UKSA
UK Shareholders' Association

THE PRIVATE INVESTOR

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HonestMoneyNow

HonestMoneyNow is an educational site developed by former UKSA Chairman John Hunter.

The site is independent of but complementary to the UKSA site. It is now being managed by UKSA and will be integral to UKSA's developing emphasis on supporting the knowledgeable shareholders of the future (see also Martin White's articles on Savers Take Control in TPI 193 and 199).

Former UKSA Chairman and current director John Hunter

To quote from the site's home page: 'This site provides basic, unbiased financial education, cradle-to-grave. It exists because innocent consumers cannot be expected to distinguish good from bad in the flood of purported financial advice that is available to them.'

'This site is very different from most others in its emphasis on basic principles. Other sites teach you the characteristics of financial products but leave you ill-equipped to chose between them.'

The core message

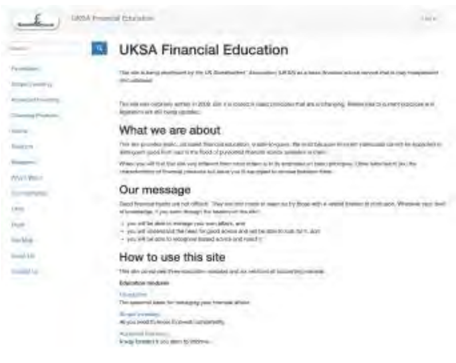
The site's core message to inexperienced savers is: 'Good financial habits are not difficult. They are only made to seem so by those with a vested interest in confusion. Whatever your level of knowledge, if you work through the lessons of this site:

• you will be able to manage your own affairs, and/or

• you will understand the need for good advice and will be able to look for it.'

A new look and new content

John first developed this site over a decade ago and is updating its content. UKSA is now managing the site and the design is being modernised.



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In this issue

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Registered office: Chislehurst Business Centre 1 Bromley Lane, Chislehurst, BR7 6LH

Tel: 01689 856691
E-mail: uksa@uksa.org.uk
Website: www.uksa.org.uk
Twitter: @UKshareholders

Chairman:
Colin Colvin chairman@uksa.org.uk

Policy Director: Peter Parry
01604 830267 policydirector@uksa.org.uk

External Relations Director:
Sue Milton sue.milton@uksa.org.uk

Company Secretary and Membership Director:
Rob McDonald uksa@uksa.org.uk

Europe & Media Director: Helen Gibbons
07876 231232 bizlang@mac.com

Administration:

Riches Assured Financial Services Ltd

01689 856691 officeatuksa@gmail.com

Editor: Helen Gibbons
07876 231232 bizlang@mac.com

Regional Contacts:

London & SE: Harry Braund
020 8680 5872 harrycb@gmail.com

South West and Midlands: Peter Wilson
01453 834 486 or 07712 591 032
petertwilson@dsl.pipex.com

North East: Brian Peart
01388 488 419 brianpeart@btinternet.com

North West: Julian Mole
07870 890973 julian.mole@btinternet.com

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Revenue raised from advertisements will supplement UKSA's funds. UKSA believes that its members are capable of deciding whether an advertised product or service is suitable for their needs.

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

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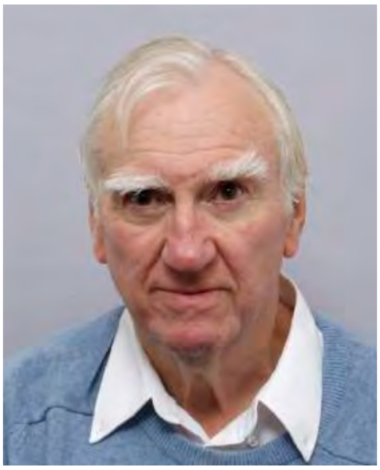
Research is the key to successful investing

by Malcolm Howard



Several years ago my mother-in-law left both of my boys £6,000. I said I would look after this money for them until they reached the required age, but she insisted that this money was entrusted to a high street bank. My elder son was the first to get to the age of majority.

He received a letter:

Dear Mr Howard,

We are pleased to inform you that your grandmother left you a legacy with a current value of £3,950, which is now available for collection.

My son was delighted, but I wasn't! So I stormed into the bank to tell them that I was aware the sum invested was £6,000 and that had the money been invested in a FTSE100 tracker it would be worth an unexciting £6,200. So I advised them that clearly they had been grossly negligent and I wanted another £2,250. They also agreed to restore my other son's legacy to £6,200, so overall my visit cost them £4,500. My view was that they caved in because they (correctly) understood that the resultant bad publicity would cost them more than the amount of compensation.

It has to be obvious that banks, financial advisors, financial journalists etc. know nothing more than the basics of investment. They rely on the psychology of gamblers. It is well known that gamblers always remember their winnings, but the brain quickly forgets the losers. So tipping sheets like Investors Chronicle will tip many winners and will tip many losers. They rely on their readers only remembering the winners. Investors would do just as well by sticking a pin into a list of companies. On the other hand, those paying wealth management companies to look after their money and paying fat fees in the process have a right to expect a level of expertise and that those advising them have carried out the appropriate research.

The best way to carry out research is to analyse the annual report and visit companies to get an insight as to what is happening. Obviously the speaker will put a favourable light on things, but much can be gleaned by asking the appropriate questions. This is where UKSA and ShareSoc come in: their organisation of company visits is an invaluable asset for members.

There are hundreds of investment trusts looking to scrape up our money, but how do we choose which ones to go for? Well, the first thing to do is to find out how the 'managers' are incentivised. In 2002, the directors of HgCapital Trust were concerned that their shares were trading at a significant discount. The NAV per share was 333p and with them trading at 220p there was a massive discount of 34.1%. So they changed the way the managers were incentivised. The new arrangement allowed for a carried interest of 20% of the excess annual growth in average NAV over an 8% threshold. By 2006, just four years later, the shares were trading at 731p, a mere 1.6% on the NAV of 743p.

In the March 2017 issue of Private Investor, Roy Colbran and George Miller wrote a very interesting article – Investment Trusts – a Primer Part 3, in which they listed a number of investment trusts. Although the articles included the usual caveat – past performance is not necessarily a guide to the future – it was obvious their selections were based on detailed research.

Most of the trusts listed I could track down. The NAV shown has been taken from the latest accounts.

	Price July 2019 (p)	Price March 2017 (p)	%	NAV (p)	Premium/ (discount %)
City of London	480	417	15.1	429	12.1
Bankers Trust	960	769	24.8	866	10.8
Scottish Mortgage	553	352	57.1	504	9.7
Witan	219	192	14.0	227	(0.04)
Law Debenture	610	588	3.7	659	(7.4)
Caledonia Investments	3,085	2,800	10.2	3,285	(6.1)
European Assets Trust	114	113	0.9	120	(5.0)
Herald Investment Trust	1,330	927	43.5	1,308	1.7
RIT Capital Partners	2,110	1,899	11.1	1,821	15.9
TR Property	415	314	32.1	416	0.0

As you would expect, we have a very variable performance, but there is not a single loss and, taken overall, the returns over two years (note the above figures exclude dividends) are good.

But one of the problems that investors must face is how accurate or reasonable the stated NAV is. This is extremely difficult to calculate when the trust or fund is holding illiquid assets. The usual way to complete this calculation was to find a similar listed company (obviously in the same sector) and note the P/E ratio. Then, using the earnings of the company being assessed, calculate the share price by multiplying the earnings per share (eps) by the P/E ratio and then discounting by 20% to account for illiquidity. If it is impossible to calculate a valuation on this basis, as it often is, then the normal procedure is to value the company at cost. This, of course, is where significant doubt sets in as the investment trust might have paid too much. Doubt is stronger where a portfolio holds a significant percentage of companies valued at cost.

For example, BenevolentAI is a limited company, in which the Woodford Equity Income Fund owns 4.5% (source: ShareSoc's June 2019 edition of the Informer). In addition, Woodford's Listed Patient Capital Trust owns 8.4% of the company (source: Sunday Times, 7 July 2019). The principal activity of the company is research and development, including the ongoing Phase II development of a Vascular Adhesion Protein 1 (VAP-1) inhibitor. In the year ended 31 December 2018 the company made a loss of (£26.880m) on revenue of £6.826m. It had cash of £32.506m at this closing date and the company had accumulated losses of (£80.659m) (source – Companies House).

On 25 July 2019 the Woodford Patient Capital Trust plc declared a NAV of 80.99p. But in the light of the above, how valid is this number, especially as it has been falling like a stone?:

1 October 2018	100.98p
2 January 2009	98.27p
1 May 2019	96.68p
1 June 2019	89.61p

This NAV could be open to more scrutiny due to a funding promise Woodford made to Proton Partners International. Woodford provided this company with £25 million in June, taking his stake to around 14%. But the company could demand a further £45 million from Woodford over the next 14 months or so, which would take his stake to over 20%, something he cannot do as the Board of Woodford Patient Capital Trust have decreed that no single investment will exceed 20% of the total (source: The Association of Investment Companies website).

Proton Partners International Ltd made a loss of (£22.428m) on revenue of a mere £1.465m the year ended 28 February 2019. Cumulatively, losses amounted to (£35.507m) and in the year ended 28 February 2019 the company had net debt. It is easy to see why they may be knocking on Woodford's door.

Much has been written about Neil Woodford's Equity Income Fund including unethical manoeuvrings to stay within the rules etc., but the key questions are these:

(1) Have Neil Woodford and his companies been grossly negligent, especially as they set themselves up as investment experts? One investment alone could be described as negligent – holding nearly 20% in Kier, a company with a negative balance sheet where intangibles are taken out and there is a high level of debt.

(2) It is alleged that Hargreaves Lansdown knew about problems in Neil Woodford's fund a year ago, but continued to advise their wealth management clients to invest there. Has Hargreaves Lansdown been negligent?

For those who have lost money by investing in Woodford, the first call may be the financial advisor and/or broker. Every financial advisor/broker is obliged to ask us (the investors) what our risk appetite is. They will ask whether in this regard we fall into the 'high risk', 'medium risk' or 'low risk' category. Given that Woodford invests in loss-making unquoted companies, then he can only be categorised as 'high risk'. In my view, anyone who specified 'medium risk' and especially those who specified 'low risk' may have a case of negligence against the financial advisor/broker, especially as the risks were known (see below).

Woodford's funds are managed by Link Asset Services and they provide a Key Investor Information Sheet. With regard to LF Woodford Investment Fund, they rate it as a 5 (where 1 is low risk and 7 is higher risk), but they also warn: "*The fund invests in listed smaller companies and private companies not available to be bought or sold on the stock market. As a result, smaller and unlisted companies may cause large short-term swings (both up and down) in the value of the fund.*" They also warn that *"the investment may not be appropriate for investors who plan to withdraw their money in the short term – e.g. less than three to five years"*. (*Source: this KIIS was* *sent to me by Mark Northway of ShareSoc*). So, putting this all together, Link Asset Services have provided a number of warnings.

It would be helpful if all investments could be categorised as low, medium or high. For what it is worth, my classifications are:

Stocks on Main Market

Low Risk: companies that are profitable and have little or no debt.
Medium Risk: companies that are profitable and have a relatively high level of debt.
High Risk: companies making a loss and profitable companies who have a high level of debt and where the balance sheet goes negative when intangibles are taken out; also Venture Capital Trusts (VCTs), as any investment offering tax relief has to be high risk.

Stocks on AIM

Medium Risk: profitable companies listed for at least five years.
High Risk: companies relatively new to AIM who have been listed after coming from the Enterprise Investment Scheme.

Unquoted companies

Medium Risk: profitable companies, allowing a discounted NAV to be calculated.
High Risk: Loss-making companies where the NAV is based on cost.

To summarise:

(1) Published NAVs should be split between investments at market value and investments valued at cost.
(2) Investors need to carry out their own research; we really cannot rely on others to do it for us.

Letter to the Editor

From Malcolm Hurlston

Do many other investors share my experience of having held on to shares in Chinese companies after delisting from the London Stock Exchange?

I have had no communications since from either Geong or Grand Group, although I understand that they have an obligation to communicate under Chinese law.

Is it time to exert some pressure under the auspices of UKSA? Should LSE have any continuing obligation? I am sure the Chinese embassy would want to protect the national corporate reputation.

I look forward to hearing from readers in the same boat.

Yours, etc.

Adrian Phillips

UKSA members might like to note that Adrian Phillips will be appearing in a series of programmes starting on Sunday 11 August for three weeks at 8pm on Channel 4 in which he features as a guest historian. The series, entitled "The Queen's Lost Family", tells the inside story of the young Windsors.

The programme will also be on 4Seven starting on Tuesday 13 August.

Should investors care about what the regulators are up to?

by Sue Milton

Regulators exist to ensure society is not exploited. Should we care about what these regulators do? I say we should, because adhering to regulatory requirements ensures a legal 'licence to operate'. Without it, company operations would cease. As responsible owners, we must check that they are keeping up with new requirements, but what should we ask and what do we need to know?

I have picked out four of the many regulatory challenges: audit reform; climate change; workplace culture; and BREXIT. There are some high-level questions to ask:

1. Audit reform: what are the impacts of audit reform? What are the criteria for hiring, retaining and replacing the external auditor? How does the audit committee select the auditor and does that include which audit partner? Has the board discussed how to provide greater transparency and scrutiny over mandatory audits? How does the audit committee evaluate the quality of the audit?

2. Climate change: how familiar is the board with Task Force on Climate-related Financial Disclosures (TCFD)? Who, in the company, is responsible for these activities? How have they measured their carbon footprint? What is being done across the supply chain to reduce carbon emissions? How does the board assure itself that progress is being made? Where will financial support come from?

3. Workplace culture: what degree of diversity does the board wish to have across all ranks within the company? How does the board assess corporate diversity? How is the desired culture incorporated strategically and operationally? Does remuneration, both for the board and staff, take into account the success of building the desired culture?

4. BREXIT: what are the key risks and new opportunities? How do they impact the company strategically and operationally? What changes to legal and regulatory requirements have been identified? How will access to finance change? How is the relationship with the auditor affected?

To evaluate answers, we need to know something about regulatory thinking. Included in my external relations and policy work, I cover the work of the Financial Reporting Council (FRC) and the Bank of England. Here is a summary of their focus.

The Financial Reporting Council

Brief: the competent authority for, and enforcer of, Statutory Audit in the UK, setting auditing and ethical standards and enforcing audit quality. It is responsible for updating and maintaining the UK's Corporate Governance and Stewardship Codes and standards for accounting and actuarial work.

Audit reform: failures in the audit and assurance market will lead to a change in how audits are conducted and regulated. The FRC is highly impacted. It will become ARGA, the Auditing, Reporting and Governance Authority, with a new mandate, new leadership and stronger, legal powers.

Climate change: the FRC Lab[i] will advise on how companies report on climate change and how auditors can provide assurance over such reporting. The key aspects are physical (how a company identifies the risks climate has on its assets) and transitional (how a company becomes a low-carbon business).

Workplace culture: to encourage inclusivity and remove bias, companies are required to report on workforce engagement. Recognition of the importance of each other's wellbeing is key. The FRC Lab will advise on how companies report on workforce diversity, training and development, roles, position and pay.

BREXIT: to ensure audit opinions from UK audit firms remain valid within the EU27/EEA post-BREXIT[ii], preparing for 'no deal' is an essential contingency. UK firms need to register as a third country auditor with the competent authority of that EU27/EEA State[iii].

Why should we care?

- The scope and complexity of audits and assurance will increase, so are likely to cost more.
- The Big 4 auditors are failing to deliver high-quality audits in the areas they know well. We need to understand how they will manage a wider brief covering complex subjects.
- We will need to check we can still receive top-quality audits and get redress when required.
- Changes to the audit scope at the same time as the FRC transitions to ARGA mean significant risk to audit quality in the early days of reform implementation.

The Bank of England

Brief: create an environment for monetary and financial stability and, via its remit as the prudential regulator, encourage a vibrant and sound financial sector.

Audit reform: important that reform produces higher-quality audits, otherwise there is a risk that banks are not as sound as the annual reports and stress tests results imply.

Climate change: to meet carbon neutrality by 2050, the financial sector must provide financial products to help all firms transition to a low-carbon economy and understand reporting requirements[iv].

Workplace culture: the Bank of England does a lot to understand its own employee diversity and wellbeing. Workplace metrics is not yet a consideration in its stability and regulatory remits.

Brexit: UK preparations mean that UK households and businesses will be able to use existing and new services from EU financial institutions, but, unless EU authorities provide complementary arrangements, there may be some disruption to cross-border financial services[v].

Why should we care?

- If the banks are not as sound as their reports or stress test results imply, the risk increases of an individual bank failure, a systemic banking failure and economic slowdown.
- Borrowing costs may increase, even if interest rates remain low, because the right sort of financial products are not available.
- Cross-border financial transaction charges increase to cover the costs of more complex cross-border flows.
- Financial institutions are unaware they are underperforming because work metrics are inappropriate or ignored.

[i] The Financial Reporting Lab was launched in 2011, enabling investors and companies to come together, developing solutions to improve reporting. See https://tinyurl.com/y57cojj3
[ii] https://tinyurl.com/yyygnnk5
[iii] https://tinyurl.com/y5mlo5xc
[iv] A useful summary of current reporting requirements is on pages 55-58 of the TCFD report: https://tinyurl.com/y695ezx5
[v] https://tinyurl.com/y6refyvr

Amadeus River Cruises

How about gliding along the Seine while learning more about shares and investing?

Our longstanding member **Peter Wilson** has asked us to draw readers' attention to a forthcoming cruise on board the Amadeus Diamond.

The tour will depart from Stroud on Wednesday 26 August 2020 with pickups available between Gloucester and Heathrow.

Once on board for the week's cruise, there will be an opportunity to visit Paris and the Normandy region. It will particularly suit lovers of art, history, culture and gardens. Peter will give share talks on board.

For more information, call Peter on 01453 834486.

The Bottom Line with Evan Davis

The BBC series hosted by Evan Davis recently aired a programme entitled "The investment industry – luck or judgement?" It is still available on BBC Sounds. Readers of the electronic TPI can get straight to the episode by clicking here.

CMA investigation into the Investment Consultancy Market

by Sunil Chadda
Ambassador – Transparency Task Force

A dysfunctional market

The FCA first identified demand and supply issues relating to the investment consultancy market in Q4 2016 as part of their Asset Management Market Study – Interim Report.

In fact, so worrying was the scale of the problem with respect to the restrictions to and distortion of competition that the FCA decided to make a Market Investigation Reference (MIR) to the Competition and Markets Authority (CMA) using the powers granted to them under the Enterprise Act 2002.

Of particular concern on the supply side was the fact that some services provided by investment consultants, such as asset allocation and asset manager research and selection, were outside of the FCA's regulatory perimeter and were, in effect, unregulated. This is somewhat odd given that the fund management community, who also operate in this space, are fully regulated.

Further issues were also identified relating to "vertically integrated" investment consultancy firms that provide services both up and down the value chain, such as actuarial advice, strategic asset allocation, asset manager research and selection and fiduciary management (where client money is invested and managed). The market also exhibited oligopolistic characteristics, in that it is dominated by three firms with around 60% market share and, as a result, new firms cannot enter the market easily, if at all. The only competition is from the large incumbent players.

Such vertical integration amongst so few players can lead to conflicts of interest (i.e. revenue and profit over client interest), excess profitability, herding behaviour and a lack of independent third-party checks and controls in vertical segments. No wonder trustees feel vulnerable, ill-equipped and overwhelmed by what they have to contend with in such an asymmetrical market.

On the demand side, the FCA found that trustees were unable to determine, for a number of reasons, whether fees were reasonable and competitive and whether or not the advice given was of good quality and represented value for money. Accessing and assessing the information required to make as fully informed a decision as possible was proving impossible. In all fairness, some issues point to a lack of commercial nouse and inability to challenge on behalf of trustees, but given the many complex areas that governance bodies are required to specialise in these days, the findings are hardly surprising.

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The importance of investment costs for pension schemes

Since the credit crunch in 2008, central banks have used various tools, such as QE, to keep markets and economies afloat whilst giving the banks the opportunity to rebuild their balance sheets. Arguably, much of this QE wall of money has found its way into the various asset classes, such as equities, bonds and property, with stock and other markets either at or just off all-time highs, despite the fundamentals. And if the price is high, then the yield is low, perhaps at an all-time low? Savers can see this via the ongoing low returns on their cash as the supply of money outstrips demand, leading to ongoing low interest rates and low returns.

We have effectively borrowed tomorrow's returns and have been consuming them since 2008. Many predict ongoing low returns of perhaps 3-5% p.a. going forwards for the next decade or two. Whilst there is some evidence of asset management fee compression, price discovery still remains difficult, if not impossible for all but those who are highly experienced in finance. Price discovery, and hence having sight of true costs, is essential to a properly functioning and orderly market and is also a precursor to the efficient allocation of capital across an economy.

Trustee boards and other governing bodies must be able to properly monitor and manage their investment costs as careful management here may be the only return in town should markets start to get choppy again – which they could easily do given the volatile global geopolitical environment. It is highly likely that at this point in time investment costs may be at their highest in history when considered as a percentage of total return.

The importance, therefore, of compounded investment cost savings over the approximately 40-year lifecycle of a pension fund should not be underestimated. This, together with other factors, such as the disappearance of DB pension schemes, pension scheme deficits, higher manufacturing costs in financial products, lower contribution rates in workplace pensions and the low UK savings ratio, means that a gigantic time-bomb is ticking away under the nation's finances.

Any shortfall in an individual's pension income below the minimum state-specified standard of living (i.e. the benefits level) will have to be made good by the state in a few decades' time. For you and me, that means higher taxes and/or more government borrowing in the future.

For those without enough to live on post-retirement, poverty beckons.

The time to act is now.

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The CMA's findings

Investment consulting firms and fiduciary managers must be hugely relieved as the much-hoped-for major reforms failed to materialise, leaving up to nine million members of pension schemes and their £1.6 trillion of pension assets vulnerable to the excesses of free market forces.

Firms now have until the end of the year to make the necessary changes identified by the CMA. These changes include forcing pension fund trustees to run a competitive tender process should they want to delegate investment decisions for 20% or more of the scheme's assets on their first purchase of fiduciary management services. Unfortunately, the CMA did not take the additional step of banning the fiduciary management arm of the incumbent investment consultant from bidding for the investment mandate. In addition, those pension scheme trustees who appointed a fiduciary manager for 20% or more of their scheme assets without following a tender process must now put the fiduciary management service out to tender within five years.

In return, the CMA has mandated that fiduciary management firms must provide potential new customers with more granular information on their fee levels and the performance of their investment products via a CMA-approved Fiduciary Management Performance Standard, so that trustees can make a more direct and meaningful comparison between rival firms, without having to sort through cherry-picked performance data. More information on fee levels must also be provided to existing trustee clients.

For some reason, investment consultants, fiduciary management firms and trustees will be required to submit an annual compliance statement to the CMA to confirm that they are conforming with the new rules. Rules are rules, surely? Why do market participants have to confirm their compliance?

Where next?

One can't help thinking that the CMA's remediatory actions won't really improve things for the better. In fact, the lack of clear action (or "pull back") is synonymous with other current regulatory initiatives, such as the FCA's Investment Platforms Market Study. The market is still asymmetric, and the much-needed skills and resources required by trustees to provide an effective counterbalance may remain out of reach for quite a while yet.

In a few decades' time, when pension outcomes crystallise and continue to be poor, it will be up to the state to make good the difference between a member's pension and the minimum standard of living. An implicit state guarantee on a poor outcome? Balancing commercial and social interests is never easy.

In the meantime, let's just hope that the CMA and FCA keep a close eye on this market and take action early should costs, practices and outcomes not move in the right direction.

Transparency Task Force

The overall mission of the Transparency Task Force is: "to help drive positive, progressive and purposeful finance reform for the benefit of all, by harnessing the transformational power of transparency".

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

It is built on five core beliefs:

1. That the Financial Services industry as a whole is profoundly important to the well-being of society;

2. That there is a strong correlation between transparency, truthfulness and trustworthiness;

3. That the financial services industry as a whole has a moral, ethical and professional duty to behave transparently;

4. That people who are aware that opacity is having an adverse effect on the consumer should act on that knowledge and do something about it – they should "stand up rather than stand by";

5. That small groups of right-minded and collaboratively-minded people who are united by a common cause can drive positive change.

www.transparencytaskforce.org

Inheritance tax simplification – second report

by Roy Colbran

Encouraged by positive responses to my article in the February edition I am following it up now that the Office of Tax Simplification ("OTS") has produced its second and final report[1]. This ranges much wider than the first, which confined itself mostly to gifts and administrative matters. Even so, three chapters are devoted to lifetime gifts (plus one for charities) and so I hope to be forgiven if I concentrate on those issues.

I was surprised to learn that HMRC had sponsored its own independent research into gift patterns, resulting in a report published last January. As a result some 13% of the adult population were identified as "gifters", defined as anyone who, in the two years before the survey, had made a single gift of one thousand pounds or more or multiple gifts of at least £250 totalling at least £3,000. Only a relatively small minority were influenced by IHT rules and a lot of the gifts were at a level to be exempt from IHT anyway.

Even so, many of the problems with lifetime gifts and IHT must surely derive from the fact that the amounts of monetary exemptions have remained unchanged for so long. The OTS does not specifically blame this, but tells us that the £3,000 pa annual allowance for gifts would be £11,900 if it had kept up with inflation, the £250 small gifts exemption would be £1,010 and the nil rate band now frozen at £325,000 would be £423,000.

The OTS correctly reports that HMRC treat all lifetime gifts (other than those covered by exemptions) as a first charge on the nil rate band, but they make little of the fact that this prevents taper relief applying to the first £325,000 of gifts. This is among many widespread misunderstandings of the gifts situation. They also point out that in allocating gifts to the nil rate band HMRC take the oldest first. This means that, where the deceased made a series of substantial gifts, the ones least likely to benefit from taper relief will be treated as chargeable. The OTS have told me that the statutory justification for HMRC's practice is in S.7 of IHTA 1984, although this is not immediately obvious on reading that section.

The OTS's solution to the difficulties of taper relief is to do away with it altogether in return for reducing the period for which gifts remain in the taxable estate to five years. Their justification for this is that it is very difficult to get bank statements going back more than six years and very little tax comes from gifts over five years anyway, possibly partly due to underreporting since executors will simply not be able to see any evidence of such gifts. They admit that their proposal will give a cliff-edge at the end of five years, but then for gifts up to £325,000 in total we already have that at the end of seven years (something that seems to have passed the OTS by).

I am not convinced that having access to bank statements would be sufficient to enable executors to be sure that they had spotted all taxable gifts even within five years. Unless the deceased banked with somebody like Coutts, who give full bank statements, cheques seem to be simply recorded by number and one would need access to the cheque book counterfoils to see to whom they were paid. Even then it might be difficult to see which were genuinely gifts and which were, for example, payments for services rendered. Since the Treasury is unlikely do away with IHT on lifetime gifts, there are always going to be difficulties for executors in ascertaining just what amounts need to be reported, but, at least, if the rules are changed so that they only apply to the seriously wealthy, accuracy should be greatly improved.

It seems to be impossible to discover how much IHT is actually payable as a result of lifetime gifts. Their allocation to the nil rate band completely distorts the figures. According to tables produced by HMRC, in one single year IHT on gifts generated only £71 million out of around £4.6 billion derived from IHT in total in the same year. Since this ignores the effect of gifts within the nil rate band pushing more of the rest of the estate into the taxable band, it must be among the most meaningless statistics of which HMRC is capable.

Gifts out of normal income furnish another area of misunderstanding. In fact, as the OTS point out frequently, the deceased was unaware of the exemption and it is the executors who discover that it was applicable. This relief is also heavily criticised as uncertain in its application so that testators cannot be sure in their lifetime that the relief will be available. Some people justify this particular relief on the basis that IHT should be a tax on capital and people should be free to make gifts out of their income without having to worry about potential IHT. Of course, the rules are much tougher than that because they require the gifts to be regular and there is quite a lot in HMRC's Manual about the requirements for regularity. The OTS's solution here is to do away with the special treatment of gifts out of income, and indeed special exemptions for larger gifts on marriage, and simply give a single annual personal gift allowance fixed in monetary terms. They say that it is not for them to suggest the specific amount of this, which will depend on how many other reliefs are abolished. Such a development would prevent those with high incomes from giving away substantial parts of their income without tax liability, but a change bringing simplicity and certainty would certainly be welcome.

At the same time I do not know why it has to be an annual allowance. In my own submission I suggested one total sum being allowed within the five years before death. That would allow the occasional larger gift according to need, e.g. a child's house purchase or an urgent operation. Then in many cases the executors would be able to sign a simple statement that there had been no gifts totalling more than, say, £50,000 in the last five years. Why, one wonders, should the Treasury insist on annual limits? Are they obsessed with them in the same way that they have created such a mess with the annual limits on pension contributions?

The OTS have also looked at the interaction between IHT and Capital Gains Tax, including discussing the pros and cons of substituting CGT for IHT, which possibility they leave as open for debate. They note that on transfers on death between spouses or civil partners and when Business or Agricultural Property Relief (BPR and APR) applies, the value of the investments is rebased for CGT purposes even though no IHT is payable. They point out that CGT exemption on death reflects the impact of IHT in an imperfect manner with both zero taxation and double taxation being possible. Further, the CGT uplift can result in distortion of decisions on when to pass businesses over, since deferment until death can save substantial amounts of tax. This is obviously seen as undesirable since the reason for BPR and APR is to make sure that businesses and farms can be passed on from generation to generation. The recommendation here is that where assets become transferable on death without any IHT being payable the acquisition costs for future CGT purposes should remain at the historic base cost and not the – normally higher – value as at the date of death. It is hard to quarrel with this.

As is well known, BPR also comes into play for private investors who hold shares in AIM and the OTS note that IHT relief is seen as important in supporting the market in the shares. Nevertheless they comment that third-party AIM shareholders do not need IHT relief to prevent businesses from being broken up or sold, although not going so far as to make any specific recommendation on this point.

Residence relief was introduced by George Osborne in 2017 as a way of addressing the resentment which is often felt when estates are taxed when people want to pass on their houses to their children. It was, presumably, seen as a potential vote winner, yet it has become, to quote the FT, "the most hated aspect of the UK's most hated tax". The OTS observe that this is yet another measure introducing substantial complexity and it is also seen as unfair, since the ability to take advantage of the relief depends both on your particular situation and your wishes as to disposal of your property. They have a number of suggestions to deal with this, all to be considered when the relief is next reviewed, the simplest being simply to abolish that relief but give some increase in the nil rate band to compensate.

In the chapter devoted to gifts to charities the OTS tell us of the importance of legacy giving. They say that two out of three guide dogs and six out of ten lifeboat launches are paid for by gifts in wills, as is over one-third of Cancer Research's work. The general exemption for gifts to charities is well understood in contrast to the reduced rate on the balance where 10% or more of the net estate is given to charity. In fact they say that some advisers avoid talking to clients about the reduced rate because of its perceived complexity. They note that there are perceived difficulties in will drafting to ensure that the 10% threshold will be met, although there is a model clause within HMRC guidance. The concession has also led to an increase in the number of cases where charitable legacies were made or adjusted through an Instrument of Variation. Although they had received a number of suggestions as to how the 10% rule might be modified to achieve greater simplicity, their overall conclusion is that it is too soon after its introduction to make specific recommendations. I think, however, that it is worth adding that, because of the rule, leaving 10% of your net estate to charity has a remarkably small impact on the residuary amount for other beneficiaries.

This article is already too long without touching on the chapters on trusts, life assurance products and pensions and grossing up, for all of which you will have to go to the original report. One surprising omission from the report is Quick Succession Relief. I am told that this is because no comments were received on the subject and that it appears to be very rarely applicable in practice. Even so, the Wikipedia page on the subject has in the heading "This article may be too technical for most readers to understand." So maybe there is room for simplification here too.

As well as being of interest for its recommendations, the report is also useful as an explanation of rules which are often complex and poorly understood. Hence it is worth reading on that account alone. Taken together the two reports have shown many points where simplification is urgently needed and given lots of ways in which this might be achieved. We must hope that something positive comes from it, although Sajid Javid will have a few other things on his mind for a while.

[1] https://www.gov.uk/government/publications/ots-inheritance-tax-review-simplifying-the-design-of-the-tax

A Short History of Ethical Investing

Dr Quintin Rayer
DPhil, FInstP, Chartered FCSI, SIPC, Chartered Wealth Manager
Head of Research and Ethical Investing at P1 Investment Management

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

Early ethical investing was based on religious teaching [1]. Jewish law dating to Biblical times includes the responsibility of owners to prevent immediate and potential harm, while Islamic teaching (609-632CE) has become the source for modern Shariah-compliant investment standards [2]. Several religions, either historically or currently, have included bans on usury, the practice of lending money for interest. This is usually prohibited in Islamic finance but was also banned in medieval Christian tradition [1].

The Western ethical investing tradition was founded on religious roots, notably among the Methodists and Quakers. More recent developments have been in response to the Vietnam War (the 1960s), concerns about nuclear environmental damage (Three Mile Island 1979 and Chernobyl 1986), South African apartheid 1985-1993 [2] and more recently global warming, biodiversity and plastic pollution [3].

While it is an extensive topic, this article attempts to outline some of the background leading to the modern conception of ethical or sustainable investing.

Western roots

Malthus's 1798 'Essay on the principles of population' warned of population growth outpacing the planet's ability to support human needs [4]. Including social aspects to business activity dates from the 1700s, with mutual societies and Quaker philanthropists such as Cadbury's. In the 1800s the Quakers prohibited members from participating in the slave trade.

Ethical investing also traces thinking from Methodism. John Wesley's sermon on the 'Use of Money', published in 1872, sets out principles of social investing [5]. He invited fellow worshippers and investors not to harm their neighbour through their business practices and to avoid specific industries. Investors were asked to avoid companies encouraging 'sin'. Association with pawn-broking and the sale of anything which tends to impair health (including guns, liquor and tobacco) were to be avoided.

More recent developments

Typical business activities excluded cover the so-called "sextet of sin": alcohol, arms, gambling, nuclear, pornography and tobacco; more recently being extended to include areas such as animal testing (both medical and for cosmetics) [6].

Gradually, the list of excluded business widened to include social and environmental problems [7]. The 1972 Stockholm Conference on the Human Environment named the environmental assessment component of its action plan 'Earthwatch', recommending environmental assessment as an operational area of the UN Environment Programme (UNEP).

Business pioneers such as The Body Shop (1976), Ben & Jerry's ice cream (1978) [8] and Patagonia (1973) placed ethical and social considerations deep within their offering. The Stockholm recommendations were elaborated in the 1980 World Conservation Strategy – a collaboration between the International Union for the Conservation of Nature, the World Wildlife Fund and UNEP.

Environment and climate

In 1983, growing realisation in national governments and multilateral institutions of linkage between economic development and environmental issues led to the establishment of the World Commission on Environment and Development by the UN General Assembly. Depletion of the atmospheric ozone layer by chlorofluorocarbons resulted in the 1989 Montreal Protocol ban. In 1992, leaders set out sustainable development principles at the UN Conference on Environment and Development in Rio de Janeiro, Brazil. Three instruments of environmental governance were established: the UN Framework Convention on Climate Change (UNFCCC) [9], the Convention on Biological Diversity (CBD) and the non-legally binding Statement of Forest Principles.

Later in 1992, the UN General Assembly officially created the Commission on Sustainable Development. The 2006 Stern report [10] concluded that the benefits of decisive early action on climate change outweighed the costs. In 2007, the International Panel on Climate Change declared: “it is no longer a question of whether climate change policy should be understood in the context of sustainable development goals; it is a question of how”. Carbon emissions play a significant role in climate change, and current efforts may prove to be insufficient to meet the 2015 UN FCCC intended aims of holding the increase in global average temperatures to well below 2°C above pre-industrial levels while pursuing efforts to limit increases to 1.5°C above pre-industrial levels [11]. In 2018 scientists reiterated the need to contain global warming within 1.5°C [12].

The development of the Faith in Finance movement

In 2017, faith leaders held a conference at Zug in Switzerland [13] to launch an international faith-consistent investment movement to address challenges and opportunities of sustainable development presented by the UN Sustainable Development Goals (UN SDGs) [14].

Delegates represented more than 30 different faiths, with trillions of dollars in assets, United Nations figures and leading impact investment funds. The organisers believed it should enable faith groups to share information and resources to put their investments into initiatives to help create a better world for all, promoting a proactive policy, ensuring that faith investments have a positive “faith-consistent” impact and aiming to make money work for good, while still generating the returns they need to fund activities.

Different approaches

The diverse history of ethical investing means that several approaches have evolved. The range of techniques used is extensive. Earlier approaches tended to focus on avoiding companies doing harm, while more recent developments often select firms providing solutions and taking beneficial ‘impact’ into account [6]. More sophisticated approaches have also evolved attempting to judge firms’ relative merits under various criteria, allocating additional risk to undesirable activities and adjusting stock valuations accordingly. However, experience with investors suggests that many prefer the transparency that more straightforward approaches offer.

Sustainable and ESG investment may be useful developments [15]: by emphasising the need for sustainability, ethical investment can be placed on a more scientific basis, without the need to lean upon its religious origin. A religious basis for ethical investing could create disagreements about what can be regarded as ethical. For example, Islamic finance may prohibit payment of interest, meaning that conventional interest-paying bonds would be unacceptable, although acceptable to some other religions. The value of ESG factors is that they give clarity of focus and provide structure.

How this helps investors

With improved understanding of ethical investing’s origins, individuals who wish to invest ethically should be better placed to appreciate the motivations behind the many techniques offered, helping them select an approach best suited to their needs.

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The future of audit – More light reading

by Peter Parry

The debate on the future of audit still rumbles on. UKSA and ShareSoc recently submitted a joint response to Sir Donald Brydon's review of the Quality and Effectiveness of Audit. The results of the review are due to be published later this year. The Competition and Markets Authority (CMA) published its interim review of the statutory audit market in December 2018 and requested feedback on its recommendations. UKSA and ShareSoc submitted a response. The government is now calling for comment and feedback on the CMA's final report and recommendations which were published in April 2019. Members can access the consultation document by going to:

https://www.gov.uk/government/consultations/statutory-audit-services-initial-consultation-on-the-competition-and-markets-authority-recommendations

The document is worth reading. It builds on recommendations from Sir John Kingman's review of the FRC. UKSA and ShareSoc will submit a response to the consultation.

The BEIS Select Committee also published its report on the Future of Audit in April 2019. This is another good report that makes interesting reading – as does the government response to the Committee's recommendations published in June 2019. Both documents can be downloaded from the BEIS website:

https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/future-of-audit-17-19/publications/

Finally, PwC has just released a report on the 'The Future of Audit' which summarises the feedback from a series of roundtable discussions which it held around the country in late 2018 and early 2019. There is a summary version of the report and a full version. Members can access the full version by going to: https://www.pwc.co.uk/who-we-are/future-of-audit/pwc-future-of-audit-report-july-2019.pdf or the summary at https://www.pwc.co.uk/who-we-are/future-of-audit/pwc-future-of-audit-summary-report-july-2019.pdf. The full report requires a little more effort but it is worth it.

If you are tired of reading about audit and the future of audit, don't worry. Following a recent very successful event which PwC ran for us on **Environmental Reporting**, a follow-up event is planned for the afternoon of Wednesday, 27 November. The venue is likely to be at PwC's More London offices near London Bridge. A number of those who attended the event in May said they would welcome something that involved greater direct input from them. The plan is that the next event will be highly participative. Make a note of the date and watch this space for more details!

Law Commission Intermediated Securities project

by Peter Parry

As some members will know, the Law Commission has initiated a review of the issues surrounding intermediated securities. This means securities held via a nominee or some form of third party such as a collective fund. The Law Commission's decision to look into this is potentially highly significant.

Purpose of the project

The project will produce a scoping study following consultation with stakeholders. The scoping study will provide an account of the law, a description of the corporate governance and other legal issues associated with intermediated securities and an assessment of whether the issues cause difficulties in practice. Unlike most Law Commission projects, it will not make formal recommendations for reform. Instead it will aim to provide a range of options for reform for the Ministry of Justice (MoJ) to consider.

Project stages

The Law Commission plans to publish a call for evidence, probably before the end of the summer. The call for evidence will provide a short summary of the issues and ask consultees for their views and any evidence. ShareSoc and UKSA will respond to this. This information will be used to develop a scoping study which will be published in summer 2020.

Initial call for evidence

The call for evidence is likely to touch on the following topics:

- Voting rights
- Schemes of arrangement
- The no-look-through principle
- Insolvency issues
- The position of the good faith purchaser
- Potential technological developments
- Dematerialisation (in particular, whether systems being put in place to remove paper certificates by 2025 offers opportunities to enhance the rights of investors already holding shares electronically as well as maintain the existing rights of holders of paper certificates)

Meeting with the Law Commission

Representatives from UKSA and ShareSoc met the Law Commission in mid-July. Issues discussed included: the position and role of UKSA and ShareSoc members in the intermediated securities chain; the particular concerns that we have about the disenfranchisement of individual shareholders due to the way in which nominee accounts work in the UK; the wider issues that this causes in respect of effective corporate governance and stewardship. We also agreed that for most investors nominee accounts offer many administrative advantages. Any reform should ensure that these are retained or enhanced.

Where next?

UKSA and ShareSoc will respond to the call for evidence when it is published later this year. As the Law Commission has indicated, this will be followed by a scoping study next year. Where we go from there remains to be seen. No date has been set for the conclusion of the scoping study and it is possible that a further stage of the project will follow. The Law Commission is, understandably, remaining very circumspect in terms of making any predictions or commitments.

This project is highly significant in the light of UKSA and ShareSoc's long-running campaigns to end the disenfranchisement of individual shareholders simply because they hold their shares in nominee accounts. But don't get too excited just yet; there is a long way to go! We shall keep members updated as the project progresses.

London and South-East briefings – save the dates

Harry Braund, Chairman of UKSA's London and South-East region, has arranged two briefings for UKSA members.

On Monday 16 September there will be a briefing with the housebuilder **Barratt Developments plc** and on Tuesday 17 September with **InterContinental Hotels Group plc**. Full details will be circulated nearer the time.

Buybacks

by Cliff Weight and Peter Parry
ShareSoc and UKSA Policy and Campaign Directors

Our position should be against the abuse of buybacks rather than against buybacks in general.

Certainly, in the UK buybacks are more tax efficient than special dividends, and depending how they are effected they have the advantage for the investor of being elective. In the UK (except for shares held in SIPPs and ISAs, where capital gains and dividend income are tax-free), dividends are subject to income tax, whereas if the investor elects to accept the buyback, any gain is subject to capital gains tax.

We agree that buybacks are a useful tool for managing a firm's capital position, which is particularly relevant in industries where capital adequacy is regulated. For many businesses there is effectively a bid and an offer price for shares which forms part of the capital management process. When the share price implies a cost of capital below that achievable by the business, the company should issue shares, and where the implied cost of capital is above that achievable by the business it should buy them back. But this should only be done when the gap is significant and clear to all.

Much of the success of private equity has been around reducing the amount of lazy capital in companies and employing greater levels of debt as a cheaper source of finance.

But there are a few provisos about buybacks:

- They shouldn't be used when the share price is above a theoretical NAV;
- Their use should never be driven by the metrics of poorly constructed executive remuneration packages;
- They should be accompanied by a clear statement from management explaining why the return on capital from a buyback is higher than that achievable by deploying the capital in the business;
- Potential tail risks need to be recognised, properly considered and managed. High leverage is not always good and introduces potential costs in cyclical business or when the business has a bad spell. The examples of the banks in 2007 onwards and more recently Carillion highlight the risks and potential costs.

The problem is that policing these provisos is difficult, for investors and external parties, which has certainly led to abuse in the past.

To help policing, we recommend sunlight, in the form of much clearer accounting / reporting on share buybacks. We suspect that all too often the decisions on share buybacks are based on management achieving lucrative bonuses based on EPS measures (or similar). An analysis of the share price over, say, the last five years and buyback events would in many cases show that shares were bought back at prices that were clearly high and that shareholder value had been destroyed.

We acknowledge that many of our members think differently about buybacks versus dividends and are very attached to dividend flows. Many of us have struggled with the reason individual investors distinguish dividend income from capital gains and the predilection for high dividend stocks often at the expense of total return. Perhaps we all need to do more reading around this.

Some arguments against buybacks

At the recent large company events with Lloyds and British Land many individual investors in the audience argued against buybacks and this seemed to be the majority view. Lloyds said that 30% of their investors are US and they like buybacks.

Below is an article from the WSJ entitled "The Fireworks Over Share Buybacks Are Duds" that argues emotionally for buybacks, see https://t.e2ma.net/message/ays5ub/uhx92c . The way they promulgate this stuff makes it sounds like it is common sense. It ain't!

Such views and the apparent powerful support from the WSJ article will make it hard to win our case, even though we know we are right!

What do the academics say?

Robert Ayres, INSEAD Emeritus Professor of Economics and Political Science and Technology Management, and Michael Olenick, Institute Executive Fellow at INSEAD, in a 7 September 2017 article argue that share buybacks are corporate suicide, see https://knowledge.insead.edu/economics/share-buybacks-are-corporate-suicide-7071

*They conclude **when firms invest too heavily in buying back shares, there is likely to be trouble ahead**. At first glance, stock buybacks may seem a good way to enhance value for the shareholders. By reducing the number of shares outstanding, firms can hike up their earnings per share and inflate the share price, to the benefit of hedge funds and other short-term investors. Other winners are top corporate managers who are allocated a large proportion of their pay through stock-based instruments and receive bonuses triggered by a rise in the share price. If things look solid, long-term investors may have no problem with this, but what if the money spent on buybacks is money that would otherwise be spent on new product development and innovation? Worse, what if that money is borrowed?*

They argue there are many high profile examples of the impact of excessive buybacks at the expense of healthier reinvestment. Take IBM Corp, which has spent US$125 billion on buybacks since 2005, and $32 billion on dividends, while laying off large numbers of employees and investing only $69.9 billion in R&D. We wonder: what if the 20th century computer giant had spent a lot less money on share buybacks and more on pre-empting the innovations stemming from its nimbler competitors in Silicon Valley?

General Electric is another case in point. The world is electrifying, but without GE. It repurchased US$114.6 billion of its own stock and by the end of the first quarter of 2016 had a market capitalisation of $253.25 billion, a ratio of 45 percent. Its stock underperformed both on the S&P 500 and in comparison to competitors such as United Technologies (40 percent), Honeywell (22 percent) and Danaher (2 percent), all of which grew their market value faster than GE while spending less on buybacks.

And there's more. Sears spent US$6.92 billion buying back its own stock. The company is now only worth $729 million. Over the past five years Sears has seen its market value contract by 87 percent. Consider HP, the grandfather of Silicon Valley, which spent US$81.56 billion on buybacks but contracted 25 percent in market value over the five-year period. Or Xerox, which spent US$8.6 billion on buybacks and is now worth only $7.2 billion, having contracted by 30 percent.

In fact, 64 companies in our review, including retailers The Gap, JCPenney and Macy's, spent more buying back their own stock than their businesses are currently worth in market value. The management at Target spent 95 percent of its current market value buying its own stock.

On the flip side, we identified 269 companies that repurchased stock valued at 2 percent or less of their current market values (including Facebook, Xcel Energy, Berkshire Hathaway and Amazon). All are strong market performers.

Some personal comments by UKSA/ShareSoc directors are below

Martin White, Director of UKSA

"I think I'd go along with the more nuanced position. American taxpaying investors avoid receiving income. I'm a long-term shareholder of Berkshire H (incidentally the B shares are worth just 1/1500th of the A shares, so selling them is perfectly viable).

Where buybacks stink in my view is when they are used as cover / neutralisation of dilutive pay. And when they are used to boost the share price. Or when the share price is too high. And directors don't always have a good record in judging that!"

Cliff Weight, ShareSoc Director

"I see far too many cases of directors buying back shares and then the share price falls. There is a very large body of academic evidence to prove that Boards are generally poor at deciding when to buy back their shares.

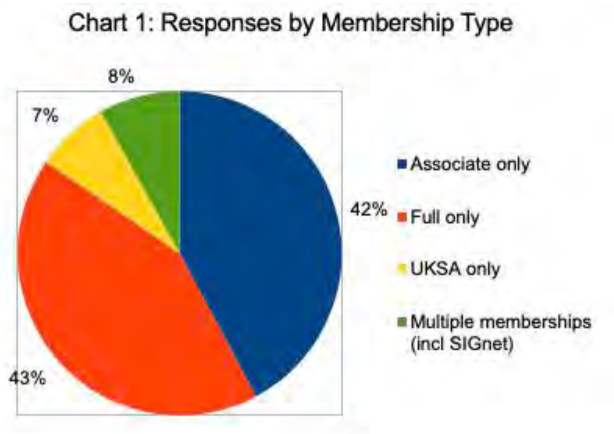
I make an exception for VCTs and investment trusts with large discounts to NAV where buybacks can improve the liquidity for shareholders and reduce the discount.

I have suggested that companies who do buybacks should have to publish in the annual report a table of the amounts spent on buybacks, the average price and the gain/loss to date (latest year end) for each of the previous 10 years and the total. Deciding on a buyback policy is a very important decision in the corporate financial strategy and should be carefully monitored over the long term and be fully transparent to shareholders.

I blogged about a recent case where directors appear to have made the wrong decision about buying back their shares. See https://www.sharesoc.org/blog/company-news/plus500-buybacks-fat-cat-pay-and-profits-warning/

Investment platforms: your views

In April-May, UKSA and ShareSoc surveyed its members about their views on investment platforms. We received over 550 responses (an 11% overall response rate). 25% of full members and 6% of associate members responded. The proportion of the total responses from different types of member is given in Chart 1. This article gives a flavour of what you told us.

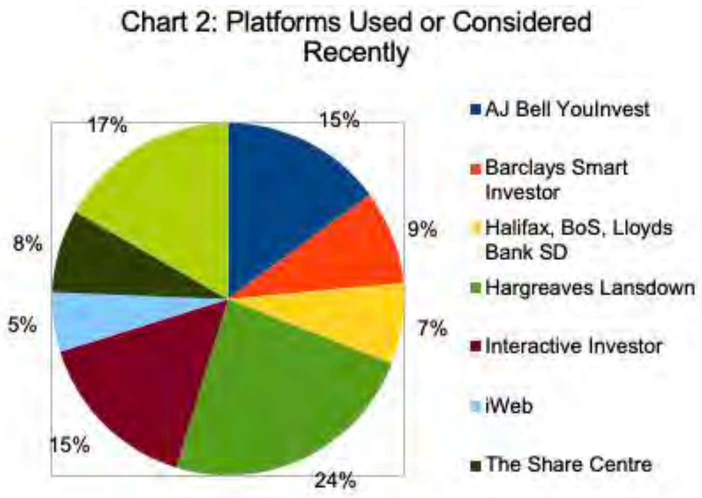


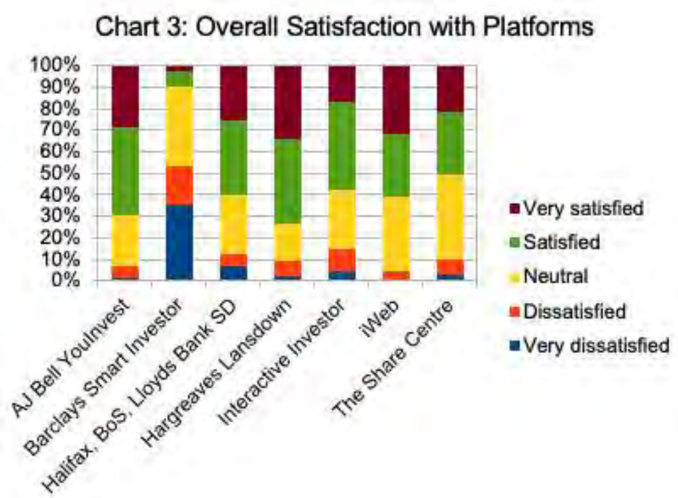
Overall satisfaction

You use a wide variety of platforms, with many of you using more than one. In total, we received 1,229 responses to our question about the platforms you used or had considered recently. In your responses, Hargreaves Lansdown was mentioned most frequently. As Chart 2 shows, the other major platforms were also well used.

Of the platforms we listed, you were most likely to be satisfied or very satisfied with Hargreaves Lansdown, followed by AJ Bell YouInvest. As Chart 3 shows, you were least satisfied with Barclays Smart Investor by a wide margin, with over half of its ratings being dissatisfied or very dissatisfied.

Hargreaves Lansdown achieved the highest average satisfaction score, closely followed by AJ Bell YouInvest and iWeb. This average score was calculated using a five point scale where 5 represented Very Satisfied and 1 represented Very Dissatisfied. Average scores therefore resulted from different mixes of satisfaction, neutral responses and dissatisfaction. For example, Interactive Investor and The Share Centre achieved the same average score but Interactive Investor had 7% more satisfied and 4% more dissatisfied respondents.

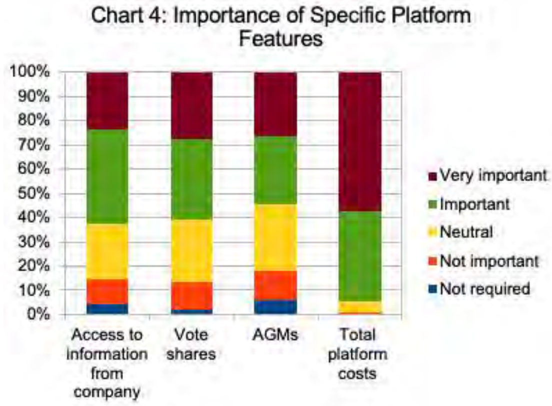




Shareholder rights

The ability to enjoy and exercise shareholder rights, such as voting and attending AGMs, is an important or very important feature of investment platforms for more than half of you. Chart 4 gives the breakdown for different shareholder rights.

However, platform providers should not expect to charge premium prices for these as total platform costs are also very important for more than half of you and important or very important for over 90%.



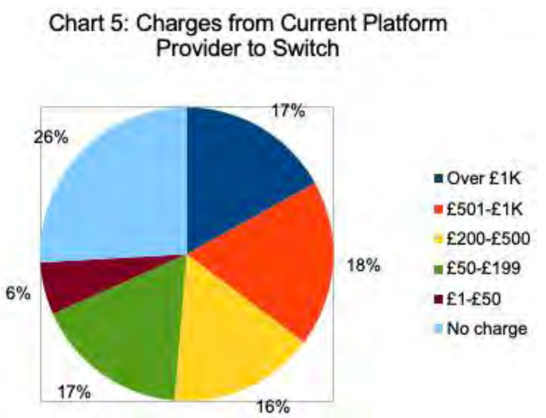
Switching platforms

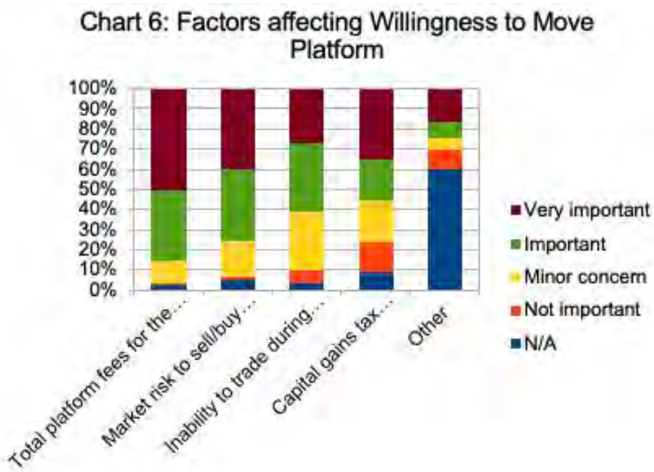
As the FCA is currently considering making it easier to switch platforms to encourage greater competition, we were keen to understand your experience and requirements to inform our response in June to its consultation.

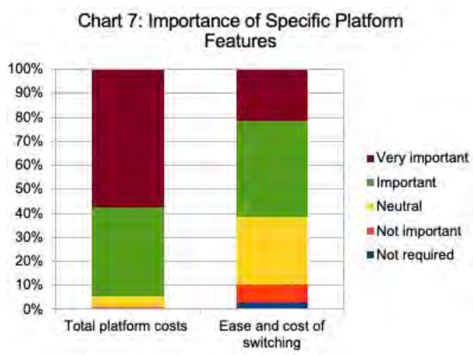
We found that in 70% of cases you did not know what your current platform provider would charge you to leave them. When you could give us a figure, the amount varied considerably. 17% of responses said you would be charged over £1,000 to move your current portfolio and cash while 26% of responses would not incur a fee. The full breakdown is given in Chart 5.

Barriers such as fees charged to leave, capital gains tax implications and the impact of being out of the market during the move were all significant for many of you in affecting your willingness to move platforms. Your responses about these are given in Chart 6. This suggests that FCA proposals to reduce or remove these barriers would improve competition between platform providers.

However, you indicated clearly that it is important that the removal of these barriers does not introduce disproportionate costs for those who remain. Chart 7 shows that, while ease and cost of switching are important or very important for more than half of you, total (continuing) platform costs are important or very important for almost everyone.







Conclusions and next steps

Many thanks to everyone who responded. These results and the more detailed data on your experience of specific platform providers will enable us to respond to government consultations, including the Law Commission's important consultation on intermediated securities, and seek to influence and improve the service you receive from investment platforms.

With the FCA minded to reduce the barriers to switching platforms, this survey highlights how platform providers can compete to attract and retain clients. Easier access to shareholder rights and reduced costs are just two areas where we hope to see future improvements to maintain and increase the satisfaction of individual investors.

The data also underline the importance of stewardship functions to individual investors. It is clear that the low percentage of retail shares voted at AGMs is largely a function of the informational and psychological barriers presented by the platforms.

CURRENT UKSA EVENTS

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

Presentation by BT Group plc– Wednesday 28 August 2019 (joint event with ShareSoc)

Location	**Media suite, BT Centre, 81 Newgate Street, London EC1A 7AJ**
Start	**12.30 (assemble from 12.00)**
Room capacity	**40**
Company contact	**Anna Newland, IR Programme Manager**
Group leader / UKSA organiser	**Nick Steiner 020 8874 0977 n.steiner@btinternet.com**

London & South-East presentations with Barratt Developments plc and InterContinental Hotels Group plc

Location	**Full details will follow**
Start	
Room capacity	
Company contact	**Harry Braund harrycb@gmail.com**

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'	Programme awaiting start-up
Northern Rock Small Shareholders Action Group	Dennis Grainger nrssag@uksa.org.uk	Dennis Grainger nrssag@uksa.org.uk	Pursuing compensation for small shareholders affected by NR's collapse	Lobbying and awareness-raising activities