Investors' Chronicle

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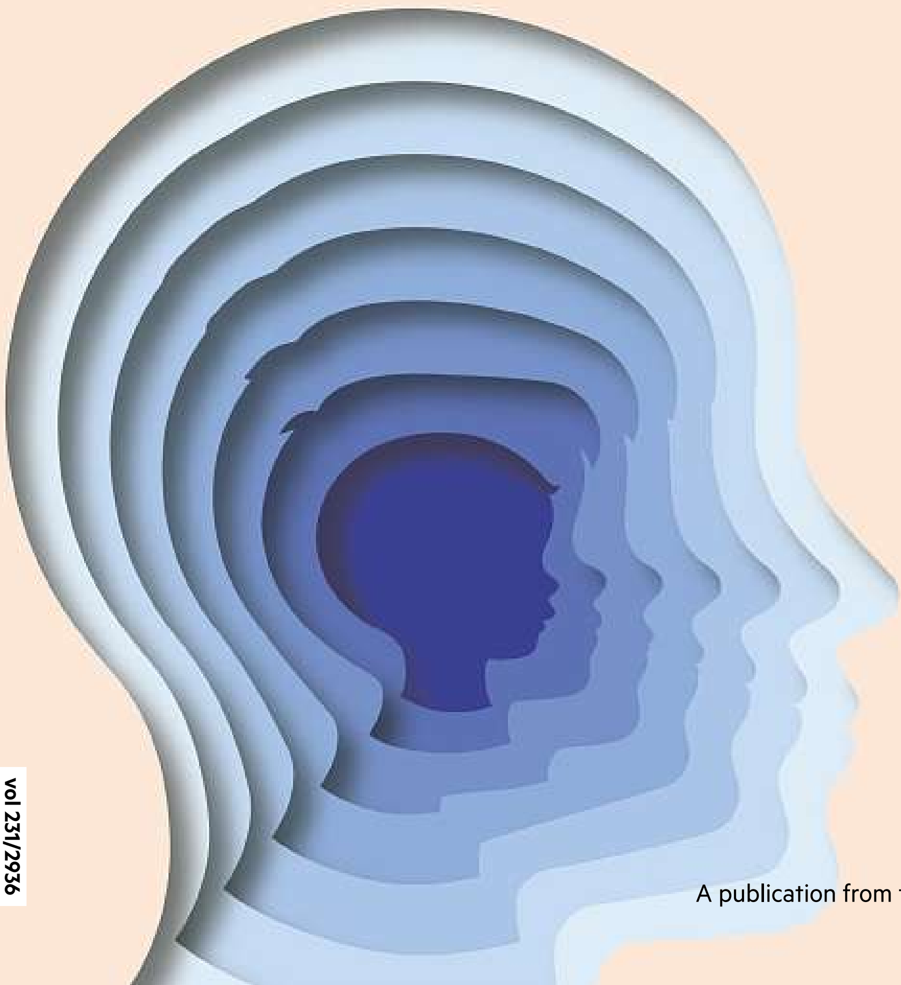

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Ducking the debt issue

The resignation of French prime minister Michel Barnier after only three months in office exposes a truth about the western world's attitude to its high debt problem. We know we need to shift this weight, but the sacrifices required mean it's preferable to park the problem for another day or wait for better economic times to make it go away.

Some people are nonchalant about high and rising levels of national debt, to the point of arguing that the case for reducing borrowing is flawed and nonsensical and, furthermore, that the UK could safely borrow many more billions. But most support the view that a debt-to-GDP ratio of 100 per cent-plus is undesirable, potentially reckless, and that it is so because it is expensive to service (UK debt interest currently accounts for about 7.3 per cent of government spending), carries risks to financial stability and limits our options in the event of a new crisis. Much better for governments to balance the budget, relying only on revenues to cover day-to-day spending. For this financial year, the Office for Budget Responsibility is expecting a deficit of £127.5bn and for debt to reach 98.4 per cent of GDP (£2.8tn in cash terms). According to IMF forecasts, the UK's debt ratio will be five percentage points above the G7 average in 2029.

While a ratio of around 60 per cent is considered ideal, the natural inclination of governments is to let the problem drift rather than spend their time in office taking the debt bull by the horns. To do the latter would risk provoking public anger at worsening public services, a higher retirement age and rising tax rates. It is always easier for politicians to give in and agree to less painful courses of action.

But because eye-watering interest bills force governments to make difficult decisions about their pet projects, or to ditch investments that could aid productivity growth, and because bond markets are sensitive to borrowing levels, lip service must be paid. So fiscal rules are rolled out, usually with a good degree of flexibility, and promises are made that cost savings will be delivered and waste ended. Chancellor Rachel Reeves has launched a drive to reduce departmental spending by 5 per cent to help cut unnecessary public spending, although the government is at the same time agreeing steep public sector pay rises and the expansion of that workforce.

In the US, where the debt-to-GDP ratio is 122 per cent, president-elect Donald Trump has appointed Elon Musk and Vivek Ramaswamy to find ways of drastically cutting federal government spending and headcount, although it is not clear that his plan to hack one-third off government spending could ever be implemented.

France's debt ratio is approaching 112 per cent, but outgoing prime minister Barnier's well-intentioned attempts to reduce the country's budget deficit by a single percentage point from 6 to 5 per cent ended with his toppling. The cost of his austerity plan – €60bn of tax hikes and cuts to spending – was too much. France will survive this crisis, and the debt issue can be kicked down the road again, although as Holger Schmieding at Berenberg notes: "The reluctance to return to a sustainable fiscal policy now means the correction will have to be even starker at some time in the future."

That's the reason the country's economic affairs committee has been urging the government to get debt on a downward path and to build a much larger fiscal buffer to weather future economic shocks. Its September report concludes that difficult decisions "can no longer be avoided". That may be true, but it seems a slow and steady battle is the best we can hope for. ●

ROSIE CARR EDITOR
rosie.carr@ft.com

MY TOP PICKS

Next week's issue

The next issue of Investors' Chronicle, dated 20 December, is our bumper double edition, focusing on investment opportunities in 2025

Lee and The IC

Did you know you can listen to *Investors' Chronicle* audio content online, including our monthly podcast with Isa millionaire and noted UK retail investor Lord John Lee of Trafford?

This month in *Lee & The IC* we sit down with the chief executive of one of John's newest holdings: James Gundy of shipping services company Braemar. In the episode, we discuss ship-broking, Braemar's outlook, steep valuation discount, and navigation of some complicated geopolitical waters, as well as the latest moves in John's portfolio.

You can listen to the podcast for free on the IC website, Spotify, Apple, YouTube or Acast.

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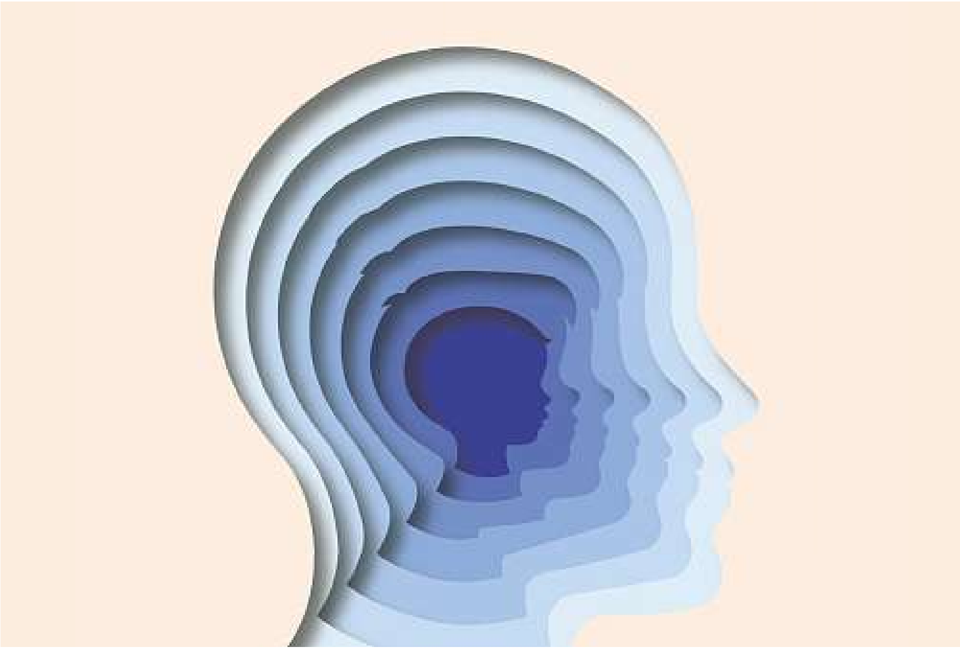

Cover illustration: Zhenqing Du

'With all of Tavistock's retained businesses profitable, and contingent earnouts from disposals made in the past few years potentially worth as much as the company's current market capitalisation, a narrowing of the 60 per cent discount to my SOTP valuation of £56mn (10p) is warranted'

SIMON THOMPSON, P46

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Customer Services	01858 438 808
Customer Services e-mail	investorschronicle@subscription.co.uk
Switchboard	020 7873 3000
E-mail	firstname.surname@ft.com

www.investorschronicle.co.uk

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FTSE 100 - PRICE LAST 30 DAYS

S&P 500 - PRICE LAST 30 DAYS

UK STOCK MARKET

Index	Price	1-week change	3-month change	1-year change	52-week high	52-week low	PE	Dividend yield (%)
FTSE 100	8,280.4	-0.9	0.9	9.6	8,474.4	7,404.1	13.8	3.6
FTSE 250	20,973.9	0.4	1.5	12.1	21,786.2	18,459.7	14.1	3.2
FTSE All-Share	4,528.6	-0.7	1.0	10.0	4,607.5	4,049.5	13.9	3.6
FTSE Small Cap	6,925.5	0.6	1.3	13.7	7,012.1	6,070.2	19.9	4.2
FTSE Fledgling	11,310.8	2.0	-2.5	7.4	12,250.5	10,442.6	na	2.8
FTSE Aim 100	3,601.1	0.5	0.9	3.6	3,949.6	3,441.6	17.6	2.3
FTSE Aim All-Share	737.6	0.3	-0.8	2.0	812.3	715.4	31.2	2.1

MAJOR DEVELOPED MARKETS

Index	Price	1-week change	3-month change	1-year change	52-week high	52-week low	PE	Dividend yield (%)
S&P 500	6,034.9	-0.2	9.8	31.1	6,100.0	4,565.2	28.0	1.2
DJ Industrial Average	44,247.8	-1.0	8.6	22.1	45,073.6	36,022.0	22.9	1.4
Nasdaq Composite Index	19,687.2	1.1	15.6	36.7	19,887.1	14,220.9	33.2	0.6
Euronext 100	1,462.4	1.0	1.1	5.3	1,560.4	1,360.6	13.9	3.4
France CAC 40	7,394.8	1.9	-0.2	-1.8	8,259.2	7,029.9	16.4	3.0
Germany DAX (TR)	20,329.2	1.6	11.3	21.3	20,461.9	16,345.0	16.0	2.5
Japan Nikkei 225	39,367.6	0.3	8.9	21.9	42,426.8	31,156.1	21.5	1.7
Hang Seng Index	20,311.3	2.9	17.9	24.3	23,241.7	14,794.2	11.1	3.1
ASX All Ordinaries	8,650.0	-1.2	5.3	16.8	8,771.3	7,355.4	20.0	3.1

KEY EMERGING MARKETS

Index	Price	1-week change	3-month change	1-year change	52-week high	52-week low	PE	Dividend yield (%)
China Shenzhen SE/CSI 300 Index	3,995.6	1.1	25.0	17.5	4,450.4	3,108.4	na	na
Nifty 50	24,610.1	0.6	-1.7	17.4	26,277.4	20,769.5	na	na
Russia RTS	794.5	5.5	-14.0	-24.6	1,220.2	723.2	na	na
Brazil Bovespa Index	128,228.5	1.7	-4.5	0.9	137,469.3	118,685.1	7.5	4.6
FTSE South Africa	4,557.2	2.2	6.8	19.9	4,599.3	3,688.2	na	3.1
Thailand SET	1,447.5	0.7	1.1	4.8	1,506.8	1,273.2	15.5	3.2

CRUDE OIL BRENT CRUDE SPOT

GOLD NYMEX NEAR TERM

UK GOVERNMENT YIELD - 10-YEAR

RISERS AND FALLERS – FTSE ALL-SHARE

Source: FactSet, data correct at 10 December 2024

Risers 1 week	Price (p)	Return (%)
Digital 9 Infrastructure	18.2	23.8
Watches of Switzerland	562.0	15.6
Raspberry PI	420.4	15.4
Close Brothers	238.0	14.3
Treatt	490.0	14.0
John Wood	66.3	13.3
Card Factory	103.0	12.8
Wizz Air	1413.0	12.4
Ferrexpo	109.0	11.5
On The Beach	229.5	11.4

Risers 3 months	Price (p)	Return (%)
Ferrexpo	109.0	178.1
Carnival	1858.5	70.4
Burberry	964.0	68.8
On The Beach	229.5	57.4
Trustpilot	299.0	54.9
Auction Technology	570.0	52.8
Watches of Switzerland	562.0	51.8
Baillie Gifford US Growth Trust	284.0	49.8
Diversified Energy Company	1219.0	47.0
Int'l Consolidated Airlines	282.0	46.5

Risers 1 year	Price (p)	Return (%)
Funding Circle	126.0	227.3
CMC Markets	274.5	182.4
Metro Bank	94.0	152.0
Hochschild Mining	227.0	143.4
Trustpilot	299.0	125.0
Greencore	211.5	117.0
Oxford BioMedica	429.5	116.5
Rolls-Royce	565.8	95.6
PensionBee	150.0	92.3
Just	161.2	88.5

Fallers 1 week	Price (p)	Return (%)
Frasers	632.0	-15.8
Ashtead	5392.0	-15.2
NCC	137.6	-13.0
Petra Diamonds	29.0	-12.9
Zigup	337.5	-11.9
Moonpig	228.5	-10.7
VH Global Energy Infra	61.4	-10.0
Funding Circle	126.0	-8.4
Molten Ventures	302.5	-6.9
Me Group	210.5	-6.7

Fallers 3 months	Price (p)	Return (%)
Secure Trust Bank	348.0	-58.2
Close Brothers	238.0	-55.6
Vistry	686.5	-49.8
John Wood	66.3	-44.9
Severfield	51.0	-36.6
Xaar	72.0	-34.5
CAB Payments	66.3	-33.8
Petrofac	10.5	-33.3
VPC Specialty Lending	30.0	-27.4
JD Sports Fashion	102.6	-27.0

Fallers 1 year	Price (p)	Return (%)
Close Brothers	238.0	-69.8
Vanquis Banking	47.8	-59.3
VPC Specialty Lending	30.0	-54.7
John Wood	66.3	-53.2
Aston Martin Lagonda	110.2	-52.4
Ocado	313.9	-50.0
Petrofac	10.5	-47.1
Secure Trust Bank	348.0	-46.3
Petra Diamonds	29.0	-44.3
Digital 9 Infrastructure	18.2	-43.5

RISERS AND FALLERS – S&P 500

Risers 1 week	Price (p)	Return (%)
Lululemon Athletica	397.1	16.6
Walgreens Boots Alliance	10.4	16.4
Tesla	401.0	14.1
Brown-Forman	45.2	9.2
Alphabet	185.2	8.1
VeriSign	200.5	6.7
ServiceNow	1127.8	6.7
Estee Lauder	82.6	6.6
Chipotle Mexican Grill	64.8	6.4
Adobe	547.1	6.0

Risers 3 months	Price (p)	Return (%)
Palantir Technologies	70.9	103.9
United Airlines	96.5	99.4
Vistra	141.5	86.0
Axon Enterprise	637.5	77.4
Tesla	401.0	77.3
Texas Pacific Land	1296.1	64.6
GE Vernova	327.4	62.1
Lululemon Athletica	397.1	60.7
Carnival	25.8	60.0
Royal Caribbean	245.7	55.2

Risers 1 year	Price (p)	Return (%)
Palantir Technologies	70.9	298.9
Vistra	141.5	282.9
Nvidia	135.1	184.3
Axon Enterprise	637.5	169.7
Texas Pacific Land	1296.1	151.5
United Airlines	96.5	135.6
Howmet Aerospace	114.1	114.2
Targa Resources	185.3	114.1
Constellation Energy	232.3	108.9
Royal Caribbean	245.7	103.9

Fallers 1 week	Price (p)	Return (%)
Texas Pacific Land	1296.1	-17.4
Synopsys	505.3	-11.4
Omnicom	92.5	-10.9
Intel	20.2	-10.3
Advanced Micro Devices	127.7	-10.0
Nucor	140.6	-9.3
Uber Technologies	65.0	-8.9
MarketAxess	240.1	-8.6
Arthur J. Gallagher & Co	283.7	-8.4
United Rentals	796.0	-8.4

Fallers 3 months	Price (p)	Return (%)
Moderna	41.5	-47.6
Celanese	69.7	-41.5
Qorvo	68.6	-34.4
Regeneron Pharma	778.5	-31.5
Monolithic Power Systems	595.3	-29.8
Enphase Energy	74.5	-28.8
Elevance Health	389.9	-28.4
Huntington Ingalls	191.0	-26.8
Teleflex	186.5	-24.4
Biogen	156.3	-22.1

Fallers 1 year	Price (p)	Return (%)
Walgreens Boots Alliance	10.4	-55.0
Intel	20.2	-52.8
Celanese	69.7	-50.7
Moderna	41.5	-48.3
Dollar Tree	72.8	-41.5
Humana	285.8	-40.7
Estee Lauder	82.6	-38.2
APA	22.3	-35.4
Dollar General	82.4	-35.2
Biogen	156.3	-34.7

Trust managers look to small-cap rebound in 2025

Investment trusts are feeling optimistic after a year in which some growth-focused sectors delivered soaring returns. Holly McKechnie reports

Racy bets on space and private equity saw the 'capital growth' investment trust sector live up to its name in 2024 after years of poor performance. AIC data shows the sector was the best performer in 2024, with an average 47 per cent return. The average investment company returned only 13 per cent. Capital growth's performance was boosted by the success of **Seraphim Space Investment Trust (SSIT)**, which was up 74 per cent, and **Petershill Partners (PHLL)**, which returned 71 per cent.

Private equity was the second-best-performing group, producing a return of 41 per cent. **3i Group (III)** was a star performer, returning 56 per cent. Coming in third for sector performance was leasing, gaining 30 per cent. The technology sector returned just under 30 per cent, and debt structured finance returned 20 per cent.

Given the rapid shift in dynamics in the US following the election result and continued pressure on company profits in Europe, fund managers are looking at different areas for growth next year. In an AIC survey, investment trust managers predicted that healthcare would be the top-performing sector in 2025. However, over a five-year period, IT and energy edged ahead as the best opportunities, winning the backing of 28 per cent and 20 per cent of managers, respectively.

In terms of asset classes, small-cap equities were voted as the most likely to outperform in 2025, receiving the backing of 32 per cent of the investment managers surveyed. Mid-cap equities received 28 per cent of votes and large-cap equities 12 per cent.

On a regional view, managers predicted that the US would be the strongest performer in 2025, contrasting with the previous three years when the UK was voted as the region most likely to outperform. Thomas Moore, fund manager of the **Abrdn Equity Income Trust (AEI)**, said: "Trump's victory should drive an acceleration in US economic growth as businesses respond positively to deregulation and the reduced cost of energy."

However, managers have not given up on the UK. "The path may be bumpy but the direction of travel for interest rates is at least relatively clear, with inflation now having fallen significantly from recent peaks.

Low inflation and lower rates are particularly helpful for consumer sentiment and the housing market in the UK," Richard Knight, co-portfolio manager of **Merchants Trust (MRCH)**, said.

Iain Pyle, portfolio manager of **Shires Income (SHRS)** took a similar view. "We're definitely past the worst, but it won't be a relaxing ride. Tariffs and higher taxes, for example, are inflationary, so expect interest rates to fall but at a modest pace."

Inflation is seen as the biggest threat in 2025 by investment trust managers, with 85 per cent believing UK inflation will stay higher than the target of 2 per cent set by the Bank of England (BoE).

Over half of respondents predict the base rate will settle between 3 and 4 per cent next year.

Frasers' war of words with Boohoo rumbles on

The board of **Boohoo (BOO)** has told shareholders that efforts to secure commitments from **Frasers (FRAS)** over how it might run the fast fashion retailer have been ignored or denied, adding that a 'protocol' put forward by founder Mike Ashley "does little more than state that [he] will comply with basic legal undertakings".

Frasers, Boohoo's biggest shareholder with a 29 per cent stake, has convened a 20 December meeting to have Ashley installed as its chief executive and for restructuring expert Mike Lennon to be appointed to its board. It has also called for the removal of Boohoo's co-founder, Mahmud Kamani.

Boohoo said Frasers, which has brands that compete with it and is also a significant shareholder in rival **Asos (ASC)**, has ignored a request to give undertakings that any transactions involving Boohoo and Frasers would be carried out at arm's length without Ashley's involvement. It also said Frasers declined a request to make a statement that it had no intention to bid for Boohoo or any of its assets.

Ashley wrote to shareholders over the weekend stating that avoiding a fire sale of assets at knockdown prices was "critical" to Boohoo's turnaround and pledged to engage in "greater transparency and shareholder consultation" than the current board.

He described Boohoo's accusations of conflicts of interest as "a weak and self-serving defence". **MF**

47%

Capital growth was the best performing investment trust sector in 2024, with an average 47 per cent return

BP puts offshore wind assets into new joint venture

BP (BP.) and Japanese wind specialist Jera have combined their offshore wind businesses to "accelerate development from the combined pipeline and bolster access to competitive financing". BP has also put its onshore US wind business up for sale, to "simplify the portfolio".

The joint venture will have a production capacity of 1 gigawatt (GW) and a pipeline of 7.5GW. "This will be a very strong vehicle to grow into an electrifying world while maintaining a capital-light model for shareholders," said BP chief executive Murray Auchincloss. Jefferies analyst Giacomo Romeo said the deal would cut BP's renewables capex between now and 2030 from $10bn (£7.8bn) to $4bn.

Energy majors have looked closely at their renewable projects in recent years as investors question how they will generate returns close to those from oil and gas assets. **Shell (SHEL)** said last week it would not "lead" new offshore wind developments but would remain "cautiously open" to investments. AH ●

Canal+ float clears shareholder hurdle

French media and telecoms group **Vivendi (FR:VIV)** will split after a plan to hive off three businesses passed a shareholder vote. One of the spin-offs, Canal+, will list in London next week. Vivendi's major shareholder Vincent Bolloré said Canal+ could be worth close to €7bn (£5.8bn) if listed separately.

The Bolloré holding company will hold over 30 per cent of each of the four entities, with Vivendi to remain listed in Paris. "We are convinced this new chapter for Canal+, Havas and Louis Hachette Group will be very promising and create value for all stakeholders," said Vivendi supervisory board chair Yannick Bolloré, son of Vincent.

Canal+ reported revenue of €6.2bn in 2023 and an operating profit of €426mn. While Europe provides around 75 per cent of revenue, the company is also active in French-speaking sub-Saharan Africa and owns video streaming platform Dailymotion. AH ●

Shell and Equinor combine North Sea assets

The consolidation of North Sea assets has continued, with two of the largest players merging their holdings to create a 140,000 barrels of oil equivalent per day (boepd) operator. **Shell (SHEL)** and **Equinor (NO:EQNR)** have created a new joint venture that will "allow continued economic recovery of this vital UK resource", Shell said. The deal follows Italian major Eni's sale of its UK holdings to **Ithaca Energy (ITH)** earlier this year.

The joint venture brings together two major development projects – Rosebank (80 per cent Equinor) and Jackdaw (100 per cent Shell) – which are currently the focus of a legal challenge after the government acknowledged their existing environmental permits would not conform to a new standard. A summer judgment set a new precedent that forces ministers to consider end-use, or scope 3, emissions when considering a project's environmental impact assessment. A judge will decide on whether the projects need new permits in January after a four-day hearing.

Shell brings the majority of the output to the joint venture, with its UK assets producing 100,000 boepd.

Equinor has production of 38,000 boepd in the North Sea. Output is expected to rise to 140,000 boepd next year. The Norwegian company is also the owner of significant wind power operations, but these are not part of the joint venture agreement.

RBC Capital Markets analyst Biraj Borkhataria noted that while Shell's contribution would be more production now, Equinor was bringing £6bn in tax losses and the Rosebank project.

"This combination appears to make strategic sense in that it allows the two companies to pool resources and continue to grow while allocating less focus/capital to the region and follows recent moves made by the likes of Eni in the country," he added.

The North Sea is a mature basin, meaning energy majors are more focused on regions where significant new oil and gas resources are still being uncovered, such as Namibia and Guyana. Shell and BP have also returned to deep-water development in the Gulf of Mexico.

The deal will take some time to get through the approvals process, with completion expected "by the end of 2025". AH ●

Shell and Equinor have merged their North Sea holdings to create a 140,000 boepd operator

UK retail stocks dreaming of a bright Christmas

Shoppers have more disposable income and appear willing to spend it. Michael Fahy reports

Retailers are still expecting Christmas cheer this year despite weaker November sales, which were viewed more as a timing issue than a precursor to a slump.

Although sales for November were down 3.3 per cent on last year, this was attributed "to the movement of Black Friday into the December figures this year", Helen Dickinson, chief executive of the British Retail Consortium said earlier this month. An Arctic blast and flooding caused by Storm Bert at the end of the month also weighed on footfall.

Yet accountancy firm PwC expects spending on gifts and celebrations to grow 5 per cent this year to £22.7bn (£433 per person) – an improvement on the past two years that would surpass the post-pandemic peak set in Christmas 2021.

Customers have more disposable income as wage growth remains decent at around 5-6 per cent and employment is "still holding up quite strongly", according to PwC's UK head of consumer markets, Lisa Hooker. The most recent Asda CEBR income tracker puts family spending power 10.6 per cent higher year on year, at around £247 a week.

Although inflation looks set to remain above target for the rest of the year, it will remain below the rate of earnings growth, meaning families should continue to enjoy more disposable income, CEBR's forecast said.

Given this, food sales from grocers such as **Tesco (TSCO)**, **J Sainsbury (SBRY)** and **Marks & Spencer (MKS)** should fare well in the coming weeks. Grocers' sales rose 2.5 per cent in November, with shoppers focused on premium lines, according to data provider Kantar. "Spending on premium own-label products reached 5 per cent over the last four weeks and we expect it to climb even higher in December to nearly 7 per cent," said Kantar's head of retail and consumer insights, Fraser McKevitt.

PwC expects spending on gifts and celebrations to grow 5% this year

Stocking up

Although grocery sales aren't expected to peak until 23 December, "there are clear signs shoppers are already stocking up their cupboards", McKevitt added, with sales of both sweet and savoury biscuits doubling last month.

The trading up to premium brands is one of several tailwinds benefiting the grocers, although this is partly because people are spending more at home and eating out less, Shore Capital analyst Clive Black said in a recent note. Other tailwinds include an increasing population, which supports volume growth, and an expectation that food inflation will remain "manageable".

In terms of market share, the listed players are holding on to recent gains, with Tesco's sales up 5.2 per cent in the 12 weeks to 1 December, according to Kantar. Sainsbury's sales were up 4.7 per cent to £5.6bn and both recorded market share gains at the expense of unlisted competitors such as Asda, Morrisons and Co-op. Tesco remains the dominant player with a 28.1 per cent share, with Sainsbury's a clear second at 15.9 per cent.

£22.7BN

PWC EXPECTS SPENDING ON GIFTS AND CELEBRATIONS TO GROW 5 PER CENT THIS YEAR TO £22.7BN

Kantar doesn't count M&S among the grocers given its higher proportion of clothes and general merchandising sales, but still tracks its food sales, which grew by 10.6 per cent in the 12 weeks to 1 December. Chief executive Stuart Machin told investors at a capital markets day last month that its share of the food market has grown in over each of the past four years to 4 per cent of the market (excluding its joint venture with Ocado), up from 3.3 per cent in 2020.

Across the sector, non-food sales have been in steady decline since September 2023, but PwC expects categories such as fashion and electricals to bring in greater sales this year. The Christmas party season in recent years has been disrupted by train strikes and pandemics and with 2024 looking more normal, there will be pent-up demand to refresh wardrobes, Hooker said.

Similarly, electricals are expected to fare better after a few years when demand has been subdued because so many people bought devices in 2020 at the height of the pandemic. Many of these will be due for replacement, and there are "a few more tech releases than there have been" in recent years when supply chain strains led to parts shortages, said PwC's senior retail leader, Kien Tan.

Categories where demand is more subdued include spending on pets, kids' clothing and toys, Hooker added.

More than half (55 per cent) of gift spending will be online, with a further 10 per cent through click and collect and the remainder bought in shops. This is a slight reversal from recent years, where many people favoured in-store purchases because they "wanted to be a bit more careful with how they spend", Tan said. "When people go into stores... [they're] less tempted to trade up," he added.

Experian (EXPN) said early last month that online spending had risen 4 per cent this year, while in-store sales had fallen 2 per cent. If this trend continues during the so-called 'golden quarter' between November and January, UK retail sales are likely to be £1.1bn higher than last year, it added.

A new dawn for Metro Bank?

The lender has big plans after selling £2.5bn of mortgages to NatWest. Jemma Slingo reports

Metro Bank (MTRO) burst onto the scene in 2010, complete with colourful logo, generous opening hours and free dog biscuits. It was the first high-street bank to enter the UK market in over a century, and prioritised in-person customer service at a time when rivals were shutting branches.

Since its IPO in 2016, however – when it fetched a £1.6bn valuation – shareholders have not enjoyed a quality service. Instead they have witnessed a series of regulatory blunders. Last month, the company was fined £16.7mn by the financial watchdog for failing to adequately check transactions for money laundering.

Other mistakes have been more damaging. In 2019, Metro Bank materially misreported the risk in its commercial loan book, which resulted in a capital raise, various fines and the resignations of both the chair and chief executive.

An even bigger crisis arrived last year, when it found itself in urgent need of cash again. This time, it wasn't the result of an accounting error: Metro Bank had been trying to convince the regulator to lower the capital requirements attached to its mortgage business. In essence, it wanted to play by the same rules as the UK's biggest lenders and use internal measures to calculate risk, rather than standardised benchmarks. This would have freed up money that could be funnelled into loans, which would help drive up profits.

In September 2023, however, the Prudential Regulation Authority (PRA) said more work was needed and warned there was "no certainty" that approval would ultimately be obtained. Ratings agency Fitch put the company on negative watch as a result and the bank's market capitalisation went as low as £60mn. The shares have since rebounded, and management has published a fresh set of growth ambitions. Now seems a good time, therefore, to consider whether the FTSE 250 lender is a credible investment option.

£16.7MN

LAST MONTH, METRO BANK WAS FINED £16.7MN FOR FAILING TO CHECK TRANSACTIONS FOR MONEY LAUNDERING

Ambitious growth plans

So how did Metro Bank climb out of last year's financial hole? The PRA's announcement was followed by a scramble for cash. A £925mn refinancing package emerged, consisting of a £325mn capital raise and £600mn in debt refinancing. Colombian billionaire Jaime Gilinski Bacal put in £102mn of the new equity via his investment vehicle Spaldy Investments. Gilinski's stake has ballooned from 9 to 53 per cent as a result and he now has a seat on the board.

This was followed by the sale of £2.5bn of prime residential mortgages to **NatWest (NWG)** this summer for a cash consideration of £2.3bn.

This disposal prompted Metro Bank to aggressively increase its forecasts, and it now expects return on tangible equity to improve, costs to fall and net interest margin (NIM) to widen rapidly. Analysts are also enthusiastic about the mortgage sale, with Peel Hunt describing it as a "significant catalyst for transformational change".

The cash unlocked by the deal will allow Metro Bank to repay the bulk of its catchily named TFSME facility. The 'Term Funding Scheme with Additional Incentives for SMEs' was introduced by the Bank of England in March 2020 amid ultra-low interest rates and economic uncertainty. It provided cheap funding to banks to encourage them to keep lending to small and medium-sized businesses during the pandemic.

Interest rates are now a lot higher, however, and Metro Bank faced TFSME expenses of over £160mn last year, triple the previous year's figure. Repaying the bulk of the funding, therefore, will provide an immediate uplift to NIM.

The NatWest deal feeds into a wider strategy too. Metro Bank wants to ditch "vanilla" residential mortgages, as they are dubbed by Barclays analysts, in favour of higher-yielding commercial loans. It wants 70 per cent of its loans to be commercial by early 2029, compared with 27 per cent at the half-year mark.

The disposal of the mortgage book should accelerate this plan and drive up margins, as the average mortgage rate in the sold portfolio was significantly below current UK base rates.

"A protracted period of painstakingly recycling its scarce capital resource out of low-margin mortgages into higher-returning assets has been replaced by an accelerated timeframe," said Peel Hunt.

After years of losses, the group banked an underlying profit in October and reasserted its NIM guidance of 2.5 per cent for 2024.

Reasonable doubts

There is still a big question mark over how achievable Metro Bank's plans actually are. The company wants total lending to grow at a compound annual rate of 8–11 per cent over the coming years. This implies 20–30 per cent commercial loan growth each year to offset the run-down of the mortgage and consumer portfolios.

Barclays described this as "challenging" and forecasts total lending growth of 4 per cent a year instead.

Then there is the issue of costs. Running branches is expensive and the group has already had to slash its workforce and abandon its policy of operating seven days a week.

The company said it is on track to deliver £80mn of savings on an annualised run rate by December, and wants its cost-to-income ratio to fall to 50 per cent by 2028. Whether it can achieve this is far from certain – and it risks compromising its core appeal in the process. Meanwhile, deposit costs remain elevated after the bank had to entice savers with higher rates last autumn, in the wake of the PRA scare.

Ultimately, it all comes back to credibility. Metro Bank's track record is chequered at best, and its targets are speculative. Barclays remains underweight on the shares, saying there is "meaningful execution risk for outer years". Peel Hunt agrees, concluding that having "a decent plan is no guarantee that it will be realised".

While the investment case is moving in the right direction, therefore, Metro Bank has a lot to prove – and shareholders, regulators and customers will be paying close attention. ●

Healthcare trust u-turns on 'disappointing' exit plan

Bellevue Healthcare is shrinking fast but even better performing UK trusts have fallen behind a surging biotech sector. Val Cipriani reports

A biotech bounce-back has pushed up share prices in the sector, but the UK trust options have barely captured those gains. Even the better performers are up 11-12 per cent this year, while their top holdings have recorded 30-100 per cent share price gains. The most precarious trust is **Bellevue Healthcare (BBH)**, which is looking for a long-term rebound strategy after shareholders fought back against plans to scrap its annual exit option for investors.

Locking in shareholders would have gone against the grain, as over the past two years investment trusts have generally tried to combat discounts by offering investors better exit opportunities, for example through buybacks and tender offers.

Bellevue offers investors the option to redeem up to their entire capital every year near net asset value (NAV) level. The trust has been significantly underperforming its benchmark – in the five years to 9 December it returned 18.3 per cent, against the MSCI World Health Care index's 51.2 per cent – and is trading at a discount to NAV of 8.5 per cent.

This has made Bellevue's annual redemption facility attractive. When this year's option opened on 22 November, 36 per cent of the shares in issue were redeemed. This added to the 14 per cent redeemed last year. As at April 2023, the trust had close to £1bn in net assets; this has shrunk to £400mn, according to the Association of Investment Companies.

Bellevue's board proposed replacing the yearly exit option with an annual tender offer for up to 10 per cent of share capital, which would kick in if the fund underperformed the MSCI World Health Care index starting from 2028, and a continuation vote in 2030. They argued the current system "allowed certain investors to buy into the company at a discount, knowing they can, each year, redeem at close to the prevailing NAV", making it "incompatible" with the interests of long-term focused shareholders.

Numis analysts Ewan Lovett-Turner and Gavin Trodd said they were unsurprised that shareholders were "unimpressed" by the proposals, which they deemed "disappointing" because the timeline was too long and the redemption option on offer too small. "If it underperforms over the three years to December 2027, likely implying about six or seven years of underperformance, it would be right that the company would be facing existential questions, rather than a potential 10 per cent exit," they argued.

"It is an embarrassing u-turn for the board and clearly demonstrates a failing in its shareholder consultation process," they added.

However, some have argued that an annual redemption option is too frequent. James Carthew, head of investment companies at QuotedData, said: "My problem with [annual redemptions] is that they act as 'cash machines' for anyone looking to reduce their exposure to healthcare or even equities in general."

"They can see an entire trust disappear if they coincide with a bit of bad news or market uncertainty, and they encourage short-term thinking," he added.

Tender offers have become more popular among trusts in the past two years, with a total of 20 trusts now having some form of performance-triggered tender, according to Numis data. Trusts that have proposed or introduced one recently include **Baillie Gifford European Growth (BGEU)** and **Baillie Gifford China Growth (BGCG)**.

Performance gap

Mick Gilligan, head of managed portfolio services at Killik & Co, argued that the outlook for healthcare looks very strong, citing long-term trends such as long waiting lists for elective procedures in the Western world and growing demand from expanding middle classes in emerging markets, on top of all the innovation and new product launches.

"The S&P 500 Healthcare sector often trades at a PE premium to the S&P 500 but currently trades at a discount," he added. "There appears to be some uncertainty ahead of the new US administration but we have seen this type of political related weakness several times in the past and expect the strong fundamentals to outweigh any short term political interference."

£400MN

AS AT APRIL 2023, BELLEVUE HAD CLOSE TO £1BN IN NET ASSETS, WHICH HAS SINCE SHRUNK TO £400MN

The three generalist healthcare investment trusts – Bellevue, **Worldwide Healthcare (WWH)** and **Polar Capital Global Healthcare (PCGH)** – have performed very differently over the past few years, with the Polar Capital fund emerging as the clear winner.

"Bellevue has really struggled in recent years. This is very much a sector where stockpicking is key to returns and the Bellevue team has not kept pace with rivals," said Carthew. The company's top holding, **CareDx (CDNA)**, has seen its share price double this year, however. Other large holdings in the laboratory sector have risen just a few percentage points this year. Worldwide Healthcare trades at a 12.2 per cent discount as of 9 December, and Polar Capital's is 5.3 per cent.

Between the other two, Carthew said he owns Worldwide Healthcare but wished he had bought Polar Capital, whose team "has done a better job of covering the sector as a whole", which "worked in its favour when biotechs were struggling in an environment of higher interest rates". Bellevue said last month it had had an unfortunate run of knocks to its holdings. "This is a very febrile market dynamic and, as long-term fundamental investors, we must accept a degree of pain around such speculative short-term commentary [around holdings such as CareDx], but will trade around actionable data-driven newsflow where practicable," said managers Paul Major and Brett Darke.

Major also said the healthcare sell-off related to Trump's cabinet picks was an "over-reaction and will correct in time".

But the question over Bellevue's future remains – a repeat of the 2023 redemptions could leave it looking sickly. Another remedy is surely needed.

Pershing Square starts buybacks as Ackman hails Trump election

The US trust has a wide discount to close but has seen its shares surge since the US vote. Val Cipriani reports

Bill Ackman's **Pershing Square Holdings (PSH)** will buy back $100mn (£79mn)-worth of shares as it attempts to close a persistent discount to net asset value (NAV) after a difficult second half of the year for the trust.

Ackman's vehicle has been unpopular with investors recently despite an outstanding long-term track record that has seen it outperform the S&P 500 since its listing in the UK in 2017.

Poor sentiment was exacerbated by Ackman's fundraising flop earlier this year, where a planned US float of a closed-end fund fell apart.

Between May 2017 and December 2024, Pershing Square returned 244 per cent in sterling terms, against 184 per cent for the S&P 500. But as of 2 December, the trust was trading 31.6 per cent below its NAV.

This is a much wider discount than those sported by the other main US-focused trusts. At the same date, **JPMorgan American (JAM)** was trading at a small premium, **Baillie Gifford US Growth (USA)** was in line with its NAV, and the **North American Income Trust (NAIT)** had a 10 per cent discount.

Earlier this year, Pershing Square's fortunes started to improve – the discount stood at 22.7 per cent as of the end of June. But by the end of July, Ackman had abruptly cancelled the IPO of a US-listed fund for which he had hoped to raise $25bn.

Demand for the fund proved much lower than envisioned, and the fundraising target was lowered to $2bn before the tycoon abandoned the plan entirely. He said at the time that he had found a "better transaction structure" for his grand plans.

Goodbye Amsterdam

Meanwhile, on 2 December Pershing Square said it would delist from the Euronext Amsterdam exchange, arguing that the move will reduce regulatory complexity and improve liquidity. The trust will continue to trade on the London Stock Exchange.

Beyond the inward-looking issues, some of Pershing Square's holdings have underperformed. Around the time Ackman's US fundraising failed in July, key holding **Universal Music Group (NL:UMG)** also shed a fifth of its value after streaming revenues increased less than expected in the second quarter of the year, leading to a period of underperformance for the trust.

Despite sometimes being classified as a hedge fund – and using some comparable strategies on occasion – Pershing Square Holdings mostly takes long positions in large-cap US companies, which have been driving its stellar returns. Last year it bought into **Alphabet (US:GOOG)** and sold out of DIY specialist **Lowe's (US:LOW)**, while more recent additions are **Nike (US:NKE)** and investment giant **Brookfield (US:BN)**.

It does not frequently disclose its position sizes, but as of the end of 2023, Universal Music was the largest holding and accounted for about a quarter of its net assets.

James Carthew, head of investment companies at QuotedData, said that the launch of a US fund would have had two key attractions for the company's shareholders: it would have resulted in lower fees, and the US vehicle would have bought some of its stake in Universal Music.

The trust has an ongoing charge of 1.6 per cent, the highest in the Association of Investment Companies' North America sector. Carthew said he believes fees to be one of the factors driving the discount.

After Ackman's fundraising debacle and Universal Music's share price drop, the trust's discount gradually widened again. Analysts said the buyback programme is a positive step, although it appears too small to move the dial on the discount, and Carthew deemed it "not particularly significant".

Numis analysts Ewan Lovett-Turner and Ash Nandi argued that it "makes sense for a large fund, with a relatively liquid portfolio, to use the range of tools at its disposal to manage supply/demand imbalances and make the fund more attractive to investors". But they noted that, while $100mn is a significant number in absolute terms, it only equates to about 1.2 per cent of the trust's market cap.

The Trump opportunity

Ackman is a controversial figure who has been very vocal on political issues, including supporting Donald Trump. In a call with investors last month, he welcomed the result of the US election and was bullish on the future of the country's economy, welcoming Trump's government efficiency initiative.

"We view the new Trump administration as a very favourable opportunity for the country, the economy, and ultimately our portfolio. We think there's an opportunity here for us to step into a period of accelerated growth," he said. The trust has performed very well since the US election, with its shares up 11.7 per cent in the month to 3 December.

Lovett-Turner and Nandi said the trust looked undervalued despite the higher costs, adding that the discount "is too cheap for a manager with a strong long-term track record, with a high quality, large-cap portfolio".

"The manager has indicated it may rekindle its ambitions to raise additional funds, which, if it occurs, may improve sentiment towards Pershing Square," they said.

Carthew is more cautious, saying: "I sold a few PSH shares from my pension fund before the Universal Music NAV hit. It had done very well in NAV terms and the discount had narrowed a bit. Now, I'm hanging on to the balance, but it's still a big position and I will probably trim it further into strength."

$25BN

BY THE END OF JULY, ACKMAN ABRUPTLY CANCELLED THE IPO OF A US-LISTED FUND FOR WHICH HE HAD HOPED TO RAISE $25BN

IC readers reveal their favourite financial providers

This year's Celebration of Investment Awards assigned four and five stars to the best platforms and financial services companies

Investors' Chronicle and *Financial Times* readers have picked their favourite providers of investment services and products for the year, as part of the Celebration of Investment Awards.

The awards recognise investment providers that have offered outstanding service to investors over the previous 12 months, supporting them in achieving their goals. On 28 November, the award-winning companies collected their trophies from *IC* journalists, in a ceremony presented by former rugby union player Will Greenwood.

This year's awards comprised 14 reader-voted categories and five submission categories. The reader-voted category winners were selected based on a survey in which readers evaluated their favourite providers according to several factors, including range of services, affordability and communication quality. Each company was then assigned a final score based on these votes, ranging from one to five stars.

Multiple providers achieved four and five stars in a given category. For example, Bestinvest, Halifax Share Dealing, Interactive Brokers and Interactive Investor gained five stars in the 'Isa provider' category, while AJ Bell was awarded four stars.

Bestinvest, Capital.com, Degiro, InvestEngine, Moneyfarm and FxPro were all voted as five-star providers for the 'app' category. Our readers crowned Bestinvest, Degiro, Interactive Investor and Trading 212 as the best execution-only stockbrokers, while Bestinvest, Charles Stanley Direct and Interactive Investor received top marks in the 'Sipp provider' category.

Brown Shipley, Evelyn Partners, Killik & Co, LGT Wealth Management and Redmayne Bentley were our readers' favourite wealth managers. Meanwhile, the five-star rated CFD providers were Capital.com, FxPro and Trading 212.

Top winners

Bestinvest, Interactive Brokers and Interactive Investor topped the overall 'platform' category. Bestinvest also took home the highest number of five-star awards, with a total of six. The platform offers a wide range of accounts and investment options. Since last year, it also offers fee-free trading on US stocks, providing investors with a direct and cheap way to gain exposure to the likes of Apple and Nvidia. Bestinvest also offers free coaching sessions online or over the phone.

Interactive Investor and Interactive Brokers were also awarded six prizes each. The former received four five-star and two four-star ratings. One of Interactive Investor's key selling points is its flat fee, which makes investing on the platform proportionally cheaper over time as one's portfolio grows. But the platform has recently added dedicated products for smaller portfolios too, including a basic, low-cost personal pension option for pension pots of up to £50,000.

Interactive Brokers received five stars in two categories and four stars in four categories. The platform provides trading in a wide range of global stock markets, at a competitive price (particularly on FX charges), as well as advanced trading tools and features.

Trading 212 also landed a total of six awards, with five stars in five categories, including execution-only stockbroker and platform for international shares, and four stars in one category. The platform stands out for its low-cost offering, which comprises fee-free trading and an Isa with no annual fee.

Five awards went to IG Group, which received five stars in the 'platform for international shares' category and four stars in four other categories. IG Group offers a range of features particularly suited to expert investors and traders, and gives access to spread betting and CFDs, among other services.

Entries for the submission categories were evaluated by a panel of judges from the *IC* and *Financial Times*, selected for their deep knowledge of the sector. Winners included HSBC Global Asset Management as diversity & inclusion champion of the year, and Montanaro Asset Management as ESG champion of the year.

The full list of winners, detail of the methodology used and pictures from the ceremony can be found at *www.celebrationofinvestment.co.uk*.

'Great products and excellent service'

While the *IC* has been running these awards for more than a quarter of a century, the aim has remained the same: it's to recognise financial services providers who offer great products and excellent service to their customers.

In a complex geopolitical landscape, investors have a lot to think about when it comes to devising a strategy that works for their goals and circumstances. Having access to providers that offer low-cost, high-quality services can make all the difference to the investing experience and eventually to long-term returns. Meanwhile, the availability of intuitive and cheap tools is crucial to make it as straightforward as possible for new investors to get started.

During the awards ceremony, guests were invited to engage with the Financial Literacy and Inclusion Campaign (FLIC), a charity backed by the Financial Times. It aims to democratise financial education by providing content to those who need it the most: young people, women and disenfranchised groups. FLIC develops and distributes educational content, it lobbies for policy change and tracks progress towards financial literacy. You can find out more and donate by going to *FTflic.com*.

IC SCAN FOR MORE

Scan the QR code to see all the winners: To scan a QR code, open the camera app on your phone, point the camera at the QR code and tap the banner that appears

What UK house prices will do in 2025

Can house prices keep growing next year? Hermione Taylor reports

It's now three years since the Bank of England (BoE) started hiking interest rates. Over the period, average mortgage rates have risen from 2 to 3.7 per cent. But the impact on house prices has not been straightforward.

The average price has increased by almost 7 per cent, from £274,000 to £292,000 over the past three years. But growth has been uneven – prices rose in 2021 as the lockdowns triggered a race for living space, dipping later on as a difficult economic backdrop weighed on demand.

By the end of 2024, almost all regions of the UK had seen a return to house price growth, and analysts at Zoopla think the housing market "has now largely adjusted to higher borrowing costs". With more interest rate cuts on the horizon, will UK house prices keep up the momentum in 2025?

How will mortgage rates change in 2025?

It is tempting to think lower interest rates will mean cheaper mortgages next year. Despite stickier inflation, markets expect the base rate to drop from 4.75 to 4 per cent over 2025. Unfortunately, mortgage rates won't fall in tandem.

Fixed-rate mortgage deals are influenced by swap rates, which depend on expectations for interest rates, rather than the BoE base rate itself. Economists expect measures announced in the Budget to increase economy-wide inflation next year, thanks to a combination of higher demand and rising costs from employer National Insurance contributions (NICs).

As a result, fewer cuts from the BoE are now expected next year. This shift is feeding through into slightly higher mortgage rates. According to data from Moneyfacts Compare, the average new two-year fixed-rate mortgage deal is currently 5.5 per cent, up from 5.4 per cent before the Budget.

Forecasts from Pantheon Macroeconomics suggest the average rate on all new mortgages will increase slightly from 4.51 to 4.62 per cent next year. Assuming the BoE cuts interest rates in line with expectations next year, mortgage rates are unlikely to fall much over the course of 2025.

Affordability remains a key issue for the housing market, and there are a range of factors at play here. The interplay of incomes, inflation, mortgage rates and house prices should all see affordability levels improve next year – although standards remain stretched by historical standards.

PROPERTY PRICE GROWTH BY TYPE

	Average house price	Year on year change (%)
All property	£267,200	1%
Detached houses	£449,500	0.20%
Flats	£192,100	0.30%
Semi-detached houses	£273,900	1.60%
Terraced houses	£236,700	2.10%

Source: Zoopla

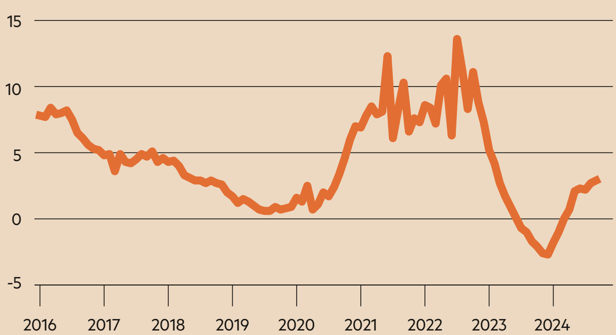
Despite expected higher borrowing costs, Pantheon suggests mortgage payments should eat up less disposable income in 2025, dropping from 27 per cent in 2023 to 24.7 per cent next year. Thanks to a recovery in incomes, the ratio of average house prices to annual earnings should also fall to 7.94, from 8.64 in 2022. Though an improvement, affordability (by both measures) will still be more strained than it was at any time between 2000 and 2019.

According to Zoopla's house price over/undervaluation model, rising mortgage rates led to UK homes being 16 per cent overvalued in 2022. Since then, strong income growth and slightly lower borrowing costs have 'corrected' valuations – without the need for significant price drops. This model suggests UK house prices will remain slightly undervalued over the course of 2025, which should support demand and prices next year.

In terms of policies announced (or not announced) in October's Budget, it is changes to stamp duty that will have the biggest direct impact on the property market next year. Rates for individuals purchasing an additional property have increased from 3 to 5 per cent, with the changes hitting second home owners and buy-to-let landlords. Analysts at Pantheon expect downward pressure on the number of homes available to rent next year, meaning still-hot rent inflation of 6 per cent.

From April next year, the zero-rate stamp duty band will also halve from £250,000 to £125,000. The nil-rate band for first-time buyers will fall back to £300,000 as previously scheduled. Analysts at Zoopla calculate that the proportion of buyers paying stamp duty will increase from 49 to 83 per cent next year as a result. Among first-time buyers, it will double from 20 to 40 per cent.

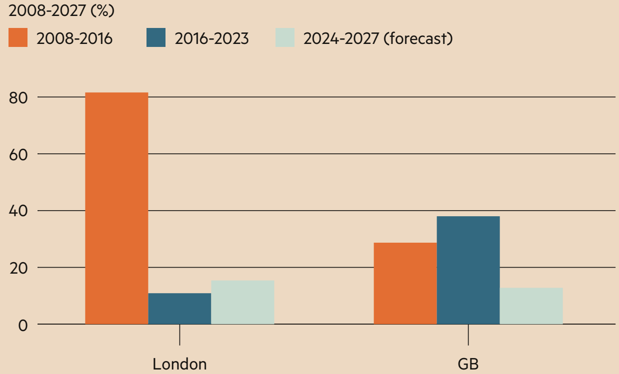
UK HOUSE PRICE ANNUAL INFLATION



November HPI. Source: ONS

HOUSE PRICE GROWTH OVER TIME

2008-2027 (%)



Source: Hamptons

Other Budget measures might end up having a greater impact on the housing market – but through indirect channels. Changes to pension tax rules could encourage more wealth transfers before death. According to analysts at Hamptons, many of these transfers will be made to help younger generations buy a first home. This could go some way to offset the higher stamp duty burden for first-time buyers.

Will unemployment rates play a role?

There is also the indirect impact of the Budget's headline revenue-raising measure: a £25bn increase in employer NICs. Employers have warned that the increase, coupled with a rise in the national living wage (NLW), could lead to job losses. Pay growth could also falter if firms cut labour costs next year by trimming wage growth for employees not bound by the NLW.

Analysts at Deutsche Bank think a "big break in the jobs market" represents one of the biggest risks to the housing market next year. They warn that firms' cost pressures could lead to more slack appearing in the labour market in 2025 – with higher unemployment leading to a reversal in current house price trends.

For now, this looks a tail risk. The latest forecasts from the BoE and Office for Budget Responsibility predict that unemployment will remain close to the current (low) rate of 4.1 per cent next year – although bad labour market data obscures the picture. The response rate to the UK's official labourforce survey has fallen so low we are no longer entirely sure how many people are employed, unemployed or inactive in the UK. This makes drawing conclusions about the impact of the Budget on the labour (and housing) market even more of a challenge.

What do forecasters expect?

An uncertain unemployment situation is just one of the headwinds facing the housing market next year. There is also the risk of higher inflation – especially if US president-elect Donald Trump's tariff plans push up import costs. This could lead to fewer interest rate cuts (and higher mortgage rates) next year.

But there are also some significant tailwinds: as mentioned, improved affordability, strong pay growth and stable mortgage rates should all boost prices. The latest Halifax house price figures suggest that prices rose by 1.3 per cent in November – the strongest increase of the year so far. Looming changes to stamp duty seem to have encouraged a sense of urgency, and we could see a flurry of activity in the first quarter of 2025 as buyers rush to complete purchases before the April deadline.

As a result, there is consensus that house prices will grow next year. According to November forecasts collated by the Treasury, City forecasters expect average house price growth of 3.9 per cent in 2025. Independent forecasters predict a lower 2.5 per cent growth rate.

Any increases won't be uniform, much as house price growth has been uneven across regions this year. According to Office for National Statistics data, Northern Ireland (6.2 per cent) and the north-east of England (6.5 per cent) have seen the highest growth, while prices in London (-0.5 per cent) have actually fallen slightly.

This is less a function of the London exodus seen around the time of the pandemic, and more due to affordability. Data from Hamptons shows that London house prices are around 170 per cent of the national average, largely driven by gains between 2008 and 2016. High prices limit the pool of potential buyers in the capital, which may explain why house price inflation has experienced a slower recovery in the south-east.

This pattern could go into reverse next year. Analysts at Hamptons think even modest drops in mortgage rates will improve affordability enough to increase demand in more expensive areas. Their forecasts predict that London house prices will increase by 4 per cent next year, but unlike previous cycles, this will be driven by growth outside of 'prime central areas'. These 'prime' hotspots are expected to take longer to recover, dragged down by new rules for non-doms and changes to the capital gains and inheritance tax regimes.

Affordability matters when it comes to property types, too. In 2024, cheaper terraced homes saw the fastest growth (and expensive detached properties saw the slowest).

Zoopla analysis shows that homeowners have generally responded to higher borrowing costs by purchasing less expensive properties with smaller mortgages for their next move. But stamp duty changes could make it harder to 'trade down' – especially in more expensive areas.

First-time buyers purchased almost half of all homes sold in London in 2024, at an average price of £454,000. Hamptons figures suggest the changes in the Budget will increase their stamp duty bill from £1,450 to £7,700 – trimming over £6,000 from their deposits. This means these buyers could be forced to look for cheaper properties or delay purchases until they have built their deposits back up again. ●

ECONOMIC OUTLOOK

Preliminary PMI data for December is released for most major economies next Monday. Then there are the last central bank meetings of the year. This week Beijing changed its official monetary policy stance from "prudent" to "moderately loose", pointing the way ahead. In the US, another cut is seen as odds-on, while the UK is likely to hold fast. It's not clear whether the next step in Bank of Japan's gradual hiking cycle will emerge this month or be delayed until 2025. **DJ**

MONDAY 16 DECEMBER

China: House price index, industrial production, retail sales
Euro area: Composite, manufacturing and services PMIs (preliminary)
Japan: Machinery orders, manufacturing and services PMIs (preliminary)
UK: Composite, manufacturing and services PMIs (preliminary), Rightmove house price index
US: Composite, manufacturing and services PMIs (preliminary), Empire State manufacturing index

TUESDAY 17 DECEMBER

Euro area: Trade balance
UK: Average earnings, unemployment rate
US: Business inventories, industrial production, Redbook index, retail sales

WEDNESDAY 18 DECEMBER

Euro area: CPI inflation, construction output
UK: CPI inflation, RPI inflation
US: Fed interest rate decision, housing starts

THURSDAY 19 DECEMBER

Japan: BoJ interest rate decision
UK: BoE interest rate decision
US: Kansas Fed manufacturing index, Philadelphia Fed manufacturing index, Q3 GDP

FRIDAY 20 DECEMBER

China: PBoC interest rate decision
Japan: CPI inflation
UK: Public sector net
US: Michigan consumer sentiment, PCE inflation

Val Cipriani

IC COMMENT

The buy-to-let struggle

New data from a government survey of private landlords shows the true extent of the challenges faced by the buy-to-let sector. The survey was carried out across more than 9,000 different landlords, a significant sample as far as surveys of this kind go. The last study of this kind was carried out in 2021, and the previous one in 2018. This gives us a good feel for how the sector's mood has changed over time.

First, a striking if unsurprising piece of information: The proportion of landlords who said they are planning to reduce the size of their portfolio has increased dramatically, from 16 per cent in 2018 to 22 per cent in 2021 and then to 31 per cent this year. The latest figure includes some 16 per cent of landlords who said they plan to sell all their properties. Similarly, just 59 per cent of landlords said they would re-let one of their properties the next time it became vacant. This figure stood at 75 per cent in 2018.

We have noted repeatedly that tax changes and higher interest rates have made buy-to-let less attractive, and that landlords are leaving the sector or aiming to own fewer properties. In this context, one important point is that this survey (conducted in the spring) suggests that the full impact of these changes has not yet shown through in the market.

For one thing, the survey work was conducted before this year's general election, so latest policies were not taken into account. Crucially, in the Autumn Budget, stamp duty for people buying an additional property, including buy-to-lets, increased from 3 per cent to 5 per cent. This means that while many existing landlords are looking to sell, the number of buyers could become scarcer still.

The survey also reveals that 45 per cent of landlords own just one property. This figure has not shifted much over the past three years and equates to about a fifth of total tenancies. The increasing regulatory pressure on the sector has often prompted analysts to suggest that landlords will need to professionalise their operations; this will sound like a lot of hassle if you only own a single property.

On which note, just 6 per cent of landlords who answered the survey operated via a limited company, a slight increase compared with 2021 (4 per cent). Hamptons analysis of Companies House data found that as of this September, some 5,312 new limited companies were established for buy-to-let purposes in Great Britain – at least 28 per cent more than in any previous year. Incorporating a buy-to-let business can have advantages compared with running a property as a private individual, but again things are a lot more cost effective if you have scale on your side.

There are some small bits of good news for landlords. Mortgage rates have fallen from their peaks, and more rate cuts are expected next year (although whether they translate into big falls in borrowing costs is another story). Meanwhile, house prices are on the rise again: according to the Halifax House Price Index, they were up 4.8 per cent year on year as of November. And of course declaring in a survey that you want to sell is not the same as actually doing so. Still, one can't help but wonder what all of this will mean for renters, who continue to see costs going up as they compete for fewer and fewer properties.

Separation and your finances: a guide for cohabiting couples

Navigating a break-up is tricky even without disputes over money. Here's how cohabiting couples can future-proof their finances. Holly McKechnie reports

Christmas can be a pressure cooker for couples. Every January, family lawyers receive an influx of divorce enquiries as enforced family time and high expectations over the holidays take their toll. However, the degree to which a separation affects your finances differs significantly depending on whether you are married or cohabiting.

A common misconception in the UK is that the legal system recognises the concept of a so-called common law spouse. Many unmarried couples believe that if they live together, particularly if they have done so for a long time, or have children together, they will be afforded the same financial protections after a relationship breakdown as married couples. This is not the case.

Unmarried couples have little financial recourse or obligations towards one another if they decide to go their separate ways. Depending on your financial set-up, this might come as a nasty surprise or a welcome alternative to often fraught financial negotiations during divorce proceedings.

Either way, if you are cohabiting with a partner, it is a good idea for both of you to have a clear understanding of your financial positions and how your finances will be treated if you separate.

How cohabiting couples are treated

Richard Gilbert, a private client partner at the law firm Spencer West, explains: "For couples who live together, it will all depend on how they regulate their financial affairs and conduct themselves financially during their relationship, irrespective of how long their relationship was for."

If you have chosen to keep your finances separate during your relationship and have not contributed financially towards anything owned by your ex-partner, then you should both be able to walk away with what you respectively own, Gilbert adds. For couples who are financially equal, this can be a relatively straightforward scenario.

Petronella West, chief executive officer at Investment Quorum, has found that among her client base, cohabiting couples do "tend to have more equal finances", making it easier to walk away if there is a relationship breakdown. They also often make a more conscious effort to keep their money separate, particularly if each member of the couple has their own career.

However, if there is any asymmetry in your finances then you may run into problems. Cohabiting has the potential to "leave one party to the relationship financially exposed" particularly if they do not have "any property or assets of their own", Gilbert explains.

This can be particularly challenging if one partner has taken on the role of homemaker and stopped working to look after shared children. Invariably in this scenario, there will be a financial imbalance that needs to be addressed when you divide your finances. Either way, it's important to talk at the beginning of your relationship, returning to the subject after any major life event, about how you both view your financial set-up.

How to protect your finances

Once you've discussed how you want to approach your finances, both during your relationship and in the event of a break-up, it's sensible to formalise it via what's known as a 'cohabitation' or 'living together' agreement. This records the assets and property each party brings to the relationship, how they will be held during the relationship and what will happen to those assets if the relationship ends. You might also want to include details of ongoing financial commitments post-separation, such as mortgage costs and other bills, to remove some uncertainty.

If there are specific items or properties that you would like to ring-fence, consider setting up a trust. Gilbert says: "While a declaration of trust can be included in the living together agreement, some couples may choose to enter into a standalone declaration of trust which specifically records what their respective beneficial (financial) interest is in that asset or property."

Unmarried couples have little financial recourse or obligations if they decide to go their separate ways

Having a cohabitation agreement in place can help avoid costly legal disputes and means you are both on the same page when it comes to your respective financial planning. While you can instruct a lawyer if you end up in a position where you need to make a financial claim against an ex-partner, this can be costly. Paying some money upfront to draft a cohabitation agreement may feel like an unnecessary expense, particularly in the first throes of love, but the cost will pale in comparison to legal fees further down the line.

When making your financial plans, it's important to consider your position both as a couple and as an individual. Jason Coppard, a chartered financial planner at Lumin Wealth, explains: "As there is no guarantee of financial support post-separation, it's important that assets such as investments and pensions are saved/created by both parties."

When cohabiting, it is crucial couples do not fall into the trap of one partner taking sole responsibility for the family's financial planning. Both partners must plan for their financial future irrespective of whether the relationship lasts.

How to split

While you might not have many legal protections following a split, if you have been living together, your finances are likely to be entwined. If one partner has made financial contributions to something owned by the other partner, often the most difficult element to untangle is who owns what.

If one cohabitee financially contributed towards assets or property owned by the other, then they might "acquire a beneficial interest", Gilbert says. Your legal rights in this scenario will depend on two things. Either what you discussed and agreed when the contributions were made, or whether you put an agreement in place that set out any financial interest acquired if you financially contributed to property owned by your partner.

However, if the property is jointly owned you can run into a different set of problems. "It is very important to get legal advice on how to revert to single ownership as soon as possible," Coppard warns. If you are in a position where you are going to have to continue to share the property post-separation it is also important to "track and agree a payment structure", he adds.

Other things to consider are life cover and any other joint insurance you set up as a couple. Speak to your provider about whether you can continue your current cover individually. If not, consider asking your provider for quotes for replacement cover, Coppard adds.

After a separation, the government's Money Helper service recommends drawing up an agreement that outlines how you and your ex-partner have decided to split your finances. This could set out who owns what, how joint accounts, insurance and bills will be split, and who is responsible for any debts. It can also be an opportunity to informally outline some guidelines about how you will approach providing for any children you share with your ex-partner.

As well as crystallising your decision, this can be a useful document to refer to if there are any future disagreements and provide some much-needed clarity if discussions are conveniently forgotten post-split. ●

'Can we invest our £1.5mn and save the planet?'

These readers want to be climate-conscious but are worried about reaching their financial goals. Holly McKechnie explores the options

- Climate breakdown concerns our readers
- They have built an environmentally friendly portfolio, but it is too concentrated
- They also want to build a nest egg for their two young children

Making your money work for you does not always mean chasing the highest returns. With net zero targets for 2030 now just over five years away, it's understandable that environmental concerns may be rising up your agenda. However, between greenwashing and poor performance, navigating ethical investing can be tricky. But with the right strategy, you can find a balance that works for you.

For Ted, climate considerations are "vital" to his investment approach. However, with a young family to provide for, he is keenly aware of the need to grow his savings. At 40, he and his wife Sylvia, 38, have a long investing timeline ahead of them and are looking for a strategy that enlarges their family pot without damaging the planet.

Ted has around £30,000 in his stocks and shares individual savings account (Isa) but the majority of his investments (£200,000) are in a general investment account (GIA). When building up these sums he targeted funds and companies that aligned with his environmental, social and governance (ESG) views. However, he is concerned about "concentration risk building up with the current funds" and is keen to diversify.

"I would like more diversification, but it's difficult to find opportunities when factoring in climate considerations," he says. Ted is interested in healthcare, but worries that the sector is already highly prevalent in ESG funds. He is also willing to explore the space industry, believing it "might be a good theme if a new planet is needed!".

Ted's investment vehicles of choice are funds and investment trusts, and he prefers active management as he feels "markets imperfectly capture information" such as climate risk. "I like private equity to access growth companies and I like infrastructure due to its relatively stable inflation-protected returns over the long term," Ted adds. However, all of these decisions revolve around his desire to protect the planet. "I would like a portfolio that supports global decarbonisation efforts and avoids industries incompatible with net zero efforts," he explains.

However, he needs to firm up his strategy as he has ambitious financial goals. Over the next five years, he wants to generate enough income from his portfolio to finance home improvements to the couple's "net-zero" house, valued at £600,000 but with a £300,000 mortgage. Once these five years are up, he plans to rebalance his portfolio and begin investing in a personal pension. He hopes to turn the couple's £314,000 investment pot, of which £200,000 is in a GIA, into £1.5mn held in pensions and Isas, which should provide £5,000 a month during retirement when he reaches 65. The couple would also like to be able to retire mortgage-free.

Ted makes £75,000 a year and Sylvia earns £85,000 a year and they have made some headway with their pensions already. They have £30,000 in their respective workplace pensions and are ramping up their contributions, each adding £1,500 a month to their pots, although Ted's is entirely invested in **Royal London Sustainable World (GB00B882H241)**. Sylvia also has £24,000 in an Isa and Lifetime Isa (Lisa), but this is all in cash.

Ted has also recently opened a Lisa and is planning to max out his yearly £4,000 allowance until he is 60. However, instead of using these savings to supplement his retirement income, he plans to gift a lump sum to his two young children to help them onto the property ladder. Ted is eschewing junior Isas due to their lack of parental control. ●

TABLE 1: TED & SYLVIA'S ASSETS

Account/asset	Value (£)	% of portfolio
Ted's GIA	200,000	32
Ted's Isa	30,000	4.8
Ted's workplace pension	30,000	4.8
Sylvia's workplace pension	30,000	4.8
Sylvia's Isa and Lisa	24,000	3.9
Property (exc. mortgage)	300,000	48
Cash	5,000	0.81
Total	619,000	

TABLE 2: TED'S ISA, WORKPLACE PENSION AND GIA

Holding	Value (£)	% of portfolio
Royal London Sustainable World (GB00B882H241)	45,000	17
Baillie Gifford Responsible Global Equity Income Fund (GB00BFM4N494)	15,000	5.8
Aegon Global Sustainable Equity (IE00BYZJ3771)	15,000	5.8
Janus Henderson Global Sustainable Equity Fund (GB00B71DPP64)	15,000	5.8
Phoenix Group Holdings (PHNX)	12,000	4.6
Sequoia Economic Infrastructure Income Fund (SEQI)	12,000	4.6
Guinness Sustainable Energy Fund (IE00BFYV9L73)	12,000	4.6
CVC Income & Growth (CVCG)	8,000	3.1
Gore Street Energy Storage Fund (GSF)	8,000	3.1
Legal & General Group (LGEN)	8,000	3.1
Octopus Renewables Infrastructure Trust (ORIT)	8,000	3.1
Vodafone Group (VOD)	8,000	3.1
Greencoat UK Wind (UKW)	8,000	3.1
The Renewables Infrastructure Group (TRIG)	8,000	3.1
Bluefield Solar Income Fund (BSIF)	8,000	3.1
Harmony Energy Income Trust (HEIT)	8,000	3.1
SDCL Energy Efficiency Inc. Trust (SEIT)	8,000	3.1
NextEnergy Solar Fund (NESF)	8,000	3.1
M&G (MNG)	8,000	3.1
M&G Credit Income Invest. Trust (MGCI)	8,000	3.1
Harbourvest Global Private Equity (HVPE)	6,000	2.3
HgCapital Trust (HGT)	6,000	2.3
Oakley Capital Investments (OCI)	6,000	2.3
Patria Private Equity Trust (PPET)	6,000	2.3
Pershing Square Holdings (PSH)	6,000	2.3
Total	260,000	

ZOE GILLESPIE, SENIOR INVESTMENT MANAGER AT RBC BREWIN DOLPHIN

Reaching a £1.5mn pot over the next 25 years is ambitious. You will need to increase the amount you are saving substantially and factor in interim outgoings such as your mortgage repayments, raising young children, and other expenses that will inevitably come up. Pensions are your best route. Even with the changes made in the Budget, the tax relief pensions receive means that they remain the best way to save for retirement over the long term.

You should move the holdings in your general investment account (GIA) into a stocks and shares Isa to minimise your tax liability. That way you will be shielded from any tax due on the income and capital growth over the next 25 years, which could be substantial. Between you, you have £40,000-worth of Isa allowance to use up every year, the majority of which should be used to do this.

In terms of the stocks and funds you currently hold, you would benefit from a thorough review. I understand where you are coming from with the likes of **Vodafone (VOD)**, **Phoenix (PHNX)** and **M&G (MNG)**, given the income yields they offer, but they have generally performed poorly. So, you need to adopt more of a 'total return' mindset with stock picks if you want your income to remain sustainable over time. Individual stocks are also a generally riskier proposition than funds.

Although you have a few different names among your fund choices, there is a lot of duplication. For example, you have a handful of solar funds, which seems like diversification at the surface level, but they open you up to concentration risk. You also have a lot of funds that include many of the same names among their top holdings – **Microsoft (US:MSFT)**, **Taiwan Semiconductor Manufacturing Company (TW:2330)** and **Nvidia (US:NVDA)** feature in several – and some companies may not align with your desired approach to investing.

One of the best-performing sustainable funds has been **Pictet Global Environmental Opportunities (LU0503632878)**. But rather than add it to the existing holdings, it should replace some of what is already there. Although, ideally, you would explore starting again to build a bit more structure to the portfolio, combined with more of an emphasis on growth and diversification.

Emerging markets are a potential way to diversify, although you should bear in mind that this is a tricky area when it comes to sustainability and returns have generally been quite poor in recent years.

Regarding junior Isas, I appreciate your concerns about parental controls. But contributing £8,000 a year to your Lisas to help your children will eat into your own Isa allowances. This could potentially make the process of moving your investments into your Isas a lot slower and limit the tax-free investments you can make for your retirement. Junior Isas also allow you to contribute up to £9,000 per year, providing a bit more flexibility for years where you may want to add more to the pots. ●

ANDY BOLDEN, FINANCIAL PLANNING DIRECTOR AT 7IM

Meeting your objectives requires a two-pronged approach. You should consider the investments themselves and their structure and tax efficiency. As you are both higher-rate taxpayers, make sure you optimise the combined use of all available allowances and reliefs. Getting this right will have more impact on your long-term financial success than your underlying asset allocation.

At the moment, your portfolio is quite high risk and extremely concentrated. There is some duplication on the funds side. Given your 25-year plan, this risk level is appropriate, but your asset mix doesn't lend itself to the income you want over the next five years. You've said you do not want to invest in many of the traditional higher-yielding stocks, such as oil and gas or mining. Luckily, ESG-focused investing is mainstream now. Your climate change concerns need not impact your family's financial goals.

In the short term, a mix of higher-yield ESG-rated bond options could be considered, such as the **BlueBay Global High Yield ESG Bond Fund (LU1560664358)** or **Robeco Global SDG Credits (LU1945299961)**. These could sit alongside growth-biased holdings, where some profits could be syphoned off as part of a total return strategy. However, these must be held in the right structures, allowing cash flow to be tax-optimised.

Given your timeframe, I recommend using an Isa or Lisa that invests in stocks and shares, rather than cash, to increase potential long-term returns in a tax-efficient structure. You both have a £20,000-a-year Isa allowance. If you cannot fill this allowance from your surplus earnings, you should transfer funds from your existing GIA. Using an inter-spousal transfer, you could transfer funds to Sylvia without tax implications. This would allow you both to use your annual capital gains tax allowances – currently £3,000 per year each – when selling investments to fund the Isas.

You want a "relatively high level" of investment income over five years, but taking income or dividends from your GIA would result in an upper rate of dividend or income tax (33.75 per cent and 40 per cent, respectively). By maximising the asset shift into Isas and focusing these on creating a high yield, the income will become tax-free. Any funds remaining in the GIA should be growth-focused, pending a future shift into Isas.

For your own retirement needs in 25 years, pension savings will beat Isas due to the higher-rate tax relief available on the way in. So, until the GIA has been fully moved into Isas, you could increase your pension contributions and should ensure you take advantage of any employer matching schemes.

For your children, consider Junior pensions, where up to £3,600 per child can be invested yearly. Even for minors, HMRC will allow tax relief on this investment, meaning a net cost of only £2,880. Unlike Junior Isas, Junior pensions cannot be accessed at 18, so this ticks the box on limiting access to the funds for their future. ●

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Want to see your portfolio analysed by our experts? Email portfolio.clinic@ft.com.
None of the commentary should be regarded as investment advice. It is general information based on a snapshot of the reader's circumstances.

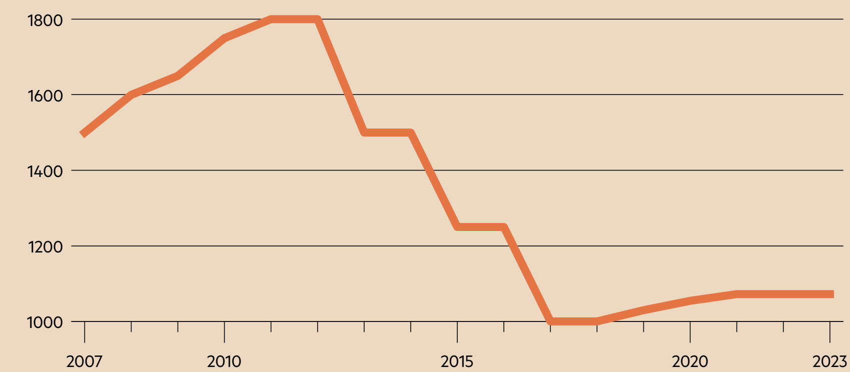
'Can I use my pension now the lifetime allowance has gone?'

Our reader has a large pot but would like to add more. Will he incur a tax charge? Val Cipriani reports

A number of years ago I was able to lock in my pension lifetime allowance (LTA) at £1.5mn. The quid pro quo was that I would not be able to invest any more money into my pension. I have since retired, started taking a pension and have used about 94 per cent of my LTA. I have additional pension fund assets which would take me over the £1.5mn mark. Now the LTA has been abolished, does my tax-free lump sum remain at 25 per cent of £1.5mn, or is it set at the current lower limit of £268,275? Can I crystallise my pension assets above £1.5mn without tax charges? And most importantly, can I start investing in my pension pot again? **Peter**

PROTECTIONS WERE NEEDED BECAUSE OF FREQUENT LTA CHANGES

Lifetime allowance level for the tax year (£000)



Each figure refers to the tax year ending in April of that year
Source: The National Archives

NICOLA CROSBIE, CHARTERED FINANCIAL PLANNER AT MORAN WEALTH MANAGEMENT

Before 6 April 2024, pension savings were subject to an LTA of £1,073,100. This restricted the amount you could build up in your pension over your lifetime while receiving full tax benefits. Anything in excess was subject to a lifetime allowance charge, the rate of which depended on how the benefits were drawn: 55 per cent applied if you took the excess as a lump sum, 25 per cent if you took it as taxable pension income. The LTA charge was removed from April 2023 and the LTA was officially abolished a year later.

However, when it was first introduced in 2006, the LTA was set at £1.5mn and then increased to as much as £1.8mn in 2011-12. It was later repeatedly reduced and ultimately frozen at £1,073,100 from the 2020-21 tax year. Due to changing regulations, various types of protection were offered to people who had accrued significant pension pots, allowing them to retain a higher lifetime allowance, subject to various terms and conditions. The pension protection you refer to is known as 'Fixed Protection 2014'. It allowed you to maintain a £1.5mn lifetime allowance on the proviso you ceased contributing to your pension. As you have this protection, despite recent legislative changes, the tax-free portion of your benefits remains secured at 25 per cent of £1.5mn, equating to £375,000.

After the abolition of the LTA on 6 April 2024, this has been referenced as your lump sum allowance (LSA). You mention you have started accessing your pension assets and used 94 per cent of your LTA. It would be prudent to check what portion of this was tax-free, and whether you have utilised your full 25 per cent (£375,000) already, or have a remaining entitlement.

ANY PENSION ASSETS YOU HOLD OVER THE £1.5MN MARK CAN NOW BE ACCESSED WITHOUT ANY LIFETIME ALLOWANCE TAX CHARGE

Any pension assets you hold over the £1.5mn mark can now be accessed without any lifetime allowance tax charge. However, while you are still effectively crystallising your benefits, you would not be entitled to any further tax-free cash on anything you access above £1.5mn. It would be treated as income and taxed under the pay-as-you-earn system at your marginal rate of tax. The income would be added onto any other income you have to determine your tax band. ●

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Baby steps

What developmental psychology can teach investors. *Alex Newman* reports

You may be a successful investor. You may not be. But if you have read anything written about our investing brains in recent decades, you will know that they are full of tripwires, defects and bugs.

Without a doubt, this description beats the one that preceded it. Until the mid-20th century, our membership of the species *homo economicus* – the embodiment of the neoclassical economics paradigm – ensured our decisions were always rational, controlled and utilitarian.

Only they weren't – of course they weren't. Investors have always suffered from overconfidence, a tendency to overvalue what they already own, chronic aversion to losses and an inability to separate skill from luck. We may think we know what rational behaviour is but it is forever outside our grasp.

The name for this updated model of investors' minds is behavioural economics. In seeking to explain how emotions lead us away from our rational-minded destiny, it tells a powerful and useful story about cognitive biases, and what we can try to do to fix them.

The idea that our innate, self-interested rationality in money matters is thrown off course by our equally innate emotional failings is now the dominant way investors see themselves. The key insights of behavioural finance – most notably those made by the Israeli psychologists Daniel Kahneman and Amos Tversky – today make up many of the textbook lessons on how professional investors can improve their processes and judgement.

In providing these lessons, the field is primarily concerned with the ways our grown-up instincts, abilities, fears and behaviours interact with the information available to us.

But might there be another way of seeing things? For one thing, by treating the mind as either trainable or perfectable, it might be argued that behavioural finance sets unrealistic expectations.

What's more, its depiction of agency is narrow. Even the 'wrong' investment decision – whether due to herd-like behaviour, panic or assumptions about what we think we know – is a decision. There are many people who opt out of decision-making, and indeed investing, altogether. To pin all of this on loss aversion (behavioural economists' term for our fear of losing out) feels like an oversimplification.

As to the gold standard that a behavioural approach still aims for – rational investing – this is a far from solid concept.

Minimise risks, maximise losses: sure. Ground choices in what has worked before: all good. But the unknowability of the future complicates the notion that there can be a purely 'rational' approach to investing. In the moment, without the benefit of hindsight, the rational choice is often unclear. Seen in a different light, each of the biases behavioural finance describes might be called sensible. Like our own minds, the real world can feel a lot more complicated.

Is there a better account of this complexity? Is there a root cause to our defects? And can we stop seeing our choices as optimisable, if this is even possible?

The achievements of behavioural finance shouldn't be dismissed. But the field can sometimes seem like a performance edge reserved for the most serious investors and traders.

This self-knowledge, then, only counts for so much. Most UK adults still own no investment products. For those of us 'in the game', it can be a frequently bewildering and challenging place. Often, the initial baby steps to a more secure financial future can feel like the toughest.

Fortunately, we don't need to discover a new branch of psychology to better understand the first principles of our investing brains.

THE ACHIEVEMENTS OF BEHAVIOURAL FINANCE SHOULDN'T BE DISMISSED. BUT THE FIELD CAN SOMETIMES SEEM LIKE A PERFORMANCE EDGE RESERVED FOR THE MOST SERIOUS INVESTORS AND TRADERS

In the beginning...

In investing, little attention is paid to developmental psychology, the part of the discipline concerned with the ways humans grow.

There's an obvious reason for this. Whether we see our minds as emotional and messy, or rational and self-interested, investing is almost exclusively an adult realm. Practically speaking, given the fact that we don't give children the legal or financial means to invest, it is largely so.

But this perspective overlooks the ways – from infancy through to childhood, adolescence and beyond – we all grow into the world around us. It also ignores the ways our own development impacts both who we become, and our relationship with money. Above all, that we all have the capacity to change and adapt.

At this point, a disclaimer is probably in order: what follows isn't intended as a descent into Freudian obscurity, or a prompt to rigorous psychological self-analysis. It's an attempt to look at investing from a different vantage point. It may even be useful.

Here, then, are five lessons that developmental psychology can teach investors.

1. First experiences

Small children are like sponges that soak up the world around them. In turn, this early sponginess means we are all deeply shaped by our first emotional experiences.

Recognising and framing the impact of these experiences – negative and positive – is an important developmental step we must all take. And so too with investing.

In early 2009, I worked in an office with a permanently stressed colleague. Eighteen months earlier, after years of sitting on the sidelines of a bull market in stocks, he had invested his entire life savings at the FTSE 100's then-peak. After the setback of a brutal 40 per cent writedown in his financial wealth in less than two years, he sold everything, and vowed to never invest again.

We know what followed: the footsie quickly moved on, marking out the first few months of 2009 as a painful but relatively sharp nadir in the fortunes of UK blue-chips. Whether my colleague also moved on, I do not know.

Behavioural finance describes his actions as 'recency bias', or the tendency of investors to overweight a recent event and extrapolate its impact into perpetuity. The implication is that we need to take much more into account, from a wider-view market history to the outlook for an ever-changing future, and our own emotional reaction to events. ▶

► But do some events simply matter more? Our first experience of anything can forever mould how we see it. Often, to be 'once bitten, twice shy' isn't irrational, but an act of self-preservation. Coming to terms with our first experience of investing, especially if it is painful, can take a lifetime.

Fortunately, although we never regain the sponginess of infancy, we can form and re-form throughout our lives. It is our adaptability and resilience that gives us second chances, not the realisation that we aren't being sufficiently clear-eyed.

2. The good enough investor

Can parenting teach us about looking after a portfolio of shares? Yes, as it turns out.

In the words of influential English paediatrician Donald Winnicott, there can be no baby without a mother. This wasn't a moralistic view, but a practical one. Without an intimate care giver, a baby cannot exist. Left alone, a helpless infant cannot function.

Even then, the imperfections of an otherwise devoted mother or parent mean mistakes are inevitable. For Winnicott, the answer to this conundrum was "the good enough mother" – a parenting approach that seeks to meet a child's needs while recognising that perfection is unattainable.

It may be the case that fewer investors strive for perfection than mothers, but it is nonetheless vital for investors to recognise their limits and develop a sense that they are doing enough.

Of course, though 'enough' is subjective, it does require adaptability, thoughtfulness and an instinct to protect and preserve, and doesn't mean passivity.

TAKE THE PLUNGE AND INTERACT WITH THE THING THAT SCARES YOU. AT THE PORTFOLIO LEVEL, THIS COULD MEAN COMMITTING TO INCREASE EXPOSURE TO RISK ASSETS IN SMALL INCREMENTS

Moreover, the point of being 'good enough' at anything is to make peace with our efforts. For investors, this means the limits of what we can put in and get out. The problem with money, like all aspirations, is that the ceiling is limitless. Ultimately, we need to accept where our ceiling extends to.

3. An object lesson

For infants, the ability to let go is also a vital, hard-won skill. Though clinginess gets a bad rap, child psychologists often see it as a good sign. At a basic level, it shows that a child has formed a secure attachment to a parent. Eventually, however, infants find out they cannot control their parents. Until a child understands that sensing an object has no effect on its existence – what the Swiss psychologist Jean Piaget called 'object permanence' – they will struggle to move out of a heightened emotional state.

A similar cognitive acceptance is fundamental to investing, too. To avoid over-trading and feeling overwhelmed with a world of infinite possibilities (and the infinite ways they can affect our investments), we need to trust that our investments can act as quasi-objects, beyond our control.

In behavioural finance, things are much more binary. If our emotional reactions dominate data-led judgement, we have fallen into the 'emotional gap'. Unfortunately, this explanation is lacking, for the simple fact that it's often unclear what 'the data' says. A better answer? Trust. Living with ambiguity requires it, not the continual and exhaustive reassessment of information and our emotional responses to it.

4. Living with fear

Just because we develop object permanence doesn't make the world any less scary or volatile.

Speaking personally, one of the hardest lessons of being a parent is seeing how my capacity to tolerate stress transmits directly to my kids. Be calm to becalm. Lose face, and it quickly cascades.

It's not too much of a reach to see an analogy in investing. After all, the ability to handle stress and tolerate fear, as hard as this is, is central to staying the course in risk assets.

Unsurprisingly, behavioural finance focuses on our supposedly unbalanced appreciation of risk and reward. Our 'loss aversion' finds us stressing more about the pitfalls than we revel in the upsides, when we should value them in equal measure.

But the solution – to consider what the worst outcome would be – is again inadequate. I have a relative who self-deprecatingly describes her tolerance for risk as extreme paranoia. To move any of her pension out of cash would be a big enough leap to keep her awake at night. There's no framing that allows her to take risks, because there's no bottom to the worst outcome.

Instead, it is developmental psychology that offers the more convincing framework for how to live with fear.

One strategy is to re-interpret the world. In the case of share ownership, this might mean seeing it as a piece of a company run by people with agency, rather than a share price that can head to zero. Another tactic is to take the plunge and interact with the thing that scares you. At the portfolio level, this could mean committing to increase exposure to risk assets in small increments.

5. Rational limits

If the theme throughout these lessons is acceptance, maybe this points to something bigger.

While we pretend financial markets all add up, they are in fact full of exuberant, inexplicable and downright strange assumptions, patterns, valuations and narratives. In some ways, that makes them like the humans that shape them.

Time and again, studies show that humans deviate widely from the model of self-interested value-maximisers, espoused by the game theoretic model of human rationality.

As Kelly Clancy points out in her brilliant book *Playing with Reality*, the academic world – perhaps chief among them behavioural economists – have taken this to mean that humans aren't rational.

The alternate view, that our models of human behaviour are poor representations of what it means to be human, receives a lot less airtime. Then again, if our hallmark quality is our plasticity, where do we start?

We are not a fixed set of preferences. We learn and change. But we are also a muddle. The fact we are less likely to act when surrounded by inactivity may be a defect, or a demonstration of the odd ways we socialise. That's just the way it is, which means we can't judge our decisions – including the ways we manage our finances – against an optimised model. Our behaviour is just too inconsistent.

No wonder we often get investing 'wrong'. After all, it's probably what makes us human. ●

The rise of private healthcare

Private healthcare providers, insurers and hospitals are booming as patients try to avoid the problems facing national healthcare systems. *Julian Hofmann* reports

After listening to many tapes of nursery rhymes in recent years, it is not hard to see them as sly commentaries on the social conditions of the day. One that caught the ear was 'Miss Polly had a dolly', which at one point goes: "He [the doctor] wrote on a paper for a pill, pill, pill. I'll be back in the morning with my bill, bill, bill." While clearly from a time before the National Health Service (NHS), many people these days will recognise the sentiment, if not necessarily empathising with the patient itself.

An updated nursery rhyme might involve a zoom call with a private GP. In that respect, one of the enduring trends triggered by the pandemic, catalysed by an NHS that is clearly flailing, is that patient numbers for private medical services are undergoing their biggest boom in 20 years. Indeed, the Association of British Insurers said recently that the use of private health insurance had reached its highest level in three decades of data collection. This translates into annual growth of 7 per cent, with workplace claims slightly outpacing those from individual policyholders.

While NHS worship is assumed to be a general phenomenon in the UK population, there are some signs that younger generations aren't quite as attached to a service that comparatively few of them use – approval tends to rise with age.

While declaring an obvious interest, the Independent Healthcare Providers Network's *Going Private 2024* report, which takes a comprehensive look at public attitudes and behaviours towards private healthcare, found that 67 per cent of respondents said they would consider private services, with over one-third saying they would pay for treatment in the next 12 months if they needed it. Interestingly, almost half (44 per cent) of 25-34-year-olds expect to use private healthcare in the coming year.

It is these kinds of trends that make the market take notice. Whether it is through the rising share prices of large medical insurance companies, or real estate investment trusts (Reits) building up their private healthcare property portfolios, investors have options when it comes to this corner of the healthcare market that can often span the global equity markets and cut across different sectors.

Assura (AGR) is an excellent example of a Reit that has read the market. Earlier this year it completed the acquisition of 14 private hospitals for £500mn from Northwest Healthcare Properties, with all leases fully tenant-repairing and insuring – effectively limiting its exposure to additional running costs.

The UK private healthcare market splits broadly into the south-east and the rest of the country, with London and the surrounding area proving popular with healthcare tourists, while private hospital providers in other areas act as auxiliary capacity for local NHS trusts. By concentrating on the south-east, and other wealthier parts of the country, Assura hopes to lock in premium footfall.

A growing trend

Anyone waiting for a hip replacement, or perhaps a GP appointment, will mentally be weighing up the odds, and the costs, of hanging on for an NHS appointment, compared with paying via insurance or directly for a private appointment that often involves the same personnel. It is a situation to which UK insurance companies are alive.

For instance, Aviva at its last interim results reported a doubling of growth in its health & protection unit, with bandwidth for further expansion (even though users of its service may be familiar with increasing delays). For example, the annual premium equivalent for health was £38mn, or nearly a quarter of the total protection business, reflecting a rise in premiums over the past couple of years of 58 per cent.

For many retail investors, the prospect of playing the trend by buying Aviva's shares will not be a difficult decision – the company is a cornerstone of many an income portfolio. It represents a basket of diversified risk that also includes non-related insurance lines such as motor, life and home.

Zooming back to a global level, the health insurance market is forecast to grow by a compounded 7 per cent annually through to 2034. For greater individual exposure, and possibly better returns, assets with more concentration on the sector might be the way to go, and these can take several forms.

Will Trump do US insurers a favour?

Healthcare insurance companies are a major feature of all the major exchanges in Europe, the US and Japan.

The world's largest and richest healthcare insurance market, by some considerable distance, is America. In 2023, the country spent an estimated $4.8tn on healthcare, equivalent to 17 per cent of the country's GDP and a quarter of the global total. A good $773bn of that total was the cost of medicines. The subject is a source of constant tension. US medicine prices are essentially unregulated on a nationwide level, yet national programmes such as Medicare are big bulk buyers of pharmaceuticals – with no end of squabbles over drug pricing. The pharmaceutical industry's considerable lobbying power is also a source of suspicion.

Health insurers are expected to benefit from higher reimbursement rates under the Medicare programme under Trump (effectively higher levels of privatisation), which meant they were big winners in early November on the back of the election result.

The current administration tried a different approach to medicine buying via the Inflation Reduction Act (IRA). Medical costs and the Trump campaign's avowed hostility to high pharmaceutical prices have made some form of regulation more likely, if not necessarily inevitable, even if the IRA measures are scrapped.

The point that favours an interventionist approach is that, according to various studies, medicine prices are rising faster than individual daily doses, so demographic changes towards an older population in rich countries are not solely to blame for rising costs. This reflects the prevalence of higher-cost biopharmaceutical therapies in hard-to-treat diseases. The industry can only wait and see what president-elect Trump wants to do, but it is likely to be unconventional.

While US public opinion paints a bleak picture, think-tanks say there is a balance to be struck. A major study on pharmaceutical drug pricing by the Rand Corporation did find, perhaps unsurprisingly, a correlation between pharmaceutical revenue and the speed at which new medicines are developed and brought to market. Rand stress-tested various scenarios for how medicine price controls could work.

It said that reducing prices, while a benefit in the short term for the payers – Americans might spend $9,000 less on healthcare with a 20 per cent reduction in pharma profits – also came with the risk of shorter life expectancy as novel therapies took longer to reach the market in this scenario. Without new types of drug there is the risk that therapy becomes more complex and therefore more costly for the healthcare insurers.

Rising costs aren't just a US problem. The European Social Insurance Platform (ESIP) thinks that pharmaceutical costs rose year on year by between 3.9 per cent and 13 per cent in 2023, depending on the market. "While current demographic trends would suggest an increase in volumes of reimbursed medicines, the main driver of pharmaceutical expenditure appears to be higher prices... this dynamic is increasingly linked to a rising share of novel expensive drugs on the overall pharmaceutical expenditure", the group's report noted.

Fund options

So, while taking advantage of the trend, investors must be wary of the pitfalls, which is why offsetting risks via a fund in the first instance might be beneficial as a general strategy before breaking down into individual markets and companies. There are a couple of possible fund options.

The **iShares S&P 500 Health Care Sector ETF (IUHC)** is the most straightforward, although its weighting to health insurers **UnitedHealth Group (US:UNH)**, **Elevance Health (US:ELV)**, **Cigna (US:CI)** and **Humana (US: HUM)** amounts to 14 per cent. That is far less than these companies' 48 per cent share of the **iShares US Healthcare Providers ETF (US:ITF)**, but the latter, as a US-domiciled exchange traded fund (ETF), is much harder to access.

The use of private health insurance has reportedly reached its highest level in three decades of data collection

An option closer to home for UK investors might be **Polar Capital Global Healthcare Trust (PCGH)**, part of the suite of specialist healthcare funds run by parent asset manager Polar Capital. The investment range is broader than an index-tracking ETF, but notably the trust has UnitedHealth as its second-largest holding.

Germany wins again?

If investors can cope with foreign share administration, there are several interesting companies in mature healthcare markets outside the US. In the European context, in terms of one integrated health market, the German social insurance model is second in terms of size and value to the US, although with important differences.

The insurance model here is dominated by large state-backed Krankenkassen which compete directly with listed health insurers. The listed insurers tend to cater to privately insured clients in the Federal Republic. The kassen impose de-facto reference pricing on prescription medicines by negotiating co-payment levels for medicines.

However, the private insurers are still a major presence on the Frankfurt Stock Exchange. **Allianz (DE:ALV)** offers a range of insurance products, including health insurance, and resembles a broadline insurer like Aviva. **Munich Re (DE:MUV2)** is primarily a reinsurance company, but also offers health insurance through its subsidiary Ergo Group, which offers health insurance among other services. Thereafter the importance of health insurance tends to decline as a proportion of sales, and while still key players, health insurance for **Hannover Re (DE:HNR1)** and **Nürnberger Versicherung (DE:NBG6)** is somewhat down the pecking order in terms of the core business.

Outside of Germany, Italian company **Generali (IT:G)** is one of the largest and most important of any kind on the continent, but also with extensive health insurance interests within its life, property and casualty lines.

Big in Japan

Japan's rapidly ageing population is an important market for all types of health insurance. According to consultancy group Imarc, in 2023 the market was valued at approximately $137bn, with projections that it will reach around $280bn by 2032, giving a compound annual growth rate of 8.3 per cent, slightly above the global average. The health insurance industry writes around $18bn of premiums a year.

While the barriers to individual share ownership by outsiders can be complex, the Tokyo Stock Market is large and liquid, with foreign investors trading about 70 per cent of the share volumes (the disappearance of the Japanese homegrown investor is a subject of many studies). In the health insurance space, companies such as **Japan Post Insurance (JP:7181)**, one of the largest insurance firms in Japan, tend to dominate the landscape. However, it does face stiff competition from the likes of **Dai-ichi Life Holdings (JP:8750)**, which as the name suggests also offers comprehensive life insurance services.

With growing demand globally for healthcare services as countries modernise their systems, the growth of private healthcare funded by health insurance is starting to make the case for owning the shares alongside the policies. ●

Dave Baxter

IC COMMENT

Will Nick Train's trust survive?

There has been so much to write about consolidation among closed-ended funds over the past year that a colleague has taken to joking about my "investment trust merger column".

There is an argument that lower interest rates, relatively buoyant markets and the fact that so many trusts have already merged might see this trend start to lose momentum soon.

Having said that, a little sector disruption is still due, and it may well claim the scalps of a couple of especially high-profile trusts before things start to improve.

Two well-known funds have recently responded to poor performance by offering shareholders a continuation vote.

Schroders Capital Global Innovation (INOV), which launched to great acclaim as a Neil Woodford vehicle and then began a disastrous run of performance that subsequent manager Schroders has struggled to arrest, has decided to hold its continuation vote, originally due in May 2025, "at the earliest opportunity".

The investment team will make no new investments until the outcome of the vote is known, and the trust has proposed to go into managed wind-down if it doesn't survive the vote. There is certainly a good case for calling time here: shareholders are sitting on a 90 per cent loss since the trust's launch back in 2015 and there is only one calendar year (2021) in which they have made a positive return.

There are arguments for staying the course, however. A warming up of the IPO market could help the trust, and many investors may have bought in on huge discounts, offering room for recovery. It's also important to note that this portfolio is highly illiquid and any wind-down could prove a protracted affair.

Elsewhere, Nick Train UK equity vehicle **Finsbury Growth & Income (FGT)** has produced positive returns, but lagged its peers in recent years. I wrote earlier this year about Train's attempts to explain his underperformance (reasons include not having enough focus on technological advances); the trust has now pencilled in a continuation vote for January 2026.

"This will offer all shareholders, in particular our retail shareholders who represent a significant proportion of our register, an opportunity to express their support, or otherwise, for the continuation of the company with its current investment strategy," the board said this month.

Train's fund has some good arguments going for it, from a strong long-term track record to a sense that holdings such as **Experian (EXPN)** and **London Stock Exchange (LSEG)** have advantages to gain from their extensive stash of proprietary data. What's more, the fund does seem to have the support of institutional shareholders, with the board noting that none of these had expressed "any appetite for a material change in approach".

But as the board also notes, DIY investors will hold plenty of sway here.

S&P Capital data indicates that Hargreaves Lansdown alone makes up some 17.5 per cent of the shareholder register, with Interactive Investor accounting for 8.1 per cent, AJ Bell making up 4.6 per cent and Charles Stanley on 1.9 per cent. Other brokers with a retail focus also have some presence, meaning DIY investors have a pretty substantial say.

January 2026 is some time away, and as noted the trust's share price total returns have started to improve recently. Those looking to call time on Train's fund may find it easier to simply sell their shares and look for an alternative rather than wait.

Funds to tap into the financials rally

US financial companies are having an excellent year. How can UK investors gain exposure? Val Cipriani reports

If asked whether financial or tech funds performed better in the past year, which would you pick? Many would choose tech – but they would have been wrong to do so.

The Investment Association (IA) collection of financials and financial innovation funds returned 33.6 per cent in sterling terms in the year to 6 December, slightly ahead of the technology and technology innovation sector, which rose 32.8 per cent. As the chart above right shows, both sectors have performed particularly strongly in the past few months, especially after Donald Trump's success in the US presidential election.

Admittedly, this came as part of a generally excellent run for equities, with the MSCI World up 27.9 per cent over the same period. Still, the outperformance is significant enough to pique one's interest.

Inflation and deregulation

The rally in financial stocks appears to be due to a combination of reasons. Part of it is down to macroeconomics. "For banks, you have a sweet spot of fairly high [interest] rates, which means good net interest margins, while at the same time reasonable economic growth and moderating inflation, which means fewer loans defaulting," explains Ben Yearsley, investment director at Fairview Investing. "Add in the great outlook for underwriting and premiums in the insurance sector, and two key pillars of the finance world are doing well."

Adam Carruthers, senior fund analyst at Charles Stanley, notes that commercial banking in particular is interest-rate-sensitive. Trump's policies are expected to be more inflationary, meaning those rates may not fall as much as had been expected. "Higher-for-longer interest rates benefit banks through the money they make on net interest margin," he sums up.

Trump is also expected to reduce the regulatory burden on US financial companies. John Moore, senior investment manager at wealth manager RBC Brewin Dolphin, says that big banks are likely to be the biggest beneficiaries. Possible measures include cuts to banks' tier 1 capital allocations – the core capital they must hold as a proportion of their "risk-weighted assets" (such as loans). "In the short term, that should give them the ability to, at the very least, be more efficient," says Moore.

Do you need exposure?

These tailwinds do not imply that all investors need a dedicated financial fund in their portfolio. In the short term, there is a question over whether all the upside is now priced in, and whether investors not yet involved may have missed the boat.

More generally, the sector's aforementioned relationship with macroeconomics can be a double-edged sword. Carruthers says investors should be aware that macroeconomic conditions as well as different geographical, structural and regulatory issues matter to the valuations of financial stocks. Any change to these conditions would alter the outlook accordingly.

Then there is the usual concentration risk of investing in thematic funds, which applies both to the funds themselves and to the way they affect your overall portfolio. As we have emphasised in the past, these are meant to be satellite rather than core holdings.

"The big risk is you are doubling up on exposure with mainstream funds you own, regardless of whether they are active or passive," says Yearsley. "Obviously some sectors have bigger weights in certain indices – a FTSE 100 tracker has quite a bit of finance, whereas the S&P is laden down with tech."

Most dedicated financial funds have a high exposure to the US, which is also worth keeping an eye on when it comes to judging the overall geographical balance of your portfolio.

Fund ideas

There isn't a huge choice of funds dedicated to the financial sector, either. The IA financials grouping has 15 constituents, compared with 33 for the tech sector.

The **Xtrackers MSCI World Financials ETF (XWFS)** is a passive option, and tracks "large and mid-cap companies from the global developed markets part of the financials sector". As of 6 December, 61.6 per cent of the portfolio was in US companies, and the top holdings were JPMorgan Chase, Berkshire, Visa and Mastercard.

It's worth noting that financials "is a very broad, diverse sector in markets with many different drivers", says Carruthers. This ranges from commercial and investment banking, to insurance, asset management and fintech. Arguably, this supports the case for active investing, which offers you a more targeted approach. On the other hand, "it is very important to understand the universe that a manager is covering and their skillset and the value they add in each part of that universe", Carruthers adds.

Certain funds focus on a specific subsector. One that multiple analysts highlight is **Polar Capital Global Insurance Fund (IE00B5339C57)**. The fund invests in non-life and predominantly commercial insurers. David Holder, senior investment research analyst at Square Mile Investment Consulting and Research, explains: "This type of insurance is often required by law; therefore it is not a discretionary spend and is thus likely to be less sensitive to macroeconomic factors."

Yearsley describes the Polar strategy as a "dull" fund but one that "makes money in low and high-rate environments – unlike banks, which find it much harder making money in low-rate environments".

The fund aims for an annualised total return of 10 per cent, which the managers have delivered over the medium to long term. As of 29 November, three-quarters of the fund's portfolio was in US companies. The fund looks fairly concentrated too, with the top 10 holdings accounting for 58 per cent of assets. The fund also features in the IC's Top 50 funds list.

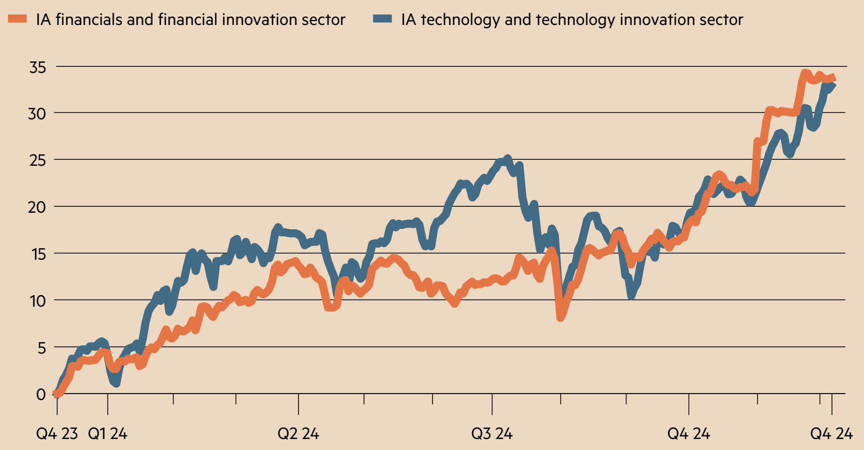
Meanwhile, **Polar Capital Global Financials (PCFT)** is the main investment trust dedicated to financials. In early November, Stifel analysts named it as one of the biggest possible trust beneficiaries of a Trump victory, citing its high exposure to US financial companies. The trust returned 42.1 per cent in the year to 6 December, having had somewhat more difficult years in 2022 and 2023. Over the past decade, its performance is slightly below its benchmark, the MSCI ACWI Financials Index.

As of 6 December, the trust was trading at a fairly narrow discount of 5 per cent. A twice-a-decade tender offer for the entire share capital of the trust is due by June 2025. "The previous tender was priced at net asset value, less the tender offer expenses, and we expect a similar proposal next year," Stifel analysts said earlier this year. They suggested that this, together with share buybacks, would be likely to keep the discount and discount volatility relatively low in the months ahead.

Finally, a broad financial services fund that stands out for its track record is the **Fidelity Global Financial Services Fund (LU1033663136)**, which has delivered returns well ahead of its benchmark in the medium and long term – 198 per cent in the decade to 6 December, against 165 per cent for the MSCI ACWI Financials.

FINANCIAL FUNDS ARE DOING EVEN BETTER THAN TECH FUNDS

One-year sterling share price total returns to 6 December (%)



Source: FE

BlackRock's Stefan Gries: Trump will drive volatility in Europe

Val Cipriani speaks to Stefan Gries, manager of BlackRock Greater Europe, about the US and China, weight-loss drugs and picking stocks in an unloved market

The election of Donald Trump as US president was probably not the news most European equity managers were hoping for on the morning of 6 November. The prospect of a protectionist America creates further headwind for a market where sentiment has not yet fully recovered since the start of the war in Ukraine.

Stefan Gries, manager of **BlackRock Greater Europe (BRGE)**, tries to strike a balance between acknowledging the difficulties and downplaying the worst fears. "There's no doubt in my mind, we will see some volatility along the way. There will be some headlines that will scare people," he concedes. But, he adds, what the actual policies will then look like remains to be seen.

It's fair to say European markets in general did not welcome the outcome of the US election. In the month to 20 November, the FTSE World Europe ex UK index, BlackRock Greater Europe's benchmark, was down 5 per cent in sterling terms, while the S&P 500 was up 4 per cent.

STEFAN GRIES

But Gries argues that it will not be straightforward for Trump to introduce the policies that would be most damaging to Europe. "If you think about what Trump ultimately won the election on, it was cost of living and inflation, and immigration," he notes. But introducing tariffs and cutting immigration are potentially inflationary measures. "It'll be interesting to see how far and how aggressive they go," he concludes.

CV

2006–08
COMPLETES A GRADUATE PROGRAMME AT SCOTTISH WIDOWS INVESTMENT PARTNERSHIP

2008
JOINS BLACKROCK

PRESENT
CO-HEAD OF EUROPEAN EQUITY TEAM IN BLACKROCK'S FUNDAMENTAL EQUITY GROUP, AND MANAGER, BLACKROCK GREATER EUROPE INVESTMENT TRUST, ALONGSIDE ALEXANDRA DANGOOR

STEFAN GRIES' TOP 10 HOLDINGS

Company	Sector	Exposure as at 30 September 2024 (%)
Novo Nordisk	Healthcare	7.6
ASML	Technology	7.4
RELX	Consumer discretionary	6.6
Schneider Electric	Industrials	4.9
Partners Group	Financials	4.3
Safran	Industrials	4.3
Ferrari	Consumer discretionary	4.3
Hermès	Consumer discretionary	4.2
Linde	Basic Materials	3.8
ASM International	Technology	3.8
		51.2

Source: Trust factsheet

Good news wanted

The trust could do with some good news. Over the past three years it has underperformed both its benchmark and its peers by some measure. However, the trust's long-term track record remains solid: it returned 174.3 per cent in the decade to November 2024 against the benchmark's 122.1 per cent.

Gries says BlackRock Greater Europe's quality growth approach has been out of favour, pointing to weakness in China and a "very long destocking cycle" as the economy gradually normalises after Covid as among the reasons for this. "We started this year expecting to see more evidence of recovery and economic momentum to come through in the second half, and clearly that has been delayed," he adds.

But he remains optimistic on the continent's prospects, citing falling interest rates, moderating inflation and the fact that "the valuation of European equities is probably at the widest discount we have seen" compared to the US. "There's a huge amount of money sitting in money market funds at the moment... as rates come down again, some of that will have to find a new home," he argues.

Gries acknowledges the weakness of sentiment towards the region. The BlackRock Investment Institute itself remains underweight to European equities in its latest tactical view, which refers to the fourth quarter of 2024 and has a timeframe of six-to-12 months. The stated rationale is: "Valuations are fair. A growth pickup and European Central Bank rate cuts support a modest earnings recovery. Yet political uncertainty could keep investors cautious."

Gries lists three potential catalysts for improvement: elections in Germany next year ("Germany has been quite a drag on growth, and we're expecting change there"), recovery in China and the war in Ukraine coming to an end.

Evidently, none of this is an easy or quick problem to solve, and any predictions around the end of the war in Ukraine may sound like wishful thinking after the escalation of the past few weeks. But Trump has said he would push for a quick solution to the conflict. It is possible that 2025 could bring some form of resolution on these three fronts.

Gries also urges investors not to confuse the European stock market with the European economy. "We don't really have to be positive on Europe as a region to own a portfolio like this. Frankly, I don't really care whether Europe as a region grows 3 per cent, 2 per cent or 1 per cent, because a lot of our companies will deliver very attractive growth at high returns," he says.

The leverage being used by BlackRock Greater Europe suggests the managers are feeling somewhat confident. The trust is currently geared at about 9 per cent of assets, against a maximum of 15 per cent. Gearing stood at about 10 per cent at the end of 2023 and just 2 per cent at the end of 2022.

Giant in niches

BlackRock Greater Europe's pitch is about investing in "Europe's highest quality, fastest-growing companies, irrespective of size and geography". Gries says this translates into looking for a trustworthy management team with a clear strategy, high return on capital employed and high levels of free cash flow. The stocks in the portfolio tend to be "global leaders that are listed in Europe, companies that are dominating their respective segments, that have pricing power. We sometimes call them giants in niches", he explains.

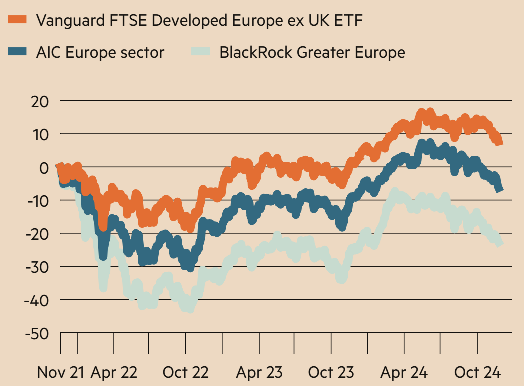
The result is a concentrated portfolio, which, as of the end of August, consisted of 34 stocks, with the top 10 accounting for more than half the total. **Novo Nordisk (DK:NOVO.B)** and **ASML (NL:ASML)** are also the top companies in the FTSE World Europe ex UK index, albeit the trust's weightings to the companies are double those in the benchmark

Both have struggled in recent weeks after strong runs. After years of strong growth, Novo's share price dropped by a fifth in the second half of 2024. The company has a leading position in the weight loss drug market, but now has to contend with high sales and growth expectations.

Gries says that with such a strong performer, "having an intermittent share price setback is a healthy development".

THE TRUST HAS BEEN UNDERPERFORMING

3-year sterling share price total return to 20 November (%)



Source: FE

"What we like about this investment case is that Novo operates in a duopoly, a two-player market with **Eli Lilly (US:LLY)**," he says. Both companies, he adds, have been producing at capacity over the past two years, because demand was so much stronger than supply. Gries also argues that the market is still in its infancy, with huge potential for growth, in the US but also in the rest of the world. Earlier this month, Novo launched its weight-loss drug Wegovy in China.

Gries adds that Novo "has the cleanest accounting of any healthcare company in Europe", generates a lot of cash, which is typically returned to shareholders via share buybacks, and is cheaper than Eli Lilly. However, being listed in the US, the latter is likely to continue to command a higher price tag. At the same time, it is hard to gauge how much of the expected growth of the weight loss market is already priced in.

Meanwhile, shares in semiconductor stock ASML dropped 20 per cent in October, after the company reported a drop in its bookings and sale forecasts for 2025. Gries acknowledges that this was a surprise, but believes the missing orders that caused this are delayed rather than lost. "The world simply cannot rely on just one foundry based in Taiwan to produce all the high-end semiconductor chips that are needed," he says.

ASML, he argues, is pretty much a "listed monopoly" in the AI chain, the only company that produces the lithography tools needed to make chips. "Those machines require a level of precision that's comparable to firing a laser at the sky and then hitting a golf ball-sized object on the moon," he explains.

Gries' view on artificial intelligence (IA) is that new technologies "often follow a very similar pattern, where people overestimate what can be done in the near term, but underestimate the impact of the medium-to-longer term". He likes to own companies that provide "picks and shovels" for the AI revolution, including ASML but also companies in the industrial and building materials sectors – which, for example, will be needed to build more data centres.

If the trust is not necessarily a play on the European economy, a portion of its performance does hinge on the Chinese one. China is a key market for luxury names such as **LVMH (FR:MC)** and **Hermès (FR:RMS)**, and the first stock in particular has lost quite a lot of ground this year.

"The Chinese economy right now is probably the weakest we've seen it in the last 15-20 years," Gries says. But he expects more government support next year and for the situation to stabilise somewhat. Gries adds that the number of high net worth individuals – the customers of luxury brands – is still forecast to grow significantly by the end of the decade. "We are prepared to take a longer-term view here on some of our key holdings in the sector," he concludes.

The trust prides itself on its low turnover. In the year to August 2024, it sold two holdings: Danish logistics company **DSV (DK:DSV)** and French pharmaceutical equipment supplier **Sartorius Stedim (FR:DIM)**, in both cases partly as a result of "diminished faith in company management". It also bought beauty company **L'Oreal (FR:OR)**, citing its consistent investment in research and development, its data analytics capability allowing it to understand consumer preferences, and potential for growth in emerging markets. "We really want to be an owner of businesses rather than a trader in stocks," Gries says.

Shares I love: Softcat

This IT company proves growth opportunities exist in the UK market. Val Cipriani reports

- **Softcat benefits from growing business IT spend, says Maclean**
- **The company's culture stands out, she adds**

Rebecca Maclean, co-manager of **Abrdn UK Sustainable and Responsible Investment Equity Fund (GB00B131GD17)** and **Dunedin Income Growth Investment Trust (DIG)**, explains why her funds invest in **Softcat (SCT)**:

"If you believe the UK market lacks growth and opportunities to invest in innovative technology, think again. Softcat is a compelling investment option for those seeking under-appreciated quality and resilient growth. This technology value-added reseller specialises in IT hardware, software and services, serving more than 10,000 small and mid-sized businesses across the UK.

"Softcat helps corporates decide which technology solutions are right for them, and is an important channel for vendors to reach a greater number of customers. The company benefits from structural growth in corporate technology spend, without taking the product risk. With a remarkable track record of double-digit gross profit growth over the past 20 years, Softcat has established itself as a leader in its field.

"IT spend is now considered essential rather than discretionary for many businesses. According to Gartner, the UK IT market is projected to grow 9 per cent a year from 2023 to 2026. Corporates and public sector institutions are investing in cyber security, cloud migration, networks and infrastructure upgrades, and artificial intelligence solutions to enhance productivity and drive growth.

"Softcat's chief executive, Graham Charlton, says the past 18 months have been particularly challenging for IT resellers. Low business confidence has impacted decision-making and delayed investment in items such as laptops. Despite this weaker market, Softcat delivered 13 per cent gross profit growth during the last reporting period. It successfully surpassed its competitors to become the market-leading IT value-added reseller in the UK.

"The company has mastered the art of attracting new customers while getting existing ones to spend more thanks to its broad offering. As companies look to streamline supplier relationships, Softcat's diverse offering positions it as a preferred partner.

"Despite this success, Softcat currently has a market share of only 5 per cent, and 20 per cent penetration of the customer base. The industry outlook is positive and Softcat has the potential to continue to outperform the market.

"The business model is cash generative, and Softcat operates with a net cash balance sheet and distributes most of its earnings to shareholders through dividends. It recently announced a special dividend of 20.9p, alongside an 18.1p final ordinary dividend, a yield of about 2.4 per cent. With solid fundamentals, an attractive market environment and a proven growth strategy, Softcat stands out as a sustainable quality idea."

As at 31 October 2024, Softcat accounted for 2.2 per cent of Dunedin Income Growth's portfolio. ●

SHARES I LOVE: SHOPIFY

Greg Eckel, portfolio manager of **Canadian General Investments (CGI)**, explains why the trust invests in **Shopify (US:SHOP)**:

"Canada's growing technology sector has been a driving force in 2024, helping the Canadian S&P/TSX Composite Equal Weight Index outpace its US equivalent in the year to date. A standout example is Shopify, the world's second-largest ecommerce platform outside China.

"Despite its global scale, it remains virtually invisible to consumers. Unlike Amazon, where vendors operate under the shadow of the marketplace's branding, Shopify empowers businesses with the infrastructure to build their own online presence, giving them greater control and independence.

"The company began as a subscription-based platform that allowed merchants to create user-friendly, customisable online storefronts at an affordable monthly cost. This straightforward model enables it to serve businesses of all sizes, from small independent boutiques to global giants such as Mattel, Gymshark and Nestlé. Shopify now supports more than 4.5mn businesses across 175 countries.

"However, perhaps even more impressive is the platform's capacity to retain businesses as they grow. Shopify achieves this through its comprehensive "ecosystem" of services, offering everything from marketing and analytics to stock management and business loans.

"The crown jewel of this ecosystem is Shopify's payment solutions. Payments alone accounted for approximately 60 per cent of Shopify's revenue last year.

"The company's performance underscores its success. In its Q3 report, Shopify exceeded expectations, with net income rising to $828mn (£650mn) from $718mn last year, and revenue up 26 per cent to $2.16bn, surpassing analysts' projections of $2.1bn.

"The firm anticipates sustained momentum through the holiday season, forecasting year-on-year revenue growth for Q4 in the mid-to-high 20s per cent – a pace unmatched by most competitors in the ecommerce space."

As at 29 November 2024, Shopify was CGI's eighth biggest holding and accounted for 3.2 per cent of the portfolio. **VC**

Outlook 2025: Eyeing new growth avenues in emerging markets

Nick Price, Portfolio Manager, Fidelity Emerging Markets Ltd

Fidelity Emerging Markets Limited portfolio manager Nick Price shares his outlook for 2025 and provides an insight into how he and the team are looking to position the portfolio against an evolving macroeconomic backdrop.

What is your outlook for emerging markets?

We continue to see broad balance sheet strength among emerging markets (EM) companies. Many central banks in emerging markets were ahead of the curve in acting decisively to raise rates and bring inflation under control, meaning they could cut interest rates well ahead of the Fed. While the new US administration and the potential for higher inflationary pressures is a potential headwind, EMs in general have higher foreign-exchange reserves and less dollar-denominated debt today, making them better equipped for a what could be an environment of structurally higher rates and a stronger dollar. EMs also benefit from an improved fiscal backdrop, which stands in stark contrast to the UK and the US.

China is key to the outlook. This year the government has shifted from deleveraging the property market to looking to mark a bottom in property prices, with meaningful stimulus measures announced, and we think that any signs of stabilisation should support consumer confidence. However, excess capacity in industries like steel, cement, and solar will likely persist, while the potential for higher tariffs is also a consideration, making it vital to be incredibly selective when investing in China.

The EM universe is trading at multi-decade lows relative to developed markets (DMs). Part of this is down to concerns about geopolitics. The US election result has both direct and indirect implications for EM equities; these are the types of events we continue to scrutinise incredibly carefully, drawing on the inputs of external experts and our own locally based research analysts to help us make sense of elevated unpredictability in markets.

How are you looking to position your portfolio against this backdrop?

The financials sector continues to offer up opportunities; here we make use of our comprehensive EM research team to traverse a broad investable universe and examine underexplored areas of the market. Areas of interest include fintechs, for example digital banks and payment apps that benefit from low operating costs and have fast expanding and engaged user bases that allow them to plug new verticals with no customer acquisition costs. We continue to have a favourable view of structural growth stories like Indian financials, including leading private sector banks, which trade on cheaper multiples than the broader Indian market but still provide exposure to the theme of expanding middle class wealth. Other areas of focus include value opportunities in central and eastern European markets such as Greece, where many high-quality banks trade on cheap multiples, with the market overlooking the fact that these banks have excellent asset quality and have started returning capital to shareholders.

Our focus in China is largely on the consumer-facing space and we see opportunities among internet names and premium sportswear companies that are returning capital to shareholders through buybacks. We also think that companies such as white goods businesses should be beneficiaries of an improving consumption backdrop as stimulus measures come through. We are, however, taking a highly selective approach in China, and are avoiding areas of the market like banks, which are being used to reflate the property market. We are also wary of parts of the industrial complex suffering from overcapacity, and export-dependent businesses with inadequate supply chain diversification that could be vulnerable to any increase in tariffs.

We have a constructive view of technology hardware stocks. While US companies are typically thought of as AI beneficiaries, this ignores the fact that the bulk of the AI supply chain sits in Asia, including semiconductor foundries and producers of high bandwidth memory, which are used in AI chips. As a result, the EM universe offers exposure to the structural trend of growing demand for AI at much more attractive valuations.

Our outlook for commodities is mixed. The supply/demand environment for oil remains challenged as we see high levels of excess capacity among OPEC producers and weak demand from China. The backdrop for copper is more constructive: while the new US administration could have implications for clean energy investment, we continue to see electrification as a strong structural driver over the medium term, which is matched with a very muted outlook for more supply coming online over the next decade, all pointing to large forecast deficits and a constructive price environment in the years ahead.

Important information

The value of investments can go down as well as up and investors may not get back the amount invested. Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates. Investments in emerging markets can be more volatile than other more developed markets. The use of financial derivative instruments for investment purposes, may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations. Investors should note that the views expressed may no longer be current and may have already been acted upon. The shares in investment trusts are listed on the London Stock Exchange and their price is affected by supply and demand. Investment trusts can gain additional exposure to the market, known as gearing, potentially increasing volatility. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser.

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Fidelity INTERNATIONAL

Julian Hofmann

IC COMMENT

How investors are caught out by popularity

There have been many reminders during the past quarter that share prices are often as much a commentary about a company as *Strictly Come Dancing* is a serious technical look at the art of ballroom dancing.

That isn't to say that the two disciplines are interchangeable – I doubt many investors would opt for a *Strictly* judge to run their portfolios, although Warren Buffett dancing the Cha-Cha-Cha is something I would pay to see.

The key point is that in both cases the outcome is as much a popularity contest as it is related to excellent performance. In share price terms, 'winning' this popularity contest isn't always straightforward. Often the surge in interest is sudden and in contrast to recent evidence, for instance when reaction to specific news can cause shares to reflect a company's prospects after a period of directionless stagnation.

There have been more than a few examples of this phenomenon this year, which in some cases has affected the FTSE 100 dramatically.

Membership of the FTSE 100 is much more fluid than many appreciate. There are notorious yo-yo companies such as **Ocado (OCDO)**, which has fallen out and returned several times since first breaking into the index in 2018.

Ocado's problem is that investors tend to be evenly split between those that think it is essentially a tech company and the many others that dislike its capital-intensive business model, which isn't very 'tech' at all. Consequently, the line between buyers and shorters is a fine one and can tip easily either way depending on the prevailing newsflow.

Another company that has yo-yoed this year is **St James's Place (STJ)**, which rejoined the large-cap index this week after a six-month absence. St James's Place is a different case and represents the problems that companies have experienced this year with more active regulators. Few regulatory interventions are likely to have impacted a FTSE 100 company as comprehensively; the business came under huge scrutiny for its fee structure, including its policy of charging exit fees on funds that investors wanted to withdraw.

Management said it could change things around and set aside £426mn as a provision against legal claims without significantly affecting the business. No one believed that premise, but investors would have been wise to look at the company's fundamentals – the phenomenal loyalty of its customers (a retention rate of over 94 per cent) and its ability to attract funds in all market conditions that meant consistently high cash flow. Investors who kept the faith and picked up the shares near the bottom are sitting on gains of 73 per cent in six months.

However, perhaps we shouldn't be too dismissive of investor caution. It is a consistent theme this year that investors have struggled to adequately price risk, with uncertainty over the long-term direction for interest rates and even the lingering impact of the pandemic playing a role in making decision-making difficult.

On the latter front, supply chain inflation continued to affect the likes of **ConvaTec (CTEC)**, the FTSE 100 personal and wound care specialist, as did de-stocking among its medical customers. That suppressed its margins – a pressure that only lifted in the last quarter. While that effect has eased, it is still a puzzle why the market found it difficult to evaluate how long this would last. Partly this is because of a lack of comparable data.

But investors were clearly caught off guard by ConvaTec's last trading update, where expanding margins and higher organic sales translated into a 20 per cent share price gain on the day – the best single day for the share price since its debut on the market in 2016. Investors could not determine which direction the broader market would turn, hence the slow attrition in the share price for most of the year prior to that point.

The "inflation easing" story was partly behind the 14 per cent one-day increase for specialist chemicals company **Victrex (VCT)** last week, although the easing of capital expenditure after years of spending on new production plants might also have played a role. Still, input costs are falling to the benefit of operating margins.

On the flipside, underestimating the downside is just as much a part of investment behaviour. Eyewear manufacturer **Inspecs (SPEC)** offered a classic example of this after a difficult trading update this week sent shares down another 15 per cent lower on a reduced outlook for sales and profits. Again, this partially rested on the outcome of a difficult intangible measurement – in this case poor consumer confidence in the European market, with the result that big customers started to defer new orders. Germany, with roughly 12 per cent of the European eyewear market, looked particularly weak. Overall, with forex headwinds also included, this meant brokers forecast a 20 per cent downgrade to earnings per share.

It comes as little surprise that investors are having trouble evaluating market reactions – particularly in the case of turnaround stories. Having focused on industries with resilient earnings and growth potential all year, sectors with exposure to inflationary costs and interest rate pressures fell behind in the popularity contest. Those who spotted the valuation lags and the easing of these pressures are now benefiting from the biggest gains on the market this year. ●

DS Smith's profits slide on lower packaging prices

Weak demand and higher input costs are weighing on the company's profitability. Valeria Martinez reports

DS Smith SMDS 569p **HOLD**

CONTAINERS & PACKAGING

- **Adjusted operating profits slide 39 per cent**
- **Net debt to Ebitda rises to 2.8 times**

In what could be its last set of standalone results as a London-listed entity, **DS Smith (SMDS)** exemplified how weak demand and higher input costs can impact profitability.

Adjusted operating profits slid 39 per cent to £221mn. The market reaction was muted as this was in line with management expectations and consensus estimates, and the packaging giant is on track to complete its £7.2bn tie-up with US-based paper maker **International Paper (US:IP)** in the first quarter of 2025, pending regulatory approval.

In the meantime, DS Smith continues to struggle with lower selling prices, which dragged revenues for the half-year to 31 October down 2 per cent to £3.4bn, despite year-on-year volume box growth of 2 per cent.

DS Smith is not alone in suffering a drop in demand due to customer destocking across the sector after the pandemic boom in packaging sales. However, it does have control over how it deals with a high-cost environment.

Softening demand meant pricing was 5 per cent, or £160mn, lower than last year. Overall costs rose by £22mn on the back of higher fibre and paper prices, which were partially offset by reduced costs in other raw materials, as well as cost and productivity initiatives.

The FTSE 100 company said customer de-stocking is now "largely over", with signs of volume improvement and the benefit of packaging price hikes expected to be weighted to the second half of the current financial year.

Negative free cash flow reflected a 15 per cent rise in net capital expenditure and a working capital outflow of £55mn, driven by the impact of higher paper prices on inventories and the effects of the reversal of prior cash collateralisation of energy hedges.

Net debt rose to £2.5bn, up from £2.2bn a year ago. This resulted in a net debt to Ebitda ratio of 2.8 times, higher than DS Smith's medium-term target of at or below two times, but sitting below its primary covenant requirement of 3.75 times.

Packaging giant DS Smith continues to struggle with lower selling prices, dragging revenues down

Analysts at Barclays have estimated the combination of International Paper and DS Smith would trade at 12 times earnings on a pro-forma basis, noting that other packaging groups command higher PEs. There could still be further gains to make for those willing to hold the shares until completion as box volumes improve. Hold.

Ord Price: 569p
Market Value: £7.9bn
Touch: 569-570p
12-Month High: 602p **Low:** 270p
Dividend Yield: 3.2%
PE Ratio: 35
Net Asset Value: 272p*
Net Debt: 65%

Half-year to 31 Oct	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	3.51	268	14.8	6.0
2024	3.37	29.0	3.10	6.2
% change	-4	-89	-79	+3

*Includes intangible assets of £2.7bn, or 194p a share
Last IC view: Hold, 359p, 20 Jun 2024 Ex-div: 12 Dec Payment: 29 Jan

Custodian Property Income Reit

CREI 79p **BUY**

DIVERSIFIED REITS

Higher interest rates mean that real-estate investment trusts (Reits) need to do more to keep their heads above water. **Custodian Reit (CREI)** is doing just that. Income is the focus for this diversified Reit and it has been pretty good at generating it.

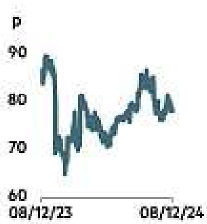
The team grew rents by 2.8 per cent over the period and increased occupancy to 93.5 per cent. However, there is still room to grow – passing rent is 11 per cent below the portfolio's estimated rental value.

The dividend is also healthy. Custodian is targeting a fully covered full-year dividend of 6p per share. It currently trades on a dividend yield of about 7.8 per cent.

Valuations are also looking good. Custodian reported a 0.4 per cent increase in portfolio valuation. For the valuation sceptics, this is backed up by market evidence – Custodian sold £13.7mn-worth of assets for 39 per cent more than the pre-sale valuation.

The Reit is also on the prowl. Despite an unsuccessful attempt to merge with **Abrdn Property Income Trust (API)**, the Reit's investment manager, Richard Shepherd-Cross, confirmed it is still scanning the market: "We are actively looking at opportunities all the time... We have tended to trade at a slightly higher rating relative to our peers, which would suggest [that we are] more likely to be an acquirer than an acquiree," he said.

Given the income offered by this Reit, it looks undervalued. It currently trades on 12.8 times forward earnings, according to FactSet, which is below its five-year average of 14.9 times forward earnings. All in all, we like this little Reit. Buy. **NV**



Ord Price: 79p
Market Value: £350mn
Touch: 79.5-79.5p
12-Month High: 92p **Low:** 64p
Dividend Yield: 7.8%
Trading Prop: na
Discount to NAV: 15%
Net Debt: 27%
Investment Prop: £582mn

Half-year to 30 Sep	Net asset value (p)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	95.9	-2.67	-0.6	2.75
2024	93.6	14.9	3.4	3.18
% change	-2.4	–	–	+15

*Dividend was paid to shareholders on 29 Nov
Last IC view: na

AJ Bell to buy back shares after record results

Revenue growth was stronger than expected at the FTSE 250 investment platform. Jemma Slingo reports

AJ Bell AJB 506p **BUY**
INVESTMENT SERVICES

- Twentieth year of dividend growth
- Costs on the rise

AJ **Bell (AJB)** has announced a £30mn buyback scheme and delivered its 20th consecutive year of dividend growth, following a "record" financial performance.

The investment platform grew revenue by 23 per cent to £269mn in the year to September, while profit before tax rose by almost 30 per cent to £113mn. Growth was driven by an influx of new customers, strong interest income, net inflows of £6.1bn and favourable market movements of £9.5bn. The company now has 542,000 platform customers, up 14 per cent year on year, and £86.5bn of assets under administration, up 22 per cent year on year.

AJ Bell's investments arm – which offers a range of simple, low-cost investment solutions – is also proving popular, with assets under management up 45 per cent at £6.8bn.

Management argued that structural growth drivers remained strong, as "more individuals recognise the importance of taking control of their financial future". As a result, the company said there would be opportunities for further shareholder returns in the future, "over and above a progressive ordinary dividend".

Revenue growth has certainly exceeded the market's expectations, largely as a result of higher transaction fees – there was plenty of dealing activity in the past year, as retail investors responded to a recovery in global equity markets. However, costs were also higher than anticipated. Administrative expenses increased by 23 per cent, fuelled by staff and technology costs. As a result, profit growth came in roughly in line with analysts' expectations.

AJ Bell is a high-margin, cash-generative business with no debt. Its pre-tax profit margin widened to 42 per cent last year, and net cash from operations sat at a comfortable £96mn. It is also trusted by the public and financial advisers, with a customer retention rate of 94 per cent.

None of these things come cheap. In fact, AJ Bell is the most expensive among its listed European platform peers, according to Citi. Based on estimates for the 2026 financial year, its shares trade on a price/earnings ratio of 22 times, compared with an industry average of 16.6 times.

We believe this is a price worth paying for quality, however – particularly given the growth AJ Bell has delivered this year and the interest shown by private equity firms in investment platforms. Buy. ●

GROWTH WAS DRIVEN BY AN INFLUX OF NEW CUSTOMERS, STRONG INTEREST INCOME, NET INFLOWS OF £6.1BN AND FAVOURABLE MARKET MOVEMENTS OF £9.5BN

Ord Price: 506p
Market Value: £2.1bn
Touch: 505-507p
12-Month High: 500p **Low:** 244p
Dividend Yield: 2.5%
PE Ratio: 25
Net Asset Value: 49p
Net Cash: £183mn

Year to 30 Sep	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2020	127	48.6	9.51	6.16
2021	145	55.0	10.6	6.96
2022	164	58.4	11.4	7.37
2023	218	87.7	16.6	10.75
2024	269	113	20.5	12.5
% change	+23	+29	+23	+16

Last IC view: Buy, 401p, 23 May 2024 Ex-div: 9 Jan Payment: 29 Jan

Schroder European Real Estate
SERE 69p **HOLD**
DIVERSIFIED REITS

The team at **Schroder European Real Estate Investment Trust (SERE)** has had a busy year, securing a 3 per cent increase in EPRA earnings with rental growth offsetting the impact of higher interest rates.

The portfolio valuation declined 3.6 per cent as investor sentiment and those higher rates weighed on the portfolio valuation. However, the decline was almost entirely weighted towards the first half of the year.

There are some risks in the portfolio as it has several leases coming up for renewal. One, a data centre in Apeldoorn (in the Netherlands), is let to KPN and Schroders and represents 18 per cent of contracted rent. When asked about the back-up plan should negotiations fail, fund manager Jeff O'Dwyer said SERE would speak to other data centre companies or consider selling off land for residential development for which they have zoning. "One of the big positives is that we've got power, and that's becoming a scarce resource in the Netherlands," he said.

As ever nowadays, the other question is how the trust intends to eliminate its discount to net asset value. "We're possibly looking at a small share buyback, given the discount that we have...but being a small vehicle we don't want to do too much of that," said O'Dwyer.

While the uncertainty around tenant negotiations does create some risk, it also leaves open the possibility for upside. SERE trades at just 11 times forward earnings, according to Panmure Liberum forecasts. But we remain circumspect about the European economy, particularly Germany. Hold. **NV** ●

Ord Price: 69p
Market Value: £92mn
Touch: 67.8-68.7p
12-Month High: 74p **Low:** 59p
Dividend Yield: 7.2%
Trading Prop: na
Discount to NAV: 37%
Net Debt: 26%
Investment Prop: €206mn

Year to 30 Sep	Net asset value (p)	Pre-tax profit (€mn)	Earnings per share (¢)	Dividend per share (¢)
2020	151	28.4	21.2	5.70
2021	149	9.4	4.7	7.10
2022	141	16.6	10.4	7.40
2023	128	-10.0	-7.0	6.66
2024	123	1.35	0.4	5.92
% change	-4	–	–	-11

*A further announcement will be made shortly to confirm the timetable of the fourth interim dividend £1=€1.20

Premier Miton PMI 61p — HOLD

AIM: ASSET MANAGERS & CUSTODIANS

Shares in **Premier Miton (PMI)** jumped in the wake of its full-year results, even though the fund manager posted a double-digit drop in profits.

Adjusted profit before tax fell by 22 per cent year on year to £12.2mn, while statutory profit before tax – which includes acquisition and restructuring costs – almost halved to £3.2mn. Management blamed this on "difficult" conditions. High interest rates have pushed clients towards cash, for example, and stock market returns have been driven by a handful of US companies.

However, net outflows at Premier Miton improved from £1.1bn to £318mn year on year, helped by the acquisition of rival asset manager Tellworth in January. Closing assets under management (AUM) were up 9 per cent at £10.7bn, even though AUM was down 5 per cent year on year at £10.3bn.

In a display of confidence, the dividend has been maintained at 6p a share, which is just about covered by the group's adjusted earnings per share. Management said investor demand is improving, with fixed income, international equities and absolute return strategies proving popular. The UK equity market has "remained very much out of favour", however.

Analysts at Peel Hunt predicted that 2024 would mark the "trough of the earnings cycle", and stressed that Premier Miton is very cheap – it currently trades on a forward price/earnings ratio of around eight times, and offers a dividend yield of roughly 10 per cent. However, Panmure Liberum said others in the sector – most notably **Liontrust (LIO)** – are cheaper and yield more.

We await further signs that the protracted downgrade cycle is over. Hold. **JS**

Ord Price: 61p
Market Value: £99mn
Touch: 60-61p
12-Month High: 83p **Low:** 52p
Dividend Yield: 9.8%
PE Ratio: 49
Net Asset Value: 75p*
Net Cash: £35.3mn

Year to 30 Sep	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2020	77.7	9.60	4.10	7.0
2021	94.7	17.5	9.53	10.0
2022	90.2	14.9	6.54	10.0
2023 (restated)	68.5	5.87	2.50	6.0
2024	64.0	3.17	1.24	6.0
% change	-6	-46	-50	–

*Includes intangible assets of £88.3mn, or 55p a share

Last IC view: Buy, 174p, 7 Dec 2021 Ex-div: 16 Jan Payment: 14 Feb

Victrex VCT 1,114p — BUY

SPECIALTY CHEMICALS

The writing has been on the wall for profits at specialist polymers maker **Victrex (VCT)** for most of the year, as the company struggled with supply chain inflation, prolonged capital expenditure, one-off costs and capacity problems that lowered its annual production by 1,000 metric tonnes.

This added to the strain on the income statement as £10mn of fixed costs were "under-absorbed" during the year. However, if you looked very hard, there were one or two bright spots. The near-70 per cent reduction in reported profits was largely because of one-off costs of £35.7mn, compared with just £7.5mn in 2023.

Victrex took hits on its investment in Spine of £9.1mn, along with loan losses on Bond 3D of £11.9mn, while the cost of its improvement programme was £9.9mn. There was also a £4.6mn charge for downstream manufacturing facilities in the US.

On the positive side, it looks as though the long period of capital expenditure that has seen the company spend £60mn since 2020 on facilities in China finally seems to be ending. Capex during the year fell to £32.6mn, down from £38.5mn, as the commissioning process for its new plants nears completion. Management said: "Following conclusion of these investments, we see a very limited need for sizeable polymer capacity for several years."

The market saw enough positives in Victrex's results to send the share price sharply higher on the day. With a price attrition that has lasted all year, Victrex is now at a consensus price/earnings ratio for 2025 of 13.6. With new plants coming online and inflation easing, that is starting to look like good speculative value. Buy. **JH**

Ord Price: 1,114p
Market Value: £970mn
Touch: 1,112-1,116p
12-Month High: 1,575p **Low:** 816p
Dividend Yield: 5.3%
PE Ratio: 56
Net Asset Value: 530p
Net Debt: 5%

Year to 30 Sep	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2020	266	63.5	62.6	46.14
2021	306	92.5	84.3	59.56
2022	341	87.7	87.6	59.56
2023	307	72.5	70.9	59.56
2024	291	23.4	19.8	59.56
% change	-5	-68	-72	–

Last IC view: Hold, 1,310p, 13 May 2024 Ex-div: 23 Jan Payment: 21 Feb

Zipup ZIG 346p — HOLD

FOOD PRODUCTS

The 9 per cent post-results drop in **Zigup's (ZIG)** share price is understandable. On the face of it, this was an ugly set of numbers, given the level of decline in pre-tax profit on largely flat revenue.

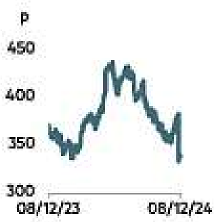
The fall in profitability was on the cards, given the decline in used van prices as new van production recovered after supply chain strains to hit a 16-year high. A drop in underlying profit per used vehicle from £3,500 to £1,600 during the period meant overall profit from disposals was 26 per cent lower.

The easing of supply chain strains also affected Zigup's claims and services arm, as a greater availability of parts meant insurer-authorised repairs were carried out more quickly and replacement vehicles were needed for shorter periods. The flipside to this is that Zigup has been able to collect cash more quickly, although the company reported a widening free cash outflow of £20.5mn during the period, attributed to a £53.5mn investment in growth capex as it added another 4,000 vehicles to its fleet.

Chief executive Martin Ward said it was "leaning in" to demand, and that Zigup expects improved future cash flows from renting out younger vehicles that have lower maintenance costs.

Full-year guidance for an adjusted pre-tax profit of £161mn has been maintained and house broker Barclays argued that a 330 basis point improvement in returns on capital employed since the 2020 merger between Redde and Northgate means Zigup deserves a much higher price/earnings rating than the 6.5 times it currently attracts.

It's a fair point, but growing the fleet at a time when rental margins are softening and resale values are under pressure is not without its risks. Move to hold. **MF**



Ord Price: 346p
Market Value: £781mn
Touch: 346-348p
12-Month High: 445p **Low:** 331p
Dividend Yield: 7.6%
PE Ratio: 8
Net Asset Value: 460p*
Net Debt: 75%

Half-year to 31 Oct	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	911	97.4	32.9	8.3
2024	904	56.2	19.4	8.8
% change	-1	-42	-41	+6

*Includes intangible assets of £218.5mn, or 96p a share

Last IC view: Buy, 431p, 10 Jul 2024 Ex-div: 12 Dec Payment: 10 Jan

Cohort continues to impress

The defence and security specialist's prospects have been boosted further by a material acquisition. Christopher Akers reports

Cohort CHRT 1,063p **BUY**

AIM: DEFENCE

- Dividend raised by 10 per cent
- Staff numbers up 14 per cent on strong demand

There have been some jitters among defence stocks after US president-elect Donald Trump called for an "immediate ceasefire" in Ukraine. But the war has highlighted long-term underinvestment in defence and security in Europe, as has the incoming US administration's more antagonistic view of Nato. Aim-traded mini-defence conglomerate **Cohort (CHRT)** is navigating this demand context well, and is benefiting from heightened tensions in the Asia-Pacific and Middle East, evidenced by the company's disclosure of a record order book and revenue growth of a quarter in its first half.

Sales to the UK Ministry of Defence (MOD), which contributed an increased 56 per cent of total revenue in the half, drove the revenue and profit performance. Both the communications and intelligence and sensors and effectors division delivered robust adjusted operating profit growth, as profit jumped 69 per cent to £10.1mn. The net margin improved from 6.4 per cent to 8.5 per cent, with progress being made towards management's medium-term mid-teen target.

Encouragingly, management expects its Portuguese communications systems business, EID, which has been loss-making over the past couple of years, to return to profit over the full year on the back of "long-awaited" naval orders.

The order book sat at £541mn at the period-end, up from £519mn in April, and representing an order cover of 99 per cent of the analyst consensus for annual revenue. Order intake of £139mn was 1.2 times revenue in the half.

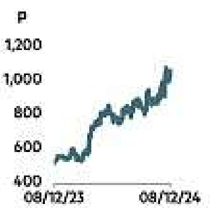
Meanwhile, the £74mn acquisition of high-margin naval defence communications business EM Solutions (the transaction is expected to complete imminently) provides a long-term opportunity. Clients include the Australian navy, Norwegian navy and Dutch defence department. The deal was part-funded through a £41mn share placing and retail offer.

Chief executive Andy Thomas said the company was in discussions with more "big potential customers" for EM Solutions.

Net funds improved by £15mn to £37.9mn, although a net cash outflow is anticipated in the second half, given capex, working capital movements and the EM Solutions purchase.

Cohort trades on 20 times forward consensus earnings, a higher rating than at **Chemring (CHG)**, as well as bigger sector beasts **BAE Systems (BA.)** and **Lockheed Martin (US:LMT)**. The share price has more than doubled over the past year. But, as analysts at Shore Capital argued, Cohort is "visibly becoming a strategic supplier with clients, justifying a premium valuation", and there is an expectation of "strong newsflow continuing for shareholders". We remain bullish on the outlook. Buy.

THE £74MN ACQUISITION OF HIGH-MARGIN NAVAL DEFENCE COMMUNICATIONS BUSINESS EM SOLUTIONS PROVIDES A LONG-TERM OPPORTUNITY



Ord Price: 1,063p
Market Value: £495mn
Touch: 1,060-1,075p
12-Month High: 1,110p **Low:** 502p
Dividend Yield: 1.4%
PE Ratio: 22
Net Asset Value: 239p*
Net Cash: £29.8mn

Half-year to 31 Oct	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	94.3	3.67	7.46	4.70
2024	118	8.51	17.6	5.25
% change	+25	+132	+135	+12

*Includes intangible assets of £55.2mn, or 119p a share

Last IC view: Buy, 860p, 17 Jul 2024 Ex-div: 9 Jan Payment: 18 Feb

Moonpig Group MOON 232p **BUY**

SPECIALITY RETAILERS

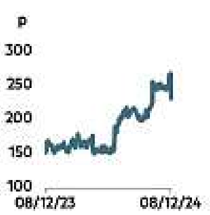
The market often overreacts, and the "lockdown winners" phenomenon seen during the pandemic is an excellent example. These were companies that benefited from people being stuck at home, with the market sending their share prices soaring. The end of the lockdowns meant lower profits, and share prices cratered.

This was the trajectory followed by online customisable card and gift business **Moonpig (MOON)**. Its revenue and share price jumped in 2021 before falling back down again. However, in normal times, it is proving it can continue to grow.

In the six months to October, revenue increased by 3.8 per cent to £158mn, while adjusted cash profit (Ebitda) rose 1 per cent to £41.8mn. This growth was due to a 2.6 per cent increase in new customers to 11.7mn and a 3 per cent increase in orders from the existing ones. In response, management has increased its medium-term target for adjusted cash profit margin by one percentage point to a range of 25 to 27 per cent.

As an online business, Moonpig has low capital requirements because it doesn't face the cost of running stores. This helped it generate £10mn of free cash flow (equivalent to 6 per cent of revenue). This contributed to a reduction in net debt from £167mn to £120mn and allowed management to introduce a dividend for the first time.

The one real negative is that the experience gifting division continues to struggle, but this only counts for a small percentage of total sales. Therefore, given the steady growth on the whole, strong margin and impressive cash generation, Moonpig's forward price/earnings ratio of 19 doesn't look strenuous. Buy. **AS**



Ord Price: 232p
Market Value: £798mn
Touch: 213-232p
12-Month High: 278p **Low:** 147p
Dividend Yield: 0.4%
PE Ratio: na
Net Asset Value: *
Net Debt: £120mn

Half-year to 31 Oct	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	152	18.9	4.1	nil
2024	158	-33.3	-11.2	1.0
% change	+4	–	–	–

*Negative shareholder funds

Last IC view:Buy, 204p, 12 Sep 2024 Ex-div: 20 Feb Payment: 20 Mar

Begbies Traynor's profits lifted by rising insolvencies

Higher insolvency volumes are boosting the top line as M&A supercharges growth. Valeria Martinez reports

Begbies Traynor BEG 98p **BUY**

AIM: DIVERSIFIED FINANCIAL SERVICES

- **Adjusted pre-tax profits up by 16 per cent to £11.5mn**
- **Net debt position of £3.8mn after significant payouts**

Tax hikes introduced in Labour's Budget and higher-for-longer interest rates are set to drive more companies into administration, or at least that's the theory on which insolvency specialist **Begbies Traynor (BEG)** is basing part of its growth outlook.

As it stands, the company's top line is already reflecting the trend of UK insolvency volumes rising back to pre-pandemic levels. Revenue in the six months to 31 October jumped by 16 per cent to £76.3mn, with double-digit organic growth across both its business recovery and property divisions.

Adjusted pre-tax profit was also up by 16 per cent to £11.5mn, while adjusted Ebitda came in 20 per cent ahead of last year to £15.3mn. When including the impact of acquisitions, statutory pre-tax profits were up by an impressive 57 per cent to £4.7mn.

The rise in profit was supported by a 30 basis point increase in the operating margin to 16.5 per cent. More notable was the operating margin improvement in the core insolvency division, rising by 110 basis points to 25.8 per cent as the number of higher-value insolvency cases ticked up.

Begbies is ranked first in the UK by volume of insolvency appointments, and looks well placed to continue to gain market share through M&A. Chair Ric Traynor told the *IC* there is a pipeline of potential acquisitions planned over the next two years, focusing on insolvency boutiques.

BEGBIES TRAYNOR IS RANKED FIRST IN THE UK BY VOLUME OF INSOLVENCY APPOINTMENTS

The bulk of M&A deals across the group will target the ongoing growth of its property and advisory business lines, however. Acquisitions in the property arm supported a 24 per cent divisional revenue rise to £23.5mn, as a return to normalised margins helped drive operating profit up 11 per cent to £3.9mn.

Free cash flow increased by 8 per cent in the first half, but acquisition costs, buybacks and dividend payouts dented the company's cash reserves by the end of the period. This meant the company swung from a net cash balance of £1.1mn to a net debt position of £3.8mn.

However, Begbies' £35mn of bank facilities, of which only £8mn is drawn, provide enough headroom to push ahead with its organic and inorganic growth strategies, which should aid its £200mn medium-term revenue target.

Begbies trades on a 12-month forward price/earnings ratio of 8.4 times earnings against a five-year average of 13 times, according to house broker Shore Capital. We retain the view that the shares look undervalued given the supportive backdrop for insolvencies in the short term and future accelerated growth from acquisitions. Buy.

Ord Price: 98p
Market Value: £155mn
Touch: 98-99p
12-Month High: 120p **Low:** 83p
Dividend Yield: 4.2%
PE Ratio: 65
Net Asset Value: 48.3p*
Net Debt: 20%

Half-year to 31 Oct	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	65.9	3.00	0.8	1.3
2024	76.3	4.70	1.4	1.4
% change	+16	+57	+75	+8

*Includes intangible assets of £70.5mn, or 44.6p a share

Last IC view: Buy, 98p, 9 Jul 2024 Ex-div: 10 Apr Payment: 7 May

Optima Health OPT 157p **HOLD**

AIM: PROFESSIONAL BUSINESS SUPPORT SERVICES

These are **Optima Health's (OPT)** first set of interim results since the occupational health provider was spun out from **Marlowe (MRL)** and listed on Aim in September. Despite being around for 25 years, at this point in its listed life the story is more about future promise than current results.

Revenue is generated by its clients' need to fulfil statutory requirements such as assessing fitness for work and reducing employee absenteeism. The core revenue model is a combination of fixed-fee account management services and the provision of a fixed level of occupational health services.

The first indications are that Optima, which is itself bashed together from several Marlowe-acquired companies, will continue the buy-and-build strategy inherited from its former parent. On a balance sheet level, the gearing is currently minimal and would support an increase in leverage to realise that strategy.

At the time of its listing, the company received a £20mn dividend from Marlowe and has drawn down £10mn of a £20mn revolving credit facility, which has been used to cover its working capital needs. The company has ongoing costs from the demerger that will be covered by this.

It is very early days for the company as an independent entity. At first look, it will need to diversify its customer base as it currently has at least one client that represents more than 10 per cent of total sales, while the average contract size is £300,000.

It will take a while to generate some momentum, but given Marlowe's success and the fragmented occupational health market, Optima has as good a chance as any at this stage. We open coverage with a hold. **JH**

Ord Price: 157p
Market Value: £139mn
Touch: 156-157p
12-Month High: 200p **Low:** 140p
Dividend Yield: nil
PE Ratio: na
Net Asset Value: 187p*
Net Debt: £3.6mn

Half-year to 30 Sep	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	56.8	-0.1	-264.0	0.0
2024	50.8	-0.5	-0.08	0.0
% change	-11	–	–	–

Last IC view: none

Watches of Switzerland WOSG 568p BUY

LUXURY ITEMS

Watches of Switzerland (WOSG) moves into the second half of its financial year in an optimistic mood, a sign that some momentum had returned after a cataclysmic start to 2024, when it cut profit forecasts just months after Rolex's purchase of a distributor had first hammered the shares.

In the event, the six months to 27 October were a qualified success. Management maintained guidance for the full year of revenue of £1.67bn-£1.73bn, with some operating margin expansion and a cash conversion rate of 70 per cent, which will help finance its expected capital expenditure of £60mn-£70mn. It is also notable that this interim reporting period does not cover the 'golden quarter' when retailers bring in Christmas and sales traffic.

With overall sales rising by just 4 per cent at constant currency, there was a split in the business between a booming US and moribund Europe. US sales were a reported 8 per cent higher at £355mn, while the UK and Europe segment was down 1 per cent year on year at £430mn. After some years of making sought-after watches difficult to get, the company said it had boosted first-quarter US sales with "one-off" stock increases. This was balanced out by jewellery de-stocking.

Watch sales, which make up 83 per cent of all revenues, were down by an underlying 2 per cent, which was partly due to a de-stocking effect. The acquisition of US brand Roberto Coin increased the proportion of luxury jewellery sales overall.

Broker Peel Hunt said: "The company held guidance, which is better than most retailers have done this reporting season." The broker has Watches of Switzerland on a price/earnings ratio of 12.3 for 2025. The shares have enjoyed a decent run into the second half and the coming golden quarter should get it over the line. Buy. **JH**

Ord Price: 568p
Market Value: £1.4bn
Touch: 567-569p
12-Month High: 728p **Low:** 324p
Dividend Yield: nil
PE Ratio: 33
Net Asset Value: 229p*
Net Debt: 107%

Half-year to 27 Oct	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	761	66.5	19.8	nil
2024	785	40.5	12.2	nil
% change	+3	-39	-38	–

*Includes intangible assets of £301mn, or 126p a share
Last IC view: Buy, 432p, 27 Jun 2024

Frasers FRAS 666p BUY

APPAREL RETAILERS

Frasers (FRAS) is to slip out of the FTSE 100 after the retail group cut its full-year profit guidance on the back of weaker consumer confidence around last month's Budget.

Tough trading conditions across the UK in the first half saw group revenue decrease by 8.3 per cent to £2.54bn, as all of the business's divisions recorded softer than expected sales.

The premium lifestyle arm, including the Flannels chain, continued to be affected by the struggling luxury market, reporting a revenue decline of 14.1 per cent, although operating profit more than doubled to £48mn after cost-cutting and business integration.

Sports Direct continued to record growth, with profits from trading up 8.3 per cent to £255.2mn, but this was mitigated by "planned" revenue declines at Game UK and Studio Retail. Frasers has tried to strip costs out of these "unprofitable" businesses through measures such as swapping standalone stores with concessions inside Sports Direct and other larger outlets.

Mike Ashley, Frasers' majority shareholder, is looking to further increase the company's exposure to the luxury and UK fast fashion sectors through a buyout attempt for **Mulberry (MULB)** and raising its holding in **Boohoo (BOO)**. Ashley remains in a corporate battle with Boohoo after it blocked him from an equity raise and rejected his push to be named chief executive.

The strongest division in terms of sales was international retail, which saw a smaller decline than the UK segments, at 5.3 per cent. The group has maintained its commitment to global expansion of sports retail with recent acquisitions in South Africa and the Netherlands.

This stalwart of UK retail is showing some weakness but remains at a significant discount in valuation terms to its five-year average. Further expansion is also possible despite higher national insurance costs. Buy. **MG**

Ord Price: 666p
Market Value: £3bn
Touch: 665-668p
12-Month High: 950p **Low:** 627p
Dividend Yield: na
PE Ratio: 9
Net Asset Value: 460p
Net Debt: 68%

Half-year to 27 Oct	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2023	2.77	310	53.0	0.0
2024	2.54	207	35.9	0.0
% change	-8	-33	+32	–

Last IC view: Buy, 891p, 18 Jul 2024

Ashtead AHT 5,684p BUY

COMMERCIAL VEHICLE-EQUIPMENT LEASING

Given previous speculation and the US-focused nature of **Ashtead's (AHT)** business, it was no surprise that it announced plans to move its primary listing to New York within the next 12-18 months alongside its half-year results.

The North American market delivered 98 per cent of total operating profit in the latest year, and the executive team is based over the pond. So, while the loss is a further blow for the London exchange, Ashtead's conclusion that the US with its deeper capital markets is its "natural long-term listing venue" seemed inevitable.

There was also some big news for shareholders regarding the return of capital. Ashtead announced a $1.5bn (£1.17bn) buyback programme, to be completed over the next 18 months. The surge in the dividend was down to the rebalancing of the split between the interim and final payouts.

The actual trading figures contained no real surprises. Rental revenue was up 6 per cent, and cash profits rose 4 per cent with an improved margin of 47.4 per cent. The leverage ratio sat at 1.7 times.

However, the shares were marked down by double digits on the back of a guidance cut, as the trading backdrop remains tough for the general tools business. Annual guidance is now for rental growth of 3-5 per cent, down from 5-8 per cent. Gross capex is forecast to come in lower, at $2.5bn-$2.7bn, meaning the free cash flow outlook was raised from $1.2bn to $1.4bn.

It remains to be seen to what extent a primary listing move could boost Ashtead's rating. The shares trade on 19 times forward consensus earnings, compared with the 18 times on offer at rival **United Rentals (US:URI)**. But the long-term growth narrative remains attractive. Buy. **CA**

Ord Price: 5,684p
Market Value: £24.9bn
Touch: 5,680-5,684p
12-Month High: 6,448p **Low:** 4,711p
Dividend Yield: 1.7%
PE Ratio: 21
Net Asset Value: 1,715¢*
Net Debt: 146%

Half-year to 31 Oct	Turnover ($bn)	Pre-tax profit ($bn)	Earnings per share (¢)	Dividend per share (¢)
2023	5.57	1.25	215	15.8
2024	5.70	1.20	204	36.0
% change	+2	-4	-5	+129

*Includes intangible assets of $3.66bn, or 837¢ a share £1=$1.28
Last IC view: Buy, 5,266p, 18 Jun 2024 Ex-div: 9 Jan Payment: 7 Feb

THE WEEK AHEAD

MONDAY 16 DECEMBER

AGMs: ADVFN (AFN), Alien Metals (UFO), Allergy Therapeutics (AGY), APQ Global (APQ), Helium One Global (HE1), T42 Lot Tracking Solutions (TRAC), Tristel (TSTL)
Companies paying dividends: Calnex Solutions (0.31p), Puma VCT 13 (3p)

TUESDAY 17 DECEMBER

Economics: Unemployment rate
Trading updates: Videndum (VID), Dunedin Enterprise Investment Trust (DNE)
Finals: Chemring (CHG)
AGMs: Gfinity (GFIN), GS Chain (GSC), Netcall (NET)
Companies paying dividends: Jarvis Securities (1p), Softcat (39p), Volution Group (6.2p)

WEDNESDAY 18 DECEMBER

Economics: Consumer Price Index, Producer Price Index, Retail Price Index
Finals: Integrafin Holdings (IHP)
AGMs: Beacon Energy (BCE), Beeks Financial Cloud (BKS), dotDigital (DOTD), Greatland Gold (GGP), Karelian Diamond Resources (KDR), Ovoca Bio (OVB), Wildcat Petroleum (WCAT)
Companies paying dividends: Smurfit WestRock ($0.3025), CRH ($0.35), Baillie Gifford Japan Trust (10p), Craneware (16p), Croma Security Solutions (2.3p), London Finance & Investment (0.6p)

THURSDAY 19 DECEMBER

Economics: BoE interest rate decision
Trading updates: Time Finance (TIME)
Interims: FIH Group (FIH)
AGMs: Avation (AVAP), AVI Global Trust (AGT), BATM Advanced Communications (BVC), Boston International Holdings (BIH), Frontier IP (FIPP), Mila Resources (MILA), Northamber (NAR), Plaza Centres NV (PLAZ), Renalytix (RENX), Sabien Technology (SNT)
Companies paying dividends: HSBC ($0.1), International Public Partnerships (4.18p), Octopus Titan VCT (1.2p), Shell ($0.344), Utilico Emerging Markets (2.325p), VPC Specialty Lending Investments (1.34p)

FRIDAY 20 DECEMBER

Economics: GFK consumer confidence, public sector net borrowing, retail sales
AGMs: Fintech Asia (FINA), Macau Property Opportunities (MPO), Vast Resources (VAST)
Companies paying dividends: Abrdn Asia Focus (1p), British Smaller Companies VCT (2p), Cordiant Digital Infrastructure (2.1p), CT UK Capital & Income (3.95p), FRP Advisory (0.95p), Marks Electrical (0.3p), Octopus Apollo VCT (1.3p), Paypoint (9.7p), Record (2.15p), Sainsbury (J) (3.9p), Schroder BSC Social Impact (2.94p), Schroder Real Estate Inv (0.879p), Seneca Growth Capital VCT (1.5p), Telecom Plus (37p), Triad Group (2p), YU Group (19p), BlackRock World Mining Trust (5.5p), BP (6.2959p), Avingtrans (2.9p), BlackRock Greater Europe (5.25p), Tristel (8.28p), Abrdn Asia Focus (1p), Ithaca Energy (9.5242p), Petershill Partners ($0.175)

COMPANIES GOING EX DIVIDEND ON 19 DECEMBER 2024

Company	Dividend (p)	Pay date
Pharos Energy	0.363p	22 Jan
Diverse Income Trust	1p	28 Feb
ProVen Growth and Income VCT	1.25p	17 Jan
ProVen VCT	1.5p	17 Jan
Octopus AIM VCT	2.5p	10 Jan
Smart (J.) & Co (Contractors)	2.27p	27 Jan
MITIE Group	1.3p	4 Feb
Halma	9p	31 Jan
Northern Venture Trust	1.6p	22 Jan
Northern 3 VCT	2p	22 Jan
Northern 2 VCT	1.7p	22 Jan
Topps Tiles	1.2p	30 Jan
abrdn Property Income	3p	10 Jan
STS Global Income & Growth	1.586p	17 Jan
MS International	5p	17 Jan

Auction Tech finance chief offloads £1.2mn worth of shares

The chief financial officer of **Auction Technology Group (ATG)** has sold £1.2mn of stock ahead of his departure early next year.

Tom Hargreaves disposed of 230,000 shares on 28 November at 510p each, reducing his stake in the FTSE 250 online auction platform by over a fifth.

According to a company statement, the sale was for "personal financial purposes" and left Hargreaves in possession of 816,700 ordinary shares. This is not the first time he has made a hefty disposal. In May 2023, he sold £1.6mn of stock, again for personal financial purposes.

Hargreaves resigned as chief financial officer in October after roughly eight years in the role to take up a new position with a private-equity-backed company in early 2025. A search for his replacement is now under way.

Auction Technology Group has had a mixed year, with its first half marred by a profit downgrade. Lower asset prices in the industrial and commercial division, a lower win rate and slow demand for arts and antiques all contributed to a weaker performance.

However, things improved in the second half, with the arts and antiques division fuelling organic revenue growth. Operating profit across the whole year jumped by 17 per cent to $32.4mn (£25.4mn) as operational leverage kicked in.

Management is guiding for revenue growth of 4 to 6 per cent for the 2025 financial year, with adjusted Ebitda margins steady at 45-46 per cent.

However, end markets remain "uncertain" and analysts at Investec argue "a range of fears around cyclical trends, investment levels and the structural position of ATG in the industry" are depressing the company's valuation. It currently trades on a forward price/earnings ratio of 17 times, half its five-year average.

The broker said the latest results provide "more clarity on the direction of travel on all these fronts", however, ushering in the possibility of a re-rating. **JS**

BUY

Company	Director/PDMR	Date	Price (p)	Aggregate value (£)
Airtel Africa	Shravin Mittal*	27-28 Nov	104	1,822,310
Animalcare**	Marc Coucke	5-Dec	233	1,999,786
Animalcare**	Jennifer Winter (ce)	5-Dec	233	75,000
Argentex	Nigel Railton (ch)	2-Dec	31	214,430
Augmentum Fintech	William Reeve (ch)	2-Dec	99	98,800
Cordiant Dig Infrastructure	Steven Marshall (ch)	27-Nov	88	157,968
Duke Capital**	Neil Johnson (ce)	4-Dec	28	100,000
Duke Capital**	Nigel Birrell (ch)	4-Dec	28	100,000
Duke Capital**	Charlie Brookes*	4-Dec	28	500,000
Duke Capital**	Maree Wilms*	4-Dec	28	100,000
Foresight Solar Fund	Alexander Ohlsson (ch)	2-Dec	80	71,143
Metro Bank	Nicholas Winsor	4-Dec	98	97,870
Pod Point	Melanie Lane (ce)	2-Dec	13	50,000
Pod Point	Michael Killick (cfo)	2-Dec	13	50,400
Seascape Energy Asia	James Menzies (ch)	2-Dec	38	59,552
Telecom Plus	Charles Wigoder (ch)	2-Dec	1,770	3,540,000

SELL

Company	Director/ PDMR	Date	Price (p)	Aggregate value (£)
AJ Bell	Elizabeth Carrington	5-Dec	499	145,389
Auction Technology	Tom Hargreaves (cfo)	28-Nov	510	1,173,000
Gran Tierra Energy	Ron Royal	2-Dec	538 †	107,422
Paragon Banking	Hugo Tudor	6-Dec	803 †	40,140
Sage	Vicki Bradin	5-Dec	1,310	261,998
Smurfit Westrock	Saverio Mayer (ce)	2-Dec	4,327	1,081,750
TBC Bank	George Tkhelidze	29-Nov	3,010	451,500
Wise	Nilan Peiris	29-Nov	878	2,184,218
Wise	Harsh Sinha	29-Nov	881	616,723

*Spouse/Family/Close Associate †Converted from €/$/AUS$ **Placing

Telecom Plus chief buys in

Telecom Plus (TEP) chairman Charles Wigoder has acquired 200,000 ordinary shares in the FTSE 250-listed company, which bundles utility packages together and trades under the Utilities Warehouse brand.

Wigoder, who joined the business in 1998, purchased the shares at an average price of £17.70 each, for a total value of £3.54mn.

Following the transaction, Wigoder holds a beneficial interest in 8.63mn ordinary Telecom Plus shares, representing approximately 10.9 per cent of the total voting rights in the company. Having surged in 2022 as soaring energy prices prompted more consumers to seek out deals, the company's share price returned to earth last year.

FOLLOWING THE TRANSACTION, WIGODER HOLDS A BENEFICIAL INTEREST IN 8.63MN ORDINARY TELECOM PLUS SHARES

That drop has since been arrested, meaning the shares are currently only 5 per cent off their 12-month high of 1,932p. The market has been pleased with the company's customer acquisition rate; the Utilities Warehouse customer base has stayed solidly above 1mn and a medium-term target of growing this to 2mn looks increasingly plausible. **JH**

SMALL COMPANIES

Simon Thompson

IC COMMENT

Cashed-up Tavistock makes a smart acquisition

Aim-traded financial services group **Tavistock Investments (TAVI:3.95p)** has announced the acquisition of ABP, a London- and Bath-based asset management business with nearly £3bn assets under management.

Established in 2017, ABP has a strategic focus on retail investors, providing a range of outsourced investment propositions to directly regulated advice businesses and appointed representative networks. The company's offering includes a Dynamic Asset Allocation process and modular proposition that provides retail and wholesale investors with institutional techniques rarely found in this market segment. The success of its outcome-oriented investment solutions has been recognised by Defaqto's five-star and five-diamond ratings for the past five years.

The acquisition is complementary to Tavistock's strategy of refocusing the group into a more significant asset manager following the recently completed disposal of its financial advisory and estate planning businesses to private equity-backed advice group Saltus Partners ('This unloved company is on a 70% discount', *IC*, 1 October 2024).

The disposal realised £37.7mn including earn-outs of £15.75mn (2.8p), or 70 per cent more than the company's market capitalisation of £22.1mn. The proceeds provide management with the funds to build a larger investment management services business that offers investment solutions to clients of third-party advice firms, and to the public directly on a non-advised basis.

Tavistock Investments TAVI 3.95p BUY

- Acquisition of ABP for maximum of £18mn
- Disposal of financial advisory and estate planning businesses complete
- 60 per cent discount to sum-of-the-parts (SOTP) valuation

In the first nine months of 2024, ABP reported operating profit of more than £0.5mn on revenue of £4mn, and had net assets of around £1.2mn. The initial cash consideration of £6mn could rise to £18mn depending on ABP hitting performance targets.

With all of Tavistock's retained businesses profitable, and contingent earnouts from disposals made in the past few years potentially worth as much as the company's current market capitalisation, a narrowing of the 60 per cent discount to my SOTP valuation of £56mn (10p) is warranted. Buy.

Oxford Metrics OMG 59.5p HOLD

- Full-year revenue down 6 per cent to £41.5mn
- Adjusted pre-tax profit halved to £3.7mn
- Underlying earnings per share down from 5.3p to 3p
- Dividend per share up 18 per cent to 3.25p
- Closing net cash of £50.7mn (39p)
- 5.5 per cent dividend yield

Smart sensing and software group **Oxford Metrics (OMG:59.5p)** issued a profit warning at the end of its financial year, so the sharp fall in profits had been well flagged.

Customers are being more cautious, which has lengthened buying cycles and pushed several opportunities in the sales pipeline into the new financial year. In particular, the entertainment sector was impacted by the slowdown in the global games industry and subsequent contraction in content creation. The segment reported 23 per cent lower revenue of £15.9mn, representing 38 per cent of the group total.

Both the life sciences and engineering segments, accounting for 56 per cent of Oxford Metrics' annual revenue, performed better, but still reported single-digit revenue declines due to delays in academic funding.

Revenue was at the top of the revised £40mn-£42mn range in the 12 months to 30 September 2024, but was well below last year's revenue of £44.2mn. The impact on earnings was accentuated because this is a high-margin business that generates a gross margin of 67 per cent, a contributory factor behind the 51 per cent decline in adjusted pre-tax profit to £3.7mn on 6 per cent lower annual revenue.

Industrial Vision Systems (IVS), a specialist in machine vision software systems acquired 13 months ago, has closed several large deals worth more than £1.3mn in sales, contributing to a healthy order book. The group's smart manufacturing division made a good start, too, making a maiden £2.9mn revenue contribution in the 2024-25 financial year.

In addition, the board is deploying the group's bumper cash pile to make earnings-accretive bolt-on acquisitions. The recent acquisition of measurement specialist The Sempre Group looks a smart deal. It is part of Oxford Metrics' drive into smart manufacturing and offers synergies with IVS.

Sempre offers bespoke metrology solutions to address quality and automation challenges in the aerospace, automotive, medical, energy and precision engineering sectors. For instance, its technology is used to measure the wingspans for aircraft and precision of bone screws and joint implants. Sempre was purchased for £5.5mn, representing a reasonable multiple of eight times the 2023 pre-tax profit of £0.7mn.

Although analysts at Deutsche Numis see encouraging pockets of activity, they feel it prudent to reflect more caution in their forecasts until there is consistent demand recovery.

Even after factoring in a maiden £0.8mn operating profit contribution from Sempre, a doubling of IVS operating profit to £0.6mn, £1.5mn of interest income and a £0.3mn rise in central overheads to £3.8mn, the brokerage only expects adjusted pre-tax profit to edge up to £3.9mn (17 per cent downgrade) on 15 per cent higher revenue of £47.9mn in the 12 months to 30 September 2025. Expect net cash of £46.7mn (30 November 2024) to fall to £41.8mn (30 September 2025) after factoring in a £6mn share buyback programme and the Sempre acquisition.

The downgrade is disappointing, but is already factored into the valuation as the group's enterprise valuation of £30mn equates to 12.5 times the bottom-of-the-cycle operating profit estimates of £2.4mn for the new financial year.

Deutsche Numis's target price of 95p (from 110p) still supports 61 per cent share price upside. Shareholders will be pressing management to deploy more of the cash pile on bolt-on acquisitions, so there is scope for mergers and acquisition-driven upgrades as the year progresses. I certainly would not be selling out the high-yielding shares at this depressed level. Hold.

Chariot CHAR 1.93p BUY

- $100mn guarantee finance facility secured by subsidiary
- SOTP valuation four times share price

Aim-traded Africa-focused energy group **Chariot (CHAR:1.93p)** has announced an important $100mn guarantee finance facility for Etana Energy, the South African electricity trading platform which is co-owned by Chariot and H1 Holdings.

The guarantee is provided by British International Investment, the UK's development finance institution and impact investor, and GuarantCo, an organisation funded by the governments of the UK, Switzerland, Australia, Sweden, and France.

Etana's business model is to provide competitive, sustainable end-to-end power solutions through the connection of renewable power generation projects to commercial and industrial users by wheeling electricity across South Africa's national grid. Holding one of the few electricity trading licences granted by the National Energy Regulator in South Africa, Etana has access to a sector that is rapidly deregulating and is tapping into the huge supply and demand needed from both generation and consumer markets.

Analyst James McCormack of joint house broker Cavendish notes that South Africa has experienced 15 years of intermittent blackouts because of challenges faced by its national utility company, Eskom. So, allowing independent power producers to build and generate more energy will reduce demands on the national grid and alleviate supply constraints. McCormack adds that the "deregulation will also allow South Africa to move away from predominantly coal-fired power to renewable energies – with South Africa's land, high solar and wind potential making it an attractive region for investment."

Although Etana has signed multiple power purchase agreements (PPAs) with some of South Africa's largest energy users, the developers of these new power projects need to have PPAs in place with a bankable counterparty before they can access debt finance. The $100mn guarantee means that an estimated $500mn of wind and solar projects with total generation capacity of 500MW can now access debt and be sanctioned.

McCormack points out that "the $100mn in guarantee financing is the first step in a multi-stage financing that will hopefully see further investment in Etana and Chariot's transitional power business at the subsidiary level. A conclusion to this process will provide important third-party financial validation and a potential read through valuation for Chariot".

Bearing this in mind, analyst Stephane Foucaud at Auctus Advisors has a risked SOTP valuation of 8p per share, or four times Chariot's current share price. Foucaud values the South African business (Etana and Tharisa) at $30mn (2p per share), but notes "this might prove too conservative". He attributes the same valuation to the company's Anchois gas project in Morocco and has applied a $44mn risked valuation (3p per share) to the Dartois onshore prospect in the country based on 15 per cent and 65 per cent chance of success, respectively. Auctus' unrisked SOTP valuation of 40p per share is materially higher.

The reason why the shares trade on such a huge discount to the implied value of Chariot's assets is that investors have taken a cautious approach following disappointing drilling news on its flagship Anchois project ('Chariot shares drop again after drilling disappointment', *IC*, 16 September 2024).

Both Chariot and farm-out partner **Energean (ENOG)**, a FTSE 250 company with a proven track record of successfully developing large offshore gas projects, are in the process of finalising the technical assessment of the Anchois-3 appraisal well. A smaller and economically sound development is still possible even if it's not reflected in the current share price.

That said, immediate attention is firmly focused on the group's transitional power activities, which have received multiple offers of financing that should highlight material value in that business. Importantly, the £22.8mn market capitalisation company is not in a distressed position, having raised £7mn in a placing and opening offer in August 2024.

So, having last advised holding onto your shares, at 1.6p, I feel that potential positive news flow on multiple fronts – the onshore gas discovery in Morocco could lead to a fast tracking of gas to the undersupplied domestic industrial market – could act as a catalyst to narrow the deep discount to analysts' SOTP valuations. Speculative buy.

Litigation Capital Management LIT 113.25p BUY

- 89 per cent win ratio since inception
- 2.9 times multiple on invested capital in the past 13 years
- 10 times return on invested capital in recent case win

Recent news flow from **Litigation Capital Management (LIT:113.25p)**, a provider of litigation financing, highlights the benefits of having a third-party fund management business that accentuates returns on invested capital.

For instance, the group funded an international arbitration claim brought against Poland in relation to a breach of its obligations under a treaty with Australia.

The Tribunal adjudicating on the case awarded the funded party A$490mn plus interest. LCM will be entitled to six times the A$4.2mn (£2.8mn) invested from its own balance sheet, which rises to 10 times return on capital once performance fees on third-party funds are taken into account.

LCM has an eye-catching 89 per cent win ratio and has delivered an impressive 2.9 times multiple on invested capital in the past 13 years across a total of 237 investments made by an experienced in-house legal team.

Of course, not all cases are successful. The Federal Court of Australia found against LCM's funded party, users of electricity in Queensland, in a class action claim in which the group had invested A$25mn of its own capital.

LCM is likely to appeal and investors have taken the news in their stride, hence why the share price is up 19 per cent since I repeated my long-running buy call. House broker Cavendish sees scope for NAV to rise from 87p to 147p by June 2029, with a further 39p per share of upside possible. It's not priced in. Buy. ●

Simon Thompson is on annual leave. His next column will appear in the issue dated 10 January.

The IC Stock Screen Review 2024

It's been a winning year for following a quant-based approach to UK stocks

IC ALEX NEWMAN

It's been just under three years since stewardship of the *Investors' Chronicle* stock screens passed to me. In this time, I've tried to preserve the methodologies behind the best, axed some of the weakest, and introduced a few new ideas.

But for UK stocks, it has often felt like a tricky stretch for any investing strategy – data-led approaches included. Periods of FTSE All-Share ascendancy have rarely benefited stocks across the board. Surging oil or bank profits piled on costs for other sectors. Momentum, if it ever arrived, quickly reversed or fizzled out, while swathes of the junior market have been hit by redemptions or simply ignored.

Then again, as of December 2024 it's fair to say the stock screens are on fire. Despite this being just my third annual review, I can confidently declare that it probably won't ever be this good.

How so? Let's start with the large table on the following page, itself an adapted version of our weekly *IC* Screens performance dashboard, published on our website. Over the past year, every screen in our stable is in positive territory. The average 12-month total return of 23 per cent is a full 6.6 percentage points higher than the index average. Whoever said active investing will normally fail to beat the market?

Two-thirds of our regular screens are ahead of their benchmarks over a year, which is as good a hit rate as we can ever expect. Although the three-year comparison is less flattering (a reflection of the market challenges of 2022 and 2023 alluded to above) the long-term story is very positive.

Particularly impressive – so much so that I have found myself double-checking my many spreadsheets for routine cell formula errors – is the all-time performance of screens that have run for at least five years.

Just three value-focused stockpicking methods – the Late Bloomers, our David Dreman-inspired screen, and our Phileas Fogg-themed Around the World in Eight Investment Trusts annual trip – are off the pace, although the latter's multi-index benchmark is the toughest of any in our stable.

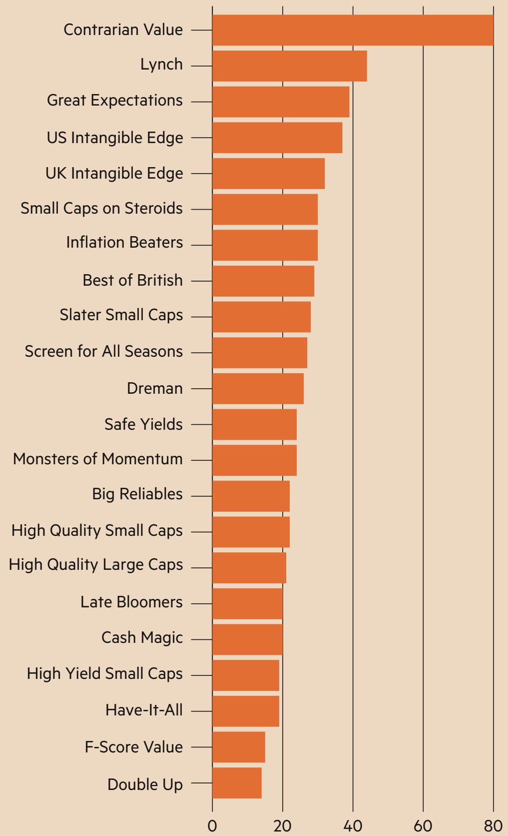
Granted, these headline returns don't include the real-world dealing costs of annual refreshes, although these are factored into our weekly write-ups.

Our screen's strong all-time average performance – while a reflection of sticking by each methodology through good years and bad – also reflects survivorship bias. Even now, there's fat to trim. The Late Bloomers screen, despite a better run of late, is still a strong candidate for the cutting room floor.

Still, despite admittedly favourable optics, there is something about our

FOR MOST OF OUR SCREENS, IT WAS A GOOD YEAR

Stock screens in positive territory and ahead of their benchmarks (one year total return, per cent)



Sources: Investors' Chronicle, FactSet, LSEG

2024 NEW SCREENS

Screen	Last run	Benchmark	Years Run	1 year	All-time	All-time CAGR	All-time CAGR alpha	Style
Acquirer's Multiple	8 Apr	FTSE All-Share	0.3	-	6% vs 3%	18.7% vs 9.1%	10%	Value
Double Up	21 Oct	FTSE All-Share/Aim	1.1	14.0% vs 10.4%	18% vs 15%	16.0% vs 13.3%	3%	Momentum
US Intangible Edge	12 Feb	S&P 500	2.8	36.6% vs 35.1%	53% vs 48%	16.6% vs 15.2%	1%	Quality
Geico Stocks	16 Sep	MSCI World (£)	2.2	19.7% vs 28.8%	40% vs 41%	16.2% vs 16.5%	0%	Quality
US Cash Magic	18 Mar	S&P 500	2.7	25.6% vs 35.1%	40% vs 44%	13.5% vs 14.7%	-1%	Quality/ Momentum
Dogs of the FTSE	11 Mar	FTSE 100	2.7	15.5% vs 15.5%	16% vs 21%	5.7% vs 7.4%	-2%	Value
UK Intangible Edge	12 Feb	FTSE All-Share	2.8	32.2% vs 15.8%	7% vs 24%	2.5% vs 8.1%	-6%	Quality

Sources: LSEG, FactSet, Investors' Chronicle. Performance is total return, data accurate as of 5 December 2024 screens that is clearly working, whether in the short or long term.

Given the variety of investing themes captured by the screens, this might come as a surprise. One might reasonably think a good year for 'quality' must be at the expense of some other loosely determined preference, such as 'value'.

I'm sceptical about this, because there is no discernible trend across styles, and a lot of variety within each factor tilt. Several of the screens with a single-factor tilt or name that implies a single-minded approach contain checks for other investing considerations, as a ward against slippery balance sheets, toppy valuations or weak earnings track records.

This, I think, starts to get to the root of the screens' strength. By simply insisting on a decent balance of company fundamentals and (usually) some kind of valuation lens, the screens ignore the considerable noise emanating from market and company-specific news, fashionable investing trends, corporate refreshes and investor relations marketing. By continually reconsidering everything that meets their criteria on equal terms, the screens aim for neutrality every time.

As chance (or possibly just the law of averages) would have it, this also means the highly cyclical 'dinosaur-like' blue-chips that dominate the top order of the FTSE 100 make it into our selections a lot less frequently than their market weighting would otherwise suggest.

Combine this with a regular and entirely arbitrary schedule of refreshes, as well as high stock concentration – itself often a product of the high hurdles set by even just a handful of stock filters – and I believe we can explain a lot of the screens' excellent recent performance. ▶

STOCK SCREEN REVIEW

Screen	Last run	Benchmark	Years Run	1 year	3 year	5 year	10 year	All-time	All-time CAGR	All-time CAGR alpha	Style
Small Caps on Steroids	7 Oct	FTSE Small/Aim	6.2	30.1% vs 11.7%	141% vs -16%	122% vs 14%	-	194% vs 5%	19.1% vs 0.8%	18%	Value
Slater Small Caps	29 Jul	FTSE Small/Aim	11.5	28.2% vs 11.6%	50% vs -16%	88% vs 13%	380% vs 63%	466% vs 78%	16.3% vs 5.2%	11%	Value
High Quality Large Caps	30 Sep	FTSE All-Share	13.3	20.8% vs 15.8%	15% vs 23%	61% vs 36%	236% vs 83%	631% vs 174%	16.1% vs 7.9%	8%	Quality
Great Expectations	9 Jan	FTSE 350	13.0	38.9% vs 15.7%	44% vs 24%	48% vs 35%	204% vs 82%	578% vs 161%	15.9% vs 7.7%	8%	Momentum
Screen for All Seasons	2 Apr	FTSE All-Share/Aim	7.6	26.5% vs 10.4%	24% vs -8%	69% vs 12%	-	82% vs 14%	8.2% vs 1.7%	6%	Agnostic
Monsters of Momentum	11 Nov	FTSE All-Share	14.1	23.5% vs 15.8%	14% vs 23%	76% vs 36%	155% vs 83%	460% vs 149%	13.0% vs 6.7%	6%	Momentum
High Yield Low Risk	4 Mar	FTSE All-Share	13.7	7.9% vs 15.8%	5% vs 23%	41% vs 36%	144% vs 83%	419% vs 143%	12.8% vs 6.7%	6%	Value
Magic Formula (Greenblatt)***	29 Jan	FTSE All-Share	13.9	13.0% vs 15.8%	12% vs 23%	78% vs 36%	149% vs 83%	427% vs 145%	12.7% vs 6.7%	6%	Value
Lynch	15 Apr	FTSE All-Share	12.6	44.4% vs 15.8%	73% vs 23%	138% vs 36%	211% vs 83%	379% vs 144%	13.2% vs 7.3%	6%	Growth/ Value
Contrarian Value**	12 Aug	FTSE All-Share	13.4	80.0% vs 15.8%	28% vs 23%	48% vs 36%	76% vs 83%	392% vs 142%	12.7% vs 6.8%	6%	Value
Best of British**	14 Oct	FTSE 350	13.2	28.8% vs 15.7%	10% vs 24%	24% vs 35%	160% vs 82%	399% vs 160%	13.0% vs 7.5%	5%	Quality
Cash Magic*	28 Apr	FTSE All-Share	11.6	19.7% vs 15.8%	-4% vs 22%	36% vs 34%	132% vs 81%	227% vs 98%	10.8% vs 6.1%	5%	Quality
F-Score Value	6 Sep	FTSE All-Share/ Small/Aim	10.3	14.6% vs 14.0%	4% vs -3%	39% vs 24%	144% vs 74%	152% vs 67%	9.4% vs 5.1%	4%	Value
Strategy Screen	29 Apr	FTSE All-Share	11.8	14.7% vs 15.8%	13% vs 23%	31% vs 36%	106% vs 83%	201% vs 111%	9.8% vs 6.5%	3%	Agnostic
Inflation Beaters	15 Jan	FTSE 350	12.9	29.5% vs 15.7%	43% vs 24%	60% vs 35%	135% vs 82%	251% vs 141%	10.3% vs 7.1%	3%	Income
High Yield Small Caps	26 Nov	FTSE Small/Aim	12.0	19.2% vs 11.6%	-39% vs -14%	-8% vs 16%	68% vs 67%	181% vs 107%	9.0% vs 6.2%	3%	Value
Safe Yields	5 Aug	FTSE All-Share	13.4	24.4% vs 15.8%	4% vs 23%	26% vs 36%	80% vs 83%	237% vs 141%	9.5% vs 6.8%	3%	Value
Cheap Small Caps	19 Feb	FTSE Small Cap/Aim	11.7	6.3% vs 11.7%	-18% vs -14%	26% vs 16%	91% vs 66%	140% vs 80%	7.8% vs 5.1%	3%	Value
O'Shaughnessy Growth	7 Feb	FTSE All-Share	12.8	7.6% vs 15.8%	-10% vs 23%	14% vs 36%	65% vs 83%	223% vs 138%	9.6% vs 7.0%	3%	Growth
O'Shaughnessy Value	7 Feb	FTSE 350	13.8	9.1% vs 15.7%	16% vs 24%	50% vs 35%	117% vs 82%	203% vs 136%	8.4% vs 6.4%	2%	Value
Big Reliables	15 Jul	FTSE 350	13.6	22.3% vs 15.7%	8% vs 24%	24% vs 36%	104% vs 84%	201% vs 140%	8.5% vs 6.7%	2%	Quality
High Quality Small Caps	2 Sep	FTSE Small/Aim	12.3	21.6% vs 11.7%	-11% vs -16%	5% vs 13%	42% vs 63%	159% vs 111%	8.0% vs 6.2%	2%	Quality
Have-It-All	2 Dec	FTSE All-Share	13.0	18.5% vs 15.8%	-2% vs 23%	11% vs 36%	39% vs 83%	219% vs 158%	9.3% vs 7.6%	2%	Agnostic
Genuine Growth	18 Nov	FTSE All-Share/ Aim 100	12.1	6.8% vs 11.5%	-38% vs -9%	-23% vs 8%	25% vs 58%	104% vs 82%	6.1% vs 5.1%	1%	Growth
Dreman	8 Jul	FTSE All-Share	11.6	25.6% vs 15.8%	3% vs 23%	19% vs 36%	37% vs 83%	101% vs 103%	6.2% vs 6.3%	0%	Value
Around the World in ITs	13 Nov	FTSE All-Share/ World	12.1	13.0% vs 21.7%	5% vs 29%	51% vs 61%	135% vs 150%	221% vs 235%	10.1% vs 10.5%	0%	Value
Late Bloomers	7 May	FTSE All-Share	10.6	20.0% vs 15.8%	6% vs 23%	12% vs 36%	53% vs 83%	50% vs 83%	3.9% vs 5.9%	-2%	Value

Sources: LSEG, FactSet, Investors' Chronicle. Performance is total return, data accurate as of 5 December 2024 *Top 30 **Top 5 ***Top 10

IDEAS

▶ Screening out loud

In short, there are great share-trading ideas out there, if you know how to look.

For evidence, let's look at the performance of the strongest screen of the past year, Contrarian Value.

The screen works by first making checks on quality that suggest stocks offer reasonable promise based on sales growth, past levels of profitability, debt levels and the ability to generate at least a little cash. It then goes all-in on value, by hunting for shares with the lowliest enterprise value to sales ratios.

Since we started following the methodology in 2011, its top five selections have neatly mirrored sentiment towards promising (if lowly valued) UK stocks. Until the pandemic meltdown in 2020, it produced a lot of alpha, before a brutal cold-shouldering of smaller, cheaper stocks set in. More recently, although the results have been spectacular – culminating in an 80 per cent total return over the past year – this partly reflects a re-rating in the average EV/sales multiples applied to its selections.

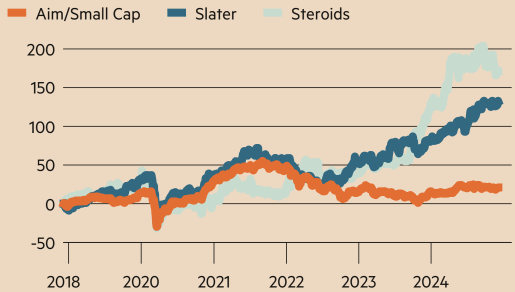
Using screens to hunt for unloved, uncelebrated, or even unknown stocks has worked well in a couple of other cases, too. Our Small Caps on Steroids screen, now the strongest all-time performer relative to its (somewhat inadequate) benchmark, saw huge gains around a year ago, while our Jim Slater-inspired screen – to my mind one of the sharpest and most rigorous sets of screening criteria we have – this year continued a superb run that goes back to mid-2022.

Will 2025 provide more fertile ground for UK value investors? The trajectory of both screens' performance will hold something close to the answer.

THERE ARE GREAT SHARE-TRADING IDEAS OUT THERE, IF YOU KNOW HOW TO LOOK

SOME SMALL CAPS HAVE HAD A GOOD FEW YEARS

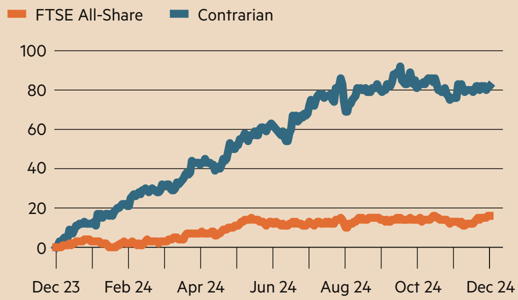
Slater Small Caps & Small Caps on Steroids screens
(six year performance, total return)



Sources: Investors' Chronicle, LSEG, FactSet

CONTRARIAN SCREEN POPS OFF

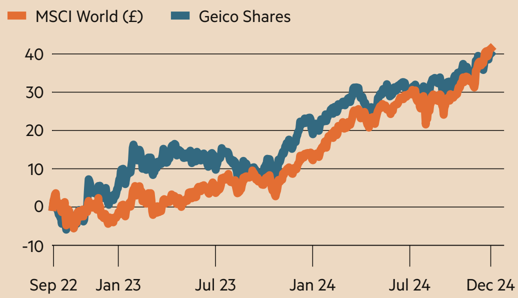
Contrarian Value screen vs benchmark (One year total return)



Sources: Investors' Chronicle, LSEG, FactSet

THE GLOBAL EQUITY MARKET IS HARD TO BEAT

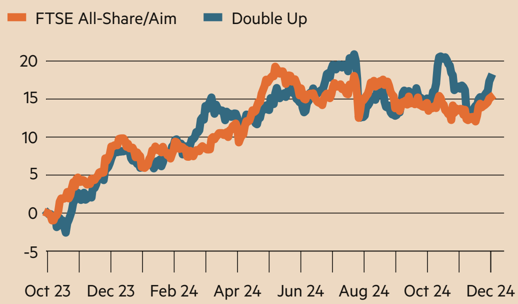
Geico (Global equity income compounders)
screen total return since inception (per cent)



Sources: Investors' Chronicle, FactSet, LSEG

EARLY DAYS, BUT LOOKING FOR A BREAKOUT!

Double Up screen vs benchmark (total return, Oct 2023 to date)



Sources: Investors' Chronicle, LSEG, FactSet

The newbies

How, then, are our newest screen ideas faring? While all are in positive territory for the year, it's much more of a mixed bag than the older screens we follow.

There are a couple of reasons for this. The first is that three of the seven screens in service for less than three years are up against some extremely tough benchmarks, in the S&P 500 and MSCI World indices, respectively. For example, our Geico (global equity income compounders) screen has seen its alpha ebb away in the face of a blistering run from the heavily US-weighted MSCI World.

Its all-time total return is now 40 per cent, a few basis points shy of the global index. Although this a lot better than the mutual fund that inspired it, which is up just 30.7 per cent since the screen was launched in September 2022, it shows how tough it has been for even a well-designed set of screening criteria to match up to a strong benchmark.

The second reason for the younger screens' performance lag is timing. Several were launched just as markets were undergoing a painful correction in 2022. In the case of the Intangible Edge screens in particular, this has resulted in the need for some serious catching up.

Our quarterly Double Up screen has started more brightly, even if a year's worth of data isn't much to go on. The methodology, which seeks to exploit the tendency of markets to assimilate earnings-positive news relatively slowly is maybe best understood as a momentum screen with a twist.

Although I am in danger of placing too much faith in this quirk, I can't help but feel the screen's performance is looking for a breakout, and that the so-called earnings drift might appear more forcefully in the year ahead. We live in hope.

Are there any investing styles, strategies or factors that our screens have missed? Would you like to see more international versions of our UK-centric screens in the months ahead? Or some experimental ideas that draw on alternative sources, unheralded valuation metrics, or less traditional measures of company health? If there's a glaring omission, please write to me at *alex.newman@ft.com* if you have any suggestions. Thanks for reading in 2024. ●

The flaw of averages

If, as Mark Twain claimed, statistics enable the worst kind of lies, then at least statisticians manage to find the funny side.

Take the following cracker from a 2002 paper on using humour to teach the subject. While deer hunting, three statisticians spot a big buck and take aim. One shoots his arrow but misses by three metres to the right. The second fires his arrow, this time three metres to the left. The third statistician then excitedly cries: "We got him! We got him (on average)!"

There are plenty of variations on the same theme. One finds a statistician with his feet in a bucket of ice and his head in an oven, who reports to "feeling just fine, on average". In another, a statistician drowns while crossing a stream that was, on average, just six inches deep.

Each joke underscores an important point about what different kinds of average omit. For an average to have meaning, we need to know how representative it is. Does it look like most outcomes? Almost everyone has a body temperature within a couple of degrees of the human average, for example. Or precisely none? The mean average dice roll, after all, is 3.5. More to the point, what does an average disguise? On average, **Ocado (OCDO)** shares have climbed 3 per cent a year since the start of 2019 (and are down 61 per cent over the same stretch).

Last week, this column made a few claims about the average performance of total return strategies, compared with a simple return. It concluded that "on average", reinvesting dividends in the FTSE All-Share index improved all-in returns by around 3.5 percentage points a year when compared to an accumulation strategy.

While handy, we can always add nuance. Using daily price data since 1994, the total return's average annual outperformance was 3.7 percentage points over one year, two years and five years (and 3.6 percentage points over three). In each case, the mid-spread was narrow, meaning alpha ranged between 3.1 and 4.1 percentage points in more than half of outcomes.

Strip out the outliers (data points at least 1.5 times above or below that middle 50 per cent) and the range of probable outcomes doesn't deviate wildly. Over one year, it pushes out to between 1.9 and 5.4 percentage points, and to just 2.9 and 4.1 percentage points by five years.

Over a 10-year horizon, the dispersion of returns has all but collapsed. The arithmetic mean is 3.5 percentage points, the upper quartile starts at 3.7, the lower at 3.3, while everything is captured within the bounds of 3 to 4. In other words that average alpha becomes increasingly statistically significant over time, as the distribution narrows. Last week's claim, I'd argue was a fair one.

Alas, when it comes to individual stocks, the wide dispersion of returns over even a short time skews what we come to see as the 'average'.

Again, we need not look beyond the FTSE All-Share to show how. The arithmetic average total return of its constituents, which over the past year is 16 per cent, is heavily impacted by the right-tail stocks investors hope for, such as recent multi-baggers **CMC Markets (CMCX)** and **Funding Circle (FCH)**.

But if you had picked a share at random, the most representative would be **4imprint (FOUR)**, whose return of 13.5 per cent is the median. Half of stocks fared worse, including more than a quarter that lost money on a total return basis.

As to a mid-ranking return, anything from a 1 per cent loss to a 25 per cent gain qualifies. So as confusing as it might seem, either outcome can be considered normal. Maybe, if 2024 hasn't been your year, that offers just a little comfort. **AN**

FUND MANAGER BEST IDEAS: HEALTH

Based on top five holdings

	No.of funds		No.of funds
Novo Nordisk Class B	6 (+2)	Stryker	2 (+1)
Amgen	5 (+1)	Abbott Laboratories	1
Eli Lilly	5	Biogen	1
UnitedHealth Group	5	Intuitive Surgical	1
Vertex Pharmaceuticals	4	Medtronic	1
AbbVie	3	Merck & Co	1
argenx	3 (+1)	Moderna	1
Boston Scientific	3	Neurocrine Biosciences	1
Gilead Sciences	3 (+2)	QuantumPharm	1 (NEW)
Zealand Pharma	3 (NEW)	Regeneron Pharmaceuticals	1 (-4)
Alnylam Pharmaceuticals	2	Sarepta Therapeutics	1
AstraZeneca	2 (-1)	Scholar Rock Holding	1 (NEW)

Source: Morningstar, 10 December 2024

NEW 52-WEEK LOWS

Name	TIDM	Price	% from low
HICL Infrastructure	HICL	116p	0.2%
SEGRO	SGRO	735p	0.4%
Nexteq	NXQ	68p	0.7%
Taylor Wimpey	TW	127p	0.8%
Serco	SRP	146p	0.9%
Renewables Infrastructure	TRIG	87p	0.9%
Andrews Sykes Group	ASY	502p	0.9%

Source: FactSet, 10 December 2024

NEW 52-WEEK HIGHS

Name	TIDM	Price	% from high
DFS Furniture	DFS	145p	0.0%
Henderson Opportunities	HOT	239p	0.0%
Eckoh	ECK	53p	0.2%
Pantheon International	PIN	340p	0.3%
Baillie Gifford US Growth	USA	284p	0.4%
HSBC Holdings	HSBA	750p	0.5%
Alliance Pharma	APH	50p	0.5%
Nippon Active Value Fund	NAVF	191p	0.5%
Smithson Investment Trust	SSON	1,514p	0.5%
Finsbury Growth & Incm Tr	FGT	892p	0.6%
JP Morgan Indian Invt Tr	JII	1,054p	0.6%
Herald Investment Trust	HRI	2,450p	0.6%
Serabi Gold	SRB	107p	0.7%
City of London Investment	CLIG	392p	0.8%
Cardiff Property	CDFF	2,450p	0.8%
Diverse Income Trust	DIVI	93p	1.1%
F&C Investment Trust	FCIT	1,136p	1.1%
Nichols	NICL	1,300p	1.1%
Baring EMEA Opp	BEMO	628p	1.2%
JPMorgan Global Growth	JGGI	592p	1.2%
BP Marsh & Partners	BPM	750p	1.3%
Ashoka India	AIE	296p	1.3%
Halma	HLMA	2,777p	1.3%

Source: FactSet, 10 December 2024

SHORTS

Company	Short Interest	No. of Shorters	Chg Wk to 10 Dec
Petrofac	5.7%	2	0.0%
Ocado Group	5.7%	5	0.0%
Wood Group (John)	5.1%	3	0.6%
Kingfisher	4.9%	6	0.6%
Diversified Energy Company	4.5%	4	0.0%
Abrdn	4.5%	4	-1.4%
Domino's Pizza Group	4.5%	4	0.0%
Burberry Group	4.2%	2	0.0%
Close Brothers Group	4.1%	3	0.4%
Primary Health Properties	3.7%	4	0.0%
Vanquis Banking Group	3.7%	1	0.0%
ITV	3.6%	5	-0.2%
Alphawave Ip Group	3.5%	4	0.0%
Boohoo Group	3.4%	3	0.0%
Melrose Industries	3.3%	4	0.0%
Pennon Group	3.0%	4	-2.2%
AFC Energy	3.0%	1	0.0%
Bytes Technology Group	3.0%	3	0.0%
Aston Martin Lagonda Global Holdings	3.0%	3	-0.3%
Auction Technology Group	2.9%	4	-0.2%
Itm Power	2.9%	1	0.0%
J. Sainsbury	2.9%	3	0.0%
CVS Group	2.8%	5	1.0%
Senior	2.8%	3	0.0%
Vistry Group	2.5%	2	0.0%
Pets At Home Group	2.4%	3	0.0%
Watches Of Switzerland Group	2.3%	2	0.6%
B&M European Value Retail	2.3%	2	-0.2%
Ssp Group	2.2%	2	-0.2%
Mondi	2.2%	2	0.0%
Marlowe	2.2%	3	0.0%
Whitbread	2.2%	3	0.0%
FD Technologies	2.1%	3	-0.7%
Smith & Nephew	2.0%	2	-0.4%
Fevertree Drinks	2.0%	3	0.6%
Asos	2.0%	3	-0.1%
Energean Oil & Gas	1.9%	2	0.0%
Halfords Group	1.9%	2	0.0%
Mobico Group	1.9%	3	0.1%
Ricardo	1.9%	1	0.0%

Source: FCA, 10 December 2024

1-MONTH EPS UPGRADES

Name (Price)	EPS NTM	Forward EPS Change 1 mth ago	1 mth % chg	3 mth ago
First Property Group (15p)	1.1p	0.4p	169%	-
Inspiration Healthcare Gp (14p)	0.6p	0.3p	103%	0.8p
Star Energy Group (8p)	0.3p	0.2p	97%	4.9p
Helios Towers (95p)	15.9p	8.5p	87%	8.5p
Crimson Tide (98p)	3.2p	1.8p	76%	-
Metro Bank (94p)	7.6p	4.6p	66%	3.3p
Dialight (101p)	2.7p	1.7p	56%	0.9p
Touchstone Exploration (23p)	4.4p	2.9p	53%	-
Tasty (1p)	0.1p	0.1p	47%	0.0p
Victoria (58p)	6.8p	5.0p	36%	22.4p
Vanquis Banking Group (48p)	5.4p	4.1p	32%	1.5p
Pennon Group (603p)	26.5p	20.2p	31%	26.3p
Watkin Jones (20p)	3.3p	2.6p	30%	2.2p
Greencoat UK Wind (127p)	12.7p	9.9p	28%	4.8p
TruFin (79p)	1.7p	1.3p	28%	0.8p
Arrow Exploration (21p)	9.9p	7.9p	26%	6.5p
Ensilica (48p)	5.8p	4.7p	23%	5.4p
IP Group (51p)	8.7p	7.2p	22%	4.3p
Itim Group (41p)	1.7p	1.4p	21%	2.3p
Audioboom Group (337p)	12.0p	9.9p	21%	5.6p

Source: FactSet, 11 December 2024

1-MONTH EPS DOWNGRADES

Name (Price)	EPS NTM	Forward EPS Change 1 mth ago	1 mth % chg	3 mth ago
ZOO Digital Group (31p)	0.4p	1.1p	-62%	1.3p
GetBusy (57p)	0.0p	0.0p	-60%	0.0p
Burberry Group (964p)	5.9p	12.9p	-54%	22.7p
Solid State (130p)	7.1p	14.2p	-50%	13.7p
Ferrexpo (109p)	5.1p	8.8p	-41%	7.0p
Zephyr Energy (3p)	0.4p	0.7p	-41%	0.9p
Zinc Media Group (49p)	3.3p	5.6p	-40%	4.4p
James Cropper (240p)	26.9p	39.9p	-33%	36.6p
Molten Ventures (303p)	35.1p	50.2p	-30%	54.6p
Churchill China (800p)	58.0p	82.1p	-29%	81.6p
Strix Group (48p)	6.7p	9.2p	-27%	9.6p
Time Out Group (52p)	0.4p	0.6p	-24%	0.4p
Dillistone Group (8p)	0.1p	0.2p	-22%	-
Amaroq Minerals (87p)	1.0p	1.3p	-22%	0.0p
Helical (189p)	6.6p	8.3p	-21%	7.3p
Petro Matad (2p)	0.0p	0.0p	-20%	0.0p
Severfield (51p)	7.9p	9.7p	-19%	9.7p
Inspecs Group (44p)	5.9p	7.2p	-18%	7.1p
Virgin Wines (34p)	2.5p	3.0p	-17%	3.0p
Jubilee Metals Group (5p)	0.8p	1.0p	-16%	0.8p

Source: FactSet, 11 December 2024

FIVE BIGGEST SHORT INCREASES

Company	Short Interest	No. of Shorters	Chg Wk to 10 Dec
CVS Group	2.8%	5	1.0%
Fevertree Drinks	2.0%	3	0.6%
Kingfisher	4.9%	6	0.6%
Berkeley Group Holdings	1.4%	2	0.6%
Watches Of Switzerland Group.	2.3%	2	0.6%

Source: FCA, 10 December 2024

FIVE BIGGEST SHORT DROPS

Company	Short Interest	No. of Shorters	Chg Wk to 10 Dec
Pennon Group	3.0%	4	-2.2%
Indivior	1.3%	2	-1.4%
Abrdn	4.5%	4	-1.4%
Wizz Air Holdings	0.9%	1	-1.4%
Rs Group	0.5%	1	-1.2%

Source: FCA, 10 December 2024

Bet on the office market with this Reit

With the pandemic well and truly a thing of the past, now is the perfect time to reconsider these unloved assets. Natasha Voase reports

Great Portland Estates GPE 301p **BUY**

OFFICE REITS

- Valuations look to have stabilised
- Well-located portfolio of high-quality spaces
- Good track record of redevelopment
- Demand for offices still uncertain
- High exposure to retail sector

"There are dinner jackets and there are dinner jackets, and this is the latter," said Eva Green's Vesper Lynd in *Casino Royale*. Well, the same is true of London offices, and **Great Portland Estates (GPE)** argues that its properties fall into the latter category.

Like most office investors, GPE has taken a battering since the pandemic. Its shares have fallen 15 per cent this year alone and 58 per cent over the past five years. Portfolio valuations fell by almost a fifth in the 12 months to March 2024.

Like many real estate investment trusts (Reits), it trades on a hefty discount to net asset value – roughly 37 per cent. From an earnings perspective, investors are clearly betting on a return to the glory days. It trades at 48 times forward earnings – above its five and 10-year averages of 44 and 43 times. In short, if you buy shares in GPE then you need to really buy into the growth story.

WITH 40 PER CENT OF ITS PORTFOLIO CURRENTLY UNDER CONSTRUCTION OR REFURBISHMENT, INVESTORS ARE BETTING ON THE LEASING AND POTENTIAL SALE OF THESE SCHEMES

Is the London office centre on the up?

This is no easy task, given the avalanche of bad news for the office sector since the pandemic. However, there are signs the market is getting better – particularly for the top-quality assets owned and developed by GPE.

Occupier demands are key in the office market. Commentary has focused on the fact that occupiers have become pickier as they focus on attracting staff to shiny offices with good amenities. Within London, there has also been a shift westwards, with tenants leaving Canary Wharf for the City and some moving across to the West End, where rents and values have held up.

Property adviser Cushman & Wakefield's most recent report showed that Grade A leasing – the highest-quality space – was dominating activity, accounting for 70 per cent of take-up in central London in the third quarter. The West End – where 72 per cent of GPE's portfolio is concentrated – accounted for 61 per cent of all deals, and vacancy there is low at 7.6 per cent, compared with 9.6 per cent in the City.

Construction activity is also weak due to a combination of high debt and construction costs and a general stink around the office sector. Cushman & Wakefield noted a "very constrained" pipeline from 2026 onwards.

In short, posh offices in prime locations are pulling ahead of the pack, the West End is particularly popular and the pipeline of new space is low. This is the dynamic GPE is hoping to take advantage of.

Debt refinancing deadlines are also throwing up interesting opportunities for GPE as lenders call time on underwater borrowers. This means that owners will have less scope to withdraw assets from the market due to 'unsatisfactory' bids.

Chief executive Toby Courtauld told investors on the latest results day that there had been a "sharp increase" in assets available to buy. "If you look at the amount of space to sell on the market today, it's about £4.9bn. Of that 40 per cent we think is in the hands of debt motivated sellers," he said.

An opportunistic investor with a track record

Opportunistic is the word best associated with GPE. The team's strategy is simple: buy cheap when there's blood on the streets, reposition the assets, manage them and then sell them on when the market heats up again. It did this well in the last cycle, bulking up its portfolio between 2009 and 2016.

And when GPE sells assets, it returns capital to shareholders. This means the dividend performance risks being patchy. While the total dividend has been maintained at 12.6p for the past few years, the company does not have an unblemished track record. After the financial crisis, for instance, it cut its dividend from 12p to 8p before building it back up again.

Management said the total dividend payout for the current year will be "no less" than the £31.9mn paid last year, but it is worth noting that the share count has increased since then.

When it comes to return on equity, GPE is also patchy, as befits a developer. Return on equity reached a high of 27 per cent in September 2014, before dipping below zero in 2017, just after the Brexit vote sparked concerns about the future of London offices. Unsurprisingly, it has suffered in recent years as interest rate hikes hammered asset owners.

As Citi recently pointed out, structurally higher rates and the challenges facing the office market mean a buy-and-hold property strategy is unlikely to deliver the returns required by investors. "The best return, while removing passive risk, we estimate is repositioning assets up the rent curve, which will also capture buy and hold gains," analysts concluded.

Onwards and upwards

GPE is starting from a low base. EPRA earnings – which reflect underlying operating performance – were down 28 per cent at £8.5mn in the first half of the year, below Barclays' estimate of £10.8mn and Bloomberg's consensus of £11mn. This was partly because £3.5mn of rental income was lost due to developments and refurbishments. Valuations may have turned a corner, though, having increased by 0.8 per cent in the same six months.

However, investing in GPE requires more forward thinking than that. With 40 per cent of its portfolio currently under construction or refurbishment, investors are betting on the leasing and potential sale of these schemes, rather than the earnings of today. The team at GPE thinks that the earnings inflection point will be in the middle of 2025, with full dividend cover targeted for 2026. ▶

INVESTORS ARE CLEARLY BETTING ON A RETURN TO THE GLORY DAYS. IT TRADES AT 48 TIMES FORWARD EARNINGS – ABOVE ITS FIVE AND 10-YEAR AVERAGES OF 44 AND 43 TIMES

► The team has certainly been busy. After raising £350mn of new equity over the summer and securing a £250mn green bond, it has been on a shopping spree, buying Whittington House in Fitzrovia for around £60mn and Wells Street, near Oxford Circus, for around £20mn. More is expected to follow, with £125mn of assets currently in negotiation and £1bn on the watchlist.

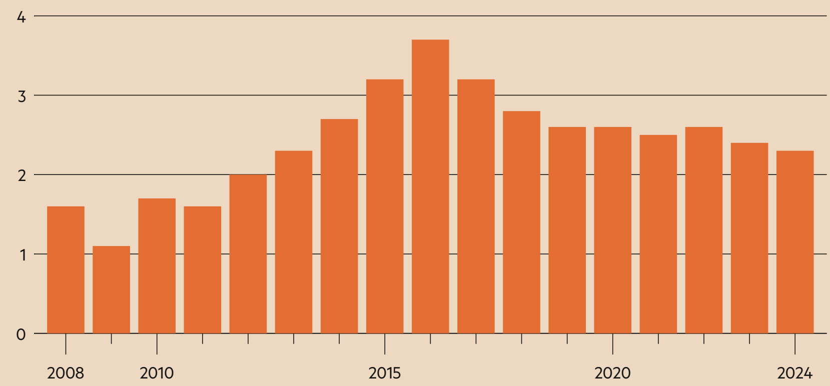
"Great Portland has the highest committed development spend on London offices as a percentage of assets, a very strong balance sheet and excellent management," analysts at JPMorgan said after the publication of GPE's interim results last month.

Investors have shied away from the office space for several years. Now that the dust has settled after the pandemic, we think it is time to reconsider the office Reits. While investors already appear to be betting on significant earnings improvements at GPE, we also note that the Reit has a good track record of returning capital to investors and timing the cycle well.

It is fair to say that this cycle will be challenging for all office investors, as occupier needs have fundamentally shifted. However, the nimble and opportunistic nature of GPE makes it well placed to navigate this. That said, there are risks – particularly given GPE's high exposure to the retail sector, which has been hit hard by increases in national insurance contributions. It's also worth noting that analysts are pretty split on the company, with six out of 13 listed analysts in FactSet giving it a buy recommendation, two putting it on sell and the rest having it on hold. But with due caution, it's one to consider. ●

GPE'S PORTFOLIO PEAKED IN 2016

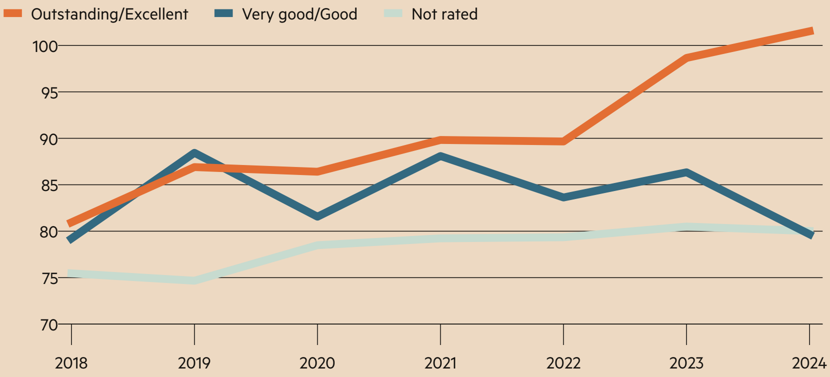
Portfolio valuation (£bn)



Source: Company

SUSTAINABLE OFFICES ARE FETCHING HIGHER RENTS IN LONDON'S WEST END

Rent per square foot, based on BREEAM rating (£)



BREEAM is a sustainable building certification system.
Source: Savills

Company details	Name Great Portland Estates (GPE)	Mkt Cap £1.22bn	Price 301p	52-Wk Hi/Lo 381p / 288p
Size/Debt	NAV per share* 391p	Net Cash / Debt(-) -£599m	Gearing 31%	5yr NAVps CAGR -6.0%
Valuation	Disc/Prem Fwd NAV (+12mths) -41%	Fwd PE (+12mths) 48	Fwd DY (+12mths) 2.9%	FCF yld (+12mths) 0.0%
Forecasts/ Momentum	Fwd NAV grth NTM 1%	Fwd NAV grth STM 7%	3-mth Mom -13.5%	3-mth Fwd NAV change% 1.6%

Year End 31 Mar	NAV per share (p)	Profit before tax (£mn)	EPS (p)	DPS (p)
2022	683	27.4	8.97	12.6
2023	623	24.0	7.89	12.6
2024	548	19.0	5.90	12.6
Forecast 2025	489	19.7	5.14	8.48
Forecast 2026	520	28.3	6.80	8.74
Change (%)	+6	+44	+32	+3

Source: FactSet, adjusted PTP and EPS figures
NTM = Next 12 months
STM = Second 12 months (ie, one year from now)

An income trust with an edge

This company's unique structure means its managers are not bound by traditional dividend metrics. Dave Baxter reports

Law Debenture Corp LWDB 910p **BUY**

CLOSED END INVESTMENTS

- Two sources of dividends
- Robust total returns
- A keen focus on valuations
- Trading at a premium
- Lower yield than peers

UK investors with an appetite for equity dividends are more than familiar with the advantages and drawbacks of their home market. Many London-listed shares offer a hefty yield thanks to the bulky presence of income-minded sectors, such as banking and mining, in the FTSE 100.

And yet this brings various headaches, including the fact that payouts are often concentrated among a few large-caps, and the fear that – by backing a dividend payer with its best days behind it – you will miss out on companies that offer more in the way of capital growth.

The funds universe gives us many ways to skin this particular cat. There are 71 funds in the Investment Association's UK equity income category and 18 investment trusts in the equivalent list from the Association of Investment Companies. The vehicles on offer vary significantly, from the level of yield they target to their use of overseas shares and the extent to which they prioritise small and mid-caps over the big beasts of the FTSE 100.

THE TEAM HAS PLACED A RELATIVELY SIZEABLE BET ON THE RECOVERY OF THE UK EQUITY MARKET

Some of the more distinctive portfolios are worth paying attention to, and one name that stands out in the world of investment trusts is **Law Debenture Corporation (LWDB)**.

This trust has an unusual trait that sets it apart from the competition, in that it owns an independent professional services business that focuses on niche areas such as pension trustee services and whistleblowing support.

This business has been a source of solid, reliable growth in recent years, and accounts for roughly a fifth of Law Debenture's net asset value (NAV). Importantly, it is also the biggest contributor to the trust's income, generating around a third of total dividends.

This means the investment portfolio, which accounts for the remaining 80 per cent of NAV, does not need to be quite as obsessed with yield as other income trusts. In other words, Janus Henderson investment managers James Henderson and Laura Foll, who run the portfolio, can be more flexible and adventurous in their approach.

Recently, this has led them to choose stocks with lower yields, or even those that have even suspended dividends, in a bid to secure strong capital returns.

This fits with a self-proclaimed contrarian investment style that involves the managers buying cheap, high-quality companies – "out of favour equities standing at valuation discounts to their long-term historical average".

A look at the fund's top 15 holdings at the end of October shows that it does have some UK income stalwarts. Note the presence of **Shell (SHEL)**, **HSBC (HSBA)**, **GSK (GSK)**, **BP (BP.)** and **Rio Tinto (RIO)**, for example. These contribute to a share price dividend yield of around 3.5 per cent at the time of writing.

However, other prominent names in the portfolio have little interest in dividends. Top holding **Flutter Entertainment (FLTR)** currently pays no dividend – having canned payments in 2020 – but has seen its profits surge on the back of good growth in the US, helping drive share price returns of almost 60 per cent in 2024.

Other notable recovery plays come in the form of **Rolls-Royce (RR.)** and **Marks & Spencer (MKS)**. Both companies also dropped their dividends in more challenging times, although they have reinstated payouts this year on the back of robust recovery stories.

Its value-minded approach means Law Debenture tends to bank significant gains when contrarian picks play out. We have seen that recently with reductions to positions in both Rolls-Royce and Marks & Spencer. "In both cases we continue to hold a position but have taken some profits in recognition that there has been an earnings recovery and the valuation has risen from low levels," Law Debenture told investors this summer.

The team sold takeover target **International Distribution Services (IDS)** – formerly Royal Mail – and **Hipgnosis Songs (SONG)** in the same period, while making new investments in **Beazley (BEZ)**, **J Sainsbury (SBRY)** and office owner **Great Portland Estates (GPE)**. The managers also added to existing holdings such as building materials suppliers **Ibstock (IBST)** and **Marshalls (MSLH)**, medical device producer **Smith & Nephew (SN.)** and **BT (BT.A)**.

"There is no end-market commonality to these purchases but in all cases we think they are making operational progress that is not reflected in their current valuation," the managers said in the half year report.

Performance, past and future

Law Debenture's unusual approach has allowed it to increase or maintain its dividend for 45 years, and it has made much better total returns than both the competition and the underlying market. But given some of the team's recovery plays have already come good, it's worth asking what will drive future outperformance.

The team has placed a relatively sizeable bet on the recovery of the UK equity market. Although the trust can hold up to 45 per cent of its portfolio in overseas shares, Henderson and Foll have kept the UK allocation at "historically high" levels – 87.9 per cent at the end of October.

"Despite a positive return (for both the FTSE All-Share and the portfolio) during the six months, UK equities continued to trade at a large valuation discount relative to overseas peers," the team said in the trust's half-year report. "This persistent discount is something we are seeing evidenced in the number of takeover approaches." ▶

▶ The belief in a UK recovery explains a couple of other calls by the investment team. For a start, they have maintained a decent level of gearing, meaning the use of borrowing to put more money into selected investments. Gearing accounted for 9 per cent of NAV at the time of writing, and can amplify gains (and losses) made in the portfolio.

The managers have also been "gradually shifting" the portfolio in the direction of smaller companies that have proved unpopular even though they are doing well on an operational basis. The team added to positions in companies including **AFC Energy (AFC)**, **Castings (CGS)** and **ITM Power (ITM)** in the first half of 2024.

FTSE 100 shares accounted for 47 per cent of the portfolio at the end of June, with 23 per cent in FTSE 250 stocks, 9.3 per cent in Aim businesses and 6.2 per cent in the FTSE Small Cap index. This makes the trust far less blue-chip heavy than the FTSE All-Share.

LAW DEBENTURE'S UNUSUAL APPROACH HAS ALLOWED IT TO INCREASE OR MAINTAIN ITS DIVIDEND FOR 45 YEARS

Law Debenture has its downsides. It's not cheap, with the shares trading on a premium of around 1.8 per cent to NAV at a time when wide investment trust discounts are rife. What's more, the 3.5 per cent share price dividend yield compares poorly with that on offer from some peers, and even undershoots the humble 10-year UK government bond.

The hope, however, is that Law Debenture's flexible, contrarian approach continues to produce the goods, meaning the modest yield is more than offset by dividend growth and superior total returns. With the caveat that a good run of performance does not guarantee future success, this trust continues to stand out from the rest of the sector. ●

THE FUND'S TOP 15 HOLDINGS

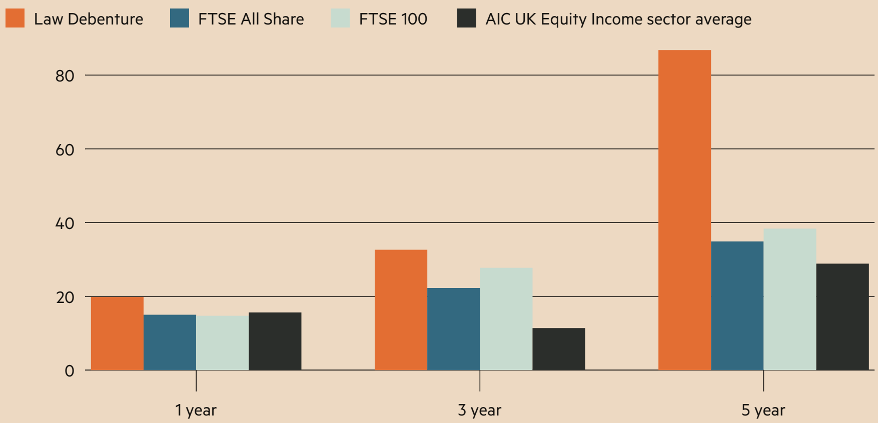
Company	Position size (%)	Dividend yield for 2024 (%)
Flutter Entertainment	3.5	0.0
Shell	3.1	4.3
HSBC	3.0	8.7
Rolls Royce	2.7	0.8
Barclays	2.7	3.2
GSK	2.2	4.4
BP	2.1	6.0
Marks & Spencer	2.0	1.2
Rio Tinto	1.8	6.0
NatWest	1.8	4.7
Tesco	1.7	3.5
Standard Chartered	1.7	2.6
National Grid	1.6	5.2
Marshalls	1.4	2.5
J Sainsbury	1.4	4.9

Source: Law Debenture, Fidelity for yields

Name Law Debenture Corporation (LWDB)	**Price** 910p
Share price dividend yield 3.5%	**AIC sector** UK Equity Income
Investment managers James Henderson and Laura Foll	**Market cap** £1.2bn
Ongoing charge 0.49%	**Premium to NAV** 1.8%
More information lawdebenture.com	Source: AIC

LAW DEBENTURE IS WELL AHEAD OF ITS RIVALS

Share price total return (%)



Source: FE, as of 09/12/24

THE TRUST IS BUCKING THE DISCOUNT TREND

Source: AIC as of 09/12/24

Why I'm calling time on Bioventix after a decade

John Rosier explains why he's selling the biotech and where he's investing the proceeds

The main event in November was the US presidential election. Donald Trump's election for a second term was greeted with dismay by many, but not by the markets. With the Republicans taking control of the Senate and House of Representatives, President Trump will have the power to make real changes in his first two years. Equity markets surged in the belief that Trump's policies would be pro-growth.

Trump moved quickly to appoint his cabinet. The most intriguing thing is the appointment of Elon Musk and Vivek Ramaswamy as co-heads of the new department of government efficiency or Doge. Followers of Musk on X will know he has highlighted many areas of potential savings. Given their two massive egos, many wonder if Musk can work with Trump. Furthermore, detractors point out that making changes in the public sector will be much more difficult than in the private sector. It will be fascinating to see how this plays out.

Something, however, must be done. With government spending of $6.8tn (£5.3tn) far outstripping income of $4.9tn, debt is growing rapidly and stands at $32tn. The rate of borrowing increases is likely to accelerate as cheaper debt issued in the low interest rate era matures and is refinanced at higher rates. The interest bill will balloon. A market nervous about this rapidly increasing burden could respond positively to any moves to reduce the deficit. The prize for success will be massive. Suppose Trump's government does not reduce the size of the deficit. In that case, this is the most significant risk to US financial markets. Treasury bond yields above last year's high of 5 per cent would not be good.

The S&P 500 gained 5.7 per cent and Nasdaq Composite 6.2 per cent. The biggest winner was, however, small and mid caps, with the Russell 2000 surging 11.2 per cent. European stock markets struggled due to concerns that a more protectionist US would damage growth. The Italian MIB was down 4 per cent, and the Cac 40 fell 1.6 per cent. The Dax, somewhat against the flow, was up 2.9 per cent. In the UK, the FTSE All-Share was up 2.5 per cent. The FTSE 250 gained 1.9 per cent, Aim was down 0.6 per cent and the FTSE Small Cap shed 0.9 per cent. The number of profit warnings accelerated as companies warned about increased costs from the Budget. There was also an increase in corporate activity, with bids announced for **TI Fluid Systems (TIFS)**, **Loungers (LGRS)**, **Direct Line (DLG)** and **Renewi (RWI)** in the last week of November alone.

JOHN ROSIER

348.6%

SINCE ITS START IN JANUARY 2012, THE JIC PORTFOLIO HAS RISEN BY 348.6 PER CENT

THE US DOLLAR STRENGTHENED SIGNIFICANTLY IN THE WAKE OF THE ELECTION. AT ONE STAGE, CABLE FELL TO 1.25 BEFORE ENDING THE MONTH AT 1.275

The US dollar strengthened significantly in the wake of the election. At one stage, cable fell to 1.25 before ending the month at 1.275. Bitcoin gained another 39 per cent ending just shy of $100,000. It's up 132 per cent this year. Its fans believe there is much to go now that there is a more supportive government. Bernstein has a target of $200,000 during 2025, stating that what were headwinds are now tailwinds. I'm playing this in a minor way through my holding in the **VanEck Crypto and Blockchain ETF (DAGB)**.

Gold, on the other hand, gave back some of its recent gains. There may have been some switching into bitcoin or profit-taking after a good run and in response to a stronger dollar. Commodities were a mixed bag: zinc and nickel were up a few per cent, but copper was up 5 per cent, and oil was up 2.6 per cent to $72 per barrel (Brent crude).

Performance

November was a little disappointing. My JIC Portfolio was up 0.7 per cent but behind the 2.5 per cent gain of the FTSE All-Share (TR) Index. This year, the portfolio is now a little behind the All-Share – up 10.0 per cent versus 10.7 per cent for the index. So, with just one month to go, it's down to December to determine whether I have a good, average or lousy year. Since its start in January 2012, the JIC Portfolio has risen by 348.6 per cent, translating to an annual growth rate of 12.3 per cent. For context, the FTSE All-Share Index is up 152.6 per cent, with a yearly growth of 7.4 per cent. Over the past five years, the portfolio has climbed 44.1 per cent, beating the All-Share Index's 32.2 per cent.

Six positions were up more than 5 per cent, while five were down by more than 5 per cent. The winners were the VanEck Crypto & Blockchain ETF, which was up 45 per cent. That was good news for my Funds Portfolio, which held the position throughout ▶

JIC PORTFOLIO, 30 NOVEMBER 2024

Name	EPIC	Price at 30 Nov (£)	Avg price paid (£)	% of portfolio	% return
IG Group Holdings	IGG	9.525	7.021	5.8	42.1
PayPoint	PAY	8.23	5.232	5.5	61.5
L&G Gold Mining UCITS ETF (GBP)	AUCP	32.875	31.990	5.3	2.8
Premier Foods	PFD	1.941	1.368	5.1	48.1
Lundin Mining	LUMI	7.699	7.494	5.0	3.1
Me Group International	MEGP	2.215	1.265	4.7	78.1
Bloomsbury Publishing	BMY	6.69	4.262	4.7	55.8
Herald Investment Trust	HRI	23.25	21.371	4.4	8.8
NGEx Minerals	NGEX	7.032	6.104	4.4	15.2
Greggs	GRG	26.97	29.153	4.4	-5.4
Serica Energy	SQZ	1.29	1.957	4.3	128.7
Pollen Street Group	POLN	7.25	6.992	4.2	7.5
Polar Capital Holdings	POLR	5.35	4.697	4.1	29
International Petroleum Corporation	IPCO	8.893	10.441	4.0	-14.8
IG Design Group	IGR	1.225	1.442	4.0	-9.7
4imprint Group	FOUR	50.2	52.693	3.9	-2.7
NextEnergy Solar Fund	NESF	0.6895	0.971	3.7	-10.5
Gamma Communications	GAMA	15.82	13.069	3.7	22.5
Wilmington	WIL	4	3.446	3.2	16.8
Niox Group	NIOX	0.635	0.541	3.0	19.6
Renew Holdings	RNWH	10.34	7.846	2.9	110.8
Sylvania Platinum	SLP	0.44	0.596	2.5	104.4
VanEck Crypto and Blockchain Innovators UCITS ETF	DAGB	9.98	8.279	2.3	20.5
Luceco	LUCE	1.301	1.455	2.3	-7.7
Capita	CPI	0.1745	0.205	2.3	-14.8

▶ the month. I only added it to the portfolio on 7 November. Nevertheless, it was up 12 per cent over the remainder of the month. The rise in bitcoin was behind the strong rally in the ETF.

Herald Investment Trust (HRI) gained 13.2 per cent. The rise in the Russell was helpful, given this trust's exposure to small and mid-cap companies. **Polar Capital (POLR)** gained 13 per cent, more than making up for the 11 per cent drop in October. It responded positively to interim results on 18 November. We learned from previous updates about the movement in assets under management. Seeing a healthy profit increase and its funds continue to perform was nice. Core operating profits increased by 21 per cent to £27.3m. It maintained its interim dividend at 14p. If, as I expect, it holds the final dividend of 32p, giving 46p for the year, that yields 8.6 per cent at 533p.

IG Group (IGG) was up 7 per cent. There is no news, but the share buyback goes on. The next news should be half-year results towards the end of January.

PayPoint (PAY) was up 6.5 per cent. Results in mid-November elicited some profit-taking after a strong run. The selling was short-lived, and the share price is approaching a five-year high. It also continues to buy back its shares. Paypoint has given me a total return of 64 per cent since I started accumulating the position in Q4 2023. There is more to come, given analysts are forecasting earnings growth of 13.5 per cent next year and 9.0 per cent the following. That leaves the shares valued at 11.8 times 2025 earnings, falling to 10.9 times 2026 earnings per share (EPS). It also carries an attractive yield of 4.6 per cent, rising to 4.8 per cent.

Pollen Street (POLN) was up 6 per cent. Again, there has been no news since the half-year report at the end of September. It also is buying back shares.

NGEx Minerals (CA: NGEX) gained 5.8 per cent. Third-quarter results did not reveal much we did not know, but the company expanded on its plans for the southern hemisphere drilling season. This season is the third year of drilling and should lead to the development of an exploration target. NGEx expects to release its first drilling results in December. Based on the last two drilling phases, the Lundin family and directors are confident. They subscribed significant amounts to the recent fundraising. It aimed to raise C$100mn (£55.4mn) but quickly increased it to C$175mn due to demand. Exciting times. The other two Lundin Group companies I bought over the summer were also up: **Lundin Mining (CA:LUN)** gained 1.5 per cent and **International Petroleum Corporation (CA: IPCO)** 0.2 per cent.

45%

ONE OF THE MONTH'S WINNERS WAS THE VANECK CRYPTO & BLOCKCHAIN ETF, WHICH WAS UP 5 PER CENT

I SOLD BIOVENTIX ON 4 NOVEMBER AT 3,618P. HAD DOUBTS THAT FORECAST GROWTH JUSTIFIED THE CURRENT VALUATION

IG Design (IGR) was a big detractor. Falling 19.5 per cent, the shares revisited the low they hit in April following the interim results. I was baffled as the company only confirmed what it had already posted in two previous trading updates: that the first half was tough (partly due to difficult comparatives), but that the second half would be much better (partly due to easier comparatives). It says it is on track to return margins to pre-Covid levels of 4.5 per cent in the current financial year ending March 2026. Cash flow was strong, with a net debt of $15mn a year ago, shifting to a net cash position of $7.4mn. The company expects to resume paying dividends at the year-end. Analysts expect earnings per share to grow 26 per cent this year, leaving the shares valued at 7.6 times March earnings forecasts. The following year should see earnings grow 10 per cent, taking the price/earnings

(PE) ratio down to 6.9 times. Its use of "challenging" spooked the market, but I think this share is set for a strong recovery over the next year.

Serica Energy (SQZ) was down 10 per cent. A trading update showed maintenance work on the Triton field had taken longer than expected, reducing the forecast production for 2024. It confirmed that it was still pursuing potential acquisitions. Hopefully, there will be some positive news on that front soon. In the meantime, it would be helpful if it broke out of its recent trend of overpromising and underdelivering on production.

Capita (CPI) dropped 8.4 per cent. The main reason was the forecast impact of the national insurance increases. Its recent sale of Capita One, completed on 5 September, is possibly the subject of a Competition and Markets Authority investigation. The company has said that it is "considering whether it is the case that this transaction, if carried into effect, will result in the creation of a relevant merger situation". It has invited relevant parties to comment. There is a risk that some mitigating actions will be required. Still, the company's cheap valuation already reflected those risks. The last of the fallers was **Sylvania Platinum (SLP)**, down 5.8 per cent.

The Funds Portfolio had a much better month. It was up 4 per cent, nicely ahead of the FTSE All-Share's 2.5 per cent per cent gain. It continued to lag the FTSE All-World GBP TR Index, which was up 4.8 per cent.

So far in 2024, the Funds Portfolio is up 11.8 per cent, some distance behind the All-World's 20.8 per cent. Since June 2020, it has grown by 44.5 per cent, versus 74.5 per cent for the All-World. My reluctance to put 65 per cent into US equities and to be overweight the 'Magnificent Seven' is proving costly in relative terms. This month's worst performer was **BlackRock World Mining (BRWM)**, down just 4.5 per cent. The best was VanEck Crypto and Blockchain ETF, which followed October's 16.5 per cent gain with another 45 per cent. Herald Investment Trust was up 13.2 per cent, as discussed, and **JPMorgan American (JAM)** up 11.8 per cent.

ECONOMISTS ARE UPGRADING 2025 US ECONOMIC GROWTH FORECASTS

Activity

I said goodbye to a long-standing position. I sold **Bioventix (BVXP)** on 4 November at 3,618p. I first added the shares to my portfolio in 2014, and they have served me well. The total profits, including dividends, were £40,000, or 6 per cent of the portfolio's current valuation. I had doubts that forecast growth justified the current valuation. In short, I thought there were better opportunities elsewhere. With the proceeds, I added to my three Lundin Group companies: NGEx at 645p, Lundin Mining at 771p and International Petroleum at 862p. I also increased my position in Herald Investment Trust to 4 per cent at 2,127p. VanEck Crypto & Blockchain ETF was increased to 2.5 per cent at 827p on 7 November.

On 11 November, I trimmed my holding in **Me Group (MEGP)** to 5 per cent at 233p following a strong run. I used the proceeds to increase **L&G Gold Mining ETF (AUCP)** to 5 per cent at 3,072p. I also increased **Premier Foods (PFD)** to 5 per cent at 180p on short-term weakness following its interim results. Those results showed solid progress, with pre-tax profits up 8.9 per cent. It feels as though there is potential for full-year upgrades, given that the current forecast suggests no revenue growth in the second half. That seems unlikely, given the first-half performance and the positive tone of the outlook statement. According to current forecasts, it is valued at 14 times March 2025 earnings.

In the Funds Portfolio, I made several changes, including the reintroduction of the **Argonaut Absolute Return Fund (GB00B7FT1K78)**. I like manager Barry Norris's no-nonsense approach.

Other news

Printing company **4imprint's (FOUR)** trading update for the 10 months ended 31 October talked about challenging conditions in the US. Order count was up just 2 per cent year on year. However, margins remained robust, meaning it remained happy with full-year forecasts of 7 per cent earnings growth. That leaves the shares valued at 15.9 times, which still looks good for such a high-quality business.

NextEnergy Solar Fund's (NESF) interim results showed a drop in net asset value and included an update on its capital recycling programme. **Renew Holdings' (RNWH)** full-year results were in line with expectations. It should benefit from increased infrastructure spending, and the forecast PE ratio of 14.5 times leaves scope for some upside in the share price. It will be helpful if the company upgrades expectations as in previous years. With net cash, it is likely to make further bolt-on earnings-enhancing acquisitions. ●

DIVIDEND UPDATE

This year's declared dividend income stands at £30,167, up from £28,727 last month. I've received £27,946, with the remaining amount expected over the next few months. November ex-dividends included Me Group (3.5p), Lundin Mining (5.1p), PayPoint (9.7p), and NextEnergy Solar Fund (2.1p).

OUTLOOK

Last month, I was concerned about the rise in government bond yields. Since then, yields have fallen back a little, which will relieve the chancellor. I was also worried about US equity valuations. That remains the case. In the short term, however, the markets want to go higher.

Economists are upgrading 2025 US economic growth forecasts, and the expectation from the bulls is that earnings growth will bring down valuations. Given current valuations, there is a lot of risk, so much will depend on the pace of growth and whether the 'Doge' can demonstrate meaningful progress in reducing government spending. If it can, the US Treasury market would welcome it. It could pave the way for lower interest rates than currently anticipated. Most are sceptical; therein lies the upside.

Bearbull

IC OPINION

Dogs of Spot the Dog

Does Bestinvest's famous name-and-shame report work as a contrarian buy signal?

Pity the City's fund managers. As if their jobs weren't stressful enough, twice a year they must await the *Spot the Dog* report, and with it the potential for an ugly blot on their otherwise type-A CVs.

The report, which its glint-eyed publisher Bestinvest dubs "the guide fund managers would love to ban", has set about 'exposing' underperforming funds since 1994. This longevity owes much to the way it captures the imagination of investment professionals and retail punters like no star-based rating scale can. If you're a dog, then you're a dog. Perhaps not for life, but the label still smarts.

Given the simplicity of the report's screening criteria, most money managers will know whether a trip to the kennel is imminent. To find itself in the pound, a fund must first fail to beat its benchmark over three consecutive 12-month periods, and second underperform the benchmark by 5 per cent or more over the entire three-year period. Such protracted poor performance rarely goes unnoticed.

As of the latest report, which ranks money managers on their performance in the three years to 30 June, 137 funds are classed as dogs. Charitably, Bestinvest provides an up-front disclaimer on the seas in which funds were again forced to swim, including the now very familiar riptides of US megacap concentration, sustainability-themed funds' inability to partake in resurgent fossil fuel profits, a "tough" UK market, and the binary calls emerging market managers were forced to make on China and India.

You can see why some managers – particularly those that ask to be judged over longer periods – may feel aggrieved. Others may publicly welcome the report's disciplining effect, while privately bemoaning the added challenges of marketing funds that are already under considerable pressure.

Then again, as someone who often struggled with accountability liked to say: them's the breaks.

If you know where to look, there are tougher assessments of UK-listed active funds out there. To wit, see S&P Global's latest verdict on sterling-denominated active funds.

Over the same three-year measurement period as the latest *Spot the Dog* report, it found that 87 per cent of global equity and 86 per cent of UK equity funds lagged their benchmark. By removing Bestinvest's consecutive 12-month test – arguably the less important of the two – the proportion of funds operating below par explodes.

Still, not wanting to be seen kicking dogs when they are down, Bestinvest is keen to emphasise that funds aren't punished for simply making the wrong stylistic bet. "Different styles and strategies will go in and out of favour, but this may not be the only reason for a fund's weakness," its authors note. It hasn't been easy to make hay with global value stocks when the default yardstick rockets ahead on Silicon Valley-powered growth. Even so, managers can't always blame markets

The name-and-shame exercise isn't designed to urge funds holders to sell. Bestinvest managing director Jason Hollands says: "The point of *Spot the Dog* is really to prompt people to review their portfolios more regularly than they might otherwise do, understand why a fund might have undergone a period of poor performance and ultimately decide whether they retain conviction in their fund choices". It's hard to find much fault with that, regardless of the group's referral incentives.

But prompted by a reader suggestion, I wanted to see whether the report might be of use to investors with no existing stake in the dogs. In short, might the list serve as a contrarian indicator for future outperformance? If a stint in the doghouse doesn't prompt a change – a phenomenon physicists refer to as the observer effect – it's hard to know what might.

Judging by Bestinvest's own online database, it's not easy for fund managers to quickly correct their course. Of the June-branded pack, just one dog, **VT De Lisle America (GB00B3QF3G69)**, has seen its three-year relative performance jump back into positive territory. With this in mind, I've looked at the three consecutive reports published between August 2022 and August 2023, to find out if slightly longer periods reveal anything about their recovery power.

Given the breadth of the lists, I've narrowed them down to the top 10 dogs in each report (see tables) and tracked their performance relative to benchmarks largely determined by FactSet. In some instances, the funds been rebranded or changed management teams, though for clarity I have kept the originals here.

On this evidence, the dogs have struggled to learn new tricks. While returns have clearly improved, both against what came before and in absolute terms, most have failed to catch up to the pace of their benchmarks.

But why? Unlike out-of-favour stocks, I see fewer ways for open-ended mutual funds to right their paths. Any parallels with the Dogs of the Dow investing strategy (or our recently-revived Dogs of the FTSE 100 screen), which suggest buying each index's cheapest (highest-yielding) stocks each year, break down. For funds, not only are self-help options limited, but valuation and pricing aren't really factors.

For a start, trying to improve returns while battling the redemptions that often accompany poor performance is an unforgiving task. Sure, funds can appoint new management teams, merge, or wait for a pick-up in market sentiment toward their underlying holdings. But these are all second-tier solutions compared to the overriding catalyst that is better stock selection.

Contrast this to the alternative. Listed companies can restructure, sell themselves, pivot or simply become better businesses. Like closed-ended funds such as investment trusts, they can also reward shareholder patience with buybacks and dividends, and even hunker down and wait for investor capitulation to subside or reverse.

Funds in the *Spot the Dog* crosshairs simply need to up their game – and fast. Yet because Bestinvest sensibly defines performance over several years, this can take a while to show. As a contrarian indicator, I'm not convinced it works. ●

bearbull@ft.com

AUGUST 2022 DOGS

Dog ranking	Fund	Size (£mn)*	3-yr under-performance*	Price since report	Benchmark since report	+/-
1	FTF Martin Currie Global Unconstrained	39	-34%	44.6%	45.4%	-0.9%
2	Fidelity American	808	-29%	59.0%	58.8%	0.2%
3	VT Avastra Global Equity	6	-27%	25.8%	45.4%	-19.6%
4	Schroder European Sustainable Equity	47	-27%	21.5%	28.5%	-7.0%
5	NFU Mutual Global Growth	39	-26%	33.9%	45.4%	-11.6%
6	Jupiter UK Growth	401	-24%	20.8%	13.7%	7.2%
7	AXA ACT Framlington Clean Economy	32	-24%	14.6%	45.4%	-30.8%
8	BlackRock Developed Markets Sustainable Equity	167	-20%	30.9%	45.4%	-14.5%
9	TM UBS (UK) - Global Equity	195	-18%	29.7%	45.4%	-15.7%
10	MI Somerset Global Emerging Markets	273	-16%	5.6%	19.5%	-13.9%
	Average	**201**	**-24.5%**	**28.6%**	**39.3%**	**-10.7%**

Source: Bestinvest/Evelyn Partners, Investors' Chronicle, FactSet. *As of 30 Jun 2022

FEBRUARY 2023 DOGS

Dog ranking	Fund	Size (£mn)*	3-yr under-performance*	Price since report	Benchmark since report	+/-
1	FTF Martin Currie Global Unconstrained	38	-36%	28.0%	43.2%	-15.2%
2	Overstone Global Equity Income	28	-33%	25.6%	43.2%	-17.5%
3	VT Avastra Global Equity	7	-29%	22.9%	43.2%	-20.3%
4	Fidelity American	754	-27%	57.4%	56.4%	1.0%
5	Schroder European Sustainable Equity	38	-27%	10.0%	21.7%	-11.7%
6	St James's Place International Equity	2166	-25%	32.2%	43.2%	-11.0%
7	Unicorn Outstanding British Companies	64	-23%	1.3%	10.6%	-9.3%
8	Halifax Special Situations	111	-23%	10.8%	10.6%	0.2%
9	HL Multi-Manager Special Situations Trust	1752	-22%	31.8%	43.2%	-11.4%
10	MI Sterling Select Companies	26	-22%	14.3%	35.0%	-20.7%
	Average	**498**	**-26.7%**	**23.4%**	**35.0%**	**-11.6%**

Source: Bestinvest/Evelyn Partners, Investors' Chronicle, FactSet. *As of 31 Dec 2022

AUGUST 2023 DOGS

Dog ranking	Fund	Size (£bn)*	3-yr under-performance*	Price since report	Benchmark since report	+/-
1	Baillie Gifford Global Discovery	0.78	-70%	-4%	21%	-26%
2	SVS Aubrey Global Conviction	0.04	-64%	62%	35%	27%
3	Premier Miton US Smaller Companies	0.06	-47%	31%	26%	5%
4	AXA ACT People & Planet Equity	0.01	-45%	13%	28%	-15%
5	JPMorgan US Small Cap Growth	0.20	-42%	25%	27%	-2%
6	Unicorn Outstanding British Companies	0.06	-36%	2%	10%	-8%
7	St. James's Place International Equity	7.09	-36%	30%	28%	2%
8	EF Rosevine Capital Global Equity	0.01	-35%	28%	28%	1%
9	AXA Framlington UK Sustainable Equity	0.07	-30%	6%	10%	-5%
10	Troy Asset Management Trojan Income	1.00	-29%	12%	10%	1%
	Average	**0.93**	**-43.4%**	**20.3%**	**22.2%**	**-1.9%**

Source: Bestinvest/Evelyn Partners, Investors' Chronicle, FactSet. *As of 30 Jun 2023.

No Free Lunch

IC OPINION

New pay voting rules miss the bigger picture

The fund manager lobby has updated its 'principles', but the UK will struggle if we continue to blindly follow proxy voters. Paul Jackson reports

A couple of months ago, the Investment Association (IA) updated its principles of remuneration, which provide guidelines for shaping executive pay. The aim is to make pay structures fair, transparent and linked to performance – so that pay outcomes for executives are aligned with the long-term interests of shareholders. The guidelines had been criticised in some quarters for being too restrictive, and in others for being too lax, so it's been a tricky balancing act.

The backdrop is the fall in value of sterling after Brexit, which reduced UK pay in foreign currency terms. That hit executives who were foreign nationals as their salaries became more uncompetitive compared with their home market. A freeze followed during the pandemic, which also compressed pay further, making recruitment and retention in some key roles a challenge.

After **Smith & Nephew (SN)** lost its chief executive to the US in 2019 (No Free Lunch, *IC*, 17 May 2024), other multinationals, such as **AstraZeneca (AZN)**, became more determined to push up pay to retain their top people (No Free Lunch, *IC*, 3 May 2024). In 2023, the London Stock Exchange called for a 'big tent' discussion to face up to the consequences of holding down executive pay. This was also aimed at investors concerned about wealth disparity who protest against large pay rises by voting against the directors' remuneration reports at annual general meetings (AGMs).

When more than 20 per cent of votes oppose these reports, the IA required companies to ask shareholders for "the reasons behind the result". It now seems unlikely to name them on its 'public register' of low voting outcomes. To many directors, this policy had seemed pointless: most knew their shareholders' views already, through the consultations held ahead of the AGM. To comply with these guidelines, companies typically released routine statements after such votes, saying something like: "We will continue to engage with our shareholders to explain our need to set realistic benchmarks for rewarding performance." Perhaps they still will, but in general, the IA's wording is more sympathetic to boards. Companies will probably continue to see dissenting votes portrayed in the media in emotional terms such as 'pay revolt' or a 'pay mutiny', but maybe it's unrealistic to expect companies to always receive high levels of support.

Shareholders of UK-listed companies also have another sanction: the ability to block a new pay policy from being adopted. The opportunity to vote on a company's remuneration policy normally comes up every three years. This sets the parameters for future pay awards, thought necessary because when awards were unrestricted, there were occasional abuses. The IA has not changed this. Instead, it urges directors to consult more and to say how they arrive at pay levels, particularly when executives join or leave. They want pay comparators to be explicit and a cap continued on variable pay. As before, one size won't fit all.

2X

MEDIAN EXECUTIVE PAY IN THE US IS STILL MORE THAN DOUBLE THAT IN THE UK

The IA stresses that its principles are guidance, not hard rules. The message is clear: for good governance, stay within the guidance; if exceptions are necessary, tell people why. In an earlier report, A&M, a reward consultancy, suggested other problems. Structural ones. Annual reports take some digesting. Multiply that by the number of companies fund managers follow, and they save time by seeking advice from proxy voting agencies. Non-UK and non-traditional investors, who use sources other than the IA, now own more than half of the UK stock market. Over the past 20 years, their proportion has risen, while the traditional UK institutional investors (such as insurance companies and pension funds) have shrunk from about a third of the market to less than 5 per cent. Going against proxy agency advice can lead to criticism, so fund managers' best game plan is to follow it, even if that means voting against AGM resolutions they had previously intended to support.

Advisory firm A&M points out that because US proxy agencies advise on a range of companies, which vary in size, sector and characteristics, they tend to set their guidelines for each market, which is why the same agency has been known to back high pay in one market (such as the US) but criticise similar pay in the UK. The agencies check company proposals against similar guidelines to the IA but are more reluctant to make exceptions. This, A&M suggests, hardens guidelines into rules.

Investors form their own views, but a too rigid approach makes the UK stock market less attractive, and not only on pay. Executive pay constraints are a factor that tempts companies to de-list from London.

The IA influence matters in that it's important for large investors to recognise that some circumstances justify exceptions being made to the general guidance. Pay pressures have not gone away. Median executive pay in the US is still more than double that in the UK. And that gap may well continue to widen. ●

COMPANIES IN THIS ISSUE

INVESTMENT TRUSTS IN THIS ISSUE

FUNDS/ETFs IN THIS ISSUE

*Alternative Investment Market †Overseas shares