STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS
VOL 24 / ISSUE 35 / 08 SEPTEMBER 2022 / £4.49

SHARES

WE MAKE INVESTING EASIER

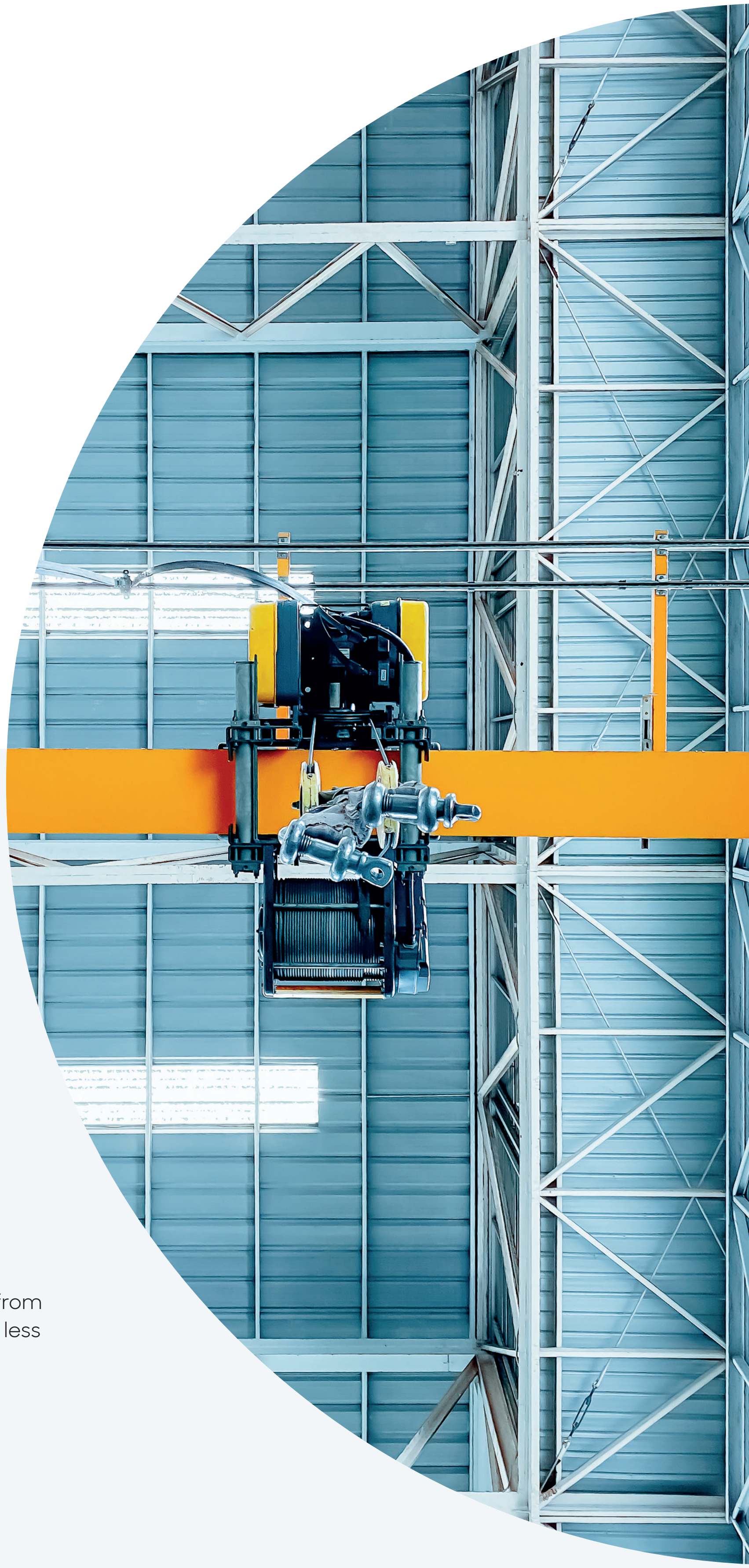
TRUSS IN NUMBER 10:

What the new prime minister means for markets and the energy crisis

Imageplotter / Alamy Stock Photo

DOLLAR DELIGHT

The UK companies which benefit from a strong US currency



Contents

The divergence between oil and gas prices and what it means

While European gas prices continue to soar OPEC is looking to shore up oil prices

In all the debate about gas prices, the fate of the oil price has been somewhat overshadowed. You may have noticed at the forecourt that the cost of filling up has gone from mind-blowing to merely eye-watering and this roughly reflects what's happened with the global oil market.

Brent crude, the international yardstick, has slipped from highs above $125 per barrel in the immediate aftermath of Russia's invasion of Ukraine to less than $100 as we write.

The natural gas market has historically been closely associated with oil – although in the last decade or so the link between the two, in terms of pricing, has broken down.

The Brent crude oil price traded steadily at an average of nine times the US Henry Hub natural gas price between 2000 and 2009 but the ratio subsequently exploded. It peaked at more than 50-times as oil prices soared, and the development of shale gas led to a supply glut in the US.

A year ago, the ratio was around 18-times and currently the ratio stands at a little above 10-times reflecting a significant increase in the gas price relative to oil.

It is not surprising the relationship between the two commodities has broken down. Gas is predominately utilised in power generation; oil is instead largely refined into transportation fuel.

Gas is also literally a less liquid market than oil and, as a result, is also more localised. Much natural gas is still transported through pipelines and although technologies like LNG (liquefied natural gas), gas-to-liquids and compressed natural gas have made a difference, it is still more expensive and complicated to transport gas than oil.

So, while Henry Hub prices may have more than doubled in the last 12 months, in Europe prices have seen much larger increase. Arguably the US gas prices has been dragged higher by the situation in Europe as more of the relatively plentiful gas in North America is exported through LNG terminals.

Gas versus oil price trend

Rebased to 100

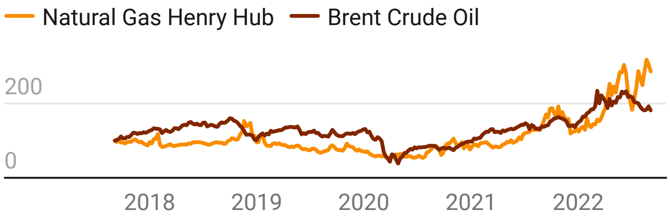
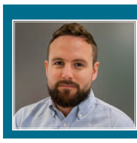


Chart: Shares magazine • Source: Refinitiv

Oil prices received a bump on 5 September when producers' cartel OPEC and its affiliates agreed to cut production by 100,000 barrels of oil per day. However, don't read too much into this decision. Consultancy Capital Economics says: 'We maintain that both last month's output increase and this month's cut are little more than symbolic.

'The bigger picture is that OPEC+ is producing well below its output target and this looks unlikely to change given that Angola and Nigeria, in particular, appear unable to return to pre-pandemic levels of production.'

Still, the supply issues with oil are not as acute as for gas and they serve different markets. This key difference between gas and oil, where one is more local and the other more international, could see gas prices continue to surge this winter while a downturn in the economy could prompt crude to drift lower.



By **Tom Sieber** Deputy Editor

What new prime minister Liz Truss means for markets and energy prices

Plan to offer state-backed loans to energy companies enabling them to freeze bills

After weeks of a divisive Conservative party election contest, Liz Truss defeated Rishi Sunak by 81,326 votes to 60,399 votes to become Britain's new prime minister.

Truss was widely anticipated to win the contest, and both stock and currency markets were unmoved by the result. In a clear sign that 'Laffer curve' economics will return as an influential cornerstone of UK economic policy, Truss has vowed to implement tax cuts. (The Laffer curve, named after a noted US economist, works on the assumption that cutting taxes can result in increased total tax revenue).

Truss's desire for lower taxes, a smaller state, and reduced levels of regulation chime with her recent remarks that 'to look at everything through the lens of redistribution I believe is wrong'. It will also influence her widely anticipated plan to deal with the current energy crisis. Truss has promised to deliver an energy crisis plan within one week of being elected prime minister.

It is expected that this will involve freezing energy bills rather than making direct cash payments to consumers and contrasts with the approach taken by Germany.

BACK TO THE FUTURE

When Margaret Thatcher became prime minister in May 1979, she pledged a new direction for economic policy.

Her goal was to reverse Britain's long-term difficulties of slow economic growth, low productivity and high inflation. Thatcher advocated for lower taxes and for less government intervention in the economy to encourage more output and investment.

Truss, a Thatcher acolyte, believes that a return to the free market economic policies of the 1980s

Imageplotter / Alamy Stock Photo

will help foster wealth creation and economic growth. This is reflected in her repeated references to the academic work of professor Patrick Minford in an attempt to garner intellectual validation and support for her tax cutting policies.

Minford is a Cardiff Business School economist and a former key aide to Thatcher and has proclaimed that Liz Truss's tax plan is the 'only way to rescue the economy'. Minford believes widespread tax cuts mixed with the right approach to spending can help revive the ailing economy.

THE ENERGY CRISIS

The most pressing issue facing the new prime minister is the energy crisis. Energy bills have been soaring and the cap on prices is scheduled to increase again on 1 October. This means that a typical household in the UK will be paying £3,549 a year on gas and electricity.

The situation has become even more febrile following Russian state operator Gazprom's recent decision to extend the shutdown of gas flows through its critical Nord Stream 1 pipeline.

Nord Stream 1 is the single biggest pipeline for gas from Russia to Europe. Shutting it off will fuel concerns that Europe, and Germany in particular, will be forced to significantly reduce power usage for households and businesses this year. Truss is scheduled to articulate her plans for dealing with the energy crisis today (8 September).

Both households and firms will be hoping for some form of respite from the relentless rise in energy costs. Based on the current trajectory of expected energy prices, a large number of businesses fear that they will go bust. Households are also under significant financial strain and many are unable to afford the huge increase in energy costs.

It is widely believed that Truss favours freezing or at least significantly lowering energy prices this winter and beyond and consumer-facing stocks have reacted with some relief to briefings on the plan as the table shows, with hopes it will help improve extremely weak consumer sentiment.

Consumer stocks rally on Truss victory and reports of energy plan

*Between close on 2 September and midday on 6 September

Company	Performance (%)*
Mitchells & Butlers	9.3
Wetherspoon (JD)	8.2
Domino's Pizza	7.7
Dunelm	7.3
Greggs	6.8
Marks & Spencer	6.8
JD Sports Fashion	6.7
Moonpig	6.7
Kingfisher	6.3
Ocado	5.8
Next	5.8

Table: Shares magazine • Source: SharePad

HOW WILL IT BE PAID FOR

One idea being mooted is the creation of a Government-backed superfund from which energy companies would borrow to finance a price freeze. In essence the Government would guarantee loans to energy companies.

It is also expected that support will be extended to smaller companies given that an energy price cap does not protect them and they could potentially face financially crippling rises. It has been suggested that larger businesses could be offered bespoke tax breaks.

The energy sector may breathe a sigh of relief that there has, as yet, been no mention of further windfall taxes to help pay for the response to the energy crisis. During the campaign for the leadership Truss explicitly ruled out any new levy on the sector to supplement the one introduced by then chancellor Rishi Sunak earlier in 2022.

However, paying for the energy crisis plan and funding tax cuts will be problematic given the UK's already high levels of borrowing and the increasing costs of servicing this debt. Truss and her new cabinet are also likely face pressure to reiterate their commitment to the independence of the Bank of England, after hints at diluting its control of monetary policy, to avoid spooking the markets. [MGar]

ASOS shares slump as a briefing bombshell spooks the market

The online fashion retailer extended its 2022 losses following report of selective disclosure to analysts

Online fashion retailer **ASOS' (ASC)** problems continue to pile up with the shares sliding on a damaging *Sunday Times* piece which left the equity down 73% year-to-date at a threadbare-looking 646.5p.

The article relayed that the troubled retailer has privately briefed City analysts that pre-tax profits for the year to August 2022 will be at the lower end of the already-downgraded £20 million to £60 million range.

Exposed to mid-market brands and a 20-something demographic being hammered by the cost-of-living crisis, ASOS also reportedly told analysts that sales growth in the new financial year is likely to be below consensus at 9.8%.

'While it is customary to entertain pre-close chats', said Shore Capital, 'and the company stated that no non-public information was shared, we are concerned about the potential of selective disclosure.'

The broker added: 'Whilst market expectations in aggregate have not necessarily been adjusted, we would be very worried about the basis for an orderly market in the group's shares as discussions and research notes around forecasts were evident from deliberately selective conversations with analysts.' [JC]

UK investors pull a record £1.93 billion out of stock-based funds

Investment exodus widespread as North America and Asia-Pacific categories see biggest ever monthly exits

August saw UK-based investors desert equity funds in the biggest monthly sell-off on record, according to the latest Fund Flow Index from Calastone, the largest global funds network.

The record net £1.93 billion outflow easily beat the previous records set in June and July 2016, when the Brexit vote prompted a net outflow of £1.54 billion and £1.56 billion respectively. The Calastone data shows that August's equity fund sales were driven by a significant increase in selling activity rather than a drop-off in buy orders, indicating a decisive choice to exit holdings.

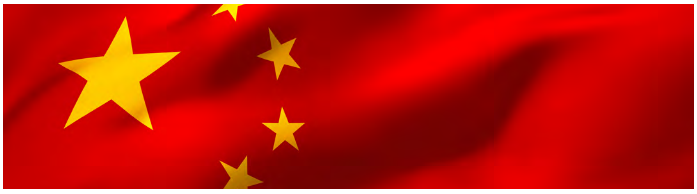
UK focused equity funds bore the brunt of the exits, shedding £759 million, the fifth worst month on record, said Calastone. It's worth noting that the worst four monthly periods all came in 2022. UK investors have now pulled cash from domestically focused funds for a record 15 consecutive months.

Yet the exodus was widespread and not just focused on UK funds, with every geographical category of equity funds seeing outflows in August, the Calastone report shows. North American and Asia-Pacific both saw record drawdowns, at £426 million and £234 million respectively, with the latter linked to rising concerns over the Chinese economy and its effects on the rest of the region.

European-focused vehicles had their sixth worst month on record with a £419 million outflow, while even emerging markets funds, which have benefited strongly from inflows in 2022 thanks to large weightings to booming oil companies, saw outflows. [SF]

Why China-focused Welkin offers investors something new with $300 million float

Trust will target unquoted Chinese companies with long-run growth potential



China-focused **Welkin China Private Equity** plans to launch an initial public offering (IPO) on the **London Stock Exchange's (LSEG)** main market and is targeting a fundraise of up to $300 million.

It will be the first London-listed investment company focused on Chinese private equity and will target an annualised net asset value (NAV) total return of 'at least 15%' over the long term.

The trust will be managed by Welkin Capital Management (Asia), a growth investment outfit co-founded by financier Johnny Kong, and will offer risk-tolerant investors exposure to unquoted Chinese companies with long-term growth potential.

This asset class has traditionally been difficult for individual investors to access and Welkin believes this is an opportune time to launch given a 'valuation reset' in Chinese companies. The fund claims a 'well-advanced pipeline of potential opportunities of up to $500 million' in a Chinese private equity market estimated to be worth at least $1.8 trillion.

Chair Ivan Chu, the former CEO of Cathay Pacific, insisted the Welkin team has 'deep local market expertise, a strong track-record, on-the-ground presence, and a good understanding of the Chinese business and policy environment. [JC]

Vistry fires starting gun on housebuilder M&A with £1.2 billion bid for Countryside

Acquisition is well received by the market

With the deal to buy **Countryside Partnerships (CSP)**, Kent-based housebuilder **Vistry (VTY)** sent a clear signal to the market that not only was it confident in its own prospects but the opportunity to consolidate within the industry was too good to miss.

The £1.25 billion price tag for Countryside represented less than a 10% premium to the undisturbed share price and a considerable discount to a previous bid by private equity firm Inclusive Capital pitched at almost £1.5 billion and rejected in June.

It hasn't been plain sailing for Countryside shareholders this year.

In April, the firm released its operational review which identified a number of areas it needed to fix, alongside significant provisions for fire safety work, sending the shares to multi-year lows.

To its credit, management took ownership of the issues and laid out a plan to solve them making the performance of the business more consistent.

Vistry chief executive Greg Fitzgerald said combining the two companies was 'highly compelling' from a strategic viewpoint, creating a leader in partnership housing and leveraging the skills and market knowledge of both teams.

As well as adding Countryside's timber frame business, which will bring 'significant benefits' to Vistry, cost savings of over £50 million are expected within a couple of years. [IC]

AJOT
AVI Japan Opportunity Trust

Finding Compelling Opportunities in Japan

Asset Value Investors (AVI) has been finding compelling opportunities in Japan for over two decades. In 2018, AVI launched the c. £159m* AVI Japan Opportunity Trust (AJOT). Key to the strategy is to build relationships with company management actively working together to improve shareholder value. The depth of the investment team allows for ample resources to undertake deep and targeted engagements in a concentrated portfolio of 20-25 stocks.

Discovering overlooked and under researched investment opportunities requires a long-term approach. A five-year time horizon aligns the investment strategy with the interests of the management of the companies which enables us to unlock long-term value.

The companies we invest in have cash on their balance sheets and sound business models with either stable earnings or structural growth trends to ensure the corporate value is growing year-on-year. They include a variety of sectors, with strong exposure to the domestic Japanese economy.

AVI will propose shareholder resolutions when required but aims to find mutually beneficial solutions behind closed doors with the company management team. The strategy's first three years bears witness to the success of this approach with a strong NAV total return. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies – for the benefit of all.

With the energy market staying hot, buy Hunting for strong earnings momentum

The business is seeing a big recovery in demand and is in a robust financial position

After a big stumble for the shares earlier in 2022 now is an opportune time to snap up oil services business **Hunting (HTG)** given an encouraging outlook driven by robust commodity prices and a push for energy security.

Hunting derives more than 70% of its revenue from providing equipment and services for use in drilling oil and gas wells. Its flagship product is its Titan perforating gun, a device used to penetrate wells in preparation for production.

The company's fortunes are heavily tied to the rig market in the US, where the latest figures from **Baker Hughes (BHI:NYSE)** show the country's rig count to have increased more than 50% in the past 12 months.

There is a good chance the company will see a strong earnings recovery into 2023 with countries looking to address the energy supply issues created by Russia's invasion of Ukraine. Notably, greater exports of US natural gas are likely to act as a driver for North American drilling.

Evidence of increased demand for Hunting can be found in a book to bill ratio (showing the ratio of orders received to units shipped) for the first half of 2022 of 160%, its highest level in several years.

In Asia Pacific the company recently secured an $86 million contract with Chinese state operator CNOOC for its OTCG products (tubes used in oil and gas production) – its largest award in this space for some time.

Chief executive Jim Johnson told *Shares* the company is seeing clear signs of increased spending on subsea operations after a long period when investment had been scaled back.

The shares do not look cheap at first glance, trading on 18.7 times Canaccord's forecast 2023 earnings per share. However, this ratio drops to 13.4-times for 2024, reflecting the strong growth trajectory.

HUNTING
BUY
(HTG) 283.5p

Market Cap: £471.6 million

HIGHER RISK STOCK

In the long term the company is looking to expand its technology and expertise into new markets to reduce its exposure to a cyclical and structurally challenged oil and gas sector. This process will be supported by a solid financial position with Hunting sitting on net cash of $86 million as of 30 June 2022.

As Canaccord analyst Harry Brooks observes: 'Hunting benefits from a robust net cash balance sheet and impressive progress in reducing its working capital levels over the past three years.' He also highlights the likelihood that earnings will go positive again in the second half of this year and stay that way for an extended period.

Finally, Brooks says Hunting's earnings will be led by recovering oil and gas prices and investment; and are insulated from weak end-consumer sentiment. [TS]

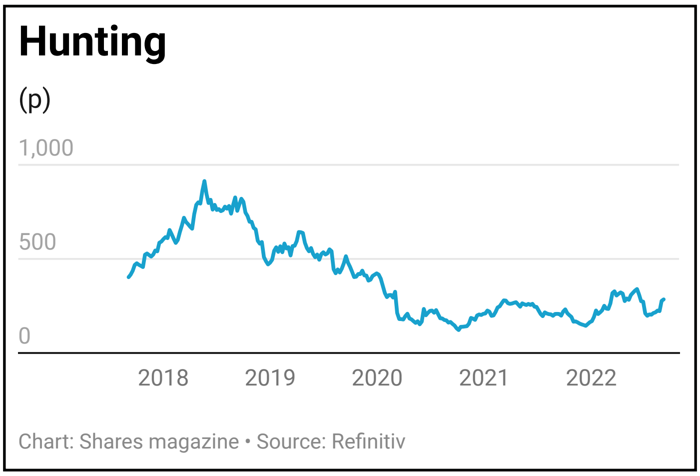


Chart: Shares magazine • Source: Refinitiv

Buy BBGI Global Infrastructure for its stable inflation-protected income and growth

This trust gets paid based on the availability of assets rather than usage

For investors looking for inflation protection, a decent yield and stable cash flows backed by long term contracts, global infrastructure specialist **BBGI Global Infrastructure (BBGI)** ticks all the right boxes.

Since listing in December 2011, the trust has delivered a CAGR (compound annualised growth rate) of 9.3% a year in net asset value while the shares have delivered a CAGR of 9.1% a year.

The trust has a track record of paying a progressive dividend which has increased by 3.1% a year on average since inception while the current yield is a decent 4.4%, based on a target 2022 dividend of 7.48p per share.

The trust's 9% premium to NAV (net asset value) it is at the low end of the range over the last 12 months which has averaged 21.6% according to data provider Morningstar.

One of the key attractions of the trust is the inflation protection it provides.

Co-chief executive Duncan Ball said: 'Our inflation protection isn't perfect at 0.43% for every 1% increase in inflation but it is high quality given it is underpinned by annually updated contractual indexation in our project agreements.'

LOW RISK CONTRACTS

There is an estimated £5 trillion of investment required every year to 2030 to develop and support the world's infrastructure needs according to an OECD (organisation for economic co-operation and development) report.

Central and local governments do not always have the necessary access to capital and technical knowhow to fulfil the demand, so they work through a public-private partnership model.

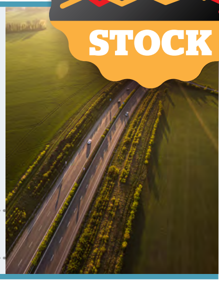
BBGI provides capital for which it is granted exclusive ownership rights to develop and operate an infrastructure project for a set period, known as a concession.

BBGI GLOBAL INFRASTRUCTURE

BUY

(BBGI) 169.8p

Market Cap: £1.2 billion



Once the infrastructure is available for use and meets certain pre-agreed conditions, BBGI receives 'availability payments' from the government or government-backed parties.

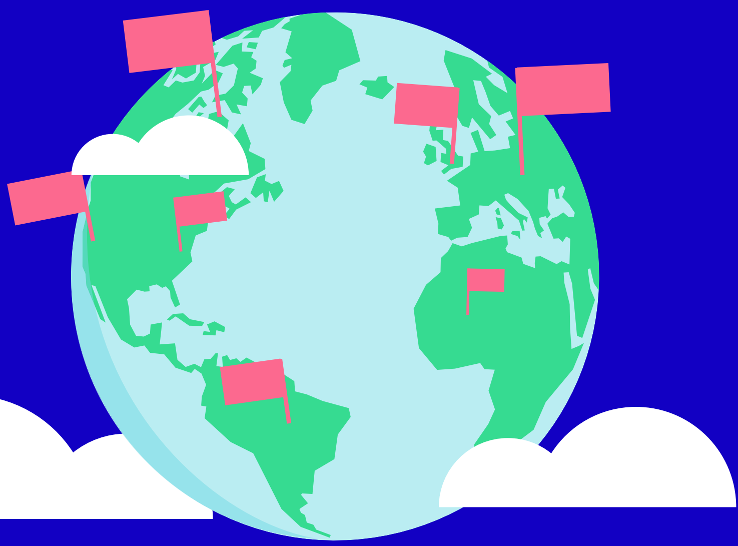
This means the credit risk is low while payments are not reliant on usage. BBGI operates across projects including schools, transportation, healthcare, affordable housing, and justice facilities.

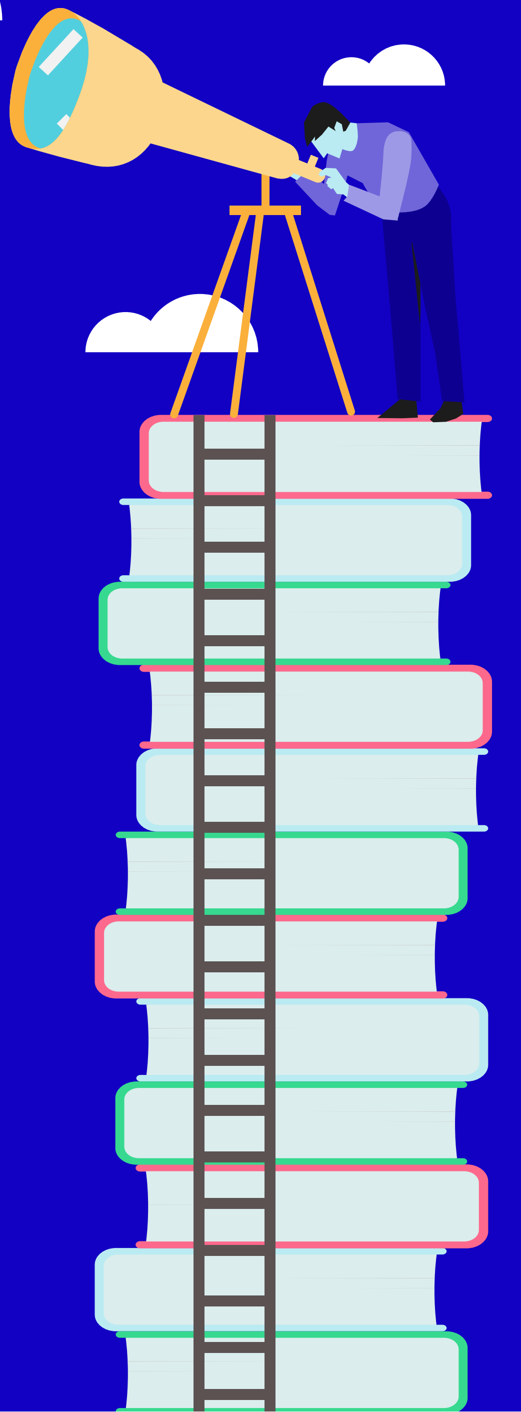
The portfolio is well diversified and is currently comprised of 55 availability-based investments of which 99.5% are operational. The weighted average life of the portfolio is 20.8 years, up from 20.3 years in December 2021.

The portfolio is internally managed which means the focus is entirely on this portfolio and the managers avoid pursuing growth for its own sake. The trust has an ongoing charge of 0.87% a year, one of the lowest in the sector. [MGam]

BBGI Global Infrastructure

Chart: Shares magazine • Source: Refinitiv





Why we think putting customers first will pay off for Jet2

Holidays firm has faced huge disruption and will come out the other side a market share winner

JET2

(JET2:AIM) 883.2p

Loss to date: 7.7%

We always knew **Jet2 (JET2:AIM)** faced some hefty challenges this year, and we got that spot on. The demand surge we predicted if Europe avoided the possibility of an extended Covid recovery hangover has also come good.

So strong has the rebound been for low-cost holidays in the sun that already jammed supply chains have stayed congested.

Throw in soaring jet fuel prices from an energy crisis in the wake of Russia's invasion of Ukraine, and that UK airports would struggle to get staff thanks to incredibly poor planning has complicated matters further.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

These are problems that have largely been out of Jet2's control. Where it has had influence is in how it has dealt with these issues. Where rivals chose to cut flights this summer, many at the last minute, Jet2 has not. Where others have axed holidays altogether, Jet2 committed to not failing its customers and bearing additional costs itself.

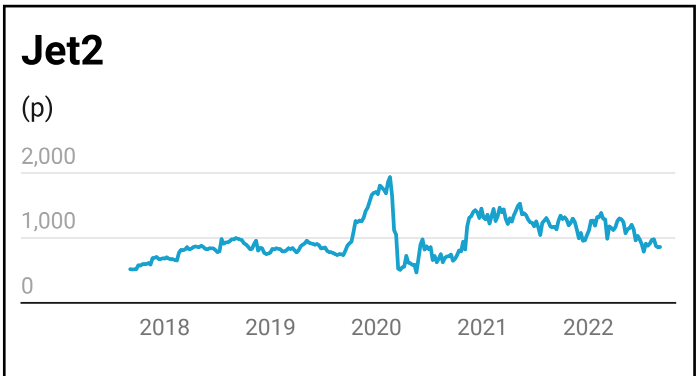


Chart: Shares magazine • Source: Refinitiv

While investors have seen the share price drift lower in recent months as these factors impact financial performance and profit guidance, the pay-off longer term is in cementing its already best-in-class reputation for service. Analysts at Canaccord Genuity already estimate that Jet2 overtook **TUI (TUI)** as UK number one.

WHAT SHOULD INVESTORS DO NEXT?

We expect this to mean an even larger army of holidaymakers picking Jet2 in the future. With seat capacity expansion slowing into the winter season, Jet2's pricing should remain firm, notwithstanding the current cost of living pressures on consumers.

The worst of industry disruption seems to be over and as risks lessen so the threat to existing forecasts reduces. Canaccord's remains confident in its pre-tax profit forecast of £293.5 million this year to 31 March 2023. This implies a price to earnings of about eight, illustrating the scale of negatives already being priced in.

A bit of positive news in the coming months, particularly around summer 2023 bookings could, we suspect, trigger a significant re-rating of the shares and we urge investors to stick with this recovery story. [SF]

Investors should add to Taylor Maritime before the shares sail higher

A supportive market and a transformative deal make this stock a keeper

TAYLOR MARITIME
(TMI) $1.39

Gain to date: 7.6%

We recommended buying **Taylor Maritime (TMI)** last October at a price of $1.31 following its highly successful IPO (initial public offering) in June 2021.

Our thesis was that with the seaborn freight market booming as the global economy got back on its feet, volumes and charter prices would continue rising along with the share price.

WHAT HAPPENED SINCE WE SAID TO BUY?

The shares have continued their strong performance, along with the underlying business. They hit a high-water mark of $1.50 in early May and then dropped to $1.20 in late June as world markets slumped before recovering to $1.50 again at the beginning of August.

The outbreak of war in Ukraine had little direct impact on the company as it had hardly any exposure to the country or to Russia, but it has had a big indirect effect as Handysize (a naval architecture term for smaller freight vessels and oil tankers) shipping rates soared by nearly 50% in the first quarter.

Chart: Shares magazine • Source: Refinitiv

Also, due to a shortage of new ship building capacity, prices for second-hand vessels went through the roof enabling the firm to sell off several of its original 'seed assets' at a significant profit, generating an IRR (internal rate of return) of more than 100%.

At the same time, the firm has taken major steps to transform itself buying a significant minority stake in **Grindrod Shipping (GRIN:NASDAQ)** for $77.9 million.

Grindrod owns a fleet of 25 modern, geared dry bulk vessels (with on-board cranes to unload their cargo) which is highly complementary to Taylor Maritime's own portfolio, so much so that the Guernsey-based group has now decided to bid for the whole company, a deal which we estimate will cost it around $365 million.

WHAT INVESTORS SHOULD DO NEXT?

With the global Handysize fleet expected to *contract* in size over the next couple of years, the value of the company's fleet will only continue to rise along with charter rates, especially after the Grindrod deal.

Buying Taylor Maritime each time the shares pull back has been a winning strategy in the past and we suggest investors free up some cash elsewhere in their portfolio to top up again at current levels. [IC]

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Bond and currency markets will be first test for new UK prime minister Liz Truss

The actions of the Conservative Party leader will be closely watched by investors

The stock market may well have its say on Liz Truss' first new policy initiatives as prime minister, but the response of the government bond – or gilt – market and the pound may be more telling, at least in the very short term.

Financial markets express their faith – or lack of it – in a country and its economic and political prospects through how much they charge it to borrow and how they value its currency. In each case traders and investors seem to be already turning away, presumably because they do not like what they see.

If the new prime minister can put an end to the sell-off in both the UK government bond market and sterling that would be a major coup, although the odds seem to be stacked against Truss, as she must immediately juggle inflation at a 40-year high, the threat of a recession, an energy crisis, war in Ukraine, the weak pound, rising interest rates and the Government's own state of penury.

Sterling is trading at multi-decade lows against the dollar...

Chart: Shares magazine • Source: Refinitiv

STERLING SLIDE

Sterling continues to lose ground against the dollar, and it is trading below $1.1500 for the first time since 1985. Technical analysts – or chartists – may be tempted to argue that if $1.1500 really gives way then a drop to $1.0500 is on the cards, the low seen in spring 1985.

That was the year when the G5, as they were then, struck the Plaza Accord to rein in a rampant dollar and right now the dollar is strong across the board once more. As such, you can try to argue that the dollar is not a fair benchmark for sterling, except the pound is stumbling against the energy-crisis-hit euro, too.

At €1.1573, the pound is back to where it was against the single currency in summer 2021, despite the EU's own deep energy and economic woes.

A weak pound can help exports, but it also increases import costs and that is not ideal at a time when inflation is already galloping higher.

BOND MARKET BLITZ

Sterling may be sliding but Government borrowing costs are soaring. This suggests the bond market does not think too much of what it sees in the UK, either – although the Bank of England's interest rate rises in its belated battle to rein inflation back in has a big role to play here, too.

While still low by historic standards, the yield

RUSS MOULD
AJ Bell Investment Director

on the benchmark UK government bond, or gilt, is a full percentage point higher than a year ago. At 2.92%, the 10-year gilt yield is within touching distance of 3.00% for the first time since early 2014.

This is in recognition of the surge in inflation, and the Bank of England's shift to raising interest rates and toward quantitative tightening. That adds to the Government's interest bill on its £2.4 trillion debt and potentially limits scope for spending or tax cuts.

Ten-year gilt yields are rising

Chart: Shares magazine • Source: Refinitiv

Worse still, the yield curve is now inverted. Normally, the yield on the 10-year gilt is higher than that of the two-year paper, as bondholders demand a higher return to compensate themselves for the greater risk represented by the longer holding period. That additional time means there is more scope for things going wrong.

From a bond investor's point of view that usually means inflation, interest rate increases or – in a worst case – default where the borrower is unable to pay the coupons or return the original investment in full once the bond matures.

In August, however, the yield on the two-year gilt moved up faster than that of the 10-year, with the result that the shorter-term paper offers a higher yield.

This is usually a sign that the bond market is pricing in a recession, as it anticipates future interest rate cuts, and thus a drop in borrowing costs.

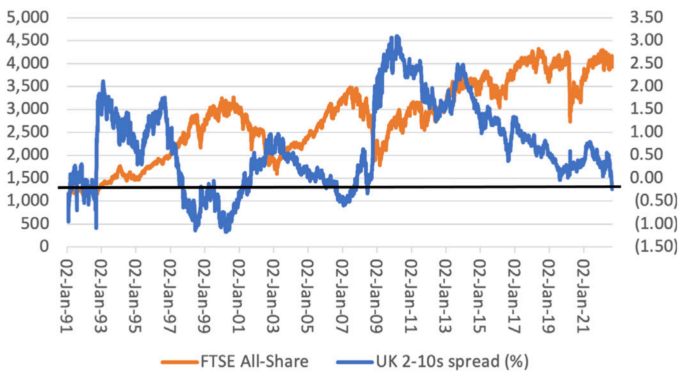
It is by no means a flawless indicator, but the UK yield curve inverted ahead of the 1991-92 downturn and the deeper 2007-09 recession. While the inversions of 1998 and 2000 proved false signals, they did reflect concerns over the potential for the stock market's bust in technology, media and telecoms stocks to spill into, and weigh on, the real economy.

CURVE CALAMITY

Stock market investors, as well as bondholders and currency traders, will be watching the yield curve very closely. It does not invert often, at least if the last 30 years are any guide, but it can be a warning of trouble ahead for holders of UK equities.

The FTSE All-Share dipped briefly into a bear market in 1989-90, wobbled in 1998 thanks to the Asian and Russian debt crises, plunged in 2000-2003 as the tech bubble burst, collapsed in 2007-09 as the Great Financial Crisis struck. On each occasion the yield curve had inverted, although the indicator did briefly give a false signal in August 2019.

The inverted yield curve must be watched closely



Source: Refinitiv data

Truss may find herself potentially trapped between inflation on one side and recession on the other. If the financial markets like what they hear then gilt yields might be held in check, the yield curve steepens and the pound rallies. If not, then the yield curve continues to invert, and sterling may keep sliding.


SIPPs | ISAs | Funds | Shares
AJBell
Youinvest
RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
youinvest.co.uk
Recommended Provider Which? Investment Platforms May 2020
Recommended Provider Which? Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

DOLLAR DELIGHT

The UK companies which benefit from a strong US currency

By **Martin Gamble** and **Tom Sieber**

The US dollar is trading at 20-year highs against a basket of major currencies. It has benefited from the twin tailwinds of big interest rate hikes from the US Federal Reserves and recession fears.

Sterling is close to all-time lows against the dollar

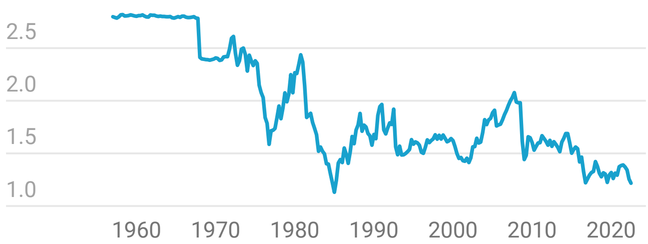


Chart: Shares magazine • Source: Refinitiv

When rates are rising faster in the US than in other parts of the world, the higher returns on offer attract more money into the US currency. In addition, the dollar is considered a safe haven currency and gets a boost when investors become nervous on the wider outlook.

Concerns about the UK economy mean sterling is particularly weak against the dollar, close to record lows, with consultancy Capital Economics predicting it could flirt with parity to its US counterpart next year.

Currencies are notoriously volatile and unpredictable and therefore it would be unwise to base investment decisions entirely on views over the direction of currencies. That said, a case can be made for tweaking exposure towards dollars within a well-diversified portfolio to exploit the potential for continued dollar strength.

Later in the article *Shares* highlights UK stocks which could benefit from continued dollar strength. There is also a case for increasing exposure to the dollar through a higher exposure to US stocks.

After all, the strength of the world's largest economy means it is one of the few regions offering the potential for earnings growth.

One caveat here is that the strong dollar has been impacting earnings of some of the largest US companies which generate a big proportion of their earnings outside the US.

Dollar strength wiped billions off second quarter earnings from bellwether names such as **IBM (IBM:NASDAQ)** and **Philip Morris International (PM:NYSE)** prompting them to cut guidance. Therefore, domestically focused companies are better placed to take advantage of the strength of the economy and the currency.

What a strong dollar means for buying US shares

One downside of the current strength in the dollar is that it makes it more expensive for UK investors to buy US shares as your pounds will buy less shares of dollar-denominated US stocks at current exchange rates.

TRANSLATIONAL EFFECTS

While foreign exchange movements are unpredictable, they do have real world effects on investors' portfolios and companies' profits.

Consider Alice who has a US portfolio worth $1,000 in sterling terms. A year ago, it would have been worth around £740. Excluding share price movements, the same portfolio today would translate into £862 pounds, roughly 16% higher. Alice also owns a FTSE 100 ETF (exchanged traded fund) which benefits from sterling weakness against the dollar.

The FTSE 100 is not representative of the UK economy, because the larger companies in the index are global enterprises which have relatively small exposure to the domestic market. Schroder Investment Management estimates that around 71% of the combined earnings of the index are generated overseas.

This means the performance of the FTSE 100 is very sensitive to the value of the pound. The index benefits when the currency is weak and vice versa. In the weak pound scenario, every $1 of overseas earnings is worth more when translated back into pounds. It is not all good news though.

Companies which need to buy raw materials from abroad end up paying more which can impact margins. So far, the discussion has focused on UK companies which report in sterling. There is a small translation effect even when companies report in US dollars. For example, plumbing and heating products distributor **Ferguson (FERG)** reports in dollars and declares dollar dividends.

However, UK shareholders can elect to receive their dividend in pounds which means the company translates the US payout at the appropriate exchange rate. A higher dollar buys more pounds and increases the value of the sterling dividend. In December 2021 Ferguson paid a dividend of 166.5 cents per share.

The exchange rate for shareholders who elected to receive their dividends in sterling was announced in November, when it stood at $1.3451 and this resulted in a payment of 123.78p. At current exchange rates the same dividend would be worth 144.05p or more than 15% more.

TRANSACTIONAL EFFECTS

The last foreign exchange effect to consider is related to a potential mismatch between a company's revenues and costs.

A good example is polymers manufacturer **Victrex (VCT)** which exports the vast majority of

Sterling weakness has helped the FTSE 100 over the last decade

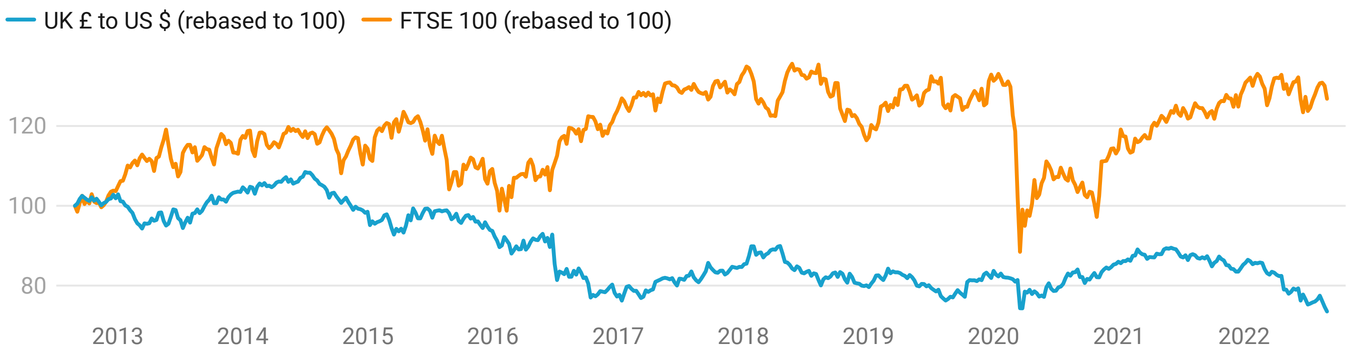


Chart: Shares magazine • Source: Refinitiv

products. While the company does not disclose the proportion of its total costs incurred in the UK, it does say it is exposed to currency risks.

In the annual report the company provides a sensitivity table outlining the effect of a change in the pound/dollar on its profits.

A 5% change in the pound/dollar exchange rate is estimated to affect profit by £5.1 million which is around 6% of earnings. This means a 15% increase in the dollar versus sterling could potentially increase profit by around 18% (or reduce profit if the pound is strong).

Before getting too carried away, it is important to consider the mitigating actions a company like Victrex may take to reduce its currency exposures.

Victrex actively hedges between 75% and 100% of its expected sales one year forward. This reduces the maximum negative impact in a strong pound scenario.

Without the hedge a strong pound would reduce the value of overseas revenues and impact profitability.

It can be tricky to work out transactional benefits as firms often don't break down their cost base by geography and lots of companies will have their costs spread across multiple territories. If the US is the dominant market then production facilities and sales teams will often be based in the US too.

Defence contractor **Ultra Electronics (ULE)**, currently in the process of being taken over by one time UK-listed rival and now private equity owned Cobham, is an exception with more than 60% of its revenue derived from North America but more than 50% of its assets located elsewhere.

Spirits maker **Diageo (DGE)** derives nearly 30% of its sales from the US but has only 10% of its staff in the country.

THE BIG DOLLAR EARNERS

Several UK stocks have significant US revenue as the table shows.

Selected UK companies with significant US revenue

Company	US revenue as proportion of group total (last reported 12-month period)
Craneware	100.0%
4imprint*	98.3%
Ferguson	94.2%
Ashtead	81.3%
Somero Enterprises	79.9%
Pearson	63.7%
Ultra Electronics	63.0%
Carnival*	55.9%
CRH	55.5%
GSK	44.0%
BAE Systems	43.0%

**North America*

Table: Shares magazine • Source: Most recent annual reports, Shares magazine

As discussed a number of these business announce their results in dollars so there is no direct translational impact from a stronger dollar.

However, it is worth remembering that these businesses' share prices are in sterling. So when the dollar earnings are converted to compare for valuation purposes, they will carry more weight.

For example, at an exchange rate of $1.30 Ferguson's consensus forecast 2022 earnings of $9.36 would be worth 720p, implying a PE or price to earnings ratio of 13.6 times. But at the current rate those earnings are worth 810p and the PE is a more attractive 12.2 times.

Ferguson and the likes of tool hire business **Ashtead (AHT)**, building materials firm **CRH (CRH)** are plugged into the US construction and infrastructure markets, all three report in dollars.

Promotional products firm **4imprint (FOUR)**, which also reports in dollars, has been a

The commodities conundrum

Most commodities are bought and sold in dollars and therefore resources firms declare their earnings and dividends in dollars too. Typically a strong dollar is bad news for commodities demand because it makes metals and energy more expensive for buyers outside the US. However, the major supply issues in 2022 associated with the war in Ukraine have seen these markets have remained relatively strong despite the rising US currency.

surprise winner this year despite the gloomy economic backdrop.

Though it is a leader in its field, the space it operates in is so fragmented that it is still able to grow even if the overall market is shrinking.

Another dollar reporter is healthcare software firm **Craneware (CRW:AIM)** which does pretty much all of its business in the states with hospital operators.

Defence firms like Ultra mentioned above and **BAE Systems (BA.)** are heavily plugged into US defence spending with the US Department of Defense having one of the largest global military budgets.

Our US dollar plays

Compass (CPG) £18.25

Proportion of revenue from US (2021): 62.2%

Reporting in sterling, catering giant **Compass (CPG)** should benefit from a translational effect given 62.2% of its revenue was derived from the US in 2021.

The shares aren't cheap at 22.4 times consensus forecast 2023 earnings but we think this is justified by the company's attributes.

It is a rare example of a business delivering growth and upgrades in 2022 as demand has returned in the wake of the pandemic.

Though not immune to inflationary pressures, Compass' scale gives its considerable bargaining power with suppliers and the scope for growth is considerable when you consider it has just 10% share of the global food services market.

The current environment will ramp up the pressure on smaller regional providers and incentivise companies and organisations focused on in-house catering to outsource to Compass.

This is also a decent total returns story. At the half-year stage it committed to pay out 50% of underlying earnings in dividends and to return any excess capital through buybacks and special dividends.

Pearson (PSON) 889.4p

Proportion of revenue from US (2021): 63.7%

More than 60% of academic publishing play **Pearson's (PSON)** sales came from the US in 2021 and it reports its results in sterling. The company has endured a bumpy ride as it has transitioned away from big expensive academic textbooks to a business focused on digital learning.

However, its latest results for the six months to 30 June suggested it had made significant progress on this front. Revenue in the first half of 2022 increased 12% to £1.79 billion from £1.6 billion a year before. Pre-tax profit jumped to £179 million from just £4 million and the company announced it had identified a further £100 million worth of costs it could take out of the business.

The shares trade on 16.6 times 2023 consensus forecast earnings.

Shore Capital says: 'First-half results detailed a pleasing performance, strengthening our conviction that a long and sometimes painful digital transition has left it well-placed to benefit from positive trends in global learning spend.

'There was also particularly pleasing and unexpected news on efficiency benefits, which should help it to unlock this potential and has positive implications for margins. We forecast attractive earnings growth and strong cash generation.'

A handful of stocks are setting new highs despite turbulent markets

We look at some of the stocks giving investors cause to celebrate

As investors debate whether the next move in markets is up or down, it's worth noting that there are a group of stocks which are quietly making new 52-week and multi-year highs and even a few making new all-time highs.

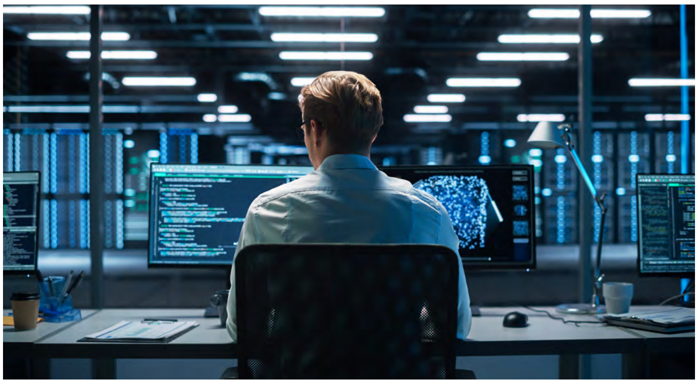
While some are involved in special situations, such as bid talks, and some are related to the unprecedented surge in energy prices, the most interesting from our point of view are those which are making highs purely due to the performance of their business.

BIDS ARE BACK

After a quiet start to the year, there has been a marked upswing in M&A (merger and acquisition) activity in the UK especially among companies in the mid-market.

Leaving aside FTSE 100 cyber security specialist **Avast (AVST)**, most of the recent bid targets – global information provider **Euromoney (ERM)**, home emergency and repair firm **Homeserve (HSV)**, healthcare facilities owner **Mediclinic (MDC)**, infrastructure software company **Micro Focus (MCRO)** and business service group **RPS (RPS)** – have come from the FTSE 250 index.

Another feature they have in common is – and this time we can include Avast – the buyers are all foreign entities, most of them privately-owned.



Avast is being acquired by US rival NortonLifeLock, Euromoney is being bought by a consortium led by a Luxembourg-based private equity firm and Mediclinic has been snapped up by a South African holding company together with a Swiss/Italian container company, while Homeserve, Micro Focus and RPS are all going to Canadian buyers.

While the low valuation of UK stocks is undoubtedly one factor, the weakness of the pound against the US dollar in particular is likely another.

ENERGY TAILWIND

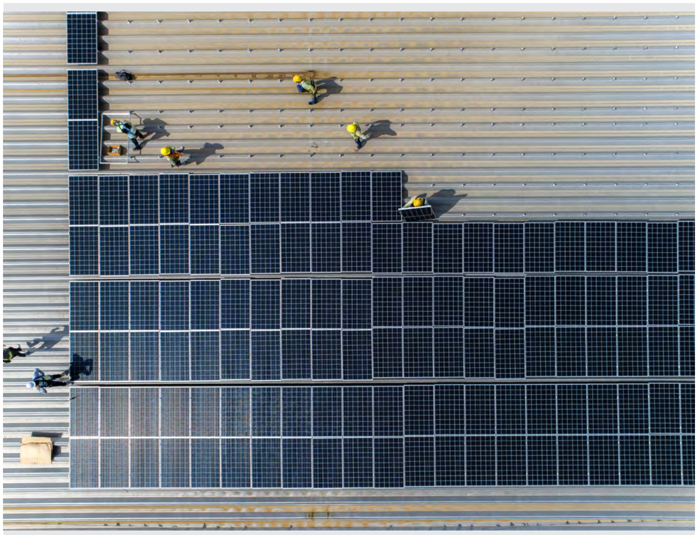
Another group of stocks making new highs are those riding the wave of higher gas and electricity prices, with both 'old economy' and 'new economy' companies making hay while the sun shines.

Front and centre of the energy winners is the behemoth **BP (BP.)**, whose shares have been on an upward march since late 2020 and have just hit a two-year high.

Rival **Shell (SHEL)** also bottomed out in late 2020 – which on reflection was around the time the first anti-Covid vaccine was announced and the penny dropped the world wouldn't completely grind to a halt – and made its own two-year high in June.

Meanwhile, a clutch of smaller E&P (exploration and production) companies are also making new year- or multi-year highs including **Angus Energy (ANGS:AIM)**, **Indus Gas (IND:AIM)**, **Kistos (KIST:AIM)** and **Serica Energy (SQZ:AIM)**, which recently rebuffed a bid approach from newly-listed Kistos.

At the same time, 'new energy' stocks are also enjoying a strong run as electricity prices hit unheard-of levels, including **Bluefield Solar Income Fund (BSIF)** and **NextEnergy Solar Fund (NESF)**, which have performed so well since the start of the year they are about to be promoted from the FTSE Small-Cap Index to the FTSE 250 Index.



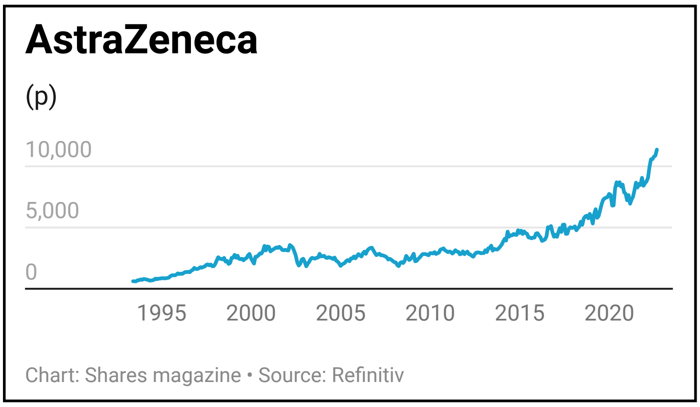
It's a similar story for **JLEN Environmental Assets (JLEN)**, **Gore Street Energy Storage (GSF)** and **Gresham House Energy Storage (GRID)**.

SPECIAL SAUCE

However, the most intriguing stocks are those which are making new highs purely on the strength of their underlying business without any help from foreign bidders or the squeeze in energy prices.

Whether it be a dominant market share, a must-have component or some other commercial advantage, these firms clearly all have a 'special sauce' which sets them apart from their competitors.

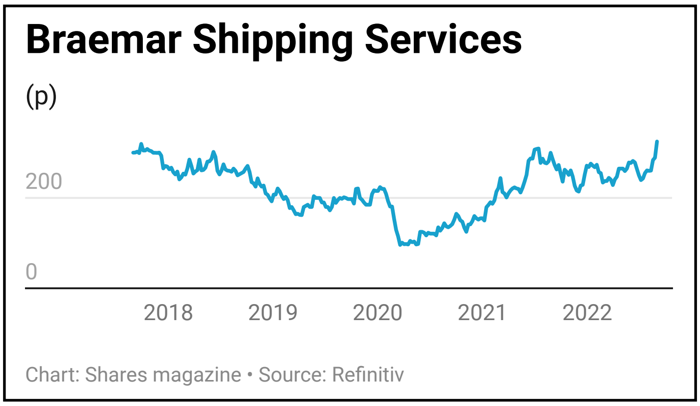
The largest is drug giant **AstraZeneca (AZN)**, which has had such a good year its shares recently hit an all-time high meaning it has replaced Shell as the largest company in the FTSE 100 index.



As we flagged in April, AstraZeneca has made a string of well-received announcements ranging from the approval of existing drugs for new treatments to positive results from clinical tests of its new drugs.

Also, as predicted several months ago, the good news has continued with the release of several more positive drug updates, first-half earnings which beat forecasts and an increase in full-year revenue expectations.

Among the smaller companies whose shares

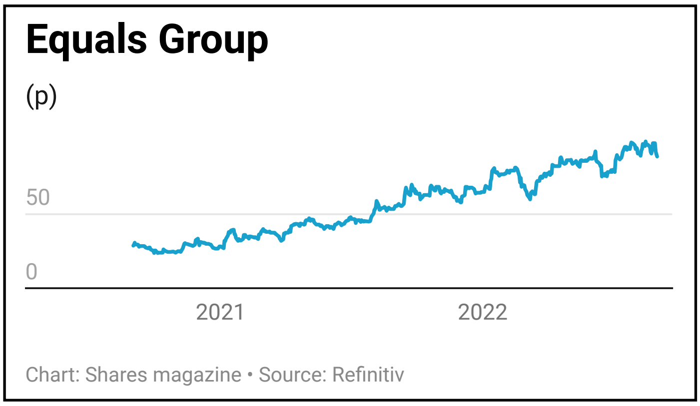


are hitting new highs, four stand out to us: **Braemar Shipping Services (BMS)**, **Equals Group (EQLS:AIM)**, **H&T (HAT:AIM)** and **Wilmington (WIL)**.

Braemar is riding the wave of higher shipping rates for everything from coal and gas to grain, as well as a tight market for second-hand ships, but its success is no accident.

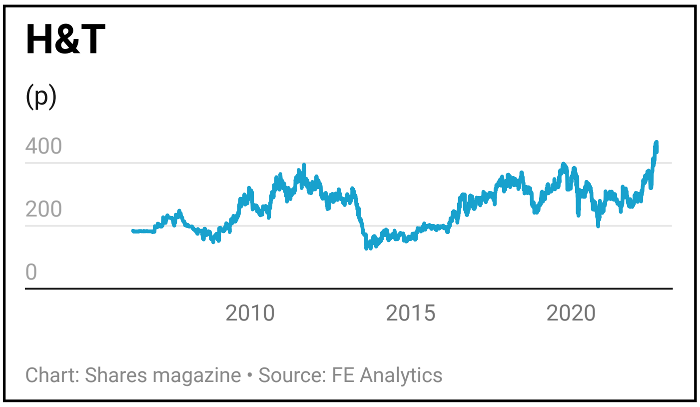
Since taking the helm in January, chief executive James Gundy has cut debt, disposed of non-core, low-margin businesses and invested in growth, exactly as promised.

Meanwhile, fintech payments group Equals Group has enjoyed stellar growth in revenues as more small and mid-sized companies sign up to its offering and has raised its guidance several times this year.



While it continues to hire key talent to grow, its asset-light model and revenue mix means gross profit margins are trending towards 50% which is extremely attractive.

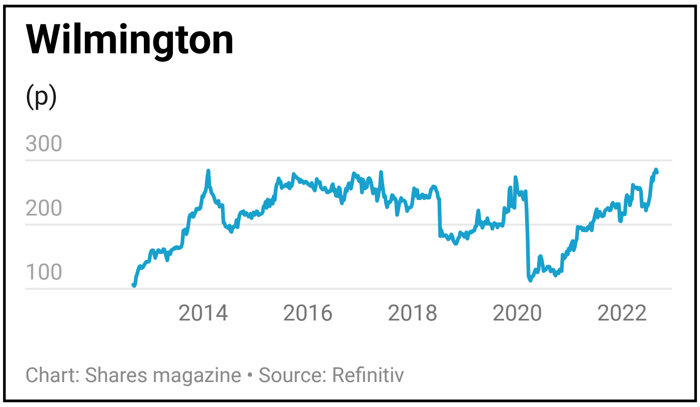
Jumping from cutting-edge fintech to one of the oldest trades in the world, H&T – which started more than a century ago with shops in Lambeth, Vauxhall and the Old Kent Road – is the UK's largest pawnbroker, and its services have never looked more in demand than they do at this moment.



With consumers hard-pressed to make ends meet, H&T's ability to offer small, short-term asset-backed finance has seen its pawnbroking revenue climb by nearly a quarter already this year.

Lastly, regulatory compliance solutions provider Wilmington has enjoyed a resurgence of face-to-face events and presentations since the start of the year, especially in the US.

On top of face-to-face events, demand for online training in governance, risk and compliance meant solid growth in organic revenues across the group in the 12 months ended in June.



By **Ian Conway** Companies Editor

CASTING THE NET WIDER

Growth stocks are becoming more diverse, meaning stock-pickers need to embrace the unfamiliar, says Spencer Adair, manager of The Monks Investment Trust

Please remember that the value of an investment can fall and you may not get back the amount invested.

Anyone who thinks growth investing consists of simply loading up on a few mega-cap tech giants will be shocked by some of the companies in Monks' portfolio.

A Swedish oat milk producer? An American specialist in surgically implanted contact lenses? A female-friendly dating app? These businesses don't fit the digits-and-data growth stereotype, but they too hold big profit potential, according to Monk's manager Spencer Adair.

"What we're trying to achieve is a portfolio of the best global growth ideas from every corner of the world," he says. "We want to identify them early, hold them for a long time and let compounding work its magic."

The key, he says, is recognising that a few big digital platforms no longer hold a monopoly on hyper-growth. The range of double-digit growth companies has broadened, and Adair has cast his net wider to capture as many of them as possible.

Monks has broadened its view of what drives expansion. Like many growth portfolios, its holdings used to reflect two megatrends. One was the power of tech giants to disrupt traditional media and retailing. The other was the potential for surging consumption in emerging markets to propel favoured brands to new heights.

The problem is that these trends are maturing. They're unlikely to repeat the eye-popping results of their earlier years. To find new sources of growth, Monks has veered away from internet titans towards "earlier-stage, less certain, much more disparate, much less correlated growth drivers".

Some are no surprise – the shift to electric cars, for instance. Others include attempts to combat dementia, improve education and speed the shift to a more plant-based diet.

Among the more than 60 stocks that Monks classifies as disruptors are STAAR Surgical, which seeks to replace laser eye surgery with implantable contact lenses, and Denali Therapeutics, which is working on Alzheimer's drugs. Online education pioneer Chegg, and plant-based milk producer Oatly and Elon Musk's SpaceX aerospace venture also appear, as does Bumble.com, a dating app.

Adair's strategy for Monks will be tested in the years and decades to come. In the meantime, any manager whose portfolio spans both oat milk and space rockets can speak with authority on how variety brings opportunity, and with it, more chances of success.

Discover the small cap market newcomers defying the doom and gloom

Minnows you might not have heard of are thriving in choppy market waters and tough economic conditions

A healthy number of lesser-known businesses have done very well in share price terms since coming to market in the last two years, with price appreciation reflecting strong operational performances or the fact they sate voracious investor appetite for a particular theme.

Readers will be familiar with high-profile post-pandemic newcomers on the **London Stock Exchange (LSGE)** trading above their issue prices, such as May 2021 debutant **Darktrace (DARK).**

Shares in the cybersecurity company have been volatile but are now more than double their 250p IPO issue price due to excitement over a possible private equity buyout, while late 2020 market newcomer and software reseller **Bytes Technology (BYIT)** trades 67% above its starting price.

However, many of the best performing IPOs may well have slipped under your radar, something this article is intended to address.

Sadly for the reputation of the LSE as a listing destination, other arrivals from 2020 and 2021 have proved disastrous, among them meals and groceries drop-off platform **Deliveroo (ROO)**, online bathroom products purveyor **Victorian Plumbing (VIC:AIM)** and make-up brand **Revolution Beauty (REVB:AIM)**.

Others have become members of the dreaded '90% club'; cash-strapped home furniture website **Made.com (MADE)**, posh maternity-to-nursing wear brand **Seraphine (BUMP)** and direct-to-consumer ready meals play **Parsley Box (MEAL:AIM)**.

RESOURCE PLAYS POWER HIGHER

Since the onset of the pandemic, spectacular gains has been delivered by penny shares such as **Wildcat Petroleum (WCAT)**, the upstream petroleum industry investment company that arrived on the Main Market in December 2020.

Working on opportunities in Africa, the company, advised by the 'shellmeister' Michael Edelson, is seeking to acquire projects or a business operating in the upstream sector of the petroleum industry and has identified opportunities to use Blockchain in its business.

Also flying high is oil and gas investor **Kistos (KIST:AIM)**, the late 2020 AIM float which has risen 460% against a backdrop of commodity price strength and hopes a potential merger with North Sea gas rival **Serica Energy (SQZ:AIM)** would come to fruition. Despite the industrial logic of a tie-up, Kistos' overtures were resisted by Serica, yet Kistos' board remains confident in the company's strategic direction and 'positioning as an independent North Sea gas champion and proactive consolidator in the sector'.

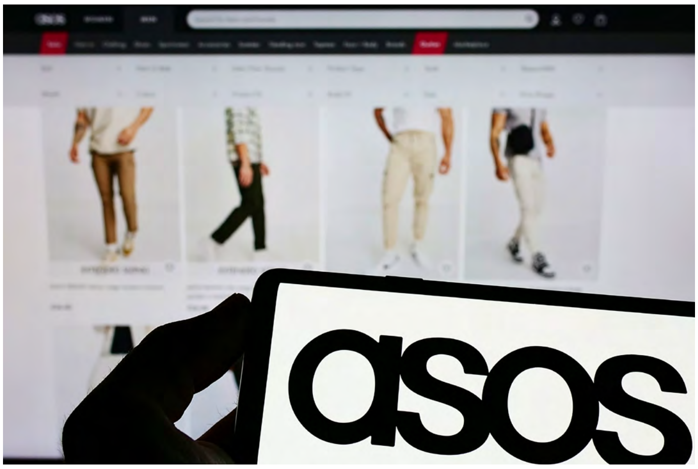
Other stellar share price performers include **Critical Metals (CRTM)**, the mining investment company established to target opportunities in the critical and strategic metals sector, bid up 275% to 18.75p, while **Bens Creek (BEN:AIM)** has surged 242.5% above its issue price to 34.25p. The company owns a metallurgical coal mine in North America supplying the steel industry and its rate of production continues to increase month on month.

ELIXIRR OF SUCCESS

Elsewhere, shares in **Elixirr International (ELIX:AIM)** are up the best part of 225% since the challenger management consultancy debuted on AIM in the summer of 2020 at 217p.

Growing fast, in particular across the pond, Elixirr's pre-tax profits increased by 109% to £12.2 million in 2021, on turnover up 67% to a record £50.6 million, as over 80 new clients were brought on board and the company maintained high levels of client retention.

Though the name will be unfamiliar to some readers, Elixirr has worked with heavyweight clients including **Tesla (TSLA:NASDAQ)**, **Bank of America (BAC:NYSE)**, **ASOS (ASC)** and Mars and is backed by respected fund manager Mark Slater.



Despite prevailing geopolitical uncertainties, the consulting firm's directors, including CEO Stephen Newton and former **BT (BT.A)** boss Gavin Patterson in the non-executive chair, expect further growth in revenue and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) during 2022.

Best performing IPOs since March 2020

Company	Change (%)
Wildcat Petroleum	650.0
Kistos	460.0
Critical Metals	275.0
Bens Creek	242.5
Calnex Solutions	225.0
Elixirr International	224.9
Red Capital	215.0
Helium One	172.9
Arrow Exploration	172.0
Cornish Metals	160.7
One Heritage	155.0
Beacon Rise	150.0
RC365	141.9
Acceler8 Ventures	125.0
Alkemy Capital Investments	125.0
Alteration Earth	114.3
Darktrace	114.3
FRP Advisory	108.1
Fonix Mobile	102.8
Mac Alpha	100.0
Belluscura	93.3
Bay Capital	87.5
Bytes Technology	67.1
Bradda Head	62.7
Roquefort Investments	62.5
Kaspi.kz	61.9
Northcoders	61.1
Auction Technology	56.2
Sivota	52.5
Codex Acquistions	50.0

Table: Shares magazine • Source: London Stock Exchange, Google Finance, Shares magazine, as at 17 August 2022

FRP ON THE FRONT FOOT

Also flying high is **FRP Advisory (FRP:AIM)**, which specialises in corporate restructuring and helps businesses navigate the process of going into administration or liquidation.

Its shares have more than doubled from their 80p issue price to 166.5p amid a rise in the number of insolvencies and administrations since the start of 2022. Guided by CEO Geoff Rowley, FRP has a track record of growth regardless of the economic conditions and appears well positioned to benefit from a surge in activity in the years ahead. Results (22 July) for the year to April 2022 revealed a 21% revenue increase to £95.2 million with adjusted underlying EBITDA up 12% to £25.7 million.

On 18 August, Liberum Capital, which has a 185p price target on the stock, enthused: 'FRP has beaten on guidance in each of the last two financial years since coming to market, despite less than ideal market conditions.

'We are excited to see what the business can deliver now that government life support has been turned off for UK companies. We believe the number of administrations could double from here if volumes returned to post-Great Financial Crisis levels but could even exceed that, with challenges faced by firms arguably greater now than a decade ago.'

CALNEX PASSES THE TEST

Shares in little-known telecoms testing kit maker **Calnex (CLX:AIM)** have climbed 225% to 156p since the Linlithgow-headquartered company braved pandemic markets by listing its shares on the AIM market in September 2020 at 48p.

A global leader in the telecoms network testing space, Calnex's distinguished list of customers

includes BT, **Ericsson (ERICB:ST)**, **Nokia (NOKIA:HEL)** and **Intel (INTC:NASDAQ)** and share price strength comes against a backdrop of continued high demand for the company's range of test and measurement solutions.

Calnex is benefiting from supportive market trends with the transition to 5G and growth in cloud computing, the order book remains strong and the company's broad spread of products and global markets clearly has appeal for investors.

Full year results showed another strong year for Calnex, with revenue of £22 million coming in 8.9% ahead of Cenkos' £20.2 million forecast and pre-tax profit up 64% to £6 million. As the broker commented on 24 May, 'the long-term macro driver of the transition to 5G and continued growth in cloud migration is also expected to continue to drive demand from both new and existing customers and the record order book as Calnex entered full year 2023 provides a strong outlook with continuing strong sales momentum'.

Other small cap newcomers to have performed well include **Helium One Global (HE1:AIM)**, a late 2020 arrival whose shares are up 172.9% on their

IPO price, **Arrow Exploration (AXL:AIM)**, whose shares have risen by almost the same amount, and **Cornish Metals (CUSN:AIM)**, up 160.7%.

The first of this trio is a Tanzanian explorer whose prospecting licences give it the potential to become a strategic player in resolving a supply-constrained helium market, while the second name has a portfolio of premier Colombian oil assets it insists are 'underexploited, under-explored and offer high potential growth. Shares in the third name, Cornish Metals, have stirred on excitement over its South Crofty project, which covers the former producing South Crofty tin mine located beneath the towns of Pool and Camborne in Cornwall.

Also meriting mention are under-the-radar names including **Fonix Mobile (FNX:AIM)**, a mobile payments and messaging provider and dividend payer whose shares have doubled since flotation in October 2020. Steered by CEO Rob Weisz, Fonix's sales and profits continued to grow in the financial year to June 2022 and the company continues to generate strong underlying cash flows.

In a recent trading update (21 July), Fonix claimed 'a growing pipeline of client prospects across all sectors and markets' - existing blue chip clients range from **ITV (ITV)** and BT to Children in Need.

NORTHCODERS HEADS NORTH

Also delivering positive news and trading north of their IPO issue prices are **Northcoders (CODE:AIM)**, a provider of B2B and B2C coding and software development training seeing demand at record highs.

Ashtead Technology (AT.:AIM), the subsea equipment rental provider, is profiting from increased demand in both the offshore renewables and offshore oil and gas markets and the increased focus on energy transition and energy security. Its shares are up 39% from their AIM debut price.

And though the shares have fallen from February's 83p peak a recent 60.5p, **Facilities by ADF (ADF:AIM)** remains 21% above its 50p issue price and hasn't disappointed since becoming the first company to come to market in 2022. Facilities by ADF, which provides premium serviced facilities to film and high-end tv sets in the UK and counts the likes of **Netflix (NFLX:NASDAQ)**, **Apple (AAPL:NASDAQ)** and **Disney (DIS:NYSE)** as clients, made quite the entrance with strong maiden annual results (26 May) as a public company and posts first half results on 13 September.

In its pre-close update (4 Aug), Facilities by ADF insisted 'market dynamics remain strong, with continued robust demand for film and high-end television the UK and the group's 2023 order book continues to grow. Therefore, the group remains confident of further success.'

Reflecting on the annual results, Cenkos said: 'In our view, ADF represents a unique investment opportunity, due to a lack of alternative UK publicly listed companies offering exposure to the rapidly growing UK Film & TV industry. Whilst facility vehicles represent a small proportion of overall production costs (circa 2%), they are essential for a successful production, and a critical timeline element in the production supply chain.

'Mega-cap US streaming companies are responsible for much of the demand-side of the equation, but most are not pure-play investments on the theme. On the supply-side, none of ADF's competitors are listed.'

By **James Crux**
Funds and Investment Trusts Editor

Top FTSE 100 dividend yields: will they keep paying big for years to come?

Discover the biggest yielding names and our thoughts on Persimmon, Rio Tinto and NatWest's dividends

Chart: Shares magazine • Source: Refinitiv

Various FTSE 100 companies appear to have discovered the secret to income alchemy by still producing dividend gold in the face of mounting economic pressures.

Half a dozen stocks in the UK blue chip stock market index are currently luring investors with double-digit dividend yields. Another 35 are forecast to pay shareholders more than FTSE 100's 4.2% average yield.

While many dividend-paying shares come from defensive and less growth-focused sectors of the economy, a wider slowdown will inevitably have an impact on earnings and the ability of companies to pay those dividends.

One of the fundamental truths about investing is there is no such thing as a free lunch. A share that promises higher returns is going to come with higher risks of losing money, and the higher the dividend yield, the more likely that promised returns will prove illusionary.

WHICH STOCKS PAY THE MOST?

Let's take a closer look at some of the FTSE 100's largest yields, and there's no better place to start than at the top. Housebuilder **Persimmon (PSN)** has a 16% dividend yield, based on this year's forecast 235p payment.

On the face of it, Persimmon looks a safe bet. It has one of the highest operating profit margins in the housebuilding sector at 26.5% and its generous dividend has always been backed by surplus cash in recent years. But with storm clouds gathering over the UK economy, is this high dividend yield sustainable?

Last year its dividend cost about £750 million from £785 million of operating cash flow, so it is paying out more than 95% of its net profit as dividends. A payout ratio like this is not untypical for utility companies, whose customer spend is essential. That's not the case for Persimmon and, traditionally, investors prefer non-utility companies to have the dividend covered 1.5-times or more by earnings, versus the company's 2022 1.05-times.

FALLING DIVIDENDS?

According to Sharepad data, Persimmon's dividends and earnings are set to decline in 2023 and 2024, but only modestly, with consensus projecting payouts of 228.9p and 227.7p respectively in the next two years.

This is also where its cash surplus comes in. Persimmon reported a cash balance of £780 million at the end of June, enough to cover a year's dividend without any contribution from profits. The company also had £1.9 billion of forward sales on its books at the end of June, approximately six months' revenue and profit.

This puts it in a strong financial position and certainly reduces any immediate risk of a dividend cut. That said, rising interest rates and cost of living pressures could see the end of two years of bumper house price growth when buyers binged on cheap credit. There are also regulatory headwinds, rising costs and labour issues which all threaten demand and profits. These concerns are weighing on housebuilders' shares, and as investor selling has pushed stock prices lower, dividend yields have shot higher.

This means that Persimmon is not the only housebuilder seemingly offering fantastically high yields. **Barratt Developments (BDEV)** and **Taylor Wimpey (TW.)** may not have quite the same balance sheet strength of Persimmon but both still look robust enough to weather a housing crash, within reason.

The pair had net cash of £1.5 billion and £921 million respectively at the end of 2021, while free cash flow was 3.6 and 1.4 times dividends last year.

As *Shares* discussed in a sector feature on 25 Aug, the UK housing market is structurally undersupplied, and Persimmon and others are playing a big role in meeting the country's housing targets. So, on balance, this could be a good time

FTSE 100's biggest yields

	Current year yield
Persimmon	15.8%
NatWest	12.1%
Rio Tinto	11.0%
Glencore	10.7%
M&G	9.8%
Abrdn	9.6%
Barratt Developments	9.2%
Taylor Wimpey	9.0%
Phoenix Group	8.3%
Admiral	8.0%
Legal & General	7.6%
Anglo American	7.6%
Imperial Brands	7.5%
Aviva	7.3%
Vodafone	6.9%
British American Tobacco	6.8%
Berkeley	6.3%
Sainsbury	6.1%
Land Securities	6.1%
DS Smith	6.0%

Table: Shares magazine • Source: Sharepad, 5 Sep 2022

to buy Persimmon shares for the income, even if it feels counterintuitive.

DIGGING UP BIG DIVIDENDS

This is arguably not the case with **Rio Tinto (RIO)**. The £79 billion mining giant is on a yield of 11.2%, based on this year's forecast 516.7p payout. The problem is that commodity producers tend to be tied tightly to the global economic cycle, and with that starting to cool, investors are getting increasingly nervous about the company's profit prospects.

Chart: Shares magazine • Source: Refinitiv

Over the last decade, around 80% of Rio Tinto's earnings came from iron ore, 10% from aluminium, 5% from copper and the last 5% from various other minerals and metals. Demand and pricing of commodities can be extremely volatile and that means Rio Tinto's operating, financial and dividend records have been too.

For example, last year's pre-tax profit of $30.8 billion was double 2020's $15.4 billion, itself more than twice 2016's $6.3 billion, while Rio plunged $726 million into the red in 2015. Dividends have been bolstered by five special payouts worth 479p per share since 2018, thanks to spells of significantly higher prices for its core iron ore, aluminium and copper products.

Looking ahead, analysts do not expect bumper commodity prices to last as economies around the world face slowdown and perhaps recession. Current forecasts already factor in a sharp fall in earnings for Rio Tinto, albeit a smoother decline for dividends. That said, analysts at investment bank Berenberg have recently been cautioning clients that the miner's consensus dividend forecasts are too high. Investors will have to decide whether the current yield is worth the risk.

CAN YOU BANK ON NATWEST?

Alongside housebuilder and commodity equities, financials also appear to be offering very high yields, on paper anyway. High-street bank **NatWest (NWG)** is set to hand out more than £2 billion in

Chart: Shares magazine • Source: Refinitiv

dividends after beating analysts' expectations in the second quarter and raising full-year guidance, despite growing economic uncertainty and pressures on household budgets intensifying.

Between mid-July and mid-August 2022, the share price rallied 25% as investors piled in after the lender reported second quarter pre-tax operating profit of £1.5 billion, 20% up on the previous year and well ahead of analysts' expectations of £1 billion.

But investors should note that much of that financial performance was driven by mortgage growth as well as rising interest rates, which have boosted profits across the sector. As we discussed earlier, mortgage demand could quickly dry up in the months ahead, particularly as individuals stare into the abyss of surging bills to heat homes and keep the lights on this winter.

The counter argument, pitched by analysts at Jefferies, is that stubbornly sticky inflation will force the Bank of England to continue its policy of interest rate rises, creating a supportive environment for lenders.

According to Jefferies' calculations, for every quarter point rise in interest rates NatWest's net interest income experiences a 5.5% uplift. Money markets are already pricing several additional interest-rate rises this year, with rates peaking at 3.25% in 2023.

Yet analysts in general seem to be far more nervous about NatWest's near-term profits and payouts. Consensus forecasts, according to Sharepad data, imply that NatWest will halve its shareholder payment in 2023, from this year's 30.4p per share to 15.7p. If that proves correct, the bank's 12% 2022 yield will fall to 6% or so next year, about where investors might expect bank yields to sit.

Experienced investors know the value of sustainable dividends capable of inching higher year after year, and it's a well-worn path to long-term wealth creation. But are these dividends sustainable? That's the question investors need to decide before buying any of the FTSE 100's largest yields at present.

On balance, Persimmon probably, Rio possibly not. As for NatWest, both analysts and the wider market are saying no.

By **Steven Frazer** News Editor

Why higher interest rates are good news for Legal & General

The life insurance firm offers an 8% dividend yield and is a retail investor favourite

Insurer **Legal & General (LGEN)** is one of the few companies on the stock market which benefits from rising interest rates. The current upward trend in rates has helped to strengthen the company's capital position.

The company has also benefited from pension asset managers transferring liability risk from defined benefit pensions to Legal & General.

With an 8% dividend yield on offer, it's no wonder this is one of the most popular stocks among retail investors.

THE LEGAL & GENERAL STORY

In June 1836 six lawyers founded Legal & General. During the 1940s the group entered the US market acquiring the pensions business of Metropolitan Life Insurance Company of New York.

Legal & General was listed on the London Stock Exchange during the 1970s and this coincided with the creation of Legal & General Investments. A decade later the company became a founder member of the newly established FTSE 100 index.

Today Legal & General's pension business supports more than 629,000 people in the UK and US, helping them save for retirement.

Chart: Shares magazine • Source: Refinitiv

HOW IT MAKES MONEY

Life insurance companies like Legal & General make money from the profit they make on premium payments (the money paid to a life insurance company in exchange for life insurance coverage) by investing this income.

These premiums are invested primarily in fixed income products such as bonds, but also in stocks and real estate. In 2020, investment income represented $186 billion of revenue from the life insurance industry compared to $143 billion from life insurance premiums.

Legal and General's asset management business charges fees to cover its costs which include administrative and trading fees and staff salaries.

Asset managers apply various fees to their products. The ongoing charge is based on a percentage of the total assets. Performance fees are another way income is generated. These are invariably a percentage that is charged on top of the ongoing management fee but only when the fund outperforms its target.

Funds may also apply initial and exit charges when investors deposit or withdraw money. These are usually a percentage of the amount put in or taken out.

LEGAL & GENERAL'S FIVE DIVISIONS

- **LEGAL & GENERAL RETIREMENT INSTITUTIONAL** is Britain's longest-serving active pension risk transfer pricing provider. This division takes on pension scheme liabilities from corporate schemes in both the UK and the US. This 'pensions de-risking' gives companies greater certainty over their liabilities while providing guaranteed payments to individuals within their schemes.

- **LEGAL & GENERAL INVESTMENT MANAGEMENT** is one of the world's leading asset managers. The division manages £1.3 trillion in assets and is at the forefront of global index fund management and investment solutions for defined benefit and defined contribution pension schemes.

- **LEGAL & GENERAL CAPITAL** is an alternative asset platform specialising in residential property, specialist commercial real estate, clean energy, and alternative credit.

- **LEGAL & GENERAL INSURANCE** is the market-leading provider of life insurance and income protection.

- **LEGAL & GENERAL RETAIL RETIREMENT** covers the savings, protection, mortgage and retirement needs of about 12 million retail policyholders and workplace members.

Legal & General 2021 operating profit divisional breakdown

- **Legal & General Retirement Institutional** (43%)
- **Legal & General Capital** (17%)
- **Legal & General Investment Management** (16%)
- **Legal & General Retail Retirement** (13%)
- **Legal & General Insurance** (10%)

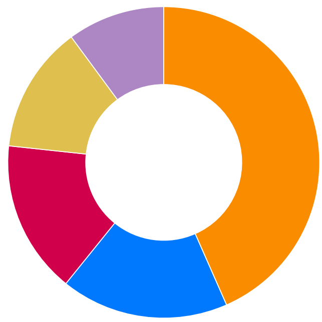


Chart: Shares magazine • Source: Legal & General Note: From January 2022 Legal & General Retail Retirement and Legal & General Insurance have been combined as one unit

RATE HIKES TO BOOST PENSION RISK TRANSFER GROWTH

Rising interest rates reduce the funding gap between income and liabilities on annuities held in defined benefit pension schemes.

This reduction in the funding gap has encouraged pension asset managers to transfer defined benefit liability pension risk to specialists like Legal & General because it is more affordable for them to do so. The incentive for companies is they no longer bear the financial risks associated with maintaining a defined benefit scheme.

As ratings agency Fitch explains: 'Companies transfer pension risks to insurers under buy-ins (where, in return for an upfront premium, the insurer makes payments to the scheme to cover future pension amounts) and buy-outs (where the insurer makes all pension payments directly to scheme members).'

Legal & General is perfectly placed to take

Growth opportunity in the US pension risk transfer market (PRT)

- **Currently not embracing PRT** (62%)
- **Interested in PRT** (32%)
- **Transacted with an insurer** (6%)

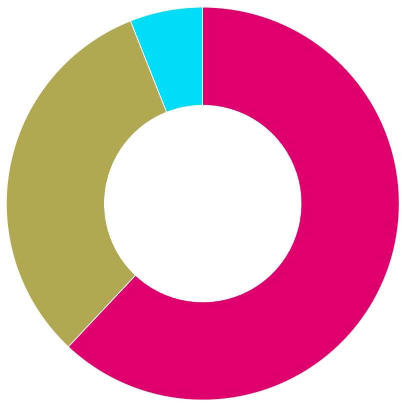


Chart: Shares magazine • Source: Secure Retirement Institute Note: The US pension risk transfer market is estimated to be worth $3.4 trillion

260%

This is the total return (share price gain and dividends) from buying shares in Legal & General 10 years ago. That's three times as much as you would have got from investing in a FTSE 100 tracker fund, according to FE Analytics data

advantage of this with its coherent strategy, and with subsidiaries Legal & General Investment Management and Legal & General Capital giving it a unique offering in this line of business.

It is worth noting the pension risk transfer market is also growing outside the UK and Legal & General is the only UK life insurer with a significant footprint in this space overseas.

In the US, there are approximately $3.4 trillion of defined benefit assets as estimated by the Investment Company Institute. However, according to data from the Secure Retirement Institute, since 2011, under 6% (approximately $192 million) has been passed on to insurers. An SRI survey saw just over 40% of plans with $1.3 trillion in assets indicate they are interested in a transfer.

Competition is strong. However, even assuming only 40% of the defined benefit market ever moves into the insurance space, there is still plenty of opportunity to grow.

For the UK life companies, the US is an additional opportunity because, as Legal & General has demonstrated, the skills needed to transact in the UK are readily transferable to the US. To date only Legal & General has seemingly been growing a presence there, having been active in the market for several years.

CAPITAL DIVISION POTENTIAL TO SURPRISE ON THE UPSIDE

The Legal & General Capital division has developed investment expertise in housing, financing for small and medium-sized companies, specialist commercial real estate and clean energy.

Continued growth in these 'alternative' areas is supported by long-term trends including increasing investment from defined benefit and defined contribution pensions.

The net asset value for these areas has more than tripled since 2016, and now constitutes over 40% of the division's net asset value. This is up from less than 20% in 2016.

The alternative asset allocation is targeted to reach 60% by the end of 2025 to capitalise on the higher returns available.

The current 8% to 10% annual returns are expected to increase to 10% to 12% by 2025, and total Legal & General Capital operating profit to £600 million to £700 million.

A DEPENDABLE DIVIDEND

Legal & General expects to achieve £1.8 billion of capital generation in 2022, and aims to generate between £8 billion and £9 billion of cumulative cash between 2020 and 2024.

Cash and capital generation are expected to significantly exceed dividend growth, which is targeted to be in the region of 3% to 6% per year over this period.

The group is on track to generate a 20% return on equity and its 215% Solvency 2 ratio, a key measure of an insurer's financial strength, provides a strong capital buffer.

According to estimates from broker Berenberg, Legal & General is forecast to grow earnings by 4.5% between 2022 and 2023, and by 5.5% between 2023 and 2024.

On their estimates, the stock is trading on a current 2022 price to earnings ratio of 6.6 times, falling to 6.3 times in 2023. The current 2022 dividend yield is 8%, rising to 8.4% in 2023.

'We believe that Legal & General's strengths are its solid franchises in each of its chosen markets, which are enhanced by the group's coherent nature that allows each operating division to leverage off the strengths of the others,' says Berenberg analyst Kathryn Fear. 'As such, it is very well placed to benefit from the structural growth inherent in the UK life market.'

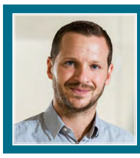
By **Mark Gardner** Senior Reporter

I'm short of cash and have seen an online offer to take money out of my pension, what should I do?

Our expert warns against dodgy schemes which could leave you facing massive tax charges

I'm really struggling for cash at the moment and found a website offering to unlock half my pension. I'm 35 years old and have around £50,000 in my workplace pension. If I could get half of that I'd be able to pay off my credit card debts and have a bit extra to one side for a rainy day. Are there any risks if I do this? Obviously I know I'll need to save more in the future to retire.

Dan



Tom Selby, AJ Bell Head of Retirement Policy says:

You should not under any circumstances accept this 'offer'. UK pension rules usually prohibit you from accessing your retirement pot before age 55. This so-called 'normal minimum pension age' (NMPA) is due to rise to 57 in 2028.

If you are not in ill-health (I'll come back to what this means in a moment) and access your pension before your normal minimum pension age, this will be treated as an unauthorised withdrawal by HMRC and you'll be hit with a huge tax charge.

This tax charge will usually amount to at least 55% of the value of the withdrawal. So, if you access half of your £50,000 defined contribution pension and are hit with an unauthorised tax charge, at best you will pay tax charges worth £13,750 (£25,000 x 55%).

In reality those operating these dodgy schemes often levy exorbitant fees as well, meaning even more of your hard-earned pension will disappear down the drain. In many cases, the offer of early access is simply a ruse to steal your retirement pot – meaning you could lose everything.

For more information on pension scams visit the FCA's ScamSmart website. Government backed guidance service MoneyHelper also has loads of useful information.

ILL-HEALTH AND SERIOUS ILL-HEALTH

The main exceptions come where you are in ill-health. There are two routes you can go down and there are specific conditions that need to be met before any pension funds can be paid out.

To access their pension early under the ill-health rules:

- The individual must be unable to work due to illness, disease or disability;
- The person won't be able to return to work;
- The person must provide written evidence from a doctor that this is the case.

Where all these conditions are satisfied, the pension can be taken in the normal way, with 25% tax-free and the rest taxed in the same way as income.

To qualify for a serious ill-health lump sum:

- the person must provide written evidence from a doctor that they are expected to live for less than one year;
- the individual has not used up all of their lifetime allowance at the point the payment is made;
- the payment must extinguish all uncrystallised rights under the arrangement. This just means that any pensions you have yet to flexibly access must be entirely withdrawn as a serious ill-health lump sum.

Where these conditions are met (and provided the person has sufficient lifetime allowance available), a serious ill-health lump sum will be tax-free where the person is under age 75. If they are over age 75, it will be taxed in the same way as income.

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.

WATCH RECENT PRESENTATION WEBINARS

Anexo Group (ANX)

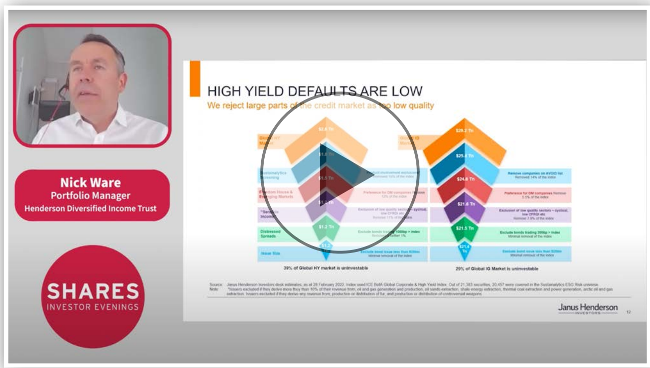
Nick Dashwood Brown,
Head of Investor Relations

Anexo Group (ANX) - Anexo is a specialist integrated credit hire and legal services group focused on providing replacement vehicles and associated legal services to impecunious customers who have been involved in a non-fault accident.

Frenkel Topping Group (FEN)

Richard Fraser, CEO

Frenkel Topping Group (FEN) is a long-established family of businesses who are tried, tested and trusted. We are always available to provide advice and technical support to our legal Clients and those they represent. We support lawyers and their Clients with a concierge approach to anything they may need throughout the litigation journey.



Henderson Diversified Income Trust

Nick Ware, Portfolio Manager

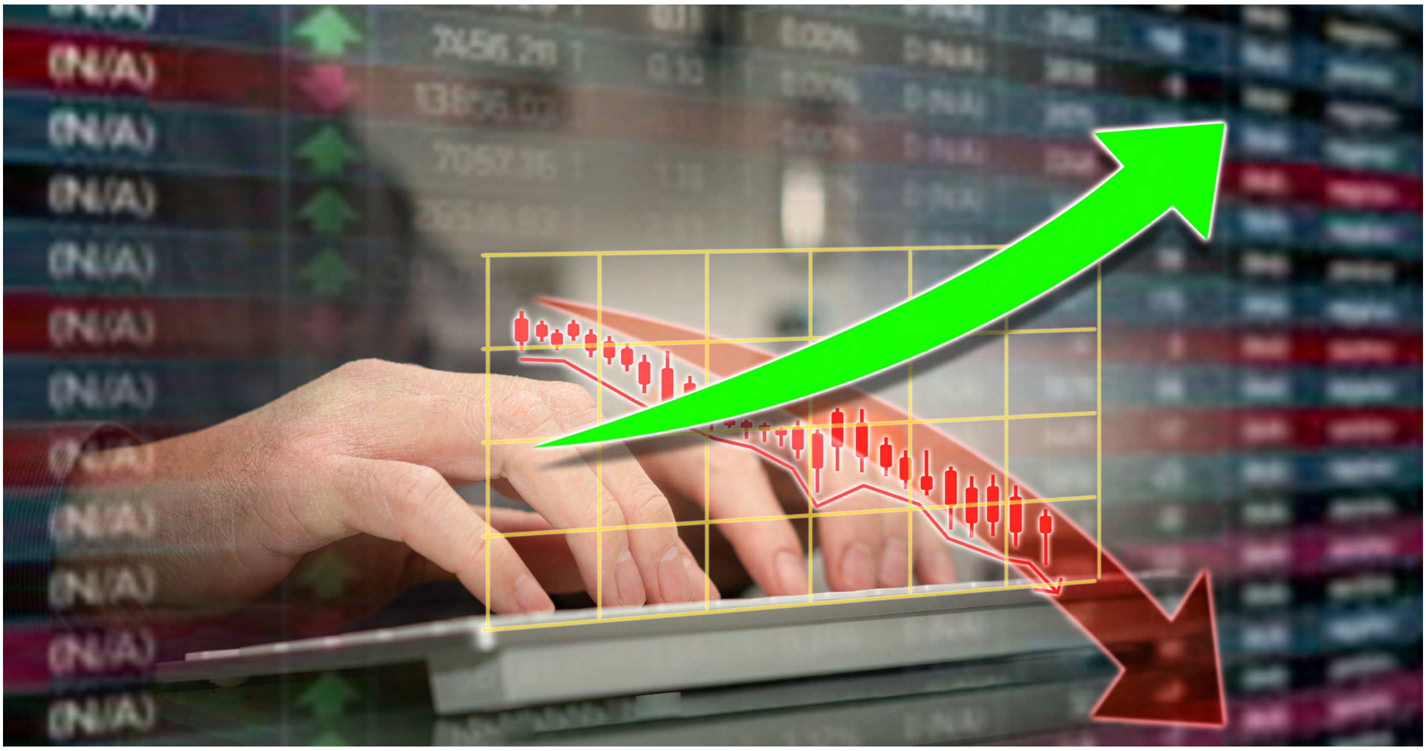
Henderson Diversified Income Trust seeks a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos



How you can use a market correction to cut your tax bill

While a fall in the value of your investments is unwelcome it could help in at least one respect

Falling stock markets aren't usually a reason for celebration, and the wild ride that many investment markets have seen this year has been unwelcome for many investors. What's more, with a recession predicted to hit later this year, markets could hit a rocky patch once again.

While no investor wishes for volatility and downward markets, they can be an opportunity to do some good tax planning and save money on your tax bill. We'll look at a few ways you can capitalise on falling markets.

The caveat to all of these is that the investments that have fallen in value are things you still believe in, think will bounce back and want to hold for the longer-term. If you're on the fence there are some helpful articles on how to know whether to sell or how to keep your investments on track in a recession.

GIFT ASSETS NOW

Anyone doing inheritance tax planning may want to gift assets as part of that. If you gift investments, cash or assets and survive for seven years after that there will be no inheritance tax liability on the money. If you die within that seven-year period there will be some IHT due, but on a sliding scale. You can read more about that here.

However, one thing that may deter people from gifting investments is that it counts as an event for Capital Gains Tax purposes. That means you need to calculate whether there is any gain on the investment you plan to gift and if it exceeds your annual allowance (currently £12,300) you will need to pay tax on the gains. For investments that tax will be 10% for basic-rate taxpayers and 20% for higher or additional rate payers. Crucially, the tax is paid by the person gifting the asset and it may be that you don't have spare cash to pay that tax bill.

But if investment prices have fallen, that means a lower capital gain and so less tax to pay – or potentially no tax bill if the gain now falls within your annual tax free allowance. If you know you want to gift the investment anyway, doing so during a market downturn could be a good opportunity.

Let's look at an example: Tamsin wants to give £40,000 of shares to her daughter, but there is a £20,000 gain on the shares. As she hasn't used any of her tax-free allowance this year, the first £12,300 of gain is covered. As a higher-rate taxpayer she will have to pay 20% tax on the remaining £7,700, meaning a tax bill of £1,540. However, if markets fall and the shares are only worth £35,000, she will only have a gain of £15,000, meaning her tax bill is reduced to £540 – saving £1,000.

BED AND ISA NOW

Using a similar concept to that above, of lower investment values meaning a smaller capital gain on your investments, this can also help with funnelling your money into an ISA. Anyone with investments outside an ISA can move them into their ISA to protect from future tax and to realise any gains up to your annual tax-free limit.

This process is called Bed-and-ISA and means selling investments to realise gains up to the £12,300 limit and then buying them back within your ISA. You just need to make sure you've got sufficient CGT and ISA allowances left in the current tax year.

If asset prices have fallen, it means you can move more shares into your ISA before hitting that capital gains tax limit. An example: Amelia has 10,000 shares in Company X that she bought for £1 each and are currently valued at £3 each, meaning a gain of £2 per share.

If she wants to use Bed and ISA and sell enough to use all her £12,300 CGT limit she can sell 6,150 shares and buy them in the ISA. However, if the share price falls to £2 the total gain on her shares would only equal £10,000 and she could move all 10,000 shares into her ISA and still have some CGT limit left over. In reality the calculations wouldn't work as neatly as this due to costs and differences between buying a selling costs, find out more here.

RECLAIM TAX PAID ON AN ESTATE

This is a more niche example, for anyone involved in wrapping up an estate for inheritance tax purposes. The strange way the system works is that assets are valued on the date of death, and inheritance tax is paid on that sum. However, if those investments are sold within a year of the death and for a lower amount, you can reclaim the IHT on the difference.

That means if a market downturn has occurred since the individual died, you're likely able to claim back tax as you'll be selling investments for less than they were previously worth. Anyone wanting to do this can use the scheme called "share loss relief" and get a rebate of the IHT they are due.

In some situations for larger estates this will also affect the level of tax-free reliefs you're entitled to. The residence nil rate band, which is complicated, is tapered out for estates worth £2 million or more. If the estate has only just tipped over this limit, a drop in investment markets (and so the value of its assets) could bring it back under the limit and mean the estate is entitled to more tax-free allowances – which means an even bigger IHT rebate.

Example: Maureen died, leaving behind an investment portfolio worth £100,000 as part of her estate. However, by the time the executor comes to sell the investments six months later, the value of the portfolio has dropped to £70,000. By using share loss relief, the executor can reclaim IHT on the £30,000 difference, which at a rate of 40% equates to £12,000.

By **Laura Suter**
AJ Bell Head of Personal Finance

LIVE

SHARES INVESTOR EVENINGS

14 SEPT 2022

Novotel Tower Bridge
London
EC3N 2NR

Sponsored by

AJBell Youinvest

Registration 17:15
Presentations to start at 17:45

NEW INVESTMENT OPPORTUNITIES

During the event and afterwards over drinks, investors will have the chance to:

- Discover new investment opportunities
- Get to know the companies better
- Talk with the company directors and other investors

COMPANIES PRESENTING INCLUDE:

INDIA CAPITAL GROWTH FUND
David Cornell, Managing Director
The India Capital Growth Fund (ICGF) is a closed ended Investment Company, listed on the main board of the London Stock Exchange.

i(x) NET ZERO
Steven M Oyer, CEO and Dmitri Tsvetkov, CFO
i(x) Net Zero (AIM:IX) is an investment company that focuses on Energy Transition and Sustainability in the Built Environment.

SEEING MACHINES
Paul McGlone, CEO
Seeing Machines (SEE) is the leader in vision-based driver monitoring technology.

STV GROUP
Lindsay Dixon, FD and Simon Pitts, CEO
STV Productions is one of the UK's leading content businesses and Scotland's biggest indie.

Event details

Registration 17:15
Presentations to start at 17:45
Complimentary drinks and buffet available after the presentations

Register for free now
www.sharesmagazine.co.uk/events

Contact

Lisa Frankel,
Events Operations Manager
lisa.frankel@ajbell.co.uk
020 7378 4406

INDEX

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
12 September: Arcontech, Made Tech. **13 September:** Gateley, Mattioli Woods. **14 September:** Diurnal, Dunelm, ITM Power, Redrow. **15 September:** MJ Gleeson.

Half-year results:
12 September: Abcam, Greencoat Renewables, Kape Technologies, MP Evans. **13 September:** Churchill China, Corero Network Security, Fevertree Drinks, Futura Medical, Oxford Nanopore, Property Franchise, Smart Metering Systems, Team17, Trustpilot. **14 September:** Advanced Medical Solutions, Central Asia Metals, Epwin, Tullow Oil. **15 September:** Foresight Solar, Gresham House, IGas Energy, Oxford Biomedica, Portmeirion, Regional REIT, RTW Venture.

Trading updates
12 September: Associated British Foods.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

EDUCATION EDITOR Martin Gamble @Chilligg

CONTRIBUTORS Danni Hewson, Laith Khalaf, Russ Mould, Tom Selby, Laura Suter

SENIOR REPORTER: Mark Gardner

COMPANIES EDITOR Ian Conway @SharesMagIan

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

PRODUCTION
Head of Design: Darren Rapley
Designers: Rebecca Bodi, Kevin Sharpe

CONTACT US:
support@sharesmagazine.co.uk

Website: sharesmagazine.co.uk
Twitter: @sharesmag

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.