UK Shareholders' Association

The Private Investor Issue 175 · March 2015

Chairman's Commentary

John Hunter

The board approved the final rules for Home Branches (HBs)(see page 5); ….and we have our first HB (see page 6). The latter is particularly promising as it is a new type of venture for UKSA; it offers investment opportunities to members while retaining the independence which is so important for our campaigning position; and, not least, signals the return of *Charles Breese* as a member.

This month's volunteer request is for people to track the announcements of the major bodies, particularly consultations, and bring the relevant ones to the attention of the policy team. This is not time-consuming – maybe just getting on an email list and sifting the results – but can be interesting and has the great advantage of being done in one's own time and from one's own armchair. Offers to me or Eric Chalker.

In my last commentary I mentioned Julian Mole but not those others whose efforts make the North-East region a success. Led by Brian Peart, the region organises about 10 meetings year. Other key members of the team are Terry Maude, who travels widely to AGMs in the North and obtains many of the new company invitations from which the region benefits; and John Hillman, who was secretary of the region for nearly 20 years before handing over to Julian.

One more thing - if you've missed the offer of a discount on Company Refs the information is repeated on Page 21.

I look forward to seeing as many of you as possible at the AGM. You will receive the papers shortly, and will have the opportunity to table subjects for discussion without, I hope, inhibiting impromptu contributions from the floor. I look forward to seeing you there.

Good luck!
John Hunter

UKSA Contacts

UK Shareholders' Association
Chislehurst Business Centre
1 Bromley Lane
Chislehurst, Kent,
BR7 6LH
Tel: 01689 856691
Reg. Office: Chislehurst Business Centre
Email: uksa@uksa.org.uk

Website: www.uksa.org.uk

National Chairman: John Hunter
chairman@uksa.org.uk

Company Secretary: Elizabeth Baxter
uksa@uksa.org.uk

Membership Secretary: Elizabeth Baxter
01689 856691 membership@uksa.org.uk

Editor: Bill Johnston 00420 415 653 169
william.johnston.k@gmail.com
Domousice 103, 439 68, Czech Republic

Policy Director: Eric Chalker 01732 835 569 policydirector@uksa.org.uk

Regional Contacts:
London & SE: Harry Braund
020 8680 5872
harrycb@gmail.com

Midlands: Peter Wilson 01453 834 486 or 07712 591 032
petertwilson@dsl.pipex.com

North East: Brian Peart 01388 488 419
brianpeart@btinternet.com

North West: Volunteer Sought

South West: Peter Wilson 01453 834 486 or 07712 591 032
petertwilson@dsl.pipex.com

Scotland: Volunteers sought

Published by the United Kingdom Shareholders' Association Limited
Registered in England no. 4541415

Advertisements in The Private Investor will be clearly described as such where they are for paid-for products and services from third parties; advertorials will not be accepted. Private Investor will not endorse advertisers and the editorial policy will continue to be independent of the interests of advertisers.

The revenue raised from advertisements will supplement UKSA's funds. UKSA believes that its members are capable of deciding whether an advertised product or service is suitable for their needs. Note that the share-price graphs are courtesy of leading investment website Digital Look www.digitallook.com. 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. The editor of Private Investor is not a shareholder in any of the companies mentioned in this edition, but a number of UKSA members may be.

Printers: **rap spiderweb Ltd.**
Clowes Street
Oldham, Lancashire OL9 7LY

In this issue...

Chris Menon and John Hunter

What follows is an interview of John Hunter by Chris Menon, the Editor of the on-line publication 'EveryInvestor', which can be found at www.everyinvestor.co.uk *Every Investor* is a website providing news and insight on the financial markets to private investors.

1) *Why does the elaborate system of governance and control that now surrounds public companies not prevent Chief Executives running their companies like private fiefdoms; in their own interests rather than that of their shareholders?*

Senior executives avoid challenge, non-executives are recruited from the same pool, remuneration consultants operate in secret and are retained by those who are remunerated, journalist like big stories, institutional investors are not beneficial owners and are conflicted and most private shareholders are disenfranchised. What did you expect?

2) *You've been involved in the financial world for many years, having been an accountant, business analyst and having worked as a company secretary at a FTSE100 company. Are ethical standards now are lower than 30 years ago?*

No. People have always been people. But the opportunities and the temptations for misbehaviour are greater now, the effects are more far-reaching and the consequences more contagious.

3) *Why should a private investor wish to get involved with an organisation like yours?*

To apply pressure for the correction of ills that are economically damaging and morally wrong. If he wants to take advantage of UKSA's social and learning opportunities so much the better.

4) *Following the furore over Tesco directors receiving large redundancy payments, do you agree with demands for company management to be on contracts with less than notice periods of less than 12 months?*

No, typical knee-jerk solution with unintended consequences. Beneficial owners should approve major employment contracts. It's their money.

5) *What exactly do you mean by beneficial owners?*

'Beneficial owners' are those who benefit from the financial risks and rewards of ownership; they receive dividends and carry the capital risk (both upside and downside). 'Shareholders' are those whose names are on the register; they carry the voting rights. For an investor in a nominee account the broker (or a related company) is the shareholder and the investor is the beneficial owner.

6) *What are the most important reforms you'd like to see?*

Identify beneficial owners by putting their names on the share register, a necessary preliminary to giving beneficial owners shareholder rights and removing such rights from unappointed agents.

7) *Any others?*

The most achievable, which I'd certainly like to see enacted by the next government, is to raise the individual limit on compensation for misappropriation of securities held in nominee accounts from £50,000 to 90% without limit (the formula that applies to pension funds held by insurance companies). Also make all terms of director employment contracts subject to shareholder vote.

The most influential in the long-term would be:

Teach young adults about compound interest, diversification and the trade-off between risk and reward

8) *Why is it that UK share societies are dominated by old white men?*

I question the word 'dominated', but broadly it reflects the demographic of people concerned with the economic and moral issues of the current investment climate and with the time to try to do something about it. I agree we need to have a wider spread of people who understand this and can support our efforts by joining UKSA. Encouragingly our membership is 30% female.

9) *What did you learn from your experience of investment attitudes in the US?*

In the US they understand that the future has to be worked on as well as the present (the imperative of paying for one's kids' college education is a powerful driver). In the UK the future is someone else's problem. Only education can change that.

10) *What's the biggest difference in attitudes to investment in the US and UK?*

In the US if you sit at a bar with a stranger and say 'IBM's up a dollar' you'll talk for half an hour. In the UK if you sit at a bar with a stranger and say 'BP's up a pound' he'll say 'How much did it weigh before?'

11) *What's the best piece of investment advice anyone has ever given you?*

Make sure you can sleep at nights.

End

Home Branch Rules

Object: to enable UKSA members to form ad hoc groupings for geographical convenience or to meet a special interest, and to draw in new members for UKSA

Standard Branch Rules:

The following are standard for all Home Branches, unless agreed otherwise by the Board:

Each branch must have a designated leader, who will be the UKSA point of contact for the branch. The leader may delegate some or all duties to identified individuals.
Each branch must have a name (preferably brief) for database identification.
Branches should have a defined purpose (which might be as simple as 'to meet other members')
The leader must be on email, or appoint a branch member to fulfil that function.
Each branch must have an UKSA officer (either national or regional) as point of contact and to resolve intra-UKSA conflicts. This officer (called the {*Name of Branch*} Officer) need not (and often will not) be a branch member.
Each branch must make its own administrative arrangements.
Branch members must be identified and reported to the Branch Officer, but non-branch UKSA members may attend meetings by invitation.
Interested persons who are not UKSA members may attend by invitation, limited to two 'free' meetings before UKSA membership is required.
Attendees at meetings should not express opinions on investment that could be construed as advice coming from UKSA.

Optional Branch Rules:

The following are suggestions that may suit some branches:

Money values or personal wealth never to be mentioned.
All branch communication to be by email unless otherwise agreed.
The branch may have a maximum or minimum size.
Meeting costs to be shared by those attending.
All discussions to be friendly, with all persons attending on an equal basis.

Our First Home Branch

By Charles Breese

1. UK's Strategic Need

Charles Breese

There is a lot of media comment about the UK being in economic recovery but that many people are seeing no beneficial impact on their standard of living. I think that the latter is caused by many people (including politicians) believing that the route out of recession is to persuade people to spend more. However, in my opinion, increased consumption can in many instances only be achieved by increased borrowing and since the economy as a whole has hit the borrowing buffers, we have got to do something different in order to dig our way sustainably out of recession - my solution is that we have to invest in a way which increases the pool of high quality jobs for our youngsters and increases exports and/or reduces imports, which for me means finding exporting companies which compete on value not price.

2. Patient Capital

This approach to investing requires investors with a patient mindset - in the UK there is a major shortage of patient capital. This view is supported by an investment trust (of which I am a director) whose prospectus contains the following comment:

The UK is home to some world-leading, blue-chip companies, many of which represent very attractive long-term investment opportunities. However, the Portfolio Manager believes that such investment opportunities do not start and end with the larger listed companies.

The UK has some of the best universities in the world, developing some of the best intellectual property. Unfortunately, as an economy, the UK does not have a good track record at converting these great ideas into long-term commercial success. There are many reasons for this but the principal one, in the Portfolio Manager's view, is a lack of appropriate capital. Very few investors are willing to embrace the long-term 'patient capital' approach required in this area to deliver successful outcomes.

Early-Stage Companies and Early-Growth Companies need nurturing – they need patient, long-term capital in order to fulfil their long-term potential. The capital available to nascent businesses in the UK has been scarce and the capi-

tal that has been available to them has tended to be too short-term in nature. It is the Portfolio Manager's view that the lack of patient equity capital has created a compelling investment opportunity. The demand for capital from Early-Stage Companies and Early-Growth Companies is high, but the supply of it is very low. The returns on capital that is deployed, therefore, are potentially attractive.

The reward for success is attractive not just for investors; there are also potential wider economic benefits. Doing more to help early-stage entrepreneurs and innovators can help to develop the UK's "knowledge economy" as part of what can be seen as a much-needed long-term rebalancing of the UK economy.'

3. Purpose of SmartCo Home Branch

The purpose of the UKSA SmartCo Home Branch is to attract new members to UKSA through arranging access to 'Smart Companies' with the potential both to provide attractive returns and also to improve the UK economy through being value adding exporters.

UKSA Home Branch provides an alternative solution for investors wishing to adopt a patient capital approach via direct investing rather than through a fund. The investment opportunity resonates with the current hot topic of Impact Investing - many people think that investing to 'do social good' has to be at the expense of investment returns, whereas the essence of SmartCo investing is to make good investment returns from benefiting society.

4. Personal Anecdote!

My middle son decided to drop out of university after two years, recognising that that way of learning was not for him and wanting to stop growing his student loan. I found him a job with a company which has developed a world leading robotic controller of the camera used for keyhole surgery. As a result he has a great future ahead of him (if he wants it!), whilst his former university colleagues who stayed the course are finding the process of obtaining a job very challenging!

I hope that you will find all of this interesting and be encouraged to follow my lead; the entire concept is UKSA in a nutshell, intrinsically interesting, overtly beneficial to society writ large and replete with opportunities for personal benefit. John Hunter will be happy to hear from you - if I can help, so will I.

Charles Breese

Boardroom Pay

by Peter Parry

A recent article in the Financial Times predicted that protests over executive pay would be reignited in the run up to the general election, after new data showed that top-earning FTSE 100 executives are earning 400 times more than average employees. According to the High Pay Centre (an independent think-tank) Britain's ten highest paid directors of publicly quoted companies earn almost £120m between them.

Peter Parry

Directors of publicly quoted companies have always typically earned more than the average salary paid to the rest of the work-force. But was the difference always so great? Were the bonuses always so large in relation to directors' basic salaries? Since large bonuses are supposed to incentivise and reward outstanding performance, are they effective in this respect? In other words, are shareholders getting value for money? *(Continued on the next page)*

Focusing on directors' remuneration

As I reported in January, we have at last begun to develop a coherent, comprehensive UKSA policy on all aspects of remuneration, beginning with performance-related pay for directors. Long-standing UKSA member, Peter Parry, has written an article which, although longer than normally appears in this magazine, is in my judgement sufficiently important to appear here in full. I expect it also to appear, before long, on the 'Latest Papers' tab of our website. This has meant, of course, that some other matters have had to be held over.

The opinions Peter has expressed are his personal opinions, so this is not a statement of UKSA policy but it might very well form the basis of one. Both he and I are keen to know what other members think of his ideas, so please do send letters to Bill Johnston for publication, or emails to me if you prefer, which I will share with Peter. This is a very important subject for all investors and it is time we had a stronger voice on the matter than has been the case.

Eric Chalker, Policy Director

In order to answer some of these questions, it is appropriate to review the history of boardroom pay over the last thirty five years or so, decide whether it really has risen dramatically in relation to average pay for all employees and, if so, consider why this has happened.

How did we get from there to here?

An excellent report by Income Data Services (IDS) commissioned by the High Pay Centre in 2014 maps the factors driving directors' pay over the last thirty five years. The report notes that the 1970s were a period of austerity when many executives became exercised about narrowing pay differentials and high marginal rates of tax. The situation began to change in 1979. The then Chancellor of the Exchequer, Sir Geoffrey Howe, said in the new government's first budget, *'We need to strengthen incentives by allowing people to keep more of what they earn so that hard work, talent and ability are properly rewarded.'* Top rates of tax were duly cut from 80% to 60%. By 1988 a single top rate of income tax of 40% had been introduced. During this period it became attractive to introduce bonus schemes to enhance salaries while reducing the benefits-in-kind which had been designed to mitigate the financial impact of high marginal rates of tax on salaries.

Between 1980 and 1990 the gap between board and workforce pay began to widen. Total median earnings for chief executives of the largest organisations (those with over 20,000 employees) increased by 309%. The median weekly earnings for all full-time male employees went up by just 128%.

Hand in hand with widening pay differentials, the 1980s saw a marked rise in the introduction of annual bonus plans, followed by the rapid introduction of share bonus schemes after 1984 when tax breaks for executive share option schemes were introduced. However, during the 1990s, share option schemes started to attract adverse publicity. They were seen as a one-way bet for directors. Moreover, the value of a company's shares was often affected by market volatility and other factors beyond the control of the directors. Nor did share options align the interests of directors and shareholders, since directors often sold all their options as soon as they could and failed to become long term shareholders themselves.

By the early 1990s there was a growing belief that better corporate governance was the best way to control excessive boardroom pay. The Cadbury report, published in 1992, endorsed three central principles which have guided corporate governance ever since:

- Accountability to shareholders
- The need for independent non-executive directors
- Pay transparency.

As far as pay was concerned, these principles were enshrined in the proposal that boards should appoint remuneration committees comprising mainly non-executive directors chaired by a non-executive director. The remuneration committees, with help from specialist external remuneration consultants, would set directors' pay and shareholders would vote on whether to approve the remuneration policy. The notion that good corporate governance would control executive pay was reiterated in subsequent reports by Sir Richard Greenbury (1995) and Sir Ronald Hampel (1998). The response to the Greenbury report, which strongly supported the view that pay should be linked to performance, provided the impetus for the introduction of highly geared and more complex pay schemes. These have typically consisted of:

- Base salary
- Benefits
- Short term benefits such as annual bonus
- Medium term benefits such as deferred and matching shares
- Long term incentives consisting of performance shares and / or share options
- Self / co-investment plan
- Pension contribution or cash in lieu.

A striking feature of executive pay over the period 1998 to 2013 is the way in which the bonus element has increased as a proportion of total pay. Over this period the maximum bonus for FTSE 100 chief executives rose from 50% of salary in 1998 to 180% in 2013. The corresponding 'target threshold' (what a director might realistically expect to receive by way of performance awards) rose from 30% of basic salary to 90% over the same period. As a result, the medial bonus for FTSE 100 chief executive increased from around £150,000 in 1996 to around £1m in 2013.

Despite a few 'setbacks', when directors' average total pay actually declined year on year (primarily during the bursting of the dot.com bubble and the 2007/8 financial crisis), the trajectory of chief executives' pay has been ever-upwards. Between 2000 and 2013 the median earnings for FTSE 100 chief executives increased by 240% compared with 43% for all full time employees. The median pay of FTSE 250 chief executives increased by 208% over the same period.

Is there a link between high levels of performance related pay and company performance?

This depends to some extent on how one measures the performance of a company. However, much of the research that has been carried out suggests that there is little correlation between the two key annual bonus performance metrics of pre-tax profit and earnings per share (EPS). Even if we look at total shareholder returns (TSR), defined as dividend payments to shareholders plus any increase in the share price over a given period, research suggests that there is no real correlation between executive pay and the performance of the business.

The IDS report referred to above provides a thorough and rigorous statistical analysis of the correlation between pay and performance. It concludes that: 99% of the change in annual bonuses could not be explained by changes in pre-tax profit; 99% of the change in annual bonuses could not be explained by changes in EPS.

The same picture emerges where total shareholder returns are measured against other FTSE companies or a peer group of companies. There was no noticeable correlation between the relative ranking of long-term incentive plan (LTIP) share awards and the relative ranking of changes in TSR return over three years.

A recent research report by CFA Society UK and Lancaster University confirms these conclusions, stating: *'CEO pay measured from a range of perspectives also displays low correlation (<0.3) with firm performance, regardless of the specific performance metric employed.'* Interestingly, the report looks at the factors which companies claim in their annual report to be the drivers of business success and the measures used to incentivise executives. It concludes that: *'Results suggest a material disconnect between the metrics purported to drive business success and the measures used to reward and incentivise executives.* '

If performance related pay for Directors isn't working can it be fixed?

There are a number of problems for shareholders with the way in which performance-related pay for directors currently works. These include:

The use of simple metrics which may be easy to measure but are also easy to manipulate – such as EPS, which can be driven higher by carrying out regular share buy-backs.

The use of short term measures of performance can often result in actions that could be detrimental to the long term prospects of the business. Terry Smith writing in the Financial Times (7th February 2015) writing on IBM's "IBM 2015 Roadmap" noted:

'The IBM roadmap described a number of "bridges" to growth in EPS. Roughly 40% was to come from revenue growth although this included acquisitions; 30% from "operating leverage" (cost cutting in English) and 30% from share buybacks. Acquisitions, cost cutting and share buy backs are not a particularly high quality source of growth. As I never tire of reminding people, EPS takes no account of the capital required to generate it, or the return on that capital.'

The IDS report notes that there is a paradox in most performance related pay schemes for directors. If a scheme fails to pay out due to poor performance then it is working as it should. But a scheme that fails to pay out due to more difficult circumstances is failing to incentivise. As a result remuneration committees often redesign or recalibrate incentive targets to make them more achievable and restore a realistic possibility of reward. Targets always need to be achievable if they are to act as a motivator, so any failure to pay out can only ever be short term.

In an attempt to address the issue of short-termism, executive remuneration now typically includes as a significant element a long-term incentive plan (LTIP). Such plans are based on targets which are supposed to address the longer term performance of the business and do not pay out for three to five years or longer. The problem with these is that the perceived wisdom on incentives states that any reward should be reasonably 'immediate' if it is to have much value as an incentive. Having to wait five years for the payout (which may ultimately be derailed by factors beyond the executive's control) raises questions about the value of LTIPS as an incentive.

Because of the time-lag between the setting of the LTIP target and the payout (and because some more complex schemes stagger the award over three, four and five years) it can become almost impossible for shareholders to understand exactly what is included in the package of bonus payments in any given year. Given that executive pay is supposed to be controlled by good governance in the form of shareholder oversight, this is a serious weakness.

There is a further problem in that, because LTIPS often reward directors with an allocation of shares, it is impossible to know five years in advance what those shares will be worth when they finally vest and hence whether the final reward is sensible or not.

As the CFA Society / Lancaster University report noted, the choice of performance metrics which are used as a basis for measuring directors' performance is often questionable. Add to this the fact that shareholders are rarely, if ever, told in advance what the actual performance targets are that have to be achieved and one begins to question once again how effective governance can be applied through the medium of shareholder oversight.

Maslow's Hierarchy of Needs suggests that once certain levels of material wellbeing have been achieved, the offer of more money (material comforts, financial security and so on) provides limited incentive for the recipient. One has to question whether executive bonuses that consistently pay out millions of pounds to individuals over several years have much effect as a motivator – particularly when those people are already very well off by normal standards.

In addition to the concerns outlined above about the effectiveness of high levels of performance related pay for directors of quoted businesses, shareholders should also be mindful of the way in which many of these schemes are devised. They are usually devised by the remuneration committee with expert help from specialist remuneration consultants. The cynic might argue that it is in the interests of the remuneration consultants to come up with ever more complex pay structures because this keeps them in work. What cannot be denied is that there is a conflict of interests. Responsibility for approving the hiring of remuneration consultants and sanctioning their fees rests with the executive directors. These are the very people who stand to benefit from the recommendations that the remuneration consultants come up with.

Conclusions

Perhaps some of the weaknesses that are inherent in existing systems of performance related pay for executives can be overcome. Shareholders could be given more information in advance on the specific goals and targets that have been set for directors. Maybe there could be greater clarity over what each element of an LTIP paid out in a given year is for. However, in reality, it seems that there is little appetite for disclosure of more information on the detail and minutiae of executive remuneration in the annual report. Other factors such as what IDS call *'the paradox of pay for performance'* look intractable.

It would probably not be appropriate to do away with bonuses altogether. Correctly applied and used to reward the achievement of well defined, clearly measurable short to medium term objectives they should have a role to play. However, bonuses that represent multiples of two, three, or four times basic salary are not appropriate for most board members. For a salesperson tasked with selling as many widgets as they can (and for whom this is the only measure) aggressive incentive schemes can work. The role of the chief executive, however, is very different.

A more appropriate approach would be for basic salaries to be increased and bonuses to be limited to, say, 30% of salary with an expectation that achievement of key targets would result in a 10% bonus and excellent performance would result in a progression towards the maximum bonus. Bonuses to be paid in cash (not shares or share options).

Basic salaries would have to rise. It would not be realistic to assume that a chief executive currently earning £3 million a year and with a basic salary of £800,000 would readily agree to a reduction in pay to around £880,000 a year. However, higher basic salary and a reduced performance element would at least simplify the pay structure and make it easier for shareholders to know what they were voting on in terms of the pay policy. It ought also to be possible for shareholders to be told specifically what objectives the chief executive and other directors had been set in order to achieve their bonuses.

Finally, as directors' basic salaries would now be significantly higher it should become a condition of their employment with the company that within a period of, say, five years of their appointment to the board, directors should build up and retain a shareholding of ordinary shares in the company equivalent in value to at least 100% of their base salary. Some companies already stipulate this. Again it is simple to monitor and easy for shareholders to challenge if it does not happen. Above all it genuinely aligns directors' interests with those of the shareholders.

Peter Parry

Letters to the Editor

Dear Sir,

Malcolm Howard's article, 'How do we access risk?' (January TPI) was a breath of fresh air. I could never understand why, as a long term investor, I was supposed to worry about the volatility of a capital value that I had no intention of liquidating. I read that in the event of a sudden desperate need for capital I might have to sell when the market is low. Yes, but I might equally have to sell when the market is high. And if I could tell the difference between a market that is 'high' and a market that is 'low' I would be considerably richer.

The fact is that the Capital Asset Pricing Model - a brilliant piece of insight for its time - that shone a light on the mathematics of diversification and rightly won a Nobel for its authors, has been commoditised to make it marketable, and a complex and subtle concept – that of 'risk' – has been highjacked to describe one rather minor aspect of long-term saving.

How ironic that two later Nobel winners working in the same field, Myrton Scholes (he of Black-Scholes) and Robert Merton, became founder members of the hedge fund Long Term Capital Management which went spectacularly bust (well - bailed out, technically) in 1998 with a strategy that its biographer memorably described as 'picking up nickels in front of a bulldozer'.

They should have listened to Malcolm.

John Hunter

Letters to the Editor are continued on Page 22.

Memoirs of an ISA switcher

by Gerald Roberts

The 2014-15 financial year is already nearly over. The highlight event for me was not one of my bigger gains or losses, which we investors like to boast about or forget as the case may be. It was the year I switched ISAs. Hopefully the story will be of interest and may have some practical usefulness to other investors planning to switch.

For many years my self-select ISAs had been with a traditional phone only broker called Cheviot, with a designated account manager. I didn't chose them, they chose me after a series of take-overs and mergers with other brokers. The dealing fees were high but there was no annual account fee. So as I don't trade frequently and their service was satisfactory I stayed with them. My other non ISA accounts had gone electronic years ago.

However a couple of years ago things began to change. Cheviot had never been very keen on giving me proxies to attend company meeting even for a fee. Then they started charging a fee on subscriptions into an ISA. They had also started to move more towards something called "Wealth Management". As a result I had been thinking of switching for some time but inertia prevailed. Finally Cheviot merged with Quilter and the new regime obviously decided to target only the wealthy and dump the poor. I was obviously regarded as one of the latter as a letter arrived on 5th March which provoked me into immediate action. I was informed that Quilter Cheviot were in future going to make a "modest change" to account fees which would now be, including any dealing commissions, a minimum of £500 per quarter. Surely a decimal place error? But no it was two grand a year!

So action stations. I had already been looking at several alternative ISA managers so it didn't take too long to choose one. My criteria for a self select ISA provider were: A good web based trading platform with account history, reporting facilities et including the facility to place limit orders. The possibility of trading in a wide range of markets and products. Phone backup if needed A trustworthy business; with a substantial parent company in the case of a subsidiary. Reasonable, preferably flat rate trading commissions. Low or zero account fees. A procedure enabling me to attend company meetings, receive reports etc. as far as possible within existing rules.

The winner was TD Trading. All the above criteria were met. They have a good website. They allow trading in all major World Markets. The parent company is Toronto Dominion bank. They have a good customer help service by phone or messaging. The trading fees are £12.50 flat. There are no account fees if your balance is >5k. The proxy system is as good as you are likely to get short of legal ownership within the present ISA set-up. I get emails whenever there is a corporate event. I can vote through an online proxy and if I want to attend in person a 'Letter of Attendance' arrives in the post usually within 3 days after requesting one and there is no fee for this. I was also paid an inducement fee of £100 to switch.

Then came the difficult bit; actually transferring the ISA. Time was of the essence. I wanted to get the transfer done before the end of the financial year, as I hadn't subscribed my allowance for 2013-14. The first hurdle was that it "would take several weeks" just to transfer the assets across to the new account. I decided to open the account with TD asap, put my subscription in before the April 4th deadline, then transfer the existing account from Cheviot in due course. I had forgotten what a hassle it is just to execute a relatively simple financial transaction in the UK in the C21st .. One has to prove that monies subscribed are actually owned by oneself, that one lives in a certain place etc. In my case I have more than one address and different bank accounts. So I had to transfer money from one to another to make sure it tied in with the right address. I also had to answer several impertinent questions and produce various bits of hard copy I.D. People don't have a sense of humour anymore either. So when one admits to profiting from slave trading (employment agencies), drug pushing (pharmaceuticals and tobacco), weapons smuggling (BAE) and money laundering (banks) the staff don't smile but refer you to a more senior manager.

Finally the new ISA account having being opened and the new financial year having dawned it was now time to move the assets. The general practice is for the new ISA manager to initiate this. I also informed Cheviot of the move and they kindly agreed to expedite the process and waive any of the threatened account fees, which might have been applicable. No doubt glad to rid themselves of such a cheapskate.

The shares started showing up in the TD account about four weeks after the process started on 21st March. Most were LSE quoted and were transferred more or less at the same time but there were several exceptions. One was Tesco (yes I'm afraid so – but I sold shortly after the transfer). At one stage Tesco disappeared completely being visible on nether Cheviot or TDs websites. It took several weeks to resurface. Then there were the dividends. Most were paid in order to the right account but some were paid to Cheviot long after they should have been registered with TD. Vodafone was also a bit slow in moving apparently something to do with post Verizon adjustments.

The real jokers were the non LSE shares. They took a long time floating around in cyberspace before they showed up in the TD account. One was an USA company thinly traded in London but mainly in Oslo and NYSE and with a registration in Bermuda. That was lost for months. A Canadian shareholding refused to budge from the Cheviot account for a month or so despite TD being a Canadian owned company. The worse example was shares in a German company. I had bought two tranches of shares on two different occasions and had always assumed that they were registered as an entity. Not so; one tranche showed up in the TD account within weeks, the other was lost for months. Apparently unbeknownst to me the shares were with two different German registrars!

The cash balance transfer took three months. In this case there was a reasonable explanation. It was more convenient to scoop up all or most of the dividends due in the old account, then transfer the cash balance as a lump sum. But too bad if there had been a major buying opportunity during that period.

All's well that ends well though and by August all my shares were in the TD account. The process was annoying and frustrating but did have its blackly comic aspects. Needless to say I spent several hours phoning and emailing both brokers to sort things out. I did point out to them that their respective offices were a stones throw apart which should have made it easier to communicate and avoid letters being 'lost in the post'. Initially I was convinced that the problems were entirely due to them. In retrospect it wasn't. They had no real financial interest in delay. They did admit to a couple of minor mistakes but the problems were very largely due to or exacerbated by the ISA rules, the registrar/custodian system and the fact that my name was not on the respective company registers. Whatever the reasons it meant that my assets were locked for several weeks and in some cases several months, which could have been very detrimental to me if a major event had taken place during the switch.

What, as the politicians say, lessons can be learned? Well the obvious one is what UKSA is campaigning for; enfranchise shareowners in ISAs and other nominee accounts.

However we have to live with what is not what should be, so for what its worth here are some tips specific to ISA switching. Firstly make a checklist of the broker criteria which are most important to you. Get detailed account closing statements from the current manager. If you own any unusual or foreign investments do a bit of research on their registration set-up. Do a bit of house keeping by getting rid of any shares you were thinking of selling anyway before you switch. It's easier to transfer cash and some brokers charge an exit fee per share. If you are charged exit fees haggle with the new manager about an inducement as many will pay your exit fees to get your business. Open your new ISA first, preferably several months before transferring the old one. If you like to keep a bit liquid, load some cash into the new ISA so that you can take advantage of buying opportunities quickly, even if the rest of your ISA cash is locked in cyberspace for a while.

Gerald Roberts

Kleptomania and short termism within the ownership chain: what's it all about, and who's going to tackle it?

By Martin White

Most UKSA readers will have a good idea what this is all about. I think the most telling way of asking who's going to tackle it is to turn the question round: **who's <u>not</u> going to tackle it, and why?**

Martin White
Former UKSA Chairman

Two of the meetings I've attended recently wearing an UKSA hat are worth mentioning. On 9 March, the <u>Financial Reporting Council</u> (FRC) held an event to mark the 10th anniversary of the Audit Quality Forum (AQF), which looks at audits carried on public companies. John Curran, a past UKSA finance director, served on the AQF at one time. And on 18 March, the High Pay Centre (HPC) held a meeting to present a new report titled "made to measure: how opinion about performance becomes fact".

The FRC meeting was in the grand setting of the Mansion House in the City, and was on the theme "can business get it right?" I've included a couple of links below – in due course the ICAEW, who actually organised the meeting, may publish a more thorough write up of the discussion. The format was well designed, with four people each speaking for 3 minutes, a few questions from the audience, then a short speech from Vince Cable about what his department was doing, and then another four people as before. I managed to ask the first question of the evening. It was in response to comments by Andy Brough, a fund manager who had bemoaned the short term pressures they were under these days. Here was my question:

The most fundamental problems that we face today were, I think, captured in Andy Brough's picture of short termism everywhere. I personally don't think you can address this by regulation – it needs to be much more subtle. Perhaps by thinking very carefully about the relationships and misunderstandings that exist within the ownership chain. But I haven't heard any good ideas of how to go about it – might the panel have any suggestions?

The responses were instructive. I've tried to paraphrase most of them:-
"It's pretty well impossible to attack short termism. So no idea what solution, perhaps a knighthood awaits if you can come up with the solution."
"The discussion concentrates on the investors too much – it's unlikely the investors will take a long view if the company doesn't."
"Diversity (women, minorities, backgrounds) might help a bit."
"The award of bonuses, especially for short term achievements, has dominated the culture for the last 20 years or so. Maximising "shareholder value" at all costs is ultimately not effective – the successful business will concentrate on doing the job well for customers, society, etc. Legislation can't do much by itself – far more effective is changing the expectations that society has of business. We may be at the beginning of a cultural change in this sense."

What went through my mind after all these responses was that the current situation, with "pay for performance" based on short term measures that not only enrich a few unjustifiably, but which, many of us now believe, tend to destroy real value in the longer term, suits all too well the immediate self-interest of virtually all what we might call "the establishment". Most of us in that fine room in the Mansion House could probably be described as "the establishment".
http://www.icaew.com/en/technical/audit-and-assurance/audit-quality-forum-aqf/aqf-10th-anniversary
http://economia.icaew.com/news/march-2015/business-suffering-crisis-of-legitimacy

I had planned to cover only the FRC event, but the HPC one is in my opinion far more important. And it was smaller and in much more humble surroundings, in a hotel near Euston station that describes itself as the UK's only "ethical" hotel. The HPC is led by Deborah Hargreaves, whose name FT readers with long memories will recognise – she was an FT journalist for many years. The HPC is quite an effective public interest research body and among its funders is Lord Sainsbury.

http://highpaycentre.org/pubs/made-to-measure-how-opinion-about-executive-performance-becomes-fact This link will allow you to download the report, which isn't too long. It is based on 15 interviews with 5 business leaders, 3 academics, 2 investment managers, 1 private equity investor, 1 remuneration consultant, 2 journalist commentators and one investment trade association representative. So not many interviews, but they were well chosen and I really recommend having a look at the report if you can. The report was written by David Bolchover, whose book 'Pay Check' was reviewed in these pages some time ago. He asks three questions:

1) Are the CEO and/or other senior executives completely, principally, somewhat, scarcely, or not at all responsible for corporate performance?

2) If he/they are indeed largely responsible, how difficult would it be to find someone else to exert a similarly positive impact? If finding a replacement is very possible, then to what extent can we call that performance outstanding when it can be replicated by numerous others? Certainly, there are many people who perform their jobs with great efficiency and skill whom we do not elevate to superstar status, given the implicit assumption that they can be replaced relatively easily, notwithstanding their abilities

3) In the event of what appears to be strong corporate performance, how often is this performance really as good as it looks at first glance? Should our assessment of performance be more focused on the long term? Should we pay closer attention to what is going on behind the financial figures, and take non-financial metrics into account when evaluating performance?
And here were the main points coming out:

Luck and circumstance often shape our perception of executive performance
Stripping out the effect of executive performance from other factors is not possible to achieve with any accuracy

CEOs are much more replaceable than their status and pay might indicate

The difficulty of precise measurement presents a great opportunity to those inside the system

Evaluation of corporate and individual performance becomes more reliable as time horizons lengthen

Non-financial criteria can be a problematic means of measuring company performance

And now for the "so what" for us- what can we conclude, and what to do about it?

In other words, and here's my take on it, the whole "pay for performance" thing is a bit of a con trick. Perhaps unwittingly so in many cases, but that's the outcome from the edifice which is today's corporate governance world and from today's practices and relationships within the ownership chain. Who controls the votes at companies? We know that – the fund managers. What influence do the underlying owners have? We know that – virtually none unless in theory they own the shares directly: one of UKSA's main campaigns is in relation to nominees, which serve to disenfranchise owners. And how do the fund managers operate? They get rewarded usually for gathering and keeping customer money, by levying an annual percentage charge. So they'll do anything to keep that money and keep levying the charge - including spin, advertising, commissions, and short term investment strategies. We know that active fund managers have no incentive to challenge a system that establishes high pay levels generally – we've been hearing media discussion lately that fund manager pay may be the next big scandal after director pay.

It's quite easy to answer the question I posed at the beginning – who's <u>not</u> going to tackle kleptomania and short-termism? Just look at the list of who benefits or is influenced by the status quo, many of whom we've already mentioned. Company directors, advisers to remuneration committees, the media (to the extent it's dependent on financial advertising), fund managers, financial advisers (whose living mostly depends on a system that takes an annual percentage of savers' wealth), regulators (remember the revolving door), politicians (remember the revolving door), lobbyists, academics (remember that much relevant research is industry sponsored) and even to an extent the tax man who collects a lot of tax from the financial sector and from very high salaries.

It is up to us to seek the leading position in the sustained opposition to this worrying trend the import of which goes beyond the snaffling of disproportionate sums of money - the wider public interest has to be addressed too. Luckily we have a history of informed comment (see Peter Parry of Page 8 for the latest example) and a growing UKSA presence in the parlours of those with the power to change things (see Private Investors *passim*).

Martin White

Company Refs Offer to Members

Company Refs, the stock market information base with its familiar quarterly hard-copy updates, is offering a £50 discount on a one-year subscription. This would normally cost £335 but is available to UKSA members at £285 provided you apply before Friday, April 3. You will also receive a free copy of the book '3 Steps to Investment Success' by Rory Gillen of GillenMarkets and a 10-day free trial of online product REFS Online.

To take up this offer call Jean Dorza in office hours on 020 7502 8231 or email jean@companyrefs.co.uk. In both cases quote discount code 'UKSA.'

If you have elected to be a 'Member's friend' to a member please pass this on promptly. The offer will also be available to new members whose application for membership is accepted by the office before the closure date.

Letters to the Editor (*continued*)

Dear Sir,

With a belief in retaining share certificates as a record of shares held in various companies and whilst these provide satisfaction, another aspect means there is closer contact by receiving company reports and general information in regard to the management and performance of the companies. Another feature is an enablement to attend AGM's and if so desired meet members of the boards and chat about company matters on perceived forward objectives and how these will generate wealth creation and shareholding value. Thus, with the opportunity so presented, each AGM needs to be given consideration and if appropriate and depending on finance, the opportunity should be taken to selectively travel to one or other meetings for the purposes indicated.

Thus, it is my intention, whilst not to an AGM, to go to the BP meeting with UKSA in London, to obtain more understanding of that company and its management strategy for the future, although from Aberdeenshire, the travel will take a little planning, cost and family cooperation.

This visit will be in line with the Serica Energy AGM I attended in London in 2014 a small AIM company chaired by a competent Chairman, who with his board is endeavouring to develop and compete in a very tough operational oil development and production market. In this case to attend the meeting it entailed booking an economic air flight, arising at 0400hrs on the day and arrive in London at time of the meeting. Further, following the meeting become a tourist before returning to London airport later and arriving back in Aberdeen circa 2200Hrs.

Overall an exciting tiring day accompanied by my youngest son some 50 years junior to ensure I did not fall by the wayside in the big city.

All this was done to prove it was possible for someone of eighty plus three years, that we must make our mark, enhance our knowledge and determine if any investment we have made is worthwhile. Also, that age and distance is not a problem if sufficient drive and ability is available. Hence, to members, I encourage effort to attend all investment analytical meetings and particularly those arranged by UKSA in London, or elsewhere, and that numbers of age years are only but a small problem to overcome if you have the determination to make the effort.

Richard Kite

Regional Information

These events are open to members from all regions, and their guests, unless otherwise indicated. For 'waiting list' events all places are taken but there is a waiting list for cancellations.

LONDON & SOUTH-EAST

All events must be booked in advance via the specific organiser. Future events are shown in this magazine and on the UKSA website. Members from other regions are very welcome. For more information please contact Harry Braund on 020 8680 5872 or email harrycb@gmail.com

Within this region there is a separate Croydon and Purley Group which meets in Croydon, usually on the second Monday of each month, at the Spread Eagle pub, next to the Town Hall. Please contact Tony Birks on 01322 669 120 or by email ahbirks@btinternet.com ,who will confirm actual dates. There is no charge and no booking necessary.

MIDLANDS

For general information, contact Peter Wilson 01453 834 486 or 07712 591 032 or petertwilson@dsl.pipex.com

At the present time no meetings are being arranged specifically for the region, but members are cordially invited to attend meetings in the North or South West regions where they will be made very welcome; or indeed London if that is more convenient.

SOUTH-WEST AND SOUTH WALES

All South-West events must be booked in advance, and are open to all members and their guests subject to availability.

Didmarton: The King's Arms, Didmarton: cost is £22.50, including coffees and lunch. Events are at 10 for 10.30am. To book, contact Peter Wilson 01453 834 486 or 07712 591 032 or petertwilson@dsl.pipex.com

SCOTLAND & NORTH-WEST

Volunteers sought

NORTH-EAST

Advance notice is required for all company visits and lunches. Knaresborough: venue is the Public Library, The Market Place, Knaresborough. For more information (except where stated otherwise), please contact Brian Peart, 01388 488419 or Julian Mole at Julian.mole@btinternet.com.

UNITED KINGDOM SHAREHOLDERS' ASSOCIATION
CURRENT UKSA EVENTS

Tuesday 14th April 2:00pm	Yorkshire	**Marshalls plc** Jack Clarke FD	**Analyst-style Meeting**	Apply to attend/more info
Wednesday 15th April 12:00pm	London	**HSBC Holdings plc** Douglas Flint, Chairman, & Nick Collier, Head of Group Investor Relations	**Analyst-style Meeting**	Apply to attend/more info
Tuesday 9th June 2:00pm	Yorkshire	**Cranswick plc** Mark Bottomley FD	**Analyst-style Meeting**	Apply to attend/more info
Monday 13th April 10:45 Assembly 11:15 Meeting start 12:15 Lunch	Neathouse Place London SW1V 1LH	**BHP Billiton plc** Sarah Morgan	**Analyst-style Meeting**	Nick Steiner 020 8874 0977 n.steiner@btinternet.com

UKSA members who have not attended one of these meetings may not appreciate how valuable they are. They are invariably addressed by one or other of the three principal directors and the information presented is the same as that given to City analysts. For some of those who do attend, these occasions are UKSA's most valuable membership benefit and, for this reason, there is often competition for places.