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A Word From Our Chair



James Pitcher
Manager
FS Club



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Corporate Actions: The Case Of The Missing Billions



Wednesday, 4 September

Pewterers' Hall, City of London



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Wi-Fi Username: Pewterers Guest
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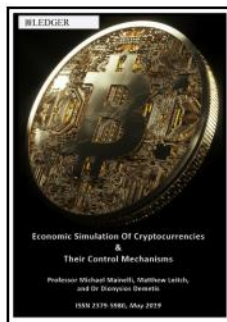
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Chairman's Blog

**Corporate Actions:
The Case Of The
Missing Billions**



Shivesh Jha, Chief Investment Officer, Scorpeo Group

Wednesday, 04 September 2019
18:00

**Hybrid-Cloud
Technology For
Financial Services**



Tim Hooley, Chief Technologist, EMEA FSI, Red Hat

Wednesday, 18 September 2019
18:00

6088

Readership

264

Events held

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Financial Services Club Perspectives



The screenshot shows the homepage of Chris Skinner's Blog. At the top, there is a navigation menu with links for 'Home', 'About Chris', 'Endorsements', 'Services', 'Books', 'Clients', 'Videos', 'Photo Gallery', and 'Contact'. The main header features a caricature of Chris Skinner and the text 'CHRIS SKINNER'S BLOG' along with 'FINTECH INSIDER NEWS & VIEWS' and '11 FSI'. Below the header, there is a 'BREAKING NEWS' section with a welcome message: 'Welcome to The Finanser by Chris Skinner'. The main content area displays several article thumbnails with titles and timestamps:

- 'How can you be AI with DD?' (03 hours ago)
- 'AI in banking: the pitfalls and opportunities (research paper)' (01 day ago)
- 'Mobile first is a no brainer, but what is digital first?' (02 days ago)
- 'Fintech foundationsite with both financial and technology people' (03 days ago)
- 'The end of FinTech' (04 days ago)







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For more information visit: www.cisi.org/cisiweb2/cisi-website/cpd



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Corporate Actions: The Case Of The Missing Billions



Shivesh Jha

Chief Investment Officer



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Agenda

- **Introduction**
- **Voluntary corporate actions**
- **Missed value in scrip dividends**
- **Why is this money being lost?**
- **White paper – Corporate Actions: The case of the missing billions**
- **Q&A**



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Introduction

- **Scorpeo has been collecting data on voluntary corporate actions since 2011;**
- **Every year an average of \$1.1 billion is being lost by sub-optimal elections in scrip dividends alone – over \$9 billion since 2011!**
- **The problem is well known in the asset management industry;**
- **Problem is not well known by fund investors, pension funds and pension fund beneficiaries due to a lack of transparency;**
- **In November 2017 Greenberg Traurig and Berkeley Research in New York published a Scorpeo commissioned white paper concluding that the systematic failure by asset managers to optimize corporate actions decisions is a breach of their fiduciary responsibility.**



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Voluntary Corporate Actions

- Voluntary corporate actions require the controller of the asset to make a decision. These decisions will generally result in more or less value being added to the underlying asset.
- There are many types of voluntary corporate actions, for example:
 - Elective dividends (Scrips and Drips)
 - Rights issue
 - Tender Offers
 - Takeovers
- The easiest and most Vanilla of these is the Scrip Dividend.
- This is basically a cash dividend but allows the asset owner the opportunity to accept their dividend in the form of shares in lieu of their cash.
- The company will set a price that will allow for the value of the allocated shares to be equal to the cash dividend. After the announcement of this price the shareholder will generally then be given 30 days to decide what they would like to take. Whilst the cash dividend value will always remain static, if the value of the underlying shares increases during that 30 days then the value of the new shares received from the dividend will also increase. Therefore, at deadline for election if the stock dividend is worth more than the cash dividend then optimal decision is to take the shares (even if only to monetize them with immediate effect) so that the total cash is greater than the cash that would have been received by electing to take the cash dividend.
- In most cases there is a provision for a DEFAULT election (i.e. what you will basically receive if you make no election) and this is generally cash. Furthermore there are also provisions to have a standing instruction so that the shareholder always gives the same election irrespective of value.
- These are generally used when the asset control has no interest in maximizing the value or is looking to reduce workload.
- Either way they generally result in large amounts of missed value for portfolios.



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A Recent Example

- **National Grid (NG / LN) recently paid a scrip dividend with the following details:**
 - Ex Date: 30 May 2019
 - Pay Date: 14 August 2019
 - Dividend Amount: £0.3126
 - Reinvestment Price: £7.8974
 - Price on election deadline -2: £8.379
- **Despite the stock election being £0.4816 in the money, 55.2% of shareholders elected for cash!**
- **That's 24 bps of absolute missed performance on any national grid shareholdings for investors that elected cash.**
- **~£39,000,000 was the value missed across the market on just this single corporate event.**



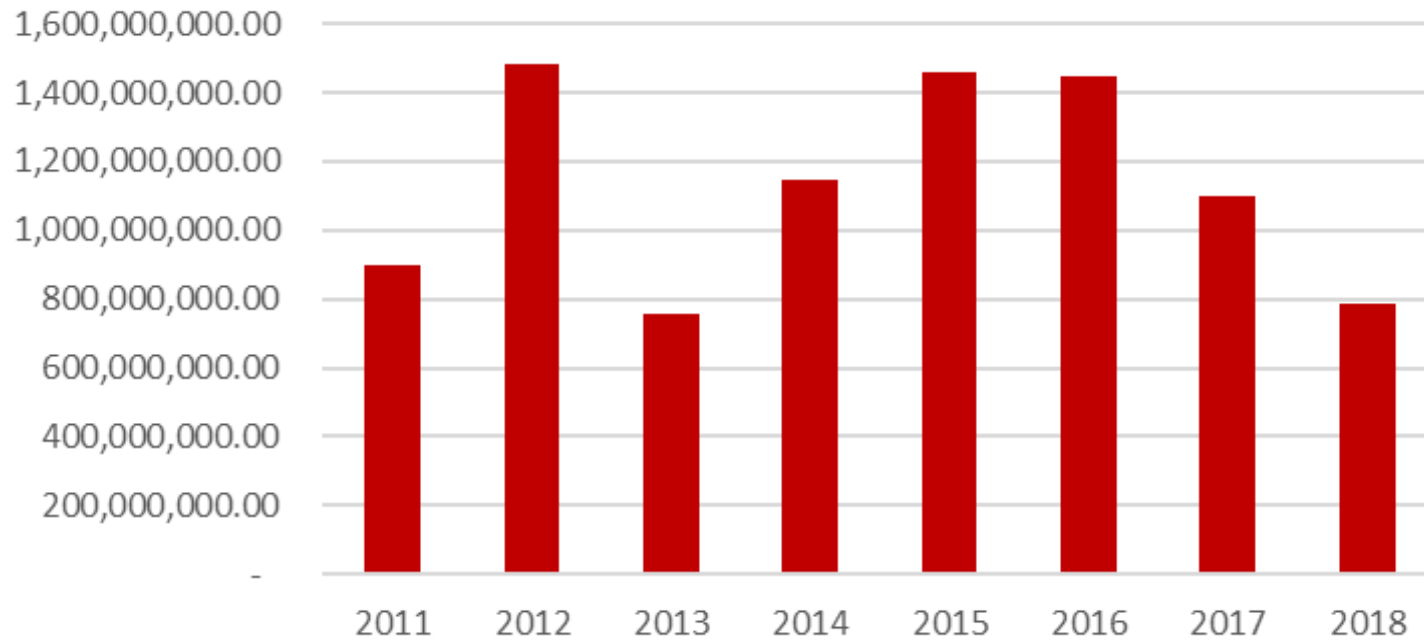
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Missed Value in Scrip Dividends

Scrip Dividends: Total Missed Value 2011 to 2018



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Optimal Election	Global		The Asset Managers in The Sample	
	Number of Events Majority was Suboptimal	<i>% of Events Majority was Suboptimal</i>	Number of Events The Asset Managers Were Suboptimal	<i>% of Events The Asset Managers Were Suboptimal</i>
Cash	146	10%	114	2%
Stock	410	28%	3,322	54%
Total Suboptimal	556	38%	3,436	56%

Why is this money being lost?

- Elective corporate events require knowledge and understanding of the event. Managers that are being paid by shareholders to manage portfolios often don't have these and therefore take the easiest option.
- Also, it is not always large amounts of money per event but over a 12 month period it can add up.
- E.g. There are about 130 global scrips annually. If each manager misses \$1,000 per event then that is \$130,000. If there are 100 managers at a particular Asset management firm that is collectively \$13,000,000 per annum being missed at just one Asset management firm, in just one type of Elective event.
- These numbers can add up very quickly to become huge sums of money.
- Without some form of regulation and automation these sums will continue to be lost on a regular basis, value that adds to the bottom-line for underlying investors.



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How bad is it and why do we need more transparency?



- Scorpeo has spoken to over 150 asset managers and done value analysis for 26 of them (all missing significant value). Their responses are shocking:
 - *"We are all over this so we do not need to check if we are missing value"*
 - *"We are comfortable with this"*
 - *"Our traders do not want to do anything about it"*
 - *"The problem is that we cannot increase our fees and all the extra money will only benefit our investors"*
 - *"\$13 million is less than the CEO makes so will not get him interested. \$13 million a year is not enough to do something about it"*
- The value missed is often seen as too small to care about. However invest \$13 million a year in the S&P 500 for 40 years (pension build up period from the age of 25 to 65) and you would have made over \$4.4 billion.
- With most public pension funds being massively underfunded, they should check their asset managers are taking this serious and do not simply dismiss the amounts lost as too small.
- Given the responses from asset managers, the regulator should step in and demand asset managers set up proper controls and procedures to capture this lost value and report their performance on an annual basis.



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Corporate Actions: The Case Of The Missing Billions



Andy Agathangelou

Founder

THE
TRANSPARENCY
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Time For

TRANSPARENCY

...in relation to "Corporate Actions: The Case of the Missing Billions"

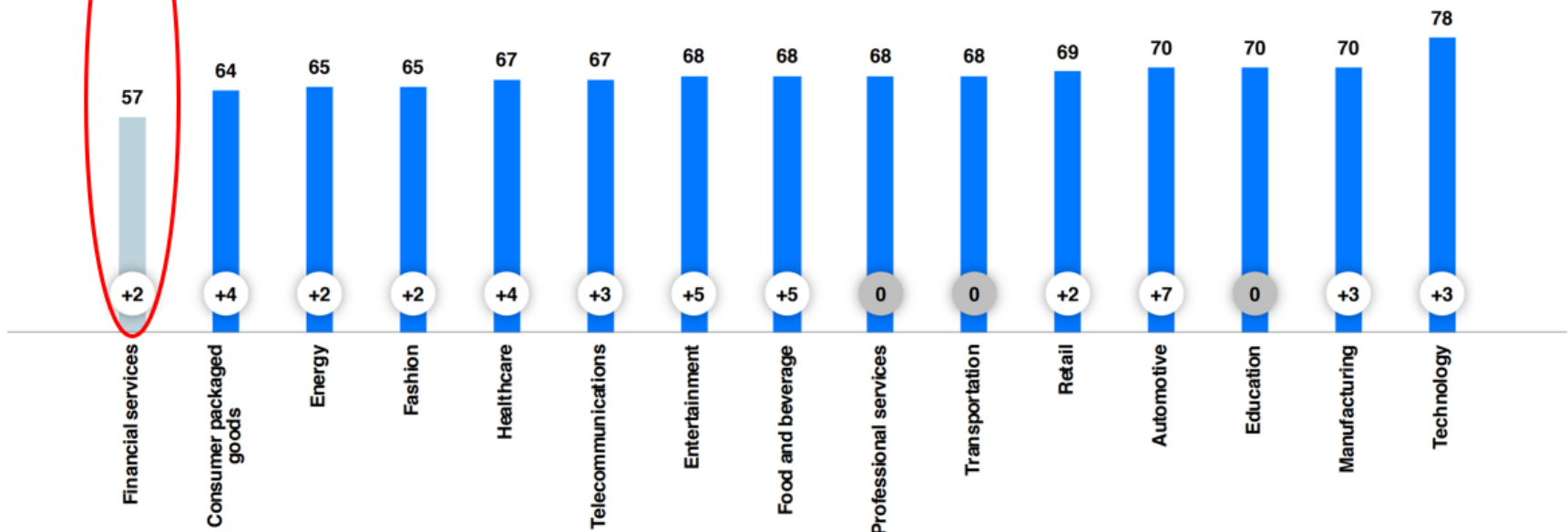
Z/Yen 4th September 2019



The 219 Edelman Trust Barometer

Percent trust in each sector

■ Distrust
 ■ Neutral
 ■ Trust
-
 0
 +
 Y-to-Y Change

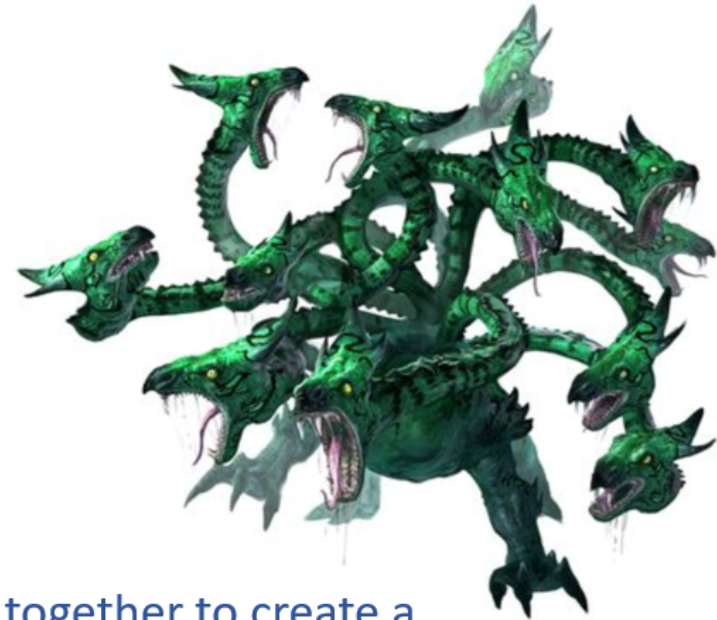


2019 Edelman Trust Barometer. TRU_IND. Please indicate how much you trust businesses in each of the following industries to do what is right. Again, please use the same nine-point scale where one means that you "do not trust them at all" and nine means that you "trust them a great deal". 9-point scale; top 4 box, trust. Industries shown to half of the sample. General population, 26-market average.



What are the underlying causes of distrust?

- There are **many causes**
 - The causes are **complex and interconnected**
 - Dealing with **just the “heads” of the problem won’t work**
 - Only a **whole-system solution** can fix a whole-system problem
 - The solution needs to be **systemic and systematic**
-
- People around the world are working together to create a **Framework for Finance Reform** to deal with these issues
 - At the heart of the framework for Finance Reform are the **12 Finance Development Goals...**





The 12 Finance Development Goals

Which ones are relevant to the “Corporate Actions: The Case of the Missing Billions” issue?

- **Virtuous leadership**
- **Create a client-centric culture**
- **Be transparent**
- **Be Evidence-Based**
- **Govern well**
- **Design products that deliver**
- **Communicate authentically**
- **Act with purposefulness**
- **Incentivise responsibly**
- **Stabilise the ecosystem**
- **Protect consumers from harm**
- **Manage risk**

I conclude that all the relevant trade bodies, professional associations, regulators and asset managers should, as a matter of urgency:

#1: Give this matter the urgent and serious attention it deserves

#2: Try to really understand what the underlying issues are that have allowed the problem to persist in the first place

Panel Discussion



Shivesh Jha
Chief Investment Officer



James Pitcher
Manager
FS Club



Andy Agathangelou
Founder





Questions, Comments & Answers(?)





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Forthcoming Events...



Hybrid-cloud Technology For Financial Services

Tim Hooley, Chief Technologist, Red Hat



📅 Wednesday, 18 September 2019 18:00

📍 Butchers' Hall ,The Worshipful Company of Butchers,
Butchers' Hall ,87 Bartholomew Close, London



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Victory Or Death - A Book Launch And Presentation At the Guildhall Library

Patrick L. Young, Chairman, Revolution Market Capital
Professor Michael Mainelli, Executive Chairman, Z/Yen
Group Limited



📅 Monday, 30 September 2019 18:00

📍 Guildhall Library, Guildhall ,Gresham Street ,City Of London

MondoVisione Exchange Forum 2019 - Innovation & Transformation

📅 Tuesday, 01 October 2019 9:00

📍 Haberdashers' Hall ,18 West Smithfield ,City of London

