UKSA
UK Shareholders' Association

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A real step forward

News came in just before we went to press that the Department for Business, Energy & Industrial Strategy (BEIS) had asked the Law Commission to investigate the system of intermediated securities in order to identify any legal issues and potential avenues for reform.

The Law Commission will be investigating matters that are close to UKSA's heart and on which we have campaigned for many years. Chief among these is the nominee system whereby we are the beneficial owners but not the legal owners of the shares we buy. The legal owner is the intermediary, in other words the nominee. As a consequence we have difficulty exercising voting rights and participating at AGMs. That is bad not just for us as individuals but also for companies' engagement with individual shareholders.

The Law Commission is a statutory independent body that aims to ensure that the law is as fair, modern, simple and as cost-effective as possible and to make recommendations for consideration by Parliament.

On its website the Law Commission points out that the system of intermediated securities has made trading significantly quicker, cheaper and more convenient. For example, it is now possible for individuals to buy shares in a matter of minutes and to see all their holdings in one place.

But it also acknowledges concerns about the effect of intermediation on corporate governance and transparency and highlights uncertainty over what legal redress is available to investors if issues arise with their securities.

UKSA and ShareSoc have campaigned hard on these issues and have just issued a press release:

UKSA-ShareSoc welcome the commencement of the Law Commission review of the intermediated securities system.

ShareSoc Director Cliff Weight said: "12 million UK investors should be pleased that this review will look at reforms needed to ensure legal redress is available when needed. They will also be pleased that the law regarding the rights and protections of investors will be reviewed. This will help ensure better transparency for investors and accountability of directors to their beneficial owners."

UKSA Policy Director Peter Parry said: "We have been campaigning for shareholder rights for 20 years and are pleased to see our complaints are at last being heard and there is now hope that these issues will soon be addressed."

Shareholder rights have been eroded through the way the nominee system has been implemented. It is now timely to see how best these rights can be restored.

A system where the end investor is clearly recognised in law and shown on the shareholder register will be a great improvement. It is a fundamental pre-requisite of shareholder democracy.

For more information go to www.lawcom.gov.uk.

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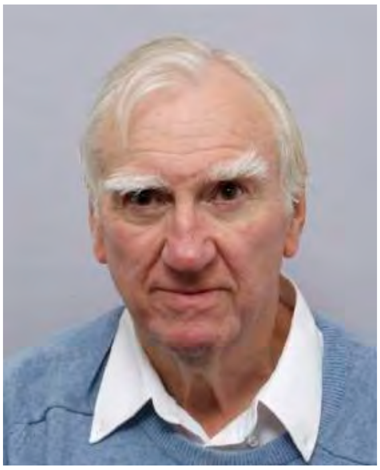
Accounting for risk

by Malcolm Howard



Valuing companies is extremely easy, apart from one thing – risk. With the exception of banks, building societies, property companies and investment trusts (valued on the basis of the market's view of the management team, not asset values) a share is simply valued as the discounted value of future earnings, which will obviously be greater if a company is growing. So, after the initial calculation, we are left with assessing risk. Unfortunately, there are many types of risk.

(1) Fraudulent accounting and fraud
Fortunately, it is possible to detect potential fraud by adopting a simple rule, which is: ***if it's too good to be true, it probably isn't***. Patisserie Holdings were declaring margins of 78% when competitors were struggling to maintain 50%. They were generating huge profits and mountains of cash while others in the business were either making a small profit or struggling to break even and had some borrowings. Then, if you bought a couple of small cakes from the company, they would be boxed up and put into an expensive carrier bag at no extra cost. In addition, they were cheaper than the competition. It didn't ring true and it wasn't.

London Capital & Finance offered allegedly low-risk bonds offering up to 8% interest; the company's marketing seemed to infer it had FCA approval. All of which wasn't bad considering National Savings were paying between 1% and 2%. But was it all true? Using the rule it would have been avoided, which is just as well as more than 11,500 private investors lost around £237 million.

(2) Imprudent accounting
This has been discussed in previous articles. Imprudence makes it difficult to assess risk.

(3) Trading in the USA
The USA has always been an inward-looking country; they don't like foreign companies making a profit on their patch or any company having more advanced technology. They insert a number of hurdles and if that doesn't work they adopt bullying tactics. In terms of 'hurdles' they beat off both Tesco and Marks & Spencer from trading there.

Bombardier is a Canadian company, with production and engineering facilities in 28 countries, including the UK. The US decided to cripple the company by putting on huge tariffs, one impact being the closure of the factory in Northern Ireland, which provides significant employment. The factory was doomed until Airbus bought a significant stake in the company, forcing the US to back off. This is a perfect example of how we will be vulnerable when we Brexit. The Americans will walk all over us.

Indivior is a UK-listed company that was spun off from Reckitt Benckiser in 2014. Much of its revenue is generated in the US from sales of its blockbuster treatment for opioid addiction. Obviously the Americans don't like that, so a Federal Grand Jury in Virginia has accused the company of an 'illicit nationwide scheme'. The indictment, including 28 felony counts, was issued after a six-year investigation by the Department of Justice. They wish to fine the company $3 billion.

Indivior believes the US Justice Department is fundamentally wrong and will contest the charges vigorously. They argue that the majority of charges relate to events that took place prior to the company becoming independent. In addition, any claims that SUBOXONE film was safer than tablets is supported by US research. In August 2016, Dr Daniel Budnitz, Director of the Medication Safety Program for the CDC, gave written testimony that he *'consider(s) child-resistant, unit-dose packaging to be an engineering innovation likely to reduce the risk of pediatric exposure on comparison to child-resistant, bulk-bottle packaging'.* This belief was supported by a June 2018 study of poison centre data published in the Journal of Pediatrics.

Now, the probability of a fine of $3 billion being paid is zero. It is a nonsensical figure. If we ignore liabilities, at 31 December 2018 Indivior had assets of $1.459 billion. If you take liabilities off, then net assets are only $0.066 billion. Assuming creditors are wiped out, by the time the accounting firm of administrators have taken their cut, there is unlikely to be $1 billion left. So the action is not to achieve justice; rather it is to destroy the company.

In June 2018, the shares were trading at 493p, but by November 2018 they were down to 206p. Then rumours sent the price down to 100p, before the bombshell of a charge sent them down to 24p. Risk-free, my valuation, based on the latest accounts, is 345p. So the gamble is what happens next. There are only three choices:

(a) Department of Justice backs off and agrees a settlement with the company (shares likely to go back to 100p);.
(b) Department of Justice loses case in court (shares likely to go back to 345p);
(c) Department of Justice wins case in court (shares will be valueless).

On the basis of different options we can calculate the Expected Value (EV). On course, the key to assessing an accurate EV is to presume reasonable probabilities. My guess is that there is a 50-50 chance that a settlement is achieved; if not there is an 80% chance of the Department of Justice winning. So, on this basis, the EV is calculated as follows:

100p	x 0.5 =	50.0p
Nil	x 0.4	0.0 p
345p	x 0.1	34.5p
EV =		84.5p

(4) Government interference
Shares in gambling companies, left alone, are certain winners; the bookmakers always win. So Paddy Power at £91 per share (soon to be called 'Flutter Entertainment'), GVC Holdings at 1,154p, IG Group at 955p, CMC Markets at 206p and Plus 500 at 2,043p were riding high. Then the government became concerned about problem gamblers and decided to reign in the gambling companies. So the maximum stake of FOBMs (fixed-odds betting machines) was reduced from £100 to £2 and with regard to the spread-betting firms losses had to be limited for retail customers. Only so-called 'professional' punters could carry on as before. The affect on share prices has been devastating: Paddy Power at £56.76 down 37.6%, GVC Holdings at 587p, down 49.1%, IG Group at 544p, down 43.0%, CMC Markets at 88p, down 57.3% and Plus 500 at 622p, down 69.6%.

(5) Boardroom Coups
Superdry plc began with the founding of cult clothing in 1985 by Julian Dunkerton and a former business partner; its first shop was in Cheltenham. In 2003 Mr Dunkerton joined forces with designer James Holder and Superdry was born. The business was floated on the London Stock Exchange in 2010 and has successfully expanded. In July 2015 the company entered into a 10-year minimum joint venture with an experienced Chinese retail operator.

In May 2018 the shares were priced at 1,526p and all seemed to be going swimmingly until the original founder, who had retained a stake, asked for a general meeting to be convened as he wished to return to the Board. Apparently, he was not happy with how things were going. The Board strongly opposed his appointment and asked shareholders to vote against the resolution that would allow this. However, while 74% of independent shareholders supported the Board, Mr Dunkerton (together with the other nominee, Peter Williams) was elected with 51.15% of the vote. The existing Board resigned en masse, either immediately or after a notice period. The shares fell to 456p, but have since recovered to 480p.

(6) Intangible asset write-downs
One of the problems associated with a high level of intangible assets is that when earnings do not justify their value we end up with a significant write-down. In the year ended 31 December 2017 Pendragon plc made a profit of £53.3m; a year later they declared a loss of (£50.5m). This looks extremely bad until you realise the loss was due entirely to a write-down of goodwill of £88.8m. Of course a write-down of goodwill has no impact on cash (the creation of goodwill does negatively impact cash as it is simply the difference between the amount paid for a business and its net asset value), but it looks bad and has a negative impact on share values. Pendragon's shares were trading at 28p towards the end of 2018; now they are 23p.

(7) Changes to Accounting Standards?
Tex Holdings plc is an established company involved in plastics, engineering and boards and panels. The share price has never been volatile, averaging 110p (peaking at 145p on June 2017) over the years, and while there was never any significant growth the dividends were good. On the morning of 15 April 2019 the share was priced at close to the average at 108p. Then the Board made the following announcement:

(i) For the year ended 31 December 2018 the company will make a modest loss.

(ii) The introduction of the new accounting standard (IFRS 15) affecting the recognition of revenue has had an impact on certain projects. In addition trading has been lower in the second half than previously announced.

(iii) There will be no final dividend.

(iv) The Group has become in breach of certain bank loan covenants.

As a result of this announcement the share price crashed to 84p (bid price) and within days was down to 68p.

So what had happened? IAS 11 and IAS 18 had been replaced by the new standard IFRS 15. This new standard set out the criteria for the recognition of revenue. In the past, companies simply took revenue in proportion to the work done (this was open to abuse, as in the example of Carillion), but companies had to apply certain tests. For example, revenue could only be taken if the performance obligations were achieved as specified in the contract. This new standard came into force on 1 January 2018, so it is a surprise that management were not aware of the potential problems when they were negotiating bank covenants.

Soon all was revealed. Fourteen days later, the company issued another statement: *After discussion with the Company's auditors, it is now evident that the auditor's opinion that accountancy standard IFRS 15 has not been the cause of the breach of bank covenants is correct. Rather, the cause of the breach has been weak trading in the second half of the year. It has now been impossible to complete the audited accounts for the year ended 31 December within the four-month permitted period and accordingly the Board today asked the FCA to suspend the listing of Ordinary Shares.*

(8) Auditor qualifying accounts and/or resigning

Ferrexpo plc's share price is very volatile, but by 19 April 2019 had risen to 301p. Then, on 23 April (just four days later), the company issued 'an amendment to the Full Year Results'. The change was simply that the expected capital expenditure for 2019 in the Chairman's statement should have read $300m instead of $220m. The revised full-year results were then reproduced, starting with the headline in bold: ***2018 Full Year Results: 40% increase in dividends to a record 23.1 US cents, increased capital investment and continued debt reduction.*** So it appeared that all was well then, but a cursory glance at the full report indicated this was not the case; the auditors had issued a **'qualified opinion'**. What this means it that the auditors have not received sufficient information so they cannot verify the accounts in full. They will give detailed reasons when they qualify accounts. The share price fell to 269p, but for those who did not heed this warning, worse was to follow. On April 26 the company announced: *Ferrexpo announces that its auditor, Deloitte LLP, has informed the company that it has resigned from its office as statutory auditor with immediate effect.* The shares crashed to 207p, but have since recovered to 222p.

(9) High level of debt

Most of the risks detailed above cannot be foreseen, but companies with a high level of debt and especially those where the balance sheet goes negative when intangible assets are taken out. In the April 2018 issue of the Private Investor I quoted eight shares that should be avoided as they met the above criteria. My article quoted the share price at 28 February 2018. Anyone investing £5,000 in each company would have seen their £40,000 investment fall to £26,230 or a loss of 34.4% of their investment. A £40,000 investment in an FTSE 100 tracker, would now be worth £40,079.

These companies were	Price at 28/2/18 (p)	Price at 25/5/19 (p)
AA	80	58.00
Babcock	652	460.00
Balfour Beatty	265	228.80
Capita	176	106.10
Centrica	143	92.80
Interserve	55	nil
Kier	1,037	281.60
Serco	91	130.00

So I got seven out of eight right! I could have included other companies. For example, Thomas Cook Group plc shares were 122p on 28/2/18; today they are 13p.

Notes:

The writer has bought Indivior shares at 25.2p and still holds. He has been a long-term holder of Paddy Power shares at an average price of 5,018p per share, but has sold 80% of his holdings at an average selling price of 7,700p per share. He bought IG Holding at 598p per share and still holds. He was caught out by Tex Holdings plc (average purchase price 100p) but sold the lot at 84p when the company announced it has breached banking covenants. All prices shown as 'current' are closing prices at 25 May 2019.

Conclusions

(1) Don't buy shares just because they offer high yields, unless the cash inflow from operating activities in the year is greater than total amount of dividends paid.
(2) Don't buy shares where the balance sheet goes negative if intangibles are taken out and there is a high level of debt.
(3) If a company has announced that they have breached bank covenants, SELL straight away.

Amadeus River Cruises

It was good to hear from **Peter Wilson**, a former director and good friend of UKSA, and especially to learn that he finds time to be a speaker on Amadeus River Cruises tours on the Danube, Rhine, Seine as well as other destinations.

Hands up all those who know the difference between a 'rights issue' and an 'open offer'! Are you sure you know the finer nuances of how they differ, and if so would you be confident explaining them to a friend? As experienced investors it is easy to believe that we understand investment terminology. However, as Cliff Weight explains, it is only when confronted with a real-life situation that we start to question our grasp of subtle differences that could have significant implications for investors. In Cliff's case, he has the opportunity to invest in the forthcoming M&S Rights Issue and the Egdon Open Offer. In both cases the companies are raising new money but the processes are very different. Here is what Cliff discovered…..

Rights Issues/Open Offers
Should I take up M&S and Egdon?

by Cliff Weight, Director, ShareSoc

I am quite keen on the potential of fracking in the UK and own some shares in Egdon. The USA has seen its economy transformed, as it moved very quickly to adopt this new technology and once again has become self sufficient in oil. Sadly (for me), the UK government has been slow to see the economic benefits of fracking and my investment in Egdon has languished. The company has just launched a £2m open offer to finance its next stages of development.

So, I am left with the choice. Shall I throw more good money after bad, or shall I hold on to my now much reduced investment or shall I sell the lot? With an open offer there is no option to sell the rights in the market. Interactive investor have told me my options:

Stock	EGDON RESOURCES NEW ORD GBP0.01 (SUB SHS CL
Event Type	Open Offer
Description	Open Offer
	Ex-entitlement Date: 16th May 2019 Rights ratio: 1-for-6 Subscription ratio: 1-for-1 Exercise price: GBP0.05 per new share New shares: 4th June 2019
	Egdon Resources plc has announced an Open Offer; your account has been issued with 1 non-transferable subscription share for every 6 shares held. Your options are
	OPTION 1: Do nothing (Default). Your subscription shares will lapse if you do not exercise them by our deadline date.
	OPTION 2: Exercise your subscription shares in full or in part. Under the terms of the open offer, each subscription share entitles you to 1 new share in Egdon Resources plc at GBP0.05 per share.
	OPTION 3: If you have exercised all your subscription shares on option 2, you may also apply for additional shares. Excess applications may be subject to scaling back. Refunds resulting from this are generally received back from the company within 2 weeks.
	If your sub shares are held within an ISA account, please be aware that the sub shares are not transferable and therefore the facility to take this Offer up outside of an ISA account is unavailable.
Entitlement	11,083.00
Latest Response Date	23:59 28/05/2019
Option	**Allocation**
Do nothing (Default)	0
Exercise Subscription Shares	0
Apply for additional shares	0

Next

There is a fundamental difference between a rights issue and an open offer, and Egdon has gone for the latter ("real" rights issues are unusual for micro-caps like Egdon, as they are much more costly and complex than an open offer, and are generally underwritten by investment banks, who wouldn't touch micro-caps).

In a rights issue, the "rights" issued to shareholders are usually tradeable instruments, which can be bought or sold on the market and have an intrinsic value as a result. Given that rights are invariably exercisable at a discount to the pre-rights share price, they can be valued in the same manner as a traded option (using the Black-Scholes model). Assuming that the rights can still be exercised at a price below the prevailing SP when they must be taken up, they can be sold in the market to other traders willing to take them up.

Unlike "rights" which are tradeable, the "subscription shares" are a concept invented by my broker. There is no mention of them in Egdon's documentation. Rights to take up the open offer are not transferable, are personal to the shareholder, and hence have no market value.

Another case is Marks and Spencer.

A 1 for 5 rights issue at a discount of about 32%. By contrast to Egdon, the Marks and Spencer offer is a "real" rights issue . The prospectus setting out the full terms has been published: https://corporate.marksandspencer.com/?pointerid=5ce7b7107880b21d943ebe32 The "nil paid" shares (the rights) will be issued to shareholders and become tradeable on 29 May 2019. Note this point on p112 (which is standard for rights issues as opposed to open offers):

"If you do not want to take up your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter or Share Service Form of Instruction subscribing for the New Ordinary Shares to which you are entitled by 11.00 a.m. on 12 June 2019, the Company has made arrangements under which the Underwriters will try to find investors to take up your rights and the rights of others who have not taken them up. If the Underwriters find investors who agree to pay a premium above the Rights Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of irrecoverable VAT), you will be paid for your share of the amount of that premium, so long as the amount in question is at least £1.85, except Qualifying Share Service Shareholders who will be paid regardless of the value, in pounds sterling by BACS payment to the mandated bank account registered with Equiniti Limited for the payment of dividends."

Note also that interactive investor advises that you have the option to sell your M&S rights, which is not the case for the Edgon as the open offer subscription rights are not tradeable or transferable. It is also important to note that the value of M&S shares "cum rights" (i.e. before 29 May) will be higher than when they go ex-rights, because shares purchased after the XR date do not receive the rights and hence lose the value associated with the rights. (in a similar way to the reduction in value of a share when it goes XD).

M&S has around 190,000 private shareholders; plus probably a similar number who hold their shares via nominees but are not counted by M&S in their figures for the number of shareholders. **Commendably, M&S wrote to ShareSoc and UKSA** and asked us if we had any suggestions and comments on their planned approach. I told them to do a S793 request to the platforms to identify the real numbers of shareholders they have.

They pointed out that typical private investor participation in rights issues was 40% for those who held their shares directly (i.e. in paper certificate or via Personal Crest Accounts) but closer to 90% for those who held via nominee. They wanted as many as possible of their shareholders to participate and have:

- Worked closely with their registrar Equiniti to develop an end to end process to enable shareholders to participate online, which they say is an industry first;
- Negotiated a reduced dealing commission of 1.5% with Equiniti, in place of their normal flat fee of £15 which might have deterred some small shareholders;
- Held two additional meetings of their shareholder panel; and
- Launched a dedicated webpage/site https://corporate.marksandspencer.com/investors/shareholder, which includes this useful guide to what is a rights issue https://corporate.marksandspencer.com/documents/rights_issue_190508.pdf

Interactive Investor sent me notification of the rights issue and the info below:

MARKS & SPENCER GP ORD GBP0.25

Corporate Action Status Update

MARKS & SPENCER GROUP PLC - RIGHTS ISSUE

Expected Timetable:
Ex-entitlement date: 29th May 2019
Rights ratio: 1-for-5
Subscription ratio: 1-for-1
Exercise price: GBP1.85 per new share
Our deadline: Expected to be 7th June 2019
New shares: 14th June 2019

Marks & Spencer Group Plc has announced a Rights Issue an ex-entitlement date of 29 May 2019.

Entitled shareholders will be issued with 1 right for every 5 existing shares held. Each right will entitle the holder to subscribe for 1 share in Marks & Spencer Group Plc at GBP1.85 per share.

On or just after 29 May 2019 we will issue rights to entitled shareholders and send a Corporate Action notification with full confirmed details of the right issue. We cannot accept elections for the rights issue until this has happened.

The options are expected to be:

OPTION 1: Do nothing (Default). Your rights will lapse if you do not sell or exercise them by our deadline date. You may be issued with a lapsed rights cash payment; this generally takes 4 weeks from our deadline date.

OPTION 2: Exercise your rights in full or in part. Under the terms of the rights issue, each right entitles you to 1 new share in Marks & Spencer Group Plc at GBP1.85 per share.

Sell Your Rights: If you are issued with rights, you may choose to sell some or all of your rights; this can only be done between the issuance of rights and our deadline date. If you buy or sell Marks & Spencer Group Plc rights in the open market, your current share dealing rate will apply.

NB: Please note, the above information is based on the recent announcement therefore subject to change. We will review the official documents upon receipt and send out a Corporate Action notice with the confirmed and verified terms of the rights issue.

It is not clear, from the ii website, that if you do nothing, whether you will or will not get a payment. It says you "may" do and I think this is a legal caveat because of issues around different countries. I think UK private shareholders will get the payment if they do nothing. As noted above p112 of the prospectus explains what will happen. But please don't be guided by my view. I am not authorised to give advice.

Should I take up the M&S rights?

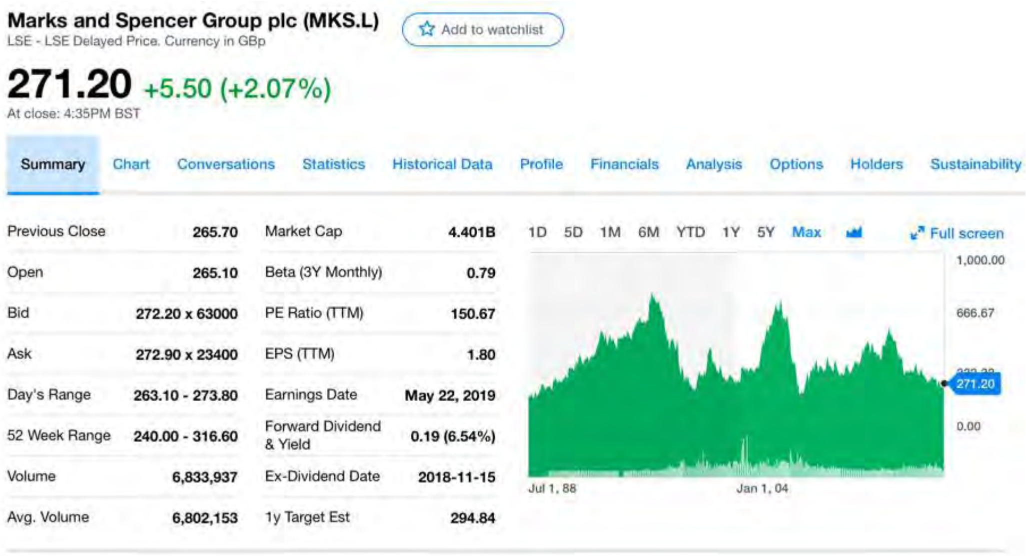
My usual approach to big rights issues is to wait until the very last moment and then decide. Many of the big players have to decide earlier in the process.

With deep discounted rights, I tend to feel I have to take up the rights, as otherwise others will profit at my expense.

I sometimes sell the rights in the market, but feel this is second best. I know that if I do nothing then I am giving value away to those who do take up the rights issue. But sometimes when the company is looking pretty terminal then I do not want to invest more of my good money after what has become a bad investment.

A key issue is to consider the rights issue as an investment. Is this the best opportunity for the use of your available investment funds?

The tech guy speaker at Mello 2019 said the retail sector will be full of losers as Amazon will dominate (this does not mean that Amazon will be a good investment, but he thinks many of the others will be awful). M&S is doubly challenged as it is in decline since the mid 1990s – the decline started in the last couple of year of the reign of Sir Richard Greenbury.



M&S paid out £600 million in dividends in 2017 and 2018. They now need a £600 million rights issue. As individual investors, we would view this as a reckless and risky approach to corporate finance. It attracts the wrong sort of investors onto the share register. It creates a volatile share price. Long-term investors favour a more conservative approach to only pay dividends that are sustainable.

Another key issue is that it is not good for shareholders, for a company to pay out dividends on which the shareholders get taxed and then ask for it all back again by way of a rights issue (which now has to be taken up using taxed income).

The AGM at Wembley on 9 July should be fun!

Please note I am not qualified to offer financial advice and you should not rely on my opinions. I do own shares in M&S.

Cliff Weight
Director, ShareSoc

Better Finance Surveys

Better Finance is the European umbrella body representing shareholders and users of financial services across Europe. UKSA is affiliated with Better Finance and our membership is not dependent on the UK's membership of the EU.

European regulation will remain important in the UK whatever the Brexit outcome. Readers are invited to say what they think of two aspects of European regulation by clicking the survey links below:

1. On MiFID II https://www.surveymonkey.com/r/BY2MYFB
2. On MIFID II and PRIIPs https://www.surveymonkey.com/r/Z6BDP96

Answering the call for Shareholder Rights

by John Le Prevost

Editor's note: Picking up the theme of shareholder disenfranchisement referred to on the front page, here is news of a commercial product focused on shareholder rights. myGatehouse Limited has developed ShareSafe.

The commentary below has been supplied by myGatehouse Limited. UKSA has no first-hand experience of ShareSafe and we do not endorse particular products, but members may wish to take a look and let us – and myGatehouse Limited – know their thoughts.

"At long last cries of shareholder disenfranchisement, intermediation and shareholder democracy destroyed are being answered.

An enterprising team at myGatehouse Limited (myG) in Guernsey are working on an innovative product they call ShareSafe that, at last, will give a voice to retail investors across the British Isles and beyond.

ShareSafe, via its app for iPad or other android device, delivers into the palm of one's hand direct control of your own CREST Personal Account in which you can hold electronic title to your own securities registered in your name at your address, thus providing an easy solution for retail investors wanting to exercise their voting rights and gain access to their shareholder benefits.

In addition ShareSafe allows subscribers to transfer their shares between any other CREST member account, be that for a broker, a platform or simply one of their friends.

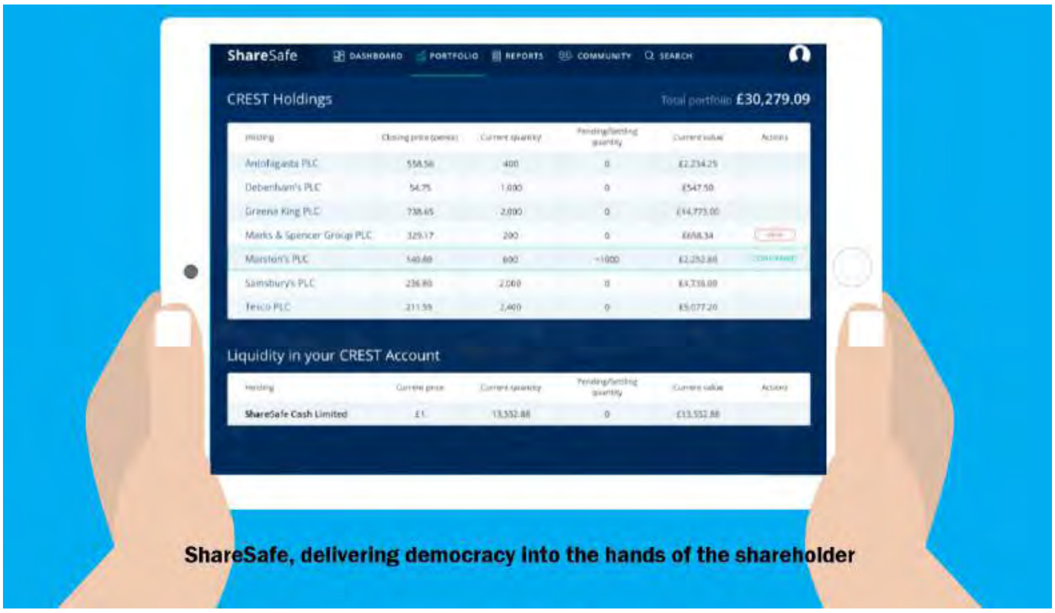
ShareSafe uses exactly the same capability that City institutions and platforms have been using since 1996 to hold via CREST title to shares electronically for themselves and on behalf of some eight million nominee clients.

John, myG's CEO, commented: "ShareSafe offers a variety of affordable packages aimed at retail investors currently using nominee accounts or holding certificated shares. Marketing pundits have predicted that as ShareSafe is so easy to use it will also be attractive to those completely new to investing, such as millennials."

Darren, a member of the myG team added: "A really good feature we're building into ShareSafe is the ability for the subscriber to continue to use a third party, like their broker or a platform, to give them "advice" and ShareSafe will feed their holding data to their chosen adviser so their records remain accurate." Darren added: "We see this as a brilliant opportunity for many a subscriber to clearly separate the ownership and control of their securities from the third party providing advice and execution."

As a ShareSafe subscriber's securities are registered in their name, company reports and proxy cards can be delivered over the app, and votes cast over the app, where the issuer supports this; or by default be posted to the subscribers home address. When a corporate action occurs, this will be processed by ShareSafe seeking the shareholder's instructions over the app. ShareSafe truly delivers democracy into the hands of a shareholder with ease and convenience.

myG has spent the past three years devising ShareSafe and its associated app, securing the necessary regulatory permissions, carrying out market research and working alongside notable third parties to ensure it can deliver a solution that will reshape the landscape of share ownership, empower individual shareholders, and truly meet the objectives of the EU Shareholders Rights Directive. Now myG is actively raising the capital needed to build and launch ShareSafe."



ShareSafe, delivering democracy into the hands of the shareholder

Members of UKSA interested in myG and ShareSafe are invited to visit www.mygatehouse.gg to register an interest in becoming an earlybird subscriber and possibly participating in future feedback opportunities.

Contact john.leprevost@anson-group.com for further details.

Introducing Sustainable "ESG" Investing

Dr Quintin Rayer
DPhil, FInstP, Chartered FCSI, SIPC
Chartered Wealth Manager

Biography

Quintin has worked for actuarial and investment consultancy firms and a multi-national European bank, including wide experience in quantitative fund and risk analysis. He is a Fellow of the Institute of Physics, a Chartered Fellow of the CISI and a Chartered Wealth Manager. Quintin has applied skills gained from his Oxford University Physics Doctorate and while working in engineering to finance. He is the second UK graduate from the Sustainable Investment Professional Certification (SIPC) programme and joined P1 Investment Management in January 2017, founding their ethical and sustainable investing proposition.

Introduction

In a previous article, Quintin Rayer introduced ethical investment. In this follow-up article, he looks at sustainable investing with its focus on 'ESG' factors.

Different terms are used in ethical investing, such as responsible, sustainable or socially responsible investing (for definitions of these terms see [1]). Companies are encouraged to promote practices including environmental stewardship; consumer protection; human rights and support the social good [1], [2]. One focus is on environmental, social justice and corporate governance (ESG) issues.

Sustainable Investing

In sustainable investing, funds are directed into companies with business practices capable of being continued indefinitely without causing harm to current or future generations, or exhausting natural resources (i.e. not 'unsustainable'). A key definition for sustainable investing comes from the 1987 Brundtland report in which sustainability is defined as ensuring development meets the needs of the present without compromising the ability of future generations to meet their own needs [3]. The UN Principles for Responsible Investment (PRI), launched in April 2006 [4] linked sustainable investment with environmental, social and governance (ESG) factors [5].

ESG Investing

1. **Environmental**, including CO2 emissions, or carbon-intensity; forest and woodland degradation; pollution; usage of scarce resources; mining activities which generate toxic by-products; intensive agricultural methods and so on.

2. **Social**, including corporate social responsibility (CSR); child labour; modern-day slavery; hazardous and exploitative working conditions, including 'zero hours' contracts; aggressive corporate tax reduction methods; and displacement of indigenous peoples.

3. **Governance**; weak internal corporate controls may let management circumvent company policies, increasing risks of irresponsible behaviours, corruption and bribery. Weak governance may mean that non-executive directors do not hold executives in check, with possible damage to the company as well as the owners' interests, and increased risk of excessive executive remuneration.

Outsourcing and Externalisation

Companies may outsource production to countries or other companies operating less sustainably. A company might claim ethical operations, while not looking too deeply into its suppliers' practices. Best practice requires companies to scrutinise their resource chains and monitor the entire production process, from origin through to ultimate disposal of products after use.

The costs of production can also be externalised [6]. Companies consume resources and create waste. Ideally, all costs associated with resources consumed and waste disposal during manufacture would be included in the price of goods created, including disposal after use.

Externalising costs can also apply to forcing labour to subsidise activities and saving money with potentially health-damaging practices or inadequate wages. Failure to invest in appropriate governance and management structures can result in company staff undertaking activities boosting earnings, but with the tab ultimately being picked up by society or taxpayers. The company saves money on management and governance, while the taxpayer pays the cost of dealing with problems that may arise as a result. The company externalises these costs to the taxpayer when it should pay them itself.

Why this Matters

Individuals may recognise the challenges facing humanity as a result of threats such as global warming, as well as many social issues. Global awareness of corruption also raises recognition of the importance of good governance. Sustainable ESG investing is one approach to addressing these challenges.

Beyond retail consumer choices, more people are using ethical considerations to guide their investments as well. In February 2019, according to the Investment Association, there were £16.8 billion of assets in the UK ethical funds sector, an increase of £1.4 billion since February 2018 [7].

Sustainable investors select companies that help tackle the challenges of environmental, social and other problems while avoiding companies that engage in unsustainable behaviours. They use the influence of financial markets to reward companies with positive behaviours while reducing capital available to those participating in unacceptable activities. Individuals can direct their savings into ethical investment funds and can often make decisions regarding pensions savings so that these are also invested ethically. In short, ethical investors seek to “do well, while doing good”.

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A new era for UKSA - update

UKSA Chairman Colin Colvin

Readers may recall from the front page of the last edition of The Private Investor that an initial meeting of Board representatives of UKSA and ShareSoc was to be held to discuss the framework for a merger of the two organisations.

That meeting has now taken place and provided positive recommendations for consideration by both Boards. UKSA's Chairman Colin Colvin intends to circulate a detailed update by the end of this month giving the reaction from the respective Board meetings.

FRC roundtable discussion on the Future of Corporate Reporting

by Peter Parry

In early May a group of twelve UKSA and ShareSoc members met Deepa Ravel, the FRC's Director of Narrative Reporting. The aim was to discuss the key content needed in any reporting framework, how this could best be communicated to users and the role that technology might play in the communication process. The purpose of the discussion was to provide input from private shareholders to an FRC project which aims to promote brevity, comprehensibility and usefulness in corporate reporting. The final outcome of this stage of the project will be a report making recommendations for changes to regulation and practice.

The discussion covered a range of reporting issues. One topic of debate was whether quarterly reports were helpful. The Kay Review of 2012 argued that quarterly reporting often encouraged short-termism. There was general agreement with this. The point was made that RNS announcements were potentially helpful but that there was no requirement for these to be posted on the company's website. It was suggested that maybe this should become obligatory.

There was significant debate about prospectuses. Institutional investors have access to a 'pathfinder' prospectus before the main prospectus is issued. Private investors do not have access to the pathfinder and it was agreed by UKSA and ShareSoc members that this gave institutional investors an unfair advantage. You might get a copy from your broker or intermediary but there is no guarantee of this. There was also criticism of the content of many prospectuses – particularly with regard to disclosure of long term debt obligations and the interest-rate risk associated with these. It was agreed that it might be appropriate for the FRC to discuss changes to prospectus requirements with the FCA.

The issue of analyst presentations by companies was also discussed. Again UKSA and ShareSoc members felt that private investors were left at a disadvantage in that they are not invited to attend these meetings. Although the presentation itself might subsequently be posted on the company's website, it was often 'edited' with, for example, the Q&A part of the meeting omitted - despite the fact that this is usually where the most useful information is revealed.

The discussion about the annual report started by considering the target audience. It was quickly agreed that this should include anyone taking a financial risk with the company – investors, debt holders, customers, suppliers and employees to name but a few.

In terms of usefulness, it was agreed that typically the annual report has become too long and contains insufficient relevant information. Some of those present admitted that they had given up reading annual reports altogether. Others said they read 25% or less of the report. It was agreed that we, as investors, do want full accounts but that much of the information currently contained in the narrative section could be shown on the company's website. In many cases this would cut the size of the annual report by around 60%. There was a strong preference in future for electronic reports consisting of a 'core' report with links to separate supplements. However, it was agreed that the quality of much narrative reporting was of variable quality and usefulness. Too much consisted of marketing 'puff' or mere compliance boiler plate.

Significant improvement in the quality of content was needed as well as making it more 'user friendly' in digital format.

The meeting provided an ideal forum for a lively and well-informed discussion. We are grateful to Deepa and the FRC for hosting the meeting will look forward to further contact and discussion with the FRC on corporate reporting during the year.

Photos of UKSA and ShareSoc members at the FRC discussion on 2 May.

With thanks to David Maxwell.

PwC Panel Session on Environmental Reporting

by Peter Parry

Climate change and green issues have been making headlines recently. The Extinction Rebellion protests a few weeks ago brought parts of London to a standstill while in separate demonstrations schoolchildren, often aided and abetted by their teachers, have taken time off school to protest at the slow progress being made by governments on climate change initiatives. The suggestion from PwC that they should run a panel session for investors on Environmental Reporting was made last autumn. It was fortuitous, therefore, that the date picked for the event (22 May) coincided neatly with the publicity about environmental issues created by the protests.

This fact notwithstanding, there was nervousness (certainly on my part) about the potential interest in an event for UKSA and ShareSoc members on environmental reporting. I need not have worried. The take-up was excellent and the panel session developed into an informative and animated debate which was still going on at 6.30p.m. over drinks some three hours after we had started.

The session was chaired by Hilary Eastman, PwC's head of global investor engagement. The panel comprised three specialists from PwC – Tom, an impact measurement specialist in the field of ESG matters; Gordon, a member of the Performance Assurance Team specialising in ESG and other non-financial information; and Jon, who leads a team reporting on progress against PwC's own sustainability strategy.

Brief introductions from the panel were followed by a Q&A session with selected questions put to the panel members. The format quickly changed, however, when a slide was presented which showed perceptions of key ESG issues which PwC had identified from its own internal consultations. This prompted a suggestion from the floor that what was really needed was an analysis of what investors considered to be the key ESG priorities for a company. Better still, it would be interesting to analyse the differences between the priorities of the investors and those of the company once all stakeholder perspectives had been considered. From here the debate took off with a seemingly endless flow of questions and challenges from the floor all of which were well-fielded and developed for further discussion by the PwC team.

The topics covered were wide-ranging from the need to achieve carbon neutrality as quickly as possible in an attempt to mitigate climate change, to issues of waste and where it ends up, concerns about water shortages, sources of greenhouse gases, and how we measure the effect that we all have on the environment - that it should be based not on what we produce as a nation but on what we consume. The respective roles of the Government and fund managers in helping to solve these issues were also raised. This highlighted the challenges and tensions of short-term returns versus longevity, transparency versus boilerplate disclosures, alongside the sheer complexity of many of the problems was also evident. In the field of sustainability few things are quite what they seem at first sight. Scratching the surface reveals a deeper layer of hidden issues which need to be properly understood before formulating any meaningful plan of action.

All UKSA and ShareSoc members who I spoke to at this event said how much they had enjoyed it. A number also said that they would like another follow-up session based on a 'workshop' at which they would be able to so some practical work to help them apply ESG principles to their investing. PwC has kindly agreed to discuss this with us.

We are grateful to PwC for arranging and hosting this excellent event. It is the first time that we have run an event on environmental issues. It is a highly topical subject and it is clear that the panel session has tapped into a strong vein of private investor interest.

A dip into the Spanish market

by Helen Gibbons

Spain's stock market was once a sleepy backwater among European bourses. It's one I've long followed without actually investing in. I decided it was time to start building some modest holdings as long-term investments, partly to sidestep the uncertainties of Brexit.

Spain was hit hard by the global financial crisis but is now seeing strong growth. The country avoided a full-blown European bailout during the crisis, although many banks were forced to merge for survival and there were high-profile failures such as the Bankia collapse, which saw former IMF managing director Rodrigo Rato go to jail. Generally, though, the banking sector held up well.

Over the last two decades many Spanish groups have become global players. They've been particularly busy with acquisitions in the UK.

My rationale for buying foreign stocks with some UK exposure is partly based on newsflow. Put simply, it is easier to follow a company's affairs if they are reported on in more than one market. To take a concrete example, when Banco Sabadell's newish subsidiary TSB ran into major system outages during an IT migration it was big news in the UK. You can learn a lot from the way a group approaches the market and communicates with shareholders and customers across borders.

My initial investments are:

IAG – owner of British Airways, Iberia, Aer Lingus, Vueling

Ferrovial – construction and transport infrastructure, acquirer of BAA in 2006; still owns 25% of Heathrow Airport Holdings

Aena – privatised owner of most Spanish airports and 51% of Luton Airport

Santander – fifth largest bank in Europe and a major UK high street name

Iberdrola – owner of Scottish Power

Banco Sabadell – owner of TSB

Telefónica – acquirer of O2 in the UK

Other likely holdings are Inditex (Zara), Caixabank and Meliá Hotels. Please note that I'm in no way recommending any of these stocks.

I've been buying through DEGIRO, the low-cost Dutch provider that's regulated by the Dutch central bank (DNB) and the Netherlands Authority for the Financial Markets. I'm comfortable with those regulators and know them through my financial translation work. So far my experience of DEGIRO has been positive. The transaction fees quoted are £1.75 + 0.022% for UK stocks and €4.00 + 0.058% for most European stocks. Both the web interface and the iPhone app are good, clear and responsive.

Apart from the cost attraction, DEGIRO was one of the few platforms not to predict administrative mayhem when I announced that I planned to relocate my home and business from the UK to Gibraltar. We shall see...

Letters to the Editor

It's always a pleasure to hear from members. Please send us your thoughts by any method listed at the top of page 2. Alternatively, call the editor direct to dictate a message on 07876 231232.

From Mr Nigel Dewar Gibb, Glasgow

Dear Editor

Re: STC - Martin White's Article

Responding to Martin White 's invitation to comment on his very instructive article in this month's TPI, I would like to make a contribution.

The aims of STC are admirable and just what is required to boost private shareholder numbers. However, little, if anything, will be achieved until private shareholders are returned to their rightful place as actual part owners of the companies in which they have invested. Communication between companies and their owners (now locked into nominee names and CREST) apart from institutional holders does not exist in the present setup.

When I first joined UKSA as a founder member (and subsequently ShareSoc) it was with the principal aim of helping to achieve the democratic rights of shareholders (including myself) who were progressively being forced for convenience into nominee or CREST holdings with no information or voting rights from the company. Yes, all necessary information, apart from voting choices, is available online, but very few shareholders have the time, patience or knowledge to spend time examining each of their holdings individually online. In any case, there is no forward information about the company's year-end, the date and location of the AGM and no possibility of voting.

Of course, companies will argue they are saving money in not having to prepare and post Report and Accounts to shareholders and they are delighted not to have to face angry shareholders. Democracy is entirely lacking. In no sphere would one ever start an enterprise involving financial contributions from others without at least informing them of progress periodically.

Shareholders are not able to question the Directors at public AGMs, which historically is something Directors have dreaded. I was involved with a public company and saw at first hand the nervous anticipation there was at Boardroom level ahead of AGMs, with much planning ahead for anticipated questions. Nowadays the only people attending will be institutional representatives who seldom wish to rock the corporate boat. In any case these institutional representatives are usually in the same elite circle of salary and benefits and see excesses are normal. They will also usually have been in touch the company on a one-to-one basis for research purposes and may well have developed a friendly and forgiving relationship with the Board. Ordinary shareholders are much more likely to take the Board to task and put the Directors on the spot. Remember the row about Cedric Brown of British Gas many years ago, which, by today's standards was insignificant.

A new worrying trend seems to be developing with some stockbrokers. More and more people must first declare a certain large amount of capital before being accepted as clients. Thereafter they will be persuaded to go "discretionary", which involves the broker having complete freedom to manipulate their portfolio at will, only advising the client after deals are done. They will abort a deal if the client objects. Some are even starting to stop charging commission on deals but increasing their quarterly management charges to compensate. In such cases shareholders may read in the press of some proposal by the company to which they object (it may even be Directors' remuneration!), but they have no ability to record their views other than writing to the Chairman. They will not be able to question the Directors at public meetings.

This is hardly an attractive scenario for the whole idea of private shareholding and involvement with attractive companies. It is comparable with simply purchasing a block holding in a Unit Trust.

As things stand there is very little to attract a new generation of new, younger people into share ownership and little can be done to help existing shareholders in this climate.

Yours etc.

Editor's note: Mr Dewar Gibb goes on to provide some interesting historical reflections. Many of us growing up in the mid-seventies recall Ted Heath's famous description of the Lonrho affair as "the unpleasant and unacceptable face of capitalism", and for some of us it marked the start of our interest in share ownership.

The House of Fraser All Employee Profit Linked Share Plan had about 30,000 employee shareholders whose heritable ordinary House of Fraser shares were held by law for a prescribed period in a Trust. The employees enjoyed all the benefits of normal private shareholders, dividends, company information and voting rights. The Trust was in effect similar to a nominee company except that it provided the underlying employee shareholders with their benefits. I was the Plan Manager and Trust Secretary.

During the protracted hostile take-over battle with Tiny Rowland's Lonrho, House of Fraser set up a call centre where we would phone all the private shareholders listed in the share register and explain to them exactly what was going on and try to encourage them to vote for the company. This was a very successful exercise that was said to have added over 10% to the company's support. The employee shareholders were also involved and no pressure was put on them, although they were fully aware of the situation. Their voting cards had three options: "For" , "Against" or "Abstain". In the end the employee shareholder vote carried the day.

One amusing recollection: after a huge House of Fraser/Lonrho EGM there was a side room laid out for a Directors' lunch. A couple of little old ladies looked in and excitedly motioned to some friends and they all went in and took their seats! The Board hadn't the heart to have them removed.

Years ago some companies seemed to value their shareholders, some, unbelievably, even sending company products to shareholders at Christmas! The old Metal Box Co. Ltd was famous for this as was Aberdeen Combworks Ltd, now no longer with us.

From Mr Chris Walsh, Woodhouse Eaves, Leicestershire

Dear Editor

Congratulations to all of you involved in issue 199!

I read all the articles from Malcolm Howard (he is always very well worth reading) to that written by Rob MacDonald and I found doing so to be a very useful experience. I do hope you can continue producing issues like this.

Yours etc.

CURRENT UKSA EVENTS

A photo ID is requested. Please bring it with you!

Shareholder meeting with RWS Holdings plc – Wednesday 19 June 2019

Location	**MHP Communications, 6-11 Agar Street, London WC2N 4HN**
Start	**10.30 (assemble from 10.00)**
Room capacity	**30**
Company contact	**Richard Thompson, CEO**
Group leader / UKSA organiser	**Gerald Roberts - gerald.roberts@uksa.org.uk**

SW & Midlands meeting with Colin Colvin, UKSA's chairman, and Sue Milton, External Relations director Tuesday 23rd July 2019

Location	**Kings Arms, The St, Didmarton, Badminton GL9 1DT - close to Badminton just off A46**
Start	**10 am (to 3.30 pm) Cost: £20**
Room capacity	**20**
Company contact	**Peter Wilson peter.wilson@woodchestervalleyvillage.co.uk**
Group leader / UKSA organiser	**Peter Wilson peter.wilson@woodchestervalleyvillage.co.uk**

Meetings of UKSA Croydon & Purley Group

Location	**Spread Eagle, High Street, Croydon CRO 1QD Next meeting: Tuesday 10 September** **Starts at 11:30 with coffee from 11:00 Chairman: Harry Braund - harrycb@gmail.com**

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

Branch name	**Leader**	**Administration**	**Main purpose**	**Description**
London & South East Region	Harry Braund 020 8680 5872 harrycb@ gmail.com	Andrew Girvan 020 8788 1665 agirvan247@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	Adrian Phillips	Under review	To arrange and/or participate in events in conjunction with investor service companies	Meetings with small-company management, for experienced investors only
Croydon & Purley	Harry Braund 020 8680 5872 harrycb@ gmail.com	Tony Birks 01322 669120 ahbirks@btinternet.com	Social meetings to discuss investment issues	Meetings in Croydon monthly
South West	Peter Wilson 01453 834486 07712 591032	Peter Wilson 01453 834486 07712 591032	To arrange and develop activities for members in the region	Company visits and social events as arranged
North East	Brian Peart 01388 488419	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
North West	Julian Mole 07870 890973 julian.mole@ btinternet.com	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
SmartCo	Charles Breese	Charles Breese	Arranging access to 'Smart Companies' – those with the potential to make good investment returns from benefiting society at large	Programme awaiting start-up