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Jonathan Reynolds MP
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Department for Business and Trade
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28 January 2025

Dear Mr Reynolds

***My share, my vote* – AIC campaign to enfranchise retail investors**

Seven UK investment trusts are currently being challenged by an activist investor attempting to make fundamental changes to how they operate. Saba Capital Management LP (Saba) has requisitioned general meetings to secure these changes. The first of these was held last week, with the rest in early February.

Activists play an important role in the governance of publicly traded companies. Their interventions can help secure better outcomes for all shareholders. Delivering these benefits relies on shareholders being able to express their preferences about the future of their company. Saba's campaign has raised doubts over whether the current legal framework for retail investors gives them this voice.

It has highlighted the need for a simple change to company law to ensure that retail investors or their advisers receive the information they need on matters affecting their investments, and to ensure they are able to vote if they wish to do so.

This issue is particularly important for investment companies as they have a high level of retail investment. However, these concerns would apply across the rest of the public markets. Sorting this issue out now is important to support the government's desire to see more individuals invested in the market whether directly, or through wealth managers or advisers. Capital, including from individual investors, is essential to underpin the success of the government's growth agenda. A proper functioning shareholder democracy will enhance confidence in the market to support the ambition of wider market participation.

The problem

In the digitised world investors now use a range of online platforms and service providers to invest and hold shares. Rather than being a name on the company's share register, a typical investor now holds shares through a nominee account controlled by the platform or service provider they use. The relationship between the company and its beneficial owner – the retail investor – is intermediated by the platform or provider. Where the investor is using a tax wrapper such as an ISA or SIPP this has to be the case.

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Part 9 of the Companies Act 2006 enfranchised those ultimate beneficial owners by providing that nominees ***could*** pass on information and voting rights. This is where the flaw exists – it is a '*may*' not a '*must*'.

Platforms have a mixed record

Platforms have played a critical and highly effective role in opening up access and bringing down investor costs. However, when it comes to shareholder rights, they have a mixed record. Many platforms, but not all, offer shareholder rights. With one major exception (interactive investor) the investor has to 'opt in' rather than having their rights given to them as a default. Voting is possible through many platforms, but this is far from universal and in some cases, investors are charged to exercise this right.

In the case of the current activist campaign, which has highlighted these issues, the major platforms have responded positively. They have written to all their customers, whether or not those customers have opted in to receive information or vote. These platforms have consequently seen very significant increases in voting levels. Hargreaves Lansdown reported that 41% of their clients holding Herald Investment Trust shares voted in last week's meeting. For interactive investor that figure was 55%. This is a good result which far exceeds usual levels of voting. These voting levels have only been achieved because platforms have responded to a concerted campaign by the targeted investment companies to get out the vote. Prominent media coverage, some pressure from the FCA and the AIC's own activity have also helped to encourage platforms to 'do the right thing'.

These conditions cannot be relied upon in all cases. Even at the height of the current 'get out the vote' campaign, there are too many platforms and providers that have not passed on meeting information or voting rights. Some explicitly state in their terms and conditions that they will not do so. For example, *"We will not notify you of proxy voting rights arising from any of your investments."* I have been contacted by investors saying that they have been unable to vote even when they themselves are engaged and have directly contacted their platform provider asking to do so. Stocktrade and Scottish Widows would be examples. After media pressure, they have arranged a workaround to enable their customers to vote, but that was not their starting position. Other platforms are charging their customers to vote.

The same issue affects firms working on behalf of retail clients. I have been contacted by one wealth manager from a large firm who stated that they are charged by the service provider they use to hold their clients' shares: *"We are unable to vote everything on our private client side as the cost is too penal."*

Bad practice in the market is disenfranchising shareholders. This in turn has an impact on the ability of large minority shareholders to exert disproportionate influence and serves to undermine confidence in the market. This is unacceptable.

It is no coincidence in my view that interactive investor is the only platform which opts in its customerrs as the default position, has accessible voting and saw particularly high retail investor participation in the recent Herald Investment Trust general meeting.

It is not sufficient for voting access to be left to the market, or to rely on nominees to 'do the right thing' on a case-by-case basis. Retail investors may not recognise the value of voting on important company issues when selecting their provider. How a platform approaches voting may be buried deep in the terms and conditions. A combination of factors may mean that the investor is disenfranchised or does not know that they should be exercising their vote, or even that there is a vote. This position must be changed if the government is to fulfil its ambition to encourage risk taking to support UK business and help individuals become more financially engaged and resilient.

The solution

The solution is very simple. Part 9 of the Companies Act 2006 should be amended to:

- Make it mandatory for the nominee (for example, a platform) to pass on company information and voting rights unless the customer opts out.
- Ensure where a customer does opt out, the nominee has a periodic requirement to confirm if this remains the customer's preference.
- Allow any opted-out customer to opt in, on demand.

Beyond that, voting should be made as easy as possible. Whilst this cannot be legislated for and technology is always changing, it would be possible to outlaw the charging of investors to vote.

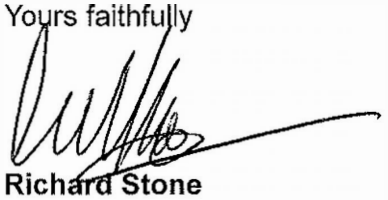
I hope this letter focuses your attention on this important issue. I trust that there is an early opportunity to make this targeted change, as I anticipate that you are already considering related issues as part of the government's response to the Digitisation Taskforce.

That said, I realise that there are competing issues for your attention. I should also therefore note that the AIC is launching a public campaign to encourage more voices to support our call for action.

I would welcome the opportunity to discuss the issue with you further.

I look forward to hearing from you,

Yours faithfully



Richard Stone
Chief Executive