UKSA
UK Shareholders' Association

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Editorial

This is the final edition of The Private Investor.

From 2022 we will send out an UKSA Newsletter every month. The Newsletter will be backed up by more content on our website.

Why are we changing?

The two-monthly cycle is too long. We want to communicate with members more frequently while news is current.

Multimedia content, such as video. We want to provide direct access to video and sound files as well as the printed word. This can only be done to a limited extent within The Private Investor. Our editions contain hyperlinks that cannot be accessed from the printed version. We know that members are increasingly using tablets to read magazines such as The Private Investor. That combines the convenience of a handheld magazine with the ability to access other sites, sound files, video files and e-mail.

Showcasing writers. We are very fortunate to have high-calibre writers who are able to draw on wide experience of equities and investment. We want to showcase their writing. Members who write for us will be offered dedicated pages on our website. These pages will carry the articles they have written for us, cross-referenced to other writing for UKSA or other platforms. Writers will be able to send friends and colleagues a dedicated link giving them direct access to their writing. We will draw members' attention to new articles by including hyperlinks in our Newsletter. We are also assessing the technical feasibility of hosting blogs for members, either as a new venture or in tandem with an existing blog hosted elsewhere. We will be able to provide writers with web statistics showing when and where readers accessed their writing.

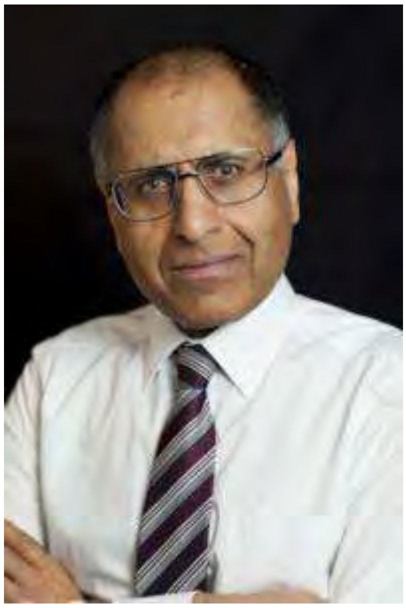
It has been my pleasure to edit The Private Investor since September 2017. I am looking forward to continuing the work on an expanding website.

Helen Gibbons

In this edition

Monitoring investments with Excel - Part 2

by Mohammed Amin MBE FRSA MA FCA AMCT CTA(Fellow)



Editor's note: although Amin is a member of UKSA's Policy Team, he is writing in a personal capacity.

In Part 1 I explained how to calculate an internal rate of return (IRR) using Excel, and promised that Part 2 would cover doing arithmetic with dates.

Before doing that, it is worth mentioning that in IRR calculations years don't have to be whole numbers. In Part 1, where the investment had grown by 90%, I used the formula below to calculate the IRR:

$R = 1.9^{(1/N)} - 1$

In this formula, N does not have to be a whole number of years. For example, if you have owned something for only six months, then N = 0.5 and the formula works just fine for calculating an annual IRR. Similarly, if you have owned a share for 30 months, then N = 2.5.

How long have you owned a share?

I am writing this article on 19 December 2021. If you bought a share on 8 April 2013, how long have you owned it in years, writing the year as a decimal (to use in the above formula)?

Working that out by hand becomes tedious very quickly, especially if you value your shares, and compute the IRR, at the end of each month as I do. However, Excel makes it very easy.

In Excel, every date is held by the programme as a whole number of days starting with 1 January 1900 which has the value 1.

The PDF file of the spreadsheet with normal appearance shows this. Accordingly, 8 April 2013 has the day-count of 41,372 and 19 December 2021 has the day-count of 44,579. The difference between those values, 3,177, is the number of days that you have owned the share.

You could calculate the IRR as the growth rate per day and then convert that into an annual rate (using the compound interest formula), but it is easier to convert 3,177 days into years. It is approximately 8.70 years.

I always work on the basis that each year is 365.25 days long, rather than trying to identify specific leap years. As well as being easier, that also corresponds with reality. The Earth does not take an integral number of days to orbit the Sun!

You can then list your portfolio, as I have done in the PDF file, working out the IRR line by line for each holding.

Relative and absolute cell references

When you look at the spreadsheet in formula view, you will see that in cell H42 the formula is written as:

=(+F42/D42)^(1/((F36-C42)/365.25))-1

In the formula, look closely at F36. This is an absolute cell reference.

Normally in Excel references to other cells are relative to the cell in which the formula is located. For example at the beginning of the formula F42 is not really specifying cell F42. Instead, it is specifying the cell which is two spaces to the left of the cell containing the formula, and on the same row as the cell containing the formula.

Accordingly, if you copy cell H42 and paste it into cell H43, the formula now references cell F43 which is what you want. Similarly, if I pasted the formula in cell H42 into cell L66, the beginning of the formula would then reference cell J66.

This default approach works fine in most cases. However, you sometimes want a reference in a formula to point to a fixed cell, even if the formula is copied and pasted somewhere else. For example, in the above formula the F36 is pointing at the cell which contains today's date.

When this formula is copied from cell H42 to cell H43 (or to any other cell) you still want it to reference today's date in cell F36 and not some other cell. The two $ signs in F36 tell Excel that this is an absolute reference, so even if the formula is copied elsewhere, it should still reference cell F36.

In passing, the reason there are two $ signs is that each part of the formula can independently be either absolute or relative. Depending on what you want to happen when a reference like M8 is copied and pasted, your formula could be M8 or $M8 or M$8 or M8. Most of the time my formulas use either wholly relative or wholly absolute cell references, but occasionally this extra flexibility is useful.

The next time I will look at calculating the internal rate of return when you bought your shareholding in stages and not all at once.

A lesson in consumer protection: the 'Stronger Nudge'

by John Hunter

This is a story about a tiny byway of consumer protection. But maybe it gives some clues to why the Financial Conduct Authority (FCA) finds it so difficult to be effective in that role.

As background, the government introduced pension freedoms in 2015. Recognising some responsibility for throwing consumers to the wolves, a variety of government-sponsored advice services were either introduced or reinforced. This further confused consumers and there was concern at the minimal take-up of these services. This led to the Financial Guidance and Claims Act 2018 – a 54-page document which enacted a 'single financial guidance body'. The resulting consolidation of advice bodies into one ('Money & Pensions Service') is still progressing (December 2021). MaPS (its preferred acronym) has launched a 'brand' – MoneyHelper. The continued existence of Pension Wise is another story for another time.

My story starts in May 2021, when the FCA published a consultation document - 'The Stronger Nudge to Pensions Guidance (CP21/11)'. This concerned a process required by the Act whereby consumers are reminded ('nudged') of the decisions they need to take as they approach retirement. This nudge would take the form of a single communication from their financial adviser advising them of the existence of Pension Wise.

I became interested because in any normal organisation this simple matter would be settled after a couple of meetings between representatives of interested parties. Why did it require the full panoply of an FCA consultation – a document of some 30 pages – followed by a consultation period, followed by a response to replies to the consultation and a decision on what to actually do?

The policy team was extremely busy at the time on much more important matters, so it was agreed that I could make a personal response. I did so, suggesting a much simpler, easier, cheaper and more effective way of delivering the purpose of the nudge. I also took the opportunity of laying the groundwork for future process changes with a few nudges of my own, namely:

- The nudge process for personal financial management should be whole-of-life, not applied to one single pre-retirement event. Personal financial management is not a series of isolated decisions. It is a lifelong journey.
- It should be removed from the responsibility of advisers (within compliance rules) and placed within the control of a government agency.
- This small beginning could be the building block on which a holistic approach to consumer support could be built, combining the efforts of the existing agencies.

This submission went in and disappeared, as is usual with these things (they are not published by the FCA and there is no guarantee that anyone important has actually read them). However, in due course an FCA policy document appeared commenting on the advice received and giving their decision for future action (CP21/21). The report included the following paragraph:

While there was broad support for the intent of our proposals, around half of respondents thought the nudge to Pension Wise guidance came too late in the journey when consumers would have already made up their mind about how they wish to access their pension savings. However, the Act requires the nudge to be delivered as part of and before proceeding with the application process. (Note: the 'application' refers to pension transfer)

And then....

Having considered the feedback, we are largely proceeding on the basis on which we consulted, with some minor refinements where we agreed it would improve the rules and to clarify our policy intent in some areas so that the intention behind the rules is clearly set out.

So, if I could summarise the whole process:

1) An Act of Parliament was used to demand a simple but important administrative arrangement;
2) After a break of three years a consultation followed on the best way to do this;
3) Over 50% of respondents pointed out a particular weakness in the proposal;
4) It transpired that the Act had very precise definition of the nudge process;
5) The FCA decided not to change anything, with an implied excuse that they couldn't face having to change the Act. They would, however, make *'some minor refinements where we agreed it would improve the rules and to clarify our policy intent in some areas so that the intention behind the rules is clearly set out'*.

This last is a statement of which the scriptwriters of 'Yes, Minister' would have been proud.

UKSA is delighted to be returning to the RAF Club in Piccadilly, London, on Monday 24 January for a members' lunch. Details have been sent to members.

For any further information please mail or call our office.

Simplification of inheritance and capital gains taxes – the Treasury responds

by Roy Colbran

The Treasury has now responded to the reports from the office of Tax Simplification ("OTS") on which I wrote in recent editions of The Private Investor. They have not gone very far in respect of either of the two taxes towards accepting what was suggested but at least seem to recognise some merit in the various proposals.

Inheritance Tax (IHT)

The main change accepted is that where no IHT is payable there will be an increase in the monetary limits below which a full return is not required. This differs from the OTS's recommendation, which was that a short form be available in such situations, although they did not detail what they thought should be in the short form.

As readers will be aware bequests to a spouse, civil partner or registered charity are exempt from IHT. Even so, at the moment where the value of the estate exceeds £1 million the executors are required to make a full return of the assets on IHT 400. With current values of house property it must be quite common for this limit to be exceeded, necessitating what the executors might well think is an unreasonable amount of extra work and expense. For deaths from 1 January 2022 onwards the limit is raised to £3 million and the regulations allowing this are already in place. Currently, there is also a requirement to make a full return where gifts prior to death, or trust property passing, exceed £100,000 and this limit is raised to £250,000.

Nevertheless executors will still have to complete the simpler form IHT 205 rather than the full return at IHT 400 in order to prove that there is indeed no IHT payable. In many cases this will be quite easy only requiring values to be assigned under a few headings but where an estate is between £1m and £3m it is quite likely that there will be a range of assets to be valued. Total values must be assigned to each type of asset and executors are instructed to "Make the fullest enquiries so that you can show that the figures on this form are correct." Admittedly if the value for an item cannot be found, "your best estimate" may be included. Seeing that the notes on completing the form run to 30 pages, I can't help thinking that the OTS's idea might have been kinder to executors – the Treasury give no explanation as to why their route was preferred.

The outcome hardly justifies the Treasury claim that over 90% of non-taxpaying estates will no longer have to complete Inheritance Tax forms for deaths when probate is required as if IHT205 is not an inheritance Tax form. And it still leaves up to 10% with no liability who still have to make full returns.

Other changes accepted include a review of HMRC guidance to reduce worry and make things easier for those who have tax to pay. We are told that the arrangements for HMRC to confirm to the Courts Services that tax has been paid have been streamlined. The letter from the Treasury also confirms that the nil rate band will be maintained at the current level up to and including 2025-26. On current trends this will continue to increase the Treasury take from IHT. As regards changes to reliefs and the regime for lifetime gifts, these "must be considered in the wider context" and the government is going to "bear the OTS's valuable work in mind" if they consider reform in the future! As a result we are still stuck with the grossly outdated rules on the amounts of lifetime gifts which can be made without creating a potential liability, and likely to be for several more years. For example the limit on annual gifts has been £3,000 since 1981 and, according to the OTS, would have been £11,900 in 2019-20 if it had been inflation-proofed.

Capital gains tax (CGT)

There were two reports from the OTS on CGT, the first on policy design and principles and the second on technical and administrative issues. The Treasury response dismisses the first in a paragraph saying that the wider policy trade-offs needed mean that careful thought must be given to the impact. It merely promises that the Government will continue to keep the tax system under constant review. Thus we are spared, at least for the time being, the possibility of CGT tax rates being brought more into line with Income Tax, the possibility of the annual tax-free limit being reduced and the rebasing of the starting value to the date of death where assets pass free of IHT to a spouse or civil partner. All these were seen as possibilities by the OTS.

When it came to the second report, the Treasury found it possible to accept five of the recommendations while putting a number of others in the "Consider" category. Two of the ones accepted relate to improving HMRC guidance and integrating CGT into the new Single Customer account. The three with a more direct effect are:

1) The time limit for making the CGT return and associated payments on a sale of land or property is extended from 30 to 60 days. This was the absolute minimum relaxation that the OTS had suggested to deal with the real problem that this new rule created for taxpayers.

2) Another area which was seen by the OTS as unreasonably causing a CGT liability was the short "no gain no loss" window on separation or divorce i.e. running up only to the end of the tax year in which the separation occurs. Here the government agrees that the window should be extended but merely promises to consult on the detail over the course of the next year. Hence there is no immediate relief from this problem.

3) Lastly they agree that Rollover Relief where land and buildings are acquired by Compulsory Purchase should be expanded and again will consult on the detail – although this time it is to be "in due course".

Review of OTS

The OTS was established by George Osborne in 2010 fulfilling a promise made two years earlier. It was then put on a statutory basis in 2016 with a requirement for a five-year review being introduced at the same time. The Treasury has now completed the first of these reviews and chose to publish its findings at the same time as responding to the reports of the OTS.

Although this wordy document does not contain direct criticism, its eight recommendations give a strong indication that the Treasury is not entirely happy with the work of the OTS. The first recommendation begins: "The OTS should explicitly state the reasoning behind recommendations...". This is a bit rich coming from the Treasury, seeing that they have felt able to reject carefully considered and argued recommendations with the simple words "The government has considered this recommendation and is satisfied with the existing rules."

The Treasury chose to highlight the last recommendation of the review, which is that the OTS should itself undertake a project to articulate its approach to and interpretation of 'tax simplification'. It is not obvious why this has been highlighted, but the OTS is asked to produce details of the terms of reference to be agreed in detail by the Financial Secretary.

If I had worked for the OTS on these reviews and put so much effort into them, I would be feeling pretty sickened that the Treasury has taken so little notice of the recommendations and dismissed a number so peremptorily. Could it be that the Treasury really doesn't like having the OTS around and wishes they would go away?

NFT or non-fungible token is Collins Dictionary's word of the year

by Sue Milton

Non Fungible Tokens (NFTs) are increasingly getting mentioned as a way of trading assets, with an assumption that everyone knows what they are. The question is whether they are a passing fad or here to stay, so, rather like Prime Minister Margaret Thatcher, are 'not for turning'.

Understanding NFTs requires knowledge of aspects that support their use, so some fundamental questions need answering:

1. What are NFTs?
2. What do I need to know about the underlying technology?
3. How useful are NFTs?
4. How safe are NFTs?
5. Do NFTs have a future?

1. What are NFTs?

Let's start with what they are not. NFTs are neither cash nor cryptocurrencies, so cannot be used as a means of exchange in the same way money, including cryptocurrencies, can. Unlike a £5 note which is mutually interchangeable with any other £5 note, having the same attributes and value, NFTs have unique valuations. Each NFT is different, making it non-fungible.

NFTs are best described as deeds with associated contracts confirming ownership and legal rights that are created, stored and transferred in the virtual rather than the physical world. Each NFT is a computer file that combines proof of ownership and authenticity, like a deed, and the rights and limitations of use, like a contract.

It is important to recognise it is the NFT, as a deed, which is owned rather than the underlying asset. The rights associated with ownership and use of the underlying asset are limited to what has been set out in the encoded contract relating to the NFT.

For example, you are a freelance photographer who took a photograph of a Dodo. Given that we understood the Dodo to be extinct, this would be a very valuable photograph. You could develop it and turn it into a physical photograph, or store it on the computer in digital format, or do both. You could ensure you are the recognised person who took this photograph by creating an NFT (a technological process known as 'minting', involving signing up to a cryptocurrency platform and creating a digital wallet), associating the Dodo photograph with the NFT, and recording both your ownership of the photograph and the first person to have taken the photograph on a blockchain (another piece of technology that records your authenticity and ownership of the photograph). Why these are necessary steps to take is explained below.

2. What do I need to know about the underlying technology?

NFTs are a component of distributed, public ledgers that record transactions. The main one for transacting and storing NFTs is called Ethereum. To place NFTs in context, we need to know a little about distributed public ledgers, blockchain, Ethereum, minting, digital wallets and smart contracts.

- Distributed public ledgers: we are familiar with ledgers (databases in computer-speak) where all the information is held in one place. Copies can be made, but there will only be one master ledger controlled centrally. Distributed ledgers, on the other hand, have no designated master. There are many identical versions held on computers making up the distributed network, and available to the network's members. It is the whole network that controls the ledger, with verified changes to the ledger replicated simultaneously across all the computers attached to the network. You may be familiar with the term ‘mining’ for Bitcoin; ‘minting’ is the verification term for NFTs – see below.

- Blockchain is a distributed, cryptographic ledger of data, where all the information is encrypted to keep the information secure. All new information must be independently verified as being true before it is added to the ledger.
- Ethereum is a public blockchain network, available to everyone rather like the internet is. Just like us having to use an internet browser to access the internet, you have to join a blockchain platform like Ethereum.
- Minting is a verification process over the deed and contractual aspects of the NFT that authenticates the NFT. This technical process involves the network of computers reaching consensus that the latest changes are valid. Individuals have to sign up to a cryptocurrency platform and create a digital wallet before they can access NFTs and become part of the network.
- Digital wallets are payment methods to make and receive payments held in one secure place, with the goal of streamlining payments. Common digital wallets, such as Google Pay, let you to make contactless payments with your cards or by smartphone or smartwatch. Some digital wallets, such as PayPal, are not used for contactless purchases, but store your payment methods and can be used to pay when shopping online.
- Smart contracts have technology embedded into NFTs prohibiting, for example, the transfer of the NFT until certain conditions are met or to protect the minter’s rights to royalties such that, each time the NFT is resold, the minter automatically receives a royalty fee.

3. How useful are NFTs?

The concept of usefulness contains several attributes such as ease of access to obtain and/or relinquish the value to the holder and the ability to consume as the holder desires.

Once your ownership of an NFT has been stored on the blockchain, you can now offer it as proof of ownership (the deed) under certain conditions (the contract). As mentioned at the beginning, it is mainly collectibles that are available via NFTs. It is the uniqueness of each NFT that makes NFTs excellent when it comes to art and other collectibles, as their origin and ongoing provenance can be easily verified.

In the Dodo example, you hold the NFT that authenticates you as the creator and owner of the original photograph. Even if people make unauthorised digital copies, the underlying data will prove that any copy is not the original and they are not the owner.

You now want to make some money from your photograph. You can do this by creating new NFTs for sale that assign rights to potential purchasers. You can dictate that the various prices paid by purchasers will establish what rights they have. For example, the lower end of the price range will allow them to view the digital photograph online, the upper range to obtain their own digital copy, akin to ‘limited edition copies’ in the physical world, that they can print off and hang on the wall, but the ownership of the original still lies with you in the way that museums and art galleries make images available to private use or academic study. As the authorised owner you are also able to sell the photograph, thereby losing your rights of ownership, but you will never lose your status as the person that took that first photograph.

Our new purchasers of your NFTs are now able to view and print the photograph according to their encoded rights. They can also sell those rights on by creating new NFTs for new purchasers.

4. How safe are NFTs?

Of course, there are risks associated with NFTs such as:

- Defining legal ownership rights: a lack of clarity in the contract covering the rights being acquired and the rights remaining with the seller. As mentioned earlier, owning an NFT does not equate to owning the underlying asset.

- Loss of access to the underlying asset: if the digital asset is not coded into the NFT, the link to the digital asset might be removed. A physical asset could be destroyed – think Banksy, who in 2018 shredded his “Girl With Balloon” after it had been auctioned at Sotheby’s.

- Fraud: fraudsters could mint an NFT relating to a work that is not their own and without the creator’s permission. This happened to a different Banksy last summer, where an online auction of an NFT purportedly by Banksy was found to be fraudulent. Likewise, with respect to copyright, minters of NFTs could falsely claim to own copyright in respect of the underlying asset.

- Misunderstanding the terms and conditions of use: remember you only own the token. It is the contractual part that states your rights and limitations over the asset.

- Risk of losing access that you legitimately have: because you need to purchase your own digital wallet and place it on the NFT exchange, you risk being hacked or may forget how to access your wallet.

- Uncertain regulatory framework: NFT issuers and buyers must be aware of the legal and regulatory treatments across different jurisdictions. Most tokens will be unregulated, so whilst you will not fall foul of the regulator, you have no equivalent consumer rights to regulated assets.

5. Do NFTs have a future?

The answer is yes. NFTs offer a new way for organisations to engage with consumers and a way for consumers to obtain ownership of unique and novel assets. It is useful to own tokens that:

- Link to a physical asset. Buy a diamond and acquire ownership of a token that proves ownership and authenticity of a diamond and, should the diamond be sold on, the combination of NFTs and blockchain will provide provenance.

- Link to a digital asset such as a music file, where the token includes a URL to gain access to the music.

- Limit access to, and use of the asset, within the terms and conditions, however broad or narrow those T&Cs are.

This could be very attractive and useful in financial services (tokens with rights to shares), sport (tokens to access highlights) and branding (tokens to license their content and use of a particular product or service via a franchise).

Regulators are looking at NFTs too. Some NFTs are regulated because they fall within what regulators call their ‘regulatory perimeter’, such as security and e-money tokens. For the moment, the rest fall outside the perimeter so are unregulated.

Unlike our Dodo, NFTs are alive and well. Their potential shows that they have a future too so will not be turned away for a while.

Sources:
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Valuation of Northern Rock shares

by Bill Brown

A review of the circumstances leading to the NIL valuation accorded to the shares in Northern Rock has to begin with the Northern Rock Group interim results, published on 25 July 2007, in which Adam J Applegarth, Chief Executive, said:

"Operationally Northern Rock had a good first half in 2007. Mortgage lending has been particularly strong with a gross market share of 9.7% and a net market share of 18.9%, both helped by improvements in retention of home moving customers, keeping customers coming to the end of their product deals and a strong mortgage market. Credit quality remains robust.

The outlook for the full year is being impacted by sharp increases in money market and swap rates seen in the first half. This has resulted in a negative impact on net interest income as mortgage pricing in the market generally has lagged behind increases in funding costs in the year to date. Action has been taken with changes in our swap transaction policies to minimise exposures in the future to significant changes in interest rates.

We are pleased to have achieved approval for use of our Basel II rating systems. This means that the benefits of Basel II enable us to increase our 2007 interim dividend by 30%. Going forward our dividend payout rate increases to 50% of underlying EPS (earnings per share) from around 40%. Future capital planning, including the reduction of capital-hungry assets, will allow us to return capital to shareholders through a share buyback programme.

The medium-term outlook for the Company is very positive."

That was the situation of Northern Rock as described by the Chief Executive to the shareholders on 25 July 2007. It was confirmed, in a manner, by Goldman Sachs, adviser to HM Government, who advised, before the end of 2007, that they had valued the equity in Northern Rock as being estimated at upwards of £2.8 billion, including "funds due to shareholders". That information was not available to other than the Chancellor of the Exchequer and possibly some members of his team but was kept secret for some weeks until somebody leaked it to the press. In other words, there was no "transparency", an expression that has been bandied about freely in recent years.

It has taken HM Government until now, 2021, to start a discussion on corporate governance, more than twelve years after that statement was issued, which distorted the true situation at Northern Rock and misled shareholders.

Is it any wonder that the shareholders were surprised when they learned, a month after the "nationalisation" of the bank, that a valuer, appointed by the Chancellor, placed a NIL valuation on the shares of Northern Rock? That valuation was based on "assumptions" included in the Banking (Special Provisions) Act 2008 and its related Northern Rock Shareholders Compensation Order (which had the same effect as Statutory Law). In other words, an estimated valuation had to be based on hypothetical "assumptions".

Shareholders were shocked by the decision and, led by one of their number, they launched court proceedings. The truth was that the proceedings were actually supported, financially and as participants, by the two hedge funds that had speculated in a large number of shares in the bank. The private investors were unable to raise sufficient funds for court proceedings and had to rely on the assistance of the two hedge funds.

That was a tactical mistake on the part of the personal shareholders because many MPs (and others) were "anti-hedge funds" and that was reflected in the negative court outcome. On appeal, one of the three

Lords Justice suggested that *"Northern Rock's substantial assets ... will be as much a contributor to the sale price as will the support put in by the Government"*, but added *"shareholders are likely to receive nothing"*, an acknowledgment that the court had not determined a valuation of the shares because of the use of the word "likely".

On a later occasion, in a Court of Appeal which had three sitting Lords Justice, one Lord Justice disagreed with the other two and recorded: "Without that support (LOLR loans) , as was common ground, it would have had to have entered administration or liquidation but it would have done so on the basis that the starting point of the administration or liquidation was a company whose assets, as shown in its balance sheet, exceeded its liabilities".

This was a very significant statement as it demonstrates, a) that a winding up in an administration (which was one of the "assumptions" mentioned in the Order) was likely to produce a positive value for the bank's shares, and b) that not all Lords Justice were of the same opinion and after all, each of them is only expressing his personal professional conclusion.

The problem in all of this is that there has been so much secrecy and a lack of transparency surrounding the post-nationalisation activities within Northern Rock. Of course we have Annual Reports and accompanying Annual Accounts but, until the rules relating to Corporate Governance are changed, they tell us what the Chief Executive Officer wishes us to know and the Annual Accounts only relate the bank's situation on 31 December each year, except for the years when the Accounts ended on 31 March. Much of what happens in between is an undisclosed mystery to ordinary members of the public, including those who were shareholders in the bank.

Everyone knows the old saying that one can prove anything with figures and unfortunately, even now, twelve or more years later, that applies to annual accounts. Of course there are International rules (devised in the USA) that govern the preparation of annual accounts, but those are beyond the understanding of the average non-professional accountant and possibly even then, not completely clear. The fact that it requires 40 or so pages of notes to explain what has already been gathered on a single-page balance sheet appears to confirm that statement.

One can understand that those of us who represent former shareholders in Northern Rock will have a different point of view of the overall picture from that of HM Government. That is to be expected. Nevertheless, attention should be accorded to the views of shareholders, particularly because those views are based on the actual facts of the situation of Northern Rock as relayed by various government and other officials, not on several "assumptions" that have been introduced by HM Government so that an artificial outcome can be achieved.

From an examination of the Banking Special Provisions Act 2008 and of the Northern Rock Shareholders compensation Order 2008, it is abundantly clear that both were devised (on the recommendations of the Adviser to the Chancellor) and that both documents were drafted in such a manner that they would automatically ensure that the shares in Northern Rock had a NIL value as determined by a valuer, one selected and appointed solely by the Chancellor of the Exchequer. They had no other obvious purpose.The provisions made in both of the above gave a false impression and, bearing in mind that the Order was not published until a month after Northern Rock had been nationalised, gave shareholders an erroneous expectation that their shares would be accorded some measure of compensation.

In relation to the above : "It is immaterial whether the announcement mentioned in subsection (5)(a) is made before or after the passing of this Act." Can it be normal that an Act includes that sentence unless it was passed for the express purpose of achieving a particular object? In this case, a determination that the shares of NR had no value.

There are several points which it is unlikely that HM Government will accept, but they are important and it would be helpful if our Government would acknowledge them. They are the following:-

1) Although the Law Courts produced results unfavourable to former shareholders, did the Courts – and the Upper Tribunal – actually produce a ruling on the equitable rights of former shareholders?

2) Were the shareholders consulted on the nationalisation of their company prior to the nationalisation? If not, why not? They were the owners of the company. Neither the Board of directors nor any other party, including HM Government, had a right to determine the affairs of a SOLVENT company without the involvement of the shareholders.

3) Why were the assumptions required of a valuer included in the Northern Rock Shareholders Compensation Order when its liquidity shortage had been resolved, legally and according to normal customs of the Bank of England, by the Bank of England LOLR loans? There could have been no other reason than to ensure that a NIL value could be accorded to the shares of Northern Rock. In which case, why go through a lengthy and unnecessary valuation process costing a minimum of £4.5 million.

4) It has been, for many years prior to 2007, a globally accepted principle that one of the responsibilities of a central bank is to provide emergency liquidity assistance to SOLVENT banks. Why therefore, did the Act and the Order mentioned above provide as follows:

"In determining the amount of any compensation payable by the Treasury by virtue of any provision in an order under this section, it must be assumed: a) that all financial assistance provided by the Bank of England or the Treasury to the deposit-taker in question has been withdrawn (whether by the making of a demand for repayment or otherwise); and (b) that no financial assistance would in future be provided by the Bank of England or the Treasury to the deposit-taker in question (apart from ordinary market assistance offered by the Bank of England subject to its usual terms)"?

That is contrary to the worldwide understanding that a central bank has an obligation to make LOLR loans available to a SOLVENT bank.

In addition, the Shareholders Compensation Order contained the following assumptions (to be made only for the purposes of the determination of compensation): "In determining the amount of any compensation payable by the Treasury to any person in accordance with paragraphs 3 to 5, it must be assumed (in addition to the assumptions required to be made by section 5(4) of the Act (compensation etc. for securities transferred etc.)) that Northern Rock

(a) is unable to continue as a going concern; and b) is in administration."

The only answer that is credible is that the specially devised Law and the related Order provided that, contrary to the EC definition of "State Aid", HM Government had devised in the Act and its related Order its own definition of "State Aid" which included the Guarantees given by HM Treasury to the Bank of England although those were never utilised. It was not until after the completion of Brexit that HM Government had a right to deviate from the EC's definition of "State Aid".

The EU definition was based on "State Aid being given to a company (in this case, a bank) in such a manner that it distorted competition'. Lord Justice Lewison, one of three Appeal Justices, said: *"The Bank's intervention was not designed to shore up Northern Rock's balance sheet. That would have been incompatible with the principles on which the Bank acts as lender of last resort. There is no evidence or finding that Northern Rock's balance sheet was increased as a result of public sector support. As far as the evidence goes Northern Rock had a surplus of assets over liabilities when the Treasury first intervened, when the Bill that became the Act was introduced into Parliament and at the transfer time itself."*

There was ample evidence at the time that the Northern Rock management was well aware of the need to eliminate any accusation of "unfair competition" and they took measures to ensure that the question did not arise. Despite all the circumstances of the time, it can be demonstrated that NR did not use the LOLR temporary assistance to improve its competitiveness. It was unlikely to be able to do so in view of the fact that it was paying a penalty rate on the LOLR loans.

All this could have been avoided if the Government of the time had agreed for shareholders to be paid reasonable compensation when Northern Rock, a solvent bank, was nationalised (assuming that was an appropriate action) instead of accepting the advice of Goldman Sachs, its US adviser. It is not a question of the conduct of the Northern Rock Board, Bank of England Governor, Financial Regulators, HM Government and its advisers, or even of ministers. Whilst mistakes were undoubtedly made by each of them, they were made in good faith, mostly in times of extreme financial conditions and stress about which no one knew the outcome and nor had they any prior experience. HM Government could only devise “assumptions” that were proved to be totally unjustified.

Parliament, independently from the Court system, has an ability to change laws. It is within the powers of Parliament to take appropriate steps without recourse to the Courts, should it decide to do so on behalf of shareholders and as representatives of its people.

Of course, it is easy to oversimplify the Northern Rock situation. I have written on numerous occasions in the past about its extreme complexity, but there are some fundamental points that need to be addressed by HM Government. The simplest way of doing that is to copy the method used by Government departments when they introduce “discussion papers” in which they seek the views of the general public on matters for which they wish to introduce legislation (or at least those with a specific interest in a particular topic).

It seems reasonable that the process may be reversed and that those members of the public or their agents (for whom those same MPs are representatives) can pose their questions in a similar manner and expect to receive truthful answers and not be “turned aside” by glib excuses that purport to be answers, and which are dependent solely on the results of court proceedings based on “the letter of the law". That has been the experience of the UKSA subcommittee to date.

Above all else, HM Governments have relied to a considerable degree on the decisions produced through Court Proceedings and those of the Upper Tribunal, which is not a Court of Law. There are two principal ways in which Law Courts through Justices can reach a conclusion. Firstly, reliance on the “letter of the law”; that is to say, a reading, not an interpretation of the law, in other words a reliance on the specific language used when the law was devised. This is one reason why proposed laws are carefully scrutinised by Parliament before they are approved or amended usually over a period of some weeks or even months of debate. Notwithstanding, as documented by Hansard, the Banking (Special Provisions) Act 2008 was hurried through parliament, including The House of Lords, within a few days. A second method is to interpret what the law was intended to achieve. This is accomplished by means of the application of “natural justice” through the use of a branch of law known as the Law of Equity. As it relies on interpretation by judges or Lords Justice in each individual case, it is applied at their discretion.

It is accepted that shareholders should not benefit from increases in value resulting from the provision of State Aid. However, the projected surplus is represented by Equity Funds and “Embedded Asset Value” that was acquired at nil cost because no compensation was paid. As NRAM was not allowed to engage in new business, there can have been very little "value created" post nationalisation.

The following is a list of questions to which individual specific answers are expected. Since the questions are being posed by members of the public and since it is up to thirteen years after the event, there should be no question of answers being avoided “in the public interest” or for reasons of “commercial confidentiality," or, despite the fact that NR was wholly owned by HM Government, it was not subject to the Freedom of Information Act 2000. In other words, the expectation is that answers will be given as they would have been given by a witness in a court of law, as “truth, the whole truth and nothing but the truth”.

Nationalisation, which was intended to be temporary, has been accepted and is not being challenged as it was possibly an almost inevitable product of those difficult years.

Former shareholders of Northern Rock bank wish to learn the answers to each of the following questions which deal with the determination of a NIL valuation of shares in the Bank.

1) The valuer appointed by HM Government, Mr Caldwell, concluded that although the half-year accounts to 30 June 2007 recorded that shareholders' funds amounted to £2.3453 billion and total Equity Funds amounted to £3.3821 billion, in 2010 he was reputed to have said that the value placed on Northern Rock shares was “unreal”. Nevertheless, he assumed that the liabilities of Northern Rock exceeded its assets (mortgages) by the sum of £2.4 billion and on that basis placed a NIL valuation on the shares, which he confirmed in his final determination on 1 October 2010.

He was quoted by Lord Justice Lewison as having said : *"I propose to assume that the best quality assets are realised (for assets, read "mortgages") and that the remaining assets on the balance sheet are of lower quality as they have more inherent risks."* How can that have been the case when all the outstanding mortgages, following nationalisation, were transferred to Northern Rock Asset Management (Later known as NRAM) and produced, for HM Government, a profit amounting to £7.82 billion?

How did he calculate that over a period of seven months that the equity in the Bank went from £3.3821 billion to a deficit of £2.4 billion (note the "rounded" figures) in other words, a change of £5.781 billion, bearing in mind that the average LTV ratio was still much lower than the value of the underlying properties. It was noted as being 49% for those mortgages acquired by Virgin Money in 2012.

Was this achieved by:

i) Assessing the security of each mortgage on an LTV basis, since there are many factors which have a direct bearing on the value of the underlying properties?

ii) Use of a formula or algorithm applied to the mortgage pool. If so, what were the details of the formula or algorithm?

iii) Other means?

iv) Guesswork?

2. Assets (mortgages) appear to have been sold to bidders at a discount, which has to be expected in the circumstances.

i) Within which range of discounts were mortgages sold to bidders?

ii) Were any mortgages sold to bidders without a discount?

iii) Were any mortgages transferred at their "fair value". Not necessarily the same value as that stated in the accounts?

3. Clarification is required as to the values placed on mortgages that were offered for sale. It appears that most of the sales involved assets (mortgages) that were, for the purposes of achieving a sale, sold at less than estimated "fair value" and it is believed that some were offered subject to undertakings that retained a degree of responsibility on NRAM for a number of years.

i) Was this the case?

ii) Are any of those undertakings still outstanding?

iii) Were mortgages recorded in NR records (post nationalisation) at values that were less than the calculated "book value" that one would normally expect? In other words, subject to the valuer's "assumptions"?

Those are straightforward questions.

It is not appropriate for HM Government to maintain that it aims to treat everyone fairly unless full and honest answers are given to those questions, assuming that HM Government can be trusted to supply such answers.

Editor's note: Bill has been a prodigious writer for TPI and has kindly agreed to be among the first to have a dedicated page on the UKSA website. With that in mind we are reproducing below the first part of an essay which will be reproduced in full on Bill's website page.

Northern Rock – only a story – or not?

In 2007/08 I wrote a book and called it "The Decline and Fall of Banking". It was intended to be a play on the name of a famous book, "The Decline and Fall of the Roman Empire". The Roman Empire did fall, a long time ago, but over the centuries has been replaced by many different empires. However, nobody wished to contemplate the "Decline and Fall of Banking". After all, banking was a business empire spanning the whole world. Did banks actually "decline and fall"? Many around the world "declined" and many others "fell", but the banking system survived.

My book was not a novel but was a record, written on a day-by-day basis and recording how the saga of Northern Rock developed. It was a record of events written as they were reported. One of my objectives was to ensure that I did not benefit from the use of hindsight that was a feature of many subsequent books examining individual aspects of the Financial Crisis. I am also not a journalist but a professional banker of forty-four years' standing, twenty-four of which have been in senior management roles.

Did that matter?

Of course it did; as someone versed in banking practice I applied my knowledge of the banking system to an analysis of the situation. Had I been a journalist, I would have been more interested in its value as a story, one that could be published and one that was preferably a "scoop", as Robert Peston described it for the BBC.

Banking has played an essential part in our lives for centuries, in ever more sophisticated ways. One must undertake years of diligent study to understand it fully. My career started in 1946. The banking systems then and for many years were concerned with being a valuable service to the public. Nowadays, the emphasis is on profitability and market share. Public service aspects have been relegated to the back burner.

Does that matter?

Of course it does, because it may have influenced HM Government's choice of a professional adviser, Goldman Sachs, a firm incorporated in the USA. It was not a bank as such but an investment company and provider of investment-related solutions.

Was it a good choice?

It appeared to be, because it was recognised as the number-one investment bank in the USA that dealt in non-retail business on a global scale. That is an important distinction; it dealt in non-retail business but was engaged by HM Government to advise on retail banking problems. Its CEO, Lloyd Blankfein, said that it was successful "because it made fewer mistakes". That may be what he wished to believe, but the bank and its activities have generated substantial controversy and legal issues around the world and is the subject of speculation about the extent and nature of its involvement in global finance and politics.

Not only was Goldman Sachs a "non-retail bank", but it operated in a global environment that was completely different from the one that had, over two centuries or more, created the UK banking system. If HM Government had comprised more bankers and fewer former lawyers it might have realised that there was a difference.

Goldman Sachs is seen as a company concentrating on the bottom line and its involvement with Northern Rock Bank plc, the first bank to fail in the UK, demonstrated that fact. It is what may have led to the real controversy affecting Northern Rock, the confiscation of shareholdings without compensation, unheard of in a democracy.

It must be remembered that at this time, from September 2007 until after the nationalisation date in February 2008, HM Government was under daily criticism from newspapers and other media. Everyone was in a panic, including investors and depositors in several banks. To HM Government, its ministers and advisors, "nationalisation" is a harsh description of what the Labour government used to accomplish. HM Governments prefer the gentler "taking into temporary public ownership".

Northern Rock was portrayed in the media and by HM Government as a "one-off rogue bank" that had a "reckless" management. The fact is that none of the directors (including the chairman and, for that matter, the CEO) was an experienced and trained banker. Collectively, they were insufficiently aware that their most important requirement as bankers was to manage risk. Many years ago, for those same reasons, the Trustee Savings Bank had to be rescued by a traditional long-established bank, Lloyds Bank.

The story of NR after it was nationalised is related in earlier articles as they affected shareholders and the board of directors. One thing was quite clear; the board did not keep shareholders informed of the state of NR and shareholders were given no opportunity to question the board, although it must be recorded that NR was, on the surface, a very efficiently managed, profitable bank.

It was obvious, as the story developed, that the interests of NR shareholders were very low down on the list of priorities as viewed by the media (including newspapers), by the board of directors, HMT, HM Government, regulators and even "bidders". NR shareholders, although they were the owners of the bank, might as well have been non-existent.

This was during a period of five months in which a number of bids were made by other public companies to take over NR. The government considered that none of the offers protected taxpayers' interests as it would have wished without Bank of England assistance. This was related to the fact that banks were no longer trusted. Nobody knew how their true situation could be assessed, but later in 2008 all was revealed (well, nearly all).

We could, at this point, consider a number of factors that had a bearing on NR, but they were all a product of the "crisis" that was being experienced at that time.

All except one.

That one was the decision that all shareholdings in NR would be confiscated without payment of compensation.

Who was responsible for that decision?

Bill's detailed answer to this question will be included in the full version of this article, which will appear on the new dedicated writer pages of our website.

Looking ahead: 2022 and beyond

by Martin White

Editor's note: in the article below Martin sets out his personal perspective, which also informs the Savers Take Control campaign. More information can be found here on the UKSA website.

Thank you!

I'd like to start with a big thank you. For all our full members who have supported us through the years. Your contributions enable us to keep operating and to keep communicating. Even though all our member input is completely voluntary, we still need to maintain our small secretarial resource and pay for our website, postage, etc. And whilst we all, especially the volunteers, benefit from and enjoy being part of UKSA, what really drives us is the feeling that there is still a big gap to tackle in terms of the intelligent voice of the individual investor.

And the position has got worse rather than better. DIY investors are typically hidden from companies via the nominee system, and the vast bulk of people, who of course are not DIY investors, are completely disempowered through the dominance of an exploitative financial sector. And we have almost totally lost patience with the regulatory framework. Instead of pointing people to the simplest and cheapest investment solutions, people are simply told "consult an IFA". This almost certainly will not be the route to the simplest and cheapest solutions! And now we hear that the FCA is consulting about applying a means test to whether you can apply to the financial compensation scheme for bad advice, etc.

Helping each other, communicating and getting involved

For most of our members, for whom electronic communication is fine, the ceasing of a regular printed magazine will not impact you. But we are really aware that for a small number of long-standing members who do not use the internet, you will miss the regular envelope. We will be thinking what we should best be doing to help mitigate this. Including talking to you.

One thing we would like to do more of is sharing of investment experiences between members. There is huge scope for our older members to help the younger generation by sharing stories. And what are the lessons and principles you would like to pass to your grandchildren about saving and investing? Please contact us with any ideas or questions you would like to share; between us, we have a lot of knowledge and it helps hugely if we get a flow of questions. And we particularly welcome questions from people who are new to saving and investing, as some of the things you really need to know from the outset are lessons that the financial sector is not anxious for people to understand.

Online meetings and face to face meetings

Fellowship can be an important reason to join groups of people like UKSA. And whilst the pandemic has been dreadful in terms of suppressing face to face meetings, it has prompted us into running informal Zoom meetings, which mean that anyone can join in, no matter where they live, providing they have internet. Ultimately, we hope that the ease of participating in these will encourage more people to take part, and will actually lead to more face to face meetings than we have had in the past. It is really easy to arrange a lunch in a private room in a pub – and this is how the majority of the face to face meetings around the country have happened in the past. Anyone wanting to organise anything on these lines – please contact the office, we are here to help.

Discussion topics

For a good and enjoyable meeting you don't necessarily need a lot of pre-planning of the topics. You can agree a theme to start with, but the conversation will always flow! The local group decides what it wants to do, but we are always here to test ideas on if you wish. And if you would like someone to come and talk about a particular topic, the odds are we can help with that. The more requests to help we get, the happier we will be.

Public profile, and really making a difference

• At the top of this article, I mentioned losing patience with the regulatory regime. Our team of policy volunteers work hard to respond to consultations from the Financial Conduct Authority, for example. You can see the detail on our website.

• This work is valuable, but we have to be honest with ourselves and recognise that we will not be able to trigger any radical changes by just doing this. The FCA is constrained by their brief, which means that they never do anything that the financial sector would really hate or that would hit the huge tax take that comes from the financial sector. We have to make politicians feel uncomfortable, whilst still maintaining our own credibility. This will be a major priority in the coming year, and all ideas towards this would be welcome.

• What is really needed is an official body, paid for by Government, with the clear brief simply to advance the interests of consumers – and among other things that means ensuring transparency in relation to price competition amongst financial services providers of all sorts. We have little hope of this ever happening, and our view is that the only way this void will be filled is by knowledgeable individuals sharing knowledge motivated purely by the interests of the public.

• To make an impact, you have to attract media attention. And to have a radical message. This will be an important part of our strategy in the coming year.

More on discussion topics coming up

• What do people really need to know and understand? Let's say you wanted to point your children in the right direction. What are the lessons you would want to share with your younger self? This is agenda-setting stuff that we would like to get your help with. Please feed in any ideas you have ready to share via the UKSA office. We would like to have some informal Zoom calls or webinars about this. Just to trigger ideas, here are some suggestions:

The nitty gritty of managing your savings. Why do investment trusts make huge sense – and why is it that they will tend to outperform unit trusts? What is the real impact of expenses, and how to minimise them? Do you understand the basics of compound interest? Do you need to? What resources, in the form of books, information on the internet, would you recommend beginners to use? And, importantly for us, please have a look at our financial education site HonestMoneyNow and give us any thoughts and suggestions you might have.

In a LOW GROWTH WORLD... little model, lessons, etc.....

• Now a bit of philosophy: where does investment return really come from? Will a positive real investment return be available from a broadly spread equity portfolio in the decades ahead as the world responds to the climate change and biodiversity problems we all face? My view is that future investment returns in a close to no-growth world will be extremely low overall. And that trying to protect yourself against long term needs with bonds is likely to be a disaster, as they are likely to give a negative return after inflation. This has all sorts of implications, which we need to explore. One is the vital importance of minimising expenses. But you need to know how, and very few people are in the business of sharing the essential knowledge here. I cannot see conventionally sold financial "solutions" giving other than a negative return after expenses – there is just no room in the world of the future for the financial sector to help itself to a share of the customers' wealth in the way that it does today.

Something entirely different

Putting our "responsible owners" hats on, we need to care how the companies we own behave, including how the people working in them are treated. I believe that the "ESG" movement has a large element of financial sector marketing and posturing, and that there is insufficient attention paid to what it feels like to work in a company and how the company culture impacts people's lives.

So I was excited recently to come across something called the "requisite organisation", which is a whole set of ideas on how companies could be run, developed by the late Elliott Jaques. It's not that easy to get much information about it on the internet, I think mostly because those people with the knowledge want to make consultancy income from it! But I recently bought the book "Requisite Organisation" and am looking forward to reading it. To give you an idea, the following is a quote from the book:

"The aims of requisite organisation. Accountable, authoritative managerial leadership for high mutual trust and concern and highly effective business. The aims of requisite organisation are simple. They are to develop organisation structures and organisation processes which can provide for top flight working and business effectiveness in which:

1 People can rest secure in the knowledge that they can trust each other to work together in an honest and straightforward manner.

2 They can use their personal capabilities to the full, both to their own personal satisfaction, and to contribute fully to the successful functioning of the organisation."

I would love to hear from anyone who is familiar with the ideas.

Charles Henderson's piece about the Neil Woodford story, page 20 of this issue

Can I urge everyone to give this a good read? Charles might blush at these comments, but what this illustrates to me is how someone who has in the past worked in the financial sector, but clearly been aware of the responsibilities to the customer throughout, can be a powerful and balanced advocate for change.

Liverpool Victoria

UKSA took up the case of the policyholders of Liverpool Victoria – another example of consumers being on the receiving end of a complex capital restructure that they could not be expected to understand (we hardly did ourselves). It was led by Bain Capital, a private equity group whose interests may or may not be compatible with those of the policyholders.

In response to pressure the regulator (FCA) published the following:

We recognise that there has been a lot of media attention and commentary regarding this proposed transaction, and a variety of press statements from a number of interested parties. The details of this proposed transaction include a fair degree of complexity, and we understand that there is a risk that the extent of commentary may cause some degree of confusion and uncertainty for LV members. In this regard, please be assured that we make clear to FCA-regulated firms the need for them to ensure that all their communications, including any press commentary, are clear, fair and not misleading.

Connoisseurs of the bureaucratic arts will admire the way this statement combines blame of others, determination to avoid action and an implication that they are nevertheless doing all that they should. Others will offer this as evidence that the FCA's responsibility for consumer protection still comes a long way second to its promotion of the markets for which it is responsible.

Book review of “Built on a Lie” by Owen Walker

by Charles Henderson

In early 2021, Owen Walker’s book, on the rise and fall of Neil Woodford and the fate of Middle England’s money, was published. Shortly after, Bob Yerbury was given the book by Martyn Arbib and we discussed it during some of our weekly Zoom drinks while waiting for the government’s road map to work through to our being released from Covid-19 restrictions. On 29 June, Bob, another ex-Invesco fund manager, and I had lunch and Bob lent me the book. I read it over the summer and while reading it I came across some stuff in the seventh chapter, “Breakaway”, that made me circulate it to my UKSA board and policy team colleagues suggesting that what I had read so far was another example of the financial services industry (and regulators) looking after their own and not consumers. John Hunter replied that I should do a book review in TPI with my background, which is why I am now writing this review for our last TPI.

My background

After qualifying as a chartered accountant, I spent the next nine years at Touche Ross & Co (now Deloitte) as an auditor. At the end of my time at Touche Ross, I had been auditing Perpetual for three years and was asked by the then CEO, David Mossop, if I wanted a job. I accepted and spent the rest of my working life at Perpetual, which became part of AMVESCAP in 2001 and then Invesco a few years later. From October 1997, when I became head of fund administration and accounting at Perpetual and worked closely with Bob Yerbury as Perpetual’s CIO; through leading the operational side of Invesco’s investment teams outside North America and mainly in the UK from 2001 until 2012; then becoming Neil Woodford’s UK equities team’s business manager until he left in 2014, I got to work with Neil Woodford a lot. This resulted in Jane Fuller, ex-Financial Times, suggesting I should talk to Owen Walker while he was preparing this book, but I declined on the basis that I had not dealt with Neil Woodford for over five years and my memory of things was a bit hazy and would not add anything to what Owen Walker was probably getting elsewhere.

What a tragic story!

I enjoyed reading the book as it covered a lot of my working life. While I came across one or two examples of where I was not sure it was entirely correct, I felt it was a fair and accurate history of Neil Woodford’s working life for the period when I was around (1994 to 2014). It reminded me that Neil was generally a good fund manager, making his investors a lot of money, and that we all felt part of an organisation that put our investors ahead of anything else.

The book also captures Neil’s main weaknesses where ego, personal feelings and dismissing almost anything he did not like hearing led him into the nightmare scenario that resulted in his potential legacy and Woodford Investment Management disappearing forever. This to me was the tragedy, as it was inevitable but could have been averted if he had listened to the right people.

In 2001, Neil and I met to discuss whether or not we were going to stay in AMVESCAP. We decided to stay and I believe that later Neil and his UK equities team and Paul Causer and Paul Read’s fixed income team saved the Invesco group after the TMT bubble burst. For most of the period up until Neil gave in his 12-month notice in April 2013 (which was kept secret until October 2013), I thought Neil saw the benefits of having the Invesco operational and compliance infrastructure around him and which kept him and his investors safe. He seems to have forgotten this after he left Invesco and the book covers this, especially on page 126 where it reports that Craig Newman yelled: “This is not a fucking control environment. This is about giving Neil the freedom he did not have at Invesco,” at Gray Smith (Compliance Officer) and Nick Hamilton (Chief Operating Officer) after they had questioned Neil raising the unquoted portion of his regulated fund to between 7 and 10 per cent of the portfolio, close to its regulatory limit of 10 per cent. If Craig had realised that Neil’s lack of freedom at Invesco had kept him and his investors safe, he and Neil may have listened to Gray and Nick, not pushed the regulatory limits on the equity income fund, continued in business and Owen Walker’s book may not have been written.

Reading the book, it struck me that it was also a tragedy how history repeats itself because all too often people do not learn from past mistakes. In the mid-1990s, while Neil was solidifying his reputation, Peter Young was filling his European equity funds with unquoted investments, inflating their valuations and giving the impression of outstanding investment performance. Peter Young was found guilty of fraud but the verdict was voided due to Peter’s insanity. I believe the trustees of the funds (the equivalent of an Authorised Corporate Director and a depositary in the case of Neil’s OEIC) were fined and Morgan Grenfell Asset Management disappeared.

The tragedy is I liked Neil and wished his new-found business had been a success. Sadly this was not the result due to his own faults and listening to people who did not have his investors’ interests at heart.

Confirmation bias

The book also reconfirmed a lot of my personal biases. I am not someone who dismisses all biases as bad, mainly because I think that we as a species have probably got to a reasonably civilised level of being as a result of many of the biases we develop over our own and from our ancestors’ lives. I am also not defending a lot of obviously bad biases but recognise we need to be careful of giving up some biases in case they do underpin our survival.

One of the first of my biases to be confirmed was that ego and getting personal in business usually gets in the way of doing the right things. I thought Neil recognised this for most of his working life, despite the occasional shout of “do you know who I am” to someone, but he seems to have lost it after leaving Invesco. Power, in the sense of not having to think about money, seems to have had a corrupting effect.

A second bias is that financial services regulation appears to have been and to continue to be about protecting the industry and its businesses rather than about protecting the consumers of financial services. As I mentioned in my introduction, the book and in particular the “Breakaway” chapter made me think this story was yet another example of the industry looking after its own and not its consumers.

However, I don’t agree with Mark Carney that “these funds are built on a lie, which is that you can have daily liquidity for assets that fundamentally aren’t liquid. And that leads to an expectation of individuals that it’s not that different to having money in a bank". These funds have been going for decades with only the odd exception that fits into Mark Carney’s description, mainly because they have not followed, or have significantly stretched the interpretation of, the regulatory rules of the funds. Also, they come with a health warning that you can lose your money; and there are all sorts of requirements that ensure that the liquidity of the units or shares in funds, owned by investors, is mirrored by the liquidity of the underlying assets with appropriate circuit breakers in place like fund suspensions. Yet again a top regulator blames the products after one or some of them have shown a flaw in their regulation and consumers have lost money without doing anything before to correct it in what would be the interests of those consumers.

But investors also need to consider whether they are to blame or not, being sucked into any hype without questioning it. To be fair to investors, this requires complete transparency on the products that they have bought, including what it has cost them. The industry has tried to protect consumers by pointing them in the direction of financial advice intermediating between the product providers and the consumers; but again this has usually resulted in the intermediaries' self interest to the detriment of the consumers. Investors need help, including helping themselves by thinking about what they have been told or found out for themselves.

Final thoughts

This is an interesting and useful book for those whose lives or finances have been touched by Neil Woodford. It is also another case study or lesson for anyone who has invested or is investing in a regulated mutual fund like a unit trust or open-ended investment company (OEIC). Caveat emptor?

An update on the STAR Share Screens

by John Mulligan
STAR Newsletter founder and editor

As this is the last issue of TPI your editor thought it might be an appropriate moment for me to write a brief note on the work we have been doing together on broadening and deepening the Share Tracking and Ranking methods.

For the past 30 years I have been writing a monthly newsletter that has produced templates comprising ten and twenty shares designed to produce capital growth and a mixture of growth and income derived from LSE main market and AIM databases. Several years ago the databases were expanded to cover continental European and global markets, thus enabling the production of a much wider range of options for investors who wish to take a more international approach to their equity investing.

In conjunction with UKSA we have just gone live with a new website (https://starinvestorhub.uk) using the STAR acronym that, in this context, is intended for any private investor who is Serious, Targeted, Active and Responsible. The STAR newsletters now produce monthly share selection lists that are derived by means of a two-stage share screening process. This has evolved over more than thirty years of continual testing and now offers investors mechanically generated share lists as well as more detailed share selections that have passed through a second stage rating procedure.

The new website has links from and to the excellent UKSA Honest Money Now website (https://honestmoneynow.co.uk) for those people who wish to take their equity investment involvement to the next stage. We would love this to become a real hub for the interchange of ideas and comments so do please take a look and send us a message on the News and Views section (https://starinvestorhub.uk/news-and-views of the website.

Our objective is not only to help those investors who wish to invest directly in listed shares but also to strengthen the fading link between businesses and you their ultimate owners.

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E-mail notifications

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Privacy

UKSA takes your privacy seriously. Following the entry into force of the General Data Protection Regulation we have assessed our procedures to ensure compliance and have updated our Privacy Policy, which can be consulted on our website. Click here if you are reading the electronic version of this edition.

General information

Views expressed by contributors are not necessarily those of the editor or of UKSA. Nothing in this newsletter is intended to be or should be interpreted as investment advice, which can only be obtained from persons authorised in accordance with the Financial Services Act 1986 and subsequent legislation. Contributors and members may be invested in any of the companies mentioned.

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CURRENT UKSA EVENTS

Company meetings

UKSA has a programme of online meetings.
Details of every event are e-mailed to members.

Meetings of UKSA Croydon & Purley Group

Location	**Spread Eagle, High Street, Croydon CRO 1QD** **Meeting dates will appear here.** **Chairman: Harry Braund** harrycb@gmail.com

UKSA BRANCHES – If no contact name or number is given, please contact UKSA office

Branch name	Leader	Administration	Main purpose	Description
London & South East Region	Harry Braund 020 8680 5872 harrycb@ gmail.com	Andrew Girvan 020 8788 1665 agirvan247@btinternet.com	To co-ordinate activities in London and the South-East	Meetings in Croydon three times a year
London company visits	Nick Steiner	Individual meeting organisers	To arrange private meetings with companies	20/30 meetings per year individually arranged
Croydon & Purley	Harry Braund 020 8680 5872 harrycb@gmail.com	Tony Birks 01322 669120 ahbirks@btinternet.com	Social meetings to discuss investment issues	Meetings in Croydon monthly
South West & Midlands	John Mulligan 01452 770214 johnmulligan01@gmail.com	Alan Cane 01722 500052 alan_cane@outlook.com	To develop educational and social activities for members	Virtual and live meetings based around investment
North East	Brian Peart 01388 488419	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
North West	Julian Mole 07870 890973 julian.mole@ btinternet.com	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
Northern Rock Small Shareholders Action Group	Dennis Grainger nrssag@uksa.org.uk	Dennis Grainger nrssag@uksa.org.uk	Pursuing compensation for small shareholders affected by NR's collapse	Lobbying and awareness-raising activities