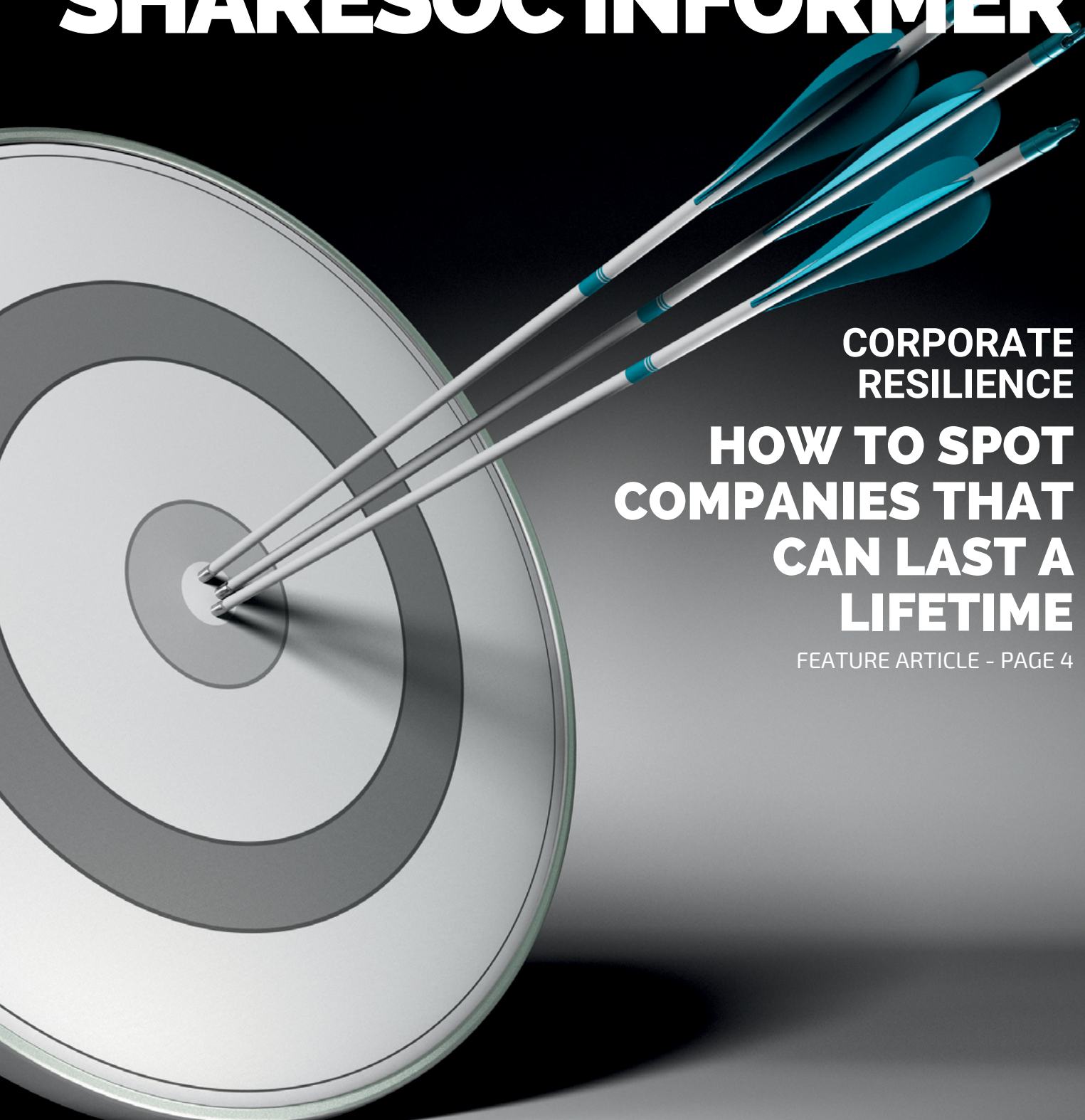




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**CORPORATE
RESILIENCE**

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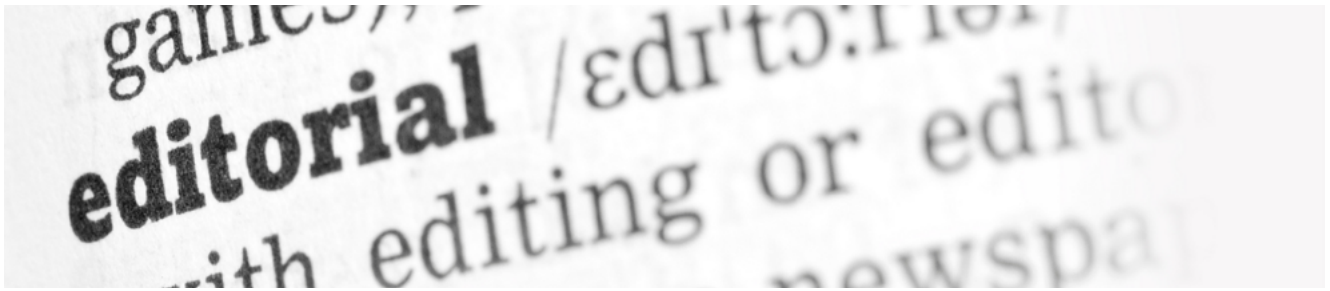
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EDITORIAL



Equity investment trust yields are looking good

More than 40 equity-focused trusts are paying over 4% in the wake of falling markets – but income investors should choose carefully, says Faith Glasgow

The challenging market conditions of the past 18 months have been particularly difficult for investors in investment trusts. However, one silver lining to these dark clouds, especially for income-focused investors, has been the growing availability of generous dividend yields as trust share prices have fallen.

A note published by broker Stifel on 19 July revealed that there were 34 trusts investing mainly in equities and yielding at least 4%, up from 25 in February. "The increase reflects some dividend growth, and yields have also risen in some cases as a result of falling share prices," says the broker.

The trend continues, too: that number has since risen to 41, according to data from the Association of Investment Companies to 21 August. Almost all are trading on a discount to net asset value (NAV).

A look through the AIC list reveals real diversity. Unsurprisingly, the UK Equity Income sector is well represented with around 17 trusts in the list, including stalwarts such as City of London and JPMorgan Claverhouse (yielding 5.5%), Merchants (5.4%) and Murray Income (4.7%). Several UK smaller companies trusts also make the cut, including Montanaro UK Smaller Companies (MTU, 4.5%).

But the list also offers a broad geographical spread, including a number of Asia Pacific equity income trusts. Henderson Far East Income tops the list on a massive 11.3% yield, yet still trading on a marginal discount; Abrdn Asian Income and JPM Asia Growth & Income are both yielding 5% plus.

Global, China, North America and emerging markets trusts also feature, as do Japanese and European smaller companies. In addition there is a handful of specialist trusts focused on commodity, property or infrastructure securities.

From an income perspective, this appears to be a good time to gain exposure to some attractively priced income-focused investments. As Stifel observes, most of the trusts "have dividend reserves, and have a good record of delivering annual dividend growth."

That's important for anyone looking for a reliable ongoing income that can at least keep pace with inflation. It indicates the boards not only have year-to-year dividend growth on their agenda but are in a position to deliver it, drawing on their reserves in difficult years if their portfolio holdings do not deliver.

Thus City of London, Claverhouse, Murray Income and Merchants, among others, are AIC 'dividend heroes' whose payouts have increased every year for more than 40 years, and whose reputation is now firmly staked on the preservation of that record if at all possible. The current time is a relatively rare opportunity to pick them up at a discount to net asset value, or at least around par.

However, Stifel sounds a word of warning over some of the trusts on the list. Ten of its 34 constituents (including European Assets, on a 6.75% yield, and MTU) follow a system of paying out a fixed percentage of the net asset value, typically 4%. The trouble is that when NAVs are falling, so will the dividends paid out and the prospective yield the following year.

There is of course an argument that savings rates have picked up, and it's altogether less stressful in these highly uncertain markets simply to put money into a fixed term or notice account paying over 5%.

But for patient income investors prepared to sit with the equity risk, the yields on a rising number of equity trusts are now comparable with or above the best savings rates – and over time the chances are that capital values will rise too. Just look carefully at dividend reliability before you commit.

Faith Glasgow is a freelance journalist



CORPORATE RESILIENCE



How to spot companies that can last a lifetime

The resilience of the world's oldest businesses begs the question: what makes specific companies true survivors? Julian Hofman reports

The original investors in the world's oldest company, the construction firm Kongō Gumi, would be well-pleased that the venture they originally backed in 578 AD is still going strong in modern Japan – one can only imagine the effect of compounded dividends over that timeframe.

Assessing the merits of the market's oldest companies can enable us to see whether a particular set of qualities – be it steady management, adaptability or just simple luck – are the key ingredients of long-term success, and whether these qualities are also evident in companies that are less advanced in their corporate journeys.

Compiling a comprehensive list of companies with exceptional longevity, both privately owned and listed on the public markets, is relatively easy, but quantifying what makes them unique, or worth investing in, is a much more difficult exercise.

What is clear is that the way companies evolve over time can affect their investment potential, their function and even the basis of their operations. For instance, a modern investor in a company such as Pearson (PSON), which these days is a pure-play academic publisher, would hardly wish that it return to its roots as a builder's merchant and construction material wholesaler in 19th-century London.

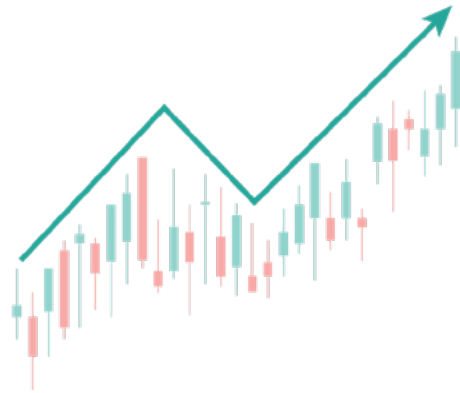
What we need, therefore, is a checklist to refer to when assessing the best and worst of the market's oldest companies, and this can start with what constitutes a survivor company, other than just sheer longevity.

Who are the true survivors?

There are plenty of examples of shares where, although appropriate corporate actions have ensured the company's continued existence, the underlying investment case has evaporated.

This can happen for several reasons, whether it is management mistakes – overloading the balance sheet with debt is a sure sign of ego getting in the way of sensible management – an external crisis creating stress, or opportunities not turning out to be as fruitful as first thought.

Capitalism at its heart is always going to be about change, and often violent change. As the doyen of the Austrian school of economics, Joseph Schumpeter, said: "Economic progress, in a capitalist society,



means turmoil." It is fair to say that Schumpeter's short-lived tenure as finance minister of Austria in the aftermath of the First World War gave him an insight into what chaos looks like.

In company terms, a sudden change in market conditions can have near-fatal consequences; the history of the stock market in both the UK and US is littered with examples, some of which do not end with the demise of the company itself, but rather lead to

a strange state of limbo.

Merely to survive is not enough; a company must also thrive afterwards. Knowing which companies are zombies and which are true survivors is the fundamental starting point. Longevity itself doesn't necessarily mean quality.

A less than Capita idea

Capita (CPI) started as part of the not-for-profit organisation the Chartered Institute for Public Finance and Accountancy (CIPFA) in 1984, and grew under its founder Rod Arlidge to list on the Stock Exchange in 1991. While times were good, Capita stepped up to run ever more of the moving parts in the UK state – drivers' licences, passports, government training, the fire service college – as well as offering support services to marquee names such as British Airways.

But the real problem with Capita, and with the outsourcers in general, was that generating new business at any price became the dominant model. This meant that the company piled up uneconomic and loss-making contracts at a time when the government was striking a much harder bargain; margins were thin and even the smallest rise in costs could tip whole business divisions into loss.

Matters came to a head in 2018 when the company issued a profit warning under a new chief executive, along with a dividend suspension, a pension deficit of £381mn and net debt of £1.15bn. The turnaround since then has involved selling available assets to any buyer that can afford them. Around £1.7bn of debt has been paid back, and the defined contribution pension fund is now in surplus thanks to rising interest rates, combined with an agreed contribution plan in place since 2020.

So, if a company has survived against arguably all the odds, does it qualify for survivor-share status if it merely exists in a precarious present, rather than working towards a sustainable future?



How to spot companies that can last a lifetime

In Capita's case, a business that produced £1.47bn of revenues in the first half of the year but which generated only £21.1mn from its operations looks trapped in a vicious circle of asset sales and underperforming contracts. Companies are not fated to die, but sometimes the market simply moves away from them.

A Rolls-Royce performance

Then again, markets can always change their minds. For much of the past decade, Rolls-Royce (RR.) struck a sour note with investors, struggling with profit warnings and contract mishaps of its own. Then came the pandemic, which was particularly painful for a company that once prided itself on above-average performance and a hard-won reputation for engineering excellence.

Without large numbers of flying planes, Rolls does not earn money from its servicing contracts, which are based on aircraft flying hours. Two years of subsequent reorganisational turmoil has only just started to ease as more passengers take to the skies and brave the passport queues. In January, its chief executive used the frightening image of a burning platform to describe Rolls-Royce's predicament, but recent performance suggests the flames are being doused.

The company has of course been here before, and while there could have been a scenario over the past three years when its financial situation became unbearable, the theoretical possibility of going bust pales in comparison with the time that Rolls actually went bust in 1971 and was then nationalised by Ted Heath's government and saw its motoring arm hived off two years later.

The key point to note regarding its latest pressure point is that, even at the worst points of the lockdown and travel ban, Rolls Royce's balance sheet was still showing vital cash. This is confirmed by the fact that its current ratio – a measure of balance sheet health – never dipped below 1.1 during the entire episode; as long as the ratio stays above one, the balance sheet is showing cash.

Admittedly, a major part of this was its ability to get a £1bn rights issue and £2bn of new bond issuance away at a time when even its own advisers were reportedly sceptical over the likely outcome. The cash infusion, combined with a programme of cost-cutting and redundancies, helped provide liquidity at a key point.

The fundamental difference between Rolls and a company such as Capita is that for the former the market believes that capital is still being efficiently deployed in a value-added activity such as complex mechanical engineering. A zombie company absorbs capital at a rate faster than its core activity can produce it, which certainly does not describe Rolls-Royce's situation. With its 118-year history, Rolls is a prime example of a survivor share on the UK market and one that is too important to the British export economy to simply fade away.



A lucky charm

Company loyalty is a quality that has been given a new lease of life in the wake of the pandemic, as firms cope with an unprecedented movement of employees able to pick and choose jobs and higher wages. For many HR departments, this prompted bouts of soul-searching over whether their businesses were doing enough to keep their staff happy beyond the monthly pay cheque.

Start-ups and tech firms have long gone with the "free fruit and table football – don't ask about the company pension scheme" approach to staff happiness but, until very recently at many firms, online mindfulness sessions and free cake were a rarity. If the success of any organisation is due, in part, to the productiveness and well-being of its staff, then survivor companies should logically inspire the kind of loyalty that leads to resilience and longevity.

Few companies like to publish statistics on their average retention rates on these shores, but over in the US, this has become routine for firms that want to attract and retain the best talent. One such company is General Mills (US: GIS), whose founding date of 1866 puts it in the upper tier of oldest-surviving US companies. For the uninitiated, General Mills makes some of America's best-loved breakfast cereals and snacks, including Lucky Charms, Cheerios and Golden Grahams.

While the company has the now-standard ESG mission statement that emphasises investment in people, place and planet, in its case the statistics seem to back up its claims to nurture long-term relationships with its staff. Despite having 16,000 employees, the company has annual turnover of just 3%. More than half the workforce has been in post for 10 years, or more, while 12% have been there for more than 20 years.

So does this impressive display of retention and motivation translate easily into total shareholder returns? How hard-nosed are investors prepared to be? The answer may come as a surprise. According to FactSet data, General Mills' total return has been respectable, with the shares rising in value by 70% over the past five years.



How to spot companies that can last a lifetime

Over that timeframe, earnings grew by an average of 3.7% annually, compared with an 11% annual increase in the share price – when dividends are included (the company's dividend yield is currently 3.3%) the gap widens further. Indeed, the company has a long track record of delivering the goods for shareholders; the total annual return increases to 15% when the timeframe pushes out to 20 years.

In short, General Mills seems simply to be well-liked and respected as a business: while earnings do not shoot the lights out, as a consumer staple it's a company on which investors can rely in most economic conditions. And the dividend yield is, by US standards, not to be sniffed at. For value investors, the company's 16 times forward price/earnings (PE) ratio, based on FactSet consensus, is a clear discount to the S&P 500 and to similarly long-lasting competitors such as Hershey (US:HSY) with its frankly inedible chocolate (although this may be a matter of subjective taste).

Keeping it in the family

Hershey – a business in which the founding family still retains majority voting power – brings to mind the old debate about whether older, family-owned companies are inherently better run than newer, less established ventures.

Professor Vicki TenHaken, author of *Lessons from Century Club Companies*, has unearthed research from Japan that businesses aged 100 years or more are at least twice as profitable as the country average. Although similar research is not available for the US and other markets, TenHaken believes that there is no reason that a similar rule of thumb cannot apply.

But if the criteria are both age and an ongoing connection with the original founders, then investors should be wary. A good example of how family-owned businesses don't necessarily make for harmonious business relations is the feud between the various branches of the Porsche family over the ultimate ownership of Volkswagen (DE:VOW) and Porsche (DE:P911) itself.

This culminated in a spectacular corporate raid in 2008 when Porsche tried to assert control over VW through a series of complex share options, prompting a short squeeze on VW shares.

Some investors who were lucky enough at the time to hold Volkswagen stock made returns of several hundred per cent overnight. The attempt ultimately failed, with Porsche sustaining huge losses as its options turned bad on the back of the financial crisis. Currently, an uneasy compromise sees Volkswagen continue to hold a majority stake in Porsche, while the Porsche family does likewise in Volkswagen. One can only imagine the atmosphere at the family Christmas dinner.

Other family owners of successful companies are content to sit back and let the hired help run the

business. For example, few people without specialist knowledge would guess that the Quandt family continues to own a key controlling stake in BMW (DE:BMW), with only one son, Stefan Quandt, holding a formal position at the carmaker as deputy chairman of the advisory board. Hardly the stuff of engaged management.

BMW also fails the age test as, like many large German companies, it is the product of the country's post-war economic miracle; in BMW's case, being saved from bankruptcy through the intervention of old man Quandt in 1959. Instead, we must redefine the "family" origin of a business to come up with sensible stock-market-listed suggestions.

Family in name only

Sooner or later, Berkshire Hathaway was going to intrude into this debate – the company is technically an old family business with its roots in 1830s Rhode Island, although admittedly now unrecognisable from the cloth manufacturer that Warren Buffett first took over in the 1960s. But its holding company, whose cash pile recently topped a record \$147bn (£116bn), is in corporate terms only in active middle age so has to be discounted from our calculations.

One company that does fit the age criteria and still retains some links with its founders is giant chemicals company DowDuPont (created out of a merger in 2017 but subsequently hived out again), or more specifically the DuPont de Nemours (US:DD) part of the company.

Founded in 1802 by French/American chemist Éleuthère Irénée du Pont de Nemours, the company initially specialised in gunpowder production, after a fateful hunting trip showed up the poor quality of American gunpowder. The corporation started with \$36,000 and a site on Brandywine Creek in Delaware.

The attraction of DuPont from an investor's point of view is that its longevity reveals a basic fact about the nature of business. The company keeps going because it is exceptionally good at what it does.

Having mastered the second phase of industrialisation, it lives on with the basic premise that modern society needs chemicals of all kinds and in all things, and that this is a superb generator of exclusive intellectual property. It is estimated that DuPont has 35,750 patents registered for the period between 2009 and 2018 alone. For reference, the largest patent holder in the world is the highly diversified Korean "Chaebol" corporation, Samsung, which filed more than 6,200 patents just in the US across the vast range of its sprawling operations.

It is also the case that the reshoring trend that is currently powering the biggest expansion of US manufacturing facilities in 50 years is benefiting the likes of DuPont. The Biden administration has made it a priority to manufacture more of the country's critical chemicals, particularly those used in the manufacture of medicines, onshore. The idea is to reduce the reliance on



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How to spot companies that can last a lifetime

overseas (for this read Chinese) supply chains that were badly exposed by the pandemic and the war in Ukraine.

Arguably, DuPont's resilience is down to the fact that the company's longevity regularly allows opportunities to come its way. In this case, it is less the family name that matters and rather the expertise and experience built up over decades.

It is fair to say that history matters when it comes to picking quality companies to invest in. Successful companies are rarely based on just one big idea, and spend several lifetimes researching, developing and refining their products so that the competition cannot easily eat away at the margins.

Looking for focused and productive research and development, patient cultivation of market share and

customer relationships, and even considering how well a company treats its workforce, could all unlock some potential long-term investment gems.

In *Lessons from Century Club Companies*, TenHaken writes: "The point is not that the old companies don't see profits as important, but that they view them from a different perspective. Accomplishing their mission and purpose comes first. If a company does this well, they believe making money will follow."

Most investors would wholeheartedly agree with that sentiment, even if the approach can sometimes require patience stretching across decades.

This article first appeared in the Investors Chronicle on 18 August 2023.

SMALL COMPANY INVESTMENT TRUSTS



Time to take the plunge?

History suggests the fortunes of small companies could soon start to improve, argues Ryan Lightfoot-Aminoff



The UK has been struggling with a number of headwinds over the past year. A confluence of global factors has contributed to a higher inflationary environment, which has had a tough impact on both UK business and consumers. This has led to an increase in negative sentiment, which has had an effect on the stock market, particularly on companies at the lower end of the spectrum.

Smaller companies tend to perform worse in challenging market conditions for a number of reasons. They are often focused on a single sector or niche, which means they cannot rely on diversified product lines to help them

out in challenging periods. Similarly, their customer bases are often smaller, meaning the loss of one customer could have a bigger impact on them than on a larger company..

Furthermore, they will generally find it more difficult to raise capital in challenging economic conditions, as banks often tighten credit standards and equity holders become more risk-averse in difficult periods.

This uncertainty feeds into share prices as investors move towards lower-risk areas such as large-cap equities, government bonds, or even savings accounts.

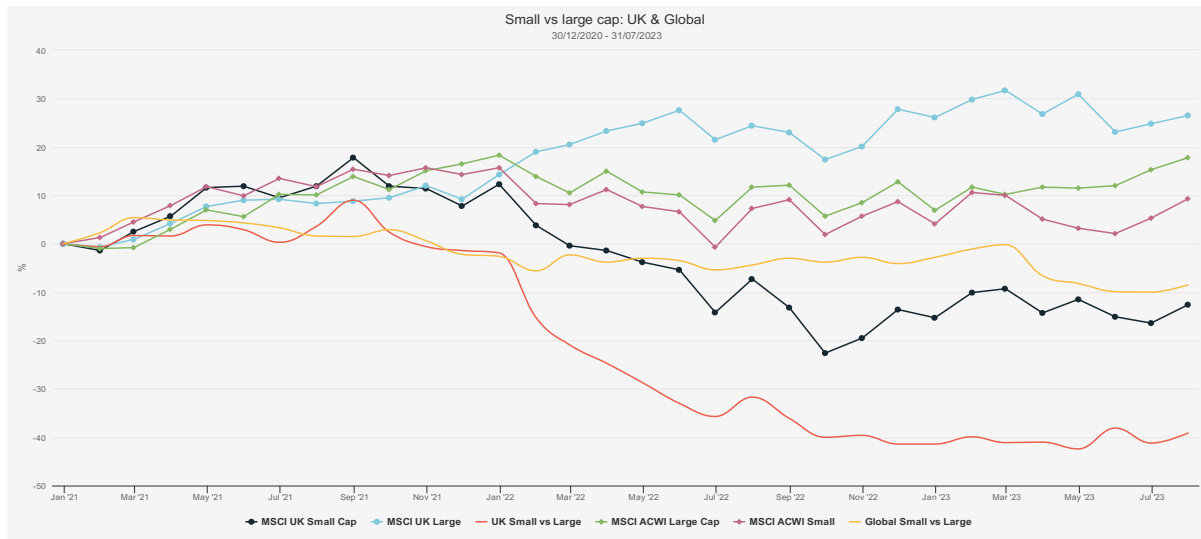


Time to take the plunge?

As the chart below shows, UK small caps have had a period of difficult performance recently, in both absolute and relative returns. Since the beginning of 2022, when economic conditions started notably deteriorating, UK small companies have delivered negative returns and underperformed UK large caps.

This has been an issue globally, as the yellow line in the chart shows. This illustrates relative performance of global smaller companies versus their large-cap peers

and highlights a clear period of underperformance. However, it has been particularly prominent in the UK, as evidenced by the red line which shows how the underperformance of UK small versus large caps started at the turn of 2022 and continued to October, before levelling out. It is true that some of this UK underperformance is due to the particularly strong performance of UK large caps last year, but as the chart shows, UK small caps also did pretty poorly in absolute terms.

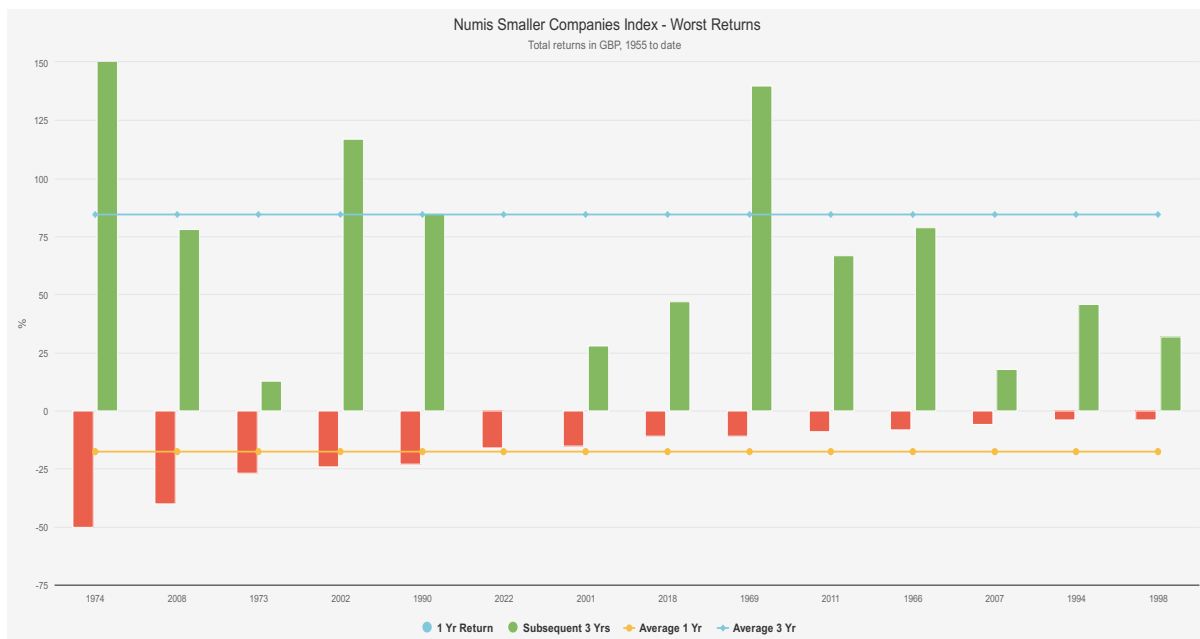


Past performance is not a reliable indicator of future results. Source: Morningstar

After such a period of underperformance, the mind naturally turns to the potential for recovery. While there remains plenty of uncertainty surrounding the immediate market outlook, waiting for a recovery to be confirmed can lead to missing out on the best returns, while the beauty of investment trusts is there is often a share price discount offering an additional premium for taking a risk early.

Furthermore, investment trust discounts have historically lagged underlying market rebounds and offered an

extra source of returns when the recovery is eventually recognised by the market. UK small caps have historically done particularly well after a period of difficult performance, which we think makes them look attractive at this juncture. Data has shown that since 1955, every time the Numis Smaller Companies Index has had a negative calendar year, it has been followed by positive returns over the subsequent three years, with an average return of 84.4%. In 2022, the index fell 16%.

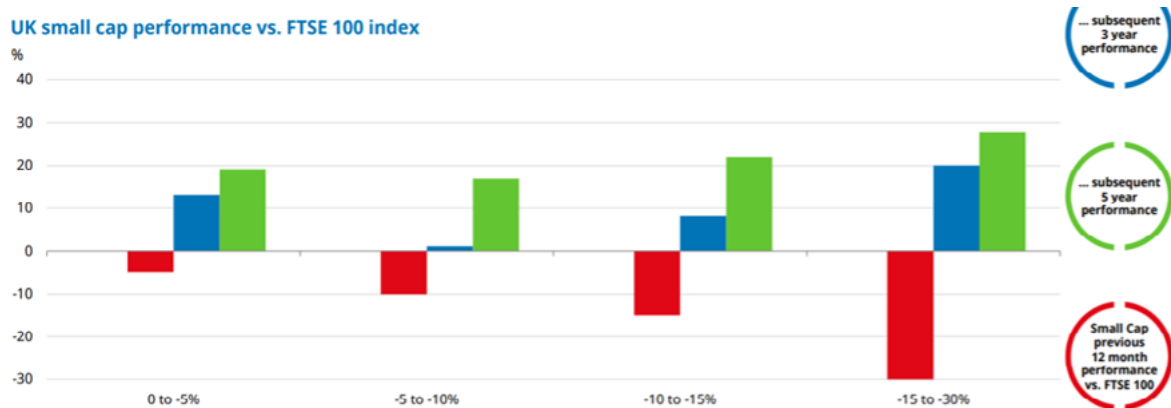


Past performance is not a reliable indicator of future results. Source: Montanaro Asset Management, as at 30/06/2023.

Time to take the plunge?

Further evidence shows that a similar effect is visible after periods of relative underperformance of smaller companies versus large caps. Every time the Numis Small Cap plus AIM ex IT Index has underperformed the FTSE 100 Index over a 12-month period, it has been followed by positive returns over the following

three and five years, with the worst relative performance leading to the strongest periods of subsequent returns. Whilst past performance is no guarantee of future returns, the index returned -4.8% in the year to 09/08/2023, underperforming the FTSE 100 Index by 10.1%.



Past performance is not a reliable indicator of future results. Source: Schroders.

Beyond these periods of relative performance, the current valuations of smaller companies offer further validity for their investment case. When the FTSE SmallCap Index has traded below a P/E of 10x, the average return over the following 12 months has been 36%, and over the next 24 months, this figure jumps to 60%. According to Invesco, the current figure is below 9x. As such, the managers believe there is plenty of value in UK stocks at the moment, especially when looked at with a long-term mindset.

Whilst valuations are compelling, and history has shown that smaller companies often outperform after periods of weakness, there is an argument to say that share prices don't go up simply because they are cheap. There needs to be a reason for investors to move from being net sellers to net buyers again, and much has been said elsewhere about what the potential catalyst could be.

However, such catalysts are often only identified after the fact, and often investors spend so much time analysing what could inspire a market recovery that the recovery happens while they are studying it. Markets are often forward-looking, and therefore if investors are waiting for the signal that UK smaller companies could start to outperform, they may miss the beginning of a potential rally.

We think there is strong empirical evidence to show that UK smaller companies could be a good investment opportunity at the moment. Our data has shown that UK smaller companies often perform strongly after periods in which they have struggled, both in absolute terms and relative to large caps. As a result of a number of short-term factors, UK smaller companies have been through a difficult period in the past couple of years and have suffered in both absolute and relative terms.

This has affected the investment trusts that invest in the space, and discounts have widened accordingly. As such, we believe there are a number of smaller company investment trusts trading on compelling discounts which could provide an opportunity for long-term investors.

This may not be a smooth ride, considering the uncertainty at present, but for those willing to look through the short-term noise, history has shown that this area of the market often bounces back strongly; the current weakness may well be one of those points that investors look back on in a few years' time and think this was the moment...

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ADVENTURES IN INVESTING

Can AI give me an edge?

ShareSoc member Marcus Breese puts Generative AI through its paces as an investment aid – and realises there are no quick fixes

Have you heard of Kurt von Hammerstein? He was a German commander-in-chief during the Second World War who had an interesting way of assessing his armies. To him was attributed the following quote:

"I distinguish four types. There are clever, hardworking, stupid and lazy officers. Usually two characteristics are combined. Some are clever and hardworking; their place is the General Staff. The next ones are stupid and lazy; they make up 90% of every army and are suited to routine duties. Anyone who is both clever and lazy is qualified for the highest leadership duties, because he possesses the mental clarity and strength of nerve necessary for difficult decisions. One must beware of anyone who is both stupid and hardworking; he must not be entrusted with any responsibility because he will always only cause damage."

I am a fan of approaching life with the mindset of a lazy general, in particular looking for easier ways of completing difficult tasks. Out of pure idleness I've developed a healthy working knowledge of Excel formulae, because there's no way I'm hand-sifting through thousands of rows to find the information I need.

So when Chat-GPT and Generative AI came onto the scene, I was excited at the possibilities it might offer to make life easier and expand my capabilities. I find it incredibly useful when I'm starting to write something, especially emails (full disclosure, I did not use it for this piece).

A lot of people have been looking at how Generative AI will impact the world of investment, mainly in terms of what AI can do for businesses one might invest in, but I've not heard as much chatter about how it can be used to make the process of investment easier (and help us make better investment decisions). So I set myself the challenge of imagining some use cases, and came up with the following:

Due diligence: when researching a prospective investment, investors could use Chat-GPT to do the legwork - research the backgrounds of the people involved and the market the company operates in, pull up a summary of its history based on public records, who the competitors are, etc.

Trend analysis - for example, combining disparate datasets to spot trends in the market and provide greater insight into investor behaviour.

I've had a few ideas for projects knocking around, so over the course of a few months I settled down and made a few of them happen.

Experiment 1: RNS/share price correlation

Something I've been curious about recently is whether there is any correlation between companies releasing RNSs and their share price movement. There are three angles I'm particularly interested in:

- i) whether certain types of RNS are more likely to prompt share price movement;
- ii) whether some companies are more likely to see a reaction when they release an RNS;
- iii) where share price movement ahead of an RNS could be detected and used to demonstrate a "leaky ship" (i.e. a tendency for news to leak to the markets ahead of a full announcement being made).

This kind of task seems to be perfect for Generative AI - it is able to interpret data and perform statistical analysis, meaning that this kind of task should be well within its capabilities.

Now, as any user of Generative AI knows, it's not a mindreader and needs a certain level of instruction and forethought for best results. So after some consideration I came up with a process for it to follow.

Step 1: Pick a company, download its historic share price data, save to a file;

Step 2: Access its entire RNS history, perform sentiment analysis for each RNS and give it a weighted score between -10 and +10 (-10 being terrible news and +10 being great news), provide a summary of the RNS, and store it as a table;

Step 3: Analyse the RNS vs the share price history for any correlation.

I selected a victim and away we went. Step 1 went smoothly. Chat-GPT was able to access the share price for the company through to 2021 (this being the stopping point for Chat-GPT's dataset)

For step 2, I decided to verify the sentiment analysis before pulling the entire RNS history. One of my reasons for choosing the company I did is that it is exemplary at communicating both good and bad news to the markets, so I selected a few RNSs of varying sentiments and ran them through Chat-GPT.

I started with a trading update which contained news that the company had missed its revenue forecast as a result of production issues. This was where the wheels started to fall off. First, Chat-GPT misidentified the company. Secondly, while it did manage to identify that there was bad news in the form of a drop in revenue and production levels, it attributed them to a variety of factors, none of which were accurate or stated in the RNS.



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Can AI give me an edge?

I fed it a second RNS, with a similar result: although this time it correctly identified the company, it misunderstood several key elements of the RNS, including the date; and while it correctly identified that a drop in revenue forecasts had been announced, it got the reasons all wrong.

Disheartened, I called the whole thing off.

Experiment 2: a list of open offers

For my second experiment, I wanted to do some research on open offers for a project I was working on. The task for my glamorous AI assistant was simple: pull together a list of open offers conducted on the AIM market that had taken place over a given period and assess how much money they'd raised against their target. For this experiment, I chose to use Google's Bard rather than Chat-GPT, which has the advantage of being connected to the internet and therefore capable of accessing the freshest content available.

Full of optimism, I checked that Bard knew what an open offer was - it did - and verified it was capable of retrieving and searching RNSs; it was. This was looking promising. I then gave it a simple instruction: "Can you give me a list of recent open offers on the UK AIM market".

The lazy general put his feet up while Bard whirled away, and was soon rewarded with a list of companies, each accompanied by a paragraph detailing their recent open offers. Fantastic. But once bitten, twice shy: I decided I'd better verify what I was being told. I've included a screenshot so the interested reader can verify along with me.

Sure, here are a few recent open offers on the UK AIM market:

- **Avantium:** On 20 June 2023, Avantium announced an open offer to raise £100 million. The offer was priced at 250 pence per new share, a discount of 17.6% to the closing price of Avantium's shares on 17 June 2023. The offer was fully subscribed and closed on 29 June 2023.
- **Serica Energy:** On 22 June 2023, Serica Energy announced an open offer to raise £250 million. The offer was priced at 105 pence per new share, a discount of 11.1% to the closing price of Serica Energy's shares on 21 June 2023. The offer was fully subscribed and closed on 12 July 2023.
- **Arqit:** On 13 July 2023, Arqit announced an open offer to raise £100 million. The offer was priced at 140 pence per new share, a discount of 20.0% to the closing price of Arqit's shares on 12 July 2023. The offer is still open and will close on 26 July 2023.

I hope this helps!

Dear reader, it did not help; my untrustworthy Bard was hallucinating. Either the companies weren't listed on AIM or the open offer had never taken place; in some cases both were true. In other words, the information given was total codswallop. Despite attempts to rephrase the command, I was not able to reliably retrieve the open offer data I needed. With a deep sigh, I hit the mean streets of Google and set about assembling the information I needed by hand.

Hallucinations

The overwhelming problem was the fact that I could not have any trust that the AI was presenting accurate data. Although it was generally close to the mark, everything was peppered with "grains of falsity," which meant that I needed to check everything it said – I was expending as much time and effort as if I had done the trawling myself. This phenomenon of confidently presenting false information as the truth is known in generative AI parlance as "hallucinations".

A quick primer on how Generative AI works: these tools are "trained" on data sets (these can be words, pictures, video, audio, whatever), a process whereby the AI is given a set of ground rules, then works through the data set and builds up its own algorithms in order to be able to understand the material.

The data sets are broken into tokens, and the AI works through each token and "guesses" what might come next, based on what has come before. The next token is then revealed to the AI, the algorithm is updated, and so on and so on. This requires a huge amount of processing power to complete thoroughly. Chat-GPT responds to prompts with probabilism – it replies with its best guess at the correct answer.

Hallucinations occur when Generative AI gets the probabilism wrong. For factual topics where precision is important (such as investing), this can be disastrous. As to why this happened, my guess is that it's a combination of relatively unstructured information (there's no textbook for writing company announcements, so they are probably quite hard to interpret) and the fact that Generative AI is computationally expensive (for reference, Alphabet's chairman estimates that an exchange with a Large Language Model AI will cost 10 times more than a keyword search), so users are probably getting a service that's stunted versus its full capabilities.

Motorbike racer Casey Stoner once told the great Valentino Rossi: "Obviously your ambition outweighs your talent", after an "experimental" overtake went awry, and I find myself feeling the same way about Chat-GPT and Bard. I still believe the potential is huge; however, given the propensity for hallucinations there is just no way I can trust the information they generate. For now, I'm going to have to keep using Excel, Python, and old-fashioned trawling to gather and analyse data, while Chat-GPT continues to write copy for me.

My endeavours also reveal an interesting angle in relation to making investments in AI companies. Generative AI has arrived at the perfect time to ignite an economic bubble. Consider William Quinn's Bubble Triangle, a framework for considering the conditions under which economic bubbles are caused:



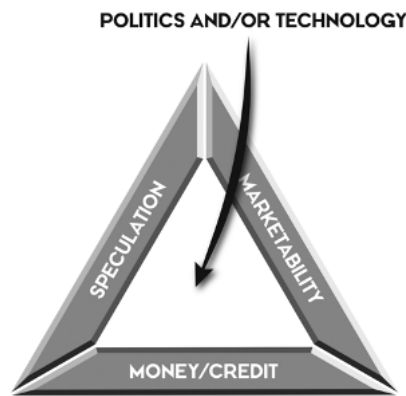
Can AI give me an edge?

Technology: Generative Artificial Intelligence

Marketability: Extremely high, as both listed and private companies adopt AI into their value proposition, with wildly varying results. Buying and selling these stocks is easy, making AI a highly liquid asset.

Speculation: Microsoft, Meta & Alphabet have all announced Generative AI moves and have all seen generous share price increases without much fundamental change (Meta are up ~150% YTD at the time of writing). AI LLMs raised \$25bn in the first half of 2023. There is plenty of evidence of speculative energy ready to run wild.

Money/Credit: As inflation eases and central banks have managed to return interest rates to sensible levels, there is plenty of credit swilling around in the system, and no reason to believe the predilection for risk has abated.



I see many valid uses for Generative AI, especially in the fields of material and drug discovery, education and copywriting, but as you will have gathered the risk of encountering Fool's Gold is high. And like Fool's Gold, it can be extremely difficult to tell apart from the real thing! I believe that one of the key tests to determine whether what glitters is gold is to invest in companies that a) have existing expertise in a field and b) have a high-quality library of data to train the model with. These have a far higher probability of guiding AI in the right direction, picking up on false positives, and successfully commercialising genuine positives.

Let's finish by revisiting the KvH quote at the start of this piece, in particular the final sentence: "One must beware of anyone who is both stupid and hardworking; he must not be entrusted with any responsibility because he will always only cause damage."

Sound familiar?

OPINION

Should oil and gas production be cut?

Roger Lawson, ShareSoc member

The CEO of Shell has told the BBC that cutting oil and gas production would be "dangerous and irresponsible" because the switch to renewable energy is not happening fast enough. It would result in energy bills rocketing higher again.

The slow transition to green energy was also obvious from a recent report from the Energy Institute, which notes that consumption of crude oil continued in 2022. Although coal consumption fell in North America and Europe, overall global usage increased by 0.6% due to higher demand in India and China.

It is very clear that overall demand for energy is still rising and that the many alternative uses of oil/gas in industries, such as plastics production and fertiliser



production, cannot be easily or quickly replaced.

Even if many agree that in an ideal world we would switch to cleaner energy sources as soon as possible, weaning ourselves off oil and gas is a process, not an on/off switch. The world's reliance on oil and gas companies is not disappearing and is actually growing regardless of the climate impact. So we will still need oil and gas for some time to come.

Moving to alternative energy sources for some applications and sectors of the economy and reducing energy consumption by improved building insulation make sense, but they are only partial solutions and will only have an impact decades in the future – longer time horizons than those of most investors.

AGM DISCUSSIONS

ShareSoc AGM resolutions passed

ShareSoc is pleased to announce that all resolutions proposed to members at the AGM held on 28 June were duly passed. The results are as follows:

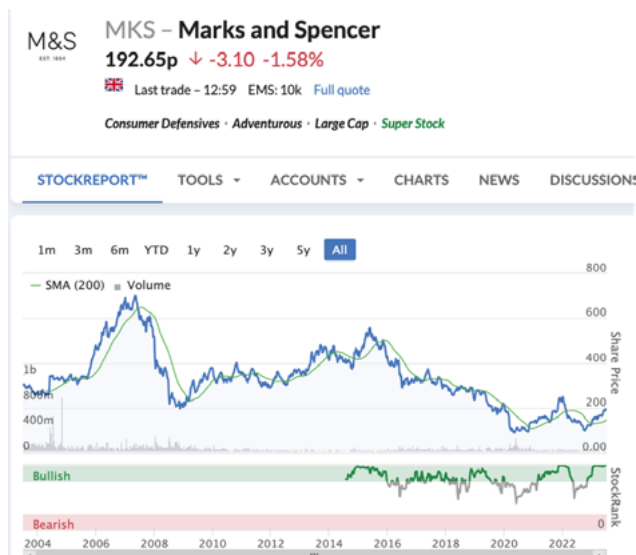
| | For | Against | Abstain | Total |
|-------------------------------------------------------------------------------------------------------------------|-----|---------|---------|-------|
| Resolution 1: To receive the Report and Accounts of the Board of Directors for the year ended 31st December 2022. | 44 | 2 | 1 | 47 |
| Resolution 2: To re-elect as a member of the Board Ms. Jema Janet Elspeth Mary Arnold (appointed 06/02/2023). | 38 | 4 | 3 | 45 |
| Resolution 3: To re-elect as a member of the Board Mr. Marcus Arthur Bentley (appointed 04/05/2011). | 43 | 3 | 0 | 46 |
| Resolution 4: To re-elect as a member of the Board Mr. Michael Dennis (appointed 30/04/2014). | 42 | 4 | 0 | 46 |
| Resolution 5: To re-elect as a member of the Board Mr. Mark Alastair Northway (appointed 19/04/2016). | 40 | 6 | 1 | 47 |
| Resolution 6: To re-elect as a member of the Board Mr. David Stredder (appointed 06/02/2011). | 40 | 5 | 2 | 47 |
| Resolution 7: To re-elect as a member of the Board Mr. Amit Vedhara (appointed 10/04/2019). | 38 | 4 | 4 | 46 |
| Resolution 8: To approve the remuneration of the Directors for 2022 and the proposed remuneration for 2023. | 40 | 2 | 5 | 47 |

Marks & Spencer: digital-only AGMs don't cut the mustard

Cliff Weight, ShareSoc member

With the M&S (MKS) share price up by 40% over the past 12 months, this was always likely to be a smooth AGM with relatively little shareholder dissent. However, long-term shareholders will remember that M&S hit its peak of £6.98 in 2007; on Tuesday 4 July, the date of the AGM, it stood at £1.92.

According to [Stockopedia](#), operating profits were £620 million, about 10% less than in 2014 and 2015. But 300 million new shares have been issued since then (in 2020 and 2022), so EPS has nearly halved from 31p to 18p. Nevertheless, the company is trading on a PE ratio of 11 and the market is sending a signal about its view of the sustainability of the business.



AGM report

The meeting started at 11am on 4 July in a digital-only format. One shareholder and two others who arrived in person, including ShareSoc member and former director Gavin Palmer, were admitted and sat at the side of the studio. The notice had stated that shareholders would not be admitted, so this was a last-minute compromise and concession (at ShareSoc's prompting), which is welcome.

All the resolutions were passed with 97% plus votes in favour. The meeting was short and sweet. Directors sat on sofas, just like on breakfast TV. Nobody raised their voice and there was no controversy. Even the question about modern slavery was phrased in pastel words about the consequences of using palm oil.

Marks & Spencer: digital-only AGMs don't cut the mustard

The AGM video is available [here](#) and is well worth watching, so I will limit my comments to a few pertinent points.

The AGM started with an informative 24-minute section explaining the business model, recent performance and future plans. Chair Archie Norman also made a number of comments about the benefits of digital AGMs, his ShareYourVoice Campaign and his desire to make capitalism work better for individual shareholders. He urged everyone to support the campaign and sign the petition.

The style of the AGM was good-natured. I found it easy to listen to, absorb, review and interpret the comments presented in this way.

However, the lack of any financial results presentation was an interesting, and to me, surprising decision. This dumbed-down approach is rather patronising to individual shareholders. Archie did mention in a side comment that the non-investment grade debt rating has been the reason for the lack of dividend, but there were no charts or tables of financial results, and no updates on key performance indicators.

Note: Readers who want to receive this type of information can, of course, attend the M&S Capital Markets Day, which is open to all shareholders, including beneficial holders. The slides and the recording of the last meeting can be found on the [website](#). The annual results are [here](#), and the recording is [here](#). Some of this recording could usefully have been re-broadcast before the formal AGM.

Anita Anand ran the Q&A and promised that she would raise the difficult questions and challenge the directors robustly. In my view she achieved this, but in a gentle way that got the directors to open up rather than hide behind the legalese evident at so many other AGMs. My question was the second one raised. In it I acknowledged that the M&S digital approach has merits but said I was concerned about the company going too far, too fast.

Archie replied that his objective was to get the biggest AGM attendance. This was far higher than pre-pandemic levels, against an average 23% drop in attendance at physical AGMs. He noted that some shareholders had come in person and had been admitted. He said M&S will consider the feedback received and next year will probably do it differently, to combine the reach of the digital AGM with the benefits of physical attendance: "Yes, we are on a journey. We will think about how to get the best of both worlds."

I was pleased at this outcome, but felt that he might have stuck to his digital guns if we had not fed back our views to him and the M&S team so strongly prior to the AGM.



I did find the digital format a bit impersonal. In addition, attendees could not see the questions asked. (At the ShareSoc AGM, all the questions asked were visible to all attendees; this helps transparency, but does provide opportunities for digital keyboard warriors). It was also unclear whether any questions submitted on the day were asked. The screen had a facility to ask a question in person, but no one did. The pre-AGM questions allowed a video question, and one was aired.

Twenty questions were put to the board out of 129 submitted, although many would have been about the same or similar subjects and were grouped together and "mashed" by Anita Anand.

All the directors were present, some in the meeting room, some in the M&S backup room and some remotely. There were two questions by institutional investors but none attended the meeting. I think AGMs are better if analysts, fund managers and institutions make the effort to attend.

The Q&A finished at 12.21 pm and the procedural AGM stuff then happened; it was all done by 12.27 pm. It amounted to 87 minutes, of which about 50 minutes were devoted to questions and answers.

Verdict

The digital-only format was not well received by the press. [The Times reported it in an almost full page spread](#). The headlines included: "The appeal of cyberspace (i.e. digital AGMs) is that critics are silenced"; "Marks sparks a backlash with digital AGM"; "Never mind the bullocks, here's the CEO"; "M&S is disrespecting its shareholders", while [the Mail](#) reported: "M&S chief is forced to rethink digital-only AGM plan after a backlash from shareholders".

For me, the AGM was short and sweet, slick and quick but impersonal. There was no chance to follow up questions with secondary questions or to talk to the directors individually before or after the AGM. It was too short. There were many more questions that could have been asked.



Marks & Spencer: digital-only AGMs don't cut the mustard

At a normal AGM, the Chair will look around the room and say: "I think we have covered the key things and should now move on." If the audience disagrees, they say so loudly and the meeting agrees to continue the Q&A for longer. When a Chair finishes the AGM against the will of the shareholders, this is a sure sign of a culture problem and probably an indication to consider selling the shares.

This was not Berkshire Hathaway's Woodstock for capitalists. This was dumbing down, with almost no financials. It was not my cup of tea.

Conclusions and recommendations for the future:

1 - The hybrid AGM is the best of both worlds and should be accommodated wherever possible: it saves the need to travel and leads to larger audiences.

2 - Boards need to find ways to flip hybrid meetings between digital and physical smoothly. Clunky switches with lots of background noise and delays are off-putting. A bit of work and learning from trials and tests will improve this.

3 - A meeting in London and regional meetings before the AGM will allow individual investors to ask their questions and vote on a more informed basis.

4 - Broadcasting all or part of the Capital Markets Days and latest trading update results briefing at say 10am, before the AGM, for those wishing to update themselves on the latest financials, would be useful for many individual shareholders. Improved communication to shareholders making them aware they can attend trading results updates and Capital Markets Days would also help.

5 - Shareholder panels are a good idea, and extending potential membership to shareholders on the interactive investor platform is a very positive step. Once the pilot is done, panel membership should be extended to other platforms.

6 - Companies need to have the email addresses of their shareholders, including those who hold via platforms and nominees. Shareholders with a proper purpose should be able to obtain the email addresses of fellow shareholders.

7 - Shareholders should be able to demand a physical meeting or hybrid meeting. The normal requirement of 100 shareholders or 5% of the shares should apply.

Please join the debate and send us your comments!

The author holds shares in MKS

LoopUp AGM report

Sam Morland, ShareSoc member

We are often warned of how technological change can decimate a company, and perhaps there is little better example than LoopUp. In the spring of 2020, telephone meetings business LoopUp appeared to be in the right place as everyone started working from home and physical meetings were cancelled. But revenues nosedived 60% in 2021, profits turned into losses and rapid equity dilution followed as Microsoft Teams and Zoom took over the remote meetings market. The share price collapsed from 248p in August 2020 to less than 2p today (market cap around £3m).

LoopUp runs a cash-flow positive telephony meetings business that is still seeing rapidly declining sales (yet even in 2023 is forecast to account for over half of group revenues) and a rapidly growing cash-flow negative cloud telephony business, which the management hope will be the future of the company. There are also some smaller business lines (e.g. Hybridium, a hybrid events business).

The challenge for management is trying to maximise the opportunity in cloud telephony, while facing the difficulties of balancing an indebted balance sheet, living with low cash balances and making sufficient investment to remain competitive.

I attended the LoopUp AGM, which was held in the City of London offices of its nominated adviser Panmure Gordon. Only one other private shareholder (also a ShareSoc member) attended. The only senior member of the company physically present at the meeting was the CFO, Simon Sacerdoti, who is not a director. The board members attended remotely from various places,

including the chair Mike Reynolds from the US and co-CEO Steve Flavell from Ipswich.

That was not the only unusual feature of this AGM. The company had published unaudited preliminary results for the year to 31 December 2022 on 7 June. But the audited results (which included some hefty non-cash adjustments to the value of intangibles) were only published on the morning of the AGM, the last possible date to prevent the stock being suspended from trading on AIM. LoopUp has £6m of debt outstanding to the Bank of Ireland and it was announced the maturity of this had been extended by a year, with no changes to the key commercial terms, to September 2024 – thereby allowing the accountants to sign off the accounts on a going concern basis.

All the AGM resolutions were very comfortably approved.

Discussions with shareholders and questions

Given that there were only two outside shareholders, the board was generous with its time. The formal meeting lasted over an hour, with Steve Flavell and Simon Sacerdoti in particular giving full answers to questions. Simon also continued chatting about the business for around 20 minutes after the meeting had formally ended.

There was too much covered to write up here but the main points of interest to me can be accessed [here](#). These are made from contemporaneous notes and while I believe my comments to be accurate, I cannot guarantee their accuracy or completeness.

The author holds shares in LoopUp.





A hybrid/physical balance is needed

Cliff Weight

M&S chairman Archie Norman's opinion piece in the FT on 14 July, "[The bond between British business and society has eroded](#)" (subscription required) has clarified his clarion call to modernise the Companies Act.

This year M&S experimented with a digital-only AGM (see report, page 13), but the Chair recognises that he has gone too far, too quickly. "People still want to feel they can attend AGMs in person, so we need to find a balance," he says.

ALL shareholders must be allowed to be real shareholders. Digital-only (and indeed physical-only) AGMs for large companies and shareholdings via nominee ownership currently fail that test. Archie's petition is about bringing into focus and enabling efficient two-way communication between issuers and shareholders.

If you want a fuller explanation of the M&S position, then [read the Open Letter](#). It restates and follows the FRC guidance, stating that digital meetings "should not invalidate other forms, including physical and hybrid meetings, nor the ability for questions to be posed on the day and answered live. In line with the FRC's 'Good Practice Guidance for Company Meetings' (July 2022), companies should have the flexibility to opt for the format that works for the size, shape and geography of its shareholder base. The key is that new technologies are used as a tool to increase engagement and transparency..."

The goal of improved engagement and transparency was always clear to me. With Archie's latest clarification, the intent cannot be clearer. [Please sign the petition for change](#).

CAMPAIGNS AND POLICY UPDATE



Corporate reporting and audit regulations

Mark Bentley, director, ShareSoc

Further to [our response](#) to a BEIS consultation, the government has now published [new draft regulations](#) concerning corporate reporting, including measures that companies are taking to detect and prevent fraud.

The draft regulations are expected to be debated in Parliament this autumn. If approved by Parliament, the regulations will come into force on 1 January 2025.

The draft regulations implement the following four new reporting requirements for very large companies; these were consulted on in the 2021 White Paper on 'Restoring Trust in Audit and Corporate Governance', and then confirmed (with some adaptations) in the 2022 government response to the White Paper consultation.

- 1 - A Resilience Statement, in which companies will set out how they are managing significant risk and building or maintaining resilience over the short, medium and long term.
- 2 - Disclosure of profits available for distribution and the company's policy towards dividends and other distributions (e.g. share buybacks) including the risks relevant to sustaining the policy.
- 3 - A statement on actions being taken by directors to prevent or detect 'material fraud' (i.e. fraud on a scale likely to be of interest to shareholders).



- 4 - An Audit and Assurance Policy, in which companies set out their plans going forward for assuring the reliability of non-financial reporting (e.g. on risk, strategy, governance and climate transition planning), which is not assured by the statutory audit of the accounts.

The Department for Business and Trade has also produced a factual overview of the draft regulations, which can be accessed [here](#) (this forms part of a [new gov.uk page](#) that combines this and all previous publications related to the audit and corporate governance reform programme).

If you would like to comment on these new regulations, please do so at the end of the [original news item](#).



Flint interim report: a betrayal?

Mark Bentley

ShareSoc's Shareholder Rights Campaign has been one of our longest-running and most important campaigns. The reason it is so important is that current deficiencies in the rights of beneficial shareholders severely hamper our ability, and that of shareholder action groups generally, to hold company managements to account. This impacts the effectiveness of many of our other campaigns. Visit the [campaign page](#) for further details and further explanation of the issues.

Since we launched the campaign in 2014, we have made considerable progress by lobbying the government on your behalf. ShareSoc and UKSA directors have held many meetings with government officials on this subject.

Firstly, the then BEIS department (now the Department for Business and Trade - DBT) finally agreed to sponsor a project by the Law Commission on "intermediated securities". The Law Commission published a "[scoping paper](#)" in 2020, acknowledging the defects in current legislation.

We then worked closely with Mark Austin on his "[Secondary Capital Raising Review](#)". As well as addressing impediments to issuers raising fresh capital, the Austin review (chapter 10) also addresses issues identified in the Law Commission's paper.

Following on from the above work, HM Treasury launched a Digitisation Taskforce (DT) in July 2022, led by Sir Douglas Flint, current chairman of abrdn and formerly group finance director and then chair of HSBC. The DT published an [interim report](#) on 11 July this year.

ShareSoc's policy committee has been studying this report and is working on a response to it. We have a number of serious concerns and would welcome your comments on this article. In essence, the current report proposes the abolition of share certificates, without guaranteeing the full rights that current certificated shareholders enjoy.

Policy Committee member Cliff Weight has drafted his more detailed thoughts below, and also responses to questions raised in the interim report. ShareSoc's official response is being prepared in collaboration with our colleagues in UKSA and will be submitted and published here in due course. If our concerns are not satisfactorily addressed, then we will step up our campaigning activities regarding Shareholder Rights.

If you have not already done so, I urge you to sign the petition at the bottom of our [Shareholder Rights campaign](#) page. You can also donate to ShareSoc from the petition, which will help to fund our campaigning activities.



Flint interim report: initial verdict

The following are the personal views of Cliff Weight, a member of ShareSoc's Policy Committee; the Policy Committee is broadly in agreement with those views. ShareSoc will publish its formal response to the Flint interim report shortly.

I have six main criticisms of the Digitisation Taskforce's interim report, whose terms of reference can be read [here](#).

First, the use of language in this interim report is incorrect. The DT interim report describes as shareholder rights what are in fact services defined in the terms and conditions that ultimate beneficial owners (UBOs) agree when they sign their contract with a platform/nominee. Online broker interactive investor has started a [plain English campaign](#). It is a huge shame that the DT has not followed the principles of plain English!

Second, there is a lack of statistical data and hence rigour in the report. For example, I would like to know the numbers of investors who have paper certificates and those who have nominee accounts. How many have both nominee and paper certificates? How many have paper only? Of these, how many different companies do they have shares in and what is the size of their holdings? A Venn diagram and/or structured analysis is essential to understand the scale of this problem.

Third, there is no consideration of the Swedish model of custody accounts, which are like segregated nominee accounts. This model of ownership allows individual investors to have the same rights as paper certificated ownership currently provides in the UK. The costs of such accounts (c500 Krona to set up and c500 Krona a year to run) are not prohibitive.

Fourth, shareholder rights have existed for more than 200 years and should not be abandoned without more



Flint interim report: a betrayal?

careful thought. The DT's proposals would remove many of these rights (with very weak alternatives which are not rights), and in particular would remove entirely the rights under S811(4) for those who have a proper purpose (with no alternative being offered). Rights under S116, 149 to 153, 303, 310, 311, 312, 314-316, 333, 333A, 338, 338A, 339, 768, 792, 793, 803, 808-811, and probably others too, will also be removed per the current draft.

Unless your name is on the share register of a company, you are not a "Member" of the company and hence lack important legal rights (not just voting rights). Mark Austin understood this and (Para 10.11) pointed out: "A 'drive to digitisation' could radically overhaul the system to improve end investors' ability to exercise their shareholder rights and for issuers to know who is on their shareholder register, including the ultimate beneficial owner. Taken to its extreme, this process would necessarily require changes that were both legal and operational in nature for the benefit of not just capital raising processes but wider shareholder rights and engagement in stewardship and other Environmental, Social and Governance (ESG) related activities."

The DT seems to have ignored this guidance and reversed tack. The DT's expressed wish to rely on market

forces is highly likely to be a dismal failure unless there is a far more efficient UK regime, policed by the Financial Conduct Authority, for switching platforms and brokers on a very tight deadline.

Fifth, all those with a proper purpose should be able to access the information in the register of interests. Individual shareholders have an important role in holding directors to account. They do this often by asking questions at AGMs, but where necessary, they will requisition shareholder resolutions and General Meetings. Shareholders need to be able to contact other shareholders to explain the issues and get their support.

Access to email addresses will greatly enhance individual shareholders' ability to do this. However, the DT is proposing to remove this ability to obtain a copy of the register of interests, so that only issuers should have the ability to access information below the level of what is recorded on the company's share register.

Sixth, the DT has not met its own terms of reference, numbers 3 (no degradation of rights) and 4 (investors to more effectively and efficiently communicate with a company's entire shareholder base).

The DT seems to have ignored this guidance and reversed tack. The DT's expressed wish to rely on market

Stamp duty tax on UK shares: consultation response

In a four-page response to the HMRC consultation on whether to abolish stamp duty tax or reduce it to 0.05%, we re-emphasised the points we made in our 2020 consultation response:

- The original rationale for stamp duty (cost of wax seal etc) no longer applies. In this age of electronic transactions, these costs are no longer incurred.
- Stamp duty tax is not fair. Many of those who invest do not pay it.
- Stamp duty is not paid on overseas shares. This adds to the cost of investing in shares in the UK quoted market, for individual investors.
- Stamp duty tax does not apply to AIM quoted shares.

We want STS (stamp tax on shares) to be set at a lower rate (say 0.05%) and applied to all trades including HFT (high frequency trading), CFD (contracts for difference) and spread betting.

STS in relation to shares should not be considered in isolation. STS is a transaction tax levied on the value of shares acquired. Income tax is then paid on dividends (but not when shares are held in an ISA or SIPP). Capital gains tax is then paid on the increase in value of the shares when they are sold (but not when shares are held in an ISA or SIPP).

STS is not applied to purchases of OEICs (unit trusts) but is to purchases of shares in investment trusts: this anomaly should be equalised, preferably by the elimination of STS, or reduced by setting it to a much lower rate.

The UK stock market exists to enable investment in UK companies. A transaction tax of 0.5% on the purchase of UK shares has exactly the opposite effect.

The UK government says it is keen to promote retail investment in the UK. The Treasury in particular is doing a number of things to make the UK a more attractive place to list. Yet despite this, many companies are choosing to list overseas. This consultation is contrary to the direction of travel of the UK government.

Many large investors, institutions and high-frequency traders are able to avoid stamp duty through the use of options and CFDs. This penalises individual investors relative to large investors and institutions. A key design principle for a future stamp duty regime should be fairness between different types of market user.

We are not, however, arguing for the complete abolition of stamp duty tax on quoted shares. Stamp duty discourages short-term trading. We support the concept that there should be an incentive for patient capital, i.e. long-term investing.

Stamp duty provides friction. However, HFTs and others can avoid STS on shares. If the new STS has a design principle to create friction (and this is possibly a big if), then it is logical to extend this principle to HFTs and others. (France is an interesting example in this respect and its 0.3% tax is a financial disincentive to locate in that country.) Hence, we recommend STS should be set at a lower rate and applied to all trades including HFT, CFD and spread betting.



RETURN
TO INDEX



Hartley Pensions client support group

Mark Bentley



The Hartley Pensions client committee, which includes one other member of ShareSoc and me, continues to undertake a lot of work. Unfortunately, due to a non-disclosure agreement that we were required to sign, I cannot disclose details of the committee's proceedings.

As a reminder, this is a very important case that is likely to set a new and dangerous legal precedent for the handling of SIPP's in the event of the insolvency of a SIPP administrator.

Having met with the FCA, ShareSoc sought a meeting with the FSCS to better understand the criteria for client eligibility for compensation to cover the costs that the Joint Administrators (JAs) propose to impose on Hartley SIPP clients. The FSCS responded with a complex legal argument implying that claiming would be onerous for clients.

We are keen to ensure that the process for claiming and receiving compensation, if eligible, is as straightforward and efficient as possible, so the FSCS's response is very disappointing and we will seek to challenge it.

You can find further details on the progress of the Administration on the [Joint Administrators' website](#). In the latest update, the JAs state that they expect the court to hear their application in November.

Fundamentally, we feel that SIPP clients should not be expected to bear the additional costs of their SIPP administrator entering insolvency, in the unfortunate event that that happens. If the court ultimately rules that they must bear those costs, then I feel that we should campaign for a change to the legislation regarding compensation. Otherwise, this will impact confidence in the security of SIPP's, with consequent damaging effects.

We are also concerned that, should full compensation not be available, any costs imposed should not be disproportionate, especially for smaller SIPP's.

Full members of ShareSoc can find further information about our support group [in our forums](#). All members can join our [Facebook group for Hartley clients](#).



Home REIT campaign update

Mark Bentley

I am pleased that Home REIT's board has now found a replacement for the company's previous investment adviser. The company's [announcement on 30 May](#) reveals a shocking catalogue of failures by the previous investment adviser, which not only destroyed shareholder value but also meant deployment of shareholder funds did not create as much accommodation for vulnerable people as would have been expected.

Home REIT held an EGM on 21 August to amend its investment policy to permit the new investment adviser AEW to first work to stabilise the REIT's financial position and then to fulfil its original mission.



We remain concerned to ensure that those responsible for the debacle at this REIT are held accountable and that compensation for the destruction of shareholder value is sought. I have written to the board via their PR advisers, and have now received a response. So as not to prejudice its legal position, the company can't disclose steps it is taking at this stage, but it will make an RNS announcement if it lodges a claim. I have responded, emphasising the importance of holding those responsible to account and ShareSoc's determination that that

should happen.

The author has a token residual holding in Home REIT.



A new recruit for the policy committee

At our AGM in June, we appealed for volunteers to step forward and join our Policy Committee. The policy committee is the “engine room” of ShareSoc’s campaigning and policy activities, to defend and advance the interests of individual investors. There is a great deal of work to be done, dealing with matters of concern (some of which are described above) and responding to government consultations.

We are delighted that Paul Greenwood stepped forward, and welcome him to our policy committee. Paul (right) is a longstanding ShareSoc member and retired actuary. Please [contact us](#) if you would also like to assist with our policy work, either by volunteering to assist with specific campaigns or by joining our committee.



FUND INVESTMENT



FCA’s mistaken policy over Long Term Asset Funds

Roger Lawson

The Financial Conduct Authority (FCA) has released a policy statement containing proposals for new long-term asset funds (LTAFs) and their regulation. See [PS23/7](#). (For a summary of LTAFs see, for example, [this article](#).)

The plan is that distribution of these open-ended funds will be extended to mass market retail investors. Individuals will be able to invest into an LTAF through a self-select DC pension scheme or a Self-Invested Personal Pension (SIPP).

The LTAF is a new category of authorised open-ended fund specifically designed to invest efficiently in long-term, illiquid assets. These include venture capital, private equity, private debt, real estate and infrastructure.

The FCA claims that they can provide a useful alternative investment opportunity for consumers able to bear the risks of such investments. It also says that “an ability to invest in long-term illiquid assets, through appropriately designed and managed investment vehicles such as the LTAF, is also important in supporting economic growth and the transition to a low-carbon economy”. But don’t private equity investment trusts already provide this? This is surely an accident waiting to happen, particularly given that

such funds may initially be excluded from the Financial Services Compensation Scheme (FSCS). Selling illiquid investments to retail investors via open-ended funds is a recipe for mis-selling claims and significant losses as we have seen with some property funds, for example.

The FCA also states: “While these investments can have a higher risk of loss than diversified portfolios of listed equities or bonds, they can also potentially deliver higher long-term returns in exchange for less liquidity”. Where is the evidence for this?

The AIC has come out strongly against these proposals. To quote from its [press release](#): “As the underlying assets are hard to sell, investors run the risk of being trapped in the fund in stressed markets. It could cause significant hardship if investors cannot access LTAFs held in pensions. The additional measures proposed by the FCA do not go far enough to secure reliable redemption and prevent these problems emerging”.

Has the FCA consulted experienced private investors before proposing these measures? Or is it being supported solely by financial institutions wanting to sell more such funds? The proposed regulations of LTAFs are very complex and are unlikely to be understood by private investors, and it is not even clear that they will qualify for ISAs.

INVESTMENT FOR ALL

Widening retail participation in European equity markets

Cliff Weight

Investing in public equity markets can be a great way for individuals to improve their long-term financial security. It can also help to democratise wealth creation, connect issuers to their owners, and connect the financial services industry with the people it exists to serve.

The following is a short thematic summary of a recent event hosted by New Financial on [widening retail participation in European equity markets](#).

Retail engagement in equity markets and retail investment has fallen over the past few decades in the UK and many other European countries. There are a number of reasons for this, including:

- A lack of understanding of how equity markets work
- A perception that investing is risky
- The high cost of investing
- The lack of a widespread equity culture

The role of technology

Technology can play a key role in widening retail participation in equity markets. By making it easier and cheaper for people to invest, technology can help to overcome some of the barriers that currently exist. For example, investment platforms and trading apps have made it much easier for people to start investing, and they have also helped to lower the cost of investing.

The future of retail participation

Despite the challenges, there are some signs that retail participation in equity markets is starting to turn a corner. The emergence of new technologies, such as artificial intelligence and blockchain, has the potential to make investing even more accessible and affordable for a wider range of people. Additionally, there is a growing awareness of the importance of investing for long-term financial security.

As a result, we are likely to see a continued increase in

retail participation in equity markets in the years to come. This is good news for individuals, companies, and the economy as a whole.

And here are some ideas that might help make it happen:

1 - Nudge, nudge (1): introduce automated prompts that advise people with more than £10,000 in their bank accounts on how the value of their money is eroding and that they could invest the money instead.

2 - Nudge, nudge (2): as above, but instead of an automated prompt, banks would go ahead and open stocks & shares ISAs for people at a certain threshold.

3 - Nudge, nudge (3): as above, but with personalised advice and guidance based on open finance principles.

4 - A single point of access: use [open finance](#) to give people access to a single dashboard where they can see all their assets (and liabilities) in one place: savings, investments, insurance, mortgage and pensions...

5 - On the telly: find/create/promote a UK version of CNBC's Jim Cramer.

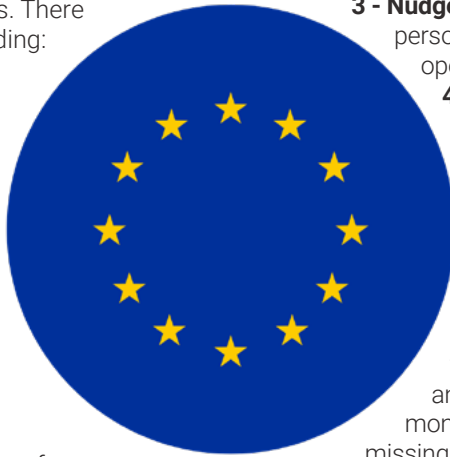
6 - The Korean way: give people access to an 'alter ego' who is financially savvy and invests a small amount of money every month to show them what they might be missing out on.

7 - An early start (1): offer better financial education in schools (ShareSoc's [Investing Basics](#) videos can help with this) and give kids small amounts of real money to play with so that they can implement what they learn.

8 - An early start (2): assign a random selection of free shares to children (or their parents) at birth, and require them to hold these over a certain amount of time to introduce them to the world of investing.

9 - Shop windows for stock exchanges: launch a series of regional 'shop windows' for the stock market across the country, along the lines of Nasdaq's base in Times Square in New York, to raise the profile of local listed companies and drive more engagement with equity markets.

The above discussion will inform a New Financial research report on the value of retail participation and how the industry and government can leverage different aspects of technology to increase it - see initial findings [here](#). Euroclear and PrimaryBid supported New Financial in this work.



BOOK REVIEW

▶ **Elon Musk: the man and the Twitter takeover**

Roger Lawson

After a summer of catching up with some overdue reading, I can recommend *Elon Musk* by Ashlee Vance. Published in 2015, it covers the early life of Elon and his early business ventures at Zip2, X.com/Paypal, SpaceX and Tesla. It reveals a lot about his personality and the drive to revolutionise the space exploration and banking sectors. Like Bill Gates and other successful entrepreneurs, he clearly has a forceful manner and does not suffer fools gladly.

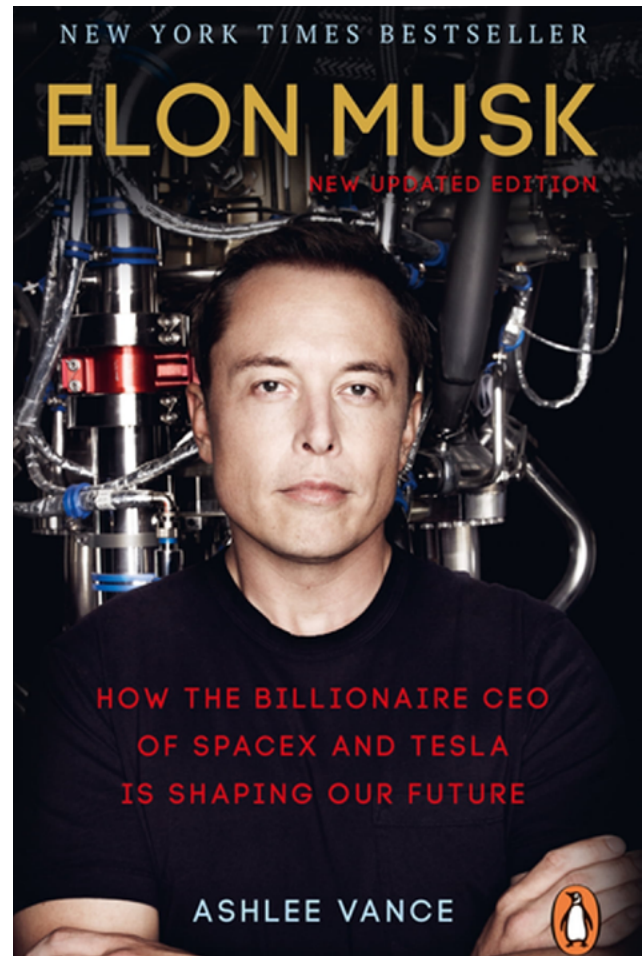
The subtitle of the book is "How the billionaire CEO of SpaceX and Tesla is shaping our future". If you want some insights into how to become the richest person in the world (roughly \$250 billion at the time of writing), then this is a book well worth reading.

Elon's career was not without its problems and failures. SpaceX rockets blew up repeatedly and technical problems with the first Tesla car (overheating batteries and breaking transmissions) delayed its public launch. But despite burning through most of his fortune from the sale of Paypal, he persisted, and eventually they were successful products. The book also provides some interesting background on the VC world in Silicon Valley in the 1990s and 2000s.

Why was Elon so successful? He was willing to take risks and focused on revolutionising sectors such as space exploration through low-cost launches, the banking world through internet banking, and the automobile industry through electric vehicles, when other people said such goals were impossible.

But he was not a one-man band and made sure he hired the best people as employees. He could clearly be persuasive in raising capital, helped on occasion by the availability of funding for new ventures at the time.

The latest gamble by Elon is a \$44 billion deal in cash for Twitter, now rebranded X. As a user of [Twitter/X](#), I have always believed it to be an essentially simple software product that should be low-cost to develop and maintain.



Since Elon Musk took the reins as its CEO in October 2022, its workforce has dropped by 80% and reportedly hovers at around 1,300 employees, according to CNBC. There was certainly an opportunity there to massively reduce costs. But other people have seen that also with the launch of "me-too" products that have imitated its functionality. Will they be successful? I doubt it.

In summary, this is one of the best books on Elon Musk and a New York Times bestseller.

Membership Benefits



- **EXCLUSIVE INVESTOR EVENTS & MASTERCLASSES**
- **REGULAR NEWSLETTER**
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- **CO. DATA AND VOTING GUIDANCE**
- **GET INVOLVED IN OUR ACTIVITIES**

SHARESOC MATTERS

Investor education: more champions needed

Amit Vedhara, director, ShareSoc

Investment education remains a major priority for ShareSoc. The lack of unbiased information and guidance out there means many investors, especially novices, make suboptimal investment decisions for their situation and financial resources.

The preponderance of “influencers” has led to a preference for trading, meme investing and crypto in the 18 to 34-year-old demographic (and beyond). Some hard lessons will unfortunately be learnt and are likely to dissuade many from pursuing long-term wealth creation in a sensible manner.

The [ShareSoc Investing Basics video series](#) was launched to great fanfare in October at the London Stock Exchange, with guests from across the spectrum of ShareSoc members, the sponsors (Interactive Investor, AJ Bell, IG and Aquis Exchange), media organisations, regulators and supporters from the wider ecosystem of financial providers



and financial education champions. Partners included This is Money, which reported extensively on the launch and continues to help improve our audience reach. The videos are on [YouTube](#) and the [ShareSoc Investor Academy](#) website, and have been viewed by thousands of early-stage investors.

We continue to seek further partners and sponsors and are in discussion with several potential organisations. We have also partnered with several organisations to embed the videos in educational materials for schools

as we continue to strive, with others, to have the curriculum include proper financial education. ShareSoc Investing Basics is not the only answer but it is part of the solution.

ShareSoc continues to seek more volunteers who are passionate about financial and investment education and would be willing to commit a few hours a week to originate new educational initiatives and support existing ones. If you want to help please [contact us](#).

ShareSoc's IT project: major milestone reached

Mark Bentley

My article in the June edition of the Informer described the work ShareSoc is doing to upgrade its IT infrastructure. The ultimate goal is to automate much of our current manual processes, increasing our efficiency and streamlining the experience of users of our website.

Since then, we have passed a major milestone and fully transitioned our office operations to CiviCRM. This has involved a lot of hard work by our operations staff and by me, as well as an external specialist consultant. I would like in particular to highlight the work of our office manager Sandra Falvey, who has worked tirelessly to validate the import of member data from our legacy systems and prepare our new system for live operations.

For your reassurance, access to our CiviCRM system is secured using two-factor authentication, as we take great care to protect your private data.

Our emails to members are now being sent using the inbuilt mailing capability of CiviCRM. An immediate benefit you will have seen is that you now have more granular control over the emails you receive from us. If there are any types of email you no longer wish to receive, you can simply click the unsubscribe link at the bottom



of any email of that type and you will be removed from the corresponding mailing list. This does not affect other types of email that we send.

This does not mark the end of our IT upgrades, however. The next step involves introducing greater automation of current routine manual processes, which will free up time for our operations staff to undertake more creative activities to support ShareSoc's mission and grow the organisation.





SIGnet update

Bill Fawcner-Corbett, head of SIGnet

It has been a productive month for new initiatives in SIGnet. Among other achievements:

- We have a new London Evening Group. The first meeting will be on Monday 25 September. Demand to join has been so strong that we are already starting to plan a further London Evening Group.
- We are planning to launch a Beginners' Virtual Group in October, details to follow.

If you are interested in joining one of these new groups, please [email us](#) and ask to be put on the waiting list.

The strength of the SIGnet network is that we have many different groups in locations all over the country, with different styles and experience levels. Our groups are for discussion about shares and investing. Members are welcome regardless of their investing experience or style.

SIGnet groups offer an opportunity to meet, socialise with and learn from fellow investors. We plan to meet regularly, and during this year most groups have returned to face-to-face meetings. But some groups will remain online, so no matter where you live you can join a SIGnet group.

The benefits of being part of a SIGnet group include:

- Learning from the experience of other investors, and sharing your own experience
- Hearing and debating new stock, fund or trust ideas
- Discussing how to become a better investor
- Improving your investing network, making friends with other investors

For better investment performance [join SIGnet](#) today!

LAST WORD



Banking made difficult

Roger Lawson

Having a bank account into which you can pay money and from which you can pay money out is essential in the modern world. You can become a non-person if a bank closes your account. You can be cut off without notice and effectively instantly impoverished by a bank, even if you have been a customer for many years and have a perfect credit record.

This has been happening to many people lately, and not just Nigel Farage. If you are judged to be a "politically exposed person" (PEP) then you might have great difficulty opening a bank account and will certainly have to answer many questions about your activities and sources of funds. Just being related to a PEP, involved in politics or having a controversial opinion on certain subjects is enough, it seems, to raise eyebrows and start an inquisition.

In addition, banks are closing accounts without giving clear reasons and without notice. These problems have arisen recently because banks have become paranoid in adhering to FCA rules about "knowing your customer".

You may think this problem is not a common one. But it is. For example, one member of the House of Lords had this to say of her personal experience:

"Total nightmare with Nationwide, they just sent a rather ill-spelt text about a year ago to say they were going to cut us off if we did not give them a huge amount of

information in 24 hours. They wouldn't say why; after to-ing and fro-ing for six weeks or so it was all sorted out and we got a profuse apology, but meanwhile I removed all our cash immediately because of the threat to freeze the account. There's been a great stink in the Lords because we're all in the same position, and finally the banks seem to have started to behave slightly better.

"Nationwide had set up a new unit to pursue anybody with any likelihood of being a politically exposed person; it seemed to be full of teenagers who couldn't read or write, so we thought it was spam. It wasn't. Eventually it was sorted out, but it was a year before I put any money in Nationwide again. But it's been dreadful for some people, totally unjustified."

The other complaint about banks recently is that they raised mortgage rates in line with changes in interest rates but have not improved their savings rates on instant access accounts. The FCA has published a [note](#) on tackling this issue. It urges people to change banks to improve competition, but will people do that if the process of opening an account is subject to tedious scrutiny and subsequent risk of closure?

The Treasury is apparently looking into this issue, but bearing in mind that this problem has been known about for many months, don't expect any action soon.

Postscript: The latest news is that even Chancellor Jeremy Hunt was denied a Monzo account. There surely needs to be some regulation of banks' actions in this area.





Events update

Amanda McTomney, general manager, ShareSoc

After the summer break, we're looking forward to hosting more events from September onwards.

In addition to the usual webinars and seminars, we are also excited to see the return of the SIGnet after-meetings. As the name suggests, these meetings take place after a company presentation webinar. They are informal and held as a separate zoom meeting, allowing participants to discuss the company and presentation in a relaxed setting. The first after-meeting of 2023 took place after the CentralNic webinar on 6 September. Links to the after-meeting and all other upcoming events can be found below.

ShareSoc will continue to exhibit at investor shows, allowing members of our team to meet with current and prospective members. Upcoming investor shows include:

- 29 September – MoneyWeek Summit
- 21 October – London Investor Show

We are pleased to announce that we have secured exclusive discount codes for both shows, available for all full ShareSoc members. Please check your emails for details of how to access the discount codes. If you are visiting the shows, please come along to the stand and say hello.

Details of all upcoming events can be found on the [website](#) and are included in the weekly events email. To ensure you receive this email (and are kept updated about all ShareSoc events), please update your communications preference [here](#).

To view recordings of previous webinars, please visit the [ShareSoc youtube](#) channel.

UPCOMING EVENTS

26/09/23 - SHARESOC WEBINAR WITH CQS NATURAL RESOURCES GROWTH AND INCOME PLC

Registration: <https://bit.ly/44QX1hM>

27/09/23 - SHARESOC WEBINAR WITH WARPAINT LONDON PLC

Registration: <https://bit.ly/44MgRvv>

27/09/23 - SIGNET AFTER-MEETING ON WARPAINT LONDON

Registration: <https://bit.ly/3sSYTcN>

11/10/23 - SHARESOC WEBINAR WITH SUPERMARKET INCOME REIT

Registration: <https://bit.ly/3rNnDT4>

PARTNER EVENTS

25/09/23 - MELLO MONDAY

Registration: <https://bit.ly/3PB0ahy>

27/09/23 - SHARES INVESTOR EVENING (LONDON) - LIVE EVENT

Registration: <https://bit.ly/3ED4gPy>



Catch-up corner

All company webinars are now publicly available. To see the full catalogue of company webinar recordings, [click here](#) to access the ShareSoc youtube channel.

To see the recordings of some recent webinars, please use the specific links below:

- [ShareSoc AGM, 28/06/23](#) (full members only)
- [Witan Investment Trust, 27/06/23](#)
- [City of London Investment Trust, 20/06/23](#)
- [Tharisa, 08/06/23](#)



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