STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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# SHARES

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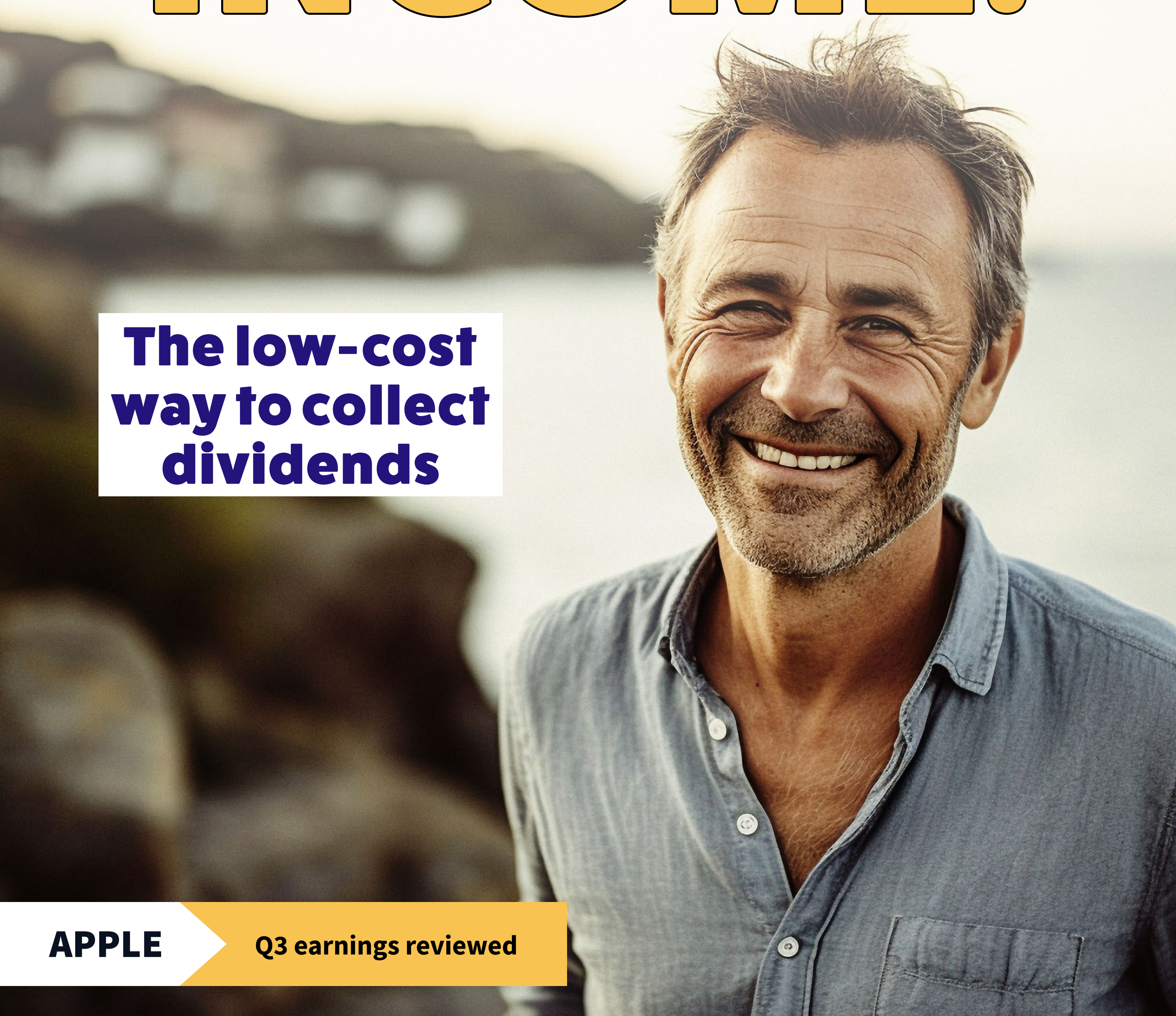
# HASSLE-FREE INCOME:



## The low-cost way to collect dividends

**APPLE** Q3 earnings reviewed

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# Visit our website for more articles

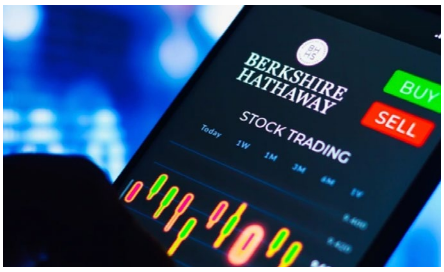
Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:


Watches of Switzerland shares jump 10% on ambitious growth plan


Housebuilders boosted by Persimmon trading update and house price data


Prudential's nine-month results show focus on Asia is paying off



Berkshire Hathaway delivers 41% growth and amasses record cash pile

# Does a strong start to November for shares signal the start of a Santa rally?

Markets now have a clear run into Thanksgiving and the holiday season

There have been several notable moves in the markets since the start of the month as US stocks markets chalked-up their biggest weekly gains of the year in the week ending 3 November. The benchmark S&P 500 gained 6% and the technology heavy Nasdaq Composite index was up 6.5%.

In Europe and the UK stock indices were not as strong but still ended up between 2% and 3%. Meanwhile bond markets registered big declines in yield (prices moving higher).

The US 10-year treasury yield briefly poked its nose above 5% to new cycle highs before falling back to 4.6% with similar falls seen across the yield curve spectrum of maturities.

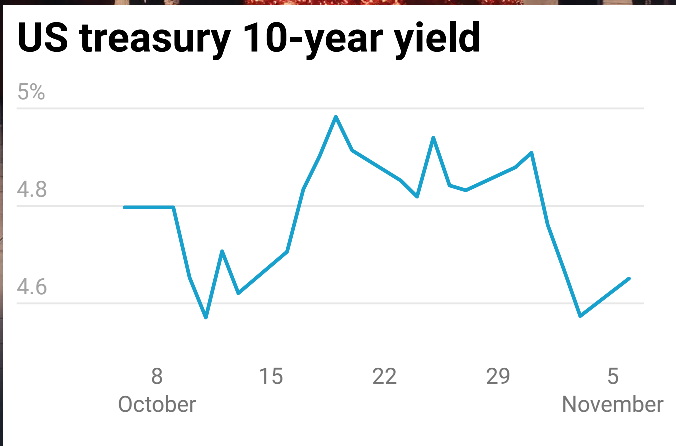



Chart: Shares magazine • Source: LSEG

Falling bond yields partly explain the big rally in stocks as investors got a welcome respite from persistently rising yields but there are other factors to throw in the mix.

The FOMC (Federal Reserve Open Market Committee) held official interest rates steady on 1 November as widely expected but while Fed chair Jerome Powell left the door open for further hikes, markets sensed the top of the cycle is now close.

A softer than expected October non-farm payrolls report (3 November) reinforced belief that the jobs market which has displayed a lot of resilience, was finally losing some steam.

The economy added 150,000 jobs compared with 180,000 expected by economists although the data was impacted by the UAW (Union of Automotive Workers) strike which has now ended.

There were downward revisions to the prior two months which lopped-off over 100,000 jobs.

Annual wage growth cooled to 4.1% and the unemployment rate nudged-up again to 3.9%, suggesting the jobs market is slowly coming back into balance between supply and demand.

All in all, stock markets appear to have returned to a ‘goldilocks’ scenario where the economy is not running too hot but not slowing too quickly to raise concerns about heightened risks of recession.

The recent strong stock market gains come after one of the longest monthly losing streaks since 2020 which suggests investor sentiment was weak and primed for a rebound.

*CNN’s* Fear and Greed index is signalling ‘fear’ which supports a technical rebound while Bank of America’s proprietary Bull & Bear indicator is flashing a contrarian buy for a third straight week.

Chief investment strategist Michael Hartnett told investors on 3 November that the technical picture looks supportive of a year-end rally.

Hartnett, who has been bearish on stocks this year added a caveat to his positive view, saying: ‘But note, everyone now expects a big year-end rally.’ [MG]

# Hipgnosis looks to steady ship with appointment of ex-Roundhill chair after suspending dividends

What will be the next steps after the failed continuation vote and the payout freeze

In the latest setback for investors in music royalty fund **Hipgnosis Songs Fund (SONG)** the company has announced it will not pay a dividend until its new financial year starts on 1 April 2024 (6 November).

The move is being taken to preserve cash after October's shareholder vote against a $440 million deal to sell the firm's 29 catalogues (to Hipgnosis Songs Capital – a partnership between the investment manager and Blackstone) and against the current structure of the trust – with the result it has to deliver a reorganisation or wind up within six months.

Shares in Hipgnosis, which owns the rights to tracks from artists like Shakira and Neil Young, have fallen more than 40% over the last two years. According to the AIC (Association of Investment Companies) the trust is trading at a 52.7% discount to NAV (net asset value).

In an attempt to steady the ship, new chair Robert Naylor has been appointed. Naylor replaces Andrew Sutch after his failure to gain re-election. The music royalty investment trust has also appointed a new non-executive director Francis Keeling with immediate effect.

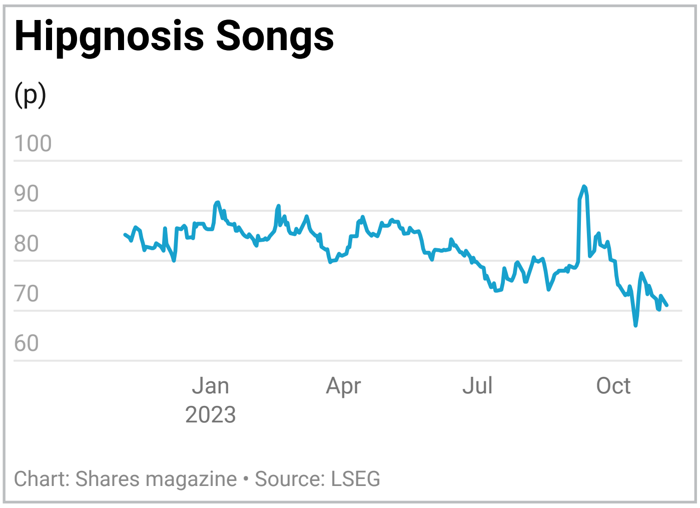



Chart: Shares magazine • Source: LSEG

Significantly both Naylor and Keeling were on the board at rival music royalty play Round Hill Music which was recently acquired by Alchemy Copyrights for $468.8 million. Naylor served as chair and Keeling as a non-exec.

Ewan Lovett-Turner director and head of companies' research at Numis says: 'the new chair will have to fully understand the views of shareholders to help establish the best way forward'.

Lovett-Turner observes that shareholders views would have 'evolved' and 'refocused' after the failed vote and change in the board.

He adds: 'We expect investors will be happy with the appointments given they oversaw the sale of Round Hill Music Royalty at a price level most investors appeared happy and swiftly got it off an investor list of "problem children" they had to explain to their underlying investors. We expect that they can add significant value in using the playbook from Round Hill, in stabilising expenses and giving greater comfort on accounting and valuations.

'However, we still expect it may be a trickier process to obtain a clean resolution, given onerous termination terms with the management group, and the company being close against debt covenants.'

What will be key, is achieving 'shareholder value' if there is to be a sale of assets. Lovett-Turner says: 'Assessing value is difficult given investors are rightly sceptical of the net asset value, with concerns over the price paid for investments and the impact of higher interest rates on current valuations.' [SG]

***DISCLAIMER: The author (Sabuhi Gard) owns shares in Hipgnosis Songs Fund.***

# Apple wins over jumpy investors despite China growth worries

## Stock stages rally after knee-jerk decline in wake of quarterly report

Technology giant **Apple (AAPL:NASDAQ)** saw its growth credentials fall under the microscope after reporting fourth quarter financial results (2 November) as its sales declined for a fourth straight quarter, the longest slide in more than two decades.

The Cupertino colossus may have topped forecasts in the three months to 30 September but that did little to offset growing worries that iPhone 15 simply isn't going to provide the growth bump investors were hoping for. The stock tumbled as much as 5% in after-hours trading, although the subsequent recovery will settle the nerves of investors.


Chart: Shares magazine • Source: LSEG

At $179.23, Apple share are now higher than where they closed ahead of the results ($177.57).

Apple is important to every investor, so wide is its ownership. As the world's largest listed company, it makes up substantial stakes in any global, US, and growth-themed ETF and is widely held by lots of active funds and is owned directly by millions of retail investors all over the world. It is also Warren Buffett's biggest bet, making up nearly half (47.5%) of **Berkshire Hathaway's (BRK.B:NYSE)** portfolio.

So, when the tech giant said current quarter sales (to 31 December) would grow at a similar rate to last year, implying revenue growth of around 5%, it caused a few jitters. That was a tally that fell shy

of Wall Street forecasts and compounded revenue declines as China demand weakens.

Analysts were quick to add context, flagging that the deceleration of iPad, Wearables and Accessories were to blame, rather than significant flagship iPhone sales.

'Fears of iPhone's share loss in Mainland China to Huawei seem overblown, when iPhone likely gained share in the quarter to September,' Yang said. 'We expect investor concerns over China share loss to mostly dissolve heading into full year 2024.'

The analyst said the results and forward guidance were solid given a 'very tough macro backdrop', adding that he continues to favour Apple's long-term growth potential and unchallenged market positioning.

Apple's profitable service business also continues to shine, making 16% more revenue in the September quarter than the same time last year, thanks to hardy App Store spending, revamped iCloud plans, and a steady flow of AppleTV+ subscriptions, which helped pull up profit margins.

'Apple's active installed base for devices hit a record high along with iPhone installed base hitting records,' pointed out Goldman Sachs analyst Michael Ng.

'iPhone installed base continues to compound, with the iPhone active installed base reaching a record and benefitting from a record number of switchers in full year 2023 driven in part by expansion into emerging markets and a growing installed base in Apple Watch, Mac, and iPad,' Ng concluded. [SF]

# Ferrari speeds to fresh highs following another record quarter

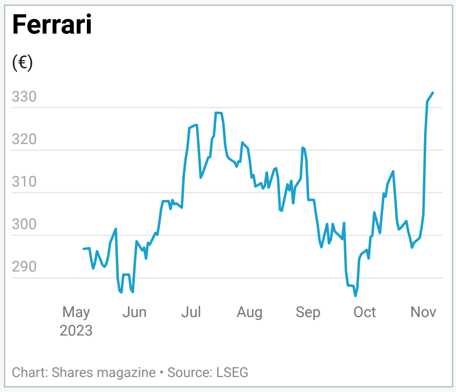
**The luxury sportscar maker is in the driving seat with order book at all-time high**

Shares in **Ferrari (RACE:NYSE)** accelerated to fresh highs after the luxury automaker revved in (2 November) with forecast-beating third quarter sales and earnings and raised guidance once again, extending one and five-year gains to 68% and 205% respectively.

The Italy-headquartered company behind the iconic sportscar brand reported a 46% surge in third quarter profit to €332 and boosted its full year guidance again. Ferrari now expects to drive in with 2023 revenue of roughly €5.9 billion, up from previous guidance of around €5.8 billion, with an adjusted earnings before interest and tax (EBIT) margin of at least 26.5%.


'Another record quarter with profit growth driven by an even richer mix and by the continuing appeal of personalisations leading us to increase year-end guidance,' commented CEO Benedetto Vigna. 'The order book remains at highest levels reflecting strong demand across all geographies, covering the entire 2025.'

Ferrari certainly has momentum and the upcoming release of a movie directed by Michael Mann, and starring the aptly-named Adam Driver as company founder Enzo Ferrari, should only fuel additional interest in the brand behind the iconic 'Prancing Horse' logo. [JC]




# Fortinet slumps nearly 20% on weak revenue and outlook


**Third quarter disappointment follows inclusion in popular fund Fundsmith Equity**

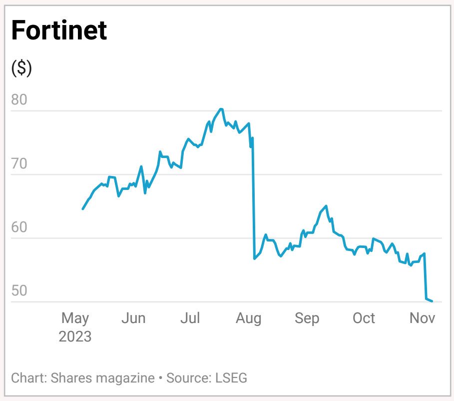
Shares in US cybersecurity firm **Fortinet (FTNT:NASDAQ)** plunged 18% after disappointing both on revenue and on the outlook with its third quarter update.

Fortinet has 680,000 global customers and sells a complete cybersecurity package on a subscription basis. This includes firewalls and risk-detection tools.

Although you would expect strong demand given the growing importance of businesses protecting data online, customers are not spending as much as expected. Billings (how much the business has invoiced from clients) were up 6% year-on-year in the period to $1.49 billion – below the forecast $1.59 billion. This fed into quarterly revenue of $1.33 billion against an estimated $1.35 billion.

For the fourth quarter Fortinet anticipates revenue of $1.38 billion to $1.44 billion – short of the expected $1.5 billion, with billings of $1.56 billion to $1.7 billion compared with the $1.91 billion pencilled in by analysts.

Fortinet's announcement of a company restructuring to focus on its core growth areas reflects how




disappointing the numbers were.

The timing is awkward for fund manager Terry Smith who recently added the stock to his popular fund **Fundsmith Equity (B41YBW7)**. It was already a holding in sister vehicle **Smithson (SSON)**. [TS]

## UK UPDATES OVER THE NEXT 7 DAYS

**FULL YEAR RESULTS**
**14 November:** Imperial Brands
**15 November:** Tracsis

**FIRST HALF RESULTS**
**10 November:** Kainos Group, British Land Company
**14 November:** Land Securities, Gear4music (Holdings), Castings, Babcock International, Marks Electrical, Oxford Instruments, Picton Property Income, DCC, ActiveOps
**15 November:** Renold, Intermediate Capital Group, Experian, Ninety One, Warehouse REIT
**16 November:** International Distributions Services, Burberry, Great Portland Estates, Assura, QinetiQ, Halma, Liontrust Asset Management, Investec, United Utilities, Tatton Asset Management

**TRADING ANNOUNCEMENTS**
**10 November:** Allianz Technology Trust
**13 November:** BAE Systems, HGCapital Trust
**14 November:** Convatec Group, Grafton Group, Hill & Smith
**15 November:** Aviva
**16 November:** Keller Group, Smiths Group

# Ball deal and buybacks in focus for BAE Systems amid Middle East conflict

### Defence giant is up 80% since invasion of Ukraine

It is a hard fact that a more unstable world is typically a driver of orders and ultimately revenue, profit and cash flow for defence companies.

Investors will therefore be watching the tenor of **BAE Systems' (BA.)** third quarter trading update closely on 13 November now the world is facing up to conflict in the Middle East as well as confronting a grinding war in Ukraine.

Since the Russian invasion in February 2022, BAE shares have advanced more than 80%. The company's results for the first six months of 2023 revealed double-digit increases in revenue and profit and, notably, the order backlog increased from £52.7 billion to £66.2 billion, which represents a record high.

The company has also subsequently announced (17 August) the $5.6 billion acquisition of Ball Aerospace, which makes 'mission-critical space systems' and produces 'defence technologies across air, land and sea'.

**What the market expects of BAE Systems**

| | EPS (p) | Revenue (£bn) |
|---|---|---|
| **Forecast for 2023** | 62.4 | 24.6 |
| **Forecast for 2024** | 67.6 | 26.4 |

Table: Shares magazine • Source: Stockopedia

BAE Systems said at the time the deal would further align the company with 'the US intelligence community and department of defence's highest priorities'.

Many analysts felt the price tag was steep, so it will be interesting to hear management's take on the role it sees the business playing in the wider group and how the deal is progressing.

Another area in the spotlight is likely to be share buybacks. Management have acknowledged these will slow down, having already completed 70% of a £1.5 billion programme slated to run until the end of the first half of 2025 in little over a year. [TS]

Chart: Shares magazine • Source: LSEG

# Will Walmart deliver another upgrade with its third quarter results?

**Big-box retailer's shares testing record highs as value credentials resonate with US shoppers**

Third quarter earnings to the end of October (16 November) from Bentonville-based **Walmart (WMT:NYSE)** will provide investors with an invaluable read into the health of the US consumer with the holiday selling season in full swing at the world's biggest retailer.

Shares in Walmart are testing all-time highs with investors convinced the retailer's sharp value focus will lure in shoppers and lead to further market share gains this Christmas.

Back in August, the big-box retailer served up the news sales grew by a solid 5.7% to $161.6 billion in the second quarter to July, including robust 6.4% like-for-like growth in the Walmart US business with food a source of strength, while e-commerce sales were up 24% globally.

**What the market expects of Walmart**

| | EPS ($) | Revenue ($m) |
|---|---|---|
| **Q3 forecast** | 1.41 | 149.8 |

Table: Shares magazine • Source: Year-end 31 January

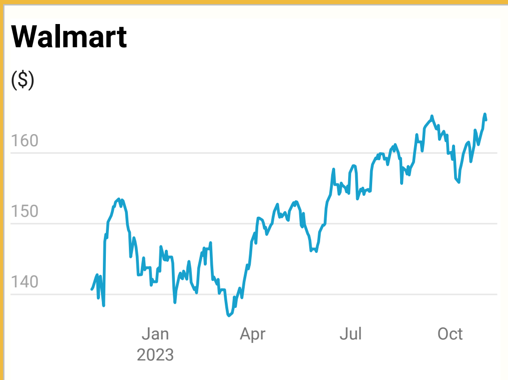



Chart: Shares magazine • Source: LSEG

The $445 billion cap also raised full year 2024 guidance to reflect confidence in its continued momentum and the 'ongoing customer response' to Walmart's value proposition amid sticky inflation. The market will also be keen to hear more on margin improvement and progress in reducing lofty inventory levels, as well as any comments from CEO Doug McMillon on the impact weight loss drugs are having on sales of calorific drinks and snacks. Two days earlier (14 November), Walmart's fellow American retail titan, the DIY chain **Home Depot (HD:NYSE)**, will deliver its third quarter earnings. [JC]

## US UPDATES OVER THE NEXT 7 DAYS

**QUARTERLY RESULTS**

**10 November:**
Ubiquiti

**13 November:**
Sun Life Financial, Xp

**14 November:**
Home Depot, Sea, Tencent Music Entertainment, Legend Bio, Paladin Energy, Getty Image Holdings, Canadian Solar, Energiser


**November 15:**
Cisco, TJX. Target, Spire

**November 16:**
Walmart, Applied Materials, NetEase, Warner Music, Lenovo Group Gap, Brady


BING!
BANG!
BONG!

# Big recovery potential just not reflected in PayPal share price

Digital payment platform is trading on a single-digit PE for 2024

## Paypal

**(PYPL:NASDAQ) $54.62**

Market cap: £60 billion

If you'd been offered the opportunity to buy shares in **Paypal (PYPL:NASDAQ)** on a single-digit PE (price to earnings) at pretty much anytime during the past five years, you'd probably have jumped at the chance.


This was a high-growth global leader in digital payments when the world was going online. As far as profitable bets on the future go, this was one to cherish.

In early 2021, the stock was on a PE of nearly 70, and it has generally floated around the 25 to 35 mark in the past.

The world has since spun, and it has become apparent that defending its profitable payments patch has been trickier that previous hubris suggested. If global lockdowns were a win for PayPal, reopening has been a catastrophe.

Since peaking at near-$310 in July 2021, shares in the digital payments platform have sunk to levels not seen since 2017, a staggering fall from grace. PayPal has drawn optimism from largely robust consumer spending, which should improve further as inflation continues to cool.

Underwhelming margins have been analysts' chief worry, as lower margin services revenues have held up better, while growth has limped along.

This is changing. As recent (1 November) third quarter results showed, operating margins are showing encouraging signs of repair, averaging around 16% this year after falling to 13.8% in 2022. Analysts see scope for more than 20% ahead as PayPal execs attack a bloated cost base.

New chief executive Alex Chriss (replacing retiring founder Dan Shulman) 'struck the right note and articulated well the challenges facing the company and described a sound framework for improving growth and profitability,' said JPMorgan analyst Tien-tsin Huang regarding the third quarter statement. Analysts at broker William Blair were also impressed by Chriss' 'narrowed focus on profitable growth'.

Forecast data from Koyfin shows full year estimates have been moving higher in recent months for 2023, 2024 and 2025. This implies a PE of 9.7 for 2024 and earnings per share growth of around 12% in 2024 and 2025, with scope for upside surprise if costs can be addressed quickly.

Sure, management may not be able to cut costs as planned, and maybe rival payments services continue to eat its lunch, these are real risks. Yet in a world where hacking and identity thief is equally real, people are likely to use services they know and trust, and PayPal has earned its reputation over many years.

A rerating to a still modest PE of 12 would imply a $75 share price over the next 12-months, roughly in line with analyst's $78 price targets, 35% to 40% up from here. A PE of 15 would imply a near-$100 share price. [SF]

**Paypal**

($)


Chart: Shares magazine • Source: LSEG

# O Canada! Use this trust to play the country's strong economic outlook

A compelling entry point has opened up in Middlefield Canadian Income

**Middlefield Canadian Income Trust**

**(MCT) 95.9p**

Market cap: £99.4 million

A 21% discount to NAV (net asset value) **Middlefield Canadian Income Trust (MCT)** presents exciting potential upside for investors. Focused on generating high income from great Canadian businesses, this trust has faced a headwind from rising rates and has posted a negative one-year share price total return of 12.6%.

However, the fund has returned 32.4% over five years and managers Dean Orrico and Rob Lauzon now see a 'generational' opportunity to buy Canadian dividend stocks, which trade at big discount to US peers despite offering sustainably growing dividends with well-covered yields.

Investors are being paid an attractive 5.4% dividend yield while they wait for a double whammy from a sharp re-rating of portfolio stocks in rate-sensitive sectors including real estate, utilities and pipelines, combined with a narrowing of the discount.

This is an interesting time to put money to work in Canada, a net exporter of oil and natural gas blessed with an abundance of critical materials ranging from potash to uranium, aluminium and gold. Equities in Canada, where high immigration is driving economic growth, are at trough valuations as rising rates have caused its dividend paying companies to lag growth stocks in 2023.

Inflation in the North American nation is among the lowest in the G7 and with central bank tightening coming to an end, Orrico reckons the scene is set for Canadian shares to outperform US equities. The peak in short term rates should prove particularly positive for the value sectors in which Middlefield Canadian Income invests including real estate, financials and utilities.

Middlefield Canadian Income's unwavering focus is on stable, profitable, robustly financed companies paying high dividends and despite the global shocks of the past five years, portfolio dividend growth has worked out at 8.9% per year with 88% of the fund's portfolio companies increasing their dividend over this period.

Orrico says Canadian banks have suffered from negative sentiment but are poised to rebound in the first half of 2024 and offer dividend yields averaging 5.7% supported by low payout ratios and high capital reserves.

Canadian REITs are trading at discounts comparable to the lows seen during the Covid pandemic and Great Financial Crisis, despite benefiting from growing demand and constrained supply.

The managers also say momentum is building in the Canadian energy sector, where companies are returning record distributable free cash flows to shareholders through dividends and buybacks.

The main drawback of the quarterly dividend paying trust is an ongoing charge which is a little on the high side at 1.34%. [JC]

**Middlefield Canadian Income**


Chart: Shares magazine • Source: LSEG

# Why RTW Biotech Opportunities merger with Arix Bioscience is good for shareholders

The companies have a complementary portfolio of assets offering diversification benefits

## **RTW Biotech Opportunities** (RTW) $1.11

### Loss to date: 16.5%

We highlighted **RTW Biotech Opportunities (RTW)** at $1.33 in July for its superior track record which was not reflected in the shares trading at an unwarranted 23% discount to NAV (net asset value).

### WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Sentiment in the biotechnology sector remains depressed with the Nasdaq Biotechnology index dropping around 6% since July while RTW's discount to NAV has widened to 30%.

However, in a potentially game changing development RTW (1 November) has agreed an all-share merger with **Arix Bioscience (ARIX)** at an implied price of 143p per share.

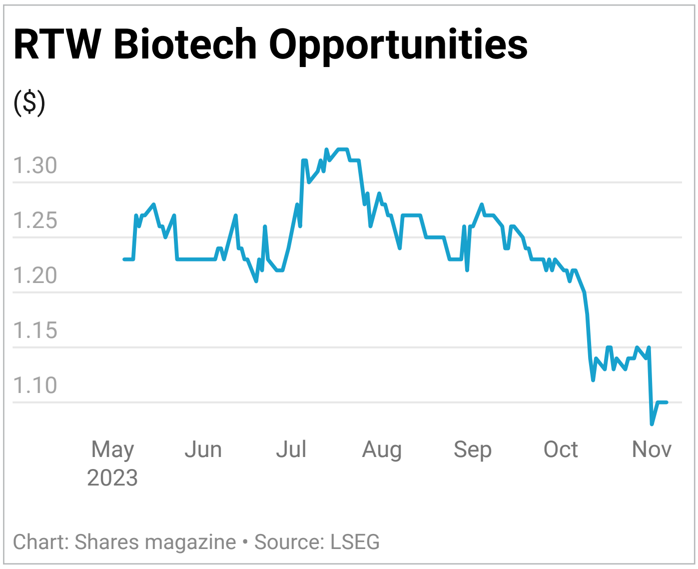


Chart: Shares magazine • Source: LSEG

It equates to a 21% premium on the prior closing price but a 20.5% discount to Arix's September NAV of 180p per share.

Separately, RTW will acquire Acacia Research Corporation's rough 25.5% stake in Arix at 143p per share in cash. Acacia is Arix's largest shareholder. While it is unusual to see one shareholder given potentially preferential treatment, the merger has the backing of independent and executive directors.

RTW estimates the transaction will deliver a low single-digit NAV accretion to shareholders. The merger, which still requires shareholder approval, offers several other benefits.

Following completion of the transaction RTW will have access to an additional circa $60 million of cash which it can deploy quickly into its public share portfolio, share buybacks or royalty opportunities.

The merger will significantly increase the size of RTW's assets to around $550 million which is expected to improve the secondary market liquidity of the shares while marginally reducing annual ongoing charges.

Numis said the acquisition is 'materially' positive for RTW with the combined shareholders set to benefit from RTW's 'in-depth resources'.

The deal is expected to complete in the first quarter of 2024.

### WHAT SHOULD INVESTORS DO NOW?

The acquisition looks like a smart move to unlock value and increase the scale of the business which should attract greater institutional interest. The shares remain a buy. [MG]

BARINGS

BARINGS EMERGING EMEA OPPORTUNITIES PLC

# Country Spotlight: **Poland**

*Amid geopolitical tensions, Poland's relatively young and skilled workforce and strong domestic consumption should hold its economy in good stead as inflationary pressures recede.*

**Why we like it:**

- A sizeable domestic economy sets Poland apart from other export-dependent central European countries.
- Unique to Poland's economic heft, is a strong service sector which has attracted ever-more sophisticated business services to the country, allured by the pool of skilled labour, while benefitting from the strong regulatory protection afforded by the EU.
- This has led to superior economic growth over 2018-2023 and positive wage growth – a rarity in Europe.
- While the OECD expects real economic growth to slow to 0.9% in 2023, it is expected to recover to 2.1% in 2024, boosted by EU funds.

**Companies to watch:**

**ALLEGRO**

E-commerce platform Allegro is the most popular shopping platform in Poland. Visited by 20 million customers a month it is also one of the largest e-commerce companies in Europe.

**PKO BANK**

Poland's largest bank is also one of its biggest turnarounds thanks to a rock-solid deposit-taking franchise and an environment in which being state-controlled is finally serving as an advantage.

While Poland's proximity to the Ukrainian conflict has cast a shadow over the unique attractions of the country, we believe investors will ultimately refocus on the opportunities which exist in companies that are exposed to a range of secular growth trends—in particular, its unique service-based economy which benefits from solid demographics and nearshoring tailwinds.

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**Matthias Siller, CFA**
Head of EMEA
*24 years investment experience*

**Adnan El-Araby, CFA**
Investment Manager, EMEA
*12 years of investment experience*

**Investment involves risk.** The value of any investments and any income generated may go down as well as up and is not guaranteed. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Changes in currency exchange rates may affect the value of investments. Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Coupled with less developed regulation, this means your money is at greater risk. Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of shares in the Company. It is recommended that prospective investors seek independent advice as appropriate. The Key Information Document (KID) must be received and read before investing. This and other documents, such as the prospectus, latest fact sheet, annual and semi-annual reports, are available from www.bemoplc.com Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information. Baring Asset Management Limited, 20 Old Bailey, London, EC4M 7BF, United Kingdom. Authorised and regulated by the Financial Conduct Authority. Date of issue: October 2023.

# HASSLE-FREE INCOME:

## The low-cost way to collect dividends

By **Tom Sieber,** Editor

The income attractions of stocks are being tested right now thanks to increased interest rates, allowing you for the first time in years to generate a decent return on cash in the bank.

However, rates are approaching their peak and are still short of the latest rate of UK inflation, making a case for looking to the financial markets where a range of asset classes offer the potential for both yield and capital appreciation.

In addition, savers who put their money in savings accounts which are not Cash ISAs risk going over the tax-free amount you can receive in interest on your savings. AJ Bell research suggests higher-rate taxpayers with anything upwards of £9,525 of cash in the best easy-access account will be faced with a tax bill.

## DIVIDEND DIVERSIFICATION CAN LIMIT THE RISKS

The risk of chasing higher-yielding investments, particularly stocks and shares, is dividends are not set in stone and can be cut or even cancelled all together. Often a high yield is a sign a company's dividend is looking vulnerable and the market has marked the shares lower in the expectation of a reduction or suspension of the payout. The value of investments can go down too, whereas cash is guaranteed up to £85,000 by the Financial Services Compensation Scheme.

A solution to this is diversification – buying an income fund with a range of different holdings. This means if one dividend is cut or one investment goes wrong for any other reason the impact on your overall income is modest.

However, with every drop of income important right now you do not want to be giving away too much in fees. This makes the case for looking at exchange-traded funds which, typically, benefit from lower ongoing charges, meaning you get to keep more of the cash paid out by your investments yourself.

In this feature we explain how to go about building a portfolio of income-generating ETFs designed to achieve a good level of income while also providing some growth.

## SCREENING FOR HASSLE-FREE INCOME

To help produce our list of names we used ETF website JustETF to identify some of the highest-yielding funds. We confined our search to products offering a yield of at least 5%. It is worth noting, typically, with individual shares you would look at the yield based on consensus dividend estimates for the future.

However, there are no forecasts for dividend payments from ETFs so we can only look at historic yields based on what they have paid out over the preceding 12-month period. What they pay out in the future could be higher if, in turn, the underlying holdings generate a higher income.

The ETF identified through this exercise with the biggest yield is **Global X Super Dividend (SDIP)** which yields an eye-catching 13%.

It tracks the Solactive Global SuperDividend index, which comprises global companies with dividend yields of more than 6% and less than 20% and a market value of at least $500 million with the highest yielders within that universe making the cut. It is rebalanced on a quarterly basis. This process arrives at an obscure list of names and the performance of the index of late suggests you may be getting regular income but chalking up significant losses in the meantime.

For our selections we have focused on products whose performance has at least been steady while they provide that regular stream of income. Read on to discover our four picks – each of which distribute their income rather than reinvesting it. Their average yield is 6.7% and their average ongoing charge is 0.41%.

### How income-based ETFs work

ETFs are normally set up for either income or accumulation. Income ETFs pay out distributions to holders as cash, while accumulation ETFs effectively reinvest the dividends for you. So, you need to make sure you buy the right version of the ETF if you want to receive the income as cash.

Some ETFs don't offer a choice of income or accumulation versions of their fund. If there is no choice, it typically means any dividends will be paid out in cash.

If the ETF invests directly to replicate the performance of the index it tracks then it will receive the dividends associated with the underlying holdings. If the ETF distributes income, the dividends are collated in a cash account and usually paid out on a quarterly, semi-annual or annual basis.

The situation is a little more complex for swap-based ETFs. They receive the performance of the total return index from their swap provider (a broker or investment bank). This includes dividend payments as well as any price changes in the underlying companies. The dividend portion is then separated out and delivered to investors.

## Selected high yielding ETFs

| ETF | Dividend yield | One-year total return | Five-year total return | Ongoing charges |
|---|---|---|---|---|
| **Global X SuperDividend USD Distributing** | 12.9% | −8.4% | N/A | 0.5% |
| **HSBC MSCI Brazil USD** | 9.8% | 6.8% | −0.4% | 0.5% |
| **iShares Emerging Markets Dividend** | 9.0% | 2.1% | −5.9% | 0.7% |
| **Invesco Morningstar US Energy Infrastructure MLP Dist** | 8.1% | 13.5% | 44.2% | 0.5% |
| **Xtrackers STOXX Global Select Dividend 100 Swap 1D** | 7.5% | −6.1% | 22.4% | 0.5% |
| **WisdomTree Emerging Markets Equity Income** | 7.4% | 8.7% | 26.8% | 0.5% |
| **Invesco FTSE EM High Dividend Low Volatility** | 7.4% | −1.3% | 9.2% | 0.5% |
| **iShares Asia Pacific Dividend** | 7.3% | −3.2% | 5.3% | 0.6% |
| **iShares MSCI Brazil (Dist)** | 6.6% | 9.8% | 0.2% | 0.7% |
| **HANetf Alerian Midstream Energy Dividend** | 6.6% | 7.2% | N/A | 0.4% |
| **First Trust Global Equity Income Dist** | 6.3% | 3.9% | 7.3% | 0.6% |
| **iShares MSCI EM Latin America (Dist)** | 6.3% | 9.4% | 9.1% | 0.2% |
| **iShares Euro Dividend** | 6.1% | −6.4% | −4.5% | 0.4% |
| **WisdomTree Europe Equity Income** | 6.0% | 5.0% | 15.7% | 0.3% |
| **Invesco EURO STOXX High Dividend Low Volatility** | 6.0% | 2.0% | 4.6% | 0.3% |
| **WisdomTree UK Equity Income** | 5.9% | −3.3% | −6.4% | 0.3% |
| **Invesco Preferred Shares** | 5.8% | −3.4% | 0.2% | 0.5% |
| **iShares UK Dividend** | 5.6% | −3.9% | 1.8% | 0.4% |
| **L&G Quality Equity Dividends ESG Exclusions UK** | 5.5% | −3.1% | N/A | 0.3% |
| **L&G Quality Equity Dividends ESG Exclusions Asia Pacific ex-Japan** | 5.3% | −5.6% | N/A | 0.4% |
| **Franklin European Quality Dividend** | 5.2% | 4.6% | 34.0% | 0.3% |
| **SPDR S&P Emerging Markets Dividend Aristocrats (Dist)** | 5.2% | −3.9% | 4.2% | 0.6% |
| **WisdomTree Europe SmallCap Dividend** | 5.1% | −4.6% | 15.6% | 0.4% |
| **VanEck Morningstar Developed Markets Dividend Leaders** | 5.1% | 1.0% | 53.3% | 0.4% |
| **Invesco Variable Rate Preferred Shares** | 5.0% | 1.3% | 18.9% | 0.5% |

Table: Shares magazine • Source: JustETF, data to 2 November 2023.

## WisdomTree Emerging Markets Equity Income (DEM) £11.13

**Dividend yield: 7.4%**
**Ongoing charge: 0.46%**

Emerging markets are typically higher-risk and more volatile than developed markets, but this is reflected in the generous yields available. Firms in these markets which pay dividends are likely to be steadier operators and the five-year performance of this product is solid. It tracks a basket of emerging markets stocks with high yields. Applying an ESG (environmental, social and governance) and risk-management filter to the wider universe, the top 30% of names by dividend yield (based on dividends paid over the previous annual cycle) are selected. The index is rebalanced once a year.

As well as enjoying generous income in the short term, you may also benefit from dividend growth as these markets mature, as Kepler observes: 'While dividends tend to be more variable in emerging markets, for long-term investors there is the potential for changing dividend cultures to lead to steadily rising payout ratios in multiple markets which have historically prioritised dividends less.'

### Wisdom Emerging Markets Equity Income


Chart: Shares magazine • Source: LSEG

## WisdomTree Europe Equity Income (EEI) £10.16

**Dividend yield: 6%**
**Ongoing charge: 0.29%**

This is a small fund, which can sometimes be a risk with ETFs through lower liquidity and the risk it could be closed due to lack of interest, but this product has been around since 2014 so we feel these risks are limited.

It applies the same criteria as the emerging markets product above, using risk management and ESG criteria and then identifying the top 30% of dividend payers across Europe including the UK market. Dividends tend to be more generous on this side of the Atlantic and in particular among stocks listed in London, which account for a little under a quarter of the portfolio.

According to Computershare's UK Dividend Monitor, regular dividends excluding one-off special payments totaled £26.6 billion in the third quarter up 2.4% year-on-year on an underlying basis. The mining sector made by far the biggest negative contribution to the UK total in the period, knocking nearly five percentage points off the quarter's growth rate, with dividends falling by almost a quarter year-on-year (-23.6%) as lower commodity prices impacted profits. However, growth was significantly better outside the mining sector, reaching 7.2% on an underlying basis.

### WisdomTree Europe Equity Income

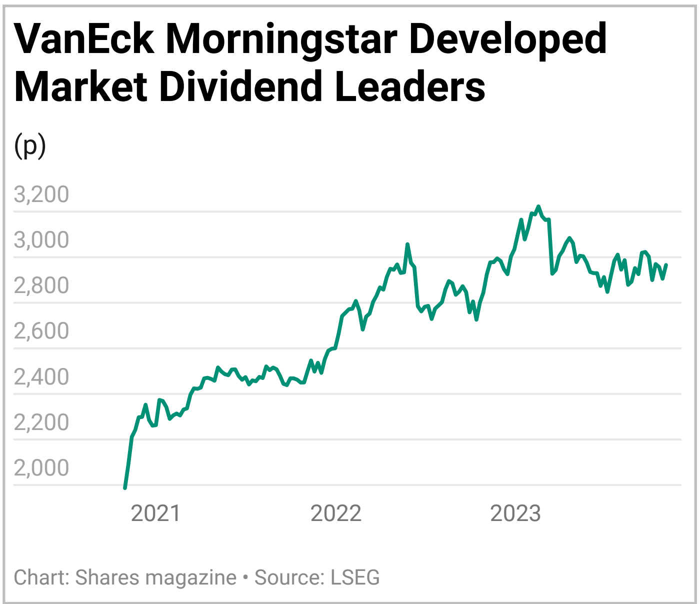

Chart: Shares magazine • Source: LSEG

## VanEck Morningstar Developed Markets Dividend Leaders (TDGB) £29.82

**Dividend yield: 5.1%**
**Ongoing charge: 0.38%**

As well as dividend yield, there are advantages to looking for dividend growth. This can help your income stream at least partly keep pace with inflation and growing the payout is a marker of a quality business which could well deliver strong capital growth too. It is notable this ETF has the best five-year performance of our quartet.

The Morningstar Developed Markets Large Cap Dividend Leaders index tracks the performance of companies which display consistency and sustainability in dividend payment patterns and is composed of the 100 highest-yielding securities which satisfy the screening criteria. One of these is for dividend growth, and names in the basket include **Ford Motor (F:NYSE)**, **IBM (IBM:NYSE)** and French pharma outfit **Sanofi (SAN:EPA)**. The list is rebalanced twice a year.



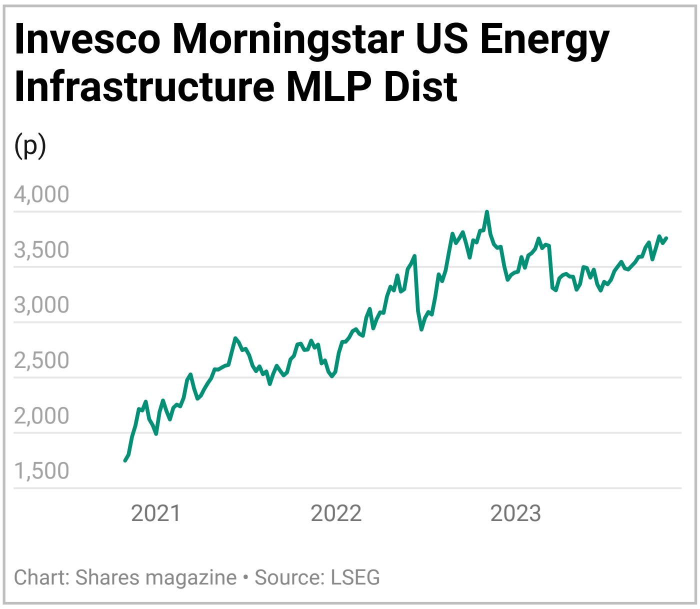

## Invesco Morningstar US Energy Infrastructure MLP Dist (MLPP) £37.60

**Dividend yield: 8.1%**
**Ongoing charge: 0.5%**

As well as diversifying into a collection of different stocks, it can make sense to consider other asset classes too. Infrastructure, as a long duration asset, has been hit by an increase in interest rates feeding through into higher discount rates.

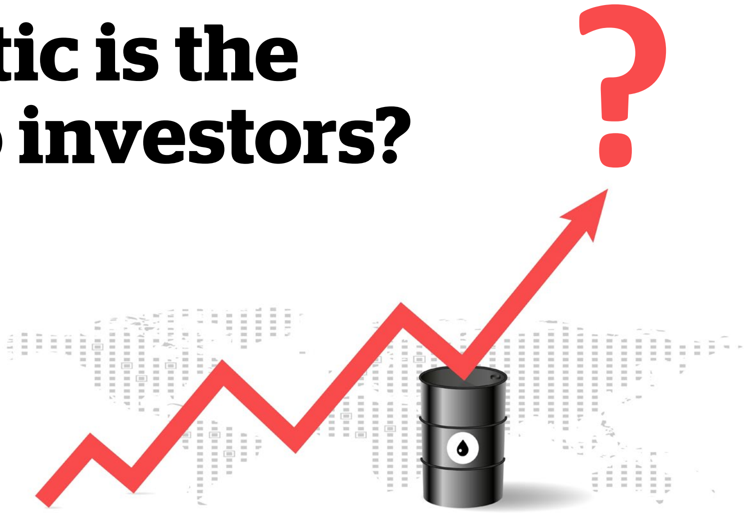
Two key elements make up the discount rate – the risk-free rate, which is typically taken as the yield on government bonds, and the risk premium which reflects the risk associated with investing your money. The risk-free rate has moved materially higher, but with rate-hiking cycle nearing its peak this is potentially less of a consideration going forward and this product, which invests in US energy infrastructure, looks a reliable source of income.

It achieves exposure to this asset class through MLPs (master limited partnerships) which trade on US exchanges like shares. They offer a fee-based 'toll-road' type business model with contracts lasting several years, giving them a fairly stable and predictable stream of revenue. They have a lower correlation to volatile energy prices than commodity producers because they generate the majority of their revenue based on the usage of assets such as pipelines, storage facilities and terminals.



# How big and realistic is the threat of $150 oil to investors?

World Bank projections imply huge ramifications if Middle East conflict escalates



Crude oil could cost over $150 a barrel if conflict in the Middle East intensifies, according to the World Bank's recent warning. Brent crude (which we'll use as the benchmark through this feature) last hit those sorts of elevated levels in the summer of 2008, when per barrel prices went close to $147. That was just before irresponsible bank lending blew a massive hole in the global economy, triggering a worldwide financial crisis of epic proportions.

Now, the World Bank's economists are predicting the possibility that oil could surge even higher, particularly if conflict in the Middle East escalates into full-blown war, roping in other players, such as Iran. But before anyone panics, this is the World Bank's worst-case scenario, not the most likely outcome, and analysts largely believe that oil prices are not about to go ballistic, and that the war in Gaza will remain relatively contained.

This seems to be what financial markets currently envisage, with oil's war premium eroded since the first Hamas attack on 7 October – Brent crude traded at about $86 before the Hamas attack and is currently priced (at time of writing) at $87.32. Short-term demand prospects amid heightened recessionary threats have also acted as an anchor to prices.

Recent suggestions from Saudi Arabia and Russia that they will persist with supply cuts are pulling crude in the other direction.

## IMPACT OF HUGE DISRUPTION

Whatever the scenario, the global economy and investors are already seeing the effects of massive global disruption. The World Bank had expected the tepid global economy to drag on oil by about 4% next year, with oil prices dipping to around $81 a barrel from this quarter's $90 projection. But the longer conflict in the Middle East continues, the more volatile energy and food prices may be.

European gas prices have already picked up this month, with investors concerned that supply may get scarce. This is not unusual for this time of year, however, as nations stockpile gas supply ahead of the high-demand winter months.

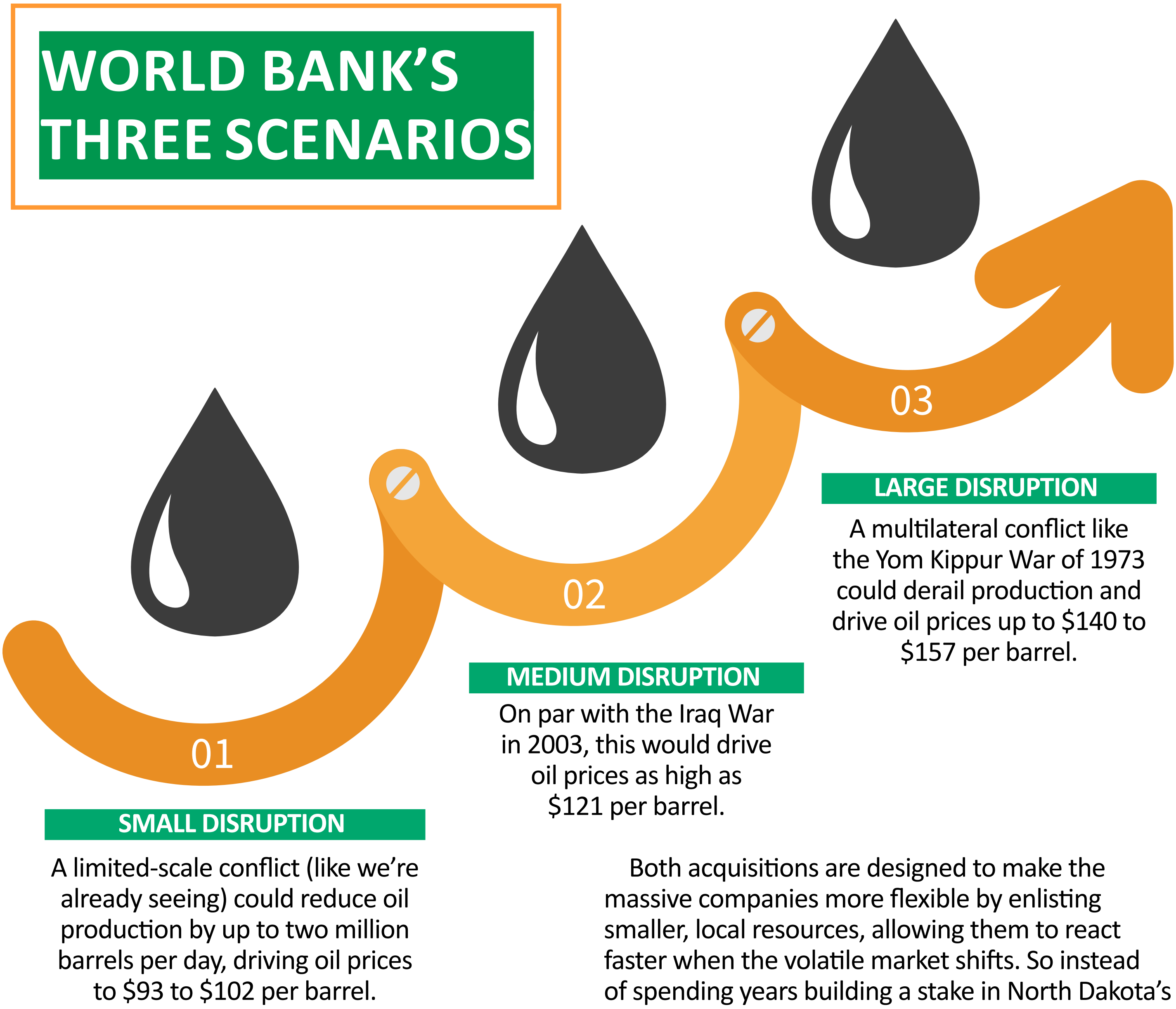
Big oil company executives might be quietly happy about the prospect of bloated oil and gas prices but energy is a key cost for every business, and you can bet that price spikes, and the increased operating costs felt by businesses, will impact the prices of everyday goods and services across the board.

This would reenergise inflationary heat and potentially lead to even higher for even longer interest rates, the very opposite of what the withering global economy needs.

Strong energy prices are, in part at least, why we're seeing the start of a new merger mania among the world's biggest energy companies.

**Brent crude**


Chart: Shares magazine • Source: LSEG




In the past few weeks, oil majors **Exxon Mobil (XOM:NYSE)** and **Chevron (CVX:NYSE)** have pulled the trigger on hefty acquisitions, ending a decades-long M&A drought, underpinned by the belief that the world will still rely on oil for years to come.

In early October, Exxon announced that it is buying smaller firm **Pioneer Natural Resources (PXD:NYSE)** for just shy of $60 billion in an all-stock deal, the energy titan's biggest since it merged with Mobil in 1999. Just days later, Chevron unveiled its own rough $55 billion all-share acquisition of **Hess (HES:NYSE)**.

Acquisitions on this scale are complicated enough so investors might wonder why now given the industry disruption. Yet experts say it is precisely this uncertainly that makes doing these deals timely, and perhaps savvy.

Both acquisitions are designed to make the massive companies more flexible by enlisting smaller, local resources, allowing them to react faster when the volatile market shifts. So instead of spending years building a stake in North Dakota's Bakken Formation, or in Guyana's offshore oil fields, for example, Chevron can affordably add those operations (and earnings) to its business overnight.

### MAKING SENSE OF ALL-SHARE DEALS

Using stock to fund these deals also makes some sense. Both Exxon and Chevron are both hugely cash rich – at the end of 2022 they had roughly $30 billion and $18 billion of net cash respectively on the books. But higher interest rates have seen borrowing costs soar to their highest in a generation, so executives seem to have concluded that it's better to leave those substantial cash piles on deposit, earning huge interest income.

The flip side to that is equity dilution. US oil firms have outpaced their European counterparts



## BP has not kept pace with US rivals

Rebased to 100

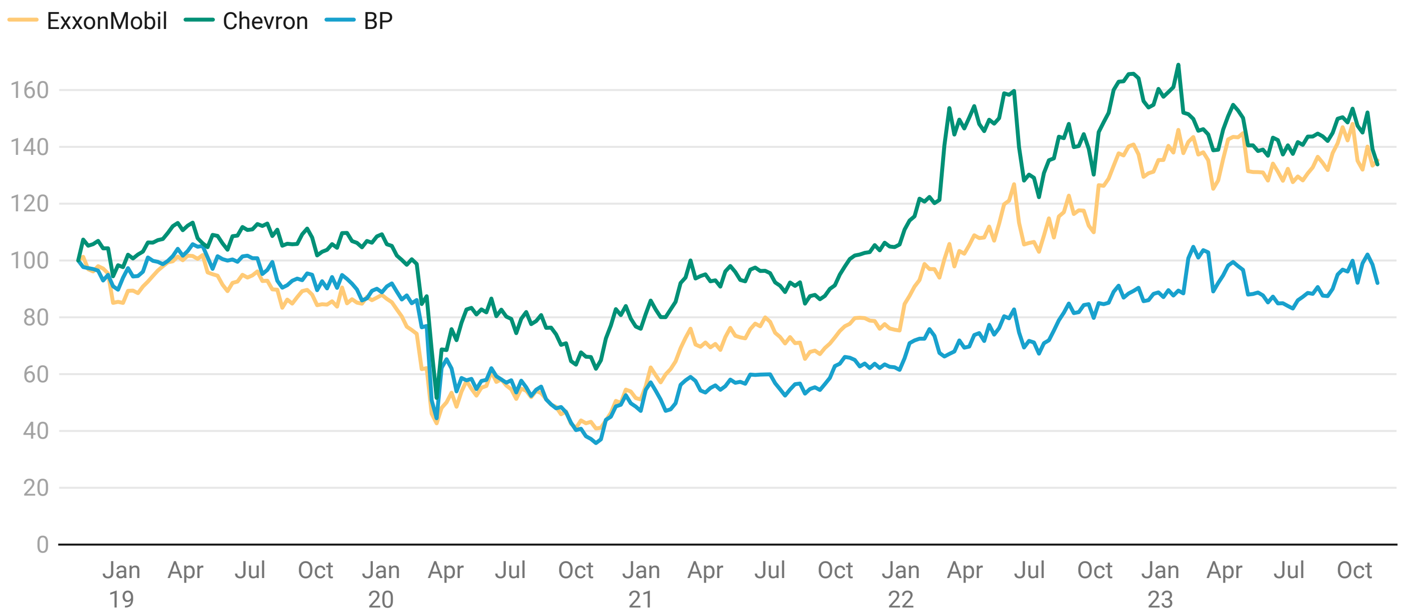



Chart: Shares magazine • Source: LSEG

in recent years as they have largely resisted the clamour to invest in green energy solutions with less proven returns than those from hydrocarbons. This means their paper is more valuable when it comes to pursuing M&A, but there is some concern these deals are being struck at the top of the cycle.

So, who's next? Could the UK-listed oil majors **BP (BP.)** and **Shell (SHEL)** become M&A targets? That's not a simple question to answer and it will depend on multiple factors, such as asset quality and lifespan, geographic positioning, and of course, valuation.

Chaos has surrounded BP in recent weeks, which may make it more susceptible to a takeover. Plenty of shareholders will hope so after a decade of annualised 4.5% total returns (share price plus dividend income), worse than that of the FTSE 100 (4.94%).

Lacklustre third quarter results did nothing to lift a mood which darkened following the sudden resignation in September of chief executive Bernard Looney following a scandal, a departure that throws corporate strategy into doubt.

This has helped reheat rumours of a combination between BP and Shell. Long speculated, this fantasy deal has never looked close to coming to fruition but it might be easier to swing than a foreign buyer emerging for BP, something the Government and regulators in this country may be minded to resist.

By **Steven Frazer** News Editor

Foresight SUSTAINABLE FORESTRY COMPANY PLC

# STRONG ROOTS: A UNIQUE WAY TO INVEST IN NATURAL CAPITAL

**What is FSF?**
Foresight Sustainable Forestry Company (FSF) is the UK's first and only investment trust investing in natural capital. FSF uniquely offers investors direct and liquid access to the attractive characteristics afforded to forestry and afforestation (tree planting) projects in the UK.

FSF combines the potential for attractive and sustainable total returns (targeting CPI +5%), with outstanding ESG attributes. FSF's portfolio makes a direct contribution to the twin fights against both climate change and biodiversity loss. The investment is underpinned by land freeholds and exposure to forestry and timber markets which enjoy long term inflation protection characteristics and a lack of correlation to traditional and alternative asset classes.

**Afforestation – 'engine room' of returns and impact**
Following decades of deforestation, there is a substantial timber supply deficit, that is forecast, to more than triple by 2050. There is increasing demand for sustainable timber, used as an alternative to more fossil fuel intensive materials.

This situation is amplified in the UK as one of Europe's least forested countries. As a result, the UK imports over 80% of all timber consumed. The shortage is long-term as it takes c.35-40 years for trees planted today to reach maturity.

FSF's afforestation portfolio is material in scale and equivalent to one third of the total tree planting area that the whole of the UK achieved last year. Since FSF's IPO, FSF has successfully planted six new forests that have nearly doubled in value (+98%). Looking forward, FSF has a further 35 properties with afforestation potential, many of which are expected to be planted in the coming year.

Afforestation also creates carbon credits, which can be used by corporates to offset their unabatable emissions. Recent years have seen an exponential increase in high integrity corporate net zero pledges. FSF's current afforestation portfolio is on track to create over 1million voluntary carbon credits and presents a significant upside opportunity for investors.

In addition, our mature woodlands provide steady cash flow with relatively low volatility. Timber can be left to continue growing in periods of price or demand weakness. With a harvesting window of c.5-10 years, FSF has a good degree of flexibility to bring timber to market at an optimum time.

**Protecting biodiversity**
In addition to sequestering carbon dioxide from the atmosphere, FSF targets preserving and enhancing biodiversity across its portfolio. Our sensitively designed and sustainably managed portfolio targets the delivery of biodiversity benefits that are tracked, measured and reported on in our annual Sustainability and ESG report.

**Conclusion**
In summary, FSF offers investors real returns from growing assets that combat climate change and biodiversity loss.

# You need to pay attention to news from small-cap companies

Smaller companies tend to be impacted faster by economic change

Given the hundreds of stock market announcements issued every day by UK-listed companies, it's very easy to narrow your focus either to just the shares you own or the big household names in order to keep track of what's going on.

However, smaller companies can often be the 'canaries in the coal mine' of trouble ahead because changes in the economy tend to impact them much quicker than they do big companies.

This is especially important when tailwinds like low interest rates and cheap money are replaced by headwinds in the form of high rates, high labour costs and high energy costs, which is where we are today and which is why we are seeing a growing number of profit warnings.

### SMALL AND GETTING SMALLER

Looking at the US market, *Bloomberg* commentator John Authers says there are signs of 'something amiss' in the land of small caps.

'They are far more exposed to rising interest rates than larger companies, and the gulf in their performance has now grown quite dramatic. The Russell 2000 index of smaller companies has just dropped back below its level from the eve of the pandemic, essentially giving up all its gains since the dawn of the decade.'

Interestingly, Russell's index of the top 50 small stocks by market cap is still up almost 50% over that period meaning it is the smaller companies which are losing ground.

**US small caps are back trading where they were pre-pandemic**

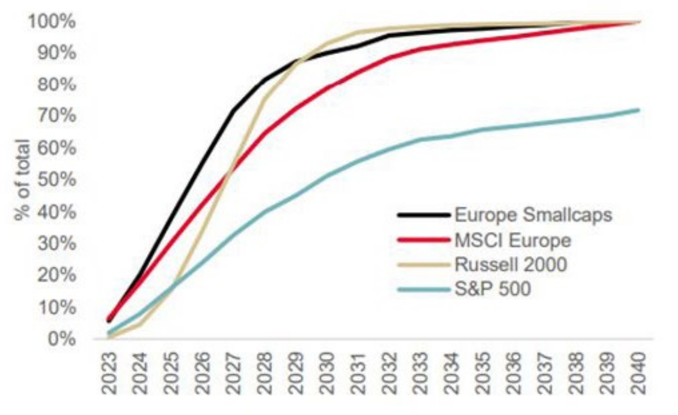

Chart: Shares magazine • Source: LSEG

Authers puts this underperformance down to the ease with which bigger companies can access affordable credit compared to smaller companies, who are more likely to experience cash-flow difficulties in the first place.

While most large-cap US – and for that matter European – companies began locking in attractive long-term rates on their debt as soon as central banks started tightening, many smaller companies didn't have that luxury.

As a result, smaller companies here and in the US fall a steep refinancing 'wall' with up to 80% of their loans and bonds coming due in the next five years according to Societie Generale strategist Andrew Lapthorne.

**Small caps face a steep re-financing wall**




Source: Societie Generale

## OPERATING AT A LOSS

Another problem for smaller companies is profitability. SocGen's Lapthorne estimates more than 30% of Russell 2000 companies are loss-making compared with just over 5% of European small caps, meaning they have to borrow money to fund their existence.

Scott Glasser, chief investment officer of Clearbridge Investments, part of US mutual fund group Franklin Templeton, believes up to 40% of Russell 2000 companies may be unprofitable.

This didn't matter overly when interest rates were near zero, but according to the Federal Reserve's latest survey of chief loan officers the proportion of banks tightening their standards for commercial loans rather than loosing them is now 50%, similar to levels seen during the pandemic and the global financial crisis in 2008.

Even among those firm that are 'profitable', many don't generate positive free cash flow, which is what enables them to pay the bills, invest in their business, reduce debt and pay shareholders an income.

There is an old market saying which bears repeating: cash is fact, the rest is opinion, which means profits are an accounting norm and what really matters when running or indeed investing in a business is how much cash it generates.

## ANALYSING PROFIT WARNINGS

According to consulting group EY Parthenon, which has been tracking profit warnings from UK-registered companies every quarter since 1999, the number of warnings in the third quarter was 12% lower than in the same period last year but still 18% above the seasonal average.

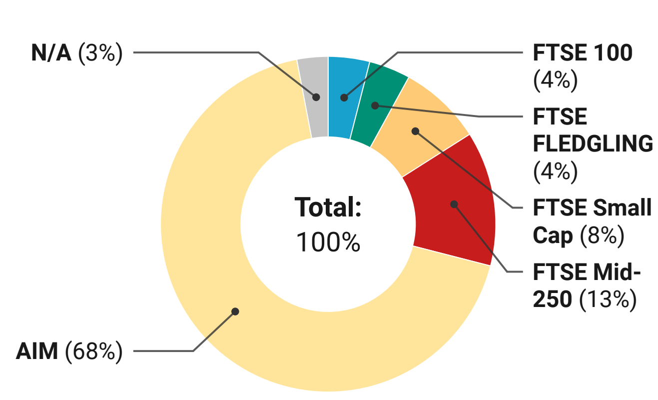
As well as logging the number of profit warnings, the firm keeps a record of the reasons for the warnings which gives it a powerful insight into the state of UK plc and the overall economy.

As its latest survey, entitled *Running Out of Road?*, states: 'The pace of warnings has begun to fall as cost and supply pressures ease, but in Q3 2023 we saw rising interest rates take over as the main driver of warnings, with the highest percentage of companies citing the impact of worsening credit conditions since the height of the Global Financial Crisis in 2008'.

The survey goes on to say: 'We expect the pace of warnings to remain high whilst the impact of interest rates continues to feed through to the wider economy and whilst it remains difficult to forecast in this testing and volatile economy. Confidence can drain very quickly in this environment; therefore, it is vital that companies address issues promptly and keep stakeholders informed.'

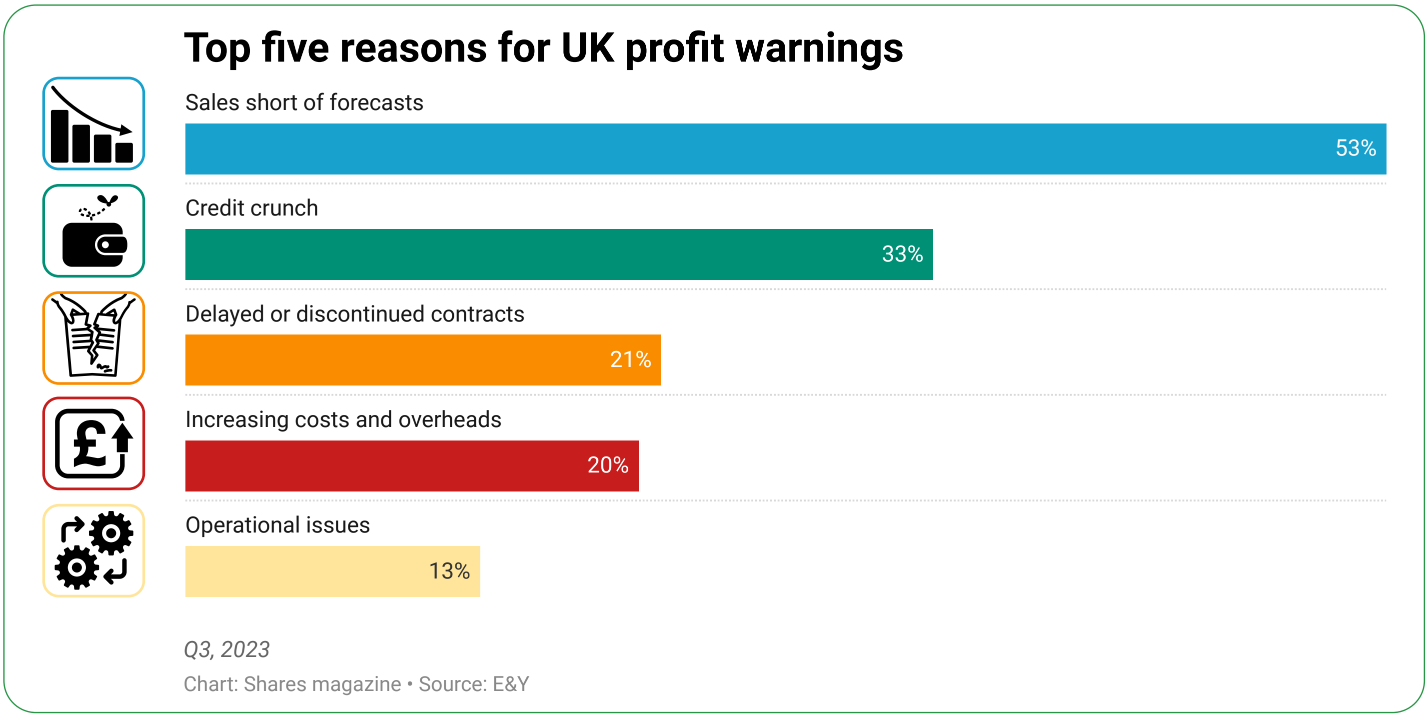
By far the largest number of warnings last quarter came from AIM-, FTSE Small Cap- and FTSE 250-listed companies, demonstrating how vulnerable small- and mid-sized companies are compared with their bigger competitors, and how weakness in the UK economy is affecting them faster and to a greater extent than globally exposed companies which make up the bulk of the FTSE 100 index.

**Percentage of warnings by FTSE index**




*Q3, 2023*

Chart: Shares magazine • Source: E&Y




By sector, the highest number of warnings came from industrial support services companies, followed by household goods and home construction, and software and computer services.

Meanwhile, the sectors with the highest percentage of companies warning were household goods and home construction, finance and credit services and food producers.

## A SEA OF RED FLAGS

The latest Red Flag Report from business advisory and insolvency firm **Begbies Traynor (BEG:AIM)** also makes grim reading, with the number of UK companies described as in 'critical' financial distress rising by 25% between the second and third quarters.

Over 37,700 firms are now in critical distress, while in total nearly 480,000 businesses across the UK are in 'significant' financial distress, 9% more than in the second quarter of this year.

While consumer-related firms like retailers have seen a sharp increase in critical financial distress, 'pressures are now clearly being seen beyond consumer-facing sectors and are becoming widespread, particularly within the construction and property sectors' says the report.

No fewer than 18 of the 22 sectors covered saw a double-digit rise in companies in critical financial distress from the second quarter to the third quarter, with construction seeing a 46% jump and real estate and property services experiencing a 38% increase.

'With many UK companies accustomed to years of near zero interest rates and access to government-backed Covid support loans, the new world of elevated interest rates will continue to push many businesses the very edge of failure', warns the report.

## EXAMPLES FROM THE MEDIA SECTOR

One sector where it really pays to keep an eye on smaller companies for clues to broader trends is media and advertising, as marketing is typically one of the first things customers will cut if they are feeling the strain financially.

In mid-September, 'digital disruptor' **S4 Capital (SFOR)** posted a smaller-than-expected increase in underlying first-half revenue and a 30% drop in gross operating profits due to 'client caution and longer sales cycles, particularly with technology and newer regional and local clients'.

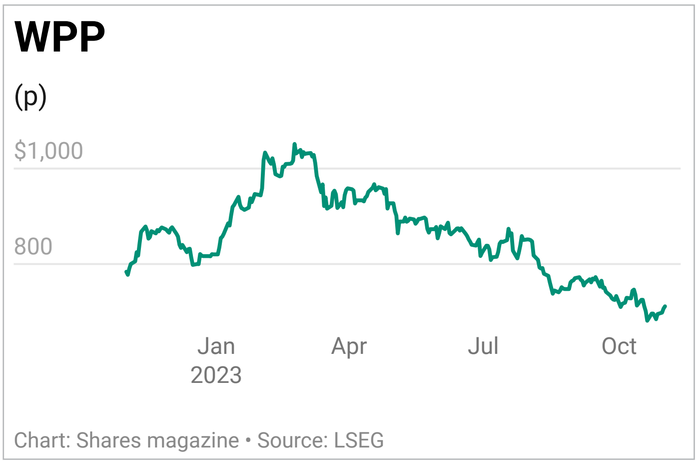
Having already warned in July, the firm 'revised' its full-year outlook down for a second time, guiding investors to expect negative like-for-like sales growth, a fall in margins and an increase in its debt pile, and sending its shares down 22% on the day.

In October, AIM-listed digital media and advertising firm **Mission Group (TMG:AIM)** reported a whopping 95% drop in first half operating profit, sending its shares down 59% on the day.

The firm said margins had been impacted by 'challenges in the US technology sector and the reduced level of activity in this market', while cash-flow issues meant net debt more than doubled from a year ago to £14.9 million, 'driven predominantly by changes in client prepayment behaviour, closely linked to the tightening within the US tech sector'.

Chair Julian Hanson-Smith stuck with his forecast of higher full-year revenue but accepted higher operating and interest costs 'are likely to have an impact on profit growth'.

Both S4 Capital and Mission Group's woes have ultimately been mirrored at FTSE 100 advertising giant **WPP (WPP)**, which posted weaker-than-expected third-quarter revenue due to 'continued weakness from technology clients and in China' and also had to cut its full-year underlying sales growth and operating margin forecasts.





By **Ian Conway** Companies Editor

# Discover the little-known company behind Nike's record breaking running shoes

Lightweight foam manufacturer Zotefoams has been in partnership with mega US footwear brand since Rio Olympics

Even casual observers might have spotted the records being smashed in long distance races by athletes wearing **Nike (NKE:NYSE)** running shoes. The latest of which saw Kelvin Kiptum come within 35 seconds of the two-hour barrier at the Chicago Marathon as he set a new all-time best for the distance on 10 October.

What you may not know is a UK small cap has had a key role to play in the technology behind this footwear.

Croydon-headquartered chemicals outfit **Zotefoams (ZTF)** has enjoyed a relationship with Nike for around seven years, originally focused on distance road running shoes as well as track spikes but later extended into trail running footwear with the Nike Zegama, launched in 2022.

The lightweight foams maker operates under an exclusive supply agreement with Nike for footwear product cushioning.

Zotefoams announced at the time of its first half results in August that it will continue to collaborate with Nike 'on technical foams' for high-performance footwear until 31 December 2029.

**Zotefoams**

(p)


Chart: Shares magazine • Source: LSEG

## A DEVELOPING RELATIONSHIP WITH A US GIANT

Zotefoams CEO David Stirling tells *Shares*: 'Our relationship with Nike started in about 2016. Zotefoams developed some lightweight foam technology at the request of Nike.

'In 2016 [at the time of the Rio Summer Olympics] Nike used this foam technology to develop racing shoes that later went on to win gold, silver and bronze in the men's marathon race.

'From that point onwards, we decided to work together with Nike collaborating on unique footwear technology. We now provide a range of foam materials for several Nike racing shoes.'

Nike rebranded the lightweight resilient Zotefoams material as ZoomX. The Nike running shoe is made from lightweight, resilient Zotefoams and a stiff carbon fibre plate aiming to give the elite athlete a 'propulsive ride'.

> **"From that point onwards, we decided to work together with Nike collaborating on unique footwear technology"**

## BREAKING RECORDS

In 2018, elite Kenyan runner Eliud Kipchoge broke the men's world record for the marathon wearing the Zoom Vaporfly 4% - the first commercially available Nike racing shoe using a midsole system.

After Zoom Vaporfly 4% Nike has developed several racing shoes for elite athletes including Nike Zoom Fly, Tempo and Alphafly Next%.

Stirling says there are no plans to take the running shoes it collaborates with Nike to the global mass market.

He says: 'The running shoes we develop with Nike engineers are for elite athletes.

You will see Zotefoams technology used in podium winning running shoes [at a price point of £400]. So, you would not necessarily see a regular person buying a pair of podium winning running shoes, this person might opt for a fashion-type shoe [at a price point of £80].'

The company recently announced that it will be supplying Nike with high-performance foams for its Ultrafly pinnacle trail racing shoe.

## WHAT DOES ZOTEFOAMS DO?

Zotefoams lightweight cross-linked polyolefin-block foams are stronger, lighter, and more durable than rival materials and therefore save weight and energy.

The company's products are used in everything from air conditioning units to the aircraft industry, cars, chips, electronics, healthcare, transport and even sports and leisure equipment like cricket pads. Its main markets are footwear, where it has an exclusive agreement to supply Nike that was recently extended to 2029, product protection and transportation, which includes aviation and aerospace, automotive and rail.

The ultimate aim is to become the world leader in cellular-materials technology in markets with elevated levels of organic growth, both through its own brands and through partnerships and targeted acquisitions.

## Zotefoams divisional breakdown H1 2023

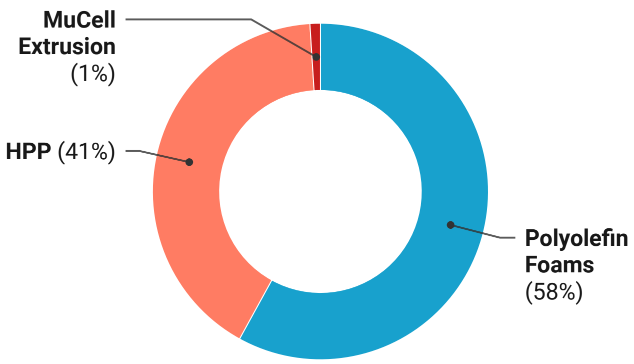
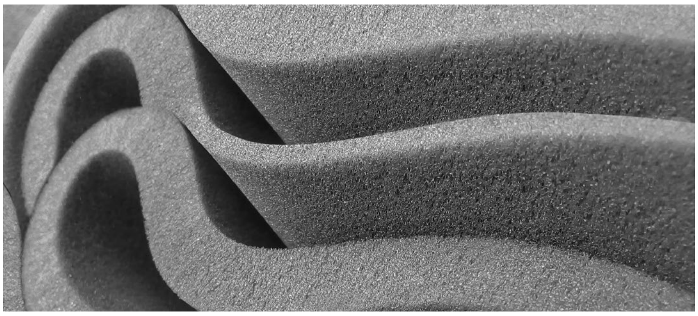



Chart: Shares magazine • Source: Zotefoams



## Zotefoams earnings and revenue

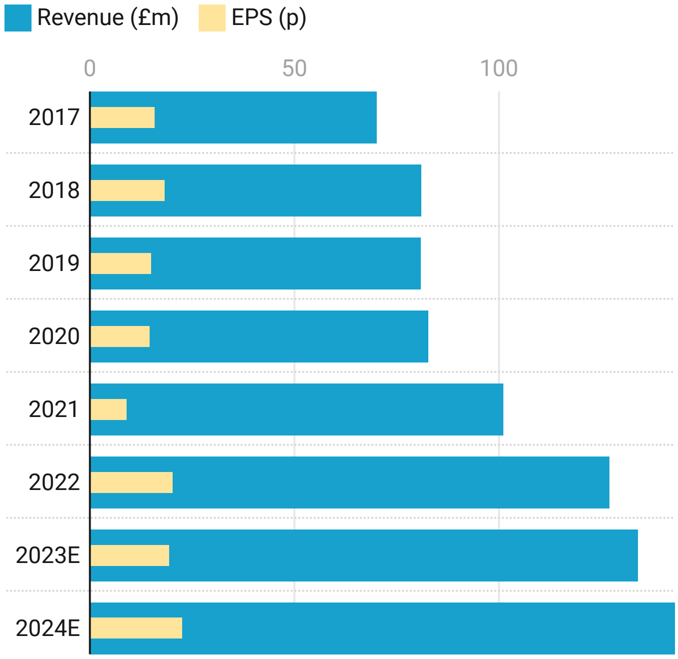



Chart: Shares magazine • Source: Stockopedia

### HIGH PERFORMANCE IS PERFORMING

Footwear sales form a significant part of Zotefoams' High-Performance Products Division (HPP) – which is its most profitable division.

This is one of three business units and sits alongside Polyolefin Foams and MuCell Extrusion which encompasses its nascent ReZorce product. Zotefoams characterises this as an industry first in fully recyclable, single material barrier packaging technology – designed to help manufacturers of food, personal care and household products meet plastic reduction and recycling commitments.

In the first six months of 2023 the company reported a 9% increase in revenue to £64.6 million with improved margins reflected in a pre-tax profit up 30% to £7.4 million. Operational cash flow was up 12% to £5.8 million. Significantly, net debt was down 26% to £28.3 million. It stuck with full-year guidance. Sales in the HPP arm were up 11%.

### HOW ANALYSTS VIEW THE INVESTMENT CASE

Zotefoams has delivered robust growth in revenue over the last six years but earnings per share have been more variable and the share price has been unable to get close to the highs above 600p it enjoyed in 2019 ahead of the pandemic. Some observers believe the business could be at an inflexion point though.

Analysts at Peel Hunt observed in a recent research note: 'Zotefoams has delivered a robust performance against a tough backdrop in recent quarters with volatile raw materials costs, labour inflation, foreign exchange swings, supply chain issues amongst other challenges.

'The outlook is far from certain, but the near term feels supported by the likes of footwear and aviation, which is picking up.

'Longer term, HPP looks set to gather strength and ReZorce (with the Joint Development Agreement now signed with a major European Packaging company) is getting ever closer to possibly realising significant value.

'We now sit with HPP gathering pace, Polyolefin Foams providing a steady base, and ReZorce showing genuine potential for transforming the valuation of the business.'

By **Sabuhi Gard** Investment Writer

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International Personal Finance

# International Personal Finance PLC

12 Per Cent. Notes due 12 December 2027 (the "**Notes**")

**Dealer Manager**

Singer Capital Markets Securities Limited

**Authorised Offerors**

- **AJ Bell**
- **Redmayne Bentley**
- **Hargreaves Lansdown**
- **LGB & Co.**
- **Winterflood Securities**
- **PrimaryBid**

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International Personal Finance plc ("**IPF**" and the "**Issuer**") is the ultimate parent company for a socially responsible international provider of retail financial services focusing on the financially underserved. IPF and its subsidiaries (together, the "**Group**") offers a suite of small sum, short-term unsecured consumer credit and insurance products to suit its customers' different credit profiles. The products range from instalment home credit cash loans, a credit card and digital instalment credit to revolving credit lines and a mobile wallet with online payment facilities. The Group's head office is in Leeds in the United Kingdom. The Group operates in Poland, the Czech Republic, Hungary, Romania, Mexico, Lithuania, Estonia, Latvia and Australia and has approximately 20,000 employees and customer representatives.

Further information on the Issuer and Group can be found at: www.ipfin.co.uk

### Key features of the Notes

The International Personal Finance PLC 12% Notes due 12 December 2027 pay interest of 12% per annum on the face value of £100 per Note. Interest will be paid semi-annually in arrear on 12 December and 12 June in each year with the investment paid back in full on 12 December 2027 (unless the Notes are repaid early).

The Notes will be issued under the Issuer's Euro Medium Term Note Programme pursuant to the final terms relating to the Notes dated 2 November 2023 (the "**Final Terms**") and the Terms and Conditions of the Notes which also govern the Issuer's £50,000,000 12 per cent. notes due December 2027 (the "**Existing 2027 Notes**"), which are: (i) set out in the base prospectus prepared by the Issuer dated 25 August 2022 as supplemented, for the purposes of the UK Prospectus regulation, by way of a prospectus supplement dated 4 November 2022 (the "**2022 Base Prospectus**"); and (ii) incorporated by reference into base prospectus dated 24 August 2023 (the "**Base Prospectus**") (see "Important Information" below for more information about the Base Prospectus). The Notes will be consolidated and form a single series with the Existing 2027 Notes.

The Notes are expected to be rated BB- by Fitch Ratings Limited and Ba3 by Moody's Investor Services Limited.

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The Notes are expected to be admitted to trading on the Order Book for Retail Bonds of the London Stock Exchange, following which investors will be able to check the current trading price on the London Stock Exchange website and buy and sell their Notes in the open market at any time during market hours (subject to normal market conditions).

Further and important information about the Notes, including how to purchase the Notes is available at the website of IPF (https://www.ipfin.co.uk/new-gbp-bond-issue/cash-offer). Please also see "Important Information" below for more information about the Base Prospectus, this advertisement and the Notes.

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**Please therefore read the Base Prospectus and Final Terms carefully before you invest. Before buying and selling any Notes you should ensure that you fully understand and accept the risks relating to an investment in the Notes, otherwise you should seek professional independent advice.**

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Full details regarding the risk factors relating to IPF and the Notes are set out in the section headed "Risk Factors" on pages 20 to 41 of the Base Prospectus. Please read them carefully

The price of the Notes may fluctuate from time to time and may be less than the amount paid by an investor for the Notes. Such fluctuation could be driven by various factors including (but not limited to) market appetite, inflation, the time left until the maturity of the Notes, interest rates and the financial position of the Issuer or the Group. Decreases in market value of the Notes could mean that an investor who chooses to sell their Notes in the secondary market may thereby realise a loss.

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**7 November 2023 (Date approved)**

# What is a continuation vote and why does it matter to investors?

Woes at Hipgnosis could throw the spotlight onto other poorly-performing investment trusts

Unless they own shares in investment trusts, most readers probably will not have heard of the phrase 'continuation vote', and there is a chance a good many who do own investment trusts may be unfamiliar with them too.

However, as the recent ups and (mostly) downs at music royalty fund **Hipgnosis Songs Fund (SONG)** have demonstrated, continuation votes can be literally a make-or-break event for trusts and they should not be taken lightly.

In this article we look at how they work, why they matter and whether Hipgnosis may have set the scene for shareholders to take matters into their own hands at more investment trusts.

## WHAT HAPPENED AT HIPGNOSIS?

Whereas most listed companies have an indefinite lifespan, investment trusts, which invest in other stocks or asset classes rather than carrying on a business, have to give their shareholders the choice of whether to continue trading depending on their circumstances.

Most trusts have a provision in their Articles of Association for a continuation vote every three or five years, to be held at the company's AGM (annual general meeting), but some trusts have 'conditional triggers' which require them to hold a continuation vote if, say, their market value falls below a certain level or the discount to NAV (net asset value) is persistently wide.

If shareholders vote against continuation, the assets will be sold, cash returned to shareholders, and the company will be wound up.

Hipgnosis, whose business was to make money from the rights to catalogues of songs which it acquired from musicians and composers, was listed on the London Stock Exchange in July 2018 and had a five-year continuation vote, meaning that at its AGM last month it had to seek permission from shareholders to continue its business for another five years.


Chart: Shares magazine • Source: LSEG, Winterflood

In the event, shareholders voted overwhelmingly *not* to approve a further five-year mandate, forcing the board to 'put forward proposals for the reconstruction, reorganisation or winding-up of the company to shareholders for their approval within six months', including the option to liquidate all or part of the company's portfolio.

Following the AGM, Sylvia Coleman, a senior independent director of Hipgnosis Songs Fund, commented: 'The board and the investment adviser have each engaged widely with investors over recent months. While shareholders have not supported our proposed transaction or the continuation vote, it is clear they share our belief in the inherent quality and potential of these assets.'

Nevertheless, shareholders sent a clear message to the board and the investment adviser that they were fed up with them and the trust's performance and they wanted change, even if that meant breaking it up. We discuss what could be next for Hipgnosis in this week's news section.

## HOW DISCOUNTS CAN TRIGGER A VOTE

While Hipgnosis investors had every reason to be unhappy with the performance of their shares, many investment trusts have performed poorly of late.

According to analysts at Winterflood, the average discount to NAV for the UK investment trust sector, excluding private equity fund **3i (III)**, has widened from 14% a year ago to 18% by the end of October, while according to index compiler FTSE Russell the value of the All-Share Closed-End Investments Index has fallen 8.4% over the same period.

The biggest discounts to NAV are typically in residential and commercial property trusts but leasing funds and private equity funds such as **Chrysalis (CHRY)**, **Petershill Partners (PHLL)** and **Seraphim Space (SSIT)** are also trading at discounts of more than 50% to their net asset values.

For some funds, however, just trading at a discount of more than 10% for a year can be enough to trigger a continuation vote, which is

## 20 popular investments trusts with continuation votes before the end of 2024

| Trust | Market cap | Discount to NAV |
|---|---|---|
| Chrysalis Investments | £771m | 58% |
| Balanced Commercial Property | £488m | 41% |
| Apax Global Alpha | £770m | 31% |
| Abrdn Diversified Income & Growth | £233m | 30% |
| Tufton Oceanic Assets | £290m | 28% |
| Impact Healthcare REIT | £365m | 22% |
| North American Income Trust | £368m | 15% |
| JPMorgan UK Smaller Companies | £192m | 15% |
| Baillie Gifford UK Growth | £222m | 15% |
| Templeton Emerging Markets | £2bn | 14% |
| JPMorgan Global EM Income | £356m | 13% |
| Baillie Gifford Shin Nippon | £376m | 13% |
| Sequoia Economic Infrastructure | £1.3bn | 13% |
| Henderson International Income | £308m | 12% |
| Worldwide Healthcare | £1.7bn | 10% |
| Baillie Gifford Japan Trust | £620m | 9% |
| European Opportunities Trust | £876m | 9% |
| JPMorgan Emerging Markets | £1.2bn | 9% |
| International Biotechnology | £223m | 7% |
| BlackRock World Mining | £1bn | 4% |

Table: Shares magazine • Source: AIC, data correct as of the market close 1 November 2023

## Popular investments trusts where a vote can be triggered under certain conditions

| Trust Name | Sector | Condition |
|---|---|---|
| **Abrdn New Dawn** | Asia Pacific | Discount to NAV |
| **CVC Income & Growth** | Debt | Size of Fund |
| **TwentyFour Select Monthly Income** | Debt | Discount to NAV |
| **TwentyFour Income Fund** | Debt | Performance |
| **Schroder BSC Social Impact** | Flexible | Discount to NAV |
| **Smithson** | Global Small-Cap | Discount to NAV |
| **BH Macro** | Hedge Funds | Size of Fund |
| **UK Commercial Property REIT** | Property | Discount to NAV |
| **Greencoat UK Wind** | Energy Infrastructure | Discount to NAV |
| **JLEN Environmental Assets** | Energy Infrastructure | Discount to NAV |
| **NextEnergy Solar Fund** | Energy Infrastructure | Discount to NAV |

Table: Shares magazine • Source: AIC, data correct as of the market close 1 November 2023

what has happened at **BioPharma Credit (BPCR)**.

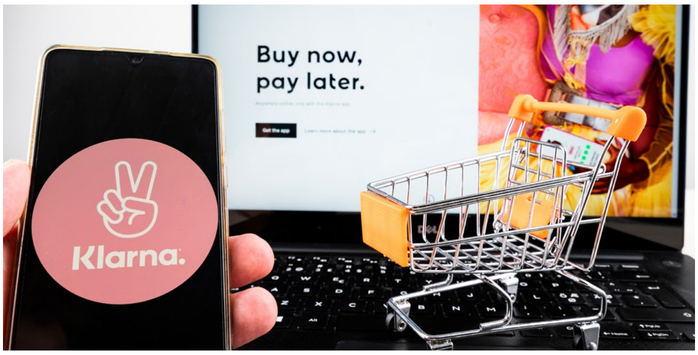
The trust, which has a market value of over $1 billion and assets of $1.36 billion, announced earlier this month that its persistent discount over the 12 months to 31 October had triggered a 'continuation resolution', meaning shareholders have to be consulted before 31 December on whether the fund should keep trading as it is.

### WHO ELSE IS IN THE FRAME?

Another fairly large trust which has been trading at a hefty discount to NAV for some time and has a continuation vote scheduled at its AGM next March, is Klarna owner Chrysalis Investments.

Although its NAV per share is around 135p, according to data from the AIC (Association of Investment Companies), the shares change hands for 57p or nearly 60% less than the theoretical break-up value of the business.

The Chrysalis board can clearly see which way the wind is blowing so to head off a shareholder revolt in four months' time it has begun a consultation period with investors to look at its capital allocation policy, its level of cash reserves and its performance fees, so we wait with interest




to see the upshot of the process.

Meanwhile, the Baillie Gifford-managed **Schiehallion Fund (MNTN)**, which boasts more than $1 billion of assets and like Seraphim and Chrysalis owns stakes in unquoted companies, currently trades on a 67% discount to NAV.

Although it does not have a continuation vote scheduled – its Articles of Association say it has been 'established with an unlimited life' – again the board has read the runes and in an attempt to head off a rebellion is buying back shares, although it admits it has 'limited available capital at this current time'.

This raises another issue for the trust industry – even if they wanted to buy back their own shares to control the discount to NAV, many investment companies aren't in a position to do so as they have little liquidity, and they can't exactly issue new shares at a whopping discount just to buy back their existing shares, so the gulf between prices and net asset values persists.

### STAND BY FOR ACTION

On 15 October, investors in **European Opportunities Trust (EOT)**, the £740 million fund managed by Alex Darwall which invests in 'special growth companies', will decide on the fund's fate in a continuation vote at its AGM.

While the shares trade on a discount of less than 10% to NAV, far less than some of the trusts mentioned previously, the company has lagged its benchmark and its peers by a considerable margin over the last five years and it is this situation which investors have to consider.

After what it describes as 'an extensive shareholder consultation exercise', the board has proposed a performance-related tender offer for 25% of the shares if the trust does not equal or exceed the MSCI Europe total return index over a three-year period from 1 June 2023 to 31 May 2026.

However, as well as requiring approval at this year's AGM, the resolution needs shareholder approval at the 2026 general meeting, by which time any buyback could be completely moot as the fund could continue to lag the benchmark for three years and investors would have no comeback.

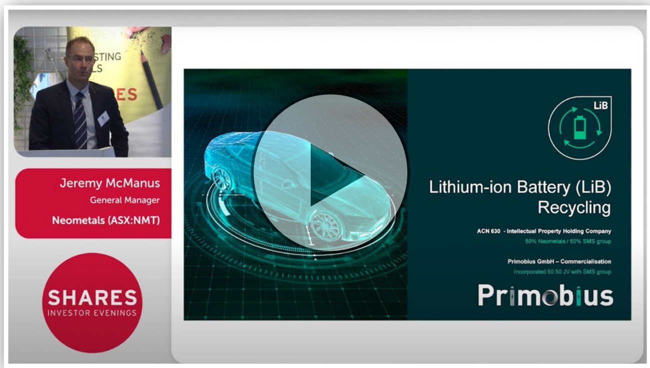
'We can understand it being offered as a carrot to gain support for the current year continuation vote, however we do not believe it should be conditional on passing the 2026 continuation vote,' said Ewan Lovett-Turner, head of investment companies research at Numis.

With such a high-profile manager running such a well-known and widely owned trust, the vote on 15 November is sure to be closely watched, not just by investors but by managers and boards of other trusts as well.

***DISCLAIMER: The author owns shares in Sequoia Economic Infrastructure Trust and TwentyFour Select Monthly Income Fund***

By **Ian Conway** Companies Editor


# WATCH RECENT PRESENTATIONS




## Neometals (ASX:NMT)
### Jeremy McManus, General Manager

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## Frenkel Topping Group (FEN)
### Richard Fraser, CEO

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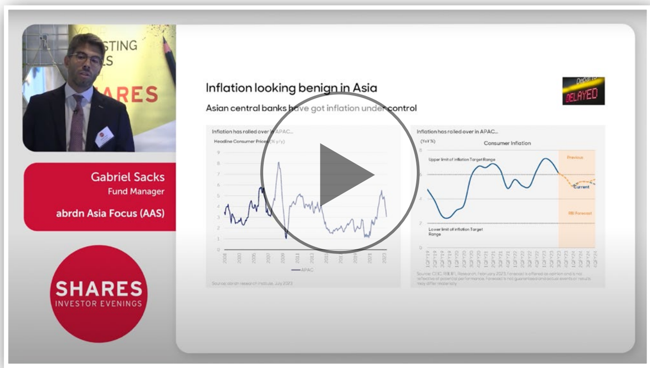


## abrdn Asia Focus (AAS)
### Gabriel Sacks, Fund Manager

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# The time to buy shares is when fund managers are sitting on cash (like now)

Analysis by BofA Global Research suggests a major signal has been sounded in the markets

In my first column as editor (19 June 2014) I suggested cash, not equities, was front of mind for investors. At the time, fund managers were increasing their cash positions, and figures from State Street showed that UK retail investors had 43% of their assets in cash.

You might have interpreted this situation as a sign that investors were preparing for a market correction following five strong years for equities. Fortunately for those invested, there were another five and a half years of gains to enjoy.

Nine years later, the situation has come full circle. As I write my final column, cash is once again a key focus for investors thanks to decent returns available on savings accounts and the prospect of a global economic slowdown making equities less appealing.

Violence in the Middle East has also troubled the markets along with a growing number of large companies failing to hit earnings forecasts. According to research by Liberum, European companies have missed earnings estimates by 7.5% in the latest earnings season, following eight quarters of the better-than-expected results.

Yes, equities enjoyed a bounce last week when the UK and US central banks left interest rates unchanged. That helped to lift investor sentiment – but remember that earnings growth is one of the key drivers for share prices and if analysts continue to trim earnings forecasts, there could still be a headwind for shares.

I do not have a crystal ball and cannot say for certain what will happen next, but having cash to hand can give investors an advantage, namely the ability to go bargain hunting for stocks.

The idea of investing in companies when surrounded by unwelcome news might seem counterintuitive. History suggests it can be one of the best times to buy as you can take advantage of depressed valuations. The key is taking a long-term view and not letting short-term problems worry you. A well-run company with strong finances should be able to get through challenging times.

Three years ago, BofA Global Research analysed the previous decade and found that when its global panel of fund managers held more than 5% of assets in cash, it was time to buy equities.

Thirty-six 'buy' signals were issued between 2011 and 2020 when fund manager cash limits exceeded 5%. The average return from the S&P 500 index of US shares over the following six months from these signals was 6.5%.

BofA's latest monthly fund manager survey on 17 October 2023 has fund managers' cash position jumping from 4.9% to 5.3%, thereby sounding a new 'buy' signal. There is no guarantee this strategy will always work, but it is something to consider.

It is on that note that I would like to say thank you to my fantastic team on *Shares* for their hard work and to all our readers for your interest and support. It has been an honour to lead the magazine and I now pass the baton to Tom Sieber as your new editor.

I am moving to the newly created role of editor in chief at AJ Bell and will contribute articles to *Shares* as often as I can. I wish Tom the best of luck and I have full confidence that he will continue to deliver a top-quality magazine.

***DISCLAIMER: AJ Bell is the publisher of Shares. The author (Daniel Coatsworth) and editor of this article (Tom Sieber) own shares in AJ Bell.***

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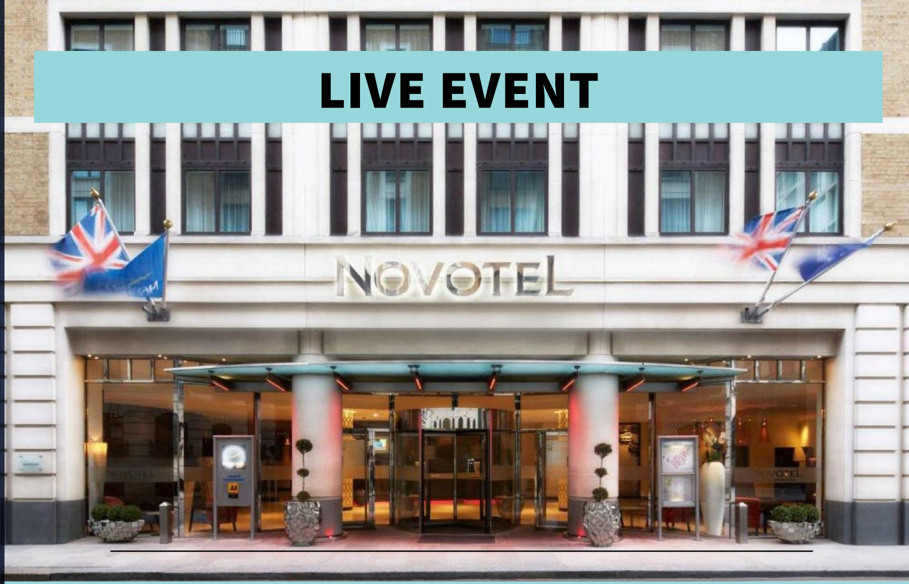


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# Beating the savings tax trap: what are your options?

How you can avoid interest on your savings falling into the hands of HMRC

For the first time in over a decade, tax on cash interest rates has become a serious problem for savers. The ultra-low interest rates seen in the wake of the financial crisis deprived cash savers of returns, but it meant they didn't really have to worry about tax, especially after the Personal Savings Allowance was introduced in 2016.

This allows basic rate taxpayers to receive £1,000 of interest each year tax-free, and higher rate taxpayers get a £500 allowance (top rate taxpayers get nothing). However now interest rates have risen, tax on cash returns is back with a vengeance. Compared to the yield-starved years of the 2010s, it's a nice problem to have, but there are a number of ways to minimise the tax you pay on cash interest.

HMRC expects over 2.7 million people to be hit by savings tax in 2023-23, up by one million compared with estimates for the 2022-23 tax year, according to a Freedom of Information request obtained by AJ Bell.

## CASH ISAS ARE THE OBVIOUS PORT OF CALL

Cash ISAs are an obvious port of call for those seeking to shelter their savings from tax. The downside of this approach has always been that you usually have to accept a slightly lower interest rate than on a standard savings account, but for many the implications of not sheltering your interest from tax probably now far outweigh the haircut you take on the headline return. Interest from Premium Bonds is also tax free, though again the headline interest rate is usually below what you can get from other easy access accounts.

The pooled interest is not shared equally either, so you may end up with more or less than the advertised rate. However, that does open up the possibility of winning big on Premium Bonds, an appeal which no doubt partly fuels their popularity.

Stocks & Shares ISAs are perhaps a surprising way of reducing your interest rate tax bill. That's

### How much can savers have before hitting their tax-free limits?

| Account | Rate | Amount basic-rate taxpayer can have before hitting the limit | Amount higher-rate taxpayer can have before hitting the limit |
|---|---|---|---|
| Top easy-access account December 2021 | 0.65 | £154,000 | £77,000 |
| Top easy-access account October 2022 | 2.35 | £42,500 | £21,250 |
| Top easy-access account October 2023 | 5.25 | £19,050 | £9,525 |
| 1-year fixed rate | 6.05 | £16,525 | £8,265 |
| 2-year fixed rate | 6.00 | £16,675 | £8,330 |

Table: Shares magazine • Source: AJ Bell. Best buy rates data based on Moneyfacts, accurate to 31st October 2023.

### Teaming up as a couple to limit tax

Sharing out cash assets smartly between spouses or civil partners can also be a good way to reduce your tax bill as a couple. This might not mean simply dividing it down the middle though, as each partner may fall into a different tax bracket, which affects both the level of your Personal Savings Allowance, and the rate of tax you pay on interest above that.

To increase tax efficiency, you might consider sharing out savings to make sure each of you is using your Personal Savings Allowance to the max, and beyond that trying to move more interest-bearing cash into the name of the partner in the lower tax bracket, where there is a difference.

It's possible this approach may lead the lower earning individual to cross into the same tax bracket as their higher-paying partner, at which point the attraction of sharing out more assets is extinguished. It may even result in more tax being paid because your Personal Savings Allowance is related to your tax band. If you move from being a basic rate taxpayer to a higher rate taxpayer you immediately lose £500 of your allowance. So great care needs to be taken where the recipient partner might be pushed into a higher tax band.

While the sharing of cash assets might be desirable from an income tax point of view, there may be other considerations to take into account, such as the background context of other family finances, the convenience of joint accounts, wills and potential IHT liabilities.

because you can invest in money market funds within these tax shelters. These funds invest in cash-like fixed interest securities issued by governments and companies, and though they are a bit riskier than cash, they do now come with generous yields thanks to rising interest rates. The interest paid on these funds is tax-free if held within a Stocks & Shares ISA, but investors do need to factor in fund management and platform charges when comparing with other options.

## USING GILTS

We have also seen investors using short-dated, low coupon gilts to minimise tax. Most of the quoted yield from these investments comes from an appreciation of the price of the gilt between now and maturity, rather than from interest payments.

Gilts aren't subject to capital gains tax, so some investors have been turning to these instruments instead of cash to minimise the tax they pay. There are costs and charges associated with buying gilts, and they can be difficult to understand, so this route is probably best left to experienced investors, or those who are willing to roll up their sleeves and do their homework on how gilts work.

## USING FIXED TERM ACCOUNTS

Savers can use fixed term savings accounts to mitigate their tax affairs. This is because some fixed term accounts only pay out at the end of the term, and so you can defer the receipt of your interest, and hence the tax. This might be particularly useful if you know you are going to drop down a tax band next year, perhaps because you're retiring, and therefore the interest you receive later rather than sooner will be taxed less heavily. Some fixed term accounts pay out interest more regularly though, so as ever, it pays to be on your toes.

***DISCLAIMER: AJ Bell owns Shares magazine. The editor (Tom Sieber) and author (Laith Khalaf) of this article own shares in AJ Bell.***

By **Laith Khalaf**
AJ Bell Head of Investment Analysis

# Should I adopt an extreme savings approach to let me retire early

Discussing how realistic it is to stop work in your 50s

*I've been reading about the FIRE (Financial Independence, Retire Early) movement recently and the idea of retiring early is pretty appealing. What are the pros and cons? How easy is it to enjoy a decent standard of living if you retire at, say, 55?*
***Anonymous***

**Tom Selby,** AJ Bell Head of Retirement Policy, says:

Stopping work as soon as possible remains a dream for many people. But if you aren't super-wealthy, early retirement will usually require some serious saving while you're young and an ultra-frugal lifestyle – or a combination of the two.

In fact, analysis carried out by the Institute for Fiscal Studies (IFS) suggests whilst a larger chunk of the wealthiest in society are able to retire earlier compared to the start of the millennium, those with less wealth are generally more likely to work well into their 60s and beyond. Lower levels of financial security (for example, many people still have mortgages to pay off) and rises in the state pension age are among the possible reasons.

## YOU NEED TO BE REALISTIC

That is not to say retiring in your 50s is impossible – you just need to be realistic about what is achievable and the long-term implications.

For starters, you usually cannot access your private pension before age 55, with this minimum access age set to rise to 57 in 2028. It is possible to retire before this age, but you'd need non-pension assets, such as ISAs or buy-to-let property, to support your lifestyle until you can access your retirement pot.

You also need to factor in the availability (or lack thereof) of the state pension. This is a valuable source of retirement income for millions of Brits but at the moment it only becomes available from your 66th birthday. The state pension age is then scheduled to rise to 67 by 2028 and 68 by 2046. The full state pension is worth just over £10,600 a year in 2023.

In terms of the pros and cons of early retirement, the obvious pro is that you will have more time to relax and do the things you enjoy doing. For lots of people, that single outcome is worth huge amounts of sacrifice. If you have paid off your mortgage and expect lower living costs when you stop working, early retirement will be more achievable.

But if you want to retire early and plan to travel, eat out at nice restaurants or generally have an active and potentially expensive lifestyle, you will need to build up a substantial pot of money to pay for it. Using tax-incentivised vehicles like pensions and ISAs will help with this. This will likely require you to sacrifice more on your lifestyle when you are younger. If you don't do this, you'll either need to cut your cloth significantly to make your retirement income plan sustainable, or risk running out of money too soon.

If you are eyeing early retirement, make sure you've sat down, ideally with a regulated adviser, and thought carefully about your spending plans and the impact retiring earlier will have on these plans.

## THINK ABOUT SUSTAINABILITY

It's worth remembering you might also miss out on tax-free investment growth if you start drawing an income from your pension early. In fact, by leaving your fund invested for longer, you have the potential to get the double boost of increasing the value of your pension through long-term growth as well as not depleting it through withdrawals. Take, for example, someone with a £300,000 pension pot at age 55. They have already taken their 25% tax-free cash and choose to start taking an income from their pot. If they keep their pension invested in 'drawdown' and enjoy 4% investment growth after charges each year, that pot could deliver an annual income of around £10,500 a year until their mid-90s (assuming the income rises each year by 2%, in line with the Bank of England's inflation target).

If, however, they wait until around age 65 to access their pension and their fund grows by 4% per year over that intervening period, they could have a fund worth just shy of £450,000 to draw an income from. Assuming they still want their pot to last until their mid-90s, an annual income of around £18,500 a year (again rising each year by 2%) could now be sustainable (again, assuming investment returns are 4% per year after charges).

## TAX AND LIFESTYLE CONSIDERATIONS

In addition, there are tax consequences that need to be considered when accessing your pension. Once you take taxable income flexibly from your retirement pot, your annual allowance – the maximum you can pay into a pension each year

before being hit with a tax charge – will drop from £60,000 to £10,000, reducing your ability to make top-up contributions if your plans or circumstances change. Pensions are also extremely tax efficient on death, so if passing money onto loved ones is a priority it can often make sense to access your pension last of all your assets.

You should take a moment to consider the reality of early retirement too – because it isn't just about the money. What do you plan to do with your time? Will you have enough going on to stimulate you? The 'FIRE' movement you mention in your question tends to advocate fairly extreme saving strategies which won't be realistic or desirable for lots of people.

For many, taking on part-time work when transitioning towards retirement will be attractive as it allows you to remain active, earn an extra income but work fewer hours than previously. However, this won't be possible for everyone, particularly those who have physical jobs they might struggle to continue doing in their later years.

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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