Number 43—August 2014

ShareSoc Informer

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Editorial

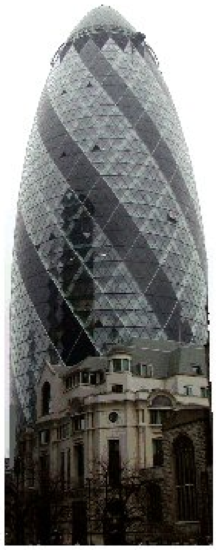
Our cover page photograph in this edition is of that iconic City building, the Gherkin. It's now up for sale. To you about £650 million apparently. There is only one defect I am told—in winter ice and snow sometimes freeze on the top, then slide down the sides hitting people below.

We have articles on the Oxford Technology VCT campaign and on Hargreaves Lansdown's about face on corporate action charges. Both successes for representations by ShareSoc.

There is an article on Majestic Wine where I recently did some internet shopping. As a shareholder I thought it best to sample their wares, and their system seemed to work well.

Another article is on recent events at Tesco. But my experience of internet shopping at another listed supermarket chain proved to be less than perfect. I managed to buy one banana instead of one bunch, and the yogurt pot I bought was enormous.

I am not sure that it will ever totally replace supermarket shopping in terms of speed of selection and price comparison. They surely need more tools to help the shopper, and warning messages such as "do you really want to buy this?" for the inexperienced.



There is some feedback on the results of the Member survey on class actions on page 7. Thanks to everyone who responded on that.

And note we have lots of events coming up for Members—see page 14.

Roger Lawson
ShareSoc Deputy Chairman
Email: info@sharesoc.org

Quotes of the Month

"It's time to check out of Tesco as profits are likely to fall"….. John Ficenec in the Daily Telegraph, and "*Dave Lewis knows nothing about retailing, but maybe that doesn't matter, because as a leading supplier he certainly knows how to win price wars and perhaps that is the big issue now facing Tesco in the UK*"…. Nick Bubb also in the Daily Telegraph. See article on page 3 on Tesco.

"*Companies creak as rising pound takes its toll"…….*Headline in the Daily Telegraph. See article on page 4.

"*Wine company board dodges potential pruning"…….*Headline in the PIRC newsletter on events at Majestic Wine (see page 3).

Oxford Technology VCT

Events at this company may not have affected many ShareSoc Members, but it's worth leading with this story as an example of how effective a Shareholder Action Group can be in terms of obtaining some changes.

The Oxford Technology VCT (OXT) and Oxford Technology 3 VCT (OTT) previously had their VCT status withdrawn by HMRC, although this has now been temporarily "set aside". The latest news at the time of writing is that the VCTs have received a response from HMRC to their appeals. HMRC indicate changes are required if VCT status is to be retained and they have specified 40 days for a response from the company. The latter are considering whether they can comply.

ShareSoc formed a "Shareholder Action Group" with a committee of interested shareholders to make representations on this matter and protect their interests.

We also pushed for changes to the corporate governance of these VCTs including changes in the directors.

On the 12th August the boards of these companies announced major changes, with two new directors (Alex Starling and Richard Roth) on OXT and one new director (Robin Goodfellow) on OTT.

Alex Starling will become the Chairman of OXT and Robin Goodfellow will become the Chairman of OTT.

Lucius Cary, the fund manager, will resign as a director at the forthcoming AGM but we understand is remaining as fund manager and will advise the boards when necessary.

ShareSoc Deputy Chairman Roger Lawson had this to say on the above changes: *"I welcome these changes and the appointment of Robin Goodfellow, who was one of the Shareholder Action Group committee members, is particularly appreciated.*

I think these changes provide a sounder footing for these companies in the future, although their small size is still a concern and we encourage the boards of these companies to consider a merger. I hope that these changes will also help with the appeal to HMRC as it should demonstrate that the boards of these companies will continue to strengthen their internal processes to avoid the kinds of mistake that led to the loss of VCT status. This campaign has achieved a clear success for shareholders whatever the outcome of the appeal to HMRC and I thank Tim Grattan for leading this campaign to date".

Note that ShareSoc has issued some new and revised voting recommendations for the forthcoming AGMs of these companies on the 27th August which are available from the ShareSoc web page dedicated to this campaign.

Editor's Note: The above article, which is based on past news and press releases, understates the amount of effort that has gone in behind the scenes to persuade the directors of these companies (including Lucius Cary) that some changes were necessary.

But it is noted that Mr Cary says he intends to remain a director of VCT 2 and VCT 4. I do not consider it advisable that he should remain on the boards of any of these companies.

Apart from the corporate governance issue of having the fund manager on the board, as I said in a previous note on this subject: "clearly [these VCTs] have been run in a similar way and it is only fortuitous that they have not faced the same difficulties. All these VCTs have demonstrated poor performance over the many years they have been in existence". It is a common failing of VCTs that they are dominated by the fund managers and often appear to be run more in their interests than that of investors.

Tesco admits it needs a new leader

On the 21st July Tesco announced that CEO Philip Clarke is departing. The statement included a further profit warning which mentioned that the overall market is weaker and trading profit in the first half of the year is below expectations. It's surely an acceptance that Mr Clarke had been given long enough to turn around the business, but had ultimately failed (he has been in the CEO role since March 2011).

The new CEO is to be Dave Lewis who joins from Unilever where he has worked for 28 years, mainly in personal care products markets. So the new CEO does not have a strong retail background? Yes that's right - he does not!

Flogging personal care products to supermarket buyers is surely a very different background to convincing retail consumers to buy food (and a few other products) in your shops, however strong his general management skills might be.

Mr Clarke is getting 12 months pay in lieu of notice, but apparently payable from when he ends a transitional period in six months time from the 1st October - so effectively he is getting 20 months notice. Plus he will remain Chairman of the Tesco joint venture in China (pay for that is not disclosed).

He also received some no doubt heartfelt plaudits such as "done a huge amount...", "achieved a great deal", "the board are deeply grateful" and "an outstanding achievement" to quote from the RNS announcement. But apparently not quite enough to justify his retention. Shareholders in Tesco might not agree with the praise as the share price of Tesco has moved from 400p to 282p during Mr Clarke's reign. But it perked up 2% on the day the news was released.

However the positive impact on the share price soon evaporated after the media commented on a possible move by the new CEO to "take a bath" over all the things he might identify as needing change, and a possible rebasing of the dividend. Clarke was criticised for holding onto the US operation too long, and not starting a more aggressive price war to challenge the discounters.

Voting without knowing what for at Majestic Wine

Last month Shareholders at Majestic Wine were given a proxy voting form that included two common resolutions - a vote on the Remuneration Report and a vote on Remuneration Policy. But there was no description of the Remuneration Policy in the Annual Report. Shareholders in the company no doubt found this somewhat baffling. They might therefore have voted against the second of those resolutions on the basis of not knowing what they were voting for.

The company subsequently withdrew those resolutions because being an AIM company they don't legally need them, and it was a mistake to include them. But the amusing thing is that at the AGM the Chairman said that both resolutions got large majorities in favour on the proxies returned.

It is clear that a lot of shareholders therefore voted without reading the resolutions or understanding what they were voting for.

Perhaps they simply had absolute faith in the directors' recommendations? Surely only when shareholders vote, and take the trouble to understand what they are voting for, will shareholder democracy really work.

Everyone reading this is encouraged to make sure you vote and find out what you are voting for and why!

A full report of the Majestic AGM is on the ShareSoc Members Network, including a review of the wines below available from Majestic as a result of sampling their wares.

Active Managers and Monks Investment Trust

The FT's fund management supplement recently reported that "90% of UK active funds beat the market". This headline might surprise you because historically it is known that active fund managers often trail their benchmarks and comparable index tracking funds, simply because of their higher management costs.

But the headline was based on data from S&P which showed that even taking into account fees, most UK active equity fund managers beat the UK stock market last year.

However you would be wrong to jump to the conclusion that the managers did so much better by wearing out shoe leather visiting numerous companies and doing in-depth financial research. They simply avoided the big mega-caps. With more than a quarter of the FTSE-100 accounted for by 5 large stocks, and companies like Shell, BP and HSBC having a tough year, simply by avoiding larger companies you could outperform the indices.

Of course this is a problem when the indices are size weighted and a preponderance of large companies have an overbearing influence on them. This is why some people argue for using "equal size weighted" or other index forms to construct portfolios.

But just avoiding the mega-caps is not sufficient to achieve performance.

Monks Investment Trust (managed by Baillie-Gifford) held their AGM recently and shareholders were not happy with the performance of the trust. They have under-performed their benchmark over one, three and 5 years even though they are an active manager using a bottom-up stock picking approach and seem to be focussed on a portfolio of over 60 small to medium cap international growth stocks or special situations.

There is a full report on the AGM and the background to the company on the ShareSoc Members Network. It will not make happy reading for shareholders in this company, and is another example of the directors of some investment trusts staying too long (4 out of 5 more than 9 years in this case) which ShareSoc has been commenting on elsewhere of late.

High pound hits company profits

There have been numerous reports recently from UK listed companies which have spelled out that the high pound, particularly against the US dollar, is having a major impact on profits. Below are a few such reports that we have covered in our blog.

Croda. On the 22nd July Croda issued their interim results for the six months to June. Croda is a speciality chemicals company and less than 10% of its revenue arises in the UK. A very substantial proportion comes from the USA and from other dollar denominated sales elsewhere.

The high pound (currently over $1.70 to the pound) is having a big impact on companies such as Croda. In the six month figures revenue in constant currency terms is up 2.5% and operating profit is up 0.4%. But in sterling revenue fell 4.5% and profit is down 5.0%.

A lot of smaller and specialist technology companies export a large proportion of their sales so we are likely to see more such reports. This is one reason why share prices of these companies have been drifting down in anticipation in recent weeks, and Croda fell another 2% after the aforementioned announcement.

Abcam. Another company reporting on that day with a "Trading Update" was Abcam,

This is another very international business (they sell antibodies primarily). Although they said that adjusted profit before tax will be slightly ahead of consensus expectations for the year, they did spend a lot of time talking about "constant currency" revenue growth and in sterling terms it looks like revenue will be somewhat below forecast. Abcam do have some of their costs in dollars which may have protected the profit figure. The Abcam share price rose on these figures, possibly in relief that they had not been more impacted by the high dollar rate.

Continued on next page

High pound hits company profits (Cont.)

Renishaw and Glaxo. The 24th July saw final results from Renishaw (RSW) and interims from GlaxoSmithKline (GSK) which reflected the same issue. However, the currency impact in both companies was not the main impact on the subsequent share price move.

At Renishaw, profits would have been £6.8m higher on top of an "adjusted" figure of £70.1m for the year, but for the currency impact. Last year's corresponding figure was £79.2m, so underlying profits fell sharply and more than accounted for by the currency impact. Did the share price fall on these dismal results? No the share price actually rose 23% on the day of the announcement.

Allegedly this was because of a very good fourth quarter which resulted in the adjusted e.p.s. being ahead of forecast. The company also reported an exceptional profit of £26.3m on its holding of Delcam shares which was the subject of a takeover bid during the year. This made the overall, statutory, results look good of course.

At GSK, turnover declined on a "constant exchange rate" (CER) basis by 4%, but declined 13% at real exchange rates. Core (i.e. "adjusted") earnings per share was down 12% at CER but 25% at actual rates. This appears to be mainly down to below budget sales of Advair - not yet replaced by new drug Breo.

The company put the usual positive spin on the numbers - a good pipeline of new products, expect to maintain leadership in respiratory products, etc,

But the negative exchange rate move has put a stop to more share buy backs as cash flow is not as high as expected. In addition the company plans to dispose of some older products - which suggests more downsizing to follow on from disposal of some of their OTC products. The share price declined 5% on the day of the announcement, but had also been in decline for the last few weeks. The looming threat of legal action over bribery in China does not help of course, plus general pricing pressure in markets such as the USA. Earnings seem likely to be flat as against the previous year at best.

Comment on GSK: It's a case of two steps forward, one step back in the long term recovery of GSK. If they continue to underperform despite claiming to have a great drug pipeline, they may end up with a bid if they are not careful, like AstraZeneca.

Getting a clear picture of the financials and prospects is of course difficult because of the numerous "adjustments" to the accounts. This half year included £101m of restructuring costs and £47m of legal costs which were treated as "exceptionals". Like SSE which was commented on in a previous newsletter, GSK are serial offenders in presenting their figures in the best light possible, but with repeated exceptionals, the story becomes both repetitive and unjustified.

Spectris and Judges Scientific. On the 25th July Spectris announced interim results which showed earnings down by 10% over the prior year, apparently primarily down to adverse currency movements.

But even at constant exchange rates, profits were down and revenue showed minimal growth. Judges Scientific fell in sympathy on the day as they operate in the same field (that was after a very substantial fall in the share price earlier in the month after a profits warning that included mention of adverse currency movements).

The Daily Telegraph reported on the 8th August that £1.5bn had been wiped off the year-to-date profits of a string of top multinationals. It reported damage across a wide spectrum of UK companies including Cobham, Barclays, BAT, Diageo, Merlin, Compass, Rolls-Royce, BAE, GKN, Meggitt, IMI, Aggreko and Weir.

This simply demonstrates how many major UK companies generate a large proportion of sales and profits from overseas.

Investors should perhaps look at their portfolios to see if they have companies likely to be affected by the exchange rate, but it may be a bit late to react unless you think the pound will rise further. Unfortunately forecasting the direction of exchange rate movements is a mugs game so far as this writer is concerned so whether it will move further up or reverse direction I would not like to say. But at least it is a good time to take a vacation in the USA for UK residents.

Good news from Hargreaves Lansdown

Hargreaves Lansdown (HL) have issued a press release announcing changes to their Vantage service.

It mentions that they "listen carefully to their feedback" from clients and invest heavily in improvements.

Some of the latest changes that may be of particular interest to readers include the following (refer to the HL web site for the complete list) :

- Removal of the recently introduced corporate action fee including the charge for voting shares.

- Free live share prices.

- An on-line tax centre to help with tax returns.

- Customised log-out time-outs so you can make it longer than 15 minutes (let us hope other on-line stockbrokers copy that!).

Coming soon will be:

- A stock screening tool.

- Watch lists that will synchronise between PC, smartphone and iPhone Apps.

ShareSoc did of course complain publicly about the introduction of a fee of £10 to vote shares in an HL nominee account, and we did have a meeting with HL to discuss this and how to make it easier for investors to take up their rights. The latter remains to be tackled but the £10 charge was particularly obnoxious.

It is good to see that HL have been listening to both ShareSoc and their clients.

Delays in SIPP and ISA transfers

I commented on the delays in transferring a SIPP from Hargreaves Lansdown to another provider in the May ShareSoc Newsletter, and we published some letters from other members on similar problems in the June Newsletter.

I thought readers might like to know that the original SIPP transfer has now finally completed. It actually took over 5 calendar months to get all the portfolio holdings to transfer (this being an "in-specie" transfer as it is called).

This is clearly a ridiculous period of time when there were no particular reasons for the delay.

Such delays are enormously prejudicial to the interests of investors as your portfolio is effectively frozen for the duration of the transfer.

One of the complications that arises is because with SIPPs and ISAs your shares are not held in your own name, but in the operator's nominee name (as part of a pooled nominee). Fund holdings seem to be even worse than direct shareholdings. So the transfer is complex and in essence paper based. Oh how much simpler it would be if the holdings were in your own name!

My complaint on this matter has now been sent to the Financial Ombudsman who have forwarded it to the Pensions Ombudsman as they apparently deal with pensions.

Roger Lawson

A ShareSoc City Lunch Club?

It has been suggested that ShareSoc run a luncheon club to discuss investment topics in the City of London with possible guest speakers. We have identified some suitable venues but really need someone to help to organise these meetings. If any Members would care to assist please contact me on 020-8467-2686 or send an email to info@sharesoc.org

Participation in Shareholder Class Actions

The topic of shareholder class actions is a controversial one. Before ShareSoc participates in any more such actions on behalf of our members we therefore conducted a poll. This was emailed to Members to obtain your views on this subject.

What is a class action?

A shareholder class action is a legal suit where a number of shareholders join together to seek compensation for losses incurred as a result of actions or inaction by a company in which they have invested.

Most often the legal action is taken in the USA, where a) legislation protecting shareholders is more rigorous; b) more lawyers are prepared and able to pursue such cases on a “no win, no fee” basis, meaning plaintiffs take no financial risk themselves; and c) defendants costs are not recoverable from plaintiffs. Note that there is no such thing as a “class action” in English law, but there is a rarely used concept of “Group Litigation Orders”.

Arguments in favour of pursuing class actions

The primary argument in favour of pursuing such actions is that they are one of the few ways of holding errant managements to account and improving corporate governance.

Clearly they can also result in current and previous shareholders that participate gaining some restitution. ShareSoc itself might also benefit financially and otherwise. Any such financial gains would improve our ability to support and broaden our membership – remember that ShareSoc is a not-for-profit organisation.

Another argument in favour is that if we do not participate our members might lose out if other shareholders do pursue such an action and succeed.

Arguments against shareholder class actions

There are two principal ethical and practical arguments against pursing such actions:

1. Effectively, such suits could be considered as shareholders suing themselves, as any restitution must come mainly from company funds! It is possible that some recompense can be obtained directly from management, but in most cases settlement of such claims is likely to be covered by insurance that their employer provides. Nevertheless, simply the fact of having to account for their behaviour in court, and the reputational impact thereof can act as a deterrent against bad behaviour.

What actually makes matters worse for current shareholders is that previous shareholders may participate to recoup historic losses, meaning that funds can be transferred from the company which existing shareholders own, to past shareholders.

2. Inevitably legal fees in such cases will be high, and some proportion of any settlement will end up in lawyers’ pockets. Of course, this means that legal firms are keen to encourage such actions. Hence, rather than shareholders solely benefiting from any company funds they succeed in extracting, some proportion of those funds end up with the lawyers, whilst the value of the company assets that shareholders own may be reduced by the full amount of the settlement.

Results and comments

An overwhelming majority of respondents voted in favour of participation in class actions, where deemed appropriate by ShareSoc’s board. Of the respondents, 77% were in favour, 17% against and 6% “Don’t know”.

Most commentators on the proposals were in favour of ShareSoc participation, as a tool in our armoury for defending the rights of the individual shareholder and enforcing a high standard of corporate governance. A couple of commentators responded that they were in favour of actions against board members and auditors, but opposed to actions against companies. Unfortunately it is the experience of ShareSoc’s board that it is rarely possible to pursue the former, in law, without also pursuing the latter.

ShareSoc’s board will now consider any specific class action proposals, and act as and when appropriate. Note that such actions may take a very long time to resolve and might require considerable effort to pursue effectively.

Thank you to all those that participated.

TR Property IT Members Letter

The following letter was sent by a ShareSoc Member to the Chairman of TR Property Trust:

Dear Ms Burton,

I was unfortunately unable to attend your AGM last week and so I am writing instead to express my horror at seeing that your performance fee formula has resulted in a payment of almost £10 million. This, of course, was on top of the Managers' regular fee of £4.7 million. I note that you did not think it significant enough to mention in your Chairman's Statement although you do show elsewhere in the report a comparison of Directors' Fees and dividends.

Typically for an Investment Trust the directors' fees are insignificant in relation to total costs. On the other hand if you had made the comparison between management fees and dividends, readers might have begun to wonder whether the Trust was being run for the benefit of the Shareholders or the Manager.

In the past I have challenged Peter Salsbury about the fee basis at AGMs without getting a convincing answer. I also recall speaking to you on the subject after an AGM when you assured me that you thought performance fees were effective. Nevertheless you will be aware that there is a considerable body of opinion that holds that performance fees are simply a way of paying the manager twice for doing his job.

I have been pleased to see that several trusts have recently moved away from performance fees. With the experience of paying away so much, and at the end of your first year in the Chair, this would seem to be a good time to review the fee basis.

I am sending a copy of this letter to the Editor of the UK Individual Shareholders Society's magazine. Knowing that organisation's views on performance fees I am sure that he will be as interested as I will be to see your reply.

Yours sincerely,

Roy B. Colbran

Note: there is a report on the AGM on the Members Network. Below is an extract of the key points from the response received:

From Caroline Burton: "The board is aware that some investors do not like performance fees; however, this board believes that this is the best structure for a specialist trust such as TR Property.

Performance fees are only paid when the outperformance hurdle has been exceeded; therefore, the manager is rewarded for success.

You rightly say some investment trusts have dropped performance fees recently, usually this has been replaced by a higher base fee that is paid regardless of performance; this board prefers to reward out-performance.

In addition, we monitor the performance and charges of open-ended funds in our sector, none of these match TR Property's performance and they have significantly higher Ongoing Charges for retail investors and, in some cases, charge a substantial up-front fee.

The average base management fee for TR Property over 10 years has been 0.67% of average NAV excluding performance fees and 1.16% including performance fees. Over that period, the NAV has outperformed the benchmark by 75.15% on a compound basis, equivalent to annual outperformance of 3.22%.

The fee structure enables us to retain the best fund managers and support in a very competitive sector, with the aim of delivering the shareholder long term outperformance, I believe the performance figures support this approach.

The Board will always act in what it sees as the best interests of the shareholder."

Editor's comments:

There is no evidence that performance fees improve a manager's performance and there is sufficient reward for success already embedded in the fixed percentage fee of the funds assets—if the assets grow the manager gets a higher fee.

Performance fees are in essence always complex, difficult to understand, ineffective and unnecessary.

The overall level of charges at TR Property (for what is a specialist fund) may not be unreasonable, but a fixed fee would be better..

Are tips useful?

Upon recently perusing The Irish Times newspaper, I came across an article which stated that tips in magazines and other sources are essentially worthless. These sources were apparently inadequate to equip investors with the knowledge to make informed decisions in investing. It digressed even further to say, on average, an investors performance was no better than chance. To accept this literally, one could only conclude that they were better off to cease spending a small fortune on literature and sources of information. Instead, divert their funds blindly, in addition to their already existing level of investment, in just randomly chosen shares.

Is this a plausible theory that they would be just as well or maybe even better off. It's a bit like the argument about passive versus active investing. Whether to buy a tracker or to pick active fund managers.

Tips can be very valuable and from certain sources very accurate. It is not uncommon for one source to be saying buy a share and for another source to be saying to avoid it. Both usually give their rationale for their decision.

Tips can sometimes be misunderstood by people. Tips intended as long term are sometimes purchased without full understanding by the reader, with subsequent disappointment, if the share price then dips in the short term

Of course, not all tips do work out. A tip is intended as part of a balanced portfolio. A person suggesting to buy does not know what you already have in your portfolio. How a buy or sell tip is used is what gives it it's value. A trader and long term investor may use a tip differently to a trader only, or long term investor only. How to use it properly requires a certain degree of skill and experience, which can only be obtained with time.

15 stocks is frequently highlighted as all that is necessary for the ideal portfolio, and not to over trade. If long term investors adhered to this advice, they would not need many tips. As they would soon have a full portfolio and would not buy or sell very much.

Of course, a lot of people do not adhere to this advice and frequently have a lot more than 15 stocks and trade often, inclusive of over trading.

Trading is different in that traders are constantly scanning for opportunities to make a quick buck. Though their decisions are frequently based on news feeds, charts and expectations, as opposed to published tips.

Of tips purchased by myself in the past few years, (mostly obtained from Investors Chronicle), they have generally done pretty well. One very well, in that it doubled in less than a year, and one exceptionally well, in that it went up by approximately 600%. (Investor's Chronicle tip). Just one disappointed, and even that one I still have good expectations of it for the future.

Researching and educating oneself about investing is responsible. Besides the financial side of it, researching stimulates the mind, educates about world events and economics and gives a sense of being in control of ones financial security. What price do you put on that?

Jack Conroy

Controlling Bankers

Controlling bankers is a key theme of a public consultation issued jointly by the Bank of England Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The proposals aim to make bankers more accountable for their actions, and includes provisions to claw-back bonuses and jail reckless executives. Politicians mainly welcomed the proposals when they were announced, but bankers have not, which may not be surprising.

If you have any views on these issues, please advise ShareSoc or respond directly yourself to the consultations.

Alkane Placing—What a Wheeze!

On the 17th July Alkane Energy announced a placing to raise £8m to fund the acquisition of three power response companies. The placing was at 36p, when the closing price the previous day was 39.5p indicating a discount of 9%. But as with all such placings, the news had got around the market beforehand, so it was more like a 15% discount to the share price before the news spread.

So what you may ask? It's just another placing that prejudices private shareholders who were unable to participate (there was no "open offer" in this case). But there is one aspect of this placing that is unusual.

It is being done using a "Cash Box" arrangement because the number of shares to be issued (15.2% of the enlarged share capital) would normally require shareholder approval, i.e. the calling of a General Meeting. The "Cash Box" process involves the creation of a new subsidiary company into which cash is injected and the company then buys the shell at an artificial price. Shares in the company are issued to the placees in exchange for shares in the new subsidiary thus technically enabling the company to claim it has not received cash from the issue of shares in the company.

What a wheeze one might say! But other companies have used it such as Ocado, Great Portland Estates and Drax. It tends to be used when companies are in a hurry and it also saves them the cost of an EGM.

In the case of Alkane, the CEO has justified it on the basis that the company was competing to acquire the relevant businesses against a private bidder and any delay would prejudice the deal.

Shareholders in Alkane will have to decide for themselves whether the circumstances justified these actions, but there surely seems little point in having rules about share issuance and consent by shareholders if ways around them are allowed. Does the end justify the means is the question?

That and the general problem of placings in AIM companies, which prevents many shareholders from participating, should surely be reviewed. Unfortunately one of the difficulties is the Prospectus Directive as mandated by the EU which is totally inappropriate for small cap companies.

AIM and other regulatory changes

Effective from the 11th August, there are additional requirements under AIM Rule 26. That Rule covers what information is required to be published on a company's web site - for example the listing prospectus and last Annual Report. In future a company must disclose what corporate governance code the company is using, or not as the case may be. Currently AIM companies often refer to the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-Size Quoted Companies, some use the main UK Corporate Governance Code that main market companies have to "comply with or explain", but many do not use any specific code.

In future they will also need to include at least the last three years Annual Reports (previously only the latest) and they will also need to update information on the number of securities in issue and significant shareholdings at least every six months.

In addition there is a new requirement to indicate whether the company is covered by the City Code on Takeovers and Mergers which provides significant additional protection for investors. Most foreign registered companies are not so covered.

These changes are surely beneficial for investors, but it seems odd that information on significant shareholdings and number of shares in issue can still be as much as six months out of date.

Other prospective regulatory changes

Effective from the 6th October, share trade settlement is moving to T+2 (currently T+3), which means you should get the cash credited to your accounts on a share sale a day earlier.

The FCA is also consulting on the abolition of the requirement for companies to issue interim management statements (i.e. quarterly reports). This is in anticipation of it being dropped from the EU's Transparency Directive.

CCLA Opposes Most Remuneration Reports

CCLA is a low profile fund manager which specialises in managing the funds of charities, faith organisations and local authorities. It's owned by it's clients and has about £5bn under management in a range of funds. The emphasis is on low cost, good total return, long term investment in their main funds.

Their latest quarterly report makes it very plain what their approach to shareholder engagement is on the issue of remuneration.

They opposed 81% of Remuneration Reports and 82.3% of Remuneration Policies. They say they *"have long adopted a rigorous approach to executive remuneration"* and take notice of their clients concerns about excessive pay.

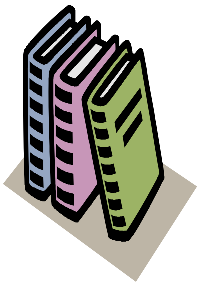
Is it not a pity that few other institutional investors take a similar line? If they did, the public concerns about excessive director pay in public companies would surely soon disappear.

Note that CCLA is no slouch performance wise. They delivered 17.3% total return in the Charities Investment Fund last year, beating their benchmark.

One other interesting titbit of information in their quarterly report was this comment:

"On our calculations the major [oil] companies are generating free cash flow of US$5bn each year, however they are paying away dividends of US$40bn. On this basis the dividends flows to investors, which a major support for current share prices, are not sustainable over the long term".

Investors in mega-cap oil companies may care to examine the accounts of these companies carefully.



Book Review

Shredded by Ian Fraser

This book is a comprehensive and accurate history of what went wrong at the Royal Bank of Scotland (RBS) - the largest bank in the world at one point. The title is taken from the nickname of the former CEO Fred Goodwin, otherwise known as "Fred the Shred". There is little to fault in this book, other than it is too long at over 500 pages.

It's certainly worth reading if you lost money from investing in RBS shares as so many people did. Indeed many who relied on the past reputation of the company were impoverished, including many former RBS staff who were encouraged to buy shares in the rights issue in 2008. That was the biggest ever rights issue for any UK public company at the time, but even that was not sufficient to prevent the bank from subsequently needing to be bailed out by the Government.

One of the aspects of the affair that is brought out in the book is that there was a "run on the bank" but not from retail depositors.

They had their savings guaranteed after the debacle of Northern Rock. It was institutional investors, many of them overseas, who were withdrawing billions of pounds before the "recapitalisation" of RBS and other UK banks. How the company, and the country, got into that situation is what the book covers.

I am sure that the company's lawyers and those representing the various shareholder groups who are pursuing a legal action against the company in respect of the rights issue in 2008 will be poring over the book. But it may help the plaintiffs more than the company and its former directors.

As some readers will be aware, this writer was involved with one of the shareholder action groups for RBS for a couple of years so have some understanding of the issues and the financial position of RBS at the time of the rights issues - we spent some effort in looking at the latter of course.

But in the last three years, more information has come out. Shareholders of RBS are particularly annoyed at being allegedly duped into investing more money in the company in 2008 based on what they claim was a false prospectus. A prospectus must be accurate and not omit significant information that would affect an investors view of the company's financial position and prospects. In other words it must not present a misleading picture of the situation of the company. But in the case of RBS shareholders claim it presented far too rosy a picture. It did not suggest this was a desperate bail-out as they believe it was.

Page 298 of the book summarises most of the possible key omissions from the prospectus. I list a few here: a) it understated RBS's exposure to exotic credit derivatives; b) it understated RBS's short term funding requirement; c) it failed to mention that £11 billion in cash from the sale of La Salle had been delayed and d) did not disclose $11.9bn of emergency loans from the Fed.

On the first point, the author suggests that RBS, Fred Goodwin and other executives consistently misled the market on the company's exposure to sub-prime lending, and provides some evidence. The company also failed to mention in the prospectus that the FSA had specifically required RBS to have a rights issue to strengthen its capital base - surely a very significant matter - and the book provides evidence of the directors misleading statements on this—or "bare-faced lies" as the book calls them on page 292.

Obviously one of the things the book covers is the acquisition of ABN-AMRO as many people blamed the failure of RBS on the poor quality of the assets of that bank, i.e. the suggestion being that RBS were duped into buying a pig in a poke, having done little due diligence on the assets.

But the author downplays the importance of this and suggests that ABN-AMRO was not such a bad bank. Integration of the bank was a problem though, partly because of the clash of cultures between the way RBS operated and the way ABN-AMRO did.

The latter was a larger and more geographically diversified bank. Yes it had some poor quality assets, but so did RBS. The complexity of the deal where there were three parties to the acquisition, with RBS leading, did not help.

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Book Review
- Shredded (Cont).

But as is well known, RBS was already declining financially before Fred Goodwin decided to compete with Barclays for ABN-AMRO. It's capital ratios were already poor and cash flows heading in the wrong direction. Reliance seems to have been placed on the profits coming from ABN-AMRO to help finance the acquisition, when in reality the reverse was what actually happened. The book covers this area well and why RBS persisted when it could have backed out.

The hubris of Fred Goodwin at that point, and his management style, were factors in this debacle of course. The book covers his background and career and gives a good picture of his character - dictatorial and disliked by his staff. He allegedly distorted the culture of the company, so that everyone seemed to live in fear of arguing with him. Not a healthy management culture needless to say. It makes for good reading if you want to sell books, but the intelligent reader might realise that the failure of RBS was down to a number of factors, not just Goodwin's leadership. It's easy to personalise financial disasters by focussing on the leadership.

So Adam Applegarth at Northern Rock got a lot of the blame, quite wrongly in my view. Like many accidents, there were a whole series of contributory causes. These are: the sub-prime mortgage crisis in the USA, the failure of debt rating agencies to do their job properly, the reliance on short term money market funding which dried up, the lax regulation of the financial sector both in the UK and USA, the low capitalisation and high leverage that was permitted in banks and other financial institutions, the actions of Government in failing to provide liquidity in the markets when necessary, and a few other factors.

One area the book covers well is the failure of the Bank of England to provide liquidity to UK institutions which meant the UK suffered more from the worldwide financial crisis than almost any other country. Sir Mervyn King (now Lord King) did not seem to listen to RBS and other banks on this point, in the same way as he hesitated over Northern Rock until it was too late. The "moral hazard" of bailing out banks seemed to be his concern, but eventually he and the Government were forced to act.

Indeed the events seem to have been driven partly from political imperatives from Gordon Brown and his advisers (even Chancellor Alistair Darling seems to have been a minor player as is evident from his own book). Few seem to realise that the events at RBS were contributed to by the legislation brought in by the Government after the nationalisations of Northern Rock and Bradford & Bingley.

This gave the Government unprecedented powers to intervene and restructure banks, thus impacting those who financed them by both equity and debt. Hence no doubt the corporate run on the bank mentioned near the start of this article. The failure of the Bank of England to step in at much smaller banks to provide temporary liquidity for solvent banks, even on onerous terms, no doubt dismayed investors.

In summary, this book will make interesting reading for all those affected by the failure of RBS (it effectively ended up being nationalised in all but name by the Government). But the story could have been told in a lot fewer words. It only really gets exciting towards the denouement of the story.

It should of course be read by all those investors who are still hoping RBS will "recover", by which they mean their investment will return to it's former value.

Yes I still get asked about that.

The answer is no of course as is very plain from this book. RBS was effectively destroyed and is in the process of being substantially downsized. Problems still remain. A "good" bank may appear from the ashes in due course but it will be a very different bank to the empire built by Fred Goodwin.

The full story has yet to be told, and no doubt more will come out from the court case on the prospectus because all the dirty linen will be uncovered in public unless there is a settlement before it gets to court.

But this book certainly is a good contribution to the history of events.

Roger Lawson

Members Conference Call

ShareSoc is keen to engage with its members. We appreciate that it is not always easy for all our members to get to our members' meetings, which are the primary forum for discussion about the issues we are tackling on behalf of our membership, and the services we offer.

Therefore, we would like to offer our Full Members the opportunity to communicate their wishes and concerns via a telephone conference call. This will take place at 7pm on 10th September and the call is expected to last for up to one hour. Dial-in information will be sent via email to Full Members.

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At the start of the call our Chairman, Stan Grierson will summarise ShareSoc's recent activities, thereafter directors will participate and be available to answer questions and discuss matters of concern. Stan will moderate the call.

It would be helpful for management of the call if you could submit any questions or issues you'd like to raise in advance of the call by sending an email to Mark Bentley at mark.bentley@sharesoc.org .

Please make sure you include your name in any email.

Time permitting, there will be an open forum after the pre-submitted questions have been dealt with.

Guaranteed Votes for All

Guaranteed Votes for All—that's the title of a document we will be launching at a meeting to start a campaign on shareholder rights on the 14th October in London. At present most private investors purchase shares in nominee accounts. With a very few exceptions this means that they have no automatic rights to vote, to attend General Meetings of companies or even receive information on the affairs of the company. The nominee system disenfranchises the vast majority of private shareholders.

Go here for more information and to register attendance at the meeting: www.sharesoc.org/shareholder-rights.html

FUTURE SHARESOC EVENTS

10th Sept 2014— Members' Conference Call with the Directors—see above.

17th Sept 2014— ShareSoc Company Seminar - company presentations in the City of London from interesting small/medium cap companies. See www.sharesoc.org/seminarsept2014.html For more information and to register.

19th Sept 2014—Inaugural ShareSoc Golf Day. At the Selsdon Park Hotel and Golf Club near Croydon - Tee off at 11.00 am for 18 holes followed by dinner. Book your place now. See page 11 of this newsletter for more information.

26th Sept 2014— Meeting for Bradford & Bingley Shareholders. On the sixth anniversary of the nationalisation of the company, a meeting for former shareholders in Bradford. More details and how to register are available here: www.sharesoc.org/events.html

14th October 2014— Guaranteed Rights for Shareholders—a Meeting to launch a campaign on that issue. See above for more details or go to www.sharesoc.org/shareholder-rights.html

See the Events page of the main ShareSoc web site for up-to-date information and links to registration pages where relevant for all of the above, and future events as they arise.

New AGM Reports

This section lists all new company AGM/EGM Reports on the ShareSoc Members Network (in the AGM Forum) that have been added in the last month.

Majestic Wine
Monks Invest. Trust
Northern 2 VCT
National Grid
Halfords
Bloomsbury Publishing
Paypoint
TR Property Trust
ProVen VCT

In addition the following companies have been mentioned in blog posts, or elsewhere on the Members Network:

Hargreaves Lansdown
Majestic Wine
Monks Invest. Trust
National Grid
Media Corporation
Renishaw
GlaxoSmithKline
Croda
Abcam
Tesco
Alkane

Use the site search function of the Members Network (on the top right of all pages) to search for past reports on companies.

Submitting AGM Reports

ShareSoc welcomes reports for publication on Annual General Meetings from Members, or from anyone else who wishes to contribute them, as they are often not available from anywhere else. Some recent ones are listed to the left.

Please post them on the ShareSoc Members Network in the AGM Forum—if you have any difficulty doing that them simply email it to: info@sharesoc.org .

Don't worry about adding such reports to the index—ShareSoc will do that.

Recommended Reading List

Don't forget for those keen to gain an education in investment matters that there is a "recommended reading list" on our web site at this web page:
www.sharesoc.org/reading_list.html
It covers books both for the new investor and the experienced. Further suggestions for inclusion in the list are welcomed.

Company News and AGM Reports on the Members Network

Members should note that ShareSoc now publishes most of the topical news on companies that we become aware of in our Members Network rather than in this Newsletter. This is simply because there is a lot more than we can fit into this monthly magazine while keeping it to a manageable size. Also of course it can appear more promptly on our web sites than in this Newsletter so the Newsletter will focus on the really important matters, on more general articles, on educational topics and on background briefings.

New AGM reports in the last month are listed in this newsletter—it's worth checking the list above to see if you hold any of those stocks—and recent ones are noted on the News page of the main ShareSoc web site (bottom right). In addition those companies mentioned in the ShareSoc blogs are also listed in this newsletter. Members are encouraged to contribute their own AGM reports or other articles on particular companies, or of a more general nature, to the discussion forums on the Members Network web site (accessible from a link from the home page of our main web site. If you have not yet joined the "Members Network" then please do so now. It's the main way in which we communicate with members. All Full Members are sent an email inviting them to "join" the Network when they first register as members but if you have mislaid it, then send an email to sharesoc@btconnect.com to receive another one. Also don't feel shy about posting your views on there—it's a private network only open to ShareSoc members so your comments won't become public.

Join as a Full Member

If you receive this Newsletter for free because you are an Associate Member, but would like to support our activities financially and have a say in the management of the organisation (Full Members have a vote and elect the board directors), please consider becoming a Full Member. Full Members receive a lengthier version of our monthly newsletter. It only costs £38 per year. You can pay via debit/credit card online or via cheque if you prefer.

Sign Up for Full ShareSoc Membership Now!

And get full voting rights in the organisation plus other benefits. Click here: www.sharesoc.org/membership_options.html

Address Changes

Don't forget to notify the ShareSoc Membership Secretary of any change of postal or email addresses (do that using the Contact page on our main web site).

Not that we write to people usually but if an email address stops working, then we do send a letter and paid subscription reminders may also be sent by post.

Third party mailings

Note that sometimes ShareSoc sends emails to members that promote third party events or offerings. If you do not wish to receive such emails, let us know and we will stop them. Do not simply click on the opt-out function in those emails or your membership may be terminated.

Support ShareSoc with a Donation

Are you finding ShareSoc membership of value? Just producing this newsletter alone, apart from the other activities we undertake, does take considerable effort and some expense. But we hope it is of value to you. Go to this page of our web site for more information on donating: www.sharesoc.org/donations.html

News Pages & Blogs

The News page on our main web site (www.sharesoc.org/news.html) contains not just a list of ShareSoc news, but also a list of the last ten "tweets" that we have issued via Twitter. That list is effectively a summary of all the last blog posts containing topical news and comment thereon. The Blog (which is replicated in the Members Network) contains topical articles.

Social Networks

The ShareSoc home page (www.sharesoc.org) contains links to our Twitter, Facebook and LinkedIn pages—see the bottom left hand corner of that page. This makes it easy to sign up and follow the news or add comments.

Keep an Eye on Events

Don't forget that ShareSoc helps to organize a number of events each month—these are listed on the Events page of our web site (www.sharesoc.org/events.html) where you can sign up to attend, or invite other people.

You need to keep an eye on those pages to pick up new events.

Publication and Contact Information

ShareSoc Informer is published by the UK Individual Shareholders Society Ltd ("ShareSoc"), a "not-for profit" company limited by guarantee and registered in England No. 7503076. All members of ShareSoc receive this publication via email or by post—go to our web site at www.sharesoc.org to register or for more information.

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Letters to the Editor should be sent via email to the above address. We also welcome contributed articles—please telephone the above number if you wish to discuss that, or send an email.