UKSA
UK Shareholders' Association

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Unprecedented times

The world has become a very different place since the last edition of The Private Investor was sent to members.

Many of our families have been touched directly by the coronavirus crisis and all of us will have been affected at least indirectly by employment changes, curtailments of personal freedoms and falling asset values.

There are additional specific impacts on individual shareholders. The crisis has coincided with the AGM season. Companies have reacted in very different ways to the impossibility of holding large-scale physical meetings. Some, but not all, are using technology to enable individual shareholders to participate. UKSA's Peter Parry told The Times: "It is so important that shareholders should have the chance to ask searching questions particularly at this time." He also stressed that any questions should be answered before voting takes place. Many companies have yet to indicate whether and how they will facilitate such questioning. ShareAction, which uses AGMs very effectively as a platform to pursue its environmental, social and governance goals, has warned that the current emergency could set a precedent in terms of corporate governance. The lack of physical meetings means that companies will not be held as accountable as would normally be the case during the AGM season.

Another issue concerns dividends, with the Financial Times forecasting a 53% fall in UK company payouts in 2020. While scrapping payouts may be seen as a way of protecting companies in highly uncertain times, dividends do provide income for pensioners and other savers. Both UKSA and ShareSoc have spoken to the Financial Times emphasising the fine line between prudence and unfairness in dividend cuts. Of course, it is better for companies to conserve cash rather than risk going bust, but those companies that can still afford to distribute dividends should do so. If all UK businesses halted payouts, pension funds would become even more stretched and asset managers would be even more reluctant to help refinance struggling businesses.

All these issues will have to be addressed once this crisis has abated. We will continue to defend the interests of individual shareholders.

For now, though, our thoughts will predominantly be with those caught in the midst of this crisis, be they patients, health workers or others on the frontline. From UKSA we wish all members fortitude in the weeks ahead.

Helen Gibbons

UKSA AGM

UKSA's AGM scheduled for Monday 11 May has been postponed due to the current health crisis.

Instead we shall hold a virtual AGM before 2 July (date to be advised). We shall communicate with members by post and e-mail and ensure that voting and information rights can be exercised as usual.

Plans for an AGM-style social gathering later in the year will be considered.

In this issue

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A message from our Chairman

by Colin Colvin

We are in the midst of a profound health crisis that has brought tragic consequences for individuals and families around the globe. Covid-19 will of course also have an enormous impact on the global economy, on a scale that we cannot yet even begin to quantify. Stock markets have already slumped, of course, and the months ahead will surely see continued economic shocks and inevitable corporate failures.

When the time is right we will focus on the economic consequences. It may well be that to safeguard the prosperity of the next generation, and for the sake of capitalism generally, we shall need to accept lower dividend returns, perhaps reduced pension payment increases, increased taxes and a commitment to increased donations to many charities. From the current perspective, that seems a small price to pay for staying alive.

I feel confident nevertheless that business will adapt to the fresh challenges, refocus on improving efficiency and productivity, benefit from the significant progress in remote working during the crisis and address the opportunities in technology and logistics whilst investing heavily in healthcare products and services. I hope to play a part in that challenge.

The UKSA Board has a strong team with wide-ranging skills and experience and will continue to develop and function in your interests and the broader interests of all private investors.

For news of new directors see Stop Press on page 18

UKSA's Hidden Leverage project

by Dean Buckner

As the article about me in the February issue suggested, I plan to be an energetic addition to the UKSA policy team. The article rightly notes that I was a regulator on and off since 1999; I should add that I was a professional trader before that. I remain a keen amateur investor.

I joined Professor Kevin Dowd of Durham University Business School in 2018, after retiring from the Bank of England, to form the Eumaeus Project – a think tank which aims to be a scourge of the financial establishment. Eumaeus was the faithful servant of Odysseus (aka Ulysses) who looked after his palace while he was away fighting the Trojan Wars. The palace was occupied by a swarm of ruffians and carpet baggers, but Eumaeus helped Odysseus see them off on his return. Likewise, the Eumaeus Project believes that the regulators of the financial system have been completely captured by the industry they regulate, and will fight to expose bad practice and lax regulatory standards wherever it finds them.

Successes include: exposing the misvaluation of equity release mortgages, getting Age UK to stop marketing equity release mortgages, and a number of behind-the-scenes projects which have influenced regulatory decision-making.

My first project, which has received strong support from the Board, is on ‘hidden leverage’. We are familiar with the ordinary kind of leverage, where a company issues bonds or borrows from the bank in order to build its balance sheet. Such debt creates risk to shareholders because the debt is ‘senior’: in the event of losses the creditors (bondholders, banks) will have first call on the assets, and shareholders must absorb losses.

Therefore it is crucial that informed investors understand the risk caused by excessive leverage.

However, it is not well understood that companies and their accountants (and the accounting standards setters) tend to minimise the amount of leverage on the books by forms of borrowing concealed as other items of the statutory report, or omitting them entirely. For example, the leverage figure for a life insurance company will not include the insurance obligations that it is contractually obliged to pay annuity holders over their lifetime. Aircraft leasing contracts of the kind that sank FlyBe were not included in reported leverage. NMC Health famously managed to conceal almost $3bn of borrowings from its financial statements, and from shareholders.

The project will aim to influence regulators and standard setters to improve – indeed dramatically improve – the reporting of anything that looks like debt. Thus it will support the UKSA aims of increasing transparency, honesty, and fairness to investors. Anyone who would be interested in helping with the project please let me know at dean.buckner@uksa.org.uk

Audit reforms - evaporating in front of our eyes?

by Sue Milton

On 14 February 2020, Sir Donald Brydon shared this disquieting discovery:

> *"I found surprising ignorance about what audit is, closed minds in many quarters about what it could be and a significant communication challenge."*

The level of procrastination in making reforms evidences all three points. Will continued delay mean audit reforms evaporate on the back burner?

Background

Audit failures led to several reviews on the state of audit. UKSA and ShareSoc's Policy Teams combined their efforts to respond to a number of consultations. Three of the main ones focused on:

- the review of the Financial Reporting Council (FRC) (Kingman, launched June 2018, here);
- audit market competition (CMA, launched October 2018, here); and
- the quality and effectiveness of audit (Brydon, launched April 2019 (here).

Key findings can be grouped into:

- 'expectation gaps': for example what the audit scope, its purpose and quality of delivery are (here);
- barriers to entry: for example why the BIG 4 retain a stranglehold over the FTSE 350 audits (here); and
- lack of enforcement: for example timidity on the part of the FRC (page 5 here).

It is understandable that Covid-19 means many items requiring legislation will take a back seat but, between June 2018 and December 2019, the findings and recommendations were constantly "addressed" by yet another consultation.

The Speech

UKSA's frustrations are clearly articulated in Sir Donald Brydon's 14 February 2020 speech to the Institute of Chartered Accountants of England and Wales (here).

In summary, audits 1) must provide transparent, demonstrable disclosures that inform; 2) are complete, consistent and complementary across the entire audit and report; 3) have continuity between previous and current reports.

Points that stand out are:

1. *"Auditors have been defensive and incremental in their thinking".*
   A key barrier to change. Without auditors' support, reform will either halt or be implemented poorly.
2. *"The main responsibility for a company's success or otherwise must remain, of course, firmly with its directors. Good audit cannot substitute for failing boards."*
   Absolutely. If boards abdicate responsibility for reporting to the auditor, then, to all intents and purposes, the auditors speak as the company.

3. *"Providing information and being informative are not necessarily the same thing."*
   We know information is only useful if it can be understood.
4. *"The auditor has the right and virtually unlimited opportunity….. to interrogate the company's directors, management, employees, systems, processes and information."*
   This is not just an optional privilege but a right to be used on behalf of shareholders.
5. *"There is a clear ….. need for the auditor to step back and think about the overall credibility of the information presented to them, as well as checking compliance."*
   Unlike applying wisdom and judgement, ticking boxes requires comparatively little skill.
6. *"I propose that shareholders be formally invited by the Audit Committee each year to propose any areas of emphasis they wish the auditor to include in that year's audit plan."*
   Agree. It will at least remind companies and auditors that auditors are not working for the company. Complements 2.
7. *"Audit committees publish a rolling three-year Audit and Assurance Policy, which would be subject to an advisory shareholder vote at the AGM."*
   This will provide continuity as well as insights for shareholders on current and future areas of concern.
8. *"Go beyond the financial statements and could potentially cover, for example, the way it deals with and reports on risks in a wide range of areas. That might include cyber and other infrastructure security, and climate change risk."*
   This is more than cross-checking the front and back half of reports and actually includes attesting to core sources and management of information, and to corporate impacts on society. Right now, it is Covid-19.
9. *"That there be an overarching obligation on the auditor to report to the directors any concerns they have about the company's viability that do not feature in the Resilience Statement."*
   By applying 4, the right to full access, this will be a natural and beneficial outcome.

Why would one resist these recommendations? Because they require boards and auditors to take full responsibility for corporate activity and assurance. It also requires both to look at much more than financial outcomes. The triple bottom line, covering social, environmental and financials, has arrived. The process of auditing requires so much more than financial accounting experience. It needs to include IT, scientific, and behavioural acumen. Audit reforms are game changers on how to run and audit a company.

My list makes up a small part of the total points made in the thirteen-page speech containing 12 sections. Additionally, under sections 9 and 10, a very much stronger approach to accountability is covered for enforcing honesty in disclosures, fraud prevention/detection and quality of internal controls.

These are based on the USA's Sarbanes-Oxley Act (SOX), brought in during 2002 after the spectacular 2001 Enron collapse, and equally spectacular dissolution of auditors Arthur Andersen, because of financial misrepresentations, embezzlement and fraud, to name but a few of the dishonest things in which the directors and auditors had become enmeshed (here). SOX puts directors and auditors' necks on the block. The key requirements (my italics) are that:

- All disclosures must be true, fair, complete and *easily understandable.*
- The *signatories to the financial statements attest to those statements* being true, fair and complete based on the *quality of internal controls and information on fraud* involving employees. *Organisations cannot circumvent these requirements* by transferring activities outside the USA (Section 302).
- In relation to periodic reports, there must be *enhanced disclosure* covering all off-balance sheet liabilities, obligations and transactions, with clarification of the accounting practices used (Section 401).
- Organisations provide information on the scope, adequacy and effectiveness of internal controls and procedures relating to financial reporting, with *auditors attesting to internal control and procedural effectiveness* (Section 404).
- On an urgent basis, organisations *disclose information on material changes* to their financial situation or operations, supported by trend and qualitative information (Section 409).

A lot of Sir Donald's recommendations require the FRC to implement now and, when the legislation allows it, to transition to the Audit, Reporting and Governance Authority (ARGA).

Metamorphosis from FRC to ARGA

The FRC is actually wanting to reform (here). Whilst waiting for the legislative changes to establish ARGA, the FRC is prioritising aspects of the transition that can be done in advance of the legislation, such as designing measures to strengthen supervisory and enforcement work, and continuing to strengthen enforcement (here).

Evaporation

Until March 2020, neither Brexit nor any other governmental matter were genuine causes for delay. They were an excuse to change, well, not a lot. Vested interests, for whom significant changes to audits, firms' structures, increased competition, stronger regulation, higher penalties, better-quality disclosures and greater honesty would upset their *de facto* business model, have no incentive to act. Without industry cooperation, the solutions stall, neither improving nor removing those weaknesses. Government would have had to be radical and decisive.

Now Covid-19 is here, genuinely taking up all of government and regulatory resources. The FRC has provided guidance to both companies and auditors on providing relevant disclosures for investors. Companies must show in their annual reports the risk and impact Covid-19 is having, and understand that Covid-19 is not an excuse to avoid delivering high-quality, audited reports. In reality, there are practical, domino-effect difficulties, such as:

- the ability for auditors to access all the information, leading to
- developing alternative audit procedures to overcome at least some of the problem,
- delaying company reporting as a consequence,
- with corresponding questions over the 'going concern' assessment and,
- given economic uncertainty, the auditor's wider risk assessment, meaning
- the possibility of modifying the audit opinion.

Meanwhile, the banks are wanting regulatory requirements eased (behind the subscriber wall here).

A joint statement from the FRC, FCA, PRA and Bank of England (here) includes the FRC's requirements and allows some wiggle-room within current standards, enabling banks and other corporates to provide the most complete set of financial statements they can.

More leniency, right now, is sound common-sense but must be applied wisely by companies and auditors, in the spirit it has been granted. The risk is that with this genie out of its lamp, we will never get it back in. That means, at best, resisting everything the consultations have achieved; at worst, placing Brydon on the back burner to slowly evaporate away.

More optimistically, the sudden exposure of so many companies to a pandemic risk that was known to be overdue and supposedly included in business continuity planning from the days of SARS and MERS means that the need for audit reform may suddenly gain traction and be implemented once Covid-19 ends.

In conclusion

Three things.

I agree with the points made in the speech but have a plea that the retail shareholder is not forgotten in any proposed improvements.

Covid-19 shows that government and regulators can be decisive and move fast.

And the final point is with Sir Donald Brydon:

> *"The time for audit reviews is now over; so too is the time for open-form consultation. It is time for action from all those with a stake in the success of our economy."*

Covid-19 and the Law of Unintended Consequences

by Peter Parry

It is hard to believe that at the beginning of March most of us were blissfully unaware of the impact that Covid-19 would have on our lives. Since the lockdown in the UK came into force towards the end of March we have begun to find out. A major worry for investors, however, is that as poorly prepared governments around the world scramble to address political and economic imperatives, many well-intended measures prove to be half-baked and could have serious unintended consequences.

Added to this there is already evidence that policy is being implemented that is poorly-informed, ill-considered (even if well-intentioned) and piecemeal. There have been recent suggestions that, because the current lockdown might only deliver a temporary respite from the virus, it might be necessary to have a series of lockdowns lasting until at least the end of the year. That may be plausible in helping the NHS to cope with the pressures it is facing, but the notion that businesses can be turned on and off at the flick of a switch lacks all credibility. It also belies the notion that the NHS and other public services somehow exist as of right. In fact, they only exist and provide the services we enjoy and depend upon because successful and vibrant businesses generate the wealth that enables them to be paid for.

Ripping up the rule book

Turning to a couple of specific issues, there is good reason to be uneasy about some of the current measures being introduced – albeit with good intentions. The first is the business department's decision to suspend the wrongful trading rules for directors of companies being rescued or undergoing restructurings. The move at first sight looks commendable. Rather than force struggling businesses to call in the receivers prematurely, why not allow more breathing space? Surely, with a bit of luck, enormous infusions of government-backed loans and support for furloughed employees, most businesses should be able to ride out the storm and return to normal in three to six months' time? The problem is that economic visibility is utterly opaque at present. There can be few directors who can say with absolute certainty that they are trading solvently and taking every measure possible to minimise risks to their creditors. If you have little or no money coming in how can you possibly give that assurance? And even if you can give it now, at what point do you have to conclude that your position is no longer tenable?

There is also an unanswered question about how, once lockdown restrictions have been lifted, you reverse out of this uncharted area of commercial quicksand. 'When things return to normal!' people cry. But what is meant by 'return to normal'? Returning to normal could be a long time coming and different businesses and sectors of the economy may only return to normal at very different speeds.

Banks and bosses: here we go again!

A second area of concern is the scramble by banks to request regulatory relief not only on capital requirements but on a whole array of other rules on accounting and liquidity. They describe these as being "procyclical" — meaning that they become more onerous in times of economic stress. The introduction of Basel IV rules which require banks to further build up their capital levels by 2021 has been causing particular hand-wringing among bankers, pleading that the deadline should be extended to 2027. However, the rules were already weak precisely because of extensive lobbying by the banks which resulted in a watering-down of tough proposals in the years following the 2008 banking crash.

The banks are certain to be in line for substantial credit losses as the true economic damage of Covid-19 starts to unfold. The PRA, however, has done a deal with the UK banks: the capital requirements rules will be relaxed but, in return (and with much hissing from the goose at being so cruelly plucked), dividend payments and buybacks must also be suspended They have also been instructed to refrain from paying any cash bonuses to senior staff.

The worry is that, although the banks are entering the current crisis in better shape than they were in 2007/8, the force of the storm that is about to hit them is only gradually becoming clearer. Relaxing the rules on wrongful trading, for all its understandable merits, risks making the final day of reckoning even worse – particularly when there appear to be no plans for extricating ourselves from all this. And remember there is a track record here. The vast amounts of money pumped into economies since the banking crash of 2008 have never been withdrawn (if anything they have been added to) and they have had seriously distorting effects on economies which are partly responsible for the current economic crisis.

What of bosses and their pay – a longstanding subject of UKSA opprobrium? Expect some unintended consequences here as well. Share options are almost certain to be repriced downwards, meaning that many directors will be well placed to benefit greatly as soon as any recovery takes place. Environmental issues have also been high on the corporate agenda of late with emissions targets forming an important component of executive reward packages. With industry on shut-down it looks as though many executives may be able to beat even their most stretching emissions targets by doing absolutely nothing.

Some cause for optimism

It is clear that investors need to take great care over the coming months. There are undoubtedly shares which at current prices will prove to be absolute bargains. However, as indicated above, there is a need to identify where the bear-traps might lie. The FRC's Reporting Lab has produced a helpful table and has kindly allowed us to reproduce it below. This provides a checklist of disclosures that investors can use to assess a company's ability to survive. It is of necessity fairly high-level, but it is an excellent starting point which investors can refine and apply to their existing investments or to future stock-picking activities.

Additionally, all three regulators, the FRC, the FCA and the PRA, have collaborated with commendable speed to issue guidance to companies and auditors with a view to ensuring that information which is of the highest possible quality under the circumstances remains available to investors. For those with time on their hands, the details of the guidance can be accessed here:

The guidance makes interesting reading – particularly the sections on 'going concern'. It calls for much greater use of professional scepticism by auditors, clear statements of assumptions used and avoiding generic reporting on material uncertainties. It also stresses the requirement for auditors to do more extensive work, come up with meaningful evidence and keep this under full appraisal right up to the point of signing the auditor's report. If this can become the norm in financial reporting then it could be one unintended consequence to come from the current crisis that will be of enduring benefit.

Reporting during times of uncertainty

Financial Reporting LAB

Five current questions investors seek information on...

Resources		Action		The future
1	2	3	4	5
How much cash does the company have?	What cash and liquidity could the company obtain in the short-term?	What can the company do to manage expenditure in the short-term?	What other actions can the company take to ensure its viability?	How is the company protecting its key assets and value drivers?
Helpful disclosure might include: • The amount and nature of cash and liquid resources. • Where the cash is located within the group (legal entities, countries, currencies etc). • Whether there are any barriers to accessing the cash (capital controls, regulatory issues). • Whether there is an impact from accessing the cash, such as tax or other liabilities.	Helpful disclosure might include: • Information about the company's short-term financing arrangements, facilities and other obligations and likely changes. • Information about the credit lines (committed and uncommitted, drawn and undrawn) the company has access to. • Whether the company has additional support e.g. from related businesses, shareholders, suppliers. • Whether there are any covenants that are being imposed or waived.	Helpful disclosure might include: • Whether the company is changing its dividend policy or cancelling a dividend. • Information on the extent to which supplier financing schemes are being used, and what commitment the provider has given to maintain access to these schemes. • Information about the nature and timing of capital expenditure commitments, and whether there is any flexibility. • Information about any payments that may be deferred e.g. tax payments. • Information about the company's approach to its pension funding.	Helpful disclosure might include: • Information of the nature of any government-backed support, by country and any conditions that attach to this. • Information about any stress testing/reverse stress testing carried out and how the viability of different parts of the group are being affected. • Whether there are any intergroup guarantees and commitments. • Details of how the board is monitoring the situation.	Helpful disclosure might include: • Plausible scenarios on revenue and costs over the short-term and into a longer transition period. • Details of the likely impact of shorter-term decisions on the company's key assets and longer-term drivers of value, e.g. people, brands, licences. • Approach to support for employees. • Information about how the company is managing commitments with customers where services are delayed. • Information about how the company might adapt its business model and strategy in the short/medium term.

More guidance is available on the FRC website - https://www.frc.org.uk/about-the-frc/covid-19

Social media

Over the past month UKSA's Twitter account has covered stories such as dividends in the wake of Covid-19, the Northern Rock shareholder compensation campaign, employee advisory panels, the FRC, audit laws, shareholder voting 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.

Personal investments at a time of market correction

by John Hunter

The editor has encouraged us to write more personal investment stories. Here we are, in the middle of one of the most striking (I nearly wrote 'interesting') market corrections in a generation. So I thought I'd take a long-view look at my investing record to see if it has any stories to tell.

My investment history

I made my first stock investments when I was living and working in the US. I came back to the UK in 1996 and began to put fresh savings into the UK market. In 2002 I took control of my mother-in-law's savings and began to build an AIM portfolio for her. She was a doughty lady aged 92 who'd lived a lifetime of happy thrift typical of her generation and couldn't conceive of ever spending more than her income (or indeed more than she needed, and her needs were modest). The financial consequences were a tribute to compounding, which my wife inherited in 2006.

I have kept a bespoke spreadsheet of all my (and my wife's) investments in the UK since 1996, comprising cash flows (including dividends) in quarterly rests itemised by share. It began as a means of keeping records for tax purposes, but increasingly became a training tool for learning how diversification and compounding work. From 2002 I also began to use ShareScope in a rather disorganised and ad-hoc way, recording trades excluding dividends. In 2006 I got my ShareScope act together and got all the family records for which I was responsible onto the platform, but still excluding dividends.

My investment beliefs

Investment performance is good or bad depending on what one is trying to achieve.

In my case I have a personal index-linked pension that is easily sufficient for my needs. I am lucky enough to have two sons who are settled in their careers and lives and families. So I can afford a reasonably risky portfolio, provided my long-term care needs can be satisfied. I do not need to own bonds: my pension is my 'bonds'. My portfolio is now entirely in equities on the UK market. Outside this portfolio I hold a chunk of cash and a chunk of Vanguard 'rest of world' ETF.

My core investment beliefs are:

- The market knows more than I do.
- For every buyer there is a seller. For every seller there is a buyer.
- The market is a zero-sum game. It does not create wealth: it moves wealth between participants.
- All costs subtract from returns.
- Selling a share to buy a different one incurs costs (the spread). What makes me think that the switch is better than a 50:50 bet?
- Diversification is the only free lunch.
- I don't need money, I need what money can buy.

And I have some personal life habits:

- I find the business of investment in equities – the maths, the history, the personalities, the behavioural issues, the interaction between personal goals and investment objectives, the commercial, regulatory and political framework within which it operates, the psychology, the morality and the value of the individual as stakeholder – completely fascinating.
- ………..but……….
- I have much better uses of my time than to put in the grinding work necessary to actively manage my personal portfolio to achieve better than average (plus a little worm of doubt whether I would have the skills to do it anyway). So for me…
- Average is good.

So it will not surprise you to know I'm a dyed-in-the-wool 'buy and hold' investor.

My analysis

I looked at my ShareScope graph of portfolio profit over the 14 years since my records settled down in 2006. Over the period I picked just the peaks and troughs, by eye. And for each data point I recorded the portfolio profit and portfolio value.

At these established points I also recorded the FTSE250. I calculated the percentage gain or loss between consecutive points for both me and the 250.

The results are in the attached tables, indexed to an initial portfolio of 1,000. I take some comfort from them and have some observations:

- Of the 20 data points 14 were peaks and six were troughs. No two troughs were consecutive. Of the peaks there was one run of five and one run of four. In other words bears were short and persistent, bulls were long and erratic.
- The current bear is frightening in its speed but is (so far) tame in magnitude compared with 2008.
- It is interesting how closely the portfolio has tracked the index.
- The portfolio is slightly less volatile than the index (there's

a favourable variance in all cases where the FTSE is negative). This is probably because I have a couple of holdings (maybe 5% of the portfolio) that are not true equities. It's certainly not due to any clever portfolio construction on my part (unless you regard it as clever to try and pick new investments in fields of activity different from the existing portfolio, and therefore with different risk factors).

- The current (25 March) market level is not that frightening, being the same sort of level as the trough of December 2018 just 16 months ago. Which is not to say that by the time the Coronavirus crisis plays out the real economic damage will not be revealed as much worse…….
- ……or maybe not as bad as the market feared.
- Volatility has not been enough to frighten the long-term investor, and the risk premium available overwhelmingly favours equities over cash/near-cash (remember the table excludes dividends, which for the 250 would be 2-4% over the period – I do not have the exact records).

Is there a lesson?

I think there is. Doing what I do is not difficult. And yet there are millions of savers who have been taught to believe that it is. They put their long-term money into cash ISAs or expensive savings products under the influence of so-called 'independent advice' and under the illusion it is 'safer'.

These are the people that the new UKSA is trying to reach – people who are capable of being responsible investors but don't know it. HonestMoneyNow is the education base aimed at helping them. 'Savers Take Control' is the process within UKSA to attract and support them. You – members who are already responsible investors – could be a powerful engine to find and persuade them.

History of John's portfolio by peaks and troughs, 2006-2020 per Sharescope records, indexed to portfolio value of 1000 at opening

Data points		*Data values*		*Supplementary*		*Analysis of changes*			*FTSE250 equivalent*			*Compounded gain*	
Date at peak	**Date at trough**	**Profit at peak**	**Profit at trough**	Invest/ (disinvest) since previous	Portfolio at date	Days since previous event	gain/(loss) between data points	Gain/ (loss) %	FTSE250 at date	FTSE250 % growth (loss)	John better (worse) than 250	Cum gain factor, 250	Cum gain factor, portfolio
At measurement date													
25/03/2020		**962**	**0**	(3)	1,252	7	125	11%	14820	14%	(3%)	1.47	1.86
Past peaks and troughs													
	18/03/2020		**837**	3	1,130	76	(636)	(36%)	13008	(41%)	5%	1.29	1.67
02/01/2020		**1,473**		31	1,763	183	145	9%	22108	12%	(3%)	2.19	2.61
03/07/2019		**1,328**		(59)	1,587	189	323	24%	19791	13%	11%	1.96	2.40
	26/12/2018		**1,005**	(0)	1,323	96	(272)	(17%)	17465	(15%)	(2%)	1.73	1.93
21/09/2018		**1,277**		11	1,595	253	33	2%	20590	(1%)	3%	2.04	2.32
11/01/2018		**1,244**		32	1,552	244	122	8%	20738	5%	4%	2.05	2.27
12/05/2017		**1,122**		(9)	1,398	220	122	9%	19763	9%	1%	1.96	2.09
04/10/2016		**1,000**		0	1,285	99	232	22%	18183	21%	1%	1.80	1.91
	27/06/2016		**768**	(475)	1,052	388	(193)	(11%)	14968	(17%)	5%	1.48	1.56
05/06/2015		**960**		(53)	1,720	233	258	17%	17931	24%	(7%)	1.77	1.76
	15/10/2014		**702**	(104)	1,515	224	(223)	(12%)	14427	(13%)	1%	1.43	1.51
05/03/2014		**926**		(146)	1,843	292	380	22%	16614	13%	11%	1.64	1.71
17/05/2013		**546**		14	1,609	438	252	17%	14693	32%	(13%)	1.45	1.39
05/03/2012		**294**		98	1,344	244	(10)	(1%)	11144	(8%)	7%	1.10	1.17
05/07/2011		**304**		52	1,256	532	231	21%	12132	27%	(3%)	1.20	1.18
19/01/2010		**73**		7	973	319	344	55%	9555	64%	(9%)	0.95	0.95
	06/03/2009		**(271)**	(54)	622	645	(717)	(51%)	5831	(52%)	0%	0.58	0.61
31/05/2007		**446**		119	1,392	353	337	36%	12023	38%	(2%)	1.19	1.26
	12/06/2006		**109**	8	936	33	(72)	(7%)	8722	(14%)	6%	0.86	0.93
10/05/2006		**181**		819	1,000	0			10106			1	1
Totals to date				290		5,068	781						

As valuations slumped in March, we asked UKSA board members to give a personal perspective. Here's Sue Milton's take:

I am a lot poorer because of Covid-19, or at least would be if I had to liquidate everything now. But I don't have to, at least not yet; my approach is to ride things out.

I am happy with my mainly low-to-medium risk investments. Because I am really bad at second-guessing market movement, I mostly invest in companies I believe are socially, morally, as well as financially, sound for the long term. I buy, hold and receive dividends that are realistic given performance and risks.

I do have some high-risk investments, but they are no more than 5% of the overall portfolio. I also have active and passively managed funds, cash in the bank and in premium bonds (far too much according to my financial adviser – but then he wants my business, so is not completely altruistic).

I never invest in higher-risk products unless I can afford to lose the money. I also make sure I have a regular, monthly income to cover the basics (bills, beans on toast, holidays). I would say I have a balanced portfolio based on a low-risk appetite with a hint of excitement peppering the margins. Of course, now Covid-19 is here, my investment model might be forced to change. Probably time for me to watch this space…..

UKSA's Strategic Overview 2020 - 2023

by Colin Colvin and Sue Milton

The Board Members, at their online board meeting of 17 March, agreed to a strategic approach for the UK Shareholders' Association (UKSA) that differentiates it from other shareholder groups through its total independence from the corporate, financial sector and regulatory world, whilst complementing the activities of those other groups when working collaboratively.

Most of us are probably aware that UKSA is the oldest shareholder campaigning organisation in the UK, representing and supporting private shareholders who invest in the UK stock market. Formed in 1992 to provide private shareholders with a voice, influence and opportunity to meet like-minded fellow investors, UKSA is structured as a non-profit-making company with annual subscriptions. By lobbying government, regulators and other bodies, it strives to continually improve the recognition and treatment of private investors.

The number of opportunities to do this continues because of the well-publicised, public disenchantment with standards of governance and behaviour prevalent in the corporate world, in particular the Finance industry. It has reached a point where regulators and government are looking at the causes behind the poor execution of capitalism.

We need to address weaknesses in capitalism and improve the outcomes. At the national level, there are increasing openings for betterment in domestic policies by broadening and deepening our response to government and regulatory consultations, and through participating in projects such as those run by the Financial Reporting Council's Financial Reporting Lab (details here). At the individual level, we must encourage investment knowledge in a wider audience such as younger age groups and those investors belonging to savings schemes.

Because UKSA attracts a broad range of investors with overlapping interests and skills, the Board agreed to continue with focused but flexible objectives. These are intended to foster member fellowship and to also appeal to a wider group of savers and investors, with special attention to:

- Creating an environment that attracts members and supports the initiatives of membership groups.
- Building relationships with selected companies trading on the London Stock Exchange (FTSE and AIM). This includes attending company presentations similar to those provided to City analysts and institutional investors.
- Building relationships and alliances with UK, European and International counterparts.
- Promoting the concept of individual investors as a source for good governance and the need for fair treatment of, and communication to, investors.
- Influencing government and other external organisations, responsible for making and shaping policy on matters affecting private shareholders, to protect private investor interests.
- Carefully examining and acting on policy issues affecting investors, particularly where impending legislation is involved.

We have a number of business strategies proposed or underway:

- Engaging high-profile opinion formers to support strategies.
- Increasing membership and active volunteer support from contributors with an excellent understanding of investment issues and the capacity to engage in campaigning, policy development and arranging events for the association.
- The rolling out of Savers Take Control (STC) to inform and educate more broadly and deeply.
- Heightening our campaign on the inequitable treatment of investors in nominee accounts.
- Challenging vested interests that discourage individual share ownership as too risky.
- Retaining focus on campaigning for improvements in corporate governance and finance industry behaviour through lobbying, providing information to and education of members. This includes the organisation of company events and meetings and exerting pressure by adopting clear policy guidelines.
- Maintaining a voice for investors and extending communication and events available to membership by increasing or combining resources with other organisation(s).
- Helping savers become investors and members.
- Helping members make better-informed investments.
- Giving members direct access to company directors.
- Securing donations to fund future resourcing needs.

Our specific objectives to achieve those strategies are:

- Increasing overall membership by increasing member benefits arising from the objectives.
- Growing membership in new ways, for example by recruiting high-profile champions, securing supporters and engaging followers in the community.
- Extending engagement with the media and investment industries to raise awareness.
- Extending access to information for members and the public, utilising our website as a reference hub.
- Increasing accessibility to articles on the website.
- Promoting Honest Money Now and Savers Take Control.
- Recruiting new Board Directors and encouraging sub-groups to work with Board Directors on specific issues, for example policy, campaigns and marketing.

- Continuing to engage with existing members and affiliated groups.
- Encouraging and facilitating the development of branches specific to issues or regions.
- Providing further support to members' organisation of events.
- Engaging with new membership groups through new projects with universities, involving existing and affiliated groups at every opportunity.
- Engaging in investor-related events, with information stands, to broaden UKSA's reach and encourage membership growth and awareness.

Covid-19 – Why corporate ethics matter

by Sue Milton

Covid-19 is revealing many ethical dilemmas. To pay dividends or not, when so many pension funds rely on receipt of them? Which employees to retain, which not? Who must work onsite, who need not? Will taking on more debt enable us to survive a few weeks more only to be unable to service any debt in a few months' time? Unprecedented times is just when we need to apply ethical oversight.

The Institute of Business Ethics published on 1 April its 2020 report on corporate ethics policies and programmes (here). The research was carried out during 2019 in the UK and some European countries. There are three areas of focus:

1. Cultural shift: ethical codes have shifted away from staff guidance to embracing the whole company. It is a move from 'you must' to 'we will' and covers more than legal compliance by embedding them in the corporate culture;
2. Leadership: boards, whilst in receipt of related information, still tend to avoid discussion. Focus remains on 'what we do' but ignoring 'how we do it'. There is recognition for a named senior person to be responsible for corporate ethics, with a direct line to the board, or for setting up an ethics sub-committee. If neither exists, ethics are excluded from boardroom discussion;
3. Internal communications: board members received more information about ethical performance than frontline staff but, as the finding under leadership shows, the information is not used well. This increases the risk of a small ethical breach becoming reputationally damaging for the lack of it being nipped in the bud.

Ethics matter because they hone decision-making, reducing negative and unintended outcomes. Each decision should be assessed against an ethical decision-tree covering such things as 'who and what will be damaged by my decision?' and 'will I mind if the media report on my decision and subsequent outcomes?'.

It is better to apply sound ethical practices before they become mandatory. Respect is attained with the former whilst the latter suggests a laggard to good behaviour.

It will be interesting to see in the next report what impact the ethical issues around Covid-19 will have had on corporate ethics during 2020.

Northern Rock update

We are very grateful to Dennis Grainger for this update:

Following the very disappointing rejection of our claim by Prime Minister Theresa May and the Treasury over a year ago we have had a busy time watching events and extending our research, culminating in our letter to the current Prime Minister Boris Johnson and copied to the Chancellor on 28 February 2020. A copy of this letter can be found here.

We are quite hopeful that this approach will convince the new administration to assist our fight for fairness.

Dennis Grainger
Chair, UKSA Northern Rock Small Shareholders Action Group (see contact details on back page)

Ethical investing and performance: the price of conscience

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 (environmental, social and governance, or ESG) investing [2]; or looked at different approaches [3], [4], including fund selection [5]. This article is the first of two considering the 'price of conscience', challenging the view that ethical investments are more likely to underperform. Here, arguments supporting ethical out-performance are explored, while a future article will review studies of actual performance.

How might ethical investments compare with conventional counterparts? Could they tend to underperform? Particularly as 'ethical' or 'green' labels might be applied for marketing advantage.

Investors often perceive that ethical investing reduces the number of companies available for portfolios. The smaller 'opportunity set' reducing diversification possibilities, resulting in worse returns, higher risk, or both. This article proposes counter-arguments challenging this perception by exploring risks, and asking whether sustainable investing can provide a competitive advantage [6], [7].

Sustainable Investing and Risk

Proponents of sustainable investing argue that unethical corporate behaviours increase risk [8], [7]. Companies' harmful actions eventually lead to negative consequences for them, with detrimental effects on growth and profits, leading to underperformance. Essentially running risks that are not 'priced in' by markets. Investors excluding these companies remove unrewarded risk from their portfolios.

Such practices can increase the likelihood of litigation against the company, cause reputational damage, or make customers take business elsewhere. Other risks may include:

- Weak industry standards could stimulate government regulation, increasing business costs to all companies in that sector [9]. Firms with the least invested in meeting standards will be forced to improve and be harder hit.
- Environmental issues, such as CO_2 emissions restraints or carbon permit trading. Companies adopting the appropriate technologies may avoid redesign costs. At the same time, those continuing harmful practices may require investment or to accept higher ongoing business costs.

- Ethical behaviour gives a company a 'licence to operate', as a valued community asset, avoiding resentment about activities [7]. Community opposition can upset projects and damage brands. Oil-spills can cause reputational damage lasting decades.
- Poor sustainability records can raise insurance premiums or increase the cost of capital. Investor concerns can lower share prices and increase the cost of debt through weaker bond issuance.
- Unethical supply-chain partners can tarnish brand reputation.
- Energy usage reduction and waste minimisation increases efficiency and reduces costs.

Other business risks relate to emissions and waste discharges (particularly affecting companies in mining, oil, gas and forestry sectors); balance sheet risks from historical liabilities; and business sustainability risk. Companies may face the intrinsic lack of sustainability of their activities. Examples include coal mining, especially high-sulphur coal producers.

Competitive Advantage

Ethical companies can build a good reputation, bringing financial rewards. Businesses can earn legitimate profits, contributing to society, avoiding coercive, exploitative or illegal practices. Internationally, some countries have lesser standards for human rights, labour, bribery and the environment [10].

Trustworthy reputations attract customers and business partners, creating economic opportunities [11]. Not everything immoral is illegal: staying within the letter of the law is insufficient to protect reputation. An organisation's ethical culture helps protect it from unlawful staff conduct since strong moral principles help limit abuses by staff tempted to circumvent regulation. Further, companies with stronger ethical reputations should command higher PE ratios for their stock and be able to borrow at lower rates in bond markets.

A 2010 study [12] concluded that positive CSR strategies, although initially perceived by analysts as being value-destroying, are now seen as value-creating. Analysts are now more likely to recommend a stock 'buy' for strong CSR firms.

Other sources of competitive advantage include [7]:

- Attracting, retaining and motivating top talent.
- Anticipating changes in regulatory and business environments ahead of competitors.
- Generating revenue growth through new products, services and technologies.
- Increasing customer and investor loyalty.
- Improving relations with regulators, local suppliers, communities and key stakeholders.
- Strengthening innovation and adaption within the corporate culture.

How this helps Investors

Individuals increasingly wish to invest ethically and often have specific concerns in mind. Younger people may give this a higher priority than older generations with twice as many 18 to 34-year-olds feeling their pensions should be invested ethically, compared with those above 45 [13]. The Investment Association reports £27.9 billion of assets in the UK responsible funds sector in January 2020, an increase of £3.2 billion since October 2019 [14].

Individuals will wish to be confident that ethical investing is unlikely to be detrimental to portfolio performance. However, the selection of suitable ethical funds is a complex area. So some investors are likely to wish to access the skills of wealth managers who can support them in this important and growing field.

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Policy news

Congratulations are due to Peter Parry on being invited to join the **Advisory Panel for the Law Commission Review of Intermediated Securities**.

Readers may recall that UKSA and ShareSoc submitted a joint response last November to the Law Commission's call for evidence on intermediated securities, primarily those held by an intermediary or nominee on behalf of the beneficial shareholder. The full response can be found here.

STC

Reflections on stewardship and the economic shock caused by Coronavirus

by Martin White

Whilst our STC activity is about influencing and helping people across the demographic spectrum, our current membership is typically older. But as you get older, it is quite common to take an interest in what the world will be like for future generations when you are gone. In this article I will start with some thoughts about the shorter-term impact of and uncertainties around the Coronavirus situation, and then move quickly to some longer-term questions. As ever, we have to emphasise that this is not investment advice!

The power of intrinsic motivation, and the satisfaction from a feeling of purpose

At a time of emergency, self-interest, politics etc. take a back seat, to be replaced with a sense of community and mutual support. This is happening around the world, as people come forward to help the vulnerable though the Coronavirus emergency.

Coronavirus is an obvious and immediate emergency. But there are other emergencies that are not quite so immediately obvious, and it is to be hoped that in the economic fallout of the virus response we don't forget the power of tackling the big questions in a consensual, cross-party way. The emergencies I have in mind include the following:-

- Tackling climate change. This looks like the biggest threat mankind has ever faced. And it's urgent.
- Divergence in productivity and wellbeing of individuals. We appear to be moving towards a world in which technology is giving up-skilling opportunities to the lucky few, and down-skilling the many. People need satisfying, purposeful jobs and a feeling of personal growth; what might a world look like that achieves more of this? Failure to tackle this could lead to some nasty outcomes over the medium term.
- The sustainability and resilience of the corporate world, of financial institutions, of the financial sector as a whole, and of the finances of individuals.

STC is motivated primarily by the third of these three bullets, but partly also the second. But it's really about the urgent need for some deep and long-term thinking, free of the constraints of vested interests. The virus situation has caused a bit of a pause in our promotion of STC, but the project itself feels even more relevant and necessary than it did even a few months ago.

Long-term thinking and sustainability

For those who enjoy delving into economic discussions there are a couple of things I'd like to recommend. And both have plenty of material that could help stimulate discussions between members.

The first is freely available, written for an OECD event last September, when nobody was focusing much on any potential pandemic (here). Or you will find it easily by googling OECD beyond growth. It contains lots of fresh thinking, and it is particularly welcome for not being captured by the mainstream economic dogmas of neoclassical economics, that have tended to lead to a focus on market values as some sort of objective truth. There is a really good and constructive critique of economic thinking. The introduction starts with "The world today faces profound economic challenges. Accelerating environmental crisis is without doubt the most urgent."

And further into the introduction we have "These challenges would be considerable in any circumstances. But they come after a period in which most OECD economies have performed substantially less well than in the past. The 2008 financial crisis exposed serious flaws not just in financial regulation but in the credit-based form of growth which preceded it. Its effects continue to play out."

My second recommendation is the recently published "Radical Uncertainty" by John Kay and Mervyn King. I attended a couple of their quite lively promotional events before the virus lockdown, including the launch event at the London School of Economics. It is a powerful exposition of the way in which the existence of the "unknowable" has been ignored by economic and financial theorists, whilst still being recognised as "common sense" by most ordinary people. This has led to financial regulation and public policy assuming that things can be steered mathematically, with the consequence that resilience has been designed out of the system. Some economists clearly feel upset and threatened by the book! The conclusion of the book is that we have to embrace uncertainty, and plan for resilience. As the authors emphasise at the public meetings, uncertainty is ultimately the driver for innovation and profit, and life wouldn't feel worth living if you could really predict the future. You can download a podcast of the LSE event directly here.

Corporate debt and our investments – and dividends

Coming closer to home, those companies that have lots of debt and are forced to stop in their tracks by the Coronavirus response will be looking pretty sick in our portfolios at the moment. For sure, in some cases, the equity may be wiped out. For a business which does have a source of good profit in the longer term, the question is going to be how it is financed. And ultimately who will end up owning it. Today is a time of much greater uncertainty (leaving climate change out of the discussion) than any of us have envisaged. What happens is that there can be, in hindsight, some amazing bargains, but some huge dealing spreads. My personal approach is to do nothing and hope that my diversification will see me through.

Dividends though – my personal view is that dividends are there to be cut. As shareholders, we get the upside, but we have to accept the downside as well. And company law is there to protect the creditors and other counterparties against exploitation of the privilege of limited liability.

Savers Take Control – STC – a reminder

In case you didn't spot it all, the February edition of TPI, number 204, had a fairly comprehensive set of short articles about STC. Here's a list to encourage you to have a look:

- Editorial, *page 1*
- Time to engage the voice of the individual in a national debate, *page 3*
- Encouraging the investors of the future to join UKSA – the value of a trusted network, *page 12*
- Changing the world of savings and investment and driving a change in company behaviour, *page 13*
- Making the best use of our discussions and meetings – by sharing questions that arise, *page 14*
- John Kay on remuneration, *page 15*
- New member Anthony Fitzsimmons, *page 16*
- Tribute to Peter Montagnon, *page 16*
- New member Colm Fagan, *page 17*
- How to get employee engagement without encouraging share price fixation and short-termism? *page 17*
- Does the name Daniel Godfrey ring any bells? *page 18*
- Recommended reading, *page 18*
- What does a corporate culture feel like when nobody worries about the share price or what profits are reported this quarter? *page 19*

The STC focus for the next issue of The Private Investor will be about hard grind – how we help people to see ways in which they can minimise the financial sector take. This will mostly be about identifying which providers and choices minimise, or avoid altogether, regular *ad valorem* charges.

Plus ça change... extract from a US business article of 2003

Below is an extract from an article entitled 'License to Steal' by Roger Lowenstein, reprinted in 'The Best Business Stories of the Year, 2003 edition'*. Jeffrey Immelt was the new (at the time) CEO of General Electric and the successor to Jack Welch.

'The heart of the problem is the stock option. In theory it gives executives an incentive to perform. And if executives got only *one* set of options over their career, the system might have some merit.

Instead, executives get bundles of options every year or so, and they get them in obscene amounts. That makes cashing in on them easy. Some years the stock will be up, some years down, but over time – even if in the long haul the stock merely treads water – the options awarded at the bottom of the cycle will be worth a fortune.

Thus, a down year like 2001 becomes an excuse to hand over a piece of the shareholders' company to management on the cheap. It would be wrong to say the system is indifferent to performance – it encourages occasional down years, which provide for lower strike (buying) prices. But the system is truly indifferent to performance in the sense that mediocre and worse chief executives are both immensely rewarded and vastly overpaid.

Consider Immelt. He got options for 800,000 shares at $43.75 each in July. Then, in September, after markets plunged, he received 400,000 more options at $35.48 a share. Think about that. You get options as an incentive to raise the share price. But the stock falls. So you get more options at a lower price. A spokesman said Immelt needed "additional incentive". Gee, he's going to net $55 million from the first bundle – if he can raise the stock a so-so 10% a year. If that doesn't get him out of bed in the morning, he's in the wrong line of work. That second bundle is no incentive – it's a freebie.'

** The Best Business Stories of the Year, 2003 edition, edited by Andrew Leckey and Allan Sloan, published by Vintage Books, a division of Random House. Original in SmartMoney, a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications Inc.*

Financing the future

by John Hunter

Elsewhere in this issue we announce the new membership category – Associate Membership. This is one step in the journey to become a populist organisation with the political influence to create change. It has implications for our funding for the future.

With more members and more activities we need more administration. That means we need more money. Independence is our USP. Obvious sources of funding (brokers, wealth managers, funds, trade groups) are therefore closed to us. Our funding must come from individuals.

Our membership survey a few years ago established that some members joined UKSA for the membership benefits – particularly the company visits – but a significant proportion joined as an expression of support for UKSA's aims. Indeed, many members, for reasons of geography or personal mobility, have little access to member benefits at all.

Our members cross the financial spectrum. Some are rich after a lifetime of successful earning and investing. Some are not well off but believe passionately in the importance of the influence of individuals on corporate behaviour. Some are students and have no spare money at all.

To accommodate this varied constituency we do not want to raise membership fees – if anything the reverse. Instead we will encourage voluntary donations. All members – associate and full – will be encouraged to donate according to their abilities, and encouraged also to make donations annually.

This structure is not set in stone. Premium membership and student membership are possibilities for the future. But for now we will start with Associate Membership and a donations appeal. I hope all members will help with their own contributions and with passing the word around friends and contacts. As we learn how much we can raise, on a consistent basis, so we can make further recommendations on membership fees.

UKSA's bold objective – by John Hunter

In the days when I was involved in corporate planning for the long term – or developing a corporate vision, if you like – it was fashionable to set out a bold objective that was challenging but inspiring, probably impossible, but maybe if we did this and if we tried that…….?; and thinking big made us face up to the realities.

By contrast, if we made a few marginal improvements here, and aimed to grow sales at 1% per year there, we could certainly put together a very detailed and credible plan, but was it really what we wanted to come into work for?

So, during the last six months our chairman Colin has led us through a strategic planning process, following a framework he had experienced in other lives.

To digress, the leading European equivalents to UKSA are *Aktiespararna* in Sweden (pop. 10 million), 65,000 members; *VEB* in the Netherlands (pop. 17 million), 39,000 members; and *DSW* in Germany (pop. 83 million), 30,000 members. Outside Europe, in Australia (pop. 25 million) the *ASA* has 15,000 members. By contrast in the UK (pop. 55 million) UKSA has 500 members. These are easily the smallest proportional representations of any developed country that has a shareholder-interest group.

Or, to put it another way, other smaller countries have managed to generate individual interest in shareholding to an order-of-magnitude difference in degree compared to the UK.

On a different tack, generating action against entrenched special interests requires political pressure that can only come from a mass movement. STC recognises this, envisaging a virtuous circle in which talented and authoritative advisers build a public reputation that attracts more supporters who in turn encourage other recruits to the advice team to broaden UKSA's appeal and in turn attract more supporters………. So that we eventually have enough supporters to apply the political pressure that will lead to real change.

So that's the background. In the world of online petitions it is accepted that you need 100,000 'signatures' to get anyone to take any notice. So our bold objective is to achieve a membership level comparable to that of Sweden. Even 25% of what's been achieved in Sweden, or 50% of what's been achieved in the Netherlands, must be possible surely?

UKSA first to support campaign on transparency of pension charges

Holly Mackay, owner and inspiration of the advice website Boring Money, has taken the trouble to research the charges of 10 platforms and wealth managers on a notional investment of £1 million over 25 years. The shocking results have been taken up by FT Money to support a campaign for greater transparency of fees and charges. UKSA was able to help by drawing attention to the additional losses of investment return to the client on the fees transferred to advisers.

How much do charges take from your long-term savings?

As researched by **Holly Mackay of Boring Money**, with additional calculations by **UKSA**

If you invested £1 million for 25 years at a return of 5% per annum with the return reinvested:

What would you get with no charges? Answer: **£3,386,000**

What would you get with charges? Answer: see **'Closing fund'** below

How much did they take? Answer: see 'Charges' below

	Closing fund	Charges	Investment loss	Total loss in charges and investment loss	*Return after charges*
Platforms					
Interactive Investor	£2,780,000	£346,000	£260,000	£606,000	*4.17%*
The Share Centre	£2,780,000	£350,000	£256,000	£606,000	*4.17%*
A J Bell	£2,730,000	£379,000	£277,000	£656,000	*4.10%*
Fidelity	£2,720,000	£381,000	£285,000	£666,000	*4.08%*
Hargreaves Lansdown	£2,650,000	£417,000	£319,000	£736,000	*3.97%*
Advisers					
Schroders	£2,170,000	£664,000	£552,000	£1,216,000	*3.15%*
SJP	£2,030,000	£749,000	£607,000	£1,356,000	*2.87%*
Tilney	£2,010,000	£765,000	£611,000	£1,376,000	*2.83%*
Brewin	£1,950,000	£781,000	£655,000	£1,436,000	*2.71%*
Succession	£1,900,000	£815,000	£671,000	£1,486,000	*2.60%*

Plus ça change... (2)

We were delighted to be contacted recently by Toby Keynes (whom older members may recall) with reference to Peter Parry's advisory role for the Law Commission (see page 13).

Back in 2000 Toby had called on the Department of Trade and Industry to include a representative of private shareholders on its Company Law Review Consultative Committee. The DTI replied "...We would accept the point that the Committee does not include anyone or body wholly devoted to representing the interests of the private shareholder in the way that UKSA does. We do, of course, recognise that private shareholders constitute an important constituency of interest that should be taken into account by the Review and, on reflection, we are persuaded that the deliberations of the Committee would be improved by the inclusion of a representative of private shareholders." Amen.

Associate membership ready to launch

by Rob McDonald

At last year's AGM and in articles since in TPI I have talked about the possibility of introducing the category of Associate Membership. The topic has engendered much debate both on and off the board. The initiative was paused in the middle of last year because other initiatives were prioritised.

After the Christmas break we were able to resurrect the initiative and I'm pleased to say that it has now been finally approved by the Board and will be implemented in May.

It is worth restating the reasons for considering this class of membership:

- We see Associate Membership as a gateway to full membership. It allows that class of investor who, though sympathetic to UKSA's principles and cause, are not yet ready to commit to full membership.

  There is evidence at trade shows, seminars and presentations that attendees are far more likely to sign up to an Associate Membership at the event, where there is no immediate commitment to an ongoing subscription.

- We see Associate Membership also as a source for future voluntary donations, which are increasingly becoming the funding model for many not-for-profit organisations where participants feel an affinity with the cause. Time will tell if that proves to be successful for UKSA, but for now it is a case of nothing venture nothing gained.

- We also see Associate Membership as a source of future volunteers, the life blood of any voluntary organisation, and UKSA certainly needs more volunteers.

- If Associate Membership leads to growth in the total membership, this will be to the benefit of UKSA's influence in the financial world.

How do we see Associate Membership working?

- Becoming an Associate Member will require no more commitment than providing a bona-fide e-mail address and a declaration to comply with the A.M. terms as determined by the UKSA Board.

- The entitlements of an Associate Member will be as determined and ratified from time to time by the UKSA board and can be changed at any time if the Board deem it appropriate to do so.

- UKSA may periodically request donations for a specific cause, a campaign or just to bolster reserves to maintain financial viability of the organisation.

  Associate Members will of course not have the same entitlements as full members. So, for example, they will not be entitled to any of the following: voting rights at the AGM, a printed version of TPI, invitations to premium events (meaning those events such as those company meetings that, in the view of the organisers, are likely to be oversubscribed by full members). There will also be restricted access to the website.

We believe Associate Membership will make UKSA stronger. As always, we welcome members' views.

Stop press

We are pleased to announce that **Mark Cardale** and **Charles Henderson** have agreed to join the UKSA Board. Mark has a background as a senior corporate lawyer working in both London and New York and is an expert in corporate governance. Charles is a qualified accountant with a career in fund management specialising in shareholder engagement, corporate finance, operations and administration. Full biographies will appear in the next issue. Mark has agreed to succeed **Colin Colvin** as Chair of UKSA. The strengthening of the Board follows a comprehensive review of the future expertise required within the association to address the challenges ahead for private shareholders.

Colin Colvin said: "I'm delighted that Mark and Charles have agreed to join the Board. As outgoing Chair I wish Mark every success at the helm of UKSA and will be pleased to offer my support to ensure a smooth handover."

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Letters to the Editor

From Phil Clarke

Many of us attend AGMs, most of us read the press, and hopefully we all read The Private Investor. Something we hear a great deal about is “excessive executive pay”. I must admit I always find those three words irritating, principally because there is almost inevitably NEVER a suggestion as to what would be “acceptable executive pay”. A couple of years ago at a bank’s AGM the CEO of ShareAction criticised the bank for the pay of its Chief Executive. Afterwards I challenged her to explain what remuneration she thought would be appropriate, to which she struggled to find an answer.

The trouble is that debate about remuneration is almost always a fact-free discussion. We are all aware of the absurd outliers on the pay scale – notably Sir Martin Sorrell at WPP and Jeff Fairburn of Persimmon, but are we aware of the underlying reality of executive pay in the UK? The Chartered Institute or Personnel and Development (the professional body for HR managers) published an interesting report on executive pay in August 2019 (accessible on their website). This report is full of interesting data, and I thought it might be worthwhile highlighting a few facts about executive pay.

1. The mean single figure of all FTSE 100 company CEOs in FYE 2011 was £5,043k, but by FYE 2018 this had fallen to £4,701k.
2. The median single figure of all FTSE 100 company CEOs in FYE 2011 was £4,197k, but by FYE 2018 this had fallen to £3,461k (perhaps showing the median is distorted by Jeff Fairburn)

So my question would be – is that your perception? In the debate about executive pay do you ever hear that aggregate pay has declined over the last decade?

No doubt we all agree that the median pay of £3.5m is a lot of money. But is it excessive? I have found it hard to benchmark this sum, but the Economic Policy Institute reported the average pay of the top 350 US CEOs was $14m in 2018, dwarfing what was paid here in the UK. An amusing benchmark might be high-flying Premiership footballers where players are paid according to free-market negotiated rates – Kevin de Bruyne is reputed to be paid £16.7m, only three FTSE-100 CEOs were paid more than this in 2018 (including the unusual payment to Jeff Fairburn). Perhaps more interestingly still (according to Statista), the average Manchester City player is paid £6.5m, and the average Arsenal player is paid £4.5m, and even the average Everton player is paid £3.85m, quite a lot more than the median FTSE-100 CEO. There are more hopeless Everton footballers than useless CEOs (although that might be a different discussion for a different time). You may argue that comparing the pay of top footballers to top CEOs is irrelevant, but is it? Is this not simply a comparison of “players” at the top of their game, being paid according to their perceived worth, with price being set by market forces?

I fully understand the issues of relative pay and potential resentment that causes. Why indeed should a CEO be paid more than a nurse? However, be careful, if you tried to restrict footballer’s salaries via a salary cap you could be sure they would vote with their feet and go off to play for a club abroad where there is no such limitation. What would happen if you capped CEO pay, what would the consequences be? Equally, what would the benefit of a cap be to a shareholder? The cost of the BP board was about £18m in 2019, but that works out at less than 0.1p/share, if you could halve that cost, shareholders would benefit to the tune of 0.04p/share. Is it really worth the risk?

So when someone says to you that CEO pay is excessive, ask them why they come to that conclusion. Ask them what they think it ought to be, how any such cut should be achieved and ask them what might be the unintended consequences of attempting to restrict pay.

I would love to know.

From a member

Like many members of UKSA I am comfortably off. I have a good pension, I have a family who no longer need me financially and I have savings easily sufficient to support me in a comfortable care home when that time comes.

Coronavirus will leave many deserving causes devastated financially: our favourite charities, local businesses, the self-employed, or entrepreneurs caught out at a critical phase of business development. We should all be thinking of how to use our surplus wealth effectively for society after this crisis is over.

I hope that UKSA, which has rightly been critical of executive pay practices, can use the current crisis to bring moral pressure to bear on the executive class to enable them to recover some of the public respect lost in the last 20 years. Absent that, following the current market crash we can expect a mass repricing of out-of-the-money options for executives who, shamefully, won't do their jobs properly unless they are 'incentivised', and, coincidentally, exposing the sham of the initial 'option' grant.

Perhaps shareholders should demand that windfall gains such as these should be directed to those in need and for the good of society at a time when whole swathes of society have suffered windfall losses. And executives can both remain incentivised and feel good about themselves!

CURRENT UKSA EVENTS

Company meetings

UKSA's programme of meetings has been suspended during the current health crisis.

Meetings of UKSA Croydon & Purley Group

Location	**Spread Eagle, High Street, Croydon CRO 1QD** **Meeting dates will appear here.** **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