

The Private Investor *Issue 182 · May 2016*

Chairman's Comment

Thanks to those of you that attended the AGM and regrets to those of you unable to do so. There were the usual lively contributions from the floor. The AGM is particularly valuable as the only London area meeting where I, and others active in UKSA, can exchange views with the full spectrum of the membership, both formally at the meeting and informally before and after. We should do more of this. Ideas and volunteers please.

This issue of our magazine contains a lot on Directors' Pay. Whatever one's views on general or specific cases, it is a subject that has grabbed the public's attention and anything we can do to attach our own causes to the issue will help to advance them. We will continue to do that – you'll find my own opinions on page 12

Thanks to those of you who responded to the members' survey – a gratifyingly high 30%. This was jointly managed by the marketing team under Brian Hargreaves, which devised the questionnaire, and by David Riches who looked after the technical side. David through his IT experience was able to find (and make work!) a free online survey system to provide a high level of sophistication in the analysis and presentation of results. We'll report on that in the next issue, as Brian notes on page 3.

We welcome two new regular contributors. Malcolm Howard is hardly new, but he has promised to write a regular diary contribution on matters of current interest in addition to his occasional pieces. I'm not sure what Adrian Phillips is going to write, but his background as a stock analyst turned professional historian with a book on the way ensures that it will be interesting. He reports on the meeting with BP on page 20. And Mohammed Amin returns with a typically thoughtful piece on Investment Trust discounts.

Good luck!

John Hunter



John Hunter

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Membership Survey

by **Brian Hargreaves**

Members will be aware of the Chairman's recent request for help in responding to a market research questionnaire. It was put together by the Marketing Team, and is intended to provide actionable information to the Board. It is hoped that new strategies can be then developed to help UKSA move forward, and of course become larger and more influential.

The Marketing Team will be preparing a report for the Directors with an analysis of the results – with conclusions and possible recommendations for the future. May I say first of all that I was extremely pleased at the high level of response – just over 30%! (I can tell you that I have been involved in many many market surveys in my working life, and usual response rates are more often in the 5-10% range.) So thank you everybody for taking the trouble to reply.

Your comments and input will be carefully studied, because it is only by listening to its members that the Board can build on the strengths of the organisation, so that UKSA can really say that it is 'Standing Up for Private Investors'.

The survey generated a lot of data which I will be sifting through over the coming weeks. I look forward to sharing these results with you in a future issue of The Private Investor.



Brian Hargreaves is a new-ish member with a background in advertising and communications specialising in aerospace - with clients like Boeing, GE, Safran and Sukhoi. He has just recently retired.

UKSA members in the news.

Phil Clarke made the headlines in the City pages of the Daily Mail as he bearded the Chairman of Anglo American in his den by asking pointed questions about the Directors' remuneration package. And the BP Annual Report (see our page 20) makes a point of mentioning its interaction with UKSA in respect of shareholders' relations. And Peter Parry was on World Business Report on 29th April. He spoke about four minutes. [BBC iPlayer](#) is normally available for 30 days. Tune in if you will - it's great stuff.

Bill Johnston

Getting to the heart of the matter

by Eric Chalker

This is the objective of UKSA's AIM companies reporting team as it critically examines how well or poorly these companies report to investors. The team led by Mark Gahagan, comprising Hubert Beaumont and Sandy Forbes, is working its way through the annual reports issued by the top 100 companies on the Alternative Investment Market. Six have now been completed, Asos, GW Pharmaceuticals and Abcam (numbers 1, 2 and 3), plus Ithaca Energy, Tissue Regenix and Hargreaves Services (last year's bottom three). All six critiques can be found on the AIM_100 tab on the UKSA website.

Investors Chronicle publishes its list of the AIM 100 each April, so we're now working to a new list. The top three are unchanged and although they will of course have fresh annual reports, we'll not be looking at those, at least for the time being. PureCircle and PaySafe have been taken off the list of targets because they have moved to the main list, so our next target at the top end is Plus500, which was 6th last year, albeit only 10th now. At the bottom, we've done too much work on Sprue Aegis, which was number 95, to abandon it now, even though it has dropped off the list. After that, we'll be examining Matchtech.

The procedure is that a member of the team obtains a printed copy of the report if he can, or, if not, looks at it on screen which he may do anyway because this can give a different perspective. He then studies the report and prepares a draft critique of it. This may take some time because – and I do find this interesting – close examination of company reports sometimes reveals unexpected issues which need detailed consideration in order to form a judgement. The completed draft is then passed to other members of the team and ultimately to me, during which process it may be amended many times. The recently completed Abcam examination and report went through many revisions and is estimated to have taken at least 24 working hours. The more successful companies tend to have more to say and this gives us more to examine, but it doesn't mean that the others get less than equivalent consideration.

A standard form of presentation has been emerging from the exercise, as can be seen from the reports we have produced, but this is not set in stone. The length of reports has varied between one and two pages and two should be enough. As reports are completed they are placed on the AIM_100 tab and a news item is written to announce this, which also draws attention to any key discoveries in the reports. This means that careful search of a company's name may lead the searcher to our website and that of course is good for UKSA.

We know that two of the six companies so far examined are monitoring internet appearances of their names, because they have contacted us. This is a good

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thing for us too, because if one third of the companies whose annual reports we examine are reading what we say, there is a reasonable chance we will have been instrumental in bringing about the kind of change we are seeking. We will be more active about this in due course.

In the case of Asos, our emailed request for a copy of its printed report produced an unsatisfactory response. This was picked up from our report by its Company Secretariat Department who emailed an apology, followed by the annual report we had requested.

Our comments on Abcam's last annual report have produced an even more interesting response. First, I received a telephone call from its new company secretary, Suzanne Smith, who was full of thanks for what we had written, which she described as "wonderful", readily accepting a number of specific points. In her subsequent email, she wrote this.

We found the UKSA's report on Abcam's 2015 Annual Report to be very helpful and practical. We are embarking on the drafting of this year's Annual Report, and we will try to incorporate as many of your suggestions as possible. We very much appreciate constructive and objective feedback on how we can improve the way in which we communicate to shareholders and other stakeholders in our Annual Report, and I wanted to thank you for the effort that clearly went into analysing our report. Many thanks.

The team is learning as it goes. Each report examined seems to offer something new. We strive collectively to reveal information from the accounts that might not be apparent to the normal reader. In the GW Pharmaceuticals' remuneration report, we found and highlighted that the (unaudited) graphs purporting to show total shareholder return (and, by implication, some justification for board pay totalling £4.9m) are difficult to interpret and have a starting point which is 80 per cent below the flotation price. Close examination of Hargreaves Services annual report revealed a colossal £4.5m waste of shareholders' money in a share buy-back, in what the directors acknowledge is a declining business (coal), but without even a word of acknowledgement by the chairman, let alone any attempt at justification.

There is room for another member or two on the team to speed up progress, so if this is of interest to you please contact Mark Gahagan at mark.a.gahagan@gmail.com.

Eric Chalker, Director, UKSA

Investment Trusts - some random thoughts

by Roy Colbran

Fund Managers' pay

The pay of Directors of quoted companies is, as we all know, public information but that of fund managers, who are likely to have influence on votes on remuneration, is generally a close secret. Hence, I thought it interesting that the proceedings at the recent AGM of the Witan Investment Trust shed some light into this dark corner.

Witan is unique among investment trusts in having a multi-manager approach. In fact the fund is split among 11 managers plus some direct holdings. This means that, unlike other investment trusts, Witan needs a full time Chief Executive. Revisions to his pay structure were voted on at the AGM. Advice had been taken from McLagan who claim to be the leading remuneration consultants in the financial services field. The CEO's pay was to be set in line with similar roles and peer groups. This seemed to me to cause difficulty and I suggested that his role was unique. However, they had found fund managers and others in the pool from which any replacement would have to be sought as a basis for comparison. Accordingly I think we can take his pay package as broadly in line with what fund managers are paid. The consultants should have access to the relevant information.

The agreed package consists of a basic salary of £281,000 plus a 10% pension contribution with potential bonuses up to 170% of salary (£477,700) on top. Of the 170%, 40% is a discretionary payment related to overall performance as manager, 40% is on single year investment performance and 90% on 3-year average investment performance. The last two will be paid in full if performance is at least 3% or 2½% pa respectively over the benchmark. Only 60% of any bonus is paid immediately with the remaining 40% spread over 3 years. In 2015 the single total figure for the CEO's pay was £593,431 when the bonus percentages were appreciably lower and the consultants had evidently advised that these levels were out of line. In addition he received £52,154 for approved outside appointments. I was the only person to ask any question about the package at the meeting despite the increase in potential maximum bonus from 100% to 170% of salary!

Buying- back

Witan in common with many investment trusts has a policy of buying back its shares in the market. This is primarily with the aim of reducing the discount at which the shares trade compared with NAV. It also gives a small gain to the remaining shareholders because the NAV released is greater than the price paid for the shares. In accordance with my normal practice I raised my card to vote against the authority for this. Over tea afterwards I was approached by a Director asking my reasoning in objecting to buy-back. I said "Public Good" and explained that I thought that investment trusts were such a good vehicle for private individuals that it was quite wrong to reduce the supply. I did not think that the founders of these great trusts, many years ago, would have approved of them being run down for short-term benefit. Witan, founded in 1909, has in fact reduced the number of shares in issue by 49% over the 15 years since they first started down this path.

It was interesting to find that the Director agreed with me that buyback alone has very little impact on the discount. A chart which had been put on the screen showed that the discount remained around the 10% level for several years after the policy was introduced. It seemed that only when the market began to believe in the benefit of the multi-manager approach that the discount started to narrow.

I told the director that Jackie and I have about two-thirds of our portfolio in investment trusts and that our favourite is Law Debenture. To my surprise he, although an investment manager himself, had not heard of it and had to ask what was the business that they run besides the normal investment trust activity. He did, however, take the opportunity to tell me what a great job the present CEO has done for the Trust.

Merryn Somerset Webb

I wonder how many of our members read Merryn Somerset Webb in the Money section of the Weekend FT. For me her column is not to be missed (alongside that of Robin Lane Fox). She writes a lot of good sense and is clearly on the side of the private investor. I have also heard her speak impressively a couple of times at investors' gatherings.

In a recent column she mentioned in passing that she is a non-exec on some investment trusts and that she knows "they are reasonably well run". I thought they deserved a closer look and found that they are Baillie Gifford Shin Nippon PLC and Montanaro European Smaller Companies Trust. The first one is a £200 million fund investing in Japanese smaller companies while the second has net

assets of £106 million and invests as its name suggests. Ongoing charges are 1.14% and 1.5% respectively, the latter in particular being higher than I like to pay. Merryn lived for six years in Tokyo five of which were working for SBC Warburg and accordingly should know more than most about Japanese markets. So there are two trusts that could be worth a look if you want to get into their respective markets.

Roy Colbran

Footnote re Witan Investment Trust

Just after submitting the above to the editor, I received notice of a General Meeting to approve an exceptional buyback of up to 15.8% of current shares in issue. This arises because Aviva has acquired Friends Life Group which owns those shares. The deal is that Witan will buy in those shares at a discount of 6.5% less any which Aviva is able to place more favourably with other buyers. If this goes ahead to the maximum extent, the number of Witan's shares in issue will be reduced to about 43 or 44% of what they were when the buyback process was first started.



My own view, which I have put to the Chairman, is that the Directors should consider themselves stewards of the Trust to maintain it for the benefit of future generations. Investment trusts are so much better than open-ended alternatives for small investors who want equity exposure that they should not be run down for short-term advantage. It would be interesting to know whether I'm the only one who thinks like this or whether anyone else among our membership shares my view.

Roy wants to know whether anyone else in the membership shares his views on the subject of Investment Trusts. I think I can safely promise him that. Just read on!

Bill Johnston

Why you should encourage share buybacks by investment trusts

by Mohammed Amin

Mohammed Amin is a chartered accountant, a chartered tax adviser and an associate member of the Association of Corporate Treasurers. Before retirement he was a tax partner in PricewaterhouseCoopers LLP. He is a member of the UKSA Policy Team but is writing in a personal capacity.

There is a great deal of misunderstanding regarding the effects of listed companies repurchasing their shares. The issues are quite different for investment trusts and for trading companies.

This article considers only investment trusts. My views about trading companies repurchasing their shares are very different and will be the subject of a separate article in the next edition of the Private Investor.

Investment trusts generally

These are one type of closed ended investment fund. The investment trust company has a fixed number of shares which are listed on the stock exchange. The company's assets consist of investments, normally quoted investments but sometimes also unquoted investments.

There is no reason why the total market value of the investment trust (shares in issue x price per share) should equal the net asset value (the total market value of the investments held by the company after deducting any liabilities.)

When an investment trust is very popular, investor demand to purchase its shares on the stock exchange may well mean that the market price per share exceeds the net asset value per share. In this situation the shares are said to stand at a "premium."

A more common situation is for somewhat limited investor demand for the shares of the investment trust causing the share price to fall below the net asset value per share. In this situation, the shares are said to stand at a "discount."

For example, the investment trust may own investments which in aggregate are worth £20 million. If it has 1 million shares in issue, the net asset value per share is £20. However, the quoted market price on the stock exchange may only be, say, £18 per share. In this situation, one would say that the shares stand at a

10% discount to net asset value.

$$(\pounds 20 - \pounds 18) / \pounds 20 = 10\%.$$

Impact of a share buyback

For illustration, assume that the company offers in the market to buy back up to 100,000 shares at a price of £18.50 per share, an aggregate cost of £1,850,000.

Selling shareholders

They should be happy. Before the investment trust commenced they buyback, they could only sell at the market price of £18.00 per share. Instead they have been able to sell their shares at £18.50 each.

Continuing shareholders

They should also be happy as well. The long term objective of shareholders in an investment trust is to have the management grow the net assets per share at a favourable rate without taking on excessive risks. That applies irrespective of the path of the quoted share price, since if desired the value represented by the net assets can be realised by the investment trust selling all of its investments and being liquidated.

The own-share buyback will increase the net assets per share, since both the net assets and the number of shares in issue have increased. Before the buyback, net assets per share were £20.00 each (£20 million net assets / 1 million shares in issue.)

Now the net assets per share are:

$$(\pounds 20 \text{ m} - \pounds 1.85 \text{ m}) / (1,000,000 - 100,000) = \pounds 18.15 \text{ m} / 900,000 = \pounds 20.17$$

Even if the buyback fails to reduce the previous 20% discount, or if the share price remains unchanged at £18.00 per share, thereby widening the discount, the continuing shareholders are still better off than they were, since the key ratio of net assets per share has increased.

However, in practice, the activity of the investment trust in repurchasing and cancelling shares often causes the market price of the shares to in-

crease. Apart from anything else, the company represents an additional buyer beyond those buyers already active in the stock market. Indeed, the expectation that the company will buy back its shares may itself cause the discount to narrow.

Arguments against investment trust own-share purchases

Investment-trust managements are sometimes reluctant to make share repurchases because, as can be seen from the above example, it reduces the absolute size of the investment trust.

It is normal for external investment trust managers to be paid a fee which is set as a percentage of the total assets under management, so reducing the size of the investment trust reduces the fee that the external managers will earn. Also, if an investment trust becomes too small, its overhead costs will become a more significant burden on the shareholders since they do not normally reduce in proportion as the investment trust shrinks.

However, for large investment trusts overhead costs should not be a material factor in deciding whether to repurchase shares at a price below net asset value.

As a general principle, I would always support investment trusts repurchasing their shares at prices below net asset value.

As I mentioned at the start, my views about trading companies buying back their own shares are very different. I believe that in the vast majority of cases share buybacks by trading companies are hard to justify in terms of the benefits they achieve for the shareholders. I shall explore the issues surrounding trading companies and share buybacks in the next issue of The Private Investor.



Mohammed Amin

Mohammed Amin

Directors' Pay – What's to be Done

John Hunter

It's open season on directors' pay again. Shock is expressed; moral outrage is voiced; the air is thick with heavy analysis, most of it wide of the mark; adverse votes are cast against resolutions with no connection to the real problem.

The situation is exemplified by recent affairs at BP. Chief Executive Bob Dudley was excoriated for being paid £14m. Shareholders voted against BP's pay policy (which was all they were empowered to do) as a means of expressing general unhappiness at Mr Dudley's remuneration.

Criticism of Dudley's pay came in a number of forms but can be boiled down to two: it was too large; and it should not have been going up when the BP share price was going down. The last of these reasons is wrong; the first is a matter of opinion with complex arguments for and against, none of which were expressed in any of the press coverage that I read.

Dealing with the last first, let us compare two fictitious companies at different stages in the business cycle. Both are oil majors of similar sizes. One – OilHappy – is cruising along on the tide of a rising oil price, making record profits each year that deliver strong cash flow sufficient to pay a rising dividend and maintain all existing operations, with some left over to make a few interesting investments in fashionable areas. The other – OilSad – is struggling with a collapse in the oil price, having to make hard choices about the future of its existing operations and its dividend, and unable to afford speculative investments which might nevertheless be important for its future.

Which CEO has the harder job? For which CEO would you (as beneficial owner) be most prepared to pay a premium for a quality leader? Which CEO is most deserving of reward? These are matters of opinion. If your answer to all three is 'OilHappy' then you are right to complain that Dudley's pay went up when OilHappy became OilSad. But I wouldn't think much of your judgement.

Others might argue for 'alignment'. This principle – that directors work better if their financial rewards are 'aligned' with those of beneficial owners – has become an act of faith in both pay policy and pay regulation. But there's no evidence to support it, indeed it's obviously not true. Does OilSad's CEO work better because his remuneration goes down when his job gets harder? Does the remuneration necessary to recruit or retain a good CEO go down in bad times, or up? Directors are not motivated like rats in a maze; nor does giving

them exposure to the risks of equity investment have any relevance to how they do their jobs.

What of the criticism that Dudley's pay was 'too large'. Was there any analysis anywhere of the comparative remuneration levels of other oil major CEO's? That would give sensible commercial reasons for his pay, but if there was I didn't see it (and instinctively, given the prominence of US oil majors with US pay scales, we all know the answer). Was it too large relative to expectations when his remuneration package was awarded? Was it too large on social or ethical grounds? These are also matters of opinion, not debated in any press coverage that I saw. Nor was there any discussion of whether criticism should be directed at Dudley, at BP or at the system that produced it.

So what's to be done? Some would put their faith in attempting to relate senior pay to other metrics. The High Pay Centre's publicity for pay ratios is one example. There are many others. These are well-meaning, but in practice just invite further gaming of the system by remuneration consultants.

UKSA believes that the solution lies in the fundamental principles of good governance – meaning that the right people have a say over the right things. It's been our Manifesto for over six years:

- ***Directors contracts of employment should be approved by shareholders;***
- ***Remuneration consultants should be accountable to shareholders***

Also fundamental to all good corporate governance is that the word 'shareholders' should be defined to exclude intermediaries and include only beneficial owners, for which UKSA has been calling since it helped promote the private member's 'Protection of Shareholders Bill' in parliament in 2009 - and probably for a long time before that.

These changes, although obvious, are opposed by powerful interests and will take time. What can we do now? Well we can start by opposing *all* Long Term Incentive Plans (LTIPs). This has already been proposed by the voting advisory service 'Pensions & Investment Research Consultant' (known as PIRC). It is the arena where the gaming of the system takes place, not least because the convoluted reporting regulations allow the amounts to be concealed until it's too late. Perhaps we can hope for some re-think there also?

John Hunter

Policy matters; but how much when it comes to directors' pay?

by Peter Parry

Over the last fifteen months I have been researching directors' pay for Eric Chalker as UKSA's Policy Director. One of the things that Eric very much wanted was an UKSA policy on directors' pay. However, I began to discover that setting a 'one-size-fits-all' policy was far from easy.

As the title for this piece attempts to convey, the whole area is fraught with ambiguity. It is not much help making vague statements about the need for CEO pay to be 'reasonable' or recommending that UKSA members vote against 'excessive pay awards'. What is considered 'reasonable' or 'excessive' varies from person to person.

Similarly, trying to devise a policy statement based on benchmarks stating that CEO pay for a company with a given level of turnover or market capitalisation should be within a specified range also seemed unhelpful. Elsewhere in this issue John Hunter has raised the question prompted by Bob Dudley's pay at BP. He questions whether a CEO who is trying to turn round a struggling business going through one of the worst periods in its history is worth more than the CEO of a similar business cruising along making steady profits under a cloudless sky in calm seas. You may still think that Bob Dudley's £14m pay was too high but the point that John raises is of fundamental importance in the debate about directors' pay.

Advisory and binding votes – how much real power do they give shareholders?

This leads on to another aspect of policy on directors' pay: the binding vote on remuneration policy. Every three years shareholders have the opportunity to vote on a company's pay policy for its directors. While this requirement, introduced under the coalition government when Vince Cable was in charge at BIS, is welcome its real impact in achieving effective governance over pay is limited. Policies tend to be framed in broad and often vague terms – particularly where it is attractive for the company to have plenty of 'wobble-room'. Companies, therefore, often talk about the need to have remuneration policies that will 'enable the company to attract and retain the best talent' or 'world-class leaders'. There will usually be references to paying a 'highly competitive' basic salary and further incentives based on a short term bonus plus long term incentive awards (LTIPs), which can often be as high as 300% or more of basic salary. Various performance metrics such as earnings per share

(EPS) and total shareholder return (TSR) along with other measures may also be stated. These policies look plausible but mean little. Consequently the binding vote on pay policy is of limited value in asserting shareholder control over pay.

What share holders need is a binding vote on the implementation of the pay policy (not just an advisory vote). The vote also needs to be on the implementation of the policy for the *coming* year; not the one that has just gone and for which the pay has already been awarded. This means telling shareholders what the performance metrics are for the coming year and, most importantly, what the specific targets are that are to be achieved. While these changes are vital to ensure effective shareholder oversight of pay, they will take time to achieve.

Role of the remuneration committee

Although the debate about directors' pay has been ebbing and flowing for at least the last twenty years, the latest round of rebellions has put the spotlight on the role of the remuneration committee and, in particular, that of the chair. At BP there have been calls for Dame Anne Dowling, the chair of the remuneration committee, to resign. One corporate governance manager at a big UK investment house commenting on BP was quoted in the FT as saying: 'She (Dame Anne Dowling) was not listening to shareholders – it was really that simple'.

It seems that fund managers in general are taking a closer interest in the way in which remuneration committees perform. Commenting on Sir Martin Sorrell's £70m pay package at WPP one fund manager has said: 'Remco (remuneration committee) people have been consistently unimpressive at WPP. Sir John (John Hood, Chair of the WPP remco) had his critics at BG, so he is one we are watching closely'.

Simon Walker, director at the Institute of Directors has commented 'Remco chairs need guts. You need to be able to stand up to the executives and use your common sense'. The remcos are made up of non-executive directors specifically because it is their primary role to be independent and represent the interests of the shareholders - not to act as acquiescent stooges to the executive directors. Shockingly, the AstraZeneca annual remuneration report for 2015 openly states: '*Performance measures are recommended by the CEO and determined by the Remuneration Committee*'. This is in clear contravention of the FRC's UK Corporate Governance Code which states: '*No director should be involved in deciding his or her own remuneration*'.

Making the most of existing powers

If we want meaningful policies they need to address specific issues on pay – a series of well-aimed rifle shots rather than a scatter-gun approach. One place in which we can start is by recommending that if UKSA members do not like a company's pay policy and / or its implementation they should certainly vote against it at the AGM but, more importantly, they should also vote against the re-election of the chair of the remuneration committee and all members of the committee itself who are standing for re-election. These people are supposed to be independent non-executives looking after our interests as shareholders. If we do not believe they are doing their job in this respect they should not be re-elected. This is an important power that shareholders already have and one which we should be making much better use of in future. In the meantime, I would ask all TPI readers to let me and the UKSA board have their views on how we can best go about framing a meaningful and workable policy on directors' pay.

Peter Parry

Time to go back to the 'Stakeholder Concept'

by Malcolm Howard

In the days before corporate greed took over, the 'stakeholder concept' prevailed. This concept suggested that company directors were responsible for all those associated with their company. These stakeholders were;

**Shareholders;
Employees;
Customers;
Suppliers;
The general public; and
Government**

So directors had a tough job. They had to ensure that they improved shareholders' wealth, treated employees fairly, provided a good level of service to their customers, paid their suppliers on time, looked after the environment and paid their fair share of taxes. To achieve all this they deserved a high salary.

Now, of course, the government can look after themselves, so if they cannot legislate properly then they cannot complain if companies legally minimise their tax liabilities. If companies don't look after their customers and suppliers then the company will fail, so we are left with three key issues, shareholders, employees and the environment. Success in these three areas should lead the directors keeping their highly paid job and exceptional performance should lead to good bonuses.

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Directors put their bonus plans to shareholders once in every three years and, of course, the institutional shareholders with the most votes wave them through without given the proposed scheme much thought. This is clearly what happened at BP; in 2014 96% of shareholders accepted the CEO's (Bob Dudley) bonus scheme, which led to a 2015 pay package close to \$20 million. It seemed that the only thing Bob Dudley had to do was to look after the issues the company defined, as follows: "despite the very challenging environment, BP's safety and operating performance was excellent throughout 2015." Clearly the CEO failed on the other two areas directors should be responsible for, shareholder wealth and employees. In the year to 31 December 2015 BP made a loss of \$6.482 billion, equal to 35.4 cents per share. At that date net debt stood at \$26.779 billion and the cash flow statement showed a net cash outflow of \$3.374 billion. The company maintained its dividend costing a total of \$7.3 billion and given its cash position it must borrow more money to pay out. This means, effectively, that shareholders are paying themselves a dividend out of their own money. In 2015 staff numbers were reduced by several thousand, so the CEO failed on the criteria of looking after staff. Despite these failings the CEO qualified for a 100% bonus, whereas his previous maximum had been 88% and, excluding 2015 the average had been 73%. In 2011, the CEO's total remuneration package was \$8,439k and since then he has received a compound increase of 23.4% to arrive at his current (2015) package of \$19,602k. Over the same period the rest of us have seen our pay hardly increase.

Of course, directors who achieve exceptional results deserve high bonuses. What defines greed is receiving huge bonuses for underwhelming performances; a spectacular performance deserves a high bonus. For example, Sir Martin Sorrell of WPP, has a pay package close to £70 million, of which £62.8 million related to a long term bonus. In other words Sir Martin said he was going to adopt policies that would achieve long term growth, rejecting the concept of only thinking short term. WPP had thrived under his leadership having improved the value of the company in five years from £8.5 billion to £20 billion, looking after employees in the process. So Sir Martin deserves every penny he gets.

All directors' bonus schemes should include the three key objectives of looking after shareholders, employees and the environment. No bonuses should be paid until the shareholders have received a dividend (if the company normally pays a dividend) and it should be illegal to pay a dividend unless the company makes a profit or has the cash to pay out of reserves.

Finally, the law needs to be changed so that shareholders have to approve directors' bonuses at each AGM before they can be paid.

Malcom Howard

Letters to the Editor

Dear Sir,

As an ordinary investor, I would like to encourage other UKSA members to protest whenever they receive, or see on screen, an annual report which is difficult to read. I have just had that experience with Shell and members may like to see what I was moved to write to the chairman, Charles Holliday.

On opening the annual report, I was immediately struck by the near invisibility of the opening pages. Have you seen the poor print quality of your 'Chairman's Message'? Unnecessarily tiny, pointlessly faint characters seemingly intended to discourage reading and certainly painful to attempt. The CEO's is no better. It's a shameful way to treat your investors. No doubt when you and he saw and approved the drafts they were printed, or appeared on screen, in an easily readable font size presented in black. Had they appeared as they do in the report I am sure you would have sent them back.

Looking through the report, I see that much of it is in the same poor quality print. Font size may be influenced by the quantity of information it is necessary to present on each page, but this extensive use of grey is an abomination. It is at its worst in the miniscule font used for footnotes, as on page 52 where they are supposed to help readers understand the company's contractual obligations: can you read them at all comfortably?

There are other criticisms that can be made about the report's appearance, such as on pages 2 and 3 where it would be so much more helpful to eliminate the otiose gap between text and numbers, but the key point I wish to make is that the appearance of annual reports should be primarily influenced by what is easy for investors to read. When something is not easy to read it takes longer to read and then it requires a great deal more patience and determination to understand the meaning. A company's annual report is the key means by which investors can judge its performance and they should not have to struggle to do so.

Eric Chalker

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Dear Sir,

I read with interest Mr.Chalker's article in issue 181 of *The Private Investor* about the rights of investors in ISAs.

We used to hold our shares in Crest through Stocktrade and received annual reports, notices of AGMs etc. When Stocktrade shut its service last Autumn we migrated to an Investment Dealing Account with Alliance Trust Savings (ATS). It is what I suppose you class as a nominee account and the company info dried up.

ATS does run a Shareholder Enfranchisement service: see page 32 here: <http://www.alliancetrustsavings.co.uk/forms-documents/guides/platform-guide.pdf>

However ATS doesn't really publicise the service (not surprisingly) and, so far, the service has been erratic. ATS has told us that not all companies subscribe to the service; when we asked for a list of those that did we were told there wasn't one.

For the rest of this year we'll keep a careful note of what we receive through the service; and what we might have expected to receive but didn't.

Keep up the good work!

Ian Nimmo

Dear Sir,

The article on rights in ISAs (March issue) by Eric Chalker reminds me of the benefits of joint registration that I used to enjoy. This is still allowed by HMRC but has really become a dead letter. The consolidated regulations governing ISAs actually say "*the title to all **account investments** shall be vested in the **account manager** or his nominee or jointly in one of them and the **account investor**". For a long time I ran my PEP and then my ISA through a small stockbroker in the Midlands who operated the joint method in certificated form. His nominee company held the certificates and received the dividends but I received the Annual Reports, could attend meetings and my name was on the register alongside the nominee's. Sadly the broker sold out to a national firm who soon ended that arrangement.*

The message is that the people to attack if we want to avoid nominee holdings in ISAs are not those responsible for the regulations but Euroclear (operators of Crest) and the brokers to get them to work together to provide appropriate joint accounts in Crest.

Roy Colbran

BP

by Adrian Phillips

The willingness of BP's senior management to meet private shareholders for what is the now the fifth time was saluted by a capacity turnout of 55 UKSA members (with another ten on the waiting list) who filled the presentation suite at the company's St. James's headquarters. They were briefed by a team led by the Chairman, Carl-Henric Svanberg, and the Head of Investor Relations, Jessica Mitchell.

We received a full, open and detailed account of recent performance, trading conditions and outlook. 2015 profits fell by 51% on the company's standard measure. Weaker upstream profits were only partly offset by an improvement downstream. The company had been braced for an even more prolonged negotiation over Macondo compensation so there is relief that it took only six years. Since then the final Court approval has been given.

The operating environment is still described as challenging although management point out that this is the fourth major price cycle that they have experienced. 50% drops in the oil price are part of life. 2016, though, will be tough. The key message is that the company is working to "balance organic sources and uses of cash with an oil price around \$60 by 2017 and to generate free cashflow thereafter." If there is no substantial recovery from the current \$40 price more will be needed.

Management is certainly not relying on a recovery in the crude price and is pursuing cost cuts. This "rebalancing" was still work-in-progress but BP is happy with the progress of cost cuts. Suppliers enjoyed far more of the boom oil price than they did and Industry "deflation must be shared."

BP expects supply and demand in the oil market to move into balance by the end of 2016 although there are substantial inventories to be cleared. There was a sense that the 50% rebound in the crude price over



Adrian was a full-time analyst for twenty five years mainly for Kleinwort Benson. He specialized in Continental Europe in the pioneering days of UK investment in the area, which meant researching the political and economic background as well as the companies themselves. More recently he covered the tech sector but tired of worrying about the future and switched to worrying about the past in the shape of a postgraduate history degree, which led to his first book which is due out in the autumn.

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the past few weeks might have “over-anticipated” market fundamentals. Maintaining the dividend is a major priority although there was no hard-and-fast statement. The Chairman’s observation was open-ended: “whilst we believe that our current financial framework can support the dividend, the Board will keep this under regular review and make adjustments to the financial framework as circumstances require.”

The fall in the crude price during 2015 was not reason in itself for a cut. The company states that the dividend was not increased fully to reflect the surges in the oil price in 2007-2011, implying that the full pain of the current weakness will not automatically be passed on to shareholders. There is no philosophical problem with paying a dividend from reserves given the cyclical nature of the business. However it was repeated that “growth opportunities should not be compromised.” Gearing is low at 20% although this will rise at current oil price levels.

The Chairman personally fielded the questions from members which ranged over a wide area, especially covering regional uncertainties, and showed an impressive grasp of the key issues for BP.

- **Because the Rouble has been allowed to devalue in line with the crude price Rosneft’s operations are untouched although it suffers from the hard currency debt taken on to fund foreign acquisitions. BP has begun to develop projects independently in Russia.**
- **There is some prospect of contracts to operate existing fields in Iran as has happened in Iraq.**
- **Even the most stable countries in the Middle East are not stable in the absolute. Saudi Arabia has a large budget deficit after the social programmes inspired by the Arab Spring.**
- **Long term real growth will be around 0.5% per annum.**
- **The OPEC attempt to kill off US shale was an error. Output is falling but technical maturity is bringing cost gains. There is a core of mature and viable operations.**

After the formal proceedings a large team from BP fielded individual questions from members over an ample buffet lunch. The applause at the end was heartfelt and well deserved by a company which is a model for the attention it devotes to the private investor.

Adrian Phillips

The UKSA Croydon & Purley Group

In April 2016 a high point was reached with two important UKSA London briefings arranged by Nick Steiner and Phil Clarke. On Monday 18th April, London & SE

members were treated to a broad ranging briefing and extended Q&A session with **WPP** CEO Sir Martin Sorrell - himself no less - at the Berkeley Square HQ (immediately prior to the UKSA AGM at the RAF club).

Then, just two days later UKSA members were invited to the 41st floor of the **HSBC** Canary Wharf HQ tower for a briefing by Chairman

Douglas Flint and Chief Executive Stuart Gulliver, both of whom made presentations followed by an in depth Q&A session.

In all, twenty two London & SE UKSA briefings were arranged during the year - the main focus of the Regional Committee - which was re-elected to serve for another year, many of whom regularly attend company AGM's in London armed with at least one searching question to ask.

A working relationship with the LondonSE financial web site (www.lse.co.uk) is also being developed, including adding selected UKSA policy documents to the LSE blog. LondonSE web site receives 1 million hits a month & is well known in the financial community.



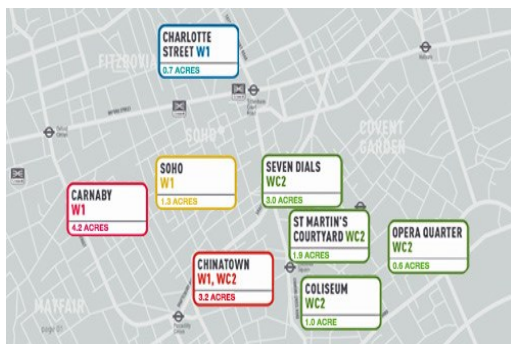
The UKSA Croydon & Purley group meet on the 2nd Tuesday of the month at the Spread Eagle pub in Croydon.

***Harry Braund
Chairman London & SE***

Shareholder Meeting with Shaftesbury PLC

The best way to understand and appreciate this company is to go and look at the properties in the villages. Brian Bickell Chief Executive of Shaftesbury will lead the walk starting from their offices based in the Carnaby Village.

Shaftesbury PLC is a Real Estate Investment Trust, which owns a unique real estate portfolio extending to 14 acres in the heart of London's West End – a highly popular, sought-after and prosperous destination for visitors and businesses. Its holdings are concentrated in Carnaby, Covent Garden, Chinatown, Soho and Charlotte Street.



Date	Tuesday 28th June 2016
Location start	22 Ganton Street, Carnaby, London, W1F 7FD
Assembly	13:30 hours
Meeting Start	14:00 hours
Walk numbers	10
Walk details	Allow 2 to 3 hours over about 2 km – comfortable footwear/attire recommended
Company Contact	Gill Smith
Group Leader/organiser	Nick Steiner 020 8874 0977 <n.steiner@btinternet.com>

The Group's focus is on retail, restaurants and leisure in the liveliest parts of the West End with a portfolio which now comprises 589 shops, restaurants, cafés and pubs, extending to 1 million sq. ft., and accounting for 70% of our current income.

A proven management strategy creates and fosters distinctive, attractive and prosperous locations. Its implementation is supported by an experienced management team with an innovative approach to long-term, sustainable income and value creation and a focus on shareholder returns.

Note: in the event of inclement weather (and excessively hot weather) the tour would be postponed

Places will be allocated on a first come basis and names will be passed to Gill
on Tuesday 21st June 2016 **Nick Steiner**

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

Volunteers sought

NORTH-WEST

Paul Waring 07754 725 493 or paul@xk7.net

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 Julian Mole at Julian.mole@btinternet.com or Brian Peart, 01388 488419.