STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 25 / ISSUE 41 / 19 OCTOBER 2023 / £4.49

SHARES

WE MAKE INVESTING EASIER

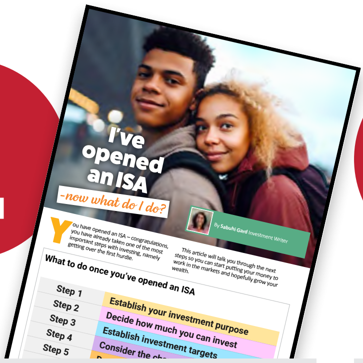
I've opened an ISA

-now what do I do?

Contents

Three important things in this week’s magazine

1



Have you opened an ISA but not invested any money? Fear not.

We talk through the steps someone in this situation needs to take so they become a fully-fledged investor.

2

Property valuations might be under pressure, but many real estate companies are getting the job done.

There is evidence of strong rental growth, and high levels of rent collection and occupancy.

3

What to do if a fund ‘hard closes’ as we’ve just seen with a popular Royal London product.

We explain the difference between soft and hard close and where you stand as an investor.

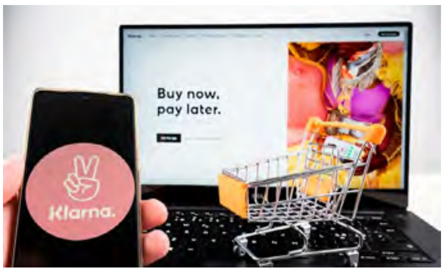
Visit our website for more articles

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

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

Manchester United shares fall 11% in pre-market trading after Qataris pull out of bidding

Car and home insurance deals boost third-quarter revenue at Moneysupermarket



Shares in Klarna investor Chrysalis fly on proposed cash return and revised fee structure

Directors Deals: Another Aviva director snaps up shares as optimism in the UK insurer grows

Why investors are excited about upcoming big tech results

Positive growth momentum required from 'Magnificent Seven' members to support broader market

The next set of quarterly earnings from mega cap technology companies including key members of the so-called 'Magnificent Seven' could have a major influence on the direction of markets heading into the final months of 2023.

Investors will be hoping these tech titans have maintained their positive growth momentum and can pick up the slack from other sectors where earnings are under pressure.

First out of the gate on 24 October are **Microsoft (MSFT:NASDAQ)** and **Alphabet (GOOG:NASDAQ)**, whose results will be scrutinised to see if the billions of dollars they are funnelling into AI projects are paying off.

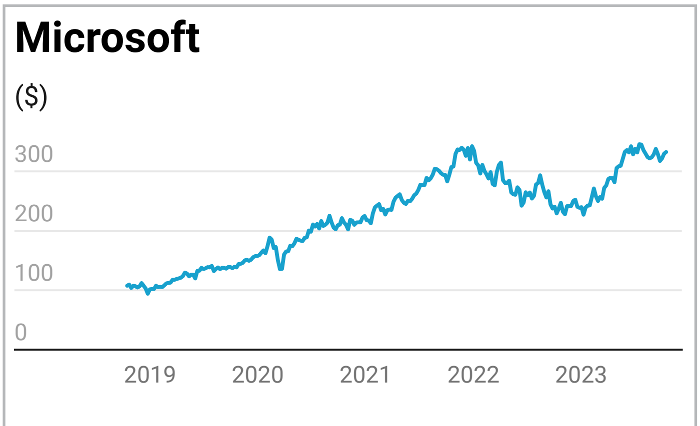


Chart: Shares magazine • Source: LSEG

Satya Nadella-steered Microsoft's shares are up 40% year-to-date on excitement surrounding its growth potential in AI and analysts are looking for first quarter earnings per share of $2.65 on $54.5 billion of revenue. Sales rose 8% to $56.2 billion for the fourth quarter and earnings topped forecasts thanks to growth in Microsoft's cloud business.

Alphabet's share price is up 56% in 2023 so far and its second quarter earnings in July topped market expectations. Momentum in Google Cloud and Google Search is expected to have continued in the third quarter. Alphabet's YouTube advertising revenues will also be pored over by analysts. Bloomberg forecasts point to 36% year-on-year EPS growth to $1.44 for Alphabet as a whole.

Excitement could also centre around updates on Bard, Alphabet's chatbot tool supported by generative AI which is a rival to Microsoft's ChatGPT.

In July, Alphabet chief executive Sundar Pichai insisted the company's continued leadership in AI and 'excellence' in engineering and innovation are driving the next evolution of its search engine and improving all its services.

'With fifteen products that each serve half a billion people, and six that serve over two billion each, we have so many opportunities to deliver on our mission,' said Pichai.

Shares in social media giant **Meta Platforms (META:NASDAQ)** are up 160% year-to-date. Investors appear to be optimistic ahead of third quarter earnings on 25 October, with consensus calling for EPS of $3.59 on revenues of $33.4 billion.

On 26 July, Meta – which owns Instagram, Threads and WhatsApp – put up forecast-trumping second quarter earnings per share of $2.98 on $32 billion sales and predicted third quarter revenues of $32 billion to $34.5 billion, with confidence in its digital advertising business restored and sales growth back in high gear.

Third quarter numbers from **Amazon (AMZN:NASDAQ)** are hotly anticipated too, with the market eager to learn if the e-commerce-to-cloud computing group can beat earnings estimates yet again, with consensus calling for EPS of $0.58, up from $0.20 last year. iPhone designer **Apple (AAPL:NASDAQ)** is the final mega tech stock to report, with numbers scheduled for 2 November. [JC]

Pfizer hit by lower Covid vaccine demand but Novo Nordisk soars on weight-loss boost

Shares in the two companies are travelling in the opposite direction to each other

The number of people suffering from Covid might be on the rise, but vaccine providers are not doing as well as expected.

America pharmaceutical group **Pfizer (PFE:NYSE)** sent a chill across the healthcare sector on 13 October after slashing full year revenue guidance by 13% and announcing $3.5 billion of cost cuts to counter falling sales of its Covid-19 vaccine.

Pfizer also slashed its earnings per share guidance to a new range of between $1.45 to $1.65 from $3.25 to $3.45.

The news had a negative knock-on effect for other Covid-19 vaccine makers – **Moderna's (MDNA:NASDAQ)** share price fell around 4% and **AstraZeneca (AZN)** dropped 1%. US-listed shares of German vaccine maker **BioNTech (BNTX:NASDAQ)** fell 5%.

Pfizer shares have lost 38% of their value so far in 2023 and now trade close to their pre-pandemic levels. The drug maker expects to generate revenues of between $58 billion to $61 billion this year reflecting a $7 billion cut to its Covid-19 antiviral Paxlovid sales and a $2 billion cut to sales of the Comirnaty Covid vaccine co-developed with BioNTech. Consequently, the German partner said it would incur a $900 million write-off in its third quarter representing half of its gross profit-sharing agreement with Pfizer.

In response to Pfizer's revenue warning Moderna put out a statement reaffirming its forecast of between $6 billion and $8 billion in Covid-19 vaccine sales for the year.

Pfizer's warning comes amid the Autumn roll-out of its Covid booster with reports suggesting it has seen a slower than expected take-up due to delays in insurance coverage.

Chief executive Albert Bourla told investors on 16 October the company expected around 17% of the US population to get booster shots, in line with 2022.

Rebased to 100

Chart: Shares magazine • Source: LSEG

Pfizer said a 'cost realignment programme' should save it $1 billion in 2023 and $2.5 billion in 2024 and would entail severance and implementation costs.

The company plans to move sales of Paxlovid into a commercially marketed arrangement from November 2023 and sell to privately insured patients. Patients on government sponsored insurance schemes and those uninsured will continue to receive Paxlovid free of charge until the end of 2024.

On a more positive note, Danish diabetes and leading weight-loss treatment company **Novo Nordisk (NVO:NYSE)** seems to be going from strength to strength. It increased 2023 sales and profit guidance on 13 October after seeing a better-than-expected performance in the US for weight-loss treatments Wegovy and Ozempic.

Novo Nordisk now expects profit before interest and tax to grow between 40% and 46% from a previous range of 31% to 37% while it forecasts sales to grow between 32% to 38% from earlier guidance of 27% to 33%, reflecting strong demand. The shares gained 5% on the news to reach a new record high and are up 79% over the past year. [MG]

What do the latest US banking results tell us about the economy and markets?

So far so good as banks enjoy rising rates and debts have stayed low

As usual with the US quarterly earnings season, the 'Big Four' banks have kicked off proceedings giving us an insight into the health of consumers and businesses and the state of the financial markets.

First out of the blocks was **JPMorgan Chase (JPM:NYSE)**, the world's largest bank by market value ($430 billion) and generally a bellwether for the US economy.

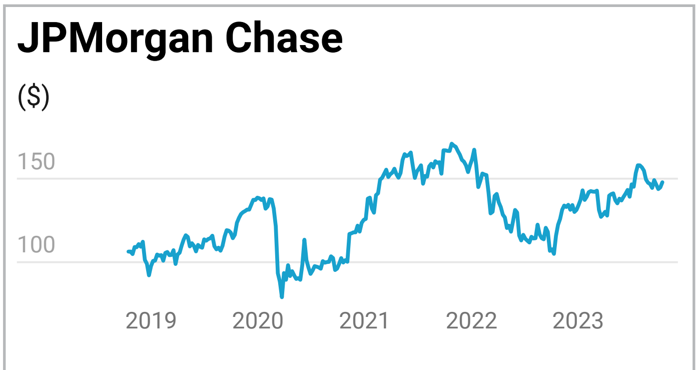


Chart: Shares magazine • Source: LSEG

Third-quarter revenue rose 22% to $39.9 billion, beating Wall Street's raised forecasts of $39.6 billion, while earnings per share jumped 35% to $4.33 against forecasts of $3.92.

Chief executive Jamie Dimon admitted the bank was 'over-earning on net interest income and below normal credit costs, both of which will normalise over time', although he said the bank has 'extraordinarily high' liquidity should bad debts rise.

So far, according to Dimon, US consumers and businesses generally remain healthy, although consumers are spending down their excess cash buffers built up during Covid.

The bank cleaned up in financial markets, gaining market share in investment banking and retaining its number one ranking in deal-making.

Third-quarter earnings from **Citigroup (C:NYSE)** also beat estimates at $1.63 per share against a consensus of $1.23, although the bank did log a 35% increase in credit costs to $1.8 billion saying loan losses were already 'normalising'.

Chief executive Jane Fraser also noted that 'the continued deceleration in spending indicates an increasingly cautious consumer.'

However, Citi's investment bank performed well during the quarter, with markets revenue up 10% driven by strength in fixed-income trading, while banking activity was bolstered by a rebound in debt issuance and some signs of life in the equity capital markets.

Wells Fargo (WFC:NYSE), the third of the 'Big Four' to report, kept the good news coming with revenue and earnings comfortably ahead of expectations.

Charlie Scharf, chief executive, flagged higher net interest income thanks to high interest rates on customer loans but added the bank was seeing the impact of the slowing economy with loan balances declining and 'charge-offs continuing to deteriorate modestly'.

Bank of America (BAC:NYSE) was scheduled to have published its results as this edition of *Shares* was being finalised.

Looking ahead to the UK bank results, which kick off with **Barclays (BARC)** on 20 October, the main read-across is in investment banking where earnings from the US have been surprisingly robust given the volatility in financial markets.

Barclays, **HSBC (HSBA)** – which reports on 30 October – and **NatWest (NWG)** – which reports on 27 October – all have sizeable investment banking businesses, so investors will be hoping they have enjoyed the same uplift to earnings and not been on the wrong side of the market from their US peers. [IC]

Computacenter shares still on a roll after upbeat financial results two months ago

The company's largest customers continue to invest in technology

IT infrastructure supplier and reseller **Computacenter (CCC)** has seen its shares rise 30% over the past two months.

The trigger for the rally was the publication of half-year results on 7 September which saw Computacenter report 13.9% growth in adjusted pre-tax profit to £122.8 million and strong cash generation. Chief executive Mike Norris even said: 'We are as excited and optimistic about the future as we have ever been.'

Norris was hopeful for the rest of the year and 2024 and expects the adoption of Windows 11 to gain momentum and drive increased demand for new hardware, as customers upgrade their systems.

Berenberg analysts said in a research note they 'remain as bullish as ever' on the company's outlook. They added: 'Not only do we think its relative positioning versus other resellers is favourable given its large and resilient enterprise customer set, but we believe the company's almost inevitable cash return to be announced this year will allow for it to move earnings per share more than 10% higher on a 12-month view.' [SG]

Chart: Shares magazine • Source: LSEG

Hipgnosis Songs Fund at all-time low ahead of big vote on 26 October

Shareholders are fuming and want to see big changes to how the trust is run

Shares in music royalty firm **Hipgnosis Songs Fund (SONG)** have suffered a dramatic fall from grace, now trading at an all-time low of 66p. Its future is in the hands of shareholders who will vote on 26 October on whether the investment trust should continue or be wound up.

Having angered shareholders over the proposed sale of assets at a big discount to a private fund managed by its own adviser, Hipgnosis has now cancelled its dividend to avoid breaching banking covenants after saying it would get less cash than expected for certain royalty payments for the period 2018 to 2022.

Stifel analyst Sachin Saggar told *Shares*: 'The continuation vote is likely to be seen by shareholders as a way to get rid of the manager and gain more control rather than a mandate to wind up the company.'

Founder and manager Merck Mercuriadis used his connections in the music industry to rapidly build a portfolio of song royalties. Lots of investors believe he potentially overpaid for assets, leaving Hipgnosis in a fragile state. [SG]

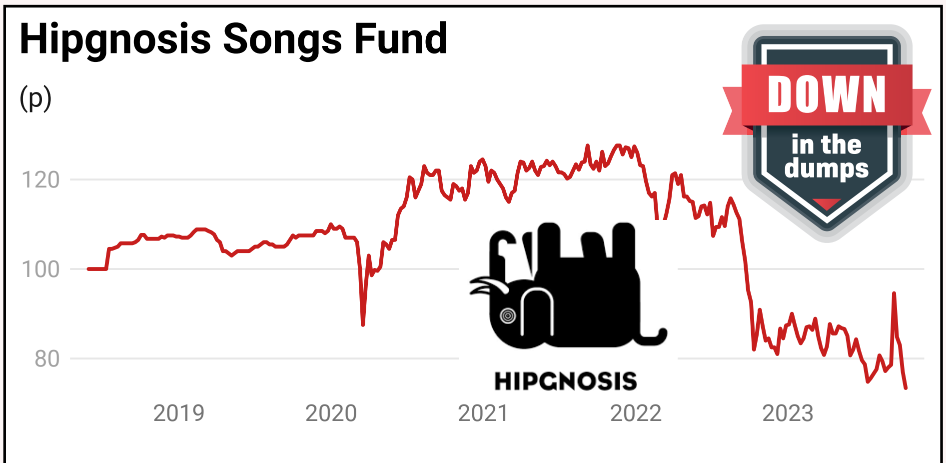


Chart: Shares magazine • Source: LSEG

Can hard-pressed ASOS halt customer numbers decline?

Shares in the fallen online fast-fashion star have shed over 90% of their value in the past five years

All eyes will be on inventory levels and management's commentary around current trading when **ASOS (ASC)** puts up full year figures on 25 October. While the online fast-fashion seller's turnaround strategy is progressing, early success has yet to show up in the numbers with the retailer's youthful customer demographic strapped for cash and ASOS slashing prices to fend off stiff competition.

Chinese fast-fashion seller Shein is gorging on market share while arch-rival **Boohoo (BOO:AIM)**, which shares a common shareholder with ASOS in Mike Ashley's **Frasers (FRAS)**, isn't going away. Meanwhile, the rising presence of third party brands on the platforms of **Marks & Spencer (MKS)** and **Next (NXT)**, the latter agreeing a £100 million takeover of FatFace, has only increased consumer choice.

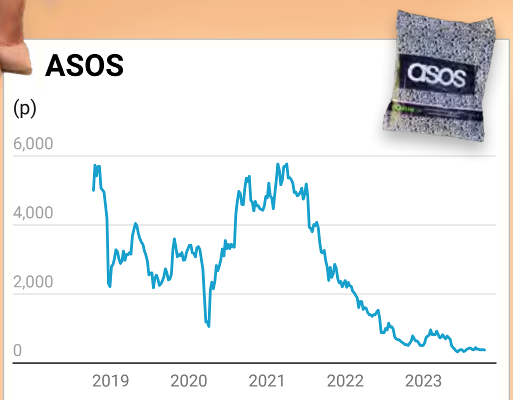


Chart: Shares magazine • Source: LSEG

In a post close update (26 September), ASOS flagged a 10% decline in total revenue for the year ended 3 September 2023, with fourth quarter sales down 12% as wet July and August weather put the dampeners on summer clothing demand. And despite delivering £300 million of profit improvement and cost savings, ASOS' second-half free cash flow and gross margin guidance fell short of expectations.

Reducing inventory levels remains the key focus for management, since this generates the cash needed to implement the recovery strategy and drive down net debt, though May's fundraise and refinancing has provided breathing space. [JC]

What the market expects of ASOS

	EPS (p)	Revenue (£bn)
Forecast for 2023	−67.0	3.5
Forecast for 2024	−34.5	3.7
Forecast for 2025	2.7	4.1

Table: Shares magazine • Source: Shore Capital. August year-end

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
23 October: Smart Metering Systems
24 October: Scancell Holdings, Softcat

HALF-YEAR RESULTS
24 October: Baillie Gifford China Growth Trust
25 October: SCS Group, ASOS
26 October: Bloomsbury Publishing

TRADING ANNOUNCEMENTS
20 October: InterContinental Hotels Group, Record
24 October: Barclays, Travis Perkins, Bunzl
25 October: Fresnillo
26 October: Inchcape, WPP, PPHE Hotel

Coca-Cola shares have been weak heading into third-quarter earnings

Consensus analyst earnings forecasts have flatlined over the last year and a half

Soft-drinks giant **Coca-Cola (KO:NYSE)** releases third quarter earnings on 24 October with consensus earnings per share expected to be flat against the prior year at $0.69.

The company raised annual sales and profit guidance on 26 July after beating analysts' second quarter estimates. Over the last four quarters Coca-Cola has beaten market forecasts by an average of around 5%.

This time though there are some potential banana skins to navigate. Management flagged an approximate 3% currency headwind for the third quarter based on existing exchange rates.

The US dollar has since jumped a further 7% against a basket of currencies suggesting a larger impact is on the cards.

Coca-Cola

($)

Chart: Shares magazine • Source: LSEG

Coca-Cola has benefited from multiple price hikes in recent quarters to combat supply chain snags caused by the war in Ukraine.

Consumers appear to have swallowed the price increases and refused to trade down to private label alternatives, showing the strength of the brand. However, there are signs of fatigue in the resilient consumer spending narrative.

Throughout 2022 consumer staples were seen as a haven for investors looking to shelter from turbulent markets but the tables seem to have turned in 2023.

Coca-Cola shares are down 16% so far this year compared with a gain of 13% for the S&P 500. [MG]

What the market expects of Coca-Cola

	EPS ($)	Revenue ($bn)
Forecast for 2023	2.64	44.9
Forecast for 2024	2.80	46.9

Table: Shares magazine • Source: Stockopedia. December year-end

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

20 October: American Express, Schlumberger, Santos, IPG, Yara International, First Bancorp, First Hawaiian

23 October: Newcrest Mining, Lennox, Packaging America, Crown, Medpace Holdings, Enterprise Financial, Heartland Financial, Hope Bancorp

24 October: Alphabet, Coca Cola, Hermes International, Danaher, Texas Instruments, Verizon, General Electric, Chubb, HCA, Waste Management, General Motors, Biogen, Dow, Otis Worldwide, CoStar, Dover, Hubbell, Xerox

25 October: Microsoft, Meta Platforms, Visa, Thermo Fisher, IBM, Boeing, ServiceNow, ADP, CME Group, Equinix, Getty, Chipotle Mexican Grill

26 October: Amazon, Merck&Co, Linde, Comcast, Intel, Caterpillar, United Parcel Service, Honeywell, Shopify, Moody's, Ford Motor, ST Microelectronics, VeriSign, Southwest Airlines, Mastercard

This global quality dividend growth tracker fund is fit for all seasons

Quality hasn't underperformed in 10-year rolling periods since the late 1980s

WisdomTree Global Quality Dividend Growth ETF

(GGRG) £27.05

There is so much uncertainty facing investors from geopolitical stresses to inflation, the highest interest rates in two decades and potentially a recession. Finding an investment strategy to work amid all those risks is a big challenge, but the **WisdomTree Global Quality Dividend Growth ETF (GGRG)** looks like a good option.

Since launching in 2016 the exchange-traded fund has outperformed the MSCI World index, delivering a compound annual return of 10.9% a year compared with 10% for the index while providing a smoother ride for investors.

It has outperformed the market 75% of the time over 12-month periods since launch.

This isn't necessarily a fund to buy for income as it only yields 2.2%. Instead, it's about accessing companies with growing dividends as these are typically ones with strong balance sheets and quality characteristics. The ongoing charge is 0.38%.

The ETF is constructed around dividend-paying companies which display the best combined rank of earnings growth, return on equity, and return on assets.

Companies with higher-than-average return on equity and assets tend to have higher quality and more stable earnings. In addition, the index being tracked screens for ESG factors which means certain stocks are excluded.

Qualifying stocks are risk-tested to screen out the riskiest companies and potential value-traps.

The final layer of portfolio construction provides a valuation discipline in that each stock is weighted based on the cash dividend paid.

Head of quantitative research at WisdomTree Pierre Debru has analysed the last seven Federal Reserve's rate hiking cycles to investigate how high-quality stocks have performed in the following 12-months. In absolute terms there is a wide dispersion of outcomes with stocks gaining 24% in the best period and falling 18.8% in the worst. But what is interesting is that higher quality companies display more consistency, outperforming on six out of the seven occasions.

High-quality stocks captured most of the upside but provided a big cushion when stocks were weak. For example, the only underperformance was in 1998 when high quality delivered 23.3% compared with 24.3% for the index.

Reassuringly, when the market dropped 18.8% in 2007, quality fell by only 10%. Capturing less of the downdraughts is key to delivering higher returns over the long run.

The same consistency is found when analysing relative performance in economies growing at different speeds. Low-quality stocks only outperformed the market when the economy was booming. But high-quality stocks outperformed in both low and high growth economies.

It is impossible to find an investment which will outperform in all markets, but the WisdomTree Global Quality Dividend Growth ETF offers some protection in falling markets while giving investors access to the upside during the good times. [MG]

WisdomTree Global Quality Dividend Growth UCITS ETF

Chart: Shares magazine • Source: LSEG

Unicorn UK Smaller Companies is the smart way to position for the recovery of an unloved asset class

Its relative value approach is a good way to gain exposure to growth company re-ratings and potential takeover bids

Unicorn UK Smaller Companies

(3178506) 518.88p

Fund size: £33 million

BUY

Over the longer term, UK small caps have historically outperformed their larger cap brethren, but prevailing investor sentiment towards smaller companies remains poor due to stubborn inflation, higher interest rates and recessionary fears. It won't be like this all the time.

One smart way to gain exposure to the asset class ahead of an eventual rally, with a turn in inflation among the likely catalysts for recovery, is through **Unicorn UK Smaller Companies (3178506)**. This fund pursues a successful relative value approach to smaller company stock picking, resulting in a portfolio of quality, robustly financed firms with attractive growth prospects.

Rather than seeking out go-go growth stocks which are unprofitable with potential to blow up, the fund hunts for quality small cap companies that are profitable and cash generative yet mispriced, trading at an attractive valuation versus their long-term average or compared to peers, providing scope for significant re-ratings or even the outside chance of premium-priced takeover bids.

Co-managed by Simon Moon and Alex Game, who also invest their own money in the fund, Unicorn UK Smaller Companies aims to achieve long-term capital growth by investing primarily in companies within the Numis Smaller Companies plus AIM index. The fund has a 0.88% ongoing charge.

Over the last 10 years, the fund has generated 78.7% cumulative returns, ahead of the 63.6% from the IA UK Smaller Companies sector. It is ranked first quartile in the sector over one, three and five years and second quartile over 10 years.

Fairly concentrated with 47 holdings at last count, the portfolio includes industrials such as Stoke-on-Trent-based **Goodwin (GDWN)**, the family-controlled mechanical and refractory engineering group. Goodwin's activities include the manufacture of high-specification steel products used in frigates and submarines, which means the company is benefiting from a surge in defence spending.

Another top 10 name is structural steelwork company **Severfield (SFR)**, whose CV features involvement in high-profile projects including Tottenham Hotspur Stadium and The Shard.

The fund offers exposure to **Ashtead Technology (AT.:AIM)**, which hires out underwater equipment to the renewable and oil and gas industries, as well as **Cohort (CHRT:AIM)**, a defence technology business enjoying a bumper order book and which has raised its dividend every year since joining the stock market in 2006.

Investment bank **Peel Hunt (PEEL:AIM)** also nestles in the portfolio, as does **Tortilla Mexican Grill (MEX:AIM)**.

Investors need to understand there are headwinds for the small cap space so an element of patience is required. However, the recovery could be spectacular. [JC]

Unicorn UK Smaller Companies

Chart: Shares magazine • Source: LSEG

Rising global tensions and strategic shift power Shell to all-time high

The market's focus has shifted from energy scarcity to energy security

Shell (SHEL) £27.72

Gain to date: 18.7%

When we recommended oil and gas giant **Shell (SHEL)** at the end of June, we flagged the new chief executive's determination to improve margins, cash and shareholder returns as a key reason to own the shares.

Clearly, we didn't anticipate a further rise in global geopolitical tensions, as we are witnessing currently, but that plays into an underlying trend among countries and governments to shore up their fossil fuel resilience even if that comes at the expense of renewables.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Shortly after our article in the summer, the firm reported a 56% slump in second-quarter earnings to $5 billion as oil and gas prices fell and refining margins weakened.

Brent crude prices averaged $80 per barrel in the second quarter against $110 a year earlier, following the invasion of Ukraine, while liquified natural gas prices fell even further from $33 per MMBtu (million British thermal units) to less than $12, leading to a slump in trading profits.

The miss prompted the group to slow its share buyback programme, although chief executive Wael Sawan insisted he was still fully committed to repurchases 'given the value our shares represent'.

More recently, oil prices have perked up again on fears about global supplies.

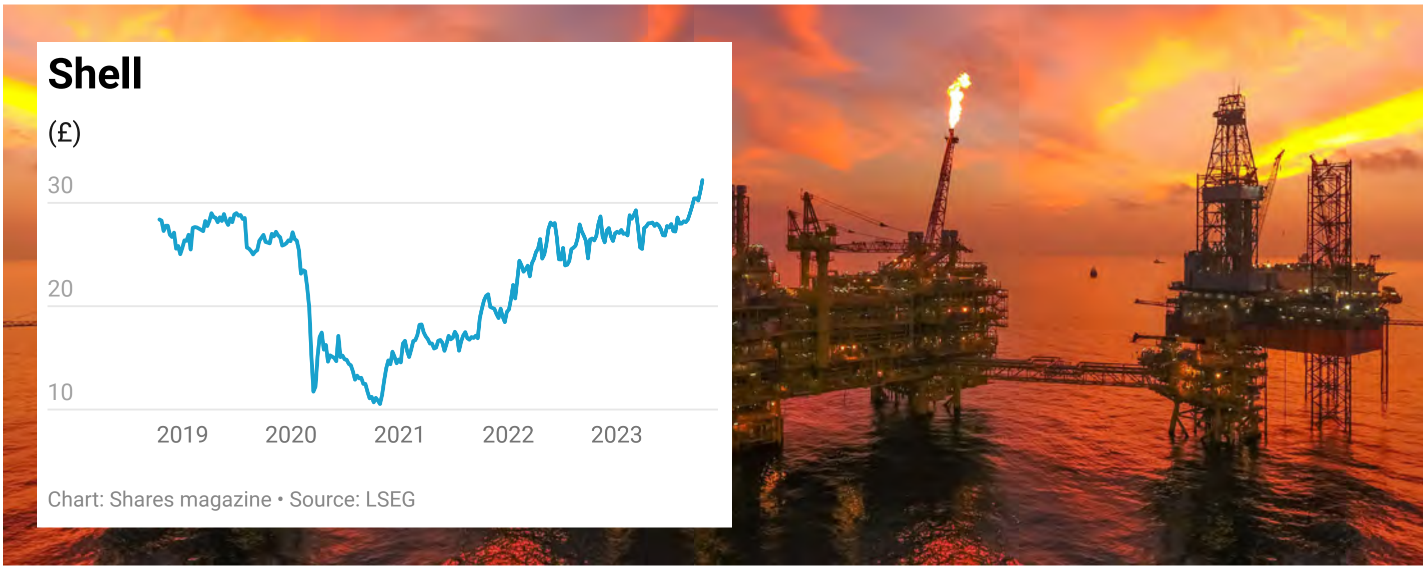
The company courted controversy in September when it not only 'retired' its goal to spend up to $100 million per year on carbon credits, but revealed it was exploring a number of new LNG projects in North America and Africa as it prepares for higher demand during the 'energy transition'.

WHAT SHOULD INVESTORS DO NOW?

With the shares trading at all-time highs some investors will be tempted to book profits, but we believe there is more in the tank for Shell.

Third-quarter results are due at the start of November. Given the firm has already published a preview there are unlikely to be any negative surprises.

Meanwhile, although the shares now trade on eight times 2024 earnings, there is still upside to peers such as **Chevron (CVX:NYSE)** and **ExxonMobil (XOM:NYSE)** which trade on double-digit multiples. [IC]



I've opened an ISA

-now what do I do?

By **Sabuhi Gard** Investment Writer

You have opened an ISA – congratulations, you have already taken one of the most important steps with investing, namely getting over the first hurdle.

This article will talk you through the next steps so you can start putting your money to work in the markets and hopefully grow your wealth.

What to do once you've opened an ISA

Step 1	Establish your investment purpose
Step 2	Decide how much you can invest
Step 3	Establish investment targets
Step 4	Consider the charges
Step 5	Decide what to invest in
Step 6	Make the transaction

STEP ONE:
ESTABLISH YOUR INVESTMENT PURPOSE

People invest for lots of reasons. If you are a parent you might want to invest for your child's future whether that is for a college/university education, driving lessons or a deposit for their first home.

If you have just bought a new property, you might want to invest so you can carry out those home improvements you've always dreamed of – a new bathroom, kitchen, conservatory or garden room. You might even want to invest so that one day you can buy a holiday home.

Alternatively, you might want to start investing for the purposes of creating a 'retirement nest egg' if, for example, you are self-employed and do not have a workplace pension.

Whatever the reason for investing, it is important to understand it is a long-term activity. Five years is the minimum to allow you to ride out periods of volatility in the market.

Deciding on an investment goal should help you remain focused and by working backwards you can determine how much you need to invest in order to achieve it.

To calculate this, you need to appreciate there are two main ways to make money from investing.

One is through capital gains where the value of your investment increases to a level higher than the amount of money put into the market. You bank a profit when you sell the investment.

The other way to make money is through dividends from stocks and funds or coupons from bonds.

Your total return factors in the change in the value of your investments and the income generated from it.

CLARE:
investing £75 per month to save for a home deposit

Bournemouth-based Clare is a 25-year-old marketing consultant who has just opened a Lifetime ISA. She is able to invest £75 per month and hopes to increase this amount when she next gets a pay rise.

Clare is hoping by investing this amount she can save up for a deposit to buy her first home with her partner David.

The Government provides a 25% bonus on contributions to a Lifetime ISA up to £1,000 a year. Clare qualifies for £225 of free money in a year as a result of paying in £75 a month.

She decides to invest in **Fidelity Index World Fund (BJS8SJ3)**. The fund aims to track the performance of the MSCI World index which encompasses more than 1,500 companies from stock markets in the developed world. Amongst its top holdings are tech giants **Apple (APPL:NASDAQ)** and **Microsoft (MSFT:NASDAQ)**.

STEP TWO:
DECIDE HOW MUCH YOU CAN INVEST

Before you start investing you need to decide how much you can invest. The lump sum or a regular amount can be as much or as little as you want – to suit your own personal or household budget.

For example, if you invested £75 a month over a five-year period and achieved 7.5% annual growth your investment could be worth just under £5,000 at the end. That assume 0.75% annual charges. That shows how little and often can add up to a decent amount over time.

STEP THREE:
ESTABLISH INVESTMENT TARGETS

Let us say you have an investment target of £20,000. Starting from scratch over a five-year period with a 7.5% annual return and 0.75% charges, you would need to invest £281 per month to reach your target.

If this monthly amount is unrealistic, you may need to lengthen the investment period or rethink the size of your investment goal. Investing in riskier financial products to potentially achieve higher returns and meet your target could be counterproductive as the risk of losing money is higher.

Do not forget to consider the impact on inflation when working out your investment goal. For example, a loft conversion might cost £50,000 today, but it is likely to be more expensive in the future due to inflation.

While inflation is currently high, the Bank of England has a long-term 2% target. What this implies is that the cost of a loft conversion could go up by at least 2% each year. On that basis, you would need to target a minimum of £55,204 to cover the project cost in five years' time, not £50,000.

STEP FOUR:
CONSIDER ALL THE CHARGES

If you open a Stocks & Shares ISA, Lifetime ISA or Junior ISA with an investment platform there are various costs and charges which need to be factored into your planning.

For example, AJ Bell imposes an annual custody charge which is a fee for holding your investments. For shares, investment trusts, ETFs and bonds, this is 0.25% a year, capped at £3.50 per month. For funds, you pay 0.25% for the first £250,000 of assets, 0.1% for the next £250,000 worth of investments and nothing above £500,000.

For buying and selling investments there are costs associated with each trade. AJ Bell charges £1.50 for funds or £9.95 for all other types of investments including shares. The latter can fall to £4.95 per trade if you have done 10 or more share deals in the previous month. You can set up a regular investment service whereby you buy the share, investment trust, fund or ETF each month for £1.50 a trade.

You have to pay 0.5% stamp duty on UK-listed shares (excluding those on the AIM market) and there are also foreign exchange fees if you buy overseas-listed shares.

Funds have an in-built charge which is typically 0.1% to 0.2% for products that track an index or 0.75% to 1% for those where a fund manager makes all the portfolio decisions.

JEFF AND SHARON: Putting money into a tracker fund to grow their wealth

Jeff is a 41-year-old accountant, and his wife Sharon is a 38-year-old freelance designer. They have each opened an ISA with the intention of putting money into the markets and not taking anything out for as long as possible.

Jeff has a workplace pension with his employer but Sharon, who is self-employed, does not have a private pension. As it stands, she will be relying on the state pension when she turns 68 years old. Sharon wants to have an additional source of money later in life, so forms an investment plan.

Sharon decides to open a Lifetime ISA to benefit from the 25% Government bonus available with this type of investment account. She can afford to invest £300 a month which equates to £3,600 a year. That amount is topped up by an extra £900 from the Government bonus, meaning she has £4,500 a year going into the ISA. The bonus will be paid every year that she contributes money until she turns 50, and she can withdraw funds from the Lifetime ISA from the age of 60 without penalties.

Jeff wants the flexibility of being able to take out money whenever he wants, should an emergency crop up. For that reason, he opens a Stocks & Shares ISA where there are no restrictions on withdrawals. Jeff also decides to invest £300 a month but does not qualify for the Government bonus as that is not available with this type of ISA. He would not have been able to use a Lifetime ISA anyway, as the maximum age to open an account is 39 years old.

The couple want to focus on growing the value of their capital rather than generating an income today. They decide to invest in **iShares MSCI ACWI ETF (SSAC)**, an exchange-traded fund. They use a regular investment service to qualify for a reduced dealing charge of £1.50 per trade.

This product provides exposure to companies of all sizes across 23 developed markets and 24 emerging markets countries for a low ongoing annual charge of 0.2%. It mirrors the performance of the MSCI All Countries World index.

STEP FIVE:
DECIDE WHAT TO INVEST IN

Make sure you do your research before putting money into any investment. A good starting point is *Shares* – as a digital magazine we cover a range of investments as well as educational material to aid your understanding of the markets and investing.

Other useful sources of information include the personal finance and business sections of newspapers and your investment platform. For those serious about improving their investment skills, we have articles about useful investment books or you could look at financial data platforms including SharePad and Stockopedia which offer useful screening tools.

Not everyone wants to become an expert in investing and instead they would rather find the simplest way to put money into the markets. If that is you, starting with funds and investment trusts could be the most sensible option.

You benefit from diversification as you gain exposure to lots of different holdings rather than having your returns dependent on one or two individual shares. If something goes wrong with one or two investments in a fund, the rest of its portfolio should help cushion the blow and hopefully limit any losses.

A sensible starting point might be to invest in a handful of funds covering different markets and asset classes. Or, if you are only investing a modest sum, then you could look at a low-cost diversified global equity or multi-asset fund. For example, **F&C Investment Trust (FCIT)**, **Brunner Investment Trust (BUT)** and **Witan Investment Trust (WTAN)** style themselves as one-stop shops for investors.

If you know the fund you want to invest in then, input the name into your platform and bring up the relevant page which will include information about its performance, fees and portfolio.

It is also worth checking which version of the fund you are buying – specifically whether it is the ‘inc’ (income) or ‘acc’ (accumulation) version? If you invest in the accumulation version of the fund then any income generated from the underlying investments will be reinvested back into the fund, while the income version will see dividends paid out to you as cash.

STEP SIX:
MAKE THE TRANSACTION

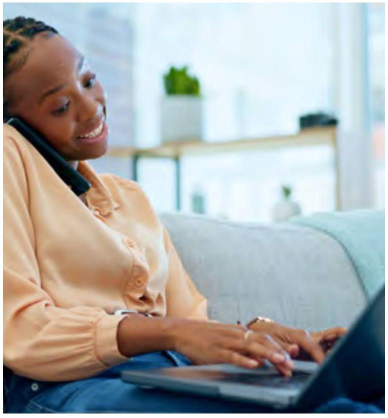
For a one-off investment you will start by clicking on the deal or trade button. This places an order which is an instruction to buy or sell your chosen investment.

It is worth having enough cash in your account to fund any charges. If you do not then small bits of existing investments could be sold to pay these fees when they are due to be paid.

Before you invest in a fund, you will need to confirm you have read the necessary information about a fund including the Key Information Document or KID. This is a short document that provides important background about a fund which can help you decide if it is a suitable investment for you.

It often takes at a day for the order to buy a fund to be processed and completed. This means if you select to buy a certain number of units in a fund you will not know the total cost straight away, but you can also opt to buy units in a fund up to a certain monetary value.

For a transaction in shares, investment trusts and ETFs you will be provided with a time-limited quote to buy (or sell) at a certain price, reflecting the fact that their prices move around all the time. In a similar way to funds you can either select how much money or how many shares you want to trade. You will then be shown the total cost of the transaction.



Once you have clicked that buy button or set up your regular investment then congratulations, you have done it and you are a fully-fledged investor.

DISCLAIMER: AJ Bell referenced in the article owns Shares magazine. The author of the article (Sabuhi Gard) and the editors of the article (Daniel Coatsworth and Tom Sieber) own shares in AJ Bell. DC also invests in Fidelity Index World.

BARINGS

EMERGING EMEA: A DIVERSE COLLECTION OF COUNTRIES WITH UNIFYING CHARACTERISTICS

***Barings Emerging EMEA Opportunities PLC** offers a strategy for investors seeking to diversify the growth and income potential of Emerging Europe, the Middle East and Africa. Investors can often overlook 'Emerging EMEA' - a diverse collection of countries with unifying characteristics that are compelling for any investor. Let's take a look at a few of them:*

The region is under-researched and under-represented
Fund managers and investment houses may assign dozens of analysts to developed markets, and the global names dominating its markets. Conversely, stocks in Emerging EMEA tend to command far less coverage. As a result, there is an array of undervalued opportunities for attentive investors.

E-commerce revolution in its infancy
We've seen how the seismic shift to living, working and shopping online has driven many aspects of stock market growth over the past decade. But many markets in Emerging EMEA are only at the start of this journey. What's more, it's not just the big global names that are benefiting - the so-called 'local champions' in sectors spanning social media to gaming, food delivery to finance are often the preferred brands.

The global energy transition
The global movement to transition away from fossil fuels may not—at first view—look like welcome news for the oil-rich or often coal-dependent economies of Emerging EMEA. But as elsewhere in the world, the race to address climate change is presenting compelling investment opportunities for a range of sectors and companies across this region. EMEA has access to some of the key metals that play an important role in energy transition such as copper, platinum and nickel. It's estimated that the supply of copper, which is essential to solar panels, and zinc, a big component of wind power and electric vehicles (EVs), will need to double between 2019 and 2050 to meet targets.

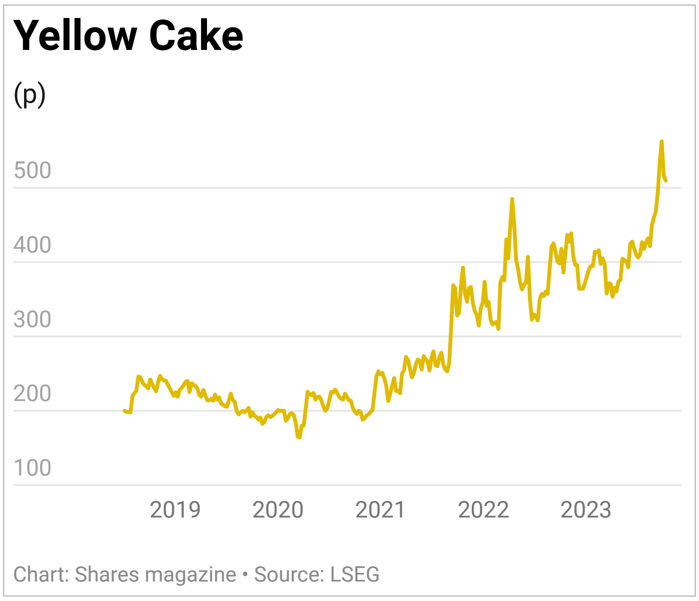
They're naturally good diversifiers
The large energy exporters in the region benefit from overseas revenues helping to diversify their economies. Aside from these energy producers, many economies of Emerging EMEA are domestically focused. This means they have relatively low correlation with one other. So when one market in an Emerging EMEA portfolio may be slowing, others may be stable or on the rise – helping to balance out portfolio risk. Of course, these markets still present all the political, currency and market risks – and demand a long-term investment view. But they also offer valuable diversification for any global portfolio.

Highly-experienced investment team
Barings Emerging EMEA Opportunities plc is managed by Matthias Siller and Adnan El-Araby. Matthias and Adnan are supported by the wider EMEA Equity Team, which comprises four additional experienced investment professionals with research and portfolio management responsibilities. The team form part of Barings' broader Emerging Markets platform, with investment professionals based in London, Hong Kong and Taiwan, utilising their local knowledge and experience.

To find our more, visit www.bemoplc.com and for news and views, sign up at bemoplc.com/preferencecentre.

Uranium prices have surged – this stock offers pure exposure to the market

What's behind the resurgence of nuclear power and how does Yellow Cake look to take advantage?



Prices of uranium have spiked this year to 12-year highs amid the rehabilitation of nuclear power. The Russian invasion of Ukraine and the actions of oil producers in limiting production to support crude prices have increased the pressure on global governments to prioritise energy security.

Nuclear, which had been tarnished by the 2011 Fukushima disaster in Japan, is now seen as a viable, low-carbon source of power which, crucially, is able to provide the kind of reliable baseload power lacking from renewables.

A recent report from the World Nuclear Association forecasts world reactor requirements for uranium to surge to almost 130,000 tonnes in 2040, up from an estimate of 65,650 tonnes in 2023.

At nearly $70 per pound uranium prices are back at pre-Fukushima levels and a UK-listed stock which has followed prices all the way up is **Yellow Cake (YCA:AIM)**. Named for the uranium oxide which is formed after initial processing of mined uranium before being enriched for use in nuclear energy, the company offers pure exposure to the uranium spot price.

It buys physical uranium oxide or U3O8 and holds it in storage. What really makes it stand out is an agreement with Kazakh uranium miner Kazatomprom, the world's largest and one of world's lowest cost producers of uranium.

HOW DOES YELLOW CAKE STAND OUT?

Traditionally when someone buys a large amount of a commodity on the open market, it can cause the market price to shoot up. Yellow Cake has a deal to buy directly from Kazatomprom privately and so transactions between the two parties do not disturb the market price.

Under the current terms of the agreement with Kazatomprom, Yellow Cake can purchase up to $100 million worth of uranium a year until 2027. Since 2018, it has built up a holding of 20.2 million pounds of U308 at a cost of $707 million.

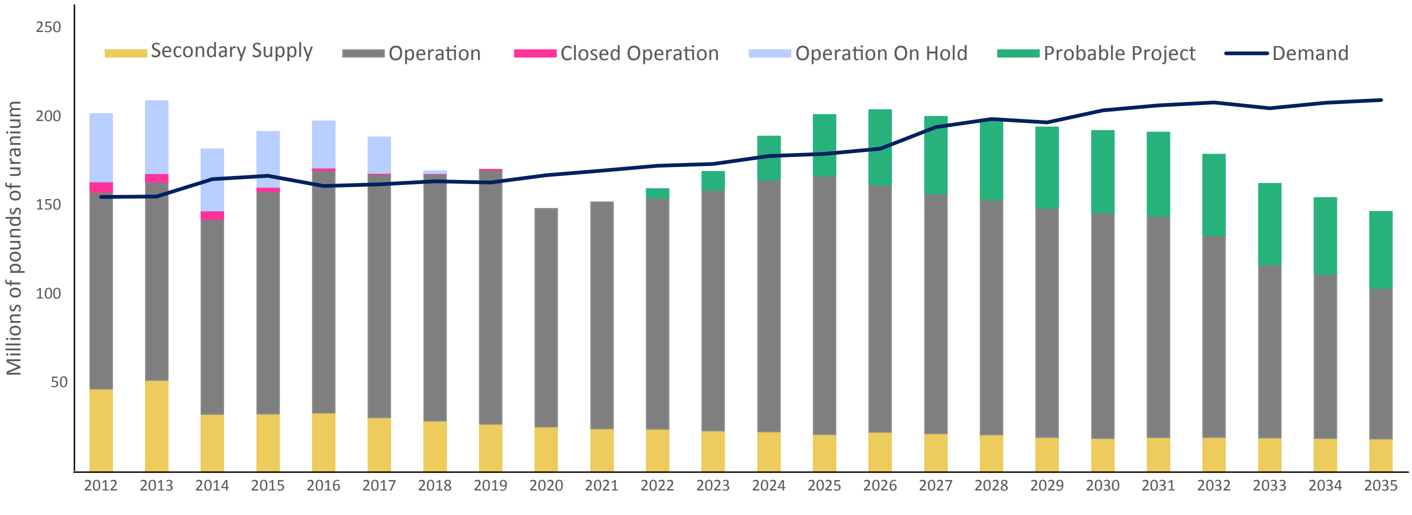
Once it has bought the uranium from Kazatomprom a delivery date and location are agreed – the uranium oxide is then stored at Canadian uranium firm **Cameco's (CCJ:NYSE)** facilities in Ontario or its state-owned counterpart Orano's in France. Inventories are quality checked on admission and these parties are responsible for the full value of the uranium oxide held in storage in the event of any loss.

Yellow Cake aims to keep its operating costs below 1% of its holdings – in the 12 months to March 2023 this ratio stood at 0.63%. Helping with this, it has just two permanent employees in chief executive Andre Liebenberg and chief financial officer Carole Whittall. They are supported in procurement by uranium specialist company 308 Services.

RECENT INJECTION OF CASH

In September 2023 Yellow Cake raised $125 million at a placing price of 550p per share to fund the purchase of its full allocation from Kazatomprom

URANIUM: THE SUPPLY SIDE IS BEING CHALLENGED TO MEET GROWING DEMAND



Source: Yellow Cake, MineSpans, May 2022

at a price of $65 per pound – indicating that it continues to see value in the commodity, even at current elevated prices. Any money left over after buying from Kazatomprom will fund 'opportunistic' spot market purchases.

Berenberg analyst Richard Hatch says: 'The demand picture remains attractive, not only with new reactors being built and planned (437 operable nuclear reactors globally, 57 under construction, over 100 on order or planned, and over 300 proposed), but also through additional demand coming through small modular reactors.

'On the tight spot market, the **Sprott Physical Uranium Trust (U.U:TSE)** is starting to add volumes, albeit on a small scale, adding around 300,000 pounds in the last few weeks; we see clear scope for this to increase, adding more demand and pushing prices higher.'

A 'TINDERBOX' MARKET

Canaccord Genuity analyst Alex Bedwany describes market conditions as a 'tinderbox' thanks to a lack of material available globally despite a recently flagged 6,000 tonne increase in production from Kazatomprom.

Bedwany notes: 'We remain sceptical that Kazatomprom will be able to raise production at this pace due to logistical challenges (a view shared by many industry participants).'

One issue for Kazatomprom is it faces delays in moving its material due to the war in Ukraine. Geopolitical instability in Niger – which accounts for around 4% of global uranium output, is another factor acting as a support for the commodity price.

ALTERNATIVE EXPOSURE TO URANIUM

Most uranium miners are listed in either Canada and Australia so investing in their shares involves extra costs and complexity for UK investors and the risks associated with backing individual companies. On alternative is investment trust **Geiger Counter (GCL)** which has a portfolio of investments in uranium miners. It's worth noting the high ongoing charge of 3.14% according to Association of Investment Companies data, it currently trades at a 21.4% discount to net asset value.

Supply of uranium comes from both mines and secondary sources including civil stockpiles held by utilities and governments, decommissioned military warheads, recycled material and re-enriched depleted uranium.

Liberum estimates the uranium oxide market will be in a small deficit in 2023 and 2024 before the market returns to balance or a modest surplus in 2025 as Cameco increases its production.

At 515p Yellow Cake's shares are trading at a 13% discount to the last declared net asset value per share of 591p per share and at a more than 20% discount to Berenberg's forecast March 2024 net asset value of 658p.

By **Tom Sieber** Deputy Editor

ADVERTISING PROMOTION

TR Property Investment Trust

TR Property:
your one-click property portfolio

TR Property Investment Trust's fund manager, Marcus Phayre-Mudge, looks at why many property companies are well positioned to wait out high inflation. TR Property has focused solely on the property sector since 1984, offering diverse exposure to the UK and European property markets, primarily through listed real estate equities. The Trust has beaten its benchmark in 11 of the past 12 years.

Over the long term listed property can act as a wealth generator, due to its virtue of producing index-linked, and therefore inflation-proof, income. Across much of TR Property's pan-European investment universe, rental increases are tied to national inflation, giving property owners and operators excellent protection against the erosion of their earnings.

Yet, property investments succumb to two main sicknesses. One is an oversupply of (or collapse in demand for) physical real estate. The other is when the cost of money shoots up, making debt more expensive. It is this latter factor that is responsible for most downward price action over the last 18 months. Investors panicked about inflation and the resultant rising cost of borrowing.

The good news is that many property companies still have very manageable loan-to-value ratios, with debt that is fixed longer-term. Meanwhile, we have focused vociferously on weeding out companies that have borrowing burdens they are no longer able to cope with.

Imagine you have two friends, both of whom bought their flats two years ago. One is on a floating rate mortgage and winced as higher mortgage costs ate away at their disposable income. The other secured a five-year fixed deal, so isn't overly worried about what is happening to interest rates presently. The same situations are playing out in our world but on a much bigger scale – and this demonstrates how the impact of rate rises are neutral for some companies.

Nonetheless, listed real estate is highly sensitive to the sentiment that accompanies prolonged inflation. At time of writing, the terrible events unfolding in the Middle East have thrown further uncertainty into an already fragile global economy. The side effect may be that energy prices and inflation remain higher for longer.

At TR Property we are consistently hearing that the companies we invest in are sound, with few tenant defaults and healthy occupancy levels. In the case of industrials, logistics, student accommodation and prime city centre offices, rents are rising.

Market cycles over the last 30 years have shown that when interest rate projections do peak, property equities recover much more sharply than the wider stock market. This recovery should be supported by the fact there are many sub-sectors where demand remains strong. We continue to focus on companies operating in supply-constrained sectors that have little near-term refinancing, manageable loan-to-value ratios and all importantly, the ability to grow their earnings through indexation.

Selecting individual property stocks and REITs is time, resource and expertise intensive – especially during a period of uncertainty. Our aim at TR Property is to make it easy to gain broad, balanced exposure to the UK and European property sector with one click.

Indian stocks are expensive for a reason and have been superb performers

Looking at the drivers behind the market, what next year's election might mean and whether valuations are too high

Over the past year India has been stealing investors' attention away from the US, China, Europe, as a popular country to invest due to the strong performance of Indian equities, the impact of historic economic reforms and favourable demographics. With a general election looming in 2024, how long will this combination continue to fire Indian stocks?

The other question facing prospective and existing investors in Indian stocks is one of valuation. Analysts at Goldman Sachs said in July this year: 'Indian equity markets are less likely to outperform its peers in 2023' due to valuations looking expensive. In this article we address this issue, look at the broader outlook and consider how to invest.

HOW HAVE INDIA STOCKS PERFORMED?

India has been one of the best performing markets achieving gross returns of 12.8% over one year and gross annualised returns of 20.1% over three years,

MSCI India has comfortably outperformed MSCI Emerging Markets

Rebased to 100

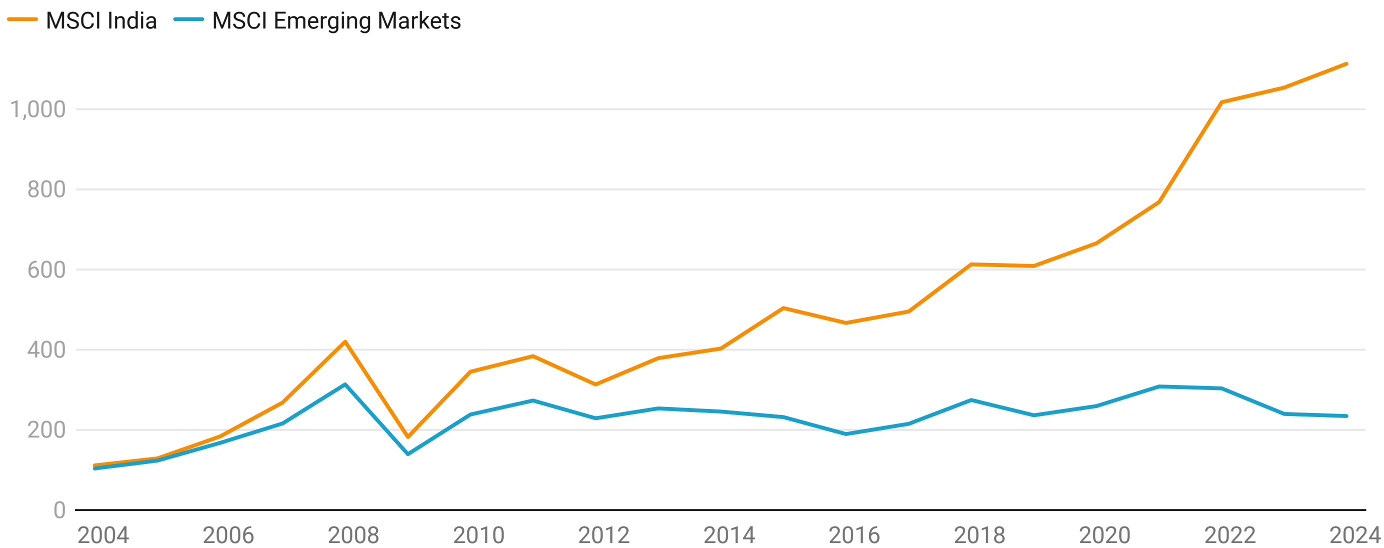


Chart: Shares magazine • Source: LSEG

13.2% over five years and 13.1% over 10 years (as of 29 September 2023), according to the latest data from the MSCI India index (denominated in local currency) and according to research from Morgan Stanley it is on track to become the world's third largest economy by 2027 and have the third largest stock market by 2030.

The reason for its stellar performance has been India's ability to boost its share in global manufacturing, expand its credit availability, create new businesses, and improve the quality of life for its growing one billion plus population (thus encouraging consumer spending in the country).

India is attracting investment from high profile international companies like **Amazon (AMZN:NASDAQ)**, **Boeing (BA:NYSE)**, Samsung and **Nokia** who are looking to India as a manufacturing alternative.

Chetan Ahya, chief Asia economist at Morgan Stanley says: 'India will be one of only three economies in the world that can generate more than $400 billion annual economic output growth from 2023 onward, and this will rise to more than $500 billion after 2028.'

It is no surprise therefore that India is on the global investor's radar. India's current prime minister Narendra Modi has played a role in shaping India's growing economy with his series of economic reforms, for example introducing the insolvency and bankruptcy code (IBC) which helped banks recover their debts.

Other factors which have made India attractive to global investors is demographics – with a growing and youthful population – more than 40% of Indians are under 25, according to the latest data from the United Nations.

'A MULTI-DECADE' GROWTH OPPORTUNITY

Ayush Abhijeet, adviser to the **Ashoka India Equity Investment Trust (AIE)** says: 'A potential multi-decade growth opportunity is unfolding as per capita incomes rise, creating inflection points for various categories where India is at the lower end of the consumption curve.

'Driven by the lowest data costs globally, the internet has democratised aspirations across 200 million-plus households which are at an early stage of adoption of many discretionary goods.'

India is also a democracy, albeit an imperfect one with a fair share of geopolitical tensions and internal religious divisions, and this usually reinforces property rights, helping to give greater confidence to overseas investors.

In contrast to India, the more authoritarian China has achieved of gross returns 8.6% over one year and annualised gross returns of -12.1% over three years, -2.9% over five years and 3.7% over 10 years (as of 29 September 2023). China's population is not growing as fast as India's.

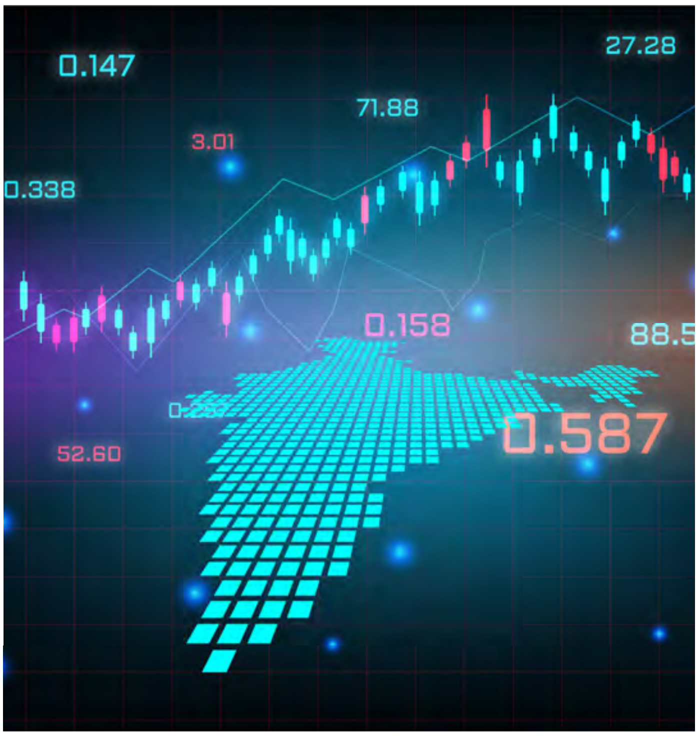
Dina Ting, head of global index portfolio management with Franklin Templeton's ETFs says: 'China's weaker-than-expected economic recovery furthermore appears to be lending positive momentum to Indian equities, especially among international investors who have favoured smaller, domestically focused companies.'

GLOBAL MARKETPLACE

The recent G20 global economic summit hosted in India catapulted prime minister Narendra Modi into the global spotlight – showing the world it was a credible economic superpower in the same league as China or the US.

Modi 'took the opportunity to further promote several measures aimed at better integrating the 'Global South's' developmental needs and ambitions with that of the G20,' Franklin Templeton's Ting says.

Ting adds: 'Modi announced a new multilateral rail and sea corridor project to connect India



with the Middle East and the European Union, describing it as a beacon of partnership and innovation.

'In such an environment of shifting global political alliances, the trade pact stands to be a compelling counterweight to China's vast Belt-and-Road infrastructure corridor.'

THE VALUATION QUESTION

For all their attractions, Indian stocks do trade at a significant premium to other emerging markets. The MSCI India index trading on a forecast PE (price to earnings) ratio of 20.1 times at the end of September compared with 11.6 times for the wider MSCI Emerging Markets index.

How do India-focused fund managers see valuations? Abhijeet says: 'Relative valuations convey only half the story. Even as the premium to other emerging markets have expanded, compared to its own recent history, India's multiples are close to average levels.

'On a one year forward basis, the Sensex trades at 21 times earnings which is in-line with the average since 2014 when multiples reset higher. This observation also implies that higher relative multiples are driven more by derating of other large emerging markets such as China rather than any India specific re-rating.

'It is also worth noting that when one talks about valuation and averages, it is generally about price to earnings or the price to earnings ratio while what we track is the multiple based on our proprietary cash flow centric OpCoFinco framework.'

In terms of mitigating this risk Abhijeet says: 'We continue to stay fully invested at all times with a bottom-up approach to investing in great businesses at attractive valuations.'

Kristy Fong, senior investment director at **Abrdn New India Investment Trust (ANII)** acknowledges 'some froth' in certain pockets of the Indian stock market, particularly the small- and mid-cap space.

'As such, we won't be surprised if there is any profit-taking should there be a risk-off in market sentiments or a rotation towards markets that offer better value,' she says.

However, she adds: 'We remain confident that our portfolio, as positioned, has the right features to withstand the current challenging environment.

'In the short-term, once the global interest rate cycle peaks, we believe that the growth to value rotation will ease or even reverse, and our resilient, higher-quality, growth stocks will outperform.'

ELECTIONS IN FOCUS

Something which could upset the apple cart in India is the general election expected to be held between April and May 2024. Modi, who has served as prime minister since 2014, is widely expected to prevail.

Abrdn's Wong says: 'The consensus view is that prime minister Modi and the BJP government will win majority, albeit at a smaller margin. That's a view that we share as well. Political continuity will be much welcomed for Indian equities and India's relations with the rest of the world.'

Ashoka's Abhijeet says: 'One of the reasons why India has commanded a premium over other emerging markets is because it possesses the soft

Indian investment trusts' performance

Trust	Five-year share price total return (%)
Ashoka India Equity	177.1%
India Capital Growth	108.8%
Abrdn New India Investment Trust	56.7%
JPMorgan Indian	53.7%

Table: Shares magazine • Source: AIC, data as at 11 October 2023

Indian equity funds' performance

Fund	Five-year total return (%)
Stewart Investors Indian Subcontinent Sustainability B Acc	93.9%
Jupiter India L Acc	81.6%
Liontrust India	76.0%

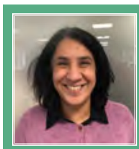
Table: Shares magazine • Source: FE Analytics, data to 12 October 2023 in GBP infrastructure of a mature, stable democracy with strong separation of powers The general elections are about six months away. At this juncture, as per various surveys, prime minister Modi's popularity rating is the highest globally. Thus, the markets would also be expecting continuity. However, as the saying goes, six months is a long time in politics.'

HOW TO INVEST IN INDIA

While retail investors cannot purchase individual Indian stocks there are still several ways to invest in India. One is through single-country funds focused on the market, for example, the aforementioned Ashoka India Equity Investment Trust has delivered a 177% return over five years making it the best-performing India-focused investment trust.

The ongoing charges for the Ashoka India Equity Investment Trust are low at 0.5%. Another example of an India single-country fund is Abrdn New India Investment Trust. Over the past five years it has delivered a total return of 56.7%. Its ongoing charge is 1.09%.

Investors can also gain exposure through India-focused exchange-traded funds (ETFs). For example, **Franklin FTSE India UCITS ETF (FLXI)** has returned 36% over a three-year period and has an ongoing charge of 0.19%.



By **Sabuhi Gard** Investment Writer

What is the actual state of play in the UK commercial property market?

Behind the doom-and-gloom headlines, many firms are doing fine

September was a bad month for stocks in general, but it was especially poor for UK REITs (real estate investment trusts), with 77% of the sector by market cap being derated according to analysts at Winterflood, leaving 24 out of 32 trusts down over nine months.

With worries over the economy, discounts to NAV (net asset value) continuing to widen and retail investors exiting the sector in their droves, we decided to dive into the recent updates from more than half a dozen REITs to see for ourselves what the current state of play is in commercial real estate.

The answer is not as bleak as the headlines, with almost all firms seeing strong rental growth along with high levels of rent collection and occupancy and some even suggesting the bottom may have been reached in for valuations.

APPROACHING A TURNING POINT?

Cyrus Ardalan, chair of **LXI REIT (LSI)**, which owns a broad range of commercial property assets from hotels to car dealerships, care homes, discount retail sites and even theme parks, summed up the current situation: 'The past six months have continued to be marked by considerable economic uncertainty, with high rates of inflation and rising interest rates.'

'Uncertainty persists for the wider real estate market in the form of challenging debt conditions, lack of clarity around ESG (environmental, social and governance) factors, including the implementation of EPC targets and structural changes impacting certain sectors, in particular offices.'

Yet there are green shoots emerging, says Ardalan, with UK inflation falling and interest rates approaching or at their terminal levels.

At an operational level, the firm is enjoying robust rental growth, 100% occupancy and 100% rent collection with 98% of rents benefitting from inflation-linked or fixed rental uplifts.

'Our tenant covenants have been enhanced by strong trading results and the embedded rental uplifts from our long leases are providing ongoing rental growth. At current valuation levels, many of our properties are held significantly below their reinstatement/construction cost, providing a material underpin to long-term capital and rental growth prospects.'

And there are signs the decline in total returns may have run its course, with real estates services outfit CBRE reporting capital values across UK commercial property fell by 0.4% in September while rental values rose by 0.4% meaning total returns were flat for the month but up 0.3% for the quarter.

PROPERTY MARKET ACTIVITY PICKING UP

One of the big issues for property valuers and investors alike has been the dearth of transactions, which makes it had to get a handle on capital values, but several firms have recently announced asset sales in line with or ahead of their latest valuations which is encouraging.

At the beginning of the summer, **UK Commercial Property REIT (UKCM)**, which manages a £1.3 billion portfolio, announced it had sold a logistics site in Wembley for £74 million, in line with its March 2023 valuation.

In its half-year update in September, the firm reported occupancy of more than 96% after it successfully let 107,000 square feet of EPC A-rated industrial space at its Sussex Junction site, just off the A23 at Bolney, and manager Will Fulton noted an uptick in sentiment in the logistics sector 'with pricing and performance demonstrating tentative signs of stabilisation'.

In early October, **AEW UK REIT (AEWU)** announced it had sold a freehold high-street retail holding in Portsmouth for £3.9 million representing a 22% premium to its June 2023 valuation.

Latest discounts to NAV (10 October 2023) for UK commercial and logistics REITs

AEW UK	−7.3%
Custodian Property	−15.5%
Life Science REIT	−20.4%
Supermarket Income	−23.5%
LXI REIT	-24.3%
Tritax Big Box	-27.5%
Urban Logistics	-31.5%
UK Commercial Property	-32.2%
Alternative Income	-33.1%
Schroder Real Estate	-34.6%
Warehouse REIT	-35.1%
Abrdn Property Income Trust	-40.1%
Regional REIT	-64.3%

Table: Shares magazine • Source: AIC (Association of Investment Companies), data as at 11 October 2023

Portfolio manager Laura Elkin said the team was 'pleased to have sold this holding for a healthy premium to valuation, having completed the asset management strategy and therefore maximised value'.

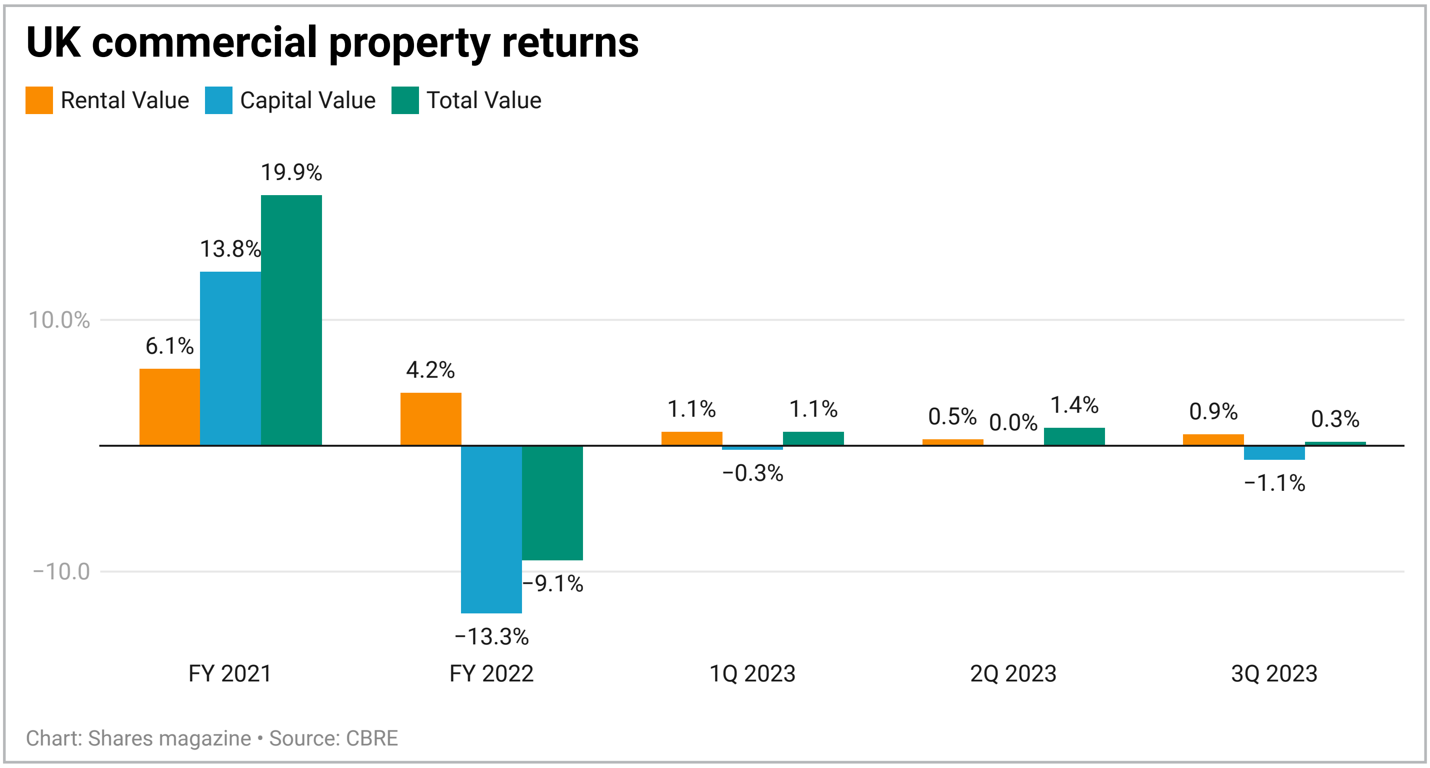
On 10 October **Warehouse REIT (WHR)** reported it had sold two assets, one in Cardiff and one on the Isle of Wight, for a total of £9.5 million, 30% ahead of their March 2023 book value, bringing total sales since the start of April 2023 to £39.6 million and £94.3 million over the last 12 months.

'The premium to book value achieved across these sales provides further evidence that liquidity for well-let warehouse assets remains and illustrates the company's ability to create and crystalise value for shareholders through asset management despite the difficult macro-economic conditions,' said Simon Hope, co-manager of Tilstone, the firm's investment advisor.

THE APPEAL OF 'LONG INCOME'

For investors who like the look of commercial property but do not want exposure to the ups and downs of the economy, 'long-income' sectors like primary care facilities, care homes and student accommodation are a potential solution.

In its first-half trading update last week, **Assura (AGR)**, the largest primary care investor and developer in the UK with a portfolio of 612



properties, said it continued to see 'growing and consistent demand for high-quality healthcare buildings in a community setting'.

The firm settled over 150 rent reviews with a strong uplift, while it continued to grow its portfolio, completing a state-of-the-art day case hospital in Kettering, moving on site with an ambulance hub for the local NHS trust in Bury St Edmunds and acquiring another asset in Ireland where it is expanding its operations.

Target Healthcare REIT (THRL), the FTSE 250 trust which invests in modern care homes, announced its full-year results last week showing an 18.8% increase in earnings per share thanks to what it called a 'robust and resilient portfolio performance'.

Like-for-like rental income grew 3.8%, predominantly driven by reviews, while rent collection was 99% for the quarter to September, ahead of pre-pandemic levels.

The company sees 'compelling sector tailwinds with long-term demand from an ageing population supporting both investor and operator activity in the sector' while at the same time there is a chronic lack of modern, fit-for-purpose care home accommodation.

BIG DEMAND FOR STUDENT ACCOMMODATION

Meanwhile, **Unite Group (UTG)**, the UK's leading owner, manager and developer of student accommodation, reported full occupancy, strong rental growth and stable property values for the three months to September.

Occupancy for the 2023/24 academic year is 99.7%, while average rents are up 7.3% reflecting the appeal of the group's properties and its fixed-price, all-inclusive offer.

'The UK is increasingly short of suitable student accommodation as HMO (house in multiple occupation) landlords continue to leave the market at pace. As the leading purpose-built student accommodation provider, we have a crucial role to play and we continue to work closely with universities to ensure students have access to high quality, affordable accommodation', said chief executive Richard Smith.

Jefferies analyst Mike Prew commented: 'The strong letting performance increases our confidence in delivering at least 5% rental growth for the 2024/25 sales cycle and supports our property valuations as the market adjusts to an environment of higher interest rates.'

By **Ian Conway** Companies Editor

Popular Royal London fund closed to new money – what now?

You can access the same strategy through some of the asset manager's other funds

Occasionally, funds can become victims of their own success, becoming so popular and attracting such inflows that they become harder to manage and their size begins to impact on the investment process and performance.

One way asset management companies seek to dampen down investor demand in such instances is to 'soft close' such a collective, which means the fund is technically still open for sales and purchases but it is made far less appealing to new investors.

Usually, the fund provider will levy charges on the fund in order to deter investors, charges that can include the removal of any discounts the manager offers to intermediaries. Regular savers are usually unaffected by a soft closure and normally, they can continue to put money into the affected fund.

Rarer still is a 'hard close', where the fund provider will simply not accept any new money into a fund that has grown too popular and is sometimes removed from platforms altogether.

Fund management companies soft and hard close funds to protect existing investors and these funds still operate in the background.

WHY HAS GLOBAL EQUITY SELECT HARD CLOSED?

On 14 September 2023, Royal London Asset Management announced it had decided to limit access to the five-star Morningstar rated **Royal London Global Equity Select (BF93W97)** fund, ranked first quartile in the IA Global sector over one, three and five years and offering exposure to tech titans **Apple (AAPL:NASDAQ)** and **Microsoft (MSFT:NASDAQ)** as well as US healthcare colossus **UnitedHealth (UNH:NYSE)** and high-flying pharma

firm **Eli Lilly (LLY:NYSE)**.

The hard close followed a sustained period of success for the Global Equity Select strategy, which outperformed the MSCI World index in 18 of 21 years between 2001 and 2022 and has seen strong inflows and interest from investors in the UK and across the globe as a result.

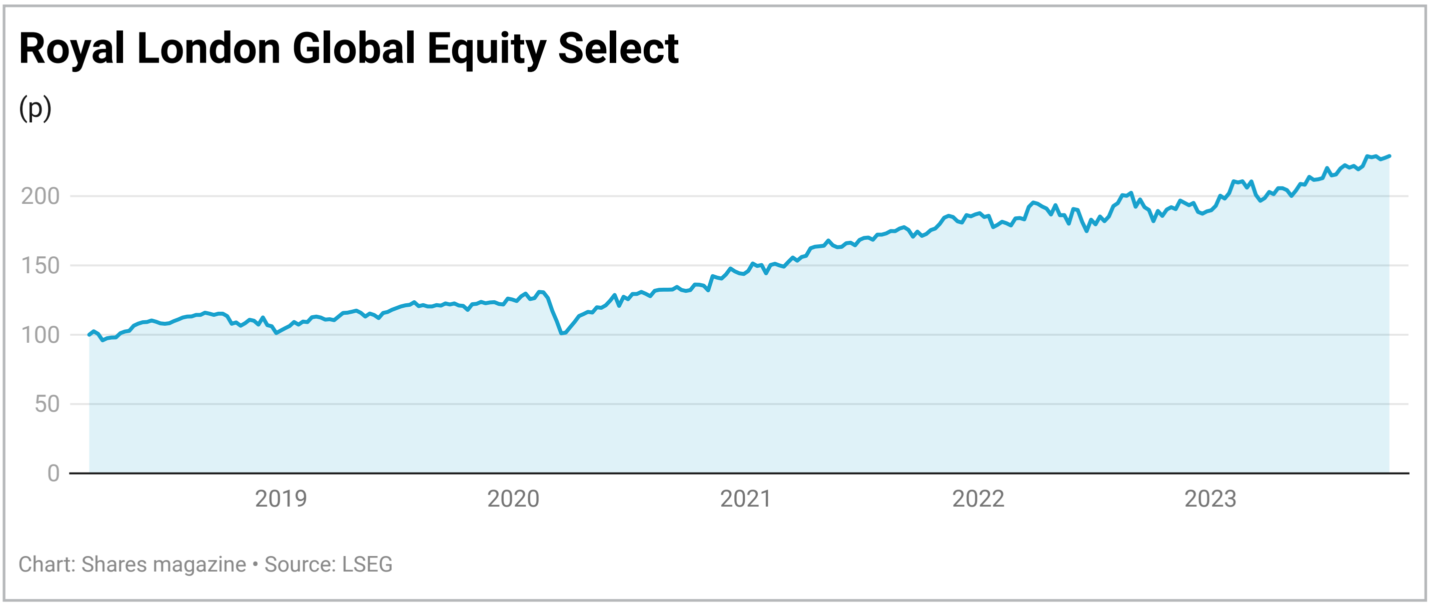
Royal London explained that capacity levels were 'now reaching a point where we believe it is in the best interest of investors to exercise controls to ensure our investment team can continue to invest in best-of-breed companies that can deliver attractive long-term outperformance'.

In a nutshell, anyone who already has money in the fund will no longer be able to buy new units on the market.

Those already owning the accumulation version of the fund will still have dividends automatically reinvested if they use the AJ Bell platform – investors using alternative platforms should check with their provider. Anyone already holding the income version of the fund will not be able to use dividend payments to buy more units.

The good news is the tried-and-tested investment strategy is still accessible through several of Royal London's other funds which remain open to existing and new investors including **Royal London Global Equity Diversified (BF93WF3)** and **Royal London Global Equity Income (BL6V111)**.

These portfolios also employ the Royal London Asset Management Global Equity team's proven approach to stock selection and portfolio management and have consistently maintained strong records of delivering risk-adjusted



outperformance.

Royal London's head of equities Peter Rutter tells *Shares* the Global Equity Income fund is the most similar to Global Equity Select in terms of 'shape and risk budget'. As such, it also provides investors with access to the team's repeatable 'Corporate Life Cycle' framework, which forms the foundation of the team's winning approach.

Rutter considers that corporate returns on productive capital and growth tend to progress along a life cycle and every company can be located economically in one of five corporate life cycle categories, which include early-stage accelerators and growth compounders as well as more mature returners and turnarounds. This allows Rutter and the team to have 'five stock picking processes embedded in the same process, because how we pick winners in each category is different'.

Put simply, this tried-and-tested approach enables the team to build 'a lifecycle diversified portfolio' which is 'incredibly balanced compared to the market' and has enabled the strategy to consistently outperform across multiple market conditions. This includes during the big style rotations seen in global equity markets, when growth managers and then value managers have been in the ascendancy.

Rutter makes the point that if you find a quality growth company that 'compounds success brilliantly, and better than the market anticipated for the next decade, you will make money as an investor.

'But the interesting phenomenon to us is you can also make unbelievable money buying a turnaround that turns around.'

But you need two very different forms of analysis to spot that winner, he explains. 'You can't apply the same methodology to finding that winner in those two cases. It's the right process for the right stock at the right time and that's how we've been able to consistently deliver alpha across that whole stock picking spectrum.'

PORTFOLIO PICKS

Compounders are effectively what investors commonly refer to as quality growth companies, says Rutter. These are businesses that generate high returns on productive capital and are growing fast. 'We are looking at the value proposition, the moat around the business and the addressable market the business can grow into. Really, we are trying to find the compounders which can compound better, longer, faster than all the others.'

Holdings from across the global equity strategies include **Old Dominion Freight Line (ODFL:NASDAQ)**, a North Carolina-headquartered trucking business benefiting from positive network effects. The US company makes high returns on capital, has been growing fast and 'operates in a sub-set of the trucking market called less-than-truckload' explains Rutter. 'Which means customers buy space on the truck by the pallet.'

He describes Old Dominion Freight Line as a 'super-compounder' whose network advantages mean it can offer customers the best service at the cheapest price and then recycle the money into

Royal London Global Equity Select versus the IA Global Sector

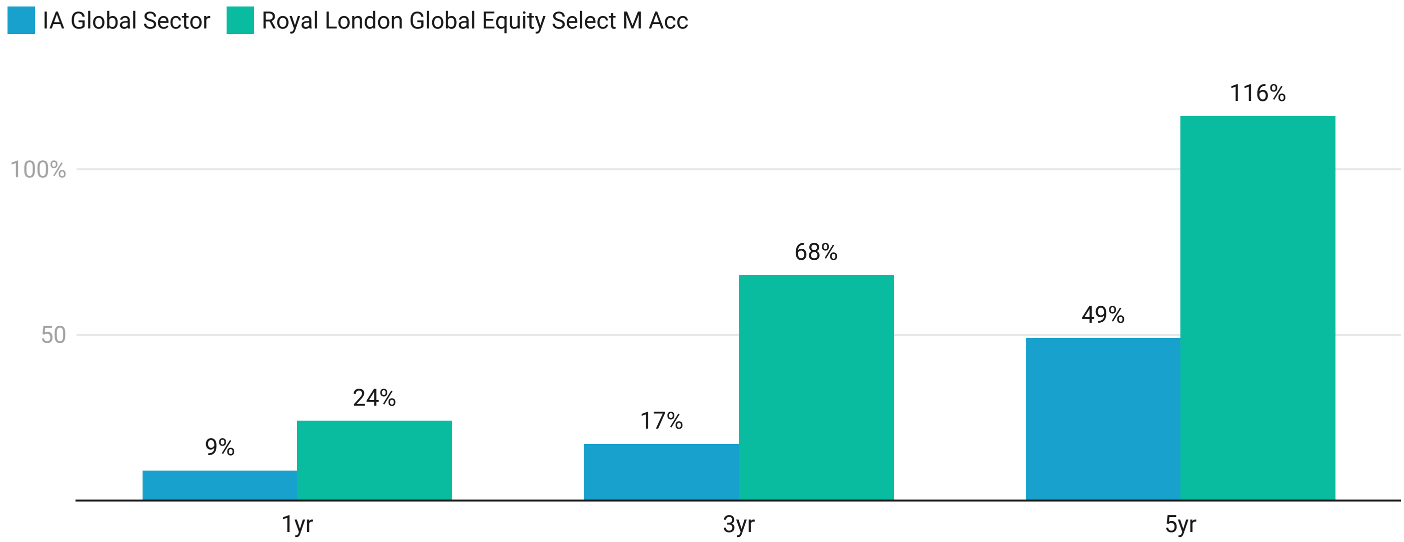


Chart: Shares magazine • Source: FE Fundinfo. Total return in pounds.

improving the network density to offer an even better service and an even cheaper price.

'This has allowed the company to grow at 15% per year organically for the last 15 years. It has gone up nearly 10-fold since we bought it eight years ago.'

A compounder with what Rutter regards as an 'immense' moat is says Paris-headquartered commercial aircraft engine maker **Safran (SAF:EPA)**, 'a really interesting business because it costs billions of dollars to design a new aircraft engine and it's very hard for anyone to ever enter this market outside of two consortiums that have 50-year relationships with every airline in the world'. Rutter also points out 'passenger demand and travel continues to grow at around two times GDP on an international basis, so demand for its products continues to grow' and the ability for the €65 billion cap company to 'compound cash flows for a long time is very significant.'

TURNAROUND SITUATIONS

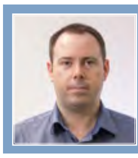
In terms of turnarounds, Rutter and the global team recently initiated a position in American carrier **Delta Air Lines (DAL:NYSE)**, which has been on 'a long-term move to being a premium airline'.

When the team invests in recovery stories, they like to see 'some form of differentiated business versus a tough industry, that the industry dynamics are stable or improving and that the management team is turning the business around but also de-gearing a balance sheet, which reduces risk to equity holders but also creates an uplift to equity value as you de-lever'. Delta Airlines is 'displaying all of those three things,' says Rutter.

A name that sits within the 'Slowing and maturing' corporate life cycle category is **Thor Industries (THO:NYSE)**, the world's largest maker of recreational vehicles. Indiana-based Thor commands 'a 40-45% market share in recreational vehicles and makes high returns', says Rutter.

While the company is seeing a slowdown in demand as a big Covid boom in buying motorhomes fades, the market appears to have 'priced in a recession forever, so whilst the results are quite weak near term, we think there's a very significant long-term valuation opportunity opening up here due to an over-fixation with a near-term slowdown around the demand for towable and motorised RVs'.

DISCLAIMER: AJ Bell referenced in this article owns Shares magazine. The author (James Crux) and editor (Tom Sieber) own shares in AJ Bell.



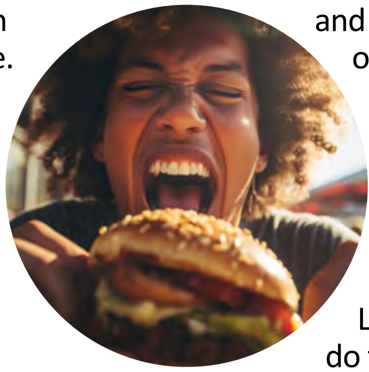
By **James Crux**
Funds and Investment Trusts Editor


BING! BANG! BONG!
That's the sweet sound of taking control of your investments with AJ Bell.
AJBell
Feel good, investing.
Recommended Provider
Which?
Investment Platforms May 2022
Capital at risk.

Want to invest in the casual dining sector? Here's some bad news

The proposed takeover of Restaurant Group would leave a gaping hole on the UK stock market

Private equity firm Apollo succeeding with its takeover of **Restaurant Group (RTN)** would represent a major turning point for the UK stock market. It would mean investors could no longer access a high street-focused casual dining chain operator on the London Stock Exchange of any scale.



Restaurant Group's primary asset is Wagamama, a 165-strong nationwide chain offering Asian-style food. Investing in the company's shares meant taking a view on consumer appetite for eating out and backing a brand with scope to open more sites in the UK and potentially abroad.

Remaining among UK stocks would be a mixture of pub restaurant companies which are not a pure play on the casual dining sector because a chunk of their earnings come from selling pints of beer to people who are not eating.

Mitchells & Butlers (MAB) would be the closest substitute to Restaurant Group because it owns Harvester, a family-friendly restaurant chain with the same number of sites as Wagamama, and slightly fewer number of Miller & Carter steakhouses, albeit only a few situated on the high street. What distorts the investment case is the parent company's large pub estate.

> "Consumer-facing companies are popular with investors because of brand familiarity"

Consumer-facing companies are popular with investors because of brand familiarity and the opportunity to personally experience their products and services. If you like going out to eat, you will have your favourite places and if their owners are on the stock market you might want to own their shares.

Restaurant operators can do incredibly well in a strong economy. Consumers paying £25 to £50 a head on food and drink can generate a decent income for the restaurant owner, particularly if the sites are busy at lunchtime and squeeze in multiple sittings per table in the evenings.

For example, Restaurant Group's shares went up by 577% in value between January 2009 and February 2015 as the business did well – more than 11 times the return of the FTSE 100 index over the same period.

Names like Nando's, Pizza Express, Prezzo and Gourmet Burger Kitchen are privately-owned and are inaccessible to retail investors. The Real Greek and Franco Manca-owner Fulham Shore recently left the UK market after Japan's Toridoll bought it. Smaller chains **Comptoir (COM:AIM)** and **Tasty (TAST:AIM)**, which own Comptoir Libanais and Wildwood respectively, do trade on the UK stock market and have a high-street presence but they are tiny businesses.

If Restaurant Group delists, the choice for larger eating-related listed companies will narrow to fast food joints or pubs/bars/cafes. There are options among US-listed 'food on the go' companies with a presence on the UK high street including **McDonald's (MCD:NYSE)** and **Wingstop (WING:NASDAQ)**, although their earnings are sourced from multiple countries so you could not buy their shares as a direct way to play UK economic strength.

UK companies relevant to the theme include UK franchise owner **Domino's Pizza (DOM)** and **Wetherspoon (JDW)**, the pubs business which sells millions of burgers each year.

While the rise of takeover food delivery platforms gives people more reason to eat at home, there will always be an appetite for a night out in a restaurant, particularly when the economy is doing well. For that reason, investors are going to have to be more creative in how they gain exposure to the sector if we bid farewell to the Wagamama owner.

Russ Mould: Insightful commentary on market issues

Discover the only chart which matters to investors right now

The 10-year treasury yield is the big marker for the markets

This column has no desire to be seen as a broken clock, stuck and chiming at the same time each day, but it remains convinced that the only chart that matters right now in financial markets is the one that shows the yield on the US 10-year Treasury, or government bond.

US 10-year yields reached a 16-year high before the war in Gaza

Chart: Shares magazine • Source: Refinitiv data

The US 10-year's vertiginous rise seems to be in abeyance for now, presumably as a result of investors' search for a haven while they watch events in the Middle East and wonder what the implications are, from the narrow perspective of asset prices. This halt in the 10-year yield is welcome (even if the reasons for it are dreadful and a speedy, peaceful resolution to the Gaza conflict would be cheered by all) but there are three reasons for its advance and three reasons why it matters so much. Investors need to keep a close eye on them all.

YIELD OF DREAMS

The acceleration in the US 10-year yield since spring looks to have its origins in three trends.

It is not certain that inflation is cooling. The US

headline rate crept higher in July and August to 3.7% and oil prices had already risen sharply before the latest round of conflict between Hamas and Israel.

This in turn prompted Federal Reserve chair Jerome Powell to assert that interest rates could stay higher for longer to ensure that inflation was beaten back toward the US central bank's 2% target.

US Federal debt continues to mushroom. Government borrowing has increased by $1.6 trillion since April's debt deal, to take the total to $33 trillion. The rate of increase, fuelled by higher spending and sagging tax income, means that the US will need to sell more Treasuries to fund its debts. Worse, America needs to refinance around $15 to $17 trillion of its existing debt in the next two years.

Worse still, the US Federal Reserve is no longer acting as the price-blind buyer of last resort, since it has ended its quantitative easing bond-buying scheme and started to run a quantitative tightening programme, whereby it does not reinvest the proceeds as bond holdings mature.

This is a painful combination. Any signs of these trends going into reverse could therefore put a lid on the benchmark 10-year yield, and, at some stage, investors will presumably decide yields have reached such a level that they are just too tempting to ignore, as they more than compensate for the evident risks on offer.

THE COLOUR OF MONEY

The future trend in the US 10-year yield matters for three reasons, especially bearing in mind that the US 10-year yield bottomed at 0.51% in August 2020. Since then, the US 10-year bond index has fallen by 29% (since yields and prices have the same inverse relationship for bonds as they do for equities).

The US Federal Deposit Insurance Corporation (FDIC) reports that, as of the end of June, American banks are sat on $311 billion on unrealised losses on held-to-maturity securities. The good news is accounting rules mean they do no longer have to mark-to-market and book those losses each quarter. The bad is that any unexpected run on deposits could force banks to liquidate to raise cash, thus crystallising those losses (rather as happened at Silicon Valley Bank in the spring).

If the banks can hold the securities – which include a lot of US Treasuries – until maturity, then all may be well, but these potential losses are sitting in plain sight and so are the risks. The share prices of US banks are paying attention to the dangers.

The US 10-year is the risk-free rate against which returns from all other assets are judged. The US will not default, and it will pay the coupons. Any other investment must provide a higher return to compensate for the additional risks. The easiest way to get a higher return is to pay a lower price, so rising yields could yet weigh on valuations elsewhere (even if US equities are proving very resilient).

America's huge debts mean it cannot afford a sustained increase in their cost. The US government's annualised interest bill is running at $1 trillion, when total tax income is only $5 trillion (and that is when the economy is doing well), while a modest slowdown in debt growth in 2007-09 resulted in near disaster. These numbers speak against rates staying higher for longer and a quick look at the history of the Fed Funds rate also suggests it is unlikely.

That suggests rates may come down quicker than markets currently think. It is tempting to view that as good for equities (as lower yields will reduce the relative attractions of cash and bonds). But perhaps we need to be careful what we wish for. If history is any guide, the Fed will cut when the markets or the economy can take no more, but lower Fed rates did little to support falling share prices during the 2000-03 and 2007-09 bear markets as earnings downgrades outweighed and outpaced lower rates.

US bank share prices are ringing the alarm bell

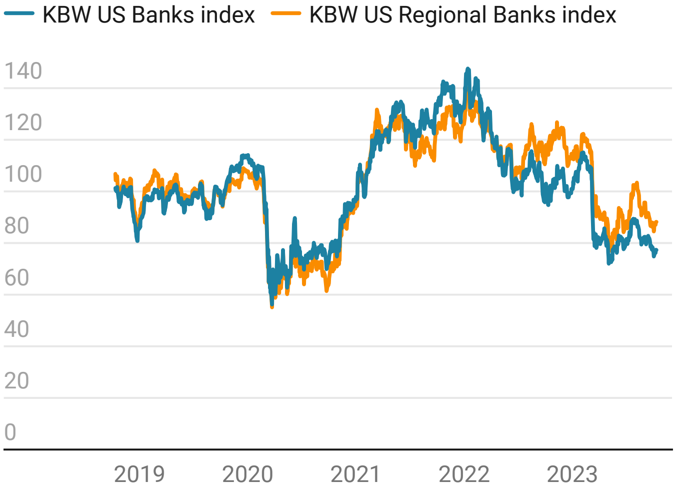


Chart: Shares magazine • Source: Refinitiv data

History suggests US interest rates will not stay higher for longer

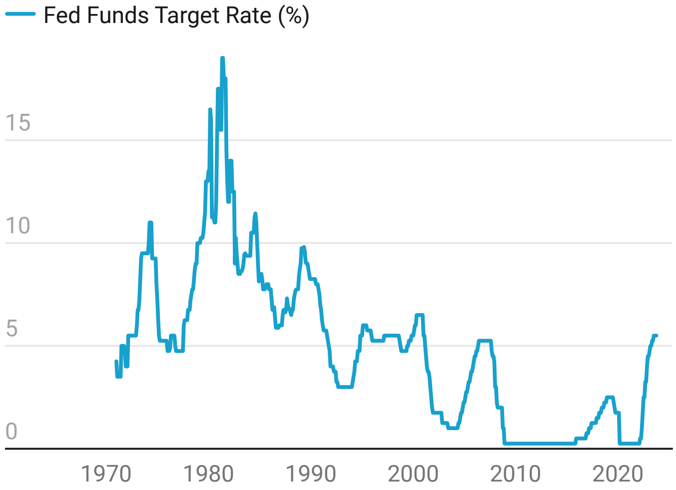


Chart: Shares magazine • Source: US Federal Reserve, Refinitiv data

By **Russ Mould**
Investment Director at AJ Bell


Strategic Equity Capital plc
Since 1857
Gresham House
Specialist asset management
Aiming to create long-term value from a private equity approach
Strategic Equity Capital plc - Looking to deliver growth from an active, concentrated, UK smaller listed companies portfolio
strategicequitycapital.com
Capital at risk. Investments in smaller companies typically involve a higher degree of risk. Not an investment recommendation.

Everything you need to know before extending your mortgage term

You could reduce your monthly payments but there is a long-term cost attached

You'd have to have been hiding under a rock not to know that mortgage rates have risen, meaning that most people coming to the end of their fixed term deal are facing a huge increase in their monthly mortgage costs.

Based on UK Finance figures there are around 800,000 homeowners coming to the end of their fixed rate in the second half of this year, and around 1.6 million deals are due to end in 2024.

As a result, lots of homeowners are extending the term of their mortgage – roughly speaking the longer the term of the mortgage, the lower your monthly repayments will be. By the end of 2022, well over half of first-time buyers and a third of home movers were borrowing on mortgages with terms of over 30 years, UK Finance figures show (previously the industry norm has been up to 25 years).

But the short-term win can cause long-term pain, as homeowners will be paying more overall and could end up paying their mortgage off into retirement. So, what things do you need to consider before going longer?

CONSIDER THE COST

First up, the cost. While extending a term can really reduce your monthly repayments, it does mean that you're borrowing money for longer and so paying more interest. You might think it's just a few quid but it really adds up. Let's take some examples. Someone who borrowed £250,000 at an average interest rate of 3% on a 25-year term will pay just under £106,000 interest overall. However, if you extend this term by 10 years you'll pay just over £154,000 in interest – £48,000 more.

On £400,000 of borrowing these figures are amplified. Borrowing over 20 years would cost a total of almost £132,500 in interest over the term but extending that term to 40 years would mean the cost rockets to £287,000 – almost £155,000 more in interest costs.

RATES COULD STAY HIGHER FOR LONGER

As the tables show, there's no denying that extending the term works well to reduce your monthly costs. People might currently be planning

Mortgage amount: £250,000		
Term	**Monthly repayment**	**Total interest cost**
15 years	£1,726	£60,762
20 years	£1,386	£82,759
25 years	£1,186	£105,658
30 years	£1,054	£129,444
35 years	£962	£154,093
40 years	£895	£179,581

Table: Shares magazine • Source: AJ Bell/L&C. Figures based on 3% mortgage interest across the full term.

Mortgage amount: £400,000		
Term	**Monthly repayment**	**Total interest cost**
15 years	£2,762	£97,219
20 years	£2,218	£132,414
25 years	£1,897	£169,054
30 years	£1,686	£207,110
35 years	£1,539	£246,548
40 years	£1,432	£287,330

Table: Shares magazine • Source: AJ Bell/L&C. Figures based on 3% mortgage interest across the full term.

to extend the term temporarily, while interest rates are high, and then reduce it once they come to remortgage.

However, with markets now predicting interest rates will stay higher for longer, rates may not have dropped dramatically by the next remortgage. Some homeowners also need to think about whether they are likely to have good intentions of cutting their mortgage term but then fail to actually do it in the future.

The other factor you need to consider is what you'll do if you hit payment problems in the future. Currently mortgage companies are being encouraged to be lenient with customers who are struggling with repayments, amid the cost-of-living crisis or because their mortgage costs have shot up (or both).

One of the options to help customers is extend

the term of the mortgage. However, if they are already at the limit, and can't stretch the term any further, they could end up with fewer options if they do fall into financial hardship further down the line.

A BURDEN IN LATER LIFE

The other factor to consider is how people will handle paying off this debt later in life. If you take out a mortgage in your 30s and extend the term to 30, 35 or even 40 years, that means you'll be repaying it past the age you might have planned to retire.

Previously mortgage companies were very strict with their age cut-offs for customers, but they have become more relaxed in recent years. This means some will let your mortgage end when you're 70, 75 or even older for some niche lenders. If your mortgage is running for this long, you need to factor this into your retirement plans.

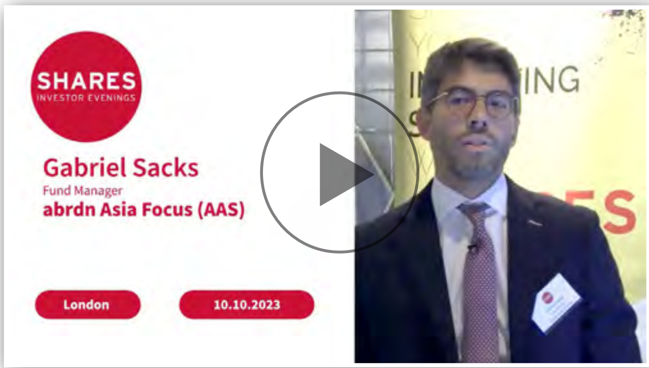
If you're still paying a mortgage you might need to delay retirement until it's paid off. Equally you should consider the impact it will have on your ability to save elsewhere – if some of your income is going towards your mortgage that is money you can't funnel into your pension or other savings. It's another example of how saving in the short term can have long-term impacts.

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

WATCH RECENT PRESENTATIONS

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.



abrdn Asia Focus (AAS)
Gabriel Sacks, Fund Manager

abrdn Asia Focus (AAS) - A fundamental, high conviction portfolio of well-researched Asian small caps. abrdn Asia Focus is an Investment Company listed on the London Stock Exchange aiming to find the best managed Asian smaller companies that are setting the new standard.

Mercia Asset Management (MERC)
Dr Mark Payton, CEO
& Martin Glanfield, CFO

Mercia Asset Management (MERC) is a proactive, specialist asset manager focused on supporting regional SMEs to achieve their growth aspirations. Mercia provides capital across its four asset classes of balance sheet, venture, private equity and debt capital; the Group's 'Complete Capital Solution'.

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

I'm close to drawing my pension, should I worry about rising gilt yields?

Our resident expert runs the rule over the main options

I'm 63 and looking to start drawing down from my pension soon. I have read about rising gilt yields and uncertainty in the stock market in the news and I am wondering if this will likely have any impact on my pension, and whether it should mean any change to my investments? Should I be concerned?
Malik, Stockport

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

Let's tackle the main bit of jargon in your question first – 'gilt yields'. A 'gilt' is an IOU from the UK government. Investors in gilts, often large institutions or big pension funds, will pay a price for the gilt on the promise of receiving a certain interest rate (or 'coupon') each year until the end of the agreed period of time ('maturity').

The 'yield' on a gilt is simply the coupon paid by the gilt divided by the price, expressed as a percentage. For example, if a gilt is priced at £100 and the coupon is £5, the yield is 5%. That means when gilt prices go down, as we have seen in the last 12-18 months, gilt yields go up.

If you are in a defined contribution (DC) pension, whether or not this drop in gilt prices will impact you will depend on the extent your fund is invested in gilts and how far away from retirement you are.

FOR MOST THE IMPACT OF RISING GILT YIELDS SHOULD BE NEGLIGIBLE

The majority of people with a DC pension will be invested in a broad range of globally diversified assets. As such, the impact of short-term movements in gilt prices should be negligible. Equally, in most cases a short-term dip in investment performance should not be a big concern because investing is a long-term game.

Provided you are comfortable with the risks you are taking and focused on those long-term goals, you should be able to ride out any short-term bumps in the road. There is also the danger that if you sell your investments when they go south, you will effectively be crystallising that loss.

Those most impacted by a general drop in gilt prices will be people approaching retirement who have a substantial proportion of their fund invested in those gilts. That will primarily be people in 'annuity hedging' or 'lifestyling' investment strategies, which are based around the assumption you are going to buy an annuity (a guaranteed income for life sold by an insurance company).

If you are in one of these funds and still plan to buy an annuity, the drop in gilt prices should not be a problem because your investments are set up as a hedge against annuity rate changes. This is because, in simple terms, when gilt prices go down, annuity rates tend to go up. This should, in theory, mean the guaranteed income your fund will deliver remains fairly static as you approach your chosen retirement date.

However, the issue comes where someone is invested in one of these funds but no longer plans to buy an annuity. In these circumstances, you might have seen your fund value drop by 30% or more, but with no corresponding rise in the income your fund could produce.

IT'S CRUCIAL TO ENGAGE WITH YOUR PENSIONS

This is a clear example of why it is so important to engage with your pensions, particularly as you approach the point where you plan to take an income from your fund.

For those in this specific position, the most obvious options are:

- Remain invested in gilts and hope prices recover (no guarantee when this will happen);
- Buy an annuity instead (although this may not be appealing to those who are younger and prefer flexibility);
- Shift to a strategy more appropriate to your retirement income plans.

Conversely, if you are risk-averse or planning to access your fund soon, investing in gilts or other cash-like instruments, taking advantage of the high returns on offer might be attractive. Five of the 10 most popular investments made by AJ Bell's DIY investors in September were government gilts.

Gilt yields also have an impact on defined benefit (DB) schemes, but again this is not something that should overly concern members. Broadly speaking, when gilt yields go up, DB liabilities (the estimate of how much it will cost the scheme to pay pensions to all its members) go down – and vice versa.

This means that, in terms of a scheme's funding position, higher gilt yields should be good news (and lower gilt yields bad news). However, in the wake of last year's mini-Budget, the dramatic spike in gilt yields resulted in a huge cash call from complex hedging instruments (Liability Driven Investments or 'LDIs') held by many DB schemes.

Although this led to lots of 'pensions crisis' headlines, in reality there was no direct impact on most people's pensions. Provided the employer standing behind your DB scheme remained solvent, you should still receive the pension you were promised. And even where an employer sponsoring a DB scheme goes bankrupt, the Pension Protection Fund (PPF) provides a valuable compensation lifeboat, paying out at least 90% of your promised pension (although you may lose some inflation protection).

Disclaimer: Financial services company AJ Bell referenced in the article owns Shares magazine. The author of the article (Tom Selby) and the editor of the article (Tom Sieber) own shares in AJ Bell.

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.

SHARES
INVESTOR EVENINGS

IN-PERSON EVENT

RADISSON BLU HOTEL
THE HISTORIC ROYAL MILE

25 OCTOBER 2023
EDINBURGH

Reserve your place now!

Registration and coffee: 17.15

Presentations: 17.55

COMPANIES PRESENTING

COHORT (CHRT)
Cohort is the parent company of six innovative, agile and responsive defence technology businesses providing a wide range of services and products for UK and international customers. It has headquarters in Reading, Berkshire and employs in total over 1,100 core staff there and at its other operating company sites.

CUSTODIAN PROPERTY INCOME REIT (CREI)
Custodian Property Income REIT offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund that seeks to provide an attractive level of income and the potential for capital growth.

LITIGATION CAPITAL MANAGEMENT LIMITED (LIT)
Litigation Capital Management Limited - Established in 1998, we have assisted hundreds of companies and individuals in achieving significant recoveries from claims that, without us, would not have been pursued due to the associated costs and risks. LCM is one of the leading disputes funders globally, operating in a number of geographies.

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

Sponsored by AJBell

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

Main Market

AIM

Overseas shares

Investment Trusts

Funds

ETFs

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


COMPANIES EDITOR:
Ian Conway
@SharesMagIan


INVESTMENT WRITER:
Sabuhi Gard
@sharesmagsabuhi

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

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

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.

DISCLAIMER

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for 30 days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within 30 days after the on-sale date of the magazine.