We seek to operate in a co-operative, collegiate and consensus-building way, focusing on solutions not blame and we are perhaps unique in being made up of a truly pan-industry cross-section of members, trade bodies and professional associations. As such we are well-placed to establish consensus that does not merely reflect the wishes of one particular 'tribe' or another and are therefore able to strive for a win/win/win; whereby consumers, market participants and the efficacy of government policies can all benefit from the work we do.

Furthermore, because of the correlation between transparency, truthfulness and trustworthiness, we expect our work will help to repair the self-inflicted reputational damage the Financial Services sector has suffered for decades.

3. "Sunlight is the best disinfectant"

That beautifully simple phrase sums up what the Transparency Task Force is all about. We believe that market behaviour is improved when it is visible; and conversely, that behaviour that is able to take place 'in the shadows' tends to be at the expense of the consumer.

This is because the sector has been notoriously opportunistic, using obfuscation and opacity to enhance its profit margins at the expense of the consumer; profiting from things being kept hidden - sometimes deliberately, sometimes not – things like the true costs of investing, the true performance of products and the true risks to the consumer of the financial services products they might buy.

This has a detrimental impact on two fronts: it completely undermines the efficient workings of the market and it also jeopardises social justice; a state of affairs that must not be allowed to continue.

There are no easy answers to these problems but let's get straight to some home truths: every time there is a scam or a scandal it hurts the sector as a whole, not just the guilty; and every time, for example, that an asset manager is shown to be withholding information on costs or obfuscating around performance figures it hurts the industry as a whole, not just the particular firm involved.

We have a collective interest in stamping out any market behaviour that reflects badly on the industry as a whole, but it won't be easy. Part of the problem is that trustworthiness is an outcome not an input; you cannot control how trusted you are, but you can control factors that are conducive to greater trustworthiness; and it's on that basis that we need to recognise the very special qualities that transparency has because it is a lever we can all pull on.

I would argue that it is easy to see the correlation between transparency, truthfulness and trustworthiness: greater transparency does lead to greater truthfulness; which in turn, over time, will lead to greater trustworthiness. It must make sense therefore for all parts of the industry to support efforts to drive up transparency; our collective reputations quite literally depend on it.

4. Teams of volunteers

Opacity is 'a festering sore on the face of financial services' and we need to work collectively to treat that sore. If we do this well then everybody wins; other than those that don't deserve to. Those of us who care about the sector and the people it serves can, and should, work together to help put things right. Let's stand up, not stand by; and let's take heart from the famous quote by Margaret Mead: 'Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has'.

It was with that sentiment in mind that we put out a clarion call for volunteers and I'm delighted to report that market reaction to what we are doing has been extremely positive and supportive; so much so that in under two years we now have over 160 people involved. They are organised into seven teams of volunteers, each team focused on a set of transparency-related issues and desired outcomes; and each working on a project that will help make a difference:

- The Banking Team
- The Market Integrity Team
- The Foreign Exchange Team
- The Costs & Charges Team
- The Stewardship & Decision-Making Team
- The International Best Practice Team
- The Scams & Scandals Team

We're looking for more volunteers so please do get in touch if you'd like to become 'part of the solution'.

5. Our strategy for driving the change that is needed

Our strategy for driving the change that is needed is to bring together two types of people:

#1, Those with a sense of 'passion & purpose' about what needs to be done – such as ethically-minded financial services professionals, enlightened market participants, thought leaders, pro-consumer campaigners and leading academics involved in our teams;

#2, Those with the 'power & position' to make it happen – such as regulators, politicians, financial services leaders, trade bodies and professional associations.

By finding ways to bring these two groups together we know we can influence developments. A good example of that took place at the House of Commons in September 2016; we organised the first Transparency Strategy Summit in the world. We had attendance and participation from the Financial Conduct Authority, the Pensions Regulator, the Department for Work & Pensions, the Treasury, The Investment Association, the Pensions Advisory Service and many other Trade Bodies and Professional Associations plus several highly respected thought leaders – it was a great event that led to some very worthwhile outputs.

6. The Transparency Times

We have been publishing a monthly online magazine, the Transparency Times, since May 2016. It now goes out to over 6,000 people and is available free of charge. It carries articles that support the idea that greater transparency is needed in the financial services industry.

Contributors have included academics, politicians, market participants, thought leaders, regulators and so on.

7. Special event on the 17th May

Our most recent Symposium was on 17th May; dedicated to a question of fundamental importance to the pensions industry:

"What is the true purpose and potential of the Pensions Industry?

This was a highly impactful and thought-provoking event, designed to galvanise support for the idea that there is wisdom in establishing purpose as a bed-rock for thought leadership and policy-making.
The symposium was particularly interesting to those that hope and believe that the pension capital markets could, and should, become a 'force for good' for our planet and society as a whole; as well as enabling the efficient provision of financial security in old age. It particularly appealed to those interested in the development of a more progressive approach to pensions policy-making and who believe that Socially Responsible Investing and Environmental, Social and Governance factors are important.
As Tracy Blackwell, Chief Executive of Pension Insurance Corporation put it so brilliantly recently:

"It's hard to lose your way as an industry if you focus on the why!"

Perhaps it is possible for the pensions industry to formulate an over-arching vision statement articulating what it aspires for its purpose to be?
Would such a vision statement help to guide and steer pensions policy?
Maybe it would to create a sense of collective purpose amongst pension professionals?
We are hopeful that this event will help to galvanise support for the idea that the pensions industry could, if it chose to, become a key driver for improvements on many fronts that are of such grave concern to so many. This conference will be used to share insights on this most-vital of all topics and if all goes to plan delegates will have the chance help build consensus on how the pensions and investments industries accept their responsibilities moving forward.
Presenters and panellists included:

- John Hunter, Chairman, UK Shareholders Association
- Tony Greenham, Director of Economy, Enterprise & Manufacturing, the RSA
- David Pitt-Watson, Executive Fellow, The London Business School
- Leon Kamhi, Executive Director: Head of Responsibility at Hermes Investment Management
- Catherine Howarth, Chief Executive, ShareAction
- Nicholas Morris, Visiting Fellow at the Martin School, Oxford; Adjunct Professor, Faculty of Law, New South Wales

- Hugh Wheelan, Managing Editor, Responsible Investor Magazine
- Steve Conley, Managing Director, Workplace Pensions Direct
- Nico Aspinall, Chair, Resource and Environment Board, Institute & Faculty of Actuaries
- Tracy Blackwell, Chief Executive, Pension Insurance Corporation
- Henry Tapper, Founder, the Pension PlayPen

8. Naturally aligned

I have been very impressed by the insight, integrity and intent of UKSA's leadership and I think the dialogue between UKSA and the TTF to date has been very encouraging. It is clear that we are naturally aligned on many issues and there is a healthy appetite on both sides to explore how we can be mutually-supportive. Collaboration is key, especially when there are so many vested interests to be overcome.

Andy Agathangelou
Founding Chair, Transparency Task Force

ShareSoc Survey Report

The AGM papers sent to all members included a survey on members' attitudes towards further co-operation with ShareSoc. The results of the survey were announced at the AGM and informed the discussion there.

You may remember there were three questions, asking your attitude to increasing co-operation with ShareSoc on three different levels, defined as:

'continue to co-operate'
'co-operate wherever possible in pursuit of our common aims'
'co-operate wherever possible in pursuit of our common aims with the hope of an eventual merger'

87 members responded to the survey - 15% of membership. The voting was as follows:

		Agree	Disagree	Undecided
1	Continue to co-operate	81	3	3
2	Co-operate wherever possible	67	11	9
3	Aim for an eventual merger	55	17	15

The meeting was also attended by UKSA member Mark Northway, ShareSoc Chairman, and there was a helpful and constructive discussion. Advised both by this and the survey we will continue to develop the relationship, particularly on the policy front.

The point was made at the meeting that ShareSoc and UKSA have similar aims but rather different styles. ShareSoc pursues shareholder advantage without distinction, with an emphasis on smaller companies (which after all is where many of the corporate sins are committed); UKSA is more focussed on promoting the private shareholder as a force for economic and social good, thus benefitting all of society. These slightly different aims embrace a large overlap in campaigning activity, particularly – currently - the denial of shareholder rights to private investors.

As yet there do not seem to be enough advantages to be gained from a full merger, certainly not enough to overturn the quite strongly held objections from some members, but I wouldn't like to say that this is set in stone for the future.

John Hunter

The People's Trust – a new approach to saving

by Daniel Godfrey

When The People's Trust is launched as a new investment trust on the London Stock Exchange in October, it will be the product of my thirty-five year journey in financial services. It has been a frustrating journey. This is largely because investment has so much potential to improve the lives of investors, the economy and society and yet this potential is largely unfulfilled. It's unfulfilled because the chain of capital that starts with the investor (by which I mean the ultimate beneficiary of the investment) and which leads to its ultimate deployment in the economy (via financial services, investment management and capital markets) is for the most part a dysfunctional chain, burdened by short-termism and conflicts of interest.

The tyranny of the short-term

It's all about time horizons. When it comes to investment, we typically have objectives that are decades over the horizon. At the least, they are several years away. If the need for the cash is less than that, the short-term risks of investment markets are best avoided. And yet the markets obsess about short-term volatility and short-term performance.

I would define the purpose of investment as being "sustainable wealth creation." And yet if we were to examine the aggregate activity and behaviour in the capital markets, it would find that they are not geared to that goal. Instead, one could infer that capital markets exist to extract as much rent as they can from capital as it is transmitted through (and spun round) the chain and that investment management exists to "beat the market" or at least to "beat the competition." This is simply not consistent with an objective to maximise sustainable wealth creation.

It is obviously deficient in that it costs investors far too much of their hard-earned savings, but the bigger cost is the way in which short-termism infects the non-financial economy. Investment managers control a substantial majority of votes at most listed companies. Their influence and the influence of ever-shorter-term analysts at investment banks who want to drive trading in shares brings enormous pressure on Boards and Chief Executives and has been well-documented by McKinsey and others. These short-term pressures rob investors of long-term returns. They deny employees better, more secure jobs. They diminish employment, productivity and GDP growth in the economy. And they constrain the steps that companies will take to protect the environment.

Index-benchmarking; fool's gold

There is no better example than the way in which so many investment funds make their objective to beat an index. It's almost impossible to beat an index every year, but it is very easy to ensure that your fund doesn't fail by too much. The law of averages ensures that you are very likely to beat the index at least one year in three and is a recipe for what I would describe as "sustainable failure."

The way to do it is to build a portfolio that looks quite like the index but taking some small bets around it by being "overweight" in shares that the manager thinks will do well and "underweight" in shares they think will do badly. But for us as investors, why would we want to pay active fund managers to buy any shares for us in companies that they believe are going to do badly? Furthermore, whilst we want all the shares in our portfolio to do brilliantly, our fund managers now want the shares in which they are underweight to do badly because it improves their relative performance against the index and the competition. There are enough conflicts of interest in investment management without creating more.

The People's Trust

It has been my painful experience that the pressures and incentives in this chain of capital and investment are so strong that it is impossible to reform the chain from the inside. This is despite the fact that the vast majority of practitioners recognise the dysfunction. But individually, they do not have the power to change things.

The biggest changes needed are to realign the chain around the long-term time horizons of investors. If we did, we would invest for sustainable wealth creation to the benefit of investors, the economy and society. That's why I am launching The People's Trust as a new, independent investment trust with no commercial sponsor. It'll be a company, listed on the London Stock Exchange. Since you invest in the fund by buying shares, the customers own the company. It's truly a mutual. As it grows, all the economies of scale belong to you.

Daniel Godfrey

And to protect customers from the risk that employees allow their personal greed to cloud their judgment, The People's Trust will have no bonus schemes whatsoever. Instead, all employees will be paid a significant part of their basic salary in shares and they'll have to hold onto them for at least seven years. Our purpose is to deliver better returns for investors and to have a better impact on society.

Objectives and target

Our objective will be to optimise long-term, cumulative total returns as measured over rolling seven-year periods with a target compound return of 5% p.a. above inflation after costs. We believe that seven-year periods will allow us to invest in companies that we believe can deliver sustainable value creation over the long-term and we are confident that this will usually give our investors better returns without having to take more risk than shorter-term funds.

Our strategy will be to appoint three or four highly-qualified investment management firms to manage parts of our investment portfolio. They will be asked to manage for the long-term with a high-conviction, low- turnover approach that will, by definition, consider failures of responsibility to be the principal risks to capital. In addition, we intend to invest a small proportion of our capital in direct social impact investment. This involves making loans to community interest companies and charities providing services that tackle deprivation in some of the most deprived parts of the UK. This is not philanthropy. We aim to make a modest return, but you'll know that this money is being used for good.

Become a Founder

If you'd like to find out about becoming a Founder and helping us meet our set-up costs, visit our website at www.thepeoplestrust.co.uk. You can become a Founder for £20 (£10 for Under-35s) and it's our intention that Founders will be offered a small discount to the public offer price at the IPO in October.
You can join now and start making investment work better for everyone.

by Daniel Godfrey

Daniel Godfrey has spent over thirty years working in investment management as a communications professional and CEO. Most recently he led the Investment Association, the trade body for the UK's £6 trillion asset management industry. He served on the Board of The Investor Forum, a community interest company he founded whilst at the IA to promote long-termism among asset managers, asset owners and companies. He is an NED of Digital Moneybox, a new fintech app that enables people to round-up their digital spare change into an ISA, and Big Issue Invest Fund Management, the social impact investment arm of the Big Issue. He is a Co-Founder of The People's Trust, a new long-term mutual investment company, which has crowdsourced its start-up costs of £100,000 from over 2,300 members of the general public, who joined him as co-Founders in late 2016. The People's Trust is due to launch in October 2017 with a long-term total return objective and a social impact component.

Daniel was forced out of his influential job as Chief Executive of the Investment Association when a small number of members threatened to resign over his reform agenda.

Letters to the Editor

RBS: A flawed initiative

Dear Editor,

Perhaps because it was done hastily, the recent attempt to get a resolution on the RBS AGM agenda was ill thought out. It is not surprising that it was rejected by the RBS board.

This was an obvious attack on the performance of the board in discharging its duties. Had the resolution been tabled, it would without question have been massively defeated, by the very interests it was challenging, namely the major shareholders whose shares gave the board 99% support on every resolution at the 2016 AGM. The proposal would have been a dead parrot.

The concept of a shareholder committee, as presented in the proposed resolution and in UKSA's response to the recent Green Paper is itself flawed. Great claims are made for the presumed benefits of a shareholder committee as described, but these claims are dubious at best. Bringing different interests together in a committee is no guarantee that that a common voice will emerge and if one doesn't then what would be the point? Furthermore, what is the point of having a single private shareholder sitting in a committee dominated by institutional investors and (quite possibly) hedge funds all of which, unlike the private shareholder, are using other people's money?

It is a shame that established UKSA policy was overlooked, or ignored. In a 12 point manifesto, approved by members at our 2010 AGM, UKSA calls for *private* shareholders' committees to be established. Private shareholders do have a common interest, because, almost uniquely, their own money is at stake. This point was put by UKSA to Sir David Walker in 2009, as he was preparing his corporate governance review of banks and other financial institutions – and he was sufficiently impressed to commend it, explicitly, in his report.

Considerable work was done in 2009, by UKSA's then policy team, on how private shareholders' committees could be made to work. The objective was to give a voice to collective private investor interests, in a carefully representative way, as a balance to the influence exercised by major shareholders. Companies are obliged to engage with the latter by the Corporate Governance Code, but its author, the Financial Reporting Council, has consistently failed to balance this with provisions to enable private investors' interests to be given their due weight. There are many matters of interest to private investors, as is regularly demonstrated at the company meetings enjoyed by UKSA members: our questions are frequently praised for their perceptiveness.

It would have been good if our Green Paper response had included reference to our relevant manifesto objectives, to the work that has been done to show how these can be achieved and, not least, to the relevant paragraph in the Walker Review of Bank Corporate Governance. That commendation would also have been a good starting point to engage the RBS board – and the government – in negotiation, rather than an attempt to use section 153 of the Companies Act.

If UKSA is to maintain the campaigning strength it has developed in recent years it should be consistent in its objectives, because then these can be seen to be based on principle. When initiatives are taken that are simply a reaction to the latest boardroom outrage, government initiative or transitory event, they can too easily be brushed away.

Eric Chalker

Investment Intermediaries

Dear Editor,
Having been a member since December 2008 this is the first time I have submitted anything to be considered for publication.

The latest issue of The Private Investor contains matters which I feel deserve some comment.

Firstly it is important to recognise the we ordinary members of UKSA owe an enormous debt to all those who give much of their time to the service of the membership entirely voluntary and receive hardly, if any, thanks.

The excellent article by Martin White, our former Chairman, points out how many fund managers live on their investors' funds irrespective of performance taking the same percentage even if the fund value has dropped. I have tried many times, completely without success, to find a manager who will take a percentage of the portfolio "gain" ie nothing if value has dropped.

Why HM Government ever agreed to force us to invest via a manager with an ISA seems strange. It obviously was a success of the fund management industry. Yes we can select shares ourselves, but not own them, and still have to pay to have them owned by a manager who gets any "perks" available and obtaining Company reports and ability to attend company AGMs are a chore.

It has to be accepted that individual private investors is a very small proportion of the total number of shares in issue. UKSA has been unable to significantly increase its membership which would be necessary to influence government policy, particularly when compared to fund managers numbers.

"Numbers" are vital when talking to government. That is why I suggested closer co-operation with ShareSoc two years ago at the AGM but then the members rejected the idea. With the benefit of hindsight maybe it was a mistake to fall out with Roger Lawson, Stan Grierson and Eric Chalker. Maybe the reason Martin White's submission in 2012 was ignored was because of the numbers influence. It is gratifying to note closer co-operation with ShareSoc.

To help members take more control themselves, within legal boundaries, an idea may be to organise occasional members' "get-togethers" in small groups to exchange ideas on share selection to avoid using funds. There are some places like pubs that offer a free meeting room if attendees agree to buy a meal before or after the meeting.

Shareholder committees will only work if private investors can be properly represented.

Regarding the Board-Room pay question the same applies in that it is quite inequitable to reward failure, eg the recent increase for the Chairman of Southern Rail who completely failed to get a grip on managing industrial relations. Here again the fund managers, as legal owners of the shares belonging to their members, had no interest in doing anything about it as their own remuneration would be unaffected.

Incentives only work if they are effective and recipients can see the effect which should include zero for failure. In the company I worked for many years, 10% of the net profit, before tax, was distributed to all the staff, from the board members to the most junior, in proportion to their salary which rose or fell directly according to the results. It was paid at the end of the sixth month after the year end. Board members did not receive any other incentive.

Edgar H Ring

UNITED KINGDOM SHAREHOLDERS' ASSOCIATION - CURRENT UKSA EVENTS

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

SHAREHOLDER MEETING WITH TOTAL– Thursday 8th June 2017 **Mike Sangster, Senior Vice President Investor Relations**	
Location	**10 Upper Bank Street - Canary Wharf - London E14 5BF**
Assembly	**11:00 onwards**
Meeting start 11:30, Lunch 12:30, Meeting finish 13:30, Room capacity: 17	
Company Contact	**Individual Shareholders Relations (020 7719 6084)** **actionnairesindividuels@total.com**
Group Leader / UKSA Organiser Nick Steiner (020 8874 0977) n.steiner@btinternet.com	
SHAREHOLDER MEETING WITH YOUNG AND CO.'S BREWERY, P.L.C. - 15th June 2017 **Patrick Dardis (CEO) and Steven Robinson (CFO)**	
Location	**Riverview Restaurant, The Boathouse, 32 Brewhouse Lane, Putney SW15 2JX**
Assembly	**10:30 onwards**
Meeting start 11:00 am, Buffet Lunch 12:00 - 13:00, Room capacity 40	
Company Contact	**Claire Cooper** **claire.cooper@youngs.co.uk, tel.: 020 8875 7108**
Group Leader / UKSA Organiser Nick Steiner (020 8874 0977) n.steiner@btinternet.com	
SHAREHOLDER MEETING WITH CLOSE BROTHER PLC - Tuesday 20th June 2017	
Location	**10, Crown Place, London EC2A 4FT**
Assembly	**Coffee and small refreshments 11:00**
Presentation 11:15, Questions and answers 11:45, Meeting close 12:15, Room capacity 30	
Company Contact	**Eva.Hatfield@closebrothers.com**
Group Leader / UKSA Organiser Harry Braund (020 8680 5872) harrycb@gmail.com	

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 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 669 120 ahbirks@ btinternet.com	Social meetings to discuss investment issues	Meetings in Croydon monthly
South West	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	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 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 - presentation, Q&A, then socialising