Making it easier to buy and sell our shares

ETHICAL PROPERTY WANTS YOUR VIEWS!

All companies that are not listed on the stock exchange find it difficult to make a market in their shares. This is often referred to as having 'poor liquidity'. The Directors do not think that listing on the stock exchange is right for the Company just now as we would be in danger of losing our values and our independence. But we have been working hard on making it easier for you to buy and sell our shares and we think we have a simple solution.

We plan to bring this new liquidity scheme forward for shareholders to vote on at our EGM in Bristol on November 19th. But first we wanted to get your views.

So if you have opinions or questions on what we are proposing, please do get in touch as soon as you can by undertaking our survey, which you can find on our website at www.ethicalproperty.co.uk/consult or by emailing invest@ethicalproperty.co.uk

Why is liquidity important?

Clearly it's important that our shareholders get a fair price for their shares and can buy and sell them easily. But poor liquidity can also put people off buying shares in the first place. And some people may want to buy shares between share offers and not be able to. So we see a lack of liquidity as a significant barrier to the growth of our business. It is then worthwhile for the Company to invest some time and money into resolving the issue.

More frequent share offers

It is relatively easy to buy Ethical Property shares when we launch a new share offer, but in the past these have been infrequent. We are now aiming to run a share offer every year, with the support of Triodos Bank and Ethex. This will give everyone a more regular opportunity to buy shares, and will make people more aware of what the Company does and how to invest.

It will also help clarify what the price of our shares should be, as we expect to be valuing them once a year. Currently, our shares trade at a very large discount to their net asset value, and we are aiming to reduce this discount to a more sensible level through regular share offers.

How does buying and selling shares work at the moment?

Between share offers, you can place bids to buy or sell shares on Ethex. This is called a 'matched bargain market', as willing buyers are matched with willing sellers at the price they agree between them. Ethex doesn't actually make a market in our shares, it just provides a way for buyers and sellers to connect, and then administers the process. Legally, this is all they are allowed to do.

Ethex has been doing a great job, all on a not-for-profit basis, but this system does not work as well as we might hope. The price you should be getting or paying is not very clear, you might have to undertake multiple transactions at different prices to acquire or dispose of the shares you want, and the whole process can take a long time.

How will the new system work?

Our solution is to use some of the funds we raise from our share offer to create a 'liquidity pool'. The Company will then use this money to buy back shares at a fixed price, determined by the company. This is in addition to any further bids other people might place on Ethex.

Having bought the shares back, the Company will then hold the shares and sell them on to a new buyer, rather than cancelling them. This will mean that the same money can be used to buy back shares more than once.

We will also spread the liquidity pool out across the year, with a fixed amount available each month, so that there are always some funds available. Any unused funds, unsold shares or unfulfilled purchases would be carried forward to the next month.

And then at the end of each year, we will report back to the shareholders at the AGM on how the scheme has fared and adjust it accordingly.

What will the share price be?

The share price that the Company would buy and sell at would be the price shares were valued at for the last share offer. Assuming we manage to run a share offer every year this price would change once a year.

How much money will be in the pool?

We have looked back across our 21 year history to see how many of our shares have been bought and sold each year. For the last five years, this has ranged between 200,000 to 400,000, with untraded shares carried forward to the next year. So assuming we have enough funds available, we plan to dedicate £50,000 a month, or a total of £600,000 a year, to help people to buy and sell any shares on Ethex. If the Company is able to sell shares it has bought to a new investor, this will increase the size of the pool. The Company will also have the flexibility to increase or decrease this amount, if it chooses to do so.

Can anyone participate?

We want investment in the Company to be open to all, and we think improving liquidity will encourage more people to get involved. But on the other hand we don't want to encourage people to speculate - in other words to buy and sell our shares in order to make a quick profit - as we are more interested in long term, patient investors.

For this reason, we plan to only make the scheme available to investors who hold their shares for three years. This does not prevent these shareholders from selling their shares on Ethex. It just means that the Company will not buy them back as part of the scheme. And furthermore, the three year restriction will not be retrospective, so it will not affect current shareholders, only those buying shares from 2020 onwards.

What if more people want to buy or sell than there are shares available?

If at the end of each month there are bids to buy or sell that are more than the Company and the other buyers and sellers on the market can accommodate, then these will be carried forward to the next month. But we still need to decide which sellers and buyers the Company scheme will prioritise each month. Our proposal is to give preference to the smallest shareholdings, so that the largest number of people will be able to trade. And if the shareholdings are the same size, the one that registered with Ethex to buy or sell first would take priority.

How will this new scheme help large shareholders?

Given that the amount available in the scheme in any one month may only be £50,000, and that smaller shareholders will be given preferential treatment, it may take larger shareholders longer to sell. However, the total amount available to buy back shares by the year end could be as much as £600,000.

Also, large shareholders will still be able to sell part of their holdings each month so long as the number of shares they ask to sell is within the monthly limit once the smaller shareholdings are taken into account. To assist with this, past trading information will be published on Ethex.

Furthermore, if the scheme works well we plan to expand the amount available each month, so that the scheme can better deal with larger shareholders in future years. And if most of the shares bought back can be resold by the year end, we will be able to grow the size of the scheme each time we do a share offer, as the previous year's pool will still be available.

How will I know how well the Company is performing?

Currently, the information on the Company available on Ethex is limited to the last annual report. Undertaking regular share offers will mean that there will also be a share offer document available each year. And on top of that, we plan to provide short updates on the Company's performance, once every 3 months.

Will there be any other benefits?

As part of this process, we will be transferring management of our official share register from Link to Ethex, who are working in partnership with Avenir Registrars. This should mean that Ethex can complete trades more quickly once terms between buyer and seller are agreed. The new register service is explained in full in a separate leaflet titled 'Our new share register service'.

When will the system start?

If the scheme is approved at the EGM, we are aiming to launch it at the time of the launch of our next share offer, which is planned for April 2020. Or we may launch a trial in January 2020 for the 3 months until the end of March to see how well it works.

Have you sought legal and taxation advice?

We are being advised on the corporate law aspects of the scheme by Hogan Lovells, who are generously undertaking the work on a pro bono basis.

We have not yet sought taxation advice, and we are not in a position to give tax advice ourselves, so it is important that you do not rely on anything said here when considering your tax affairs. But in brief, it appears that any gain a shareholder makes on a buy back is by default treated as dividend income and is taxed accordingly. However, it can with HMRC's permission be treated as a capital distribution, and so be subject to Capital Gains Tax rather than dividend tax. This is on condition that you have held your shares for at least five years and are selling at least 25% of your stake. There is the possibility of getting HRMC's advance clearance for this treatment, which we are exploring, as we imagine that most investors would rather that any uplift they receive on a sale of our shares would be taxed as a capital gain rather than dividend income.

What will happen at the EGM?

At the EGM, we will be asking you to pass the resolutions needed to implement the scheme. The most important of these will be the buyback contract, which will name all of our shareholders as being eligible for the scheme. In order to allow all shareholders to participate, approval will be sought for two buyback contracts. Shareholders named in the first contract will be asked to approve the second contract and vice versa. Both contracts will need to be voted through for either of them to apply.

An imaginary example - The scheme in action

Imagine that it is now 1st September 2022, and that for the most recent share offer, shares were issued at £2.00.

During September one buyer and four sellers come on the market:

- Paul recently heard about the company and wants to buy 20,000 shares.
- Anne has only been a shareholder for two years but wants to sell her 10,000 shares as her circumstances have changed.
- Jane wants to sell 20,000 shares, Mark wants to sell 1,000 shares, and Lisa 50,000.

So in total there are 20,000 shares that people are looking to buy and 81,000 they are looking to sell.

Anne is not eligible for the Company liquidity scheme as she has only owned her shares for two years. So instead she places her bid directly on Ethex herself. She chooses a price of £1.95, as she wants to sell quickly. Paul visits Ethex and sees that the Company is selling shares for £2.00, but Anne is selling at £1.95. So he buys Anne's 10,000 shares, and enters an offer to buy a further 10,000 shares into the liquidity scheme. All the other sellers apply to sell their shares in the liquidity scheme, meaning that by the end of September matching day there are a total of 71,000 shares for sale.

On the previous matching day at of the end of August, all shares previously offered for sale were bought back, and as a result the Company now holds 20,000 of its own shares. In addition, the Company has £10,000 that was not used up in the buyback and which is carried forward to the next month. This means that £60,000 is available in September, enough to buy back 30,000 shares at £2,00, as well as the Company holding 20,000 of its own shares that are available for sale.

The 30th of September is Company matching day, and Ethex carries out the trades according to the rules approved by the shareholders at the AGM. First, the Company sells 10,000 of its 20,000 shares to Paul at £2.00. This generates a further £20,000 for the monthly pool, giving the Company enough to buy back 40,000 shares at £2.00. However, there are 71,000 shares to buy back in total, so the Company buys back Mark and Jane's shares as they are the smallest shareholdings, and only 19,000 of the 50,000 shares held by Lisa. Lisa's remaining 31,000 shares are carried forward to the next month.

Take the survey

We are really keen to get your view on this scheme, and to answer any questions you might have in advance of the EGM.

So please do get in touch by undertaking our survey, which you can find on our website at

www.ethicalproperty.co.uk/consult

or by emailing

invest@ethicalproperty.co.uk

And finally...

Thank you for your continued support for The Ethical Property Company and for making it possible for us to do what we do. We are working hard to continue to improve our service, and welcome your feedback at any time.

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