ISSUE 118 | WWW.SHARESOC.ORG

SHARESOC INFORMER

WHY FUND MANAGERS SHOULDN'T FAKE CONVICTION

FEATURE ARTICLE - PAGE 06

ETHICAL INVESTMENT

DIVESTMENT IS THE NUCLEAR OPTION FOR ETHICAL FUND MANAGERS

PAGE 04

INVESTMENT TRUSTS FOR EVERY PALATE

MILD, MEDIUM OR SPICY, SIR?

PAGE 07

UPCOMING WEBINARS

PAGE 26

INDEX

Board Developments

Mark Northway, Chair, ShareSoc

As announced at this year's AGM, Penny Shepherd, Mark Lauber and Ray Williams have chosen to step down from the ShareSoc Board. I would like to reiterate my thanks to each of them for their invaluable advice, guidance and support in recent years.

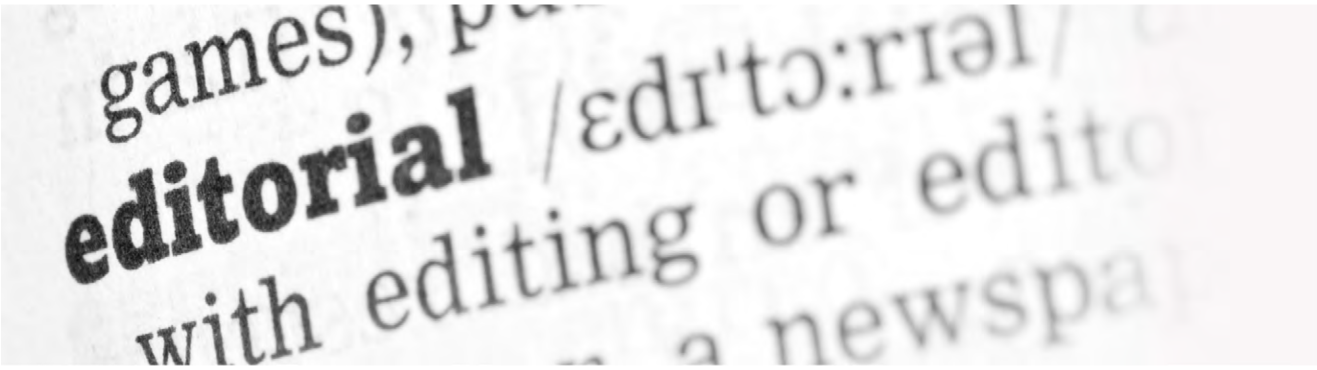
I am now delighted to welcome Sheryl Cuisia and Danny Wallace to the Board.

Many of you will know Sheryl from her role as Founder and Managing Director at Boudicca Proxy Consultants (now Boudicca from Equiniti). Sheryl is passionate about good corporate governance, highly knowledgeable about the infrastructure and processes underlying professional shareholder engagement, and brings a fresh energy and perspective to your Board.

Danny has been heavily involved with SIGnet post merger, and has been selected by the convenors as ShareSoc SIGnet director. He has brought much enthusiasm to the ongoing development of the group structure, and has given a major boost to the organisation.

We welcome the injection of new blood, and your Board looks forward to working with Sheryl and Danny to deliver the next phase of ShareSoc's development.

EDITORIAL



THE TRUE COST OF THE WOODFORD DEBACLE

*Faith Glasgow**

The collapse of Woodford Investment Management is a topic painfully close to the heart for many reading this newsletter, and ShareSoc has been campaigning intensively to try and get justice for the 270,000 investors who lost money through the closure of the £3.7 billion open-ended Woodford Equity Income fund in June 2019 (see page 17).

As new research commissioned by the Association of Investment Companies makes clear, the impact of that failure has had far-reaching implications, not just financial but also emotional, for many private investors.

The AIC's research found that 86% of Woodford investors affected by the fund's suspension took a financial hit. One respondent said she will have to work an extra two years to make up for the loss; another lost most of her pension and spoke of her guilt at having recommended the fund to her daughter, who also lost money. "It has put her off investing for life," she said.

Indeed, the fallout extended well beyond mere financial loss. More than half (53%) said their general wellbeing was negatively affected, leaving them "shocked, helpless and angry".

The research also examined why investors had entrusted their money to the fund in the first place. More than four fifths pointed to the reputation of Woodford himself, while more than half were influenced by its inclusion on the Hargreaves Lansdown buy list. Only a quarter cited the actual investment strategy and objectives of the Woodford Equity Income fund.

Unsurprisingly, then, 83% did not realise the extent of the fund's exposure to illiquid, unlisted small companies; a fifth said they were completely unaware of it. More than a third did not realise that an investment fund might suspend trading.

The fallout as far as trust in the investment industry is concerned is profound: 60% of respondents say they will put less faith in a fund manager's reputation in future. (Interestingly, three quarters of financial advisers also say they will change their behaviour in some way, with over a third (37%) planning to discount manager reputation in making investment decisions.)

That is arguably a positive outcome: clearly, many respondents to the AIC survey made their investment decision primarily based on its high-profile marketing campaign and Woodford's cult status. But it also raises the question of what they'll base their judgements on in future: past performance? We all know that's hardly a recipe for reliable returns looking ahead.

It would be cheering to think the Woodford debacle could encourage investors to understand more about the strategy and scope of any proposed investment before committing to it. It certainly sounds from the AIC survey as though advisers expect to do more due diligence in future.

But while greater investor awareness and scrutiny can only be a good thing, manager record remains a key consideration for fund investors. And in that respect, consumers must be able to trust that fund managers are acting responsibly and being held to account robustly by independent monitors. The industry has a lot of work to do to repair the damage done by Woodford, and the ball is in the FCA's court to get a proper, timely, transparent investigation underway.

** Faith Glasgow is a freelance journalist*

RETURN TO INDEX

ETHICAL INVESTMENT

Divestment is the nuclear option for ethical fund managers

Cherry Reynard identifies the red flags that lead the pros to divest from a company, and highlights examples of companies that have been ditched

*Cherry Reynard **

Investors keen for their money to be put to good use may be surprised to find 'toxic' areas such as oil and gas in their portfolios.

This isn't fund management companies being duplicitous - or at least, not often. Many believe that they can achieve far greater change by engaging with a company than they can by not holding it at all. If this 'engagement' succeeds, there is a compelling double whammy – the company improves its environmental, social and governance (ESG) footprint, and its share price appreciates.

The problem is that engagement doesn't always work. Company management teams may be intransigent, the business challenges too great, there may be fraud, deception or other nefarious activity. In these cases, fund managers may be forced to admit defeat and sell the shareholdings.

RETURN TO INDEX

Divestment remains relatively rare. Fund managers would rather give management teams the benefit of the doubt and sufficient time to make changes. Equally, given that ESG is a relatively new phenomenon, many fund managers are often still in the process of allowing company management teams time to get their house in order. As such, divestment hasn't been commonplace, but where it happens it is usually a sign that things have gone very wrong.

It is worth noting that divestment is distinct from avoiding companies that are uninvestable in the first place. Managers of sustainable funds are increasingly steering clear of areas such as tobacco altogether. After all, it is possible to make an argument that oil and gas are necessary evils while the world transitions to renewable energy, but it is difficult to make the same case for smoking.

There are two main cues for divestment on ESG grounds. The first is that the company has become embroiled in controversy. Peter Michaelis, head of the sustainable investment team at Liontrust, says: "As soon as we are aware of any controversy, the next stage is to analyse the situation in more detail, digging behind the headlines to ascertain the true involvement of the company in question, the seriousness of any allegations made and how the business is responding to the issue.

"This gives us the context with which we can engage with the company and we will then look to speak to senior management or non-executive directors, as well as other interested parties such as non-governmental organisations (NGOs) or industry experts. Foremost in all of this is the question of the company's response."

If the company isn't working to resolve the problem, Liontrust's sustainable team will exit, but if they feel the issue is being addressed, they will continue to hold while engaging with the company to ensure its resolution.

For EdenTree, another fund manager with a strong heritage in the ESG space, the approach is to divest from companies with poor records in fines, incidents, high health and safety accident rates or pollution. In 2020, it divested from DWS, where multiple scandals raised concerns about the group's culture. It has also exited G4S on allegations of abuse at its Medway Young Offender Unit. Its exit from Samsung was based on allegations of corruption.

The other main reason for divestment is that a lengthy engagement has failed. This will apply to companies consistently failing to make progress in improving their performance in key areas such as climate change. Yasmine Svan, senior sustainability analyst at Legal & General Investment Management, says: "We make our expectations of companies very clear. We will act as a sounding board and supportive partner. If after a period of engagement, we don't see a willingness to move, we will apply consequences – voting or disinvestment."

Its highest profile example was Exxon Mobil, where it divested because of slow progress on climate change. However, Svan adds: "Divestment is not the end of the conversation. In 2020, we disinvested from carmaker Subaru, but it made good progress on electric vehicle sales and targets and it's now back in our portfolio."

Svan said the biggest culprits aren't in the areas investors might expect. "We have been engaging with oil and gas and the automakers for years, and most have well-established strategies in place. The problems tend to be in those companies that have been able to fly under the radar. Our clients don't tend to think of companies such as the major food retailers as important for climate change, but they are. We are currently disinvested from four companies in the food sector across the globe, for example." Those five companies were: Kroger, Sysco, Hormel, Loblaw and China Mengniu Dairy. In June, following positive engagement, Kroger was reinstated into the funds.

Fashion retail has been another area thrust into the spotlight. Last year, it was reported that global fashion

Divestment is the nuclear option for ethical fund managers ...continued

brands had refused to pay for over $16 billion worth of goods since the outbreak of Covid-19, pushing the risk down the supply chain with devastating consequences for factories that had already paid for fabrics. Edentree has engaged with companies to understand their position. It also avoids 'fast fashion' names such as Primark (owned by Associated British Food), believing their business models are the 'antithesis of sustainability'.

There is a real difference in whether fund management companies are willing to do this publicly. Some feel that public sanctions are the best approach and can help persuade companies to change. Others prefer to keep their engagement low-key rather than shame offending companies.

However, Stuart Forbes, director and co-founder of Rize ETF, believes divestment isn't used enough. He says that unless engagement has real force and carries a real threat of divestment and/or public rebuke, then it is not enough to compel companies to evolve: "The minimum hurdle for divestment is, in our view, not low enough. Many large asset managers talk about engagement as if it is a panacea for the sustainable transition, but the reality is that 'engagement' in its current format is achieving nowhere near enough, quickly enough. You only need to look at the fact that the world's climate is changing more rapidly than ever and deforestation in the Amazon and other biodiversity hotspots continues unabated to know that.

"It's high time the asset management giants step up and demonstrate their true firepower through a more activist approach to engagement and, failing that, public rebuke and divestment. Otherwise, we're facing a case of too little, too late."

There are signs that fund managers are showing their teeth more often with public and high-profile divestment from companies. Abrdn publicly divested from BooHoo last year, saying its response to allegations of slavery and poor conditions within its supply chain were "inadequate in scope, timeliness and gravity". Legal & General Investment Management publishes its engagement record and any divestments. It also makes public its climate change score for all major global companies. Schroders publishes all its engagements and gives an aggregate score for their efficacy.

A final problem area is government debt. After all, some of the most egregious harms to the environment come from government action. The engagement path is not easy, and divestment may be the only option. Thede Rüst, head of emerging market debt team at Nordea Asset Management, says fixed income managers have an important role in key issues. "Deforestation is a vitally important issue…It is relevant to every investor, because it threatens the value of assets they hold and affects the assets they might choose to buy in the future.

"Fixed income managers can play an important role in the fight to curb deforestation in the Amazon, due to the ability to hold governments responsible by applying pressure….We decided in 2019 that we would no longer buy Brazilian government bonds for any of our internally managed emerging market debt strategies." The group is still in talks with Roberto Campos Neto, the president of the Brazilian Central Bank and Brazilian vice president, Hamilton Mourão, but insufficient progress has been made to date.

Divestment is the nuclear option for fund managers if they have failed to bring about change through other means. This can put downward pressure on share prices, but also means that the voice of responsible fund managers may no longer be heard. It is a fine balance.

Cherry Reynard is a freelance journalist. This article was first published on the interactive investor website

RETURN TO INDEX

HIGH-CONVICTION FUNDS

Why fund managers shouldn't fake conviction

Academics have found high conviction is a hallmark of stock market winners, but fake it and you're likely to become a loser. Algy Hall reports

The reason the Investors' Chronicle Ideas Farm publishes lists of the highest-conviction holdings (or best ideas) of top fund managers is because of the investment process that allowed the manager to gradually focus on fewer stocks; evolution, not revolution.

Both private and professional investors would do well to think deeply about the true merits of portfolio concentration based on their individual investment process, self-knowledge and level of experience. High-conviction can be a mark of success, and evidence suggests that the biggest bets of funds tend to perform best. Lower-conviction holdings, meanwhile, have been shown to detract from overall performance.

RETURN TO INDEX

The investment industry has reacted to these findings from academia with a broad push to make funds more concentrated by reducing the number of holdings in portfolios. Seems sensible... or does it?

A recent report from FactSet-owned Cabot Investment Technology and JANA Investment Advisors claims that making funds more concentrated by diktat does not reliably improve performance. Indeed, the report's authors say they have found many examples where reducing the number of portfolio holdings leads to an outperforming fund becoming an underperforming one.

In particular, the report cites findings that managers often make worse buying decisions when pressured to hold fewer stocks. They also often struggle to adjust position sizes and waste energy trying to trade existing positions.

But why would fund managers become worse stockpickers when their funds are more concentrated? The answer may be because all those performance-sapping, low-conviction positions actually do something important for a fund manager's decision-making process. Managers may need the security blanket of diversification in order to make bolder bets on big winners. To replicate that kind of emotional reassurance in a portfolio with fewer holdings, a solution would be to select individual stocks with more palatable risk profiles. Inevitably this would affect the stockpicking process.

Many large, top-performing positions may also have started out small and been scaled up as confidence in an investment case increased. If small positions are not allowed, the seed may never be sown of a future outperforming, overweight holding.

Professionals are not the only ones who struggle to understand the role of portfolio concentration in generating returns. Private investors get bombarded with stories about individuals and funds that have made knockout returns with super-concentrated portfolios. However, such stories are treacherously self-selecting.

Any decent-sized sample of randomly generated, highly concentrated portfolios can be expected to give rise to isolated stories of eye-popping returns. However, the value of concentration can only be properly assessed if the winners are seen alongside the losers and the also-rans.

When it comes to high-concentration portfolios, the big losers can be expected to be just as ghastly as the winners are great. But our love of zero-to-hero narratives means we tend to only focus on the success stories. Well, maybe we also have time for the odd gloat at a cataclysmic that-would-never-happen-to-me disaster. But such narrow focus is very dangerous in a field such as investing where it is fiendishly hard to distinguish luck from skill when judging outcomes.

In the Cabot and JANA report, one case study is given of a manager who successfully achieved higher returns by increasing concentration. However, this was not based on an overnight change. It resulted from a deep and genuine understanding of the fact that when the cart is put before the horse, it can create unwarranted and unforeseen risk.

*This article was first published by Investors' Chronicle. Become a better investor and try 4 weeks of Investors' Chronicle for £4**
investorschronicle.co.uk/marketing/I18SOCTR

INVESTMENT TRUSTS FOR EVERY PALATE

Mild, medium or spicy, sir?

Tim Sutherland picks out a range of closed-ended funds to make an equity investor's life simpler and less risky

You can be the most lauded oracle of the stock market with the most impressive of track records, but it will never take away from the fact that picking out individual equities is a risky business. Even if the company in question dazzles onlookers with double-digit revenue growth and impressive earnings, this by no means serves as a guarantee of positive share price performance.

I highlighted Zoom on 20 November 2020 as an interesting company to possibly add to the watchlist. In its most recent set of quarterly numbers it has posted EPS of $1.36, beating analyst expectations by a whole 17% while offering up a 54% increase in year on year top-line revenue, crossing the $1bn Rubicon. Well, this all sounds delightful, right?

Sadly, since I discussed its merits last year, and with a supposedly impressive recent quarter under its belt, Zoom shares are down around 37%.

Evidently the market is quite happy to disregard its progress as the idea of lockdown living becomes a mere speck in the rear-view mirror. Whether or not it plays out like this is yet to be seen.

So, with that in mind, I thought I'd take the time to look instead at some managed investment trusts and ETFs that hopefully reduce risk by employing a highly experienced investment manager to spread investors' capital across a group of stocks.

Over the next few paragraphs, I'll bring to light several ideas which I've ranked from mild to spicy. An unusual ranking system perhaps, suggested by a good friend, Dan: "Tim, I have no idea what I'm doing. Can you just give me some ideas as if I'm looking at a menu and put it in order of mild, medium and spicy?" So here we are:

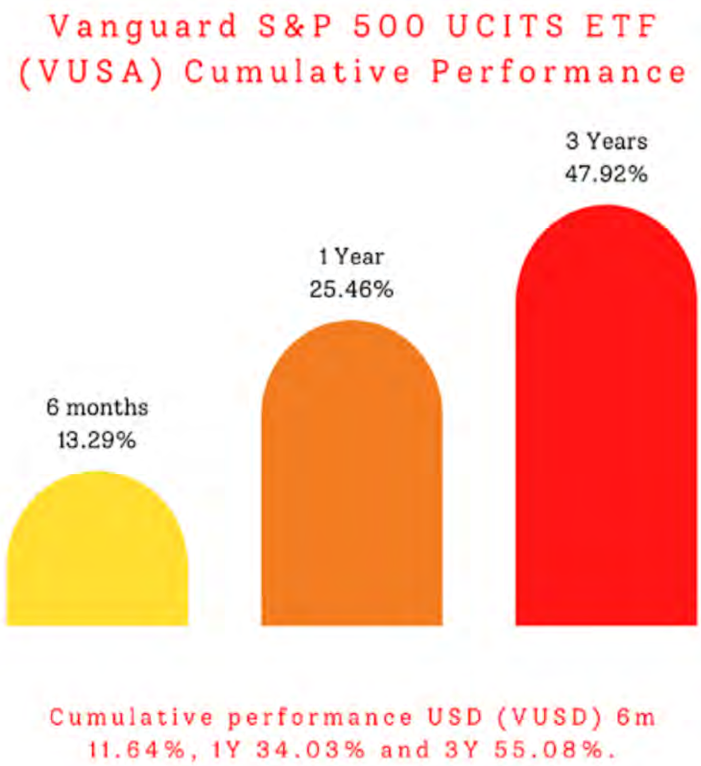
Mild

Without doubt, the most common question put to me as a stockbroker is: "How do I invest in the S&P 500?" The short answer is to look at a passive index fund (or ETF), whose task it is to mirror a benchmark index such as the S&P 500.

An index tracker gives investors access to a broad range of equities within the benchmark it's tracking in one simple unit or share. No need to go out and buy 500 plus different companies and carefully calculate the specific weighting of each purchase to replicate the S&P 500; let the index fund manager worry about that.

Search online for S&P 500 tracker funds and you'll be overwhelmed with different ETF (exchange traded fund) providers promising to fulfil your need with minutely varying degrees of accuracy, cost and performance. Providing you're not electing to go for a leveraged equivalent, the difference between most of them is almost negligible.

A good place to start is Vanguard S&P 500 UCITS ETF (£VUSA or $VUSD), with a dividend yield of 1.12%, paid quarterly. I've highlighted this ETF for a few simple reasons: it's available to UK clients, open for retail investing, has a very reasonable expense ratio of 0.07% and can be bought in either GBP or USD. And of course, Vanguard is one of the largest ETF providers in the world.



The numbers in the above infographic are quite impressive for a passive index ETF, but it's worth remembering, it hasn't always been this good, with the long-term annualised returns of the S&P 500 averaging 10%.

Other notable ETFs you can add to the watchlist include iShares Core MSCI World UCITS ETF USD (ticker: SWDA) and SPDR FTSE UK All Share UCITS ETF (ticker: FTAL). iShares Core MSCI World ETF looks to provide broad exposure to a wide range of global companies within 23 developed countries. And the objective of SPDR FTSE All Share ETF is to track the performance of the broad UK equity market across the FTSE 100, FTSE 250 and FTSE small cap index.

RETURN TO INDEX

Mild, medium or spicy, sir? ...continued

Both have an accumulating dividend policy, meaning any cash dividends are reinvested into the ETF reflecting in the share price, and both have an expense ratio of 0.2%.

Medium

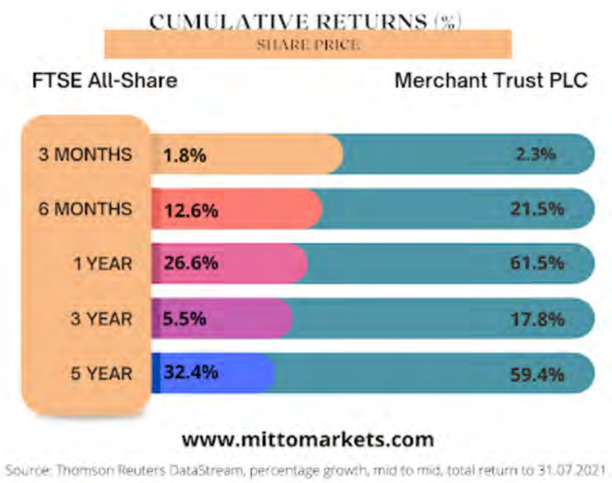
From passive tracking, let's move on and see which manager might be best positioned to try and beat the relevant benchmark as we enter the realm of active management. I'll split this into two areas, first for higher-than-average income yield and a second option seeking to outperform on growth.

According to dividenddata.co.uk the current average yield across the FTSE 100 is 3.4%, which will act as the magic number to try and beat. Now admittedly I'm not a huge advocate for FTSE investing as I tend to prefer the growth profiles of big tech in America, but if there's one thing the UK markets do well, it's income. The above-mentioned 3.4% dividend yield comfortably beats other developed markets such as the DAX 30 (2.72%), CAC40 (2.28%), S&P 500 (1.28%) or Nikkei 225 (1.28%).

With that in mind, and having scoured various investment trusts, I keep coming back to the same two names: Merchant Trust PLC (MRCH) and Henderson High Income Trust PLC (HHI).

RETURN TO INDEX

Merchant Trust, established in 1889, is now on a 39-year streak of increasing its dividend pay-out and approaches the task with a simple yet effective memorandum – look only for quality companies with solid prospects, on reasonable valuations. Thus far, this simple yet disciplined approach seems to have merit, with the share price outperforming (cumulatively) its FTSE All-Share benchmark over one, three and five years.



But we came here to hear about the dividends. And again, it's able to beat the benchmark with a very healthy 5.1% yield. The trust's top 10 holdings are filled with large-cap household names such as GlaxoSmithKline, National Grid and Royal Dutch Shell.

MRCH also includes some companies which I've previously raised an eyebrow at, having concerns surrounding their ability to keep up on their dividend payout promise, such as Imperial Brands and Vodafone. But therein lies the beauty of handing the reins to an investment manager who can do the worrying and continually monitor any changes in ongoing dividend policies.

It would be very tricky not to differ on opinion on the odd holding within a diversified investment trust, but with the manager's long track record of increasing dividends and outperforming the benchmark, it certainly won't keep me up at night.

Henderson High Income Trust shares many common traits with Merchant Trust. Like MRCH, HHI is focused on returning an above-average income stream while maintaining the prospect of capital growth. But the two differ to some extent on how best to achieve this goal. HHI is slightly less UK-centric, with 85.8% of the holdings sitting in the UK (MRCH is 95.6% UK), and will utilise slightly more gearing to enhance the returns of the fixed income portion of the trust.

Apart from that the similarities dominate, with HHI also outperforming (cumulatively) its respective benchmark over the past one, three and five years. Look through the top 10 holdings and again it's filled with familiar FTSE 100 staples such as Unilever, RELX and Rio Tinto.

HHI also pays a sizeable 5.6% dividend yield, split into quarterly payments of 4.75p per share. All in all, a very worthwhile alternative (or addition) to Merchants Trust.

To finish off the medium course on today's menu, I promised to highlight something more focused on growth than income. A few trusts came to mind for consideration, including the very popular Scottish Mortgage Investment Trust (SMT), but it was another Baillie Gifford investment trust that stood out for me – Monks (MNKS). Monks got the nod in large part because of SMT's 18% exposure to China whose market I find erratic at the best of times.

Considered to be a less aggressive version of SMT, Monks is managed by Spencer Adair, who had this to say when asked about how the trust is organised in a recent video interview: "Monks is and remains a trust that's laser focused on long-term capital appreciation. We scour all four corners of the world looking for businesses whose growth prospects are underappreciated. Monks is global and Monks is underappreciated growth."

The objective of the trust is to return long-term capital growth, which takes priority over income. With a dividend yield of just 0.14% it certainly ticks the latter of the two boxes – so I'm keen to unpack some of its top holdings and share price performance to see if they live up to their earlier promise of growth.

MNKS' biggest geographical weighting is in the US (50%)

Mild, medium or spicy, sir? ...continued

and its top 10 holdings include US growth stocks such as Alphabet (Google), Shopify and Amazon, which fit in nicely with the capital growth objective. Interestingly, the largest holding (3.8%) is another Baillie Gifford housed fund – The Schiehallion Fund, which invests in a mix of listed high growth stocks and later stage private businesses who the manager believes are on the cusp of a full stock exchange listing.

This all stacks up rather well for a growth focused investment trust, and historical performance is also consistent with this profile, having gained 31% over one year, 70% over three years and 178% over five years.

HOT HOT HOT

This is an appropriate time to drive home some of those risk warnings typically attached to any financial website or piece of stock market related literature. Share prices do go DOWN as well as up, capital is at RISK and if you dance with the devil, you are at risk of getting burned. You get the idea.

For a bold investment trust that follows the theme of investing in next-generation disruptive technologies, you might want to pay attention to Chrysalis Investments (CHRY). This gives shareholders exposure to unquoted private companies, the likes of which you and I would never normally have access to.

As the Chrysalis website explains: "Chrysalis Investments is looking to identify businesses that are disrupting huge addressable markets by harnessing the benefits of technology. These are typically later stage assets, with proven business models that are generating strong rates of growth with superior economics." To understand Chrysalis, it would be best to look at a couple of its recent successes.

Klarna, which makes up 28% of Chrysalis' portfolio, is a Swedish fintech buy-now-pay-later app. It recently completed a $1bn funding round that values the business at a staggering $31bn. The reason this number is so significant is because it's nearly three times higher than in 2020, when it was valued at $10.7bn, and 5.6 times higher than the $5.5bn 2019 valuation. With that kind of explosive growth, you can start to understand why Chrysalis has such a high-conviction position in the Swedish unlisted company.

Another large holding within the Chrysalis portfolio is Wise (formally TransferWise), a company I've heard much about of late, simply because there's been a surge in clients requesting to fund their Mitto Markets trading account from their Wise payment app (which they can do).

Years before I experienced this influx of Wise payment enquiries, in late 2017 CHRY investment manager Richard Watts met with Wise to begin the process of adding it to the portfolio. Proving to be another huge success, Wise is now listed on the London Stock Exchange as a publicly traded company commanding a £10bn market capitalisation.

Other notable names making up the Chrysalis portfolio include challenger lender Starling Bank, members-only travel company Secret Escapes and recently listed The Hut Group (THG). These wonderful milestones are very much reflected in the share price performance, up 164% since it listed in November 2018.

As exciting as this all sounds, the Woodford debacle is an important reminder of when investing in unquoted companies goes wrong (see page 17). With that in mind, I have deliberately only mentioned 'closed-ended' funds and ETFs instead of 'open-ended' funds like Woodford Equity Income.

The key difference is that closed-ended fund managers do not have to touch the portfolio if there is a run on shares: the share price and discount to net asset value take the strain. In contrast, an open-ended fund is forced to deal in the underlying investments which make up the fund on a daily basis to allow an open number of investors to buy or sell. If there are large outflows on bad news, the fund will have to sell the underlying shares in order to return cash back to investors.

And with that, go away and do your own homework. These are merely ideas for you, the reader, to ponder and should not be taken as investment advice. Any past performance quoted above should never be taken as an indication of future results but as a useful point of reference.

**Tim Sunderland is founder of Mitto Markets. If you've enjoyed this article and want to start your investing journey, feel free to contact me on t.sunderland@mittomarkets.com or call +44 (0)208 159 8985*

Important Notice: *When investing in shares, your capital is at risk. The value of the investment and any income from it can fall as well as rise, so you may get back less than your original investment.*

RETURN TO INDEX

FINANCIAL LITERACY

What's the best way to teach children how money works?

Cliff Weight, director, ShareSoc

I saw this interesting article in the FT. It shows data on responses to financial literacy questions around the world. An example: If you had $100 in a savings account and the annual interest rate was 2%, how much would be in the account after five years? More than $102? Exactly $102? Less than $102? 60% of Italian kids and 35% of US kids got this wrong.

The FT asks for comments on the best way to teach children about financial literacy. My suggestions:

1 - Set an objective of getting rich slowly.
2 - Start with an ISA. Dividends and capital gains are tax-free.
3 - Better still start with a Lifetime ISA, available to those between the ages of 18 and 40. The government gives you £100 for every £400 you save.
4 - Don't put all your money in a cash ISA. Investing in cash is a poor long-term strategy. Invest in shares via an index tracker (ETF or index fund) with low fees, or via a mutual fund or investment trust.
5 - If you want to have a bit of fun, buy a few shares as well as your funds. You will learn lots more about investing in this way.
6 - Don't gamble. The odds of winning are very poor.
7 - Learn about what the FCA calls its regulatory perimeter. Recognise that if an "investment" is outside the FCA perimeter it is likely to be highly speculative and will not benefit from FCA oversight or FSCS protection.
8 - You cannot put Bitcoin and other crypto in an ISA, so you won't get the tax benefits of an ISA.
9 - Read about successful investors such as Warren Buffet. Read Lord Lee's column in the FT. Read voraciously.
10 - View online tips on tik-tok and twitter with deep scepticism.
11 - Join ShareSoc, the UK individual investors society. Associate membership is free: www.ShareSoc.org

It's not a comprehensive list, but a sensible framework for introducing children to the world of saving and investing.

COMPANY NEWS

RETURN TO INDEX

Grant Thornton fined trivial amount over Patisserie Valerie audits

Roger Lawson

Recent interesting news, at least for me as a former shareholder in Patisserie Holdings (CAKE), was the announcement by the Financial Reporting Council (FRC) of fines for Grant Thornton and its audit partner over the defective audits in financial years 2015, 2016 and 2017. The company collapsed in 2018 when it became apparent that the accounts were a work of fiction.

The FRC states: "This Decision Notice sets out numerous breaches of Relevant Requirements across three separate audit years, evidencing a serious lack of competence in conducting the audit work. The audit of Patisserie Holdings Plc's revenue and cash in particular involved missed red flags, a failure to obtain sufficient audit evidence and a failure to stand back and question information provided by management."

The sanctions imposed include fines of £2.3 million on Grant Thornton and £87,500 on audit partner David Newstead, after taking into account mitigating circumstances and the financial resources of GT. But the detail of the case makes for interesting reading, which can be obtained in the link from here, where the Final Decision Notice can be read.

It shows that not only did the audit fall down in many ways, but that accounting practices at Patisserie were amateurish in the extreme, with apparently no proper oversight by the directors. For example:

- Large amounts of revenue being recorded from voucher sales near the year end without challenge.
- Cash growth that was significantly larger than growth in revenue or profit, with repeated inconsistencies in bank statements and dormant bank accounts being reactivated but the auditors not informed.
- Reconciling items and journal entries being misused or without proper explanation. For example journal entries being used to record sales transactions, employee costs, etc. As a result there were many thousands of journal entries each year.
- Additions to fixed assets miscategorised and wrongly capitalised.
- Supporting documents containing obvious errors or oddities, such as lack of corporate logos, invoices for vehicles with no vehicle identifications, remittance

Grant Thornton fined trivial amount over Patisserie Valerie audits ...continued

advices that looked like invoices, and purported bank statements that appeared to be Excel spreadsheets.

The auditors failed to obtain sufficient evidence to explain queried items, or to challenge management's explanations. Professional scepticism by the auditors was clearly lacking.

The liquidators of the company are pursuing a legal claim against Grant Thornton, but according to a note in the FT, GT will continue to defend against that claim on the basis that the latter "ignores the board's and management's own failings in detecting the sustained and collusive fraud that took place". GT claims that "our work did not cause the failure of the business".

But if the defective accounts had been identified in 2015 or 2016 before the fraud became totally out of hand, perhaps the company could have been saved. It would certainly have saved me and many other investors from investing in the company's shares after 2015.

The financial penalties for such incompetence remain trivial. Grant Thornton's trading profit last year was £57 million.

Executive pay: US survey results

Cliff Weight

The issue of skin in the game and executive pay, and how this impacts a company's future share price (and dividends) performance is a crucial one. US billionaire investor Charlie Munger nails it neatly: "You show me the incentives and I will show you the behaviours."

So when leading proxy advisory firm ISS announces its plans for next year, it is well worth looking at them. Please note these are the US plans and ISS may customise its approach for UK listed companies.

ISS recently announced the results of its 2021 benchmark policy survey. 159 investors responded, as well as 246 companies, advisors and affiliates. Key findings included the following:

Non-financial ESG performance metrics in executive compensation: When asked whether the use of non-financial ESG metrics is an appropriate way to incentivise executives, over half of investor respondents replied yes, but that they should be specific and measurable, and targets communicated transparently. Only a small number of investors replied no, and that companies should only use traditional financial metrics in compensation plans. About a third of investors (and most non-investor respondents) replied yes, and that even metrics that are not financially measurable can be an effective way to incentivise important outcomes if chosen well.

Long(er) term perspective on CEO pay: 85% of investors and 67% of non-investors agreed that the inclusion of a longer-term perspective of CEO pay deals is relevant and would be helpful. For example, ISS might add a three-year assessment of the CEO pay deal to its pay-for-performance screen.

Mid-cycle LTIP changes: Investors were fairly evenly split on the question about whether mid-cycle changes to long-term incentive programs should still be seen as a problematic response to the pandemic. Over half of investor respondents replied that they should continue to be viewed as problematic. 40% said that they may be reasonable for companies that have experienced long-term negative impacts from the pandemic.

RETURN TO INDEX

Redcentric shareholders to get their day in court

Mark Bentley, director, ShareSoc*

Four years after defects in the published accounts of Redcentric plc (RCN) came to light, a trial of those accused of false accounting and other offences is finally to take place. See this for a history of this case.

Sadly, it is all too rare for those implicated in accounting scandals to be brought to book, and even rarer that affected shareholders receive some limited compensation from the company for their losses. So, credit is due to the FCA on this occasion for exercising its powers and seeking justice for those affected. ShareSoc encourages the FCA to do so on a more regular basis and address the many cases of shareholders being misled that we and our members observe. Enforcement is essential to deter others from committing the type of offence of which the defendants are accused.

According to the pre-trial hearing last year, the trial itself is scheduled to last three months. My chief concern now is whether counsel will be able to adequately explain the intricacies of the charges and evidence to a jury that is probably not qualified or experienced in accounting matters.

** The author was a shareholder in Redcentric at the time this scandal occurred.*

RETURN TO INDEX

COMPANY INFORMATION AND VOTING GUIDANCE

Voting information service

ShareSoc introduced this new added value voting information service, for full members only in 2021, providing background information on leading companies and AGM vote guidance. Initially we are piloting this for FTSE30 companies, plus a few others in the FTSE100. Click here to see a list of companies we have written reports on.

You can access all the information that ShareSoc has written on a company by clicking on the Research and Company Research buttons in the header on any ShareSoc webpage. This will take you to this page. If you then enter the company name, eg Compass, Imperial, etc., then all previous commentary on the ShareSoc website will appear. For some companies this is a veritable treasure trove of useful information.

We are very grateful to Minerva for providing us with access to its reports. Minerva is a leading global corporate governance firm and has kindly supported ShareSoc in this new initiative. Minerva is British and has a unique perspective on corporate governance issues.

We have also included the Stockopedia report for the company and we are very grateful to Stockopedia for giving us permission to republish its reports. Readers are reminded that ShareSoc members can obtain a discount on the Stockopedia subscription.

DGE : Diageo

Cliff Weight

I do not own shares in Diageo, but my wife does, in her ISA. She bought in 1998 at £7.16 and they now trade at £35.

With sales of £12.7bn, Diageo's EV (enterprise value = market cap plus debt) of £95 billion is more than six times turnover, and I don't see great barriers to entry at the global level or from supermarkets going direct to wine producers. Healthier lifestyles may also reduce consumption. The profit margin of 30% and the ROE of 39% do not look sustainable to me.

So we shall be selling my wife's holding. The share price has gone up five times over the 23 years she has owned them. A five-bagger sounds great, but equates to only 7% p.a. over 23 years, highlighting the marvels of compound interest. Dividends (current yield 2.16%) have added to the return.

My other concern is the extent to which the share price may be inflated due to the share buyback program. Buybacks to date look successful, with the last five years of purchases below subsequent share prices. Generally, however, I tend to be anti buybacks, and am particularly concerned when companies waste shareholders' money by buying back shares at high prices, following which the share prices drops. That has not happened here. Yet.

The AGM was on 30 September. The Stockopedia data is interesting. Here are the Minerva Vote recommendations for the 28 April 2021 AGM. The Minerva report highlights various issues, including on political donations, directors' other commitments and remuneration.

BHP : BHP

Cliff Weight

Having read the Minerva report on BHP, I wrote to the company to comment on the lack of gender diversity on the Board.

In the company's reply (which can be read in full in the comments section of our BHP Company Information and Voting Guidance page), they point out that reduction in female representation from 33% to 20% following the impending retirement of Susan Kilsey and Anita Frew will only be temporary.
Michelle Hinchliffe will join the Board in March 2022, and the Nomination and Governance Committee will seek to appoint a further female NED in FY 2022.

Our Vote Guidance report on BHP, which included my recommendation to support management and vote against the controversial climate change shareholder resolution, can be accessed by ShareSoc Full members here.

RETURN TO INDEX

INVESTMENT COMPANIES AND FUNDS

City of London Trust: has it lost its way?

Roger Lawson

I read the City of London Investment Trust (CTY) annual report in advance of the AGM on 28 October. This is one of my oldest shareholdings – first purchased in 2011 with an annualised total return since then of 11.5% p.a., according to Sharescope. Historically it has been a good performer, if somewhat boring. However, last year was a disappointing one. Has Job Curtis, the longstanding manager, lost his touch?

Last year (to 30 June 2021) the trust produced a share price total return of 20% but that was less than the FTSE All-Share and the 26% reported by the AIC UK Equity Income sector.

CTY is a UK growth and income trust and has a focus on higher-yielding "value" shares as it says in the annual report. For the second year running it had to draw on revenue reserves to maintain its record of increasing dividends.

A look at the top 10 holdings highlights why performance is not brilliant: it's stuffed full of FTSE100 shares: British American Tobacco, Diageo, Rio Tinto, Unilever, M&G, RELX, Shell, Phoenix, BAE Systems and HSBC. The fund manager's report notes that stock selection generated -3.8% of the trust's performance. It did well from holdings in big miners such as Rio Tinto, BHP and Anglo American, but not holding Glencore was a big detractor.

It may be unreasonable to take one year's data as indicative of likely long-term performance, but are tobacco and oil companies really good investments at this time, however generous their dividend yields? More emphasis on growth and less on income might be appropriate, I suggest.

The fund management company is Janus Henderson. It used to be called TR City of London when Touche Remnant was the manager. But after it was acquired by Henderson, the company was simply renamed The City of London Investment Trust: a wise move, disassociating the company name from that of the fund manager which was likely to change over time.

The new name might not be ideal, though, as there is another listed company named City of London Investment Group, and it is hardly a good or registrable trade mark.

Standard Life UK Smaller Companies proposes name change

Roger Lawson

The Standard Life UK Smaller Companies Trust (SLS) is proposing to change its name. The manager is currently abrdn, formerly Aberdeen Standard Fund Managers Limited; the name Standard Life has been sold to Phoenix Group, so a change of name is not unreasonable.

This problem arises when a trust is named after the fund manager. Similar problems can also arise if the board of directors of the trust decides to change the manager, which is not a rare event. Much better to choose a unique name which is not associated with the manager and makes for a distinctive brand.

Investment trusts should not appear to be poodles of the fund manager; using the manager's name gives the impression that is the case.

What is the proposed new name? It's abrdn UK Smaller Companies Growth Trust plc. As an exercise in rebranding, the proposed new name is not a good choice, however one looks at it.

Alliance Trust's disappointing best ideas

Mark Northway

The Alliance Trust performance since April 2017 provides an excellent study into the value of "best ideas" portfolios. The investment trust's portfolio was substantially redeployed under the auspices of Willis Towers Watson's modestly named "Best of the Best" strategy as a collection of best ideas portfolios (currently 10) from high-conviction active stockpicking managers.

The trust target was for a NAV outperformance of 2% a year, net of costs, relative to MSCI ACWI over rolling three-year periods. In practice, the strategy has averaged just 0.12% a year above its benchmark after costs (0.37% if we carve out certain legacy assets which aren't part of the WTW strategy). And the rolling three-year return? A NAV underperformance of 0.33% a year relative to the benchmark.

That's a huge amount of effort - one of the world's best known consultants, selecting the best active stockpickers in the world, to showcase their best ideas - all to produce a net return broadly in line with that of a passive MSCI ETF (and some nice fat fees).
This time next year, Del Boy.....

RETURN TO INDEX

Closet index trackers

Cliff Weight

I have been concerned about closet Indexing (whereby fund managers charge for the added value expected from active management but in reality effectively mirror an index) for some time, as have other ShareSoc commentators (read more here, here and here).

I met with executives from the FCA on 26 July to discuss our concerns. I have also had several conversations with David Rankin from wealth manager Punter Southall.

The latest news is that law firm Harcus Parker has now started gathering claimants for a class action against Scottish Widows. It said:

> *We are currently focussing our investigations on Scottish Widows and in particular the Scottish Widows UK Growth Fund. If you have invested in this fund, we would really like to hear from you in order for us to further our investigations. This fund has been the subject of several articles discussing closet tracking in the UK and recently featured as a 'Dog Fund' (an underperforming investment fund) in Bestinvest's Spot the Dog Fund Report for 2021. Bestinvest provide the following statement about Scottish Widows generally:*
>
> *"For Lloyds Bank owned Scottish Widows, it is not necessarily the size of assets in dog funds – £2.73 billion – but the range. It has four dogs, across a surprising variety of sectors – Scottish Widows Pacific Growth, Scottish Widows American Growth, Scottish Widows UK Growth and Scottish Widows UK Equity Income. Again, it is disappointing to see large UK funds underperforming after a better period for UK markets. Take note that the investment adviser on these funds is Schroders."*

Harcus Parker would like to hear from investors in the Scottish Widows UK Growth fund: please call 020 3995 3878 or email closettrackers@harcusparker.co.uk .

PLATFORMS

Charles Stanley takeover

Roger Lawson

On 16 September, via the LumiAGM platform, I attended the Court Meeting and General Meeting of Charles Stanley Group (CAY) to approve the takeover by Raymond James. These were hybrid meetings with both physical attendees and web attendees. The LumiAGM platform is easy to use and I would recommend it to other companies.

The meetings were reasonably well run, but there were no questions from attendees. The offer price is more than 40% higher than the previous closing price for CAY shares, so unsurprisingly it seems to be a done deal with some 99.9% of shares voted in favour – although the number of shareholders actually voting is astonishingly low at only 72 (only 12.5% of those eligible). This should lead the Court to question the outcome, but will it? See here for the full results.

It is perhaps unfortunate that yet another stockbroker is disappearing, therefore reducing competition. Consolidation in brokers and platforms is the name of the game of late, and size matters now that profits are being eroded by new entrants while operating and

regulatory costs rise. Keeping up technologically is now expensive.

Raymond James is a good fit for Charles Stanley, because it too is a full-service broker. But the merger may leave the execution-only Charles Stanley Direct platform out on a limb. I would expect they might sell that business to another execution-only platform operator in due course, but the stated intention is not to change anything in the short term.

REGULATION

RETURN TO INDEX

The FCA awakes?

Cliff Weight

FCA FINANCIAL CONDUCT AUTHORITY

In a recent article for the Mail on Sunday, Jeff Prestridge highlighted that "the City regulator – the Financial Conduct Authority – has finally woken up from its lockdown slumber and decided to go all bold on us…. Last week, the FCA revealed ambitious plans to turn a nation of savers into investors. It also promised to protect investors from scams and warn them away from higher-risk investments (usually involving cryptocurrencies)."

He noted that the UK has already seen some 12 years of rock bottom savings rates, and that "along the way far too many investors have been scammed or duped into buying near toxic investments", but he also highlighted the problem of holding too much cash.

"Under its proposals for an investment revolution, savers with big slugs of their money in cash (bank and building society savings accounts) will be encouraged to diversify into stock market investments. By 2025, the aim is to make investors of 1.7 million adults who currently have more than £10,000 of investable assets sitting in cash – and who the regulator believes would be better off spreading their wings. As a result of paltry savings rates and persistent inflation (3.2% at the last count), the FCA says these savers are at 'risk' of having the purchasing power of their war chest seriously eroded unless they take corrective action."

Prestridge concludes: "They would be better off, it says, building long-term wealth by investing in the stock market." I couldn't agree more.

CAMPAIGNS AND POLICY

In brief

RETURN TO INDEX

Since June 14 (see here for previous update), ShareSoc's Campaigns and Policy team have worked on the following:

1 - Woodford Campaign: Leigh Day has submitted its claim. It now has 11,000 claimants and another 3,000 registered but yet to sign the Leigh Day agreement. We held a very successful webinar on 30 Sept with 942 registrants. (Page 17)

ShareSoc's Woodford Campaign now has over 1,500 members, which enables us to lobby strongly for regulatory change and to hold to account those at fault.

2 - Voting Guidance and Shareholder Engagement: We continue to test our new ideas with a pilot study of FTSE30 companies. This is a major exercise and reports have been published for around 20 companies. The latest were for Tesco, Diageo and BHP (page 13). See here for more info.

3 - Consultation responses. This has been another major area of work. We submitted responses to:

- BEIS audit review consultation
- FCA High risk and illiquid investments DP21/1
- FCA CP21/12 A new authorised fund regime for investing in long term assets.
- FCA CP21/13 A new Consumer Duty
- FCA21/21 Primary Markets Effectiveness Review (page 19)
- HM Treasury Prospectus Regime Review (page 19)

4 - SVS/ITI: we continue to provide a Support Group to help those whose assets were with SVS which went into administration and were transferred to ITI.

5 - FCA: Mark Northway and Cliff Weight met the FCA Chair to discuss various ShareSoc concerns on 27 July. We have also held constructive meetings with the Primary Markets team and the fund regulatory team.

6 - FRC, BEIS, etc: We meet regularly with FRC, BEIS and other key influencers. Our most recent meeting with the FRC was on 26 October.

7 - Law Commission Review of Intermediated Securities: We continue to await the next BEIS response to the Law Commission Review of Intermediated Securities, which, among other things, will look at nominee accounts and the disenfranchisement of individual investors. We have emailed BEIS about the NatWest virtual meeting: NatWest could not contact many of their investors because unhelpful platforms do not pass event info to investors.

8 - Bacanora Lithium: We are providing support to the Bacanora Investors Group, Think BIG, (500 members with 8% of the shares). ShareSoc Patron Lord Lee tabled a parliamentary question about the national interest of this takeover.

9 - Sirius Minerals Shareholder Group, Sirius Claim Group: We continue to evaluate the possibility of a claim.

ShareSoc's Woodford Claim webinar

A report from ShareSoc director Cliff Weight

Full Members can click on the image above to watch the recording of the webinar.

942 registered for ShareSoc's webinar, with 684 attending. Wow! Our biggest webinar ever and possibly the biggest webinar of its kind. Better still, our Woodford Campaign now has 1,465 members. With these sorts of numbers we pack much more of a punch with the FCA, government and Hargreaves Lansdown.

The campaign has socially responsible aims of making the investment world a better place. This aligns with our ethos of using the law to get redress for those who lost money they should not have done, of holding to account wrongdoers and of sending a very strong warning shot to other potential offenders.

Mail on Sunday personal finance editor Jeff Prestridge kicked off the webinar with an impassioned review of what had happened and what needs to change. His was a journalist's perspective that resonated with the average investor. He emphasised how much he appreciated people's views and urged listeners to get in contact with him at Jeff.Prestridge@mailonsunday.co.uk

The expert view was provided by Alan Miller, an experienced fund manager, who has watched with dismay what happened at Woodford. His slides focused on liquidity management, comparing WEIF and other funds; this highlighted huge differences and indicated that Link (the authorised corporate director for the company), the Financial Conduct Authority (FCA) and Grant Thornton were all asleep at the wheel.

Both Jeff and Alan were asked if Link was reckless. Jeff said it was an irrefutable fact that Link failed in its duty to protect the best interests of investors. The investment strategy was not suitable for an open-ended fund in the event of a run on the fund – which eventually occurred. He said that Woodford had recklessly exceeded his limits. Alan also thought that Link was reckless: the scandal was hugely damaging to the industry and the FCA needs to carry out a proper, timely and transparent investigation to identify the lessons to be learnt from what went wrong.

On 27 September Leigh Day had launched proceedings in the High Court against Link. Boz, the Leigh Day partner leading the case, took us in detail through the claim and what happens next.

Sadly it may not be until 2024 until the case reaches the court. Leigh Day would like to settle earlier for everyone's benefit, but Link has appointed legal firm Clifford Chance to defend it.

We had a dozen pre-submitted questions and 85 on the night. Mark Northway ably chaired the Q&A session which he allowed to run over the intended 6.30 finish – he eventually called a halt at 6.50pm with still over 390 listening in.

So far, less than 10% of the potential 270,000 WEIF claimants have registered with any of the four claims. Link has refused to disclose the names of all the affected investors to ShareSoc, so we cannot write to them and ask them to join the claim. Link has replied that OIECs are not obliged to supply the shareholder register, unlike quoted companies where CA2006 S316 and S793 make the register available to those who have a proper purpose. I am not so sure and will pursue this.

Link's refusal is an outrage and ShareSoc will be writing to John Glen MP, government minister with oversight of the FCA, and to the FCA and others, highlighting the need to clarify or if necessary change the law.

RETURN TO INDEX

Woodford webinar: background and insight

Former ShareSoc chair Roger Lawson, now an active member of the organisation, attended the Woodford webinar. What's his verdict?

Like many others, I watched the ShareSoc webinar covering the legal claims over the collapse of the Woodford Equity Income Fund (WEIF). I never personally held any of the Woodford funds, but having had past experience of other similar big legal claims it was of some interest. With as many as 270,000 investors in WEIF affected, it must be one of the most discreditable events in the financial world in recent years.

Several legal firms are mounting cases to try and gain some redress for the investors, but ShareSoc is backing Leigh Day, which presented at the seminar. It is focused on a claim against Link Fund Solutions, the Authorised Corporate Director (ACD) for the fund and part of a large financial group (Link).

Leigh Day's investigations lead it to believe that Link allowed WEIF to hold excessive levels of illiquid or difficult-to-sell investments, and that this caused investors significant loss. In doing so, it believes, Link breached the rules of the FCA Handbook and failed to properly oversee management of the fund. The law firm has already issued a letter before action and received a rebuttal response from Link, so has now filed a case in the High Court, i.e. the case is progressing – see here for more details and how to join the claim.

RETURN TO INDEX

A representative of Leigh Day presented the facts and the basis for the claim against Link, but as usual when lawyers present cases, this might not have been exactly clear for the average person. Lawyers seem to want to display their intelligence and knowledge in such presentations, which might impress well-informed corporate clients but is inappropriate for the general public.

Many of those who invested in the Woodford fund relied on recommendations from brokers such as Hargreaves Lansdown (HL). It seems that Leigh Day cannot identify a good case against Neil Woodford himself, his management company or HL. This is unfortunate. Link and the FCA might have fallen down on the job of regulating WEIF and monitoring what Neil Woodford was doing, but in essence it was his actions that eventually brought about the fund's collapse. Not only were many of the companies in which he invested inappropriate for an "equity income" fund, but many of them were high-risk. Liquidity evaporated when fund performance was poor and negative publicity hit the fund, at which point everyone wanted out.

The Leigh Day claim is certainly worth supporting in my view, but it has only managed to sign up about 11,000 claimants so far. Why is that? No doubt the first problem is that it does not have access to a register of investors. Both Link and HL have rebutted such requests, which is morally indefensible.

The FCA should surely step in to ensure a full register is made available if the required information cannot be obtained using the normal disclosure responsibility in legal cases. Indeed, the FCA could take much tougher action by enforcing compensation if it had a mind to do so, but as usual it is proving toothless.

One point I was not aware of before, which came out in the meeting, was that Grant Thornton was the auditor of the WEIF fund and should surely have queried its low liquidity.

Apart from the problem for Leigh Day in getting through to investors, there are a number of other difficulties in obtaining supporters for such legal actions.

1) Investors are often elderly and suffer from sloth – repeated reminders are necessary to get them on board;
2) Investors are keen to forget their own mistakes in investing in the fund;
3) The probable time to obtain a judgement, several years, puts people off;
4) The legal case appears complex and the contracts between investors and the lawyers can be complicated – investors might also fear they could face the risk of costs. The way the case is communicated to investors needs to be handled very carefully to ensure investors understand what is being done and why they do not face risks from the legal action.

Furthermore, ShareSoc and Leigh Day have pointed out that another approach might be to complain to the Financial Ombudsman. From my experience of that organisation, this would be a long and tedious process with little certainty of satisfaction. Personally, I would prefer to rely on an aggressive law firm to obtain some redress. Leigh Day certainly seems to have acted competently and relatively quickly so far in pursuing its legal action.

I would also encourage ShareSoc members to write to their MP to request that the government ensures the FCA takes much stronger action over these events.

CONSULTATIONS

Thumbs up for Treasury UK Prospectus Regime review consultation

Cliff Weight

This consultation looks to be good news for individual investors. It looks as though the €8 million limit on the amount of new capital that existing listed companies can offer to the public without a formal prospectus may be removed, and that it may become easier for individual investors to participate in fund raisings. In addition shareholder rights to prevent dilution will be strengthened.

In our response to HM Treasury, we said:

These proposals are sensible. As the consultation paper itself states, the implementation of these reforms will encourage "broader participation in companies by removing disincentives to offer securities to narrow groups of investors, rather than the wider public". Companies Act 2006 S172(f) requires directors to act fairly between shareholders. We believe these proposals are in line with the intent of that legislation.

The evidence is clear. When restrictions on company issuance were temporarily relaxed last year, there was a noticeable uplift in the amount raised by existing listed companies. More would certainly have been raised if it was not for the rule that any main market listed company issuing more than 20% of its share capital is required to publish a prospectus.

We strongly support the removal of the €8 million limit placed on the amount of new capital that existing listed corporates can offer to the public. We have campaigned to have this limit removed and are delighted that our arguments have been listened to.

We also strongly support the proposal to remove incentives to offer securities to narrow groups (and disincentives to offer them to the wider public). This change should have the effect of taking all rights issues outside of the restrictions imposed by the public offering rules. Pre-emption rights are important and need to be respected. This proposal will enhance shareholder rights that have been allowed to be diminished in this area. This proposal will be particularly beneficial to smaller companies quoted on the Main Market and AIM listed companies.

These changes will serve the capital needs of listed companies and their shareholders in a simpler, cheaper and better way.

Post Brexit we have a huge opportunity to develop a clear strategy for the UK finance industry. The Prospectus Regime is an important part of the bigger picture. We would like to see greater clarity on the bigger picture, and a wider review and overhaul of the way that UK markets and the UK Financial Services industry works.

Clearly, that is going to be a long-term endeavour which will take years. But the starting point has to be some sort of plan and strategy.

RETURN TO INDEX

Primary Markets Effectiveness Review should be part of bigger picture overhaul

Cliff Weight

ShareSoc responded to the FCA consultation paper CP21/21. We welcomed the review and made the point that our members are most concerned about the following:

1 - Liquidity, spreads, costs, hidden costs, front running, pump and dump, pump and place, and other failures to disclose promptly
2 - Misleading RNS, including trading statements, and director independence and related party issues and activity
3 - Removal of the €8 million limit in placings
4 - Fair treatment of retail investors in placings and IPOs
5 - Burdensome documents for rights issues, which will result in the loss of pre-emption rights as companies prefer private placings.
6 - Placings which are not open to all investors on fair and similar terms.
7 - Low valuations of the companies in the UK market compared to the US markets
8 - Many members are now using the US markets as they are more liquid with lower spreads, cheaper and better regulated
9 - Fewer debacles along the lines of Carillion, Thomas Cook, Patisserie Valerie, Conviviality, etc.

We also think the FCA, rather than the LSE, should regulate AIM. In our opinion, the LSE is conflicted in that it has a business interest in encouraging as many AIM listings as possible which conflicts with the requirement to vet the legitimacy of companies that list and the probity of their boards.

We are also concerned about hot potatoes currently being passed between the FCA, LSE and SFO, and apparently falling between the cracks as a result.

FRC consultation on proposed revisions to Audit Firm Governance Code

Cliff Weight

UKSA's policy team is drafting a reply, jointly with ShareSoc, to the FRC's consultation on proposed revisions to the Audit Firm Governance Code. Audits are important for shareholders because they underpin shareholder confidence and trust in investee companies, their management and the numbers managers report. It therefore follows that the audit regulator's requirements for audit firms' governance need to be robust, and we will provide our thoughts to the FRC on all the questions raised.

NEWS ROUND-UP

Stock market investment needs more TV promotion

Cliff Weight

ShareSoc Patron Lord Lee is continuing his high-profile campaign to get more mainstream coverage of investments and better financial education. On 2 September the FT ran a large article about these issues, written by John Lee himself.

In it, he writes:

There is widespread agreement that financial education in this country is lamentable. This manifests itself in so many ways, from the fact that many people just leave significant cash deposits in banks earning next to nothing, to the large numbers choosing Cash Isas. On top of this come, unfortunately, the very substantial number of young people attracted by risky "day trading" or the temptation of cryptocurrencies. I find it extraordinary that, at a time of near-zero interest rates, a company of the quality and strength of Legal & General — which is so sound that its shares are, to my mind, virtually equivalent to private sector gilts — offers a dividend yield as high as 6.5 per cent. Yet this financial services group is seemingly spurned by all those savers sitting on bank deposits. Yes, of course, schools must do more, but I have long believed that the total failure of television to focus programmes on stock market investment is a national tragedy…

…ShareSoc, the leading representative body of private shareholders, where I am patron, strongly supports this initiative. It is my contention that the whole relationship — or lack of it — between TV and our hugely important savings and investment industry needs to be totally rethought.

John Lee, our Patron, accompanied by ShareSoc Chair Mark Northway, has recently met with John Glen MP, the Minister of State, to discuss this issue, and awaits follow-up from that meeting.

RETURN TO INDEX

Abolition of paper share certificates

Cliff Weight, Roger Lawson

The government is to push ahead with the scrapping of paper share certificates. An announcement on 16 September by Lord Frost incorporated it into a bonfire of regulations including plans to scrap physical driving licences. More than 10 million investors hold shares in paper certificated form, so this announcement is of interest.

"Dematerialisation" allows companies to issue securities without a paper certificate to evidence them. It also allows existing paper shares to be transformed into electronic holdings. The trend towards holding shares electronically was formalised by EU legislation in the form of the Central Securities Depositories Regulation (CSDR).

The CSDR sets a deadline of 2023 for ceasing the issue in paper form of most new publicly traded securities, and a deadline of 2025 for the dematerialisation of existing paper shares for publicly traded securities. Therefore, the CSDR affects individual shareholders who hold their shares directly through paper share certificates. These certificates will need to be replaced with an electronic form of holding shares.

Now that the UK has exited the EU, the CSDR requirements no longer apply. Nevertheless, stakeholders have told us that dematerialisation is generally considered to be a positive step towards greater efficiency.

Roger Lawson comments: "A paper share certificate at least ensures you are on the share register of a company and hence are a "member" with full shareholder rights. A replacement system that ensures you retain those rights – rather than shares being held in a stockbroker's nominee system – is required, but plans for implementation of such a system have been slow in appearing."

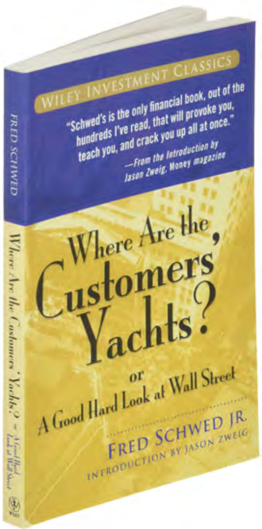
BOOK REVIEW

Where are the customers' yachts?

Roger Lawson

We are in one of those depressing moments of the manic-depressive cycles of the stock market. With the gloom of winter fast arriving, I can recommend the book *Where are the customers' yachts?* by Fred Schwed.

This book was first published in 1940. Schwed had experienced Wall Street at its most extreme: he was a trader but lost a lot of his money in the crash of 1929. It's a cynical look, both witty and educational, at the practices and people on Wall Street, of whom the author clearly had a fine understanding. One might conclude that the financial world has not changed much since. As the introduction to the 2006 edition by Jason Zweig spells out: "The names and faces and machinery of Wall Street have changed completely from Schwed's day, but the game remains the same. The Individual Investor is still situated at the very bottom of the food chain, a speck of plankton in a sea of predators."



The title of the book refers to the apocryphal story of some out-of-town visitors to New York. On arriving at the Battery, their guides indicated some handsome ships riding at anchor and said: "Look, those are the bankers' and broker's yachts." "Where are the customers' yachts?" asked the naïve visitor.

Here's one educational paragraph from the book after Schwed comments that "pitifully few financial experts have ever known for two years (much less fifteen) what was going to happen to any class of securities – and that the majority are usually spectacularly wrong in a much shorter time than that":

"Still he is not a liar; nor is our other friend. I can explain it, because I have not only had lunch with economists, I have sometimes had dinner with psychiatrists. It seems that the immature mind has a regrettable tendency to believe, as actually true, that which it only hopes to be true. In this case the notion that the financial future is not predictable is just too unpleasant to be given any room at all in the Wall Streeter's consciousness. But we expect a child to grow up in time and learn what is reality, as opposed to what are only his hopes. This however is asking too much of the romantic Wall Streeter – and they are all romantics, whether they be villains or philanthropists. Else they would never have chosen this business which is the business of dreams."

On the subject of trusts, he notes that there has been a good deal of thoughtful, investor-friendly legislation enacted against trust abuses in recent years. Unfortunately there can be no legislation against stupidity.

Schwed points out that one of the agendas of the SEC is to work towards the ideal of a completely informed investing public. A laudable effort, he says, but orderly markets exist on differences of opinion. This view is worth pondering now that we have such instant dissemination of financial news and analysis on large cap stocks.

There is much wisdom in this relatively short and readable book: highly recommended for those new to investment for the education, and to experienced investors for the levity.

RETURN TO INDEX

Invest your way to financial freedom

Mark Northway

Invest Your Way to Financial Freedom, by Ben Carlson and Robin Powell, sets out to simplify the complex world of personal finance - and achieves this goal.

The authors focus on the value of time, and stress the importance of savings over specific investment strategy. They cover the basics of investing - financial planning, asset allocation, tax incentives - but always come back to the central themes of time and savings. These are important messages to convey to people early in their careers.

The language is non-technical, and the book is brimming with simple rules of thumb to help the reader build a coherent picture of their own financial path and destination, and the choices and compromises they face along the way.

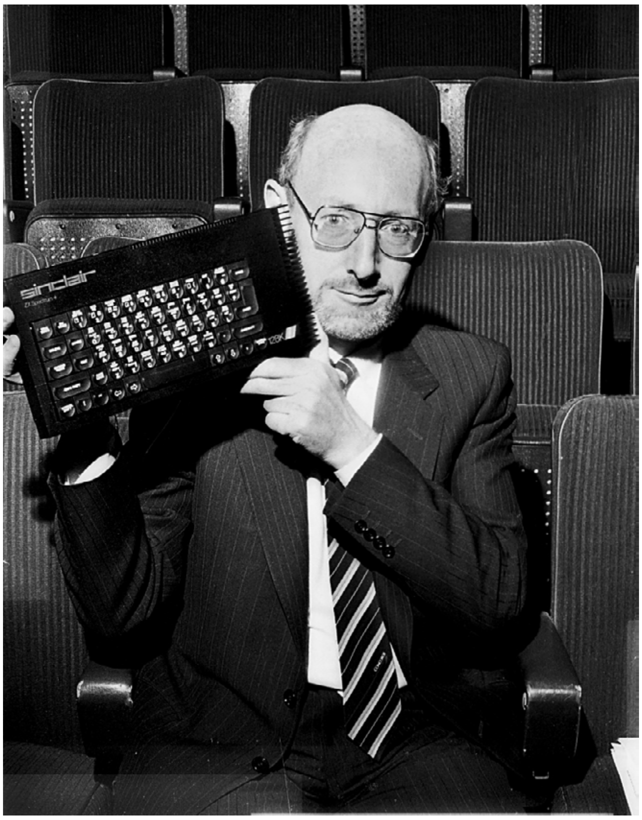
The underlying "get rich slowly" message resonates with advice from Warren Buffet, Lord Lee and myriad academic studies, and is delivered in a thought-provoking way with the intention of promoting better financial habits.

OBITUARY

RETURN TO INDEX

Sir Clive Sinclair: A fertile inventor with less genius for business

Roger Lawson



Inventor and businessman Sir Clive Sinclair has died at the age of 81. He developed early calculators, digital watches and the ZX81 and Spectrum personal computers. The latter were the first popular home computers in the UK and sold at a price almost everyone could afford (less than £100). I fondly remember playing video games on a Spectrum but they were not much use for anything else. The keyboard was a single sheet of rubber and not fit for much at all.

Despite their short-term commercial impact, Sir Clive failed to develop these businesses into long-term successes and even proceeded to destroy his reputation with the Sinclair C5 electric vehicle. He provided a very good example of how in Britain we have good technology innovators but not good businessmen who can develop a company and conquer the world with superior sales and marketing.

Sir Clive seemed to always want to move on to new inventions, rather than concentrating on making money from existing ones and doing the boring work involved in developing existing products and markets.

SHARESOC MATTERS

Improved registration for ShareSoc events

Mark Bentley, director, ShareSoc

After many months of work behind the scenes, we are delighted to announce an improved and simplified process for registering for our online events.

Zoom registration is now done in a single step: after submitting your details, you will automatically be registered with Zoom for the event you wish to attend. Zoom will then email you automatically with login details for the event. We recommend that you select the option in the Zoom email to add the event and login details to your calendar.

If you are a member of ShareSoc, we strongly recommend that you log in before registering for an event.

This will mean that you do not need to enter any contact details and will reduce the workload for our administrator.

If you have not logged in to our website before, or have forgotten your login details, you can find how to do so here.

Special offer: free copy of The DIY Investor (3rd edn) by Andy Bell

Andy Bell – founder of AJBell Youinvest – has generously offered ShareSoc a number of copies of the latest edition of his classic book *The DIY Investor*, published in May this year.

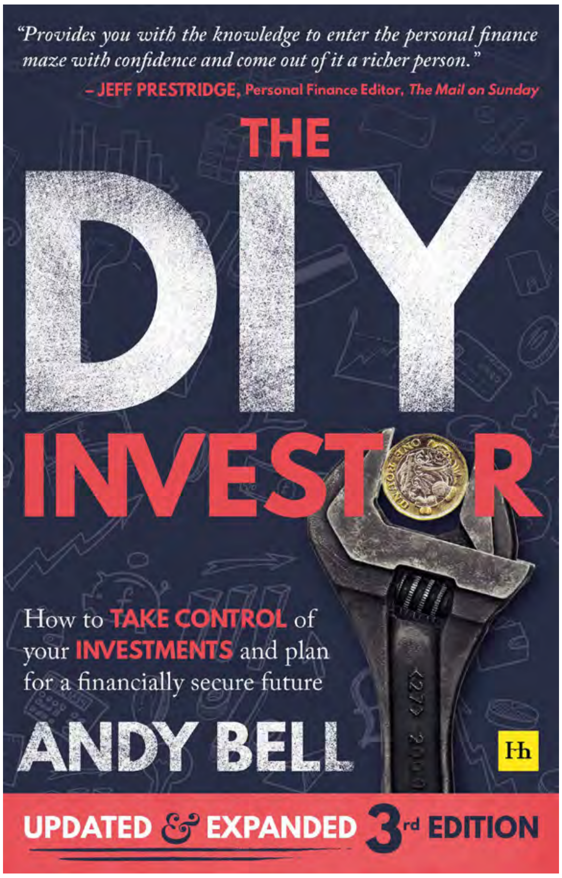
What does being a DIY investor entail?

Being a DIY investor can involve as much or as little effort on your part as you want it to. You could set up a well-researched, low-maintenance investment portfolio from scratch in less than an hour, which only needs an hour or two every six months or so to review it. Or you can create a more complex portfolio that may require daily or weekly monitoring.

The choice is yours, but please don't dive in at the deep end. Read this book and then ask yourself the question, "Am I a DIY investor?" If the answer is yes, you will likely be particularly interested in one or more investment styles and strategies highlighted in later chapters.

We are offering these e-books (worth over £12) FREE to all full members of ShareSoc on a first come first served basis, until supplies are exhausted.

If you want to download a copy* please go to the Member Offers page on the ShareSoc website.



RETURN TO INDEX

SIGNET UPDATE

Danny Wallace, SIGnet Director

August may have been a quiet month in the markets, but September and October certainly weren't. We have been reminded that the rollercoaster ride goes down as well as up.

Saturday 2 October took us, along with ShareSoc, to the Stone X Stadium for the UK Investor Summit hosted by the Global Group. As far as I am aware, this is the first investor show post-lockdown, a fairly brave move. The Global Group managed to tune this event perfectly, with the right venue, size, location, exhibitors and speakers.

The SIGnet National Group has been focused on alternative investments recently. We had an excellent member presentation which sparked much interest and discussion. Although P2P, P2B and crowdfunding did not seem to grab attention, forestry certainly did. After the meeting, I was contacted by members across the country who wished to make contact with the presenter to take the concept further. Sharing knowledge through the network is a SIGnet strength.

The USA Group has further embraced its style differentiation through Covid. The group used to meet in London but the move online has allowed members to join countrywide. As the name suggests, the USA Group has a specific geographic focus, but due to recent events in China, that focus needed to extend across the seas. We may need to change the name to the Superpower Group!

RETURN TO INDEX

Liverpool is also differentiated by style rather than location: this is very much a stock picker group. We had a member presentation, always a beneficial process; the simple act of taking a look at your own portfolio and preparing it for presentation is often a huge learning process in itself. Following this, we had a further presentation in respect to PrimaryBid: how it is used, the good and the not so good aspects.

The SIGnet Phoenix Alpha Group is a new group launched by SIGnet with guidance from ShareSoc. It has evolved from the FIRE (Financially Independent Retire Early) Community, which traditionally takes a two-pronged approach of controlling expenses whilst investing in tracker funds, usually from Vanguard. They take a step back and evaluate life and money. They realise that an active approach to their finances is the key to successful early retirement.

The SIGnet perspective aims to enhance the investing process. We have created a group to engage discussion and exchange thoughts and ideas to improve outcomes for all. Investing in a global tracker is fine, but some investors wish to know more about the underlying process. To that end, we have therefore discussed platforms, investments, terminology, compounding, ratios and various other topics within the group. It's a relaxed gathering and questions are encouraged. Each session is intended to teach in such a way that even if somebody only came to one session, they would leave with more than they arrived with.

SIGnet is available for everyone to enjoy. If you would like to join, share your thoughts and listen to others, then please visit the website and submit your form.

SHARESOC IN THE NEWS

Small investors tackle big guns on climate change

Cliff Weight

Alice Ross, FT Deputy Editor, has written a major article about how "Retail shareholders can get organised and can push for change if they band together".

The article focuses on the successes of the pressure group ShareAction who have successfully used their AGM Army to ask questions at AGMs and lobby for corporate action on climate change. However, Cliff Weight and ShareSoc are also quoted at some length on the difficulties faced by private investors.

> *One problem for retail investor engagement, however, is that the vast majority remain uninvolved. Most do not vote at all on proposals put forward at AGMs by the boards themselves, even when they concern executive pay, a topic which tends to stir emotions.*
>
> *Cliff Weight, a director at ShareSoc, which represents UK individual shareholders, says that despite owning 28.4 per cent of the UK stock market, "it's almost impossible" for retail investors to vote at AGMs. Often this is because they own their shares through investment platforms rather than directly, and investment platforms do not always make it straightforward for their clients to educate themselves.*
>
> *"I think the industry should make it a hell of a lot easier," Weight says. "It's a shocking abuse of democracy: we wouldn't allow it if 20 per cent of the country weren't allowed to vote in general elections."*

The FT report also covers the Law Commission report, to which ShareSoc contributed.

> *"A report last year from the Law Commission recognised this problem, noting that while so-called intermediated securities made trading a lot quicker and cheaper, they raised issues of transparency and corporate governance. Because end investors, or 'ultimate' investors, are not named on the shareholder register of the companies they are invested in, they must rely on their investment platform to help them to vote. One of the report's proposals is that intermediaries should be obliged to facilitate the exercise of voting rights by their retail investors".*

LAST WORD

Does yield vary with market capitalisation?

Mark Bentley considers whether dividends are more important to total return for bigger companies than small ones

There has recently been some discussion within ShareSoc and SIGnet about the construction of the SIGnet Investors' Index (SII). A point of debate was whether the SII was biased relative to more conventional and total return indexes, because its small- and micro-cap weighting did not take account of the higher contribution of dividends to total return offered by larger cap stocks.

I therefore agreed to undertake some research to discover how dividend yield varies with market capitalisation.

I used SharePad to extract historic yield data for all UK listed and quoted stocks into a spreadsheet, which I then used to perform the analysis. My findings were as follows:

- The arithmetic average yield for the shares in the FTSE100 is 2.72%
- The arithmetic average yield for the shares in the FTSE All-share is 2.17%

Looking at "penny stocks", i.e. those with share prices of less than 10p (296 stocks), I find that the arithmetic average yield is 1.73%. Many pay no dividend, but the average is distorted by two outliers with massive yields – CCJS 123% and EDGI 377.8%. Presumably these trusts are liquidating.

Looking at all stocks, the top 50% by market cap have an average yield of 1.56%, whereas the bottom 50% have an average yield of 1.74%. This is from a universe of 1848 stocks.

I conclude that yield is not strongly correlated with market cap or share price (except in the case of the FTSE100, which does have a significantly higher than average yield).

The author accepts no liability for any errors in his analysis – readers should verify the analysis for themselves

Events update

Mike Dennis, Director, ShareSoc

Since my last update, we have had the usual mix of company webinars, many of them being on investment trusts. Desk-based research considering the usual factors (historical performance, discount to NAV, income vs growth, geographical, sectoral and size segmentation, fees etc.) is important but often fails to differentiate between similar-looking investment trusts. A webinar is a great way to get to know the manager and delve more deeply into the details of their investment processes, their attitude to risk, the way they talk about their investments and other matters you should understand before making a decision. All recordings and presentation packs from our webinars are available to full members on our website.

At the end of September we held a campaign webinar on the Woodford Equity Income Fund debacle. We had well over 600 members online to listen to a variety of presenters on developments to date and next steps. The presentations were interesting and informative and I was particularly struck by the strength of feeling expressed by Jeff Prestridge from the Mail on Sunday. Jeff has been reporting on the Woodford case from the very beginning and is very keen to see justice done. You can read more about the webinar in this newsletter (see page 17), and full members can access a recording here.

We have several meet-the-company webinars arranged (see page 26) and others in the pipeline, so keep an eye on our events page to find out more.

On 4 November we also have another "In conversation" webinar, with Lord Lee, David Stredder and Leon Boros discussing the market environment, portfolio management and key companies in their portfolios and how they fit with their investment plans. If you wish to remind yourself of what this trio discussed early in the year, the recording and follow-up Q&A from January's "In-conversation" webinar are available to full members here.

At the beginning of November, we shall be issuing a short survey to all members to seek your views on a return to in-person company seminars some time in the new year. We would really appreciate it if you could take a minute or two to respond. Oh, and keep your company suggestions coming in on the suggestions page and we shall do our best to get them along to ShareSoc to deliver a presentation.

RETURN TO INDEX

Catch-up corner: recent webinars on-demand

- Momentum Multi-Asset Value Trust plc – 14/9/21
- Avation – 13/9/21
- 'Woodford – What Happens Next?' – 30/9/21
- Worldwide Healthcare Trust PLC – 28/9/21
- JPMorgan Global Growth & Income plc – 23/9/21
- Diaceutics PLC – 22 /9/21
- Strategic Equity Capital plc – 7/9/21

UPCOMING WEBINARS

RETURN TO INDEX

IN CONVERSATION WITH LORD LEE, LEON BOROS AND DAVID STREDDER
4 NOVEMBER 2021
Click here to register: https://bit.ly/2YD4UeU

SHARESOC WEBINAR WITH BLACKROCK INCOME AND GROWTH INVESTMENT TRUST (BRIG)
11 NOVEMBER 2021
Click here to register: https://bit.ly/3FURD1M

SIGNET AFTER-MEETING ON BLACKROCK INCOME AND GROWTH INVESTMENT TRUST (BRIG)
11 NOVEMBER 2021
Click here to register: https://bit.ly/3vPJtTM

SHARESOC WEBINAR WITH SAINSBURY'S PLC (SBRY)
24 NOVEMBER 2021
Click here to register: https://bit.ly/3CtNekA

SIGNET AFTER-MEETING ON SAINSBURY'S PLC (SBRY)
24 NOVEMBER 2021
Click here to register: https://bit.ly/2ZuWgih

PARTNER EVENTS

MELLOMONDAY, 8 NOVEMBER 2021
Click here to register: https://bit.ly/2ZvUrlv

SHARES INVESTOR EVENING (WEBINAR), 9 NOVEMBER 2021
Click here to register: https://bit.ly/3BnnxRg

SHARES INVESTOR EVENING (WEBINAR), 17 NOVEMBER 2021
Click here to register: https://bit.ly/3bi6VQo

MELLOMONDAY, 22 NOVEMBER 2021
Click here to register: https://bit.ly/2ZtAxr0

News and social media

Join the discussion!

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.

Support

ShareSoc with a donation

Are you finding your ShareSoc membership of value? If so, please consider donating to help us continue to support individual shareholders. Go to this page for more information: http://bit.ly/2tFYvyc

Protection

of your personal data

Sometimes ShareSoc sends emails that promote third party events or offerings, but we never share your personal data with other companies. If you do not wish to receive promotional emails, do let us know.

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.

Editorial, General Information and Membership Secretary Email: info@sharesoc.org

Telephone: 0333-200-1595 (Int: +44-33-3200-1595)

Web: www.sharesoc.org

Address: ShareSoc, Suite 34, 5 Liberty Square, Kings Hill, WEST MALLING, ME19 4AU

Address changes

Please notify ShareSoc's 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 to you. Paid subscription reminders may also be sent by post, so make sure your details are up to date!

ShareSoc

UK Individual Shareholders Society

Visit www.sharesoc.org for more