

ShareSoc

(UK Individual Shareholders Society)

HOW AND WHY SHAREHOLDERS SHOULD ENGAGE WITH COMPANIES

Roger Lawson



The Agenda

- Why it is in your interests to learn more about the companies you invest in and the management.
- Why shareholders should vote, attend AGMs, and communicate with directors.
- What are the difficulties in doing that, and how to overcome them.
- Proceedings at General Meetings including the voting process.
- The new proposals that may control pay by giving you a binding vote.



Why ShareSoc is Involved

ShareSoc's Objects:

- To improve the investment performance of members;
- to protect the value of members' investments;
- to represent the interests of private investors to public bodies and companies;
- to promote direct investment in the stock market;
- to support the principles of good corporate governance;
- to ensure equal treatment for all shareholders;
- to enhance the performance of companies;
- to promote financial education at all levels.



Three Questions

1. Do you normally submit a vote for all meetings of the companies in which you hold shares?
2. Do you normally attend all meetings of the companies in which you hold shares?
3. Do you take every opportunity to talk to the directors?



The Problems

- Directors who defraud (Polly Peck, Enron...)
- Directors who don't act in the interests of shareholders.
- Directors who mislead shareholders and create a false market in the shares.
- Directors who trade shares based on insider information.
- Directors (and dominant shareholders) who act against the interests of minority shareholders.
- Directors who are incompetent or stupid.

In UK law, there is little most shareholders can do about any of the above except complain to the FCA, the SFO, the LSE (for AIM companies), etc. There is no concept of “fraud against the market” in UK law.

**BUT YOU DO CONTROL THE COMPANY AND YOU CAN
REMOVE AND REPLACE DIRECTORS AND PASS OTHER
RESOLUTIONS**



A recent complex example

Victoria Carpets – Democracy in Action

After years of pathetic financial performance, many of the founding Anton family and New Fortress (institutional holder) got fed up and demanded change.



Shareholders requisitioned a General Meeting to appoint new directors. But the new board fell out over the incentive plan. So some directors resigned, but other directors were voted out at the subsequent AGM and the rest were removed at another requisitioned AGM. Ultimately, on an 80% turnout, 66% of shareholders voted for a new board of directors (and there is now a new management team). The majority of shareholders got what they wanted!



Simpler examples

Simpler Examples of shareholder pressure in action where ShareSoc has been involved.

- Intercede LTIP (it was revised).
- Faroe Petroleum (pay resolution withdrawn)
- Lighthouse (delisting defeated).

Even if it does not come to a decisive vote, shareholder pressure even from small minorities can influence board decisions and votes of less than 50% can change their minds.



So always **USE YOUR VOTE** is the important message!

ShareSoc



Not just smaller companies

- It would be wrong to assume shareholders only influence events in smaller companies, although getting institutions to take action can be more difficult, and they tend to prefer to keep a low profile and act behind the scenes.
- Even in FTSE-100 companies, some remuneration reports have been voted down, and some directors forced to resign (for example remuneration votes lost at RBS, Shell, Bellway and Provident Financial in 2009).



Voting Problems

- You can only vote if your name is on the register of the company (i.e. you are a “member”). Those who hold shares via a nominee account are not on the register and are not members (you do not own the shares, you only have a “beneficial interest”).
- So only those holding a paper share certificate or hold shares in a personal crest account can vote.
- But your nominee operator (stockbroker) may vote (required for ISA accounts) based on your instructions, or appoint you as a proxy.
- If you are forced into a nominee account (i.e. ISAs) then pick your stockbroker with care.

Note nominee accounts are generally “pooled” which is very dangerous. See

www.sharesoc.org/nominee_accounts.html for voting/attending if you are in a nominee account.



AGM Attendance Problems

- You can only attend if your name is on the register of the company (i.e. you are a “member”). Those who hold shares via a nominee account are not on the register and are not members (you do not own the shares, you only have a “beneficial interest”).
- So only those holding a paper share certificate or hold shares in a personal crest account can turn up, speak, and vote without question.
- But your nominee operator (stockbroker) can give you a “letter of representation” to enable you to attend the meeting (and speak). A charge may be payable for this service!
- If you are forced into a nominee account (i.e. ISAs) then pick your stockbroker with care.

See www.sharesoc.org/general_meetings.html for information on voting and speaking at General Meetings.



Why AGM Attendance is Important

It's not just about voting. It enables you to:

- Ask questions (formally and informally).
- Get to understand how the business operates (particularly so if they do a presentation or hold the meeting on their premises).
- Get to know your directors and judge their trustworthiness and competence.
- Give them your opinions (privately or of course you can “speak” at the meeting, not just ask questions - but don't bore the audience!)



Common Resolutions

- Receive the Report & Accounts.
- Re-elect the directors (consider!).
- Approve the Remuneration Report (think!).
- Re-appoint auditors and approve their pay.
- Share issuance and pre-emption rights (review).
- Approve share buy-backs (against?).
- Allow 14 days notice of meetings (against).

See www.sharesoc.org/voting%20at%20general%20meetings.html for guidance.



Current Solutions to Problems

- Become a Personal Crest Member (Highly Recommended)
- Use a broker who enfranchises you.
- Ask for a proxy or “letter of representation”.
- Appoint someone else to attend an AGM as your proxy if you cannot do so personally.
- Hold a few shares directly (in certificated form or personal crest account).



Future Solutions

- Kay Review Proposals.
- Enterprise and Regulatory Reform Act (ERR) to control pay – in force from 1st October 2013.



The Kay Review

Commissioned by Vince Cable to perform “An analysis of UK Equity Markets and Long Term Decision Making”



Recommendations:

1. Expansion of the “Stewardship Code” and adoption of “Good Practice Statements” with more “engagement”
2. A proposed “investor forum” (although we would have preferred “shareholder committees”).
3. More disclosure of costs (he thinks there is too much “intermediation”).
4. Fewer bonuses (pay reform).
5. A means for individual investors to hold shares on an electronic register.



The ERR Bill

The Enterprise and Regulatory Reform Act.

1. A forward looking and binding vote on pay for listed companies.
2. Vote on past pay will remain, with changes.
3. There will be reporting based on a single pay figure to enable better comparability, and trend watching.

But it will not help unless you use your vote!



Web Site for more information



The screenshot shows the ShareSoc website with a dark header. The ShareSoc logo is on the left, and navigation links (Home, About, News, Membership, Donations, Search, Contact Us) are on the right. A large image of the London skyline is in the background. A sidebar on the right lists 'MORE INFORMATION' links: Policies, Press Releases, Consultations, Events, Links, Newsletters, and Members Network. The main content area has two columns. The left column is titled 'LATEST SHARESOC NEWS' and contains two news items: 'SHARESOC RECOMMENDS VOTING AGAINST REMUNERATION AT BARCLAYS' and 'CABLE'S PAY REVIEW - A GOOD FIRST STEP'. Below these are social media icons for Twitter, Facebook, and LinkedIn. The right column is titled 'WHAT WE DO FOR SHAREHOLDERS' and contains two sections: 'SUPPORTING INDIVIDUAL SHAREHOLDERS' and 'Membership'. The 'Membership' section includes a photo of a man in a suit and a link to 'Membership >>'. The footer contains copyright information and a link to 'Terms of use and legal information'.

ShareSoc
UK Individual Shareholders Society

Home About News Membership Donations Search Contact Us

MORE INFORMATION

- [Policies](#)
- [Press Releases](#)
- [Consultations](#)
- [Events](#)
- [Links](#)
- [Newsletters](#)
- [Members Network](#)

LATEST SHARESOC NEWS

SHARESOC RECOMMENDS VOTING AGAINST REMUNERATION AT BARCLAYS. 09/04/2012.

CABLE'S PAY REVIEW - A GOOD FIRST STEP. 13/03/2012. ShareSoc welcomes proposals to give shareholders more say in the remuneration of company directors.

See the [News](#) page for more information on the above and extra news stories. Go to the [Blog](#) page for topical comment.

[Twitter](#) [Facebook](#) [LinkedIn](#)

To follow us on Twitter®, or to access our Facebook® and LinkedIn® pages where topical news and comments are posted, click on the icons above.

WHAT WE DO FOR SHAREHOLDERS

SUPPORTING INDIVIDUAL SHAREHOLDERS

Do you believe in direct stock market investment? We certainly do as it gives you control of your investments and reduces the costs. But private shareholders are hampered by poor laws, lax market regulation, ignorance of your needs by the Government, high taxation, and by disdain from the companies in which you invest in some cases. We try to tackle many of these issues.

Our other objective is to help you make money by improving your investment skills based on the provision of a range of resources. ShareSoc also provides a forum for the interchange of views between individual investors.

[More Information>>](#)

Membership

You can join as an associate member free of charge. That enables you to receive our newsletters and get involved in our activities. All we ask is that you have an interest in stock market investment and support our aims. Click on the link below for more information.

[Membership>>](#)

Copyright © 2010/2012 All rights reserved. Sharesoc ® (UK Individual Shareholders Society). [Terms of use and legal information](#)

See www.sharesoc.org

ShareSoc



Conclusion

You own a “share” of a public company and you should behave like an “owner” not a speculator in a share price derivative.

Please help us to get changes in the nominee system and have shareholders appoint directors and set their pay.



Questions

