JUSTIN'S COMMENTARY

SEVEN VII IM
Investment Management

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

More Family Silver for Sale – don't privatise but unitise.

So it looks as though George Osborne is aiming to have a full clear out of government assets on such a scale that makes Mrs Thatcher's record privatisations look more like a local tombola - well not really. The FT reported that he is aiming to sell private assets worth around £32 billion this financial year, which would top the record set in 1991 when the Conservative government raised £11.8 billion, (approximately £20.5 billion in today's money).

Additionally as we saw earlier last week he has already signalled his intent to sell off the government's £32 billion stake in RBS by disposing of 5.4% of its stake at a loss - at 330p against an approximate purchase cost of 502p. He also intends to press ahead with the remaining sale of the holding in Royal Mail for an estimated £1.5 billion and to part privatise the Green Investment Bank.

The government also owns a whole raft of other companies which it could sell off such as Channel 4, the Met Office, the Royal Mint, NATS (the air traffic control operator) and Ordnance Survey (the national mapping agency), as well as significant number of buildings and acres of land especially under the auspices of the Ministry of Defence.

So what choices does the Chancellor have for realising value on this collection of now quite significant assets? It was said by Harold Macmillan once that Mrs Thatcher had sold off the family silver back in the 1980's when we had the huge flotations of many of the state owned utility companies. So what is left is hardly the silver tea set, but equally they are companies not on the scale of the electricity, water and telecom companies of that era.

Privatisations. That was the decade when we were told to "tell Sid" about buying British Gas shares and it was often dubbed as being the time of shareholder democracy. In fact that was an illusion. Although many millions applied, and usually got their shares, most sold out very quickly making a quick profit as they became stock market "stags". The reality was that few actually kept their shares and even fewer went on to build their own portfolios.

Of course the flotations of those assets went very well, which was hardly surprising as they were "priced to go" (that is to say at a discount) so they were bound to be popular, and of course they were heavily advertised and promoted - something which is unique to the government as advertising flotations and shares is banned in the real world.

Again we need to separate the truth from the blurred historical memory of those events. The privatisations may have been popular for punters, but the reality was that they were very expensive to operate, with the then paper-based share certificates were a logistical and settlement nightmare, and the companies whose shares were being sold ended up with hundreds of thousands of shareholders, all of which have to be communicated to quite regularly throughout the year, which proved a costly structure just to provide reports and accounts, most of which were directed almost immediately into the bin.

Institutional placings and sales. This can be quite a quick and effective method of floating a company without all the cost associated with a public float. However this precludes any direct involvement by the private investor in the primary market. We have seen this done recently with the modest 5% government holding in RBS, and it is a very cost effective way of testing the market to see if there was a real appetite for the stock.

The Blend. Then of course you could both a placing and a retail offering which would probably be fair, but still quite expensive in handling small lots of shares.

Time then for some imagination rather than falling back on the old ideas of the 1980's. Sadly the Investment Bankers will be promoting these routes as of course this is the most effective way of getting their extremely generous fees. As we saw with Royal Mail, the institutional advice to the Treasury seemed somewhat naive and showed their lack of experience.

So let's try another way.

Why don't we take all these orphan assets and transfer them into a single fund - a **UK Sovereign Wealth fund** (UKSW fund) if you like. This could be a form of UK Assets Unit Trust which could then be sold to the public and institutions as a broad portfolio of UK assets which would be much more appealing and responsible for private investors as they would be given a range of assets and not just a bet on a single stock.

This way the government gets its money in one far more cost effective lump sum, the private investors get a better investment package, and the companies aren't lumbered with hundreds of thousands of shareholders, but rather with one - at least to start with.

In due course the UK SW fund could then spin out the companies as and when it is appropriate for them and not under the wishes of any politician, who as we know from experience are not very reliable at making such decisions (you may recall Mr Brown's Gold sale fiasco in 1999 at $282.4 an ounce was one such moment).

This is a far more responsible route for the Treasury to take and of course far cheaper to operate and with much less bureaucracy for handling the multiple floats.

I think that this is a very exciting alternative as we could then develop the sovereign wealth fund as a national investment fund which could grow and develop long term assets and investments for the country just as we see with the very successful Canadian, Norwegian and Singapore (Temasek) sovereign funds. You could even stream a very small proportion of our dwindling North Sea income into the fund for future investment.

We often hear of a shortage of investment vehicles for British business so maybe here is one alternative that provides one such solution for our economy.

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And finally…a couple of wild life stories which I think show that animals can fight back even in the face of illegal shooting. Firstly there is news of some revenge for the shooting of Cecil in Zimbabwe. It has been reported that an East Texas man was wounded after he fired a gun at an armadillo in his yard and the bullet ricocheted back to hit him in his face.

Cass County Sheriff Larry Rowe said the man went outside his home in Marietta, southwest of Texarkana, at around 3 a.m. on Thursday morning. He spotted the armadillo on his property and opened fire. "His wife was in the house. He went outside and took his .38 revolver and shot three times at the armadillo," Rowe said.

The animal's hard shell deflected at least one of three bullets, which then struck the man's jaw, he said. The man was airlifted to a nearby hospital, where his jaw was wired shut, according to Rowe.

The status of the animal is unknown. Chuckling I hope.

Secondly a wild turkey is ruffling feathers at the University of Michigan, where it has been accused of chasing pedestrians and cyclists, sneaking into dorms and even causing traffic delays by lying down in the middle of streets.

The turkey, which stands as tall as a person's chest, has been living on the Ann Arbor school's North Campus for months, and is now the target of a bird hunt because of its aggressive behaviour, a campus official said. "The challenge with turkeys is they can become very angry and aggressive," said University of Michigan police spokeswoman Diane Brown.

With Thanksgiving not too far away, I would leg it if I were him.

Have a good week.

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