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UKSA - the way forward

Nearly 30 years ago UKSA was launched by a group of people who wished to right a specific wrong: the excessive pay of chairmen and directors of the newly privatised utility companies. UKSA's founders were indeed shareholders, but their interests were not in increasing their own wealth; it was in righting a social wrong as responsible investors aware of their ownership obligations.

Since that time we have watched the increasing neutering of private investors through the growth of intermediation and the passing of shareholder power into the hands of intermediaries with none of the concerns of responsible investing. This transfer of power has been scandalously ignored by successive governments.

The result has been corporate short-termism, wealth extraction instead of wealth creation, and excessive self-awarded executive pay. Persistent campaigning by UKSA and similar-minded organisations has had striking successes in single-issue campaigns, but marginal practical effect on fundamental causes. It is time to try another way.

UKSA believes that no effective change is possible without mobilising broad-based public support. Two things are necessary: a revolution in public understanding of the process of investing and saving; and an organisation that is ruthlessly independent of special interests - one that answers the question of the ordinary man or woman: 'Who do I trust?'.

UKSA aims to become that organisation. To do that we need a different approach to two critical resources: people and money. In the coming months we will develop our plans for the future while continuing to consult with the membership.

The UKSA Board

All the Board of UKSA wish members a happy Christmas and a successful and prosperous

2020

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Audit and accounting car crashes

by Peter Parry

In the year ending June 2018 there were 1,770 fatal accidents on Britain's roads according to the Department for Transport. To add a little more context, this is 4.7 fatalities per billion miles driven. It looks good, particularly when one considers that fatalities have declined from a peace-time peak of 7,985 in 1966. The UK figures also compare favourably with those of many other countries in Europe. Despite this, the number of fatal accidents on Britain's roads in 2018 still averaged almost 5 per day or 35 every week. That is a death-rate that would not be tolerated in any UK workplace.

Recent debate about high-profile corporate fatalities such as Thomas Cook, Carillion, Patisserie Valerie and Conviviality raises similar issues. There are those who will point out, possibly with some justification, that of all the thousands of audits carried out each year, only a very small proportion have turned out to be deficient. On this basis, they say, we should not over-react because of a few recent failures. However, there are many others who believe that this failure-rate is too high. In a number of recent high-profile cases there is ample evidence that the company and its auditors were sailing close to the wind with their approach to care and prudence and that they were courting disaster. The claim by the companies and their auditors that nothing illegal was being done – except perhaps in the case of Patisserie Valerie – seems lame…. Driver to Judge: "I know I killed the cyclist M'Lud, but I wasn't actually breaking the law; it was my right of way and I was still just within the speed limit." Judge to Driver: "Yes, but you weren't watching the other traffic and you were driving much too fast for the road conditions ….." On the road, whether what you were doing is technically legal is not the defining issue when a crash occurs. Perhaps this principle should be extended to financial reporting. I'll expand on this later.

The other problem I have with the 'don't over-react' argument is that poor practice is often more widespread than its outcomes might suggest. On the roads poor driving often goes unpunished. For example, we all know that tailgating on the motorway is a risky practice. However, in the vast majority of cases, drivers continue to get away with it – until it all goes badly wrong. The fact that there aren't more fatal road accidents is down to good luck rather than good driving. Knowing what we now know about recent audit failures, one has the same uneasy feeling that maybe the reason there aren't more company failures is down to good luck rather than high standards of governance, stewardship, audit and reporting. Most of us are now familiar with the way in which Carillion managed to recast debt in its balance sheet as 'creditors' - or money owed to suppliers using a prompt settlement facility set up by the banks and sponsored by the government. There was nothing illegal in what Carillion was doing, but, whichever way you look at it, it comes across as a form of poor reporting practice designed to deceive investors – a practice which, disturbingly, was sanctioned by the auditors.

The same has been true at Thomas Cook. Despite all the hand-wringing and protestations from the directors assuring the Business, Energy and Industrial Strategy Committee – along with the rest of us – that they did their very best to ensure the success of the business and that their bonuses were entirely justified, it seems that they were guilty of behaviour that would be considered reckless in any other situation. Jonathan Ford, writing in the Financial Times,[i] notes that as far back as 2011 the company was paying dividends of £100m without the ability 'to pay a cent'. Following the merger with My Travel in 2007 the Company was left with a net loss of £520m. As it had impaired the value of its subsidiaries by a massive £1.5bn, there was nothing left in the past-surpluses pot either. This wiped out £199m of retained profits and left the company with a deficit of £1.3bn.

This did not deter the directors or the auditors. They used a curious accounting principle known as the 'merger reserve' to conjure up additional reserves. The merger reserve is simply the difference between the nominal value of the shares issued to buy My Travel and the 'fair value' it computed at the time for the assets it purchased. However, the merger reserve has no real value at all.

The second thing Thomas Cook did was to lend almost £400m of cash to its subsidiaries and receive a dividend from them of similar value. This could then be treated as a profit and added to distributable reserves. This is all completely legal so long as it does not – in the eyes of the directors, the subsidiaries and their auditors – jeopardise the financial health of the subsidiaries. These two manoeuvres gave the impression that distributable reserves at Thomas Cook rose from £199m to £447m – and that was after paying out £100m in dividends. This was equal to almost the entire market capitalisation of the Company in 2011. This apparently legitimate financial engineering using nothing more than smoke and mirrors enabled the directors to present the Company's financial strength in a favourable light. Without this they would have been forced to shore up the balance sheet back in 2011.

Returning to the issue of whether recent audit failures are one-offs or whether, like poor driving standards, they are a harbinger of further accidents waiting to happen, Jonathan Ford notes that concerns about parent company balance sheet dependability go much wider than Thomas Cook. Barclays, for example, last year revalued the carrying value of its subsidiaries on the parent balance sheet from £39bn to £57bn. This is significantly more than the value the market places on the whole group of just £29bn.

It is easy to blame IFRS accounting for many of the reporting issues that are worrying investors. UKSA member Malcolm Howard has pointed out that IFRS abandoned the concepts of prudence, matching and historical cost in favour of 'fair value' and 'directors' discretion'. However, as Malcolm acknowledges, IFRS is not going to change. Maybe, therefore, it is time to consider something more akin to how we prosecute serious driving offences. Under the Road Traffic Act (1972) drivers who cause death can be charged with the offence of 'dangerous driving' – punishable by a prison sentence, a lengthy period of disqualification and a hefty fine. Perhaps it is time for the Companies Act to be amended to take better account of a failure of care (or contributory negligence) by directors and the way in which they report. Perhaps it is also time for the Corporate Governance Code to be strengthened and enshrined in the Companies Act in the same way that the Highway Code is enshrined in the Road Traffic Act.

And what of those who police the financial highways of Britain – in this case the FRC? They have recently expressed concern at the tendency of companies to place values on subsidiaries that are far greater than their total market capitalisation. Until recently cast as the 'plods' of the financial reporting world and armed with little more than a bicycle, a whistle and a notebook, the FRC, under its new 'Chief Constable', Sir Jonathan Thompson, is clearly gearing up to take a much tougher line with the tearaways and joy-riders of financial reporting – as well as those who seem simply to doze off at the wheel. For a more detailed commentary on this, members should read the write-up on the recent event, 'Lifting the Lid on the FRC', which can be found here on the UKSA website:

[i] Financial Times – 11 November 2019 – Thomas Cook shows accounting rules can obscure frailty.

Lifting the Lid on the FRC – 2019 edition

On 5 November the FRC held its annual update event for private investors in collaboration with UKSA and ShareSoc. UKSA's Policy Director Peter Parry has posted a detailed report here on the UKSA website. An extract from his report appears below:

This was an excellent event, well organised by the FRC with about 80 attendees from ShareSoc and the UK Shareholders' Association.

It is very reassuring to hear the underlying messages now coming from the FRC. For example, there is a significant change of approach on transparency which is very much to be applauded. Audit reports conducted by the FRC will be placed in the public domain, although legislation will be required for this to happen routinely. It is also clear that oversight of audit quality is receiving much more attention. Following hard on the heels of yesterday's presentation from David Rule, I was very pleased to see the FRC news alert yesterday (6 November) 'Auditors need to improve their challenge of management urgently'. Do read this by clicking here. It doesn't pull its punches in terms of what the FRC is expecting from auditors.

At the same time, the much sharper focus on Stewardship and Governance with David Styles in charge of this area is most welcome.

Both UKSA and ShareSoc will look forward to continuing to engage closely with you and doing whatever we can to support and encourage the change that is now taking place.

Structured products - an exposé

by John Hunter

A. Overview

New member Colm Fagan is a retired actuary and former President of the Society of Actuaries in Ireland. He writes a website on investment matters of interest (see here). He contacted us primarily to express interest in Savers Take Control but also because he thought we might be interested in some analysis that he and friend, Brian Woods, had done of a structured product supported by BNP Paribas.

Indeed we are.

Colm and Brian's work has revealed a practice where structured products (sometimes called 'structured bonds') are manipulated to produce striking results on back-testing but with odds stacked against the investor (and in favour of the issuing bank) during the forward investment period. Their work was on one particular product. Informal conversations with others have suggested that the practice is normal (and indeed to be expected given the incentives built into the process). To understand how this can happen, we need to understand how structured products work.

B. The World of Structured Products

1. What are they?

Structured Products (SPs) are investment products issued by major banks. They can be thought of as bonds with complicated repayment terms, often with an element of equity risk.

There are thousands of them, all different, with new issues every month. Common themes are:

1) The investor contributes capital against a promise of repayment + interest
2) Repayment is usually after a fixed long term (say 5-10 years), though some SPs have 'kick-out' conditions triggering earlier closure
3) Capital repayment is subject to a '*performance condition*' (PC)
4) Interest payment may be subject to an (often different) PC. Interest is paid at term.
5) PCs may be any combination of future events that the product designer can think up

The critical point of difference from more conventional bonds is the PC(s). It is the inventiveness and practices behind the PCs that make SPs a matter of interest.

2. How do they work?

Each SP may have an issuer, a manager and an administrator.

- The Issuer, typically a major financial institution, agrees the SP design, receives the investor capital and pays out according to the SP rules. As a technical matter the issuer creates preference shares carrying the rights under the plan. These are not tradeable, and the issuer makes no promises on marketability prior to term.
- The Manager may lead the SP design and manages and promotes the SP. Most importantly, it arranges distribution through financial advisers. Administration may be outsourced to….
- The Administrator provides administration and custodian services and is in effect the broker for the end investor, whose preference shares are held in a nominee account.

The subscription period for an SP might typically be a month. It cannot be a long time because its value will depend on market conditions at the time.

3. Performance Conditions

PCs are fundamental to SPs. Best to illustrate with a simple example:
10-year plan, interest of 50% payable at term plus full repayment of capital subject to the following performance conditions:

1) Payment of both capital and interest will be dependent on the performance of the FTSE100 Index in the period

2) No interest will be paid if the FTSE100 is below its opening level at term (i.e. at market close 10 years after the issue)

3) Capital will be repaid in full so long as the FTSE100 at term is more than 70% of its opening level. If the Index is down 30% or more, return of capital will be reduced by the same percentage loss (so: if index down 25%, full capital returned; but if index down 35%, only 65% capital returned).

This example contains features common to all structured products:

- It exploits the ignorance of those who can't do maths (50% sounds like a lot, even 5% p.a. sound pretty good, can't do compound interest)
- It involves a bet (which is the performance condition), in this case a bet on the FTSE100 index, but it could be a bet on any future event. For marketing reasons the bet always has a financial flavour and is nearly always a bet on some form of financial performance (typically, but not necessarily, an index)
- It presents a bet that only a very skilled and knowledgeable statistician could evaluate
- It builds on the findings of the behavioural economists to present situations that individuals are inclined to misjudge (in this case: high loss events with low probabilities; the effect of volatility on the odds of an outlier occurring)
- As a package, it can be sold by a wealth manager to his clients

The type of bet in this example, where you lose something dependent on the outcome of a performance test, is usually called a forfeit.

4. Economic Keys

- These are just bets. Bookies make their money from punters – nowhere else. Here, the issuer makes money when the investor does badly – it's a zero-sum game (although Brian would say, rightly, that the structure of the offering may offer a risk profile that suits both sides).
- The above is a tad over-simple, because the issuer will usually hedge his bets. But these will be specially constructed hedges, and their price will be reduced if the investors' prospects can be shown to be poor. Or, more likely, the hedges will be against standard indexes and the issuer will retain basis risk.

C. The world of Indexes

1. Creating Indexes

We all understand what indexes are. For example, the FTSE100 comprises the top 100 companies by size (market capitalisation) quoted on the London Stock Exchange. The list is reviewed (i.e. re-measured) every three months and companies drop out or drop in accordingly.

To be investible an index must have a precise definition and precise rules for updating. Otherwise its results could be manipulated (as has occasionally happened, cf. the LIBOR scandal). But some lack of precision can be acceptable if the market has confidence in the process. For example, the EURO STOXX 50 is the most widely used index of European markets but is comprised of '50 of the largest and most liquid Eurozone stocks' and is 'reviewed every September'. So the basis of review is not precisely defined, but the process has market confidence, despite the index being the property of a subsidiary of Deutsche Bank (named STOXX).

This points to another necessary class of players in the index world. Indexes, even when precisely defined, still have to be created in the first place, and subsequently managed. There are companies that do this: the FTSE100, for example, is managed by a subsidiary of the London Stock Exchange; STOXX (see above) manages a whole range of indexes.

Which brings us to a company which has made a business of creating indexes on demand.

2. Solactive AG

Solactive designs indexes and sells them to finance houses. From its website: 'We design, calculate and license financial indices with the highest standards. From broad benchmark indices to highly flexible solutions, we offer the full spectrum of index products to our clients, which include asset managers, investment banks and ETF providers around the world.' Further nuggets from its website: 'Need

a benchmark? Enter the world of one tradeable, cost efficient and customisable framework'; 'Find out about our Solactive ISS Beyond Plastic Waste Index'; 'Read in our White Paper why weighting sovereign bonds according to their issuing country's renewable energy generation capacity holds significant benefits for investors'.

Get the picture? The company employs 250 people, has created 950 indices and its products are used in 200 ETFs. Read more in their (extremely clear) website if you like. https://www.solactive.com. The key word is 'customisable'.

Which brings us to the structured product spotted by Colm's friend Brian.

D. Accelerator Bond 4 (abbrev. AB4)

AB4 is an SP issued by BNP Paribas in 2019 in the Irish market (therefore not available to UK investors), but marketed and supposedly designed by a firm called 'Broker Solutions Ltd'. It is similar in type to the one in the example above, with a five-year period, interest of 40% payable at term, but subject to a forfeit (performance condition) based on a constructed index – the Solactive European Deep Value Select 50 Index (SOLEDVSP) – designed by Solactive and BNP in 2015.

On investigation Brian found a presentation made by BNP in 2017 to wealth managers and advisers. The presentation in practice promoted a style of investment which was stated to apply to the way the index was constructed. If you took away the word 'index' and substituted the word 'fund', you'd have a typical presentation inviting investment in the fund on the basis of technically dressed-up motherhood: 'the value-investing style of Benjamin Graham' and 'a balanced but selective approach based on analysing companies' fundamentals according to three groups of criteria: Valuation, Solvency and Stability' and 'emphasis on low volatility and recurrent income'.

You really ought to visit Colm's website to get the full flavour of the subsequent analysis. But suffice it to say that:

- The promotion advised that the index had been 'backtested to 2001 and had outperformed the EURO STOXX 50 by 5% per annum over that period'. (Now forgive my ignorance, but how do you backtest a fund management performance - based on judgement, not a mechanical process - over the 14 years before the index was first created?)
- The stock selection process was weighted in favour of high dividend-paying stocks, particularly in the month before they go ex div (but the investor doesn't get the dividends, remember). Such an index will typically underperform a broad market index (trust me, or look at Colm's website).
- …. and so the forfeit is weighted against the investor, and in favour of the bank (zero-sum game, remember)
- …. and anyway the constituents of the forfeit index are determined by an organisation retained by the bank (zero-sum game, remember)

And that's where Colm's investigation should make us sit up. Because he and his friend have found a product where an index, or the process for setting an index, has been constructed to favour an issuer, both in the way the resulting product is promoted and the way the resulting product performs. And if it's happened once, how often is it happening generally?

E. Conclusion

Now, I don't know how this makes you feel, but it makes me angry. This is not the usual industry failing of ad valorem charging for not doing very much, but a devious and technically complicated attempt to confuse any investor not mathematically astute enough to qualify as an actuary (i.e. about 99.9% of us). It's probably within the law because it doesn't hide the mechanics of how it's constructed, but unless you are one of the 0.1% you are not going to notice that the performance condition has been weighted against you. And it raises the question of how much else like this there is out there to justify a demand for firms such as Solactive, and it certainly makes me wonder about some of the stranger ETFs now available.

Major banks need to have a care for their reputations and the regulator needs to pay attention. Perhaps a little gentle publicity will help here?

Deferred shares report and voting trends survey

by Cliff Weight

We are very grateful to Cliff Weight for permission to reproduce the article below, which was originally posted on Cliff's blog on the ShareSoc website.

Study shows low adoption of deferred share plans

• Tom Gosling, Partner, PwC | Executive Fellow, London Business School | Steering Committee Member, Purposeful Company Taskforce has written a good report on executive incentives, arguing the case for deferred shares (i.e. long-term share plans with no performance conditions, except in extreme conditions). It is well worth reading.

Here's the summary findings report: https://lnkd.in/d9_B8cm and the key points are below.

A quarter of the UK's biggest companies are failing to adopt the right remuneration polices to reward executive performance, according to a new study by The Purposeful Company, a management think tank.

The research, which looked at the benefits of adopting **deferred share plans**, found that at least 25% of British companies should be using schemes in order to pay fairer executive bonuses – rather than sticking to the more popular but controversial **Long-Term Incentive Plans** (LTIPs).

According to the paper, fewer than 5% of FTSE-350 firms have adopted deferred shares in place of a LTIP.

The major study, based on interviews with over 100 companies, investors, remuneration consultants and proxy advisers, showed widespread support amongst investors and companies for greater adoption of deferred share models.

The study revealed a massive 79% of investors and 73% of companies surveyed believe deferred shares are the best approach in certain companies and industries.

The respondents named greater simplicity and transparency as the key benefits of deferred share awards.

Nearly two-thirds (66%) of investors said changing to deferred shares would encourage executives to make decisions in the long-term interests of the business, while over half (52%) believed it would enable bosses to execute company strategies more effectively as they would not be distracted by LTIP targets.

Companies also highlighted practical benefits of deferred shares such as avoiding boom and bust in LTIP outcomes (49%) and the difficulties of long-term target setting (49%).

I have four concerns:

i. There is inadequate consideration on CEO shareholdings in the report. Large holdings of shares are the first thing to consider when setting CEO pay as this creates long-term alignment. I wrote about the successful plan at 3i recently and highlighted this issue, see https://www.sharesoc.org/blog/remuneration/3i-well-managed-and-well-incentivised/

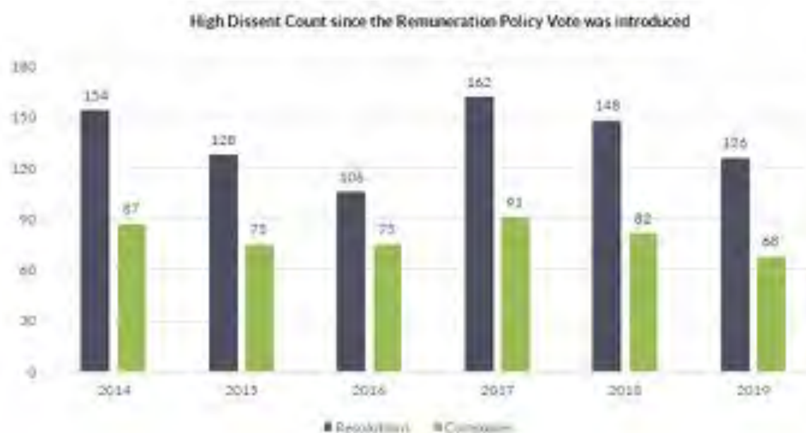
ii. The report barely mentions remuneration levels and argues a 50% swap is not enough, i.e. swap of 50% of salary of restricted shares is not enough in exchange for 100% salary of LTIP. I think 50% is way too high as it fails to discount for risk. 30% to 40% would be a better swap number. **Remuneration creep needs to be reversed**. CEO remuneration has tripled over the last 20 years, while over the same period the FTSE 100 share index has barely increased at all. Remuneration creep occurs in a number of ways and each of these should be identified and exposed. The FTSE 100 CEO pay policy model is also too high, with bonuses in many cases at 200% of salary and LTIPs at 300% of salary. These percentages should be less than half current levels. See https://www.sharesoc.org/wp-content/uploads/2016/05/ShareSoc-Remuneration-Guidelines-Large-companies-2016.06.07-.pdf for more detail.

iii. Share options may be the right approach for growth companies and in particular for many Small Cap and AIM companies. See https://www.sharesoc.org/wp-content/uploads/2018/07/ShareSoc-Remuneration-Guidelines-Smaller-Companies-2018.07.06.pdf for a good analysis of why share options are sometimes a good idea.

iv. I wonder if PwC are trying to make this more complicated than it really is? Tom Gosling and PwC are consultants and generate large fees from remuneration work, e.g. £4 million from Thomas Cook where it was also the auditor! See https://www.standard.co.uk/business/pwc-grilled-by-mps-over-its-dual-role-at-failed-thomas-cook-a4267711.html

VOTING TRENDS – MINERVA SURVEY

This year, 68 of the top 350 companies recorded shareholder dissent of 20% or more relating to at least one proposal. In total, 126 resolutions received 20% or more votes against and abstentions. In 2018, 82 companies and 148 resolutions received high dissent levels, Minerva found.



The 20% threshold, according to the UK Corporate Governance Code's recommendations, should be considered as significant dissent, with boards required to report to shareholders any actions taken to address their concerns.

However, Minerva Analytics has questioned whether 20% is an appropriate level to judge shareholder discontent. Abstentions are often not taken into account when counting up votes, meaning any investors wishing to show a figurative 'yellow card' to a company's board are not considered in the published results.

Minerva has argued that a 10% level of voter dissent should be seen as "representing something that boards and investors should look at closely", as it could indicate unresolved differences of opinion on important policies that require attention. This level is used in countries such as France, although there are often restrictions on the type of shareholders that can qualify for this level.

The Investment Association, the trade body for the UK's £7.7trn asset management industry, has been tracking shareholder dissent via its public register since 2017. The register lists any company resolution that has received 20% or more of votes against (abstentions are shown separately). It includes details of the resolution, voting results and links to subsequent board statements and actions.

Of the 68 companies that recorded significant dissent in 2019, almost half were 'repeat offenders' that had also experienced high levels of voter dissent in 2018. In addition, of the 254 companies that received dissent of 20% or more on at least one resolution in the past six years, just over half also received high levels of dissent in at least one other year. Three companies received significant dissent against at least one resolution in each of the last six years: Investec plc, Millennium & Copthorne Hotels plc and Telecom plus plc.

These figures indicated a breakdown in engagement between companies and investors, and a failure by boards to effectively address shareholder concerns, according to Minerva.

"Either companies aren't listening to feedback, or shareholders are not explaining effectively, or possibly a mixture of both," the company said in its report. Minerva also argued that the traditional six-week AGM season for companies with a 31 December reporting year end did not help shareholders or boards as it did not allow enough time to effectively engage and articulate concerns.

Across seven categories of resolution – audit, board, capital, corporate actions, remuneration, shareholder rights and sustainability – board and remuneration resolutions were the two largest sources of shareholder dissent. This year, 41.27% of resolutions that attracted high levels of dissent were related to board appointments, while 32.54% were related to remuneration reports or policies.

Remuneration resolutions recorded an average of 7.43% dissenting votes in 2019, according to Minerva's data. This is higher than 2018 (7.10%); it has remained above 7% since 2016. Strict rules around pay disclosure mean such issues often attract a great deal of media attention, which in turn can influence shareholder voting.

In contrast to these high levels of dissent, an average 1.12% of shareholders voted against or abstained on audit related resolutions, the lowest figure across the seven categories. This figure has fallen steadily since 2014, according Minerva's data. Audit has hit the headlines of late following a series of corporate collapses including Carillion, Interserve, Patisserie Valerie and Thomas Cook.

Minerva Briefing on 2019 Voting Review is available to download free.

A new approach to shareholder-interest organisations

by John Hunter

For a number of years now Martin White has been developing his ideas for a new approach to shareholder-interest organisations. He has been floating them gently under the provisional name 'Savers Take Control (STC)'. You can find them on the website under the 'Savers Take Control' tab.

I believe they are important for UKSA's future, and certainly will feature heavily in the Board's discussions after the Christmas break. In particular we are seeking to reach consensus on how to market what are sometimes elusive ideas; to be blunt how do we sell them and ourselves. This includes finding the right name for the movement: each of the words 'Savers', 'Take' and 'Control' are there for a reason but it's hard to love them as crowd-pleasers.

Anyway, here's my take on where we are:

- In a capitalist system proper governance – the control of executive action by those affected by that action – is vital for wealth creation that benefits all of society, and…..
- polite and constructive lobbying for this has achieved little in the face of opposition from the politically powerful financial sector, therefore……
- to achieve change it is necessary to build a political base.
- That political base potentially exists in the form of all those people who are, or should be, or might become investors – i.e. Savers. That's an awful lot of people.
- To take enough interest to become politically supportive Savers must understand the issues – they must know enough to understand how they are being exploited and to understand how their financial affairs are managed and what decisions they need to take – hence 'Savers Take Control' – STC. But……...
- with so much advice, education and salesmanship apparently available, Savers do not know how to distinguish the conflicted from the unconflicted – they do not know who to trust.
- So a big issue is 'Who to Trust?'. Or, in another word, 'Independence'. How does UKSA have a role in this……….?
- UKSA is a members' organisation entirely funded by members' subscriptions and donations, with its Board elected by members only. Its strapline is 'Standing up for private investors – an independent voice'.
- UKSA has preserved its independence throughout the nearly thirty years since its formation in 1992 as a campaigning organisation energised by public disgust at the levels of director pay in the newly privatised public utilities.
- What now? Here are three things we will take forward:
  - UKSA will build a team of independent 'champions' under the STC banner – knowledgeable and independent figures in the financial world who will associate with STC and by implication endorse its activities and guidance.
  - STC will build on UKSA's existing team of volunteers to create trustworthy guidance for all savers
  - UKSA will remain a members' organisation funded entirely by subscriptions and donations
- The last point has profound implications for our approach to membership and to funding which we are just beginning to address.

Readers might like to note that **Fighting Churchill and Appeasing Hitler,** by UKSA member **Adrian Phillips**, has been published by Biteback Publishing.

It is a fascinating read. A cast of thousands (well, over 100), all listed at the beginning with brief biogs and each meticulously brought to life by Adrian in his deeply researched story of the political and personal battles between the supporters of appeasement, led by Chamberlain, and the supporters of resistance, led by Churchill; the whole thing held together by the career of one man, Sir Horace Wilson, who achieved extraordinary influence over Chamberlain without much of an official position.

A timely insight into the way government works in the real world.

Chair of UKSA London and South East Region builds bridges with Chinese delegation

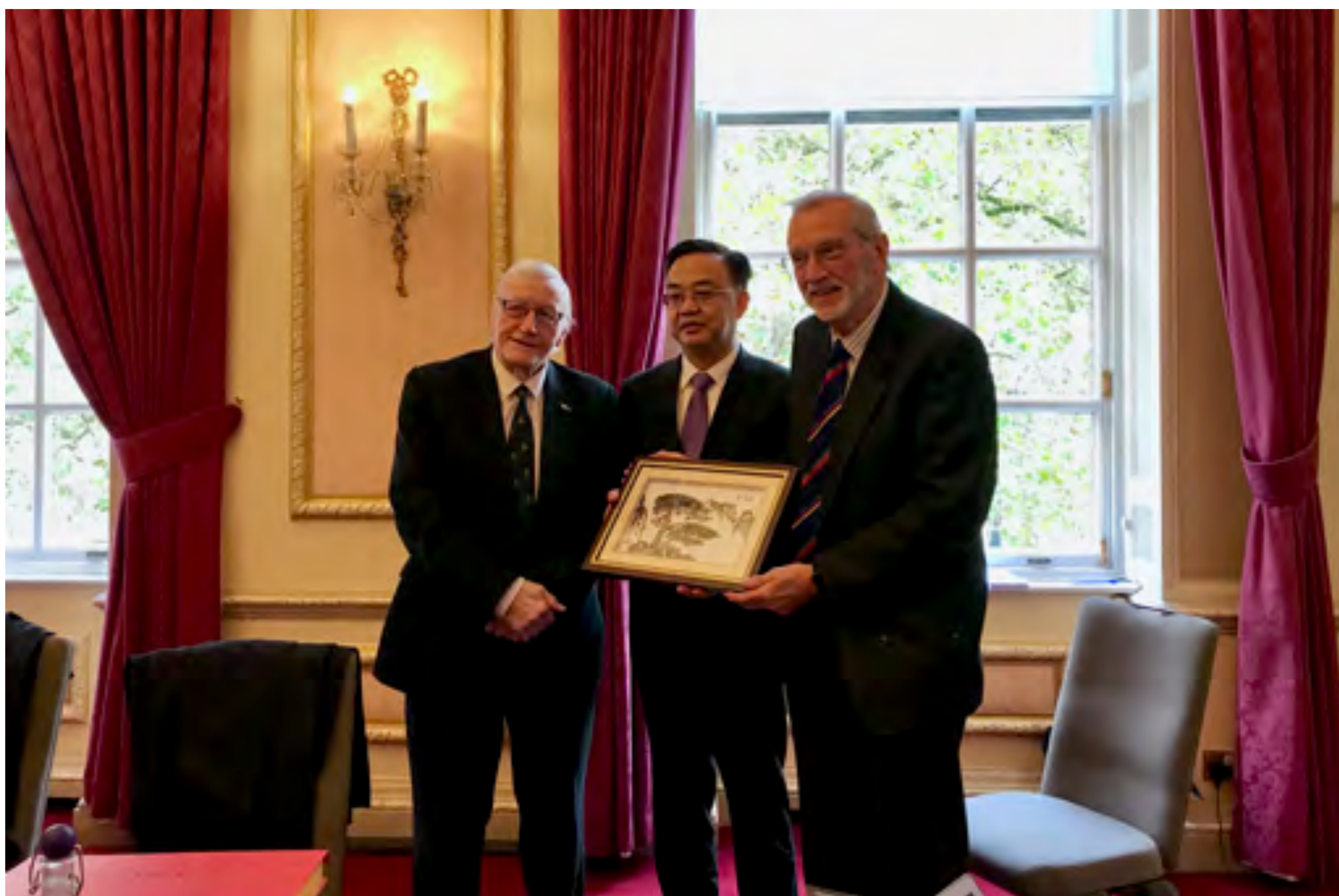
Harry Braund, Chair of UKSA's London and South East Region, delivered a presentation to a delegation from the Anhui Provincial Commission of State Asset Supervision and Administration in London in October. He was supported by UKSA's Chair, Colin Colvin.

This meeting was arranged following an approach from the Commission who were visiting the UK in October and were interested in corporate governance in the UK and UKSA's engagement with the subject. They were on a training mission to learn about the ownership structures and reform of large corporates against the background of introducing private capital into enterprises in China. This gave rise to a range of issues, in terms of both corporate governance and shareholder management.

The 18-person delegation were from Anhui province, home to Chery, one of the major car manufacturers in China. It was led by the Deputy Director General of the Anhui Provincial Commission of State Asset Supervision and Administration, the shareholding body on behalf of the provincial government in state-owned enterprises based in the province. Other members included senior executives of major companies in Anhui, e.g. Deputy General Managers from two Fortune 500 companies, Tongling Holding (non-ferrous metals) and Hailuo Group (cement and building materials). They had identified UKSA as an important organisation in the investment community in the UK, representing and protecting the interests of private investors. The delegation was keen to have an opportunity for communication and learn more about our role in promoting an investment environment which benefits both investors and corporations. Specifically, the delegation promoted the following topics:

- Legal framework, measures and common practice of protecting minority shareholders' interests in a corporate governance system;
- How to attract minority shareholders' investment and meet their investment targets.

The UKSA Board are most appreciative of Harry's commitment to responding to the request and helping UKSA build yet another bridge across the international stage in protecting the interests of private shareholders.



The Deputy Director General of the Anhui Provincial Commission of State Asset Supervision and Administration presents a memento to UKSA's Harry Braund and Colin Colvin

Ethical investing: portfolio tilting and corporate engagement

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

Previous articles asked why ethical investment matters [1]; introduced sustainable investing (with its emphasis on environmental, social and governance issues, or ESG) [2]; and looked at the 'screening' and 'best-in-class' approaches [3]. This article continues looking at different techniques for achieving ethical investment goals, exploring portfolio 'tilting' and corporate engagement. Future articles intend to explore topics such as performance.

Ethical investors choose to allocate resources to deserving areas while avoiding businesses carrying out unacceptable activities. Sectors of concern often include alcohol, tobacco, gambling, pornography, armaments and nuclear power, or other areas [4]. Investors may avoid these altogether or reduce exposure to them in their portfolios.

Investors may consider whether to

- Avoid unethical companies, but accept companies doing neither good nor harm
- Invest only in ethical companies, avoiding both the unethical and those that do neither good nor harm
- Actively seek to influence corporate behaviours to improve.

These questions help to identify different approaches.

Investment approaches

Using sustainability can help determine whether business activities have positive or negative impacts, based on ESG factors [2]. A common approach is screening, but others include 'best-in-class', 'tilting', or 'engagement'. Screening and best-in-class have been discussed previously; [3] the focus here is on 'tilting' and using corporate engagement to influence firms' behaviours.

For companies in ethically challenging sectors, screening may not be effective at discouraging harmful behaviours. Consider assessing a fictitious mining company under different ethical investing strategies [5]. Suppose it has a poor record regarding environmental damage, pollution, treatment of labour and indigenous peoples. Screening would exclude the company based on its sector, which would likely be unacceptable. Management can do nothing to make the company acceptable, apart, presumably, from winding its operations up.

However, the company could be influenced by approaches such as 'tilting', corporate engagement or shareholder activism. Looking at 'tilting', for example, the company could reduce carbon emissions, and only has to be better than its peers to attract investors in terms of climate change issues.

Tilting investment portfolios

Commercial data providers can supply scores on individual firms' ESG ratings or carbon emissions. This means that fund managers can determine (say) whether their portfolio generates more, or less, carbon than the firms in its benchmark.

This graduated approach tilts a portfolio away from carbon-intensive sectors or companies towards lower carbon areas. For investors fearing that ethical investing might undermine performance, this offers a 'light green' approach. Exposure to carbon-intensive activities is permitted, provided that elsewhere enough weight is given to low-carbon industries, so that overall the portfolio has a lower carbon-intensity than its benchmark index. The manager can still allocate across many companies or sectors to ensure broad diversification.

Returning to broader ESG ratings, individual firm scores can be used to assess risks associated with different companies. Thus, a firm with poor scores on social or governance issues, say, might be deemed riskier than its peers. As a result, it would be underweighted (but not necessarily excluded) from a portfolio. This is one approach included in a technique called 'ESG integration' [6].

Another practical implementation of tilting is to clients' overall portfolio profiles. A client may be concerned that ethical funds may underperform. So, the bulk of their portfolio can be invested conventionally (allaying underperformance fears) and the remainder ethically. Perhaps they could invest 80% conventionally and 20% ethically. As the client becomes comfortable with ethical investment, the conventional proportion can be reduced.

Corporate engagement

Engagement involves influencing company directors to make improvements in matters of ethical concern [4]. Directors are encouraged and supported to improve the balance between risk and return in the best interests of long-term owners or to address specific issues.

The process may involve management meetings, questionnaires, and collaboration with other fund managers. The intention is to influence companies to consider their responsibilities to the environment and their stakeholders (including staff, customers, shareholders, those living near their centres of operation and society as a whole).

Problems with engagement include the quality of implementation and the willingness of company boards to be receptive to shareholders' views. The quality and commitment of engagement activities by investors can vary hugely. One fund manager may write a letter expressing their concerns on an issue to the CEO of a firm with no follow-up. Another may set up an extended programme, researching the issues in-depth, having two-way discussions with board members and be an active presence at shareholder meetings.

How this helps Investors

By appreciating approaches ethical fund managers use when selecting companies, individuals who wish to invest ethically should be better placed to understand the strengths and weaknesses of techniques offered. In areas such as tilting, ESG integration and engagement, it can be hard for clients to realise what is involved. A better appreciation should help them choose an approach that meets their needs.

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YouTuber

Here's a great personal initiative from **Harry Braund**: a set of short videos that explain the key principles of investing, drawing on Harry's 50-plus years as an active investor.

Click the thumbnail on the right to see what happened when Harry turned down Warren Buffet.... Check out the other videos too, and don't forget to subscribe and give Harry a like.

Woodford and Hargreaves Lansdown: locked-in syndrome

Peter Parry writes:

We recently received an email from solicitors Leigh Day asking whether any UKSA members had been affected by the fallout from Woodford funds promoted by Hargreaves Lansdown. I contacted Boz Michalowska at Leigh Day, basically out of courtesy. We regularly get emails from 'ambulance chasers'!

It quickly became clear, however, that there might be a meeting of minds. Leigh Day specialise in consumer issues and their business cards say: 'We are Leigh Day and we believe that everyone has the right to justice and for their voice to be heard'. This is a principle to which UKSA is happy to subscribe.

Following a meeting it was agreed that Boz would write a short article for The Private Investor. If, having read this, any members who are Hargreaves Lansdown clients and have been affected by the freezing of the Woodford funds want to consider joining a collective claim (class action), they should in the first instance contact Leigh Day directly on 020 7650 1238 or e-mail bmichalowska@leighday.co.uk.

Bozena Michalowska, Head of Consumer Law at Leigh Day, discusses the recent collapse of Woodford funds and the lessons the investment sector must learn

Since the October announcement of the winding up of the Woodford Equity Income Fund (“**WEIF**”), the Consumer Law Team at Leigh Day, a law firm that specialises in group claims, has been approached by approximately 2,000 customers of Hargreaves Lansdown, the UK’s biggest investment platform for private investors.

Many Hargreaves customers took advantage of pension freedoms, introduced in 2015, to invest their drawdowns for better returns. Hargreaves in turn took advantage of this new market of retail investors to offer an expert service that aims to:

> “Help you make more of your investments by giving you the tools and information to make your own informed decisions.”

These tools included Hargreaves investment research that took the form of its best-buy lists, which are called wealth lists. Hargreaves has described its Wealth 150 as:

> “The product of rigorous mathematical analysis, combined with thousands of hours of interviews with leading fund managers, to ensure we only bring the very best funds to our clients’ attention.”

Hargreaves customers relied on the platform’s research to invest and remain invested in recommended funds.

WEIF was added to Hargreaves’ best-buy list when the fund was launched in June 2014 and remained on the list until just after the fund was suspended in June 2019. This happened despite Hargreaves being aware of the fund’s liquidity challenges since at least November 2017.

Hargreaves said that in November 2017 it identified an increase in the proportion of WEIF’s small and unquoted assets. Hargreaves met with Neil Woodford then and “urged him to address the issue”.

In January 2018, Hargreaves began monthly discussions with Woodford about the unquoted stakes. Notwithstanding, in January 2019 Hargreaves retained WEIF on its tighter, more focused Wealth 50 list (previously the Wealth 150 list) and as a consequence Hargreaves customers continued to invest their savings in the failing Woodford fund.

Investors, including those paying Hargreaves for financial advice, raised concerns about the fund with the platform but Hargreaves continued to back Neil Woodford.

Hargreaves has said that it had “a reasonable expectation” of the fund’s “bouncing back strongly”. Yet, at the same time at least one of its multi-manager funds had let its own WEIF “position run down”.

Hargreaves’ support of Woodford meant that more than 40% of the value of WEIF at its suspension was comprised of Hargreaves customers. Those who have approached Leigh Day feel aggrieved as they have lost significant parts of their life savings and the value of their locked investments in WEIF continues to decline.

In its Investment Platforms Market Study, Final Report, published March 2019, the Financial Conduct Authority (FCA)’s final position was:

> “Best Buy lists have an impact on consumer choices who are likely to expect funds included to be ‘best in class’. We expect Best Buy lists to be constructed on an impartial basis.”

The FCA's important work in this area is acknowledged, but the FCA's scrutiny may have been different had it had the opportunity to consider platform practices in light of WEIF's suspension and winding up.

Following the closure of WEIF, amid concerns of potential vested interest, the FCA was urged to probe the way platforms ran their fund buylists.

But Christopher Woolard, executive director of strategy and competition at the FCA, told a press conference:

> "We looked at the question of best-buy lists when we looked at the role of platforms very recently.
>
> We came to the conclusion that best-buy lists, provided they are transparent, are impartial of how they're put together and can play a helpful role for mass-market investing."

Investment platforms, such as Hargreaves, have a duty to be independent. Where that independence is compromised it can have devastating consequences for investors who lose not only their money but their trust in the industry. It is up to the Regulator to ensure that trust is maintained, by closely monitoring and regulating investment platforms and best-buy lists, to ensure their independence and reliability.

Regulation once a fund is collapsed is akin to closing the barn door after the Hargreaves Lansdown/Woodford horse has bolted. What about the investors who have already collectively lost millions, who can they seek redress from? Leigh Day are of the view that Hargreaves Lansdown can and should be held to account.

UKSA acclaim successful launch of Entrusted

Stewardship for responsible wealth creation

UKSA was delighted to be invited to the launch and discussion of a new book written by Mark Goyder, founder of Tomorrow's Company, and Ong Boon Hwee, CEO of Stewardship Asia, entitled Entrusted – Stewardship for Responsible Wealth Creation.

UKSA shares many objectives with Tomorrow's Company, whose mission is to inspire and enable companies to be a force for good in society and relationships, which it has expounded over 25 years.

An interesting panel discussion and Q&A session involving the joint authors, Fraser Nelson, Editor of the Spectator, and columnist and brand marketer Jan Gooding led on from an overview of the book's opening statement: 'Our system of wealth creation is at a major crossroads'.

A particularly poignant section of the book discussed the "elephants in the room". By this the authors meant those well intended and oft-repeated assumptions and solutions that people privately question but publicly accept – such as better corporate governance. Since the global financial crisis, the authors argue, there has been an abundance of codes, guidelines and 'comply or explain' regimes. New rules, reporting requirements and auditing standards have been introduced. Company reports are now much longer and more detailed. But has anything been achieved?

Of course, the main theme of the publication is Stewardship, understanding it, responsibilities of Boards and Institutional investors as stewards and Government's role. But the conclusion that dissatisfaction with capitalism abounds and that more young Americans are now more positive about socialism than capitalism is a wake-up call for all. Ong Boon Hee proffered a traditional view that the good sense of business is to recognise that people are interested in profit but motivated by more than money. Business is part of society and should invest for the long term success of all stakeholders – to quote a proverb "when you drink water from the well remember those that dug the well".

Book published by World Scientific Publishing Co. Pte. Ltd, 5 Toh Tuck Link, Singapore 596224 and Stewardship Asia Centre CLG Limited, 28 Orchard Road, Temasek Shophouse, Singapore 238832.

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Alliance Trust Savings – a follow-up report

by Roy Colbran

When I wrote in the December 2018 issue about the then intended sale of Alliance Trust Savings to Interactive investor ("II"), regulatory approval and completion of the deal were still several months off. The deal is now complete with clients having been moved over to the II platform. Also a further year's accounts of II are now available on the Companies House website. Consequently it seems a good time to revisit the situation.

One thing that bothered me in II's 2017 accounts was that they only showed a profit by reason of a gain that resulted from the acquisition of TD Wealth Holdings. That had produced total net assets worth more than the consideration paid, allowing a gain of £28 million to be recognised. Without that there would have been a loss of around £17 million on the 18-month period. Seeing that it appeared that ATS had never been able to make a profit out of the business, I wondered if II were going to be able to do so. However, the later accounts, to 31 December 2018, show an operating profit before tax of over £8 million without any special contribution. This is reassuring, although maybe we should get Malcolm Howard to look at them to be sure.

Regulatory approval was still awaited when the 2018 accounts were signed and we will not be able to see the impact of the acquisition on the figures until we have the 2019 accounts. Nevertheless, the 2018 Report tells us that merging the TD clients resulted in synergy savings and the Directors believe the further acquisition will produce more. 11% of their customers were lost as they were moved onto the II platform due to "client attrition" – presumably a euphemism for people who did not want to be with II – but this was no more than expected. Even so, they still had 306,000 customers at the end of 2018 and expected this to rise to 400,000 after the ATS acquisition.

The report confirms that the ultimate controlling party and ultimate parent entity is still JC Flowers IV LP, a limited partnership registered in the Cayman Islands. It also informs us that the Directors' ambition is to build the UK's best investment platform. In the light of this it may be worth looking at the extra services that they are providing compared with what ATS clients had been accustomed to. So far I have only made one trade but that went through smoothly and there was nothing to note of material difference from ATS. On the other hand their statements of investments include an extra column labelled Book Cost. For those transferring from ATS, this will be the value at the point of transfer, but normally it would be the price paid when dealing within the platform. There is also a column Average Price which is Book Cost divided by the number of shares, giving a ready means of seeing whether one is in profit or loss on that holding.

One feature likely to be attractive to UKSA members is that the deal includes a free subscription to the information and voting service. This means that you receive an email warning of any corporate action on your holdings, including forthcoming Annual and other meetings. There is an automated voting procedure included without extra charge. It is extremely simple to use and actually much easier than filling in a proxy card and sending it off. Attendance at meetings was offered by ATS at a price – from memory it was £20 a go – but, with nothing about it on the website, I phoned to enquire in respect of a meeting I thought desirable to attend. After some holding on while the corporate section was consulted I was promised a letter which came on only the second day after the call appointing me a proxy of II in respect of my shares. This is apparently free of charge. If enough UKSA members apply to go to meetings I guess that might change.

Unfortunately Crest Personal membership is only available to those who transferred an existing CREST membership account from NatWest Stockbrokers. Against that the service also includes a potential free online subscription to their two magazines Moneywise and Money Observer as well as access to a range of other information. Altogether, it looks to be an interesting package. Maybe some readers can tell us how it compares with others on the market!

Social media

Over the past month UKSA's Twitter account has covered stories such as the FRC, Woodford, fund outflows, boardroom conduct, stewardship, shareholder primacy and more besides. Follow us at @UKshareholders. You don't need to sign up to Twitter to view. Just go to https://twitter.com/ukshareholders from any web browser.

What's in a name

by Ian Jessiman

Editor's note:
Our member Ian Jessiman contacted us to regarding an exchage of mail with his broker following some rather critical comments on the way he was running his self-select ISA. He discovered that the firm that he considered to be his stockbrokers had become "investment managers". After some time he decided to write them a letter setting out his position as a private shareholder. His sentiments will doubtless resonate with many UKSA members (*and elicit a loud 'hear hear' from the Editor....*).

Dear Stockbroker,

Thank you very much for the analysis of the self-select ISA which you hold for me. I appreciate the trouble you have taken over it. I note that the overall returns are less than the market average (though not so badly out of line over the last 12 months).

Having said that, I think you are aware that this ISA is only a part of my total investments (the larger part of which used to be handled by your firm until they ceased to cater for paper share certificates and I took my business, other than the ISA, elsewhere).

Our thoughts on investment are evidently rather different. Though not, of course, wishing to lose money, I do not see investment on the stock exchange as a purely (or even predominantly) financial matter. A shareholder is an owner of the company in which he/she invests and ought, in my opinion, to take some interest in the affairs of the company and exercise his/her investment rights to vote at the AGM (or by proxy). I consider this to be an important part of one's civic duty as an investor. Good companies ought not only to be out to make a profit (and there should be a limit on this, just as there should on CEOs' salaries), but to provide for the (real) needs of the public and to provide employment and income (as well as adequate pensions) for those who work for them. It is part of a shareholder's moral obligation to society to encourage and support ethical behaviour by companies. This may be done either by buying into ethical companies and avoiding the others or buying into both types in order to seek to influence their behaviour. I realise that my individual vote will have little effect but "small shareholders" can have an effect if numbers are sufficient.

I am, obviously, a believer in capitalism but consider some modern developments of it to be abuses. It is an abuse of capitalism to rip off the public; to exact excessive profit; to reduce, limit, or even destroy the hard-earned pension rights of staff; or for directors to award themselves swingeing pay packets which could not possibly be justified by the amount of work they could ever fit into a working day. Asset stripping is another instance.

You will see from this why I wish to be an active shareholder (though now less well able to do so) and it also explains why the majority of my shares are on the UK stockmarket where there is some hope of my participating in, or at least showing interest in, the affairs of the companies in question. It also allows me to choose companies which, by my lights, are ethical. For example I do not wittingly invest directly in tobacco (for health reasons), arms dealing, nor in the leading pharmaceutical companies (because they are using foetal cell tissue for research).

I object to the whole idea of nominee holdings where the holding company exercises (perhaps?) the voting rights purely on the prospects of short-term gain. Nominee control is, at the present time, unavoidable in the case of ISAs. Furthermore I object, in general terms, to paying intermediaries (unit trusts or funds, etc.) to choose what I invest in or on which to lose my money! (See Woodford, Lendy and others.)

Having said that, I accept that it is prudent (as you have advised) to have some overseas investment and that this is most safely done by using a unit or investment trust or company who will, it is to be hoped (!), understand the companies and the market in those countries. The same may apply to certain particular fields of investment in the UK. But one can have no control over the nature and ethics of the investment.

I enclose the requested paperwork which I hope provides sufficient personal information for your purposes. The most important advice which I need from your firm with respect to the ISA would be regarding the individual existing holdings or possible future investments.

It may relieve some of your concerns to know that the major beneficiaries of my estate will, in due time, be charities.

Yours sincerely, etc.

Letter to the Editor

From Richard Kite

Following the recent discussion, these are my thoughts on the issue related to MiFID 11 (Markets in Financial Instruments Directive II), the legal directive which requires investors to provide to stockbrokers proof of nationality and with this submission the personal UK National Insurance Number for a United Kingdom person to trade shares and some investments for which I am not certain if there are cases which are exempt.

The basis of this is, so it is claimed, to provide security for the investor and at the same time prevent criminal financial money laundering and fraudulent behaviour.

Whilst proof of identity and nationality is certainly of concern and may be a desired requirement of the Government, currently we are not a country that has an identity card system, having been rejected in recent times. Yet, surreptitiously, personal identity, as required by MiFID 11 an EU applied law, is being introduced without any public agreement.

However, it is worth knowing, that during the period of the Second World War, all persons, including children, were in possession of identity cards together with an alphabetical and numbered system incorporated. This was because wherever a person lived was very relevant and, to control this, checks were made when people travelled in and out of certain restricted areas to more open areas of the country where travel freedom was permitted.

Nevertheless, when I was born in 1931, National Identity Numbers did not seem to exist but may have come into use when the private National Insurance Number was introduced in 1911, but it only significantly became the case following implementation of nationalisation and government control in 1945 and thereafter. Since that time, many changes have taken place, including its relationship to taxation, pensions, the benefit system, health and other national requirements.

It is worth noting the wartime identity card alphabetical and number system is directly related to the National Insurance Number and I have used this to find out this number when I once lost the record many years ago.

Another aspect is that this number is now widely used by banks to identify pension payments into bank accounts and these can appear on the bank statements issued at cash points. My wife complained through our Member of Parliament, to the Pensions and Benefits through our Member of Parliament and to the Pensions and Benefits Department of the Ministry in 2014 because of the lack of security, for which that same organisation was unconcerned and said it was up to the banks the way they used that number.

Resulting from this wide distribution of the National Insurance Number, which should be a secure number, we now have a situation whereby identity can be passed by written means and verbally to anyone by any bank or plc employee, since they are not governed by the Official Secrets Act which can act as a deterrent. No doubt the lack of concern which now exists for the security it once provided means it can enable with greater ease the misuse applicable to financial money laundering, fraud associated with the benefits system, employment of illegal immigrants and the likelihood of access to individual taxation data and other security relating to confidential data.

From my point of view, the use of the National Insurance Number on such a wide scale is questionable and especially when the implications of misuse are definitely well known, whereby information is often presented by the media that plastic cards with the number are illegally and widely bought and sold, with named persons, some of whom may be deceased or may have been involved in illegal activities.

It follows from the directive that there is widespread divulgence of a number regarded as confidential, for which not much has been done to consider all the security implications and that security relating to investing transactions activities could be done by other means.

Particularly, security can be by access numbers, passwords and personal non-sensitive data presented individually and is often used through existing internet security methods for purchase of goods or by verbal arrangements through a telephone banking system at a bank.

I certainly cannot see the advantage of requiring share trading to be subject to a National Insurance Number, when it appears not to be required for some investments. Also, where is the proof that the number adds to personal security and at the same time prevents money laundering and many fraud activities, a major claim by the government authorities?

Continuing I have contacted by telephone land line the Financial Conduct Authority and the person to whom I spoke did not understand what I was talking about and from the conversation it was apparent he, whilst a British citizen, had a poor understanding of the implications. As a result, I requested to speak to someone who could understand my concerns (he agreed to pass on the matter to another person and the line was left open), but the time taken was so long without an answer that I curtailed the call.

Another thought occurring to me was to speak by telephone land line to the Serious Fraud Office but I was amazed they appeared only to consider one million pounds as a suitable minimum money laundering value. Accordingly, I pointed out that my National Insurance Number could be used for this sum of money and in my name without my knowledge and this could be done from a source totally unknown to me. This was partially admitted as a possibility and I asked the man to consider the matter I had raised

and although very co-operative by agreeing there may be a question applicable, I am unsure if my call was taken seriously.

Following that conversation, I wondered, should a fraud have been committed and attributed to me, how could I prove such an accusation was false and what would be the cost to me personally. This thought makes me feel stronger toward a need for greater security control of the National Insurance Number and it should not be passed to any company for financial investment purposes, including ISAs, which have necessitated the use of the number for longer than MiFID 11.

Yours sincerely, etc.

Book review

Roy Colbran reviews 'Business Perspective Investing' by Roger Lawson

Forget the Numbers?

The name of Roger Lawson will be familiar to many of our members. Having been a very able Director of UKSA for a long time, he went on to found the rival organisation ShareSoc with whom we now work very closely. He is the mainstay of their monthly newsletter while being an active investor, attending many AGMs and writing a blog for other investors. Despite all this he has now found time to write a fascinating little book for stock market investors who invest directly in listed companies.

The theme of the book is the need to look at factors other than the numbers before investing in a company and Chapter 1 is entitled "Why Accounts Don't Matter". After that the book takes a somewhat unusual line in telling you more about things to avoid than things to look for. For example, chapter 2 lists 13 sectors that the author doesn't like although admitting that money can be made in them by some investors. He wants companies to have strong brands and to be in the top two in terms of market position. And investors should be paranoid about the risks that a company is facing in its operations. When it comes to CEOs, he not only wants them to be competent but also, quoting Jim Collins, to be "quiet, humble, modest, reserved etc." Further, he wants them to be paid not more than £1 million regardless of the size of the company. Elsewhere he suggests you visit the company's premises to see that they are of good quality but not luxurious and, while you are there, take a look at the company cars in the car park. More widely, if they are spending too much on themselves it's a danger sign. Each chapter ends with a check list of key points to look for and these are brought together at the end of the book with a total of 103 items.

The book includes a chapter on Trusts and Funds, in which Roger suggests that one should choose funds that are not too large for, he says, performance tends to home in on the benchmark when they get big. Well, I bought my main holding in the doyen of the sector, Foreign and Colonial (now F&C), in December 1988 at the equivalent of 53p taking account of a subsequent scrip issue. They now stand at £7.24 which means for 31 years 8.8% per annum compound and that ignores the fact that we've had a dividend all that time. How many people have a portfolio that can beat that? The biggest of all investment trusts is now Scottish Mortgage, which continues to perform amazingly well. It pursues a surprisingly adventurous policy for such a big fund with, for example, its biggest holding being Amazon at £762 million now representing 9% of the fund. Roger tells us that Amazon stands on a P/E of 95!

The missing chapter of this book is the one that tells us how Roger, himself, balances the need to consider all these factors with the reality of time and other constraints and the wish to actually buy some shares. In other words how to be a reasonably successful investor without spending quite as much time and effort on it as would be needed to follow his approach. Despite this it is a stimulating and thought-provoking read. As well as being of value to private investors it could also usefully be at the bedsides of many company directors.

It is available on Amazon, but by buying it direct from the publisher UKSA members can get a 20% discount reducing the price to £10.60 (including postage). Go to www.roliscon.com/business-perspective-investing.html and put in the code "UKSA99".

Business Perspective Investing: And Why Financial Numbers Are Not Important When Picking Shares: Roger W. Lawson. Roliscon Ltd. 129pp. £13.25

CURRENT UKSA EVENTS

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

Company meetings

UKSA's programme of meetings has ended for the year and will resume in 2020

Meetings of UKSA Croydon & Purley Group

Location	**Spread Eagle, High Street, Croydon CRO 1QD Second Tuesday of each month** **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