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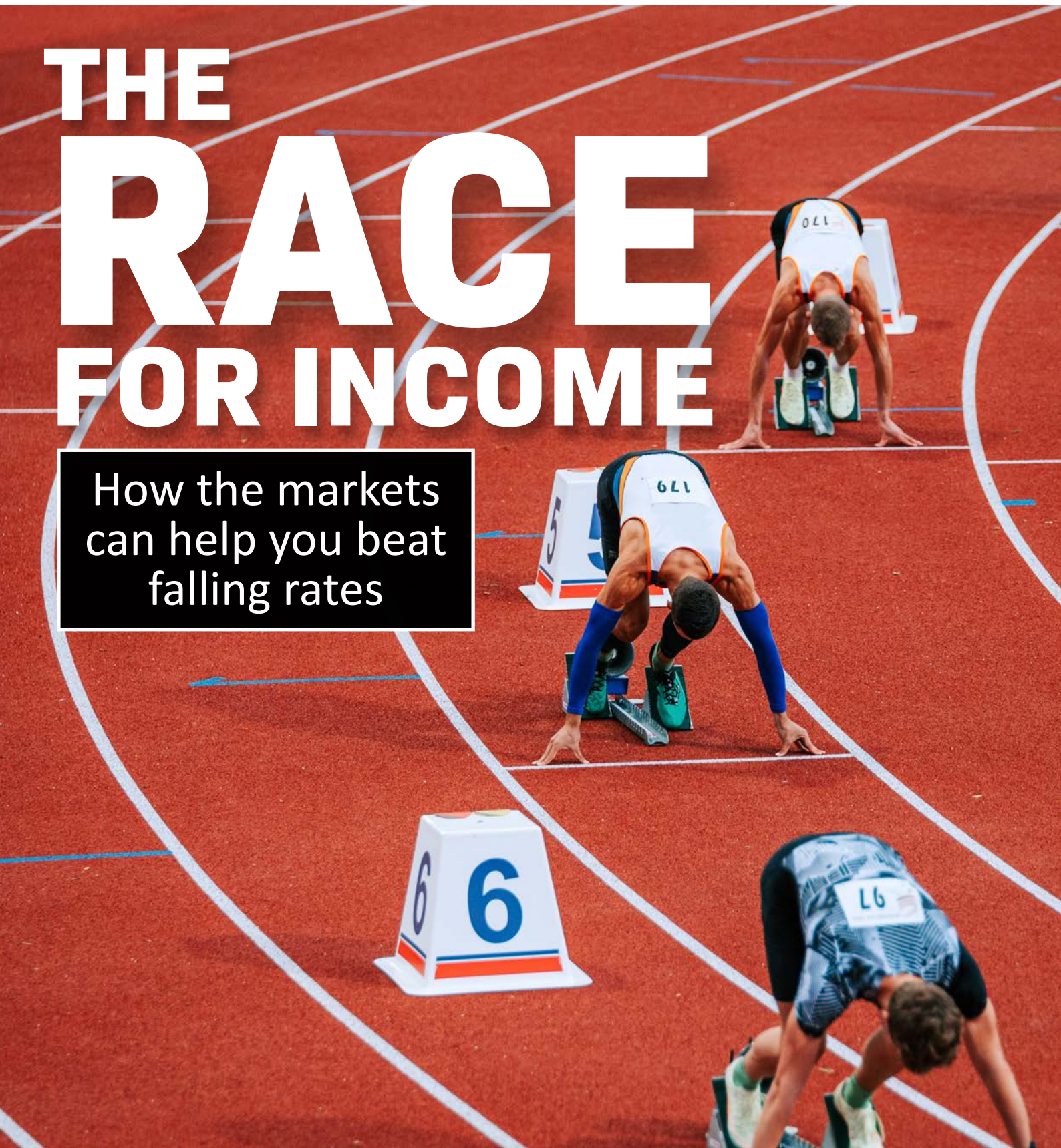
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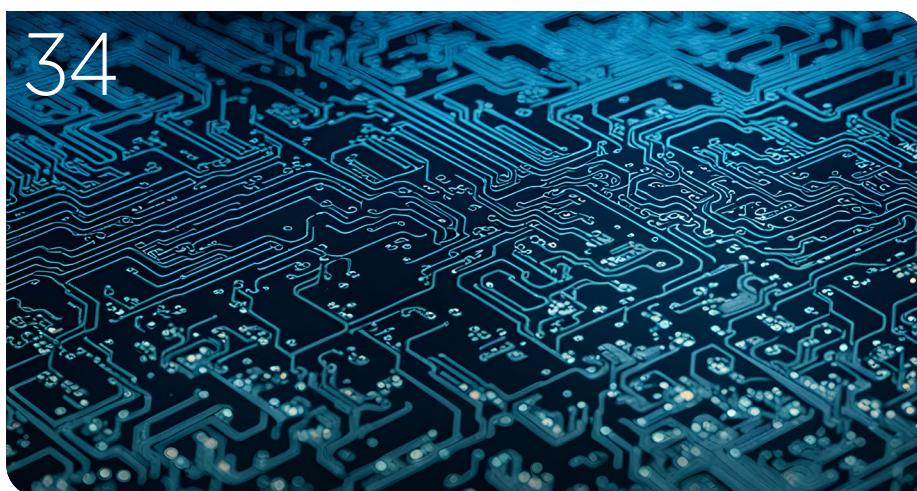
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# Three important things in this week's magazine



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## How to protect your income in an era of falling interest rates

Shares looks at some of the options, from higher-yielding stocks to dividend-paying investments trusts across equities, bonds and alternative assets.



2

## With the gold price hitting a record, what's next for the precious metal?

As the gold price tops \$2,500 per ounce and a bar costs over \$1 million we look at the factors behind the rise and weigh up where it may go next.



3

## Which UK open-ended funds are in the doghouse this summer?

The latest edition of 'Spot The Dog' reveals a growing number of UK funds have failed to keep up with their benchmarks for three years running.

## 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.

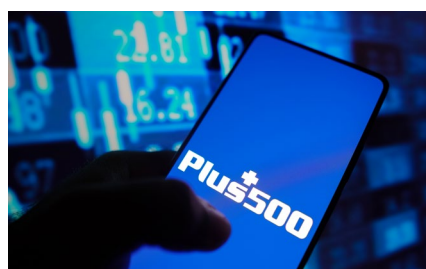
Over the past week we've written a variety of news stories online that do not appear in this magazine, including:



i3 Energy agrees £174 million takeover by Canada's Gran Tierra



New iPhone 'supercycle' incoming, claim analysts



Plus500 powers to all-time high on guidance upgrade and bumper returns promise



Barratt to press ahead with Redrow merger this week





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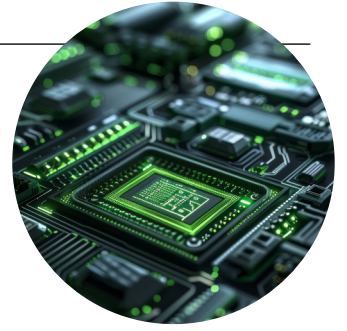
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# Pressure on Nvidia ahead of fiscal 2025 second quarter amid Blackwell delays



AI chip designer may need to knock it out of the park to keep stock ticking higher

**W**all Street anticipates another strong quarter for **Nvidia (NVDA:NASDAQ)** as investors' favourite chip stock prepares to release fiscal second-quarter 2025 results (28 Aug), so the pressure is on.

There's been no sign that demand for the firm's high-end graphics processing units is waning, the benchmark for running generative AI workloads, but good hasn't been good enough for Nvidia for months: only great will push the ceiling of the stock's elevated levels.

That's where things could get sticky. Reports of delays to its Blackwell chip have been doing the rounds, causing no end of near-term volatility in the share price. During the past month, the stock has seen \$123 levels whittled away to below \$100, only to strongly rebound to \$130.

Many longer-term investors will shrug off this sort of wild short-term run, uncomfortable as it may be. **Blue Whale Growth (BD6PG78)** fund manager Stephen Yiu took to X (formerly Twitter) to express his own view of the recent shake-out, saying 'we actually like market volatility, which had nothing to do with the fundamental earnings power of a company. On Black Monday, we took the opportunity to increase Nvidia at \$95 and have made over 20% within a week'.

Even so, Nvidia's management commentary and supply-chain data in the coming weeks will be important if the company is to reinforce confidence in the company's earnings potential for calendar year 2025, according to Goldman Sachs analysts.

They believe that the market is likely to overlook any negative impacts from a shift in the Blackwell ramp timing, projecting robust sequential growth in Nvidia's Data Center revenue. This growth is expected to be driven by strong demand for Hopper-based GPUs, early shipments of Blackwell products and expansion in Nvidia's Networking business, even if there are transitory headwinds related to Blackwell.

## Nvidia

(\$)



Chart: Shares magazine • Source: LSEG

The analysts also note that customer demand remains strong among large cloud service providers and enterprises, with Nvidia maintaining a solid competitive position in AI and accelerated computing.

They highlight several supportive indicators, such as **Taiwan Semiconductor Manufacturing's (TSM:NYSE)** improved outlook for AI demand, an increase in **Advanced Micro Devices' (AMD:NASDAQ)** full year Data Center GPU revenue outlook and positive comments from major US cloud hyperscalers (AWS, Azure etc) about their plans to expand AI infrastructure investments.

Consensus forecasts put fiscal 2025 earnings at \$2.73 per share, more than double last year's \$1.30, ramping again in fiscal 2026 to \$3.79. Second-quarter earnings and revenue are estimated at \$0.64 per share and \$28.5 billion respectively. [SF]

**Disclaimer: The author (Steven Frazer) owns shares in Blue Whale Growth Fund.**



# Find out what the top US investors have been buying and selling

Berkshire Hathaway's Apple sale boosts cash pile to record \$277 billion

**I**t seems wise to follow what the most successful investors have been buying and selling. US Investment managers are required to file quarterly 13F reports detailing their holdings which gives investors a small insight into what the gurus have been doing.

Second-quarter filings for the end of June were released on 14 August and reveal some intriguing moves.

**Berkshire Hathaway (BRK-B:NYSE)** chairman Warren Buffett grabbed all the headlines following a near-halving of his stake in technology giant **Apple (APPL:NASDAQ)**, although the position remains Berkshire's largest quoted holding at just under a third of the public equities portfolio.

The sale boosted Berkshire's cash pile to a record \$277 billion at the end of June and consequently almost equals the total value of the group's equity holdings, worth \$285 billion.

More interestingly perhaps is Berkshire's purchase of 690,000 shares in specialist beauty retailer **Ulta Beauty (ULTA:NASDAQ)** for around \$266 million.

It looks like a classically opportunistic Buffett move given the shares have fallen around 42% since March, dragging the PE (price to earnings) ratio down to 14.7 from almost 20 times.

The business has grown sales and earnings in double-digits and achieves healthy returns on equity which have averaged 46% over the last five years.

Meanwhile, billionaire investor Bill Ackman revealed his first new holdings in over a year after taking a \$239 million position in embattled sportswear giant **Nike (NKE:NYSE)** and a \$321 million stake in investment management company **Brookfield (BN:NYSE)**.

Nike's growth has stumbled in the last two years in the face of increased competition from the likes of **Adidas (ADS:ETR)** and **On Holding**

## Ulta Beauty

(\$)



Chart: Shares magazine • Source: LSEG

**(ONON:NYSE)**, prompting the company to launch cheaper shoes.

Ackman first invested in Nike in 2017 and rode the position to a \$100 million profit before selling out.

Fellow hedge fund manager David Tepper at Appaloosa Management sold down some of his largest holdings including

**Alibaba (BABA:NYSE)**, **Amazon.**

**com (AMZN:NASDAQ)**, **Microsoft**

**(MSFT:NASDAQ)**, **Meta Platforms**

**(META:NASDAQ)** and **Alphabet**

**(GOOG:NASDAQ)** and made a big percentage increase in ride-sharing group **Lyft (LYFT:NASDAQ)**.

Activist investor Nelson Peltz

at Trian Fund Management

reduced his stake in **Walt Disney Co (DIS:NYSE)** by 92% after he failed to

convince shareholders to appoint himself and former Disney chief finance officer Jay

Rasulo to the board in a proxy battle.

New holdings include do-it-yourself moving and storage operator **U-Haul (UHAL:NYSE)** and pest control and hygiene company **Rentokil Initial (RTO)**. [MG]





# ‘Spot The Dog’ survey shows sharp increase in poorly-performing UK funds

Fundsmith Equity and Lindsell Train UK Equity both escape ‘the doghouse’

It's that time of year again when Evelyn Partners releases the summer edition of its ‘Spot The Dog’ report detailing the investment funds which continually deliver poor returns for their investors.

As the authors point out, funds don't make the list because their sectors are out of favour but because they have underperformed their benchmark for three consecutive 12-month periods and by 5% or more over that time frame.

The total number of funds ‘in the doghouse’ has fallen slightly from the January edition, from 151 to 137, but that is still significantly higher than the 56 funds in last summer's report, and some ‘high-profile pooches’ have made the list.

Granted, global market performance has been dominated by a tiny group of US mega-cap tech stocks so any fund manager who has been underweight, either due to investment style or valuation worries, will have lagged the benchmark, so it's not a huge surprise that 44 of the 137 funds on the list invest in global equities.

That tech dominance hasn't been an issue for UK managers, however, so it's more surprising to see the same number of UK equity funds (44) on the naughty list compared with just 12 in last summer's edition.

One common feature among the UK and global equity ‘woofers’ is the high proportion of ESG (environmental, social and governance) and ethical funds on the list.

High oil and gas prices have boosted energy stocks, and funds focused on ‘green’ and ESG

themes have missed out by not owning them.

That has been particularly tough for UK ethical and sustainable funds as oil and gas stocks make up a large part of the index.

At the same time, defence companies – which are also shunned by ethical funds – have been some of the best performers of the last 12 months due to rising geopolitical tensions.

There is good news for shareholders in two of the UK's most popular funds, though – both **Fundsmith Equity (B41YBW7)** and **WS Lindsell Train UK Equity (B18B9X7)** have managed to dodge the list this time round, no doubt also to the relief of their high-profile managers. [IC]

**Disclaimer: The author (Ian Conway) owns shares in Fundsmith Equity.**

## Worst UK Funds

Spot The Dog August 2024

	UK All-Companies	UK Small-Cap	UK Equity Income
Fund	3yr Relative Perf (%)		
L&G Future World Sustainable UK Equity	-51%		
Liontrust UK Ethical	-44%		
Fidelity UK Opportunities	-40%		
Premier Miton UK Smaller Companies	-30%		
FP Octopus UK Micro-Cap Growth	-25%		
IFSL Marlborough UK Micro-Cap Growth	-21%		
Premier Miton UK Multi-Cap Income	-34%		
abrdn UK Income Unconstrained Equity	-26%		
VT Downing Small & Mid-Cap Income	-17%		

Performance over three years to 30 June 2024 net of charges with dividends reinvested

Table: Shares magazine • Source: Evelyn Partners, Morningstar Direct



# Why Bakkavor is making investors lots of dough

The pizza-to-houmous supplier is in a tasty upgrades cycle and the stock has fattened up over 80% this year

**Bakkavor's (BAKK)** shares have rebounded more than 80% to 153.5p year-to-date, investors regaining their appetite for the fresh prepared food provider amid evidence CEO Mike Edwards' reset is paying off, an improving outlook with margin-crimping inflation moderating and with debt on the way down.

In March Bakkavor, which supplies UK and US grocers and food brands in China with everything from meals, salads and sandwiches to desserts, pizzas and bread, raised its 2024 outlook after baking up better-than-expected profits for the year to December 2023 driven by



price hikes, juicy cost savings and a second half return to profitability in the US.

And following a tasty first quarter to 30 March 2024 in which UK volumes returned to growth, US profits improvement continued and like-for-like growth returned to more normalised levels in China, Bakkavor upgraded full year adjusted operating profit guidance from 'in excess of £100 million' to a new £103 million to £108 million range.

'All three regions are making excellent progress against the group's strategic priorities of rebuilding margins and reducing leverage and, as a result, we are

## Bakkavor



Chart: Shares magazine • Source: LSEG

confident in delivering our increased guidance for 2024,' enthused Edwards.

In May, the FTSE 250 firm acquired Moorish, a supplier of houmous to UK retailers which complements its existing dips business and 'provides an attractive opportunity to extend the brand into a broader range of Mediterranean products.' [JC]

# Gooch & Housego outlook clouded by 'prolonged' customer de-stocking

Supplier delays add to woes, pushing sales into next financial year

It has been a disappointing start to 2024 for luckless investors in specialist instrument and life-science device-maker **Gooch & Housego (GHH)**.

The company's share price dropped like a stone in mid-February when the Somerset-based manufacturer warned pre-tax profit for the year to September would be £3 million, missing market expectations.

The firm blamed customers in the industrial and medical laser sectors for reducing their inventories rather than buying new stock after



experiencing short-term demand weakness in their end-markets.

In early April, the firm said full-year trading would be in line with its new, lower forecast as de-stocking was seen coming to an end and its order books were growing.

It repeated its full-year guidance with its half-year results, released in June, saying second-half execution risks 'remain but have been reduced'.

Finally, the firm admitted last week the de-stocking issue was turning out to be more prolonged than expected,

## Gooch & Housego



Chart: Shares magazine • Source: LSEG

while some of this year's revenue would be delayed into the 2025 financial year due to 'supplier and customer delivery delays'.

As a result, pre-tax profit is now likely to be £1.5 million, or half its previous, already-lowered target, although the company tried to reassure investors its order book had continued to grow over the summer. [IC]



## UK UPDATES OVER THE NEXT 7 DAYS

### FIRST-HALF RESULTS

**27 Aug:** Bunzl

**29 Aug:** Grafton,  
Hunting, PPHE Hotel  
Group



# FTSE 100 distribution group Bunzl keeps on trucking

Full-year guidance has already been upgraded once

International distribution and services firm **Bunzl (BNZL)** isn't the kind of business to grab the headlines, rather it works away in the background, steadily growing its operations both organically as it takes on more customers and inorganically as it buys bolt-on businesses.

In much the same way, its share price rarely raises eyebrows – it moves stealthily higher quarter after quarter moving within a fairly clear upward channel.

By our reckoning the firm has grown its EPS (earnings per share) by around 7.3% per year since the start of the 1990s – compared with 3.75% for the FTSE 100 index, of which it forms part – with far less volatility and very few down years, which helps explain why it has a beta of 0.64.

In its interim trading update at the end of June, the group raised its guidance for the full year based on 'improved margin performance, driven by good margin management, including increased own brand penetration and acquisitions'.

When it reports half-year results

## Bunzl



Chart: Shares magazine • Source: LSEG

on 27 August, overall revenue is expected to dip due to lower volumes in the North American foodservice re-distribution business, as it moves towards an increased own-brand proposition, but the second-quarter exit rate is seen higher than the first quarter.

Meanwhile, the group has spent around £600 million on acquisitions, from a Spanish packaging distribution business to a cleaning and hygiene products distributor in Canada and a surgical and medical devices distributor in Brazil. [IC]

## What the market expects of Bunzl

	2024	2025
Revenue (£m)	11,880	12,320
Net Profit (£m)	634	665
Earnings per share (p)	190	198

Table: Shares magazine • Source: Stockopedia. All figures correct as of 16 August 2024





# Can Jack Daniel’s distiller Brown-Forman shake off its nasty hangover?

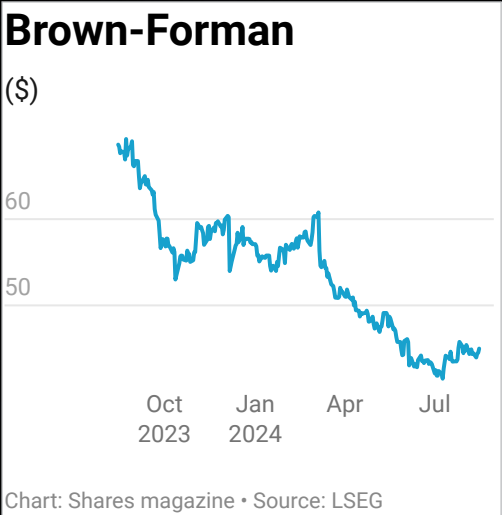
The Louisville-based alcoholic drinks group is forecasting a return to full-year growth in 2025

Investor expectations are depressed ahead of first quarter results (29 August) from Jack Daniel’s distiller **Brown-Forman (BF.B:NYSE)** given the difficult market conditions facing the Lawson Whiting-led group and peers ranging from **Diageo (DGE)** and **Pernod Ricard (RI:EPA)** to **Remy Cointreau (RCO:EPA)**.

Growth is slowing in the global spirits industry following the strength seen during and immediately after the Covid pandemic, and while Brown-Forman is making progress internationally it remains heavily skewed toward the sluggish US spirits market.

Shares in Brown-Forman, which has had to cut its organic growth forecast on a number of occasions of late, are nursing a heavy hangover as a result, down 35% over one year and more than 20% lower on a five-year view.

On 5 June, the Louisville-based company, whose brands also include Diplomatico rum, Woodford Reserve bourbon and Fords Gin, poured out news of a disappointing 8% decrease



in net sales to \$1 billion for the fourth quarter ended 30 April 2024.

Encouragingly, Brown-Forman said it expected a return to growth for organic sales and organic operating income for the year to April 2025 driven by ‘gains in international markets and the benefit of normalising inventory trends’, although this outlook was tempered by a belief that ‘global macroeconomic and geopolitical uncertainties will continue to create a challenging operating environment’. [JC]

## What the market expects of Brown-Forman

	2025	2026
Sales (\$bn)	4.2	4.4
Net profit (\$bn)	874	939
Earnings per share (\$)	1.9	2.0

Table: Shares magazine • Source: Stockopedia, all data correct as of 16 August 2024. Year end April.

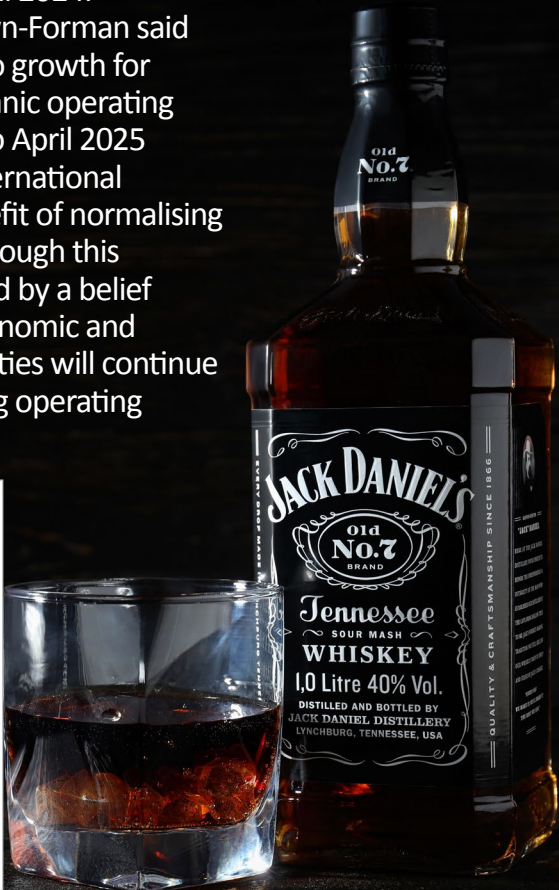
## US UPDATES OVER THE NEXT 7 DAYS

### QUARTERLY RESULTS

**27 Aug:** GE Healthcare, Hewlett Packard

**28 Aug:** Nvidia, Salesforce, CrowdStrike Holdings, HP Inc, NetApp, Cooper, JM Smucker, Bath & Body Works

**29 Aug:** Marvell, Dollar General, Brown Forman, Best Buy, MongoDB, Ulta Beauty, Campbell Soup





# Data suggests on balance the Bank of England was right to cut rates this month

Price rises are slowing and so far the consumer seems to be holding up

When the Bank of England cut rates for the first time since 2020 earlier this month there were those who questioned whether the timing was right, the fear being the bank had moved too early.

Although headline inflation had hit the official 2% target, core inflation was 3.5% and services inflation was running at 5.7% which some considered too 'hot' to justify easing policy.

Last week's economic data showed a pick-up in the headline rate of inflation from 2% to 2.2%, but this was fully expected due to energy prices falling less this year than they did a year ago.

The figure was slightly better than the consensus, which was expecting a 2.3% increase, and better than the Bank of England's own forecast of a 2.4% increase.

Moreover, the core rate of inflation which strips out food and energy slowed from 3.5% to 3.3%, again beating the consensus forecast.

This positive data was slightly offset by stronger employment data, which showed the jobless rate for June at 3.6%, the lowest level since February 2022, although as the ONS (Office for National Statistics) itself acknowledges the data is flawed due to the low response rate to its surveys.

Meanwhile, July's retail sales by value were strong and June's weather-impacted sales figure was revised upward, and sales volumes were positive between May and July suggesting the UK consumer may be more resilient than thought.

Rounding out the positive picture, housing portal **Rightmove (RMV)** raised its forecast for UK house prices from -1% this year to +1% due to positive market trends including a marked step-up this month in the number of people contacting estate agents about homes for sale.

This week is short on data meaning most of the focus will be on the Federal Reserve's 'summer camp' at Jackson Hole where among others chair Jerome Powell will be prognosticating.

Next week, which is shortened due to the UK bank holiday, interest will turn to European and US second-quarter growth figures and consumer confidence surveys for further signs of improvement. [IC]

## Macro diary 22 August to 29 August

Date	Economic Event	Previous
23-Aug	US Jackson Hole symposium	
	US July new home sales	628k
26-Aug	US July durable goods orders	-6.7%
27-Aug	German Q2 GDP	-0.1%
	US Aug consumer confidence	100.3
29-Aug	Eurozone Aug consumer confidence	-13.0
	Eurozone Aug business climate	-0.6
	US Q2 GDP	2.8%
	US Q2 PCE prices	2.6%

Table: Shares magazine • Source: Morningstar, Central Bank websites

## Next Central Bank Meetings & Current Interest Rates

Date	Event	Previous
12-Sep	European Central Bank	4.25%
17-Sep	US Federal Reserve	5.5%
19-Sep	UK Bank of England	5%

Table: Shares magazine • Source: Morningstar, central bank websites



# Why contrarians should leg-in to Lululemon Athletica

Sell-off at the yoga pants-to-belt bags retailer has created a compelling opportunity for the bold

**Lululemon Athletica**  
(LULU:NASDAQ) \$260.3

Market cap: \$31.2 billion

**A** 50% year-to-date drawdown at Canadian athleisure company **Lululemon Athletica (LULU:NASDAQ)** presents a buying opportunity for investors who love to snap up quality merchandise at a discount.

Until recently, Lululemon, which sells clothing and footwear for yoga, running and training, was a stock market darling admired for its record of beating Wall Street estimates, but the stock has de-rated on concerns over a slowdown in North America, its largest market.

Yet *Shares* believes the \$31.2 billion cap still has a significant runway for growth, and so long as Lululemon demonstrates progress against management's ambitious 'Power of Three x2'

## Lululemon

(\$)

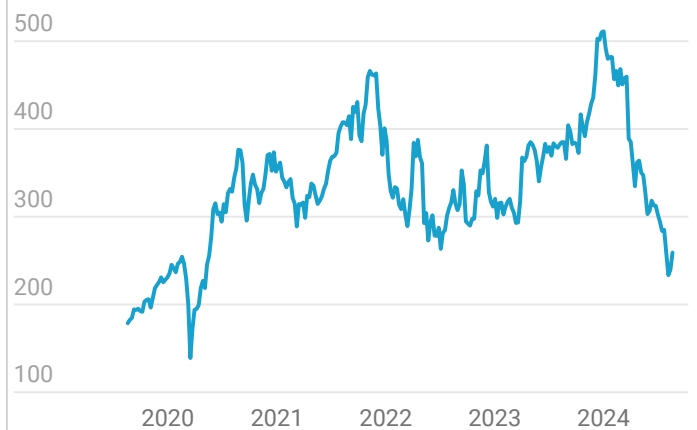


Chart: Shares magazine • Source: LSEG

strategy there is scope for a material re-rating, perhaps beginning with the second quarter results on 29 August.

Ongoing share buybacks should provide share-price support, while the commencement of dividend payments down the track offers a potential future catalyst for the stock.

## STRETCHING FOR GROWTH

Guided by chief executive Calvin McDonald, Vancouver-headquartered Lululemon is an upmarket exercise-kit seller whose stylish-yet-functional products are designed with and for athletes.

Lululemon's wide product range spans everything from yoga pants and mats to leggings, shoes, hoodies, tanks tops and belt bags, and while historically the core demographic has been women, its men's line is growing steadily demonstrating the broadening appeal of the brand.

*Shares* believes the company offers a play on global trends towards healthy and active lifestyles and could even prove a beneficiary of weight-loss drugs, should their wider adoption drive a wardrobe replacement cycle.



Despite its evident success in North America, Lululemon's big growth potential lies in international expansion particularly in Asian markets including China.

The company has consistently outpaced its competitors with rapid revenue growth and has many hallmarks of quality; *Stockopedia* shows operating margins routinely topping 20% while ROCE (return on capital employed) was a bumper 39.1% in the year to January 2024, up from 32.3% in fiscal 2023 and comfortably ahead of the 22.9% notched up by **Nike (NKE:NYSE)** in its last financial year.

### THIS BUFFETT ADMIRER IS BULLISH

Warren Buffett fan Michael Crawford has been buying Lululemon for his **WS Chawton Global Equity Income (BJ1GXX3)** fund and recently informed *Shares* that the company is 'transitioning' from explosive growth to a more mature phase.

'At that point you always get a more volatile share price,' explained Crawford. 'Up until very recently, Lululemon had been growing very fast both in the US and globally and was on a very high PE (price to earnings) ratio, well over 30 times. But in the last year the growth level has subsided and there's talk of Lululemon losing its brand cachet. But we think the brand is sustainable and there is still a fair amount of growth ahead, particularly in Asia where high-end yoga athletic apparel is gaining traction. There are growth possibilities in the US and this is a good opportunity to get into a high-quality compounding situation.'

Crawford also observed that management has been clever with its capital allocation. 'Around 50% or more of the business is e-commerce, so that

### Key numbers from Q1

Total revenue	\$2.2 billion, up 10%
Diluted EPS	\$2.54, up 11%
Total comparable sales growth	7%
Americas revenue growth	3%
International revenue growth	35%

Table: Shares magazine • Source: Lululemon Athletica

is more attractive than having to invest a lot in physical assets. And the thing about Lululemon is it is quite an expensive product and you don't want to saturate the market, so they are quite specific about their store expansion profile.'

*Stockopedia* shows Lululemon sells for 18.3 times forecast earnings for the year to January 2025, falling to 16.8 times January 2026 estimates, a rating which we think undervalues the group's long-run prospects.

### CAVEAT EMPTOR

Having ballooned during the Covid crisis, Lululemon's inventory levels have now normalised and in a testament to the brand's resilience, turnover still ticked up 10% to \$2.2 billion in a tougher first quarter ended 28 April, including an impressive 35% surge in international sales.

Ahead of its second-quarter results, Lululemon has guided for net revenue in the \$2.4 billion to \$2.42 billion range, which would represent growth of 9% to 10%.

For the current full year, analysts are looking for growth in net profit from \$1.55 billion to the best part of \$1.8 billion, stretching to \$1.9 billion by 2026, although for balance, we must highlight that Jefferies has an 'underperform' rating on the stock following its recent store visits and believes consensus estimates are 'too optimistic'.

The broker believes Lululemon's discounting levels have 'likely increased' and flags risks around increasing competition, a softening athletic apparel backdrop and US consumer spending which is becoming 'more volatile'. [JC]

### Returns are improving

Year to January	Operating margin (%)	ROCE (%)
2021	18.6	25
2022	21.3	38
2023	16.4	32
2024	22.2	39

Table: Shares magazine • Source: Stockopedia



# Why you should buy set-and-forget multi-manager Alliance Trust

Imminent merger with Witan will create FTSE 100 trust exposed to considered growth, quality and income

**Alliance Trust**  
(ATST) £12.23

Market cap: £3.45 billion

**P**art of the excitement of investing is actively running your own portfolio, or a portion of it, digging around company fundamentals, assessing opportunities and threats, and owning a piece of a business that you think will produce attractive returns.

It is why thousands invest in smaller companies and AIM stocks, the ability to test yourself against the market. Another part, arguably far more important, is loading your portfolio with set-and-forget stocks, funds and trusts, where you can relax relatively speaking in the knowledge tried and trusted experts have your back.

Shares believes **Alliance Trust (ATST)** is among the best options. Founded in the 1880s, it's been in the investing game not for years, but generations, and has proved itself time and again.

Alliance Trust is a fund of funds, or multi-manager, appointing a team of managers from different fields. They run concentrated portfolios of their very best ideas with the aim of achieving market-beating returns while at the same time giving investors a high level of diversification across different investment styles and geographies.

Top names in the portfolio include **Alphabet (GOOG:NASDAQ)**, **Amazon.com (AMZN:NASDAQ)** and **Nvidia (NVDA:NASDAQ)**, but also **UnitedHealth (UNH:NYSE)**, **Visa (V:NYSE)** and Guinness-owner **Diageo (DGE)**.

These might sound like a racy selection with a growth and quality angle, yet interestingly four of the 10 managers enlisted are value experts while CT Fitzpatrick of Vulcan Value Partners has a capital preservation remit.

And it works. Over the seven years to March 2014 since Willis Towers Watson was appointed

## Alliance Trust

(p)

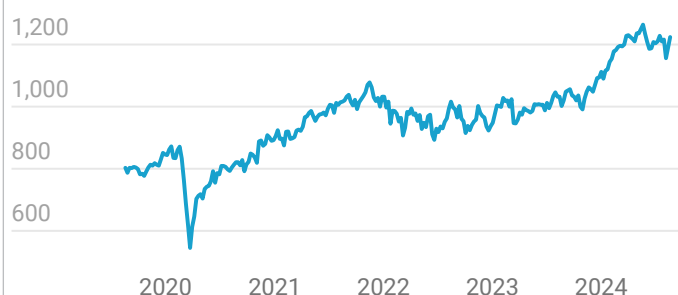


Chart: Shares magazine • Source: LSEG

to lead the investment strategy, the trust's NAV (net asset value) total return has been 104.2% against 95.7% for the MSCI All Country World Index benchmark.

Over the past five years, the strategy has delivered a 69.3% total return, according to Trustnet data, twice that of its Investment Trust Global benchmark (34.5%), while Morningstar calculates an annualised total return over the past decade of nearly 13% a year.

July's agreement to merge with **Witan Investment Trust (WTAN)** will create an investment trust goliath called Alliance Witan with net assets north of £5 billion and a market cap big enough for FTSE 100 inclusion.

What that deal should also do is lower ongoing charges for investors, with a target around the high 50s basis points in future, below Witan's and Alliance Trust's current ongoing charge ratios of 0.76% and 0.62% respectively.

The merger is due for a shareholder vote in September 2024 with completion likely some time in October or soon after. Pulling together an investment trust of this scale could present a few challenges, such as a spike in dealing fees as the joint portfolio is finalised and duplication eradicated, but if you're looking for a set-and-forget balanced option for the years ahead Alliance Trust is one to consider. [SF]



# Why Gaming Realms is still a buy

With no debt and some £14 million of cash the company is well placed to return capital to shareholders

## Gaming Realms

(GMR:AIM) 39.93p

**Gain to date: 26.4%**

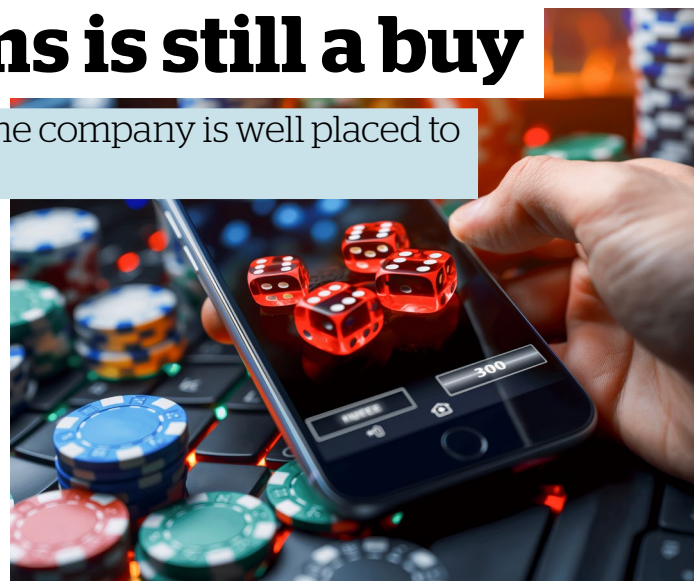
**W**e flagged AIM-listed games distributor **Gaming Realms (GMR:AIM)** as an underappreciated growth story on 25 April with the company projected to more than double pre-tax profit over the next three years. Pleasingly, the market appears to be recognising that potential.

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

The company delivered a robust first-half trading update (30 July), which saw revenue and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) increase 18% and 21% respectively.

Core content licensing revenue grew 28% year-on-year as the company partnered with 22 new clients and launched seven new Slingo games.

In North America, Gaming Realms launched its Slingo portfolio with market leading fantasy sports betting company FanDuel (owned by



**Flutter Entertainment (FLTR)** in Pennsylvania and Connecticut.

Slingo was also launched with Atlantic Lottery Corporation and Fanatics in New Jersey, Michigan and Pennsylvania.

Demonstrating the growth potential from partnering with large gambling groups operating across multiple territories, Slingo went live in Italy with Pokerstars, another Flutter brand.

Management said the 'strong' momentum experienced in the first half provided the board with the belief the company is on track to meet full year expectations.

An important part of the investment case is the ability of the company to convert an increasing proportion of revenue into profit and free cash flow as costs remain relatively fixed.

It is therefore encouraging that Gaming Realms completed a capital reduction on 1 August which lays the ground for the firm to pay dividends and/or buy back shares.

Although there is no current intention to undertake any dividend or share buyback programme, Peel Hunt forecasts the business will generate almost £30 million of free cash flow from 2023 to 2026, suggesting scope for enhanced shareholder payouts.

### WHAT SHOULD INVESTORS DO NOW?

Although the shares have made solid gains since late April, we believe the company remains in the early stages of its growth trajectory suggesting further price gains are on the cards. We stay positive on the shares. [MG]

## Gaming Realms

(p)



Chart: Shares magazine • Source: LSEG



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# THE RACE FOR INCOME

How the markets can help you beat falling rates



By James Crux  
Funds and Investment Trusts Editor

**O**n 1 August the Bank of England's Monetary Policy Committee made a 5-4 decision to kickstart its rate-cutting cycle. A 25 basis point reduction in the base rate to 5% marking The Old Lady of Threadneedle Street's first cut since March 2020.

This means cash savings rates are heading in one direction, down. And the lower-than-expected jump in UK inflation reported on 14 August only boosted market expectations that the Bank of England could deliver another rate cut next month.

As the rate environment turns, those who want to grow the income their money generates will need to shift out of cash and money market funds and into the financial markets and, in particular, stocks and shares which offer the potential for both yield and capital appreciation.

Dividend paying shares offer a generous income *today, but with the added kicker of* potential growth in that income stream into the future, and myriad London-listed stocks are currently yielding more than the 5% base rate and

## UK interest rate forecast

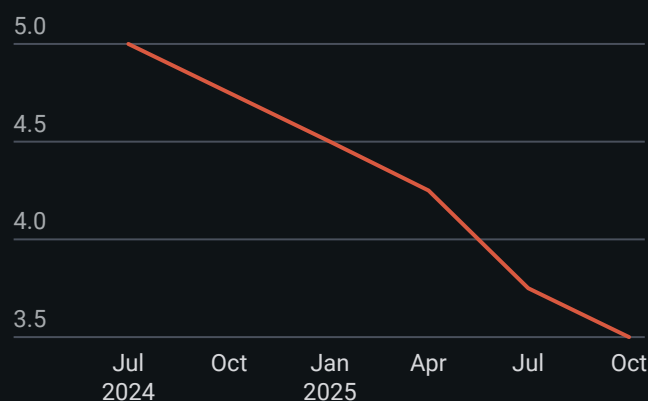


Chart: Shares magazine • Source: Reuters poll, data to 15 August 2024

the 3.5%, 3.8% and 4.4% returns respectively from the two-year, 10-year and 30-year UK gilts. A word of caution though – dividends are not guaranteed.

In this article we will highlight the income stocks favoured by fund managers, equity income investment trusts and vehicles which hold other income-bearing investments like property, bonds and infrastructure.



# THE PITFALLS OF HIGH YIELDS

The risk of chasing higher-yielding shares is dividends are not set in stone and can be cut or even cancelled all together. Often a high yield signals that a company's dividend is looking vulnerable and investors have marked the shares lower in anticipation of a reduction or suspension of the payout.

David Smith, fund manager, **Henderson High Income Trust (HHI)**, says equity income should be a key consideration for income-seeking investors given dividends are linked to company profits, thereby giving the potential for dividend growth and protecting an investors' income against inflation.

'However, caution is needed when selecting a company that pays a high dividend yield as this can be misleading if the dividend is unsustainable, leading to a dividend cut and a fall in the share

price,' Smith warns. 'Investors need to make sure a company's dividend is repeatable and can grow into the longer term, key elements to a shareholder's total return. Understanding a company's financial health in terms of sustainability of profits, balance sheet robustness, well invested asset base and strength of cash flows provides valuable insights into its ability to pay and grow its dividend.'

Andy Marsh, co-manager of the **Artemis Income Fund (B2PLJH1)**, warns the investor's quest to attain income must not be focused on scrolling through companies online and looking at the yield numbers. 'For a start, these may be inaccurate. Are they historical yields or based on forecast earnings? And where will the yield be in three years? The same, lower, higher or non-existent? Start with cash flow. This is profit available after everyone has been paid,' says Marsh. 'You want a successful business generating strong cash flow that can grow – this is what pays your yield. Finding these strong businesses requires you to scour the financial results of businesses, and, in particular, cash flow statements. This focus helps you cut out those companies paying unsustainably high dividends that are sometimes a function of their share price going in the wrong direction – the falling knives.'



Iain Pyle manages **Shires Income (SHRS)**, an investment trust that seeks to provide a high level of income, together with the potential for growth of both income and capital, by investing in UK equities, preference shares, convertibles and other fixed income securities. Pyle thinks UK equity income is in an interesting place right now, having been out of favour in recent years. The market has been very focused on mega-cap growth, while high cash returns have made equity income less necessary or attractive for many investors when they can earn 5% on their savings accounts.

'Both of those drivers are facing headwinds right now,' says Pyle. 'Concentration in tech is very high and stocks highly rated, increasing the risk of disappointment. For cash, interest rates have started to come down, so investors are seeing falling returns on cash and also realising that it does not protect them from inflation as well as equities do. With a 6% yield on the shares today, Shires now offers materially higher income than cash combined

with the potential for capital growth and a track record of dividend growth over time.'

Simon Gergel manages **The Merchants Trust (MRCH)**, which seeks to provide an above average level of income, income growth and long-term capital growth by investing in higher yielding UK large caps. Trading on a 4.9% dividend yield, Merchants has notched up a formidable 42 years of unbroken dividend growth and Gergel is excited about UK equities for a variety of reasons. 'We're seeing buybacks from companies and a huge number of takeovers, so there are buyers coming into the market, and valuations are much cheaper than their own history and many other markets. Interest rates coming down makes the alternative sources of return more difficult, whether that's cash or bonds,' says Gergel. 'That should be very helpful for higher yielding shares. There is some evidence that higher yielding shares have done better than the average company over the very long term.'

# EQUITY-BASED INVESTMENT TRUSTS FOR INCOME

## UK Equity Income trusts yielding more than 4.5% and growing dividends

Trust	Disc/prem (%)	10-year share price total return (%)	Ongoing charges (%)	Five-year dividend growth (%)	Dividend yield (%)
Chelverton UK Dividend Trust	1.65	88.3	2.44	7	7.5
Abrdn Equity Income Trust	-4.63	41.8	0.94	3.5	7.0
CT UK High Income Trust	-6.79	73.3	1.0	2.2	6.14
Shires Income	-10.2	71.1	1.1	1.76	6
Dunedin Income Growth	-11.4	70	0.64	2.0	4.86
JPMorgan Claverhouse	-5.0	93.5	0.7	4.64	4.83
Merchants Trust	0.77	105.8	0.55	1.78	4.81
Lowland Investment Company	-11.7	44.5	0.64	2.97	4.8
Schroder Income Growth Fund	-11	70.8	0.77	3.18	4.74
City of London	-0.58	84.5	0.37	2.0	4.72
Diverse Income Trust	-8.21	69.4	1.0	3.56	4.51

Table: Shares magazine • Source: AIC, data to 15 August

Thanks to their structure, which allows them to hold back income during good years to help sustain payments in more fallow periods, investment trusts often have enviable track records of dividend growth going back years or even decades.

Because they are invested in a diversified portfolio of dividend-paying shares they also reduce the risks of an individual company cutting or cancelling its dividend.

The yields available from trusts in the AIC (Association of Investment Companies) Global Equity Income sector are appreciably lower than those from the UK Equity Income category.

This reflects the relatively depressed valuations in the UK market, particularly compared with the US, and a stronger dividend-paying tradition and higher payout ratios (i.e. the proportion of a company's earnings paid out in dividends) than in other geographies.

Looking at the list we have included everything with an historic dividend yield of 4.5% or more

and have only included trusts which have delivered growth in their dividend over the last five years.

This does exclude one of the trusts with the best five-year dividend growth (of more than 11%) in **Law Debenture (LWDB)**. While the starting yield is a relatively modest 3.7% the company benefits from a unique combination of a traditional investment trust holding income stocks alongside a cash-generative professional services operating business.

Of the names in the table **Chelverton UK Dividend (SDV)** has the highest yield at 7.5%. Two points to note. It invests in UK small caps – which can be more prone to cutting or cancelling dividends. It also has very high ongoing charges – 2.44% according to the AIC.

We would instead highlight another two names which we believe are worth buying for the income they offer today and income growth potential. The first is **Dunedin Income Growth (DIG)**. This trust focuses on quality companies which meet its sustainability criteria as well as offering 'real'



income growth over the long term. They are focusing on names which can sustain dividends, even during tougher times. The portfolio includes UK-listed names like consumer goods giant **Unilever (ULVR)**, electricity network operator **National Grid (NG.)** supplemented by a couple of overseas selections in **Novo Nordisk (NOVO-B:CPH)** and **ASML (ASML:AMS)**. The trust trades at a discount to NAV (net asset value) of 11%, has ongoing charges of 0.64% and yields 4.9%.

The other name we like is **JPMorgan Claverhouse (JCH)**, where a balanced approach, mixing growth and value, has helped deliver a measure of consistency in returns and where the company has pledged increase dividends at a rate close to or above inflation. Steered by William Meadon and Callum Abbot, Kepler notes the trust has outperformed in two thirds of the quarterly periods since the former took over management of the trust in 2012. Like Dunedin there is a focus on quality as well as high yields, with top holdings including the likes of **Shell (SHEL)** and private equity outfit **3i Group (III)**. Ongoing charges are 0.7% and the historic yield is 4.8%. [TS]

## FUND MANAGERS' STOCK PICKS FOR INCOME

When picking stocks, Shires' Pyle always looks for a combination of dividend yield and dividend growth, 'so a company with a 5%-plus yield and good growth outlook is exactly what we are after and there are a few in the portfolio', he enthuses, highlighting **BP (BP.)** and **NatWest (NWG)**, which both have 'yields over 5% and the potential to grow dividends in the next few years. The thing that connects them is the power of a substantial buyback program, meaning that share-counts are falling rapidly allowing for dividend per share to increase more than 5% per year even if absolute distributions stay flat.'

Gergel likes healthcare property play **Assura (AGR)**, which has an 8% dividend yield underpinned by asset value and a good record of growing dividends over many years. 'Most of its properties have rising rents either with inflation, which is either guaranteed or else over time there is a mechanism to reflect higher building costs in the rents Assura can charge GPs,' explains Gergel.

Henderson High Income's Smith is a fan of 5%-plus yielder **Dunelm (DNLM)**, the homewares retailer with 'a strong business model which supports its competitive price position that has



driven market share gains and profit growth. The company also has a robust balance sheet and high free cash flow which supports an attractive and growing ordinary dividend yield which is supplemented by repeatable special dividends.'

Seasoned investor James Henderson, co-manager of investment trusts **Lowland (LWI)**, **Law Debenture** and **Henderson Opportunities Trust (HOT)**, highlights the attractions of insurance company **Sabre (SBRE)**, which currently yields a base-rate and inflation-beating 7%.

'Sabre is a very disciplined underwriter of non-standard motor insurance,' says Henderson. 'It's the place you go to if you are having a mid-life crisis and have just bought yourself a 750cc motorbike when you've never ridden anything more than 100cc before. By really understanding the customer, Sabre can deliver bespoke cover. 'Most motor underwriters make very little on each transaction. The figure you need is the 'combined ratio', a measure of costs, including expenses and claim losses, divided by earned premia. For many underwriters that ratio is 100%, which means they are neither making nor losing money beyond the interest they get on holding the premium cash. But Sabre has a ratio of 85%, so it's doing well. Motor insurance has a reputation as a difficult industry for investors but Sabre has a good management team and is well run.'

Artemis' Marsh highlights the 6.5% yield on offer from free-to-air broadcaster **ITV (ITV)**. 'That is high and would normally make me somewhat wary,' says Marsh. However, 'it looks increasingly secure but additionally the business is benefiting from investments in technology and cost savings. So, the dividend has some protection if advertising revenue, which is cyclical, declines materially. The investment in ITVX is generating a different sort of ad revenue - more akin to online advertising. It is premature to suggest that ITV can materially grow its revenue and earnings from advertising but the current buyback is already making more dividend money available for remaining shareholders, even if the business stands still.'

## A WEALTH MANAGER TO WATCH

Brendan Gulston, manager of **WS Gresham House UK Multi Cap Income (BYXVGS7)**, points out that the UK wealth management sector has been out of favour as interest rate increases have moderated net flows, with households prioritising or re-allocating personal cash flows to areas of higher need. But with interest rates falling and inflationary pressures abating, the backdrop for businesses with strong operational leverage is improving.

One example is vertically integrated wealth

management business **Quilter (QLT)**. 'There is significant operational leverage within the business which drives attractive potential profit scalability as the market backdrop improves,' observes Gulston: 'We invested at a circa 10 ex-cash price to earnings multiple when the stock was paying in excess of a 5% yield. Whilst recent share price performance has been strong and the dividend yield has moderated slightly to circa 4%, we think there is considerable further upside as the company delivers on its strategy.'

## BOND FUNDS ARE AN IDEAL WAY TO ADD SECURE INCOME

### High-yielding bond trusts

Trust	Dividend yield %	10-year share price total return (%)	Ongoing charges (%)
<b>TwentyFour Select Monthly Income</b>	8.7	72.1	1.26
<b>CVC Income &amp; Growth</b>	8.4	95.2	1.82
<b>Invesco Bond Income Plus</b>	6.7	66.4	0.91

Table: Shares magazine • Source: The AIC, data correct as of 14 August 2024

As we explained in our [education piece](#) on building a portfolio, bonds should be a part of every investor's tool-kit.



For absolute beginners, a bond ETF (exchange-traded fund) is probably a good call, but for those looking for a high but reliable stream of income then a fund or an investment trust would be a better solution.

While the returns on bonds are obviously linked to interest rates, there are a few trusts in the AIC's (Association of Investment Companies) 'debt' sector which still offer high single-digit yields without taking lots of risk.

TwentyFour Asset Management is a specialist fixed-income manager owned by Swiss group Vontobel with £19 billion of asset under management including one of the most popular bonds funds and our pick in this space, **TwentyFour Select Monthly Income (SMIF)**.

The fund has assets of just over £200 million, yields 8.75% and pays a dividend monthly, which makes it ideal for those looking to pay bills or meet



other small monthly outgoings without touching their capital.

It is also ideal for those looking to compound their returns rather than taking a monthly income as the dividends can be reinvested every month rather than every quarter or half-year as with most other trusts, meaning compounding gets to work straight away.

The fund is designed to take advantage of the high returns available on less-liquid debt, which is often overlooked by investors but is well-suited to a closed-end structure, and targets a dividend yield of at least 6% with a net total return target of 8% to 10% per year.

We should point out that less-liquid doesn't mean lower quality, it can be that the bonds are tightly held by financial institutions and family offices and don't trade very frequently.

Among the top 10 holdings in the Select Monthly Income Fund are bonds issued by building society Nationwide, NatWest, pension insurance specialist Rothesay Life and Santander UK.

Two more relatively high-yielding bond trusts are **CVC Income & Growth (CVCG)** and **Invesco Bond Income Plus (BIPS)**.

The £200 million CVC fund, managed by Pieter Staelens, invests mainly in leveraged loans rather than high-yield debt and therefore has exposure to floating-rate securities not just fixed-rate.

The loans are typically secured on an underlying asset so there is a degree of security to them, which isn't the case with all bonds, many of which are IOUs rather like credit card debt with no asset backing.

The £370 million Invesco trust invests in traditional high-yield bonds but also buys lower-rated subordinated debt issued by European financial institutions and even has a 'recovery' segment where it buys the bonds of businesses which are turning themselves around. [IC]

**Disclaimer:** The author (Ian Conway) owns shares in *TwentyFour Select Monthly Income and CVC Income & Growth*.

## REAL ASSETS CAN CONTINUE TO GENERATE ATTRACTIVE RETURNS AS RATES FALL

Just as bond funds can buy different types of debt to achieve a high yield, infrastructure and real estate trusts can cover a whole range of investments.

Some infrastructure trusts invest directly in actual physical assets, while some invest in the share capital of companies operating in the infrastructure sector and others invest in the debt issued by those companies.

Similarly, UK real estate investment trusts – or REITs, for short – can own all kinds of commercial property from supermarkets to warehouses for ecommerce companies like **Amazon.com {AMZN:NASDAQ}** to data centres for tech companies focused on AI (artificial intelligence).

The best-yielding infrastructure trusts are **Sequoia Economic Infrastructure Income (SEQI)** and **GCP Infrastructure (GCP)**, both of which currently trade on an 8.6% yield and both of which invest in the debt of companies involved in power and other utilities, including renewables, as well as transport systems and other critical infrastructure, and use the income they receive to pay dividends.

We would flag Sequoia as the best option. It owns 56 investments, with an average value of just over £20 million and an average maturity of four years, and is tilted towards data centres, telecom infrastructure, electricity and energy efficiency including renewables.



## High-yielding Infrastructure and Real Estate Trusts

Trust	Dividend yield %	10-year share price total return (%)	Ongoing charges (%)
Sequoia Economic Infrastructure Income	8.6	n/a	0.95
GCP Infrastructure	8.6	40.8	1.10
AEW UK REIT	8.5	n/a	1.60
Supermarket Income REIT	8.1	n/a	1.27
Custodian Property Income REIT	7.7	31.2	1.24
HICL Infrastructure	6.5	46.7	1.14

Table: Shares magazine • Source: The AIC, data correct as of 14 August 2024



GCP is tilted more towards public infrastructure including schools, hospitals and healthcare centres, and alternative energy such as wind, solar and biomass.

REITs on the other hand invest directly in commercial property, with the aim of paying out their earnings in the form of dividends, so the yield depends on how much the firms are able to increase rents and grow their income.

In the case of **AEW UK REIT (AEWU)**, **Supermarket Income REIT (SUPR)** and **Custodian Property Income REIT (CREI)**, all three are growing their rental income by 10% as demand for good-quality, well-located assets continues to increase while supply is limited.

Our pick is AEW UK REIT which owns smaller properties, typically with a value of £15 million or less, in the office, retail, industrial and leisure sectors, with a focus on active asset management meaning it looks to improve the quality of its income stream.

Supermarket Income REIT, as its name suggests, invests in retail property and currently has a portfolio of 73 omnichannel stores, which offer in-store shopping but also operate as last-mile and online fulfilment centres, with a value of over £1.7 billion.

Custodian Property Income REIT owns a broad portfolio of properties across the industrial, warehouse, office and retail sectors as well as petrol stations, bowling centres, car dealerships and even drive-through restaurants, making it highly diversified in terms of income. [IC]

**Disclaimer: The author (Ian Conway) owns shares in Sequoia Economic Infrastructure Income and Custodian Property Income REIT.**

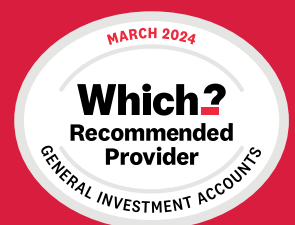




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# Why ignoring your financial future would be a big mistake

There's an uncomfortable hash tag gaining traction among Gen Z

**O**n the face of it #doomspending might seem fairly harmless, a new incarnation of what used to be called 'retail therapy'.

Splashing out on nice stuff to give us a mood a lift when life is getting us down. But if you watch the videos, it's actually pretty bleak, all about a dawning financial hopelessness, a feeling that things previous generations took for granted like home ownership and retirement, are

becoming increasingly out of reach.

If you're going to have to work till you drop, never be able to afford to get on the property ladder, what is the point in saving today?

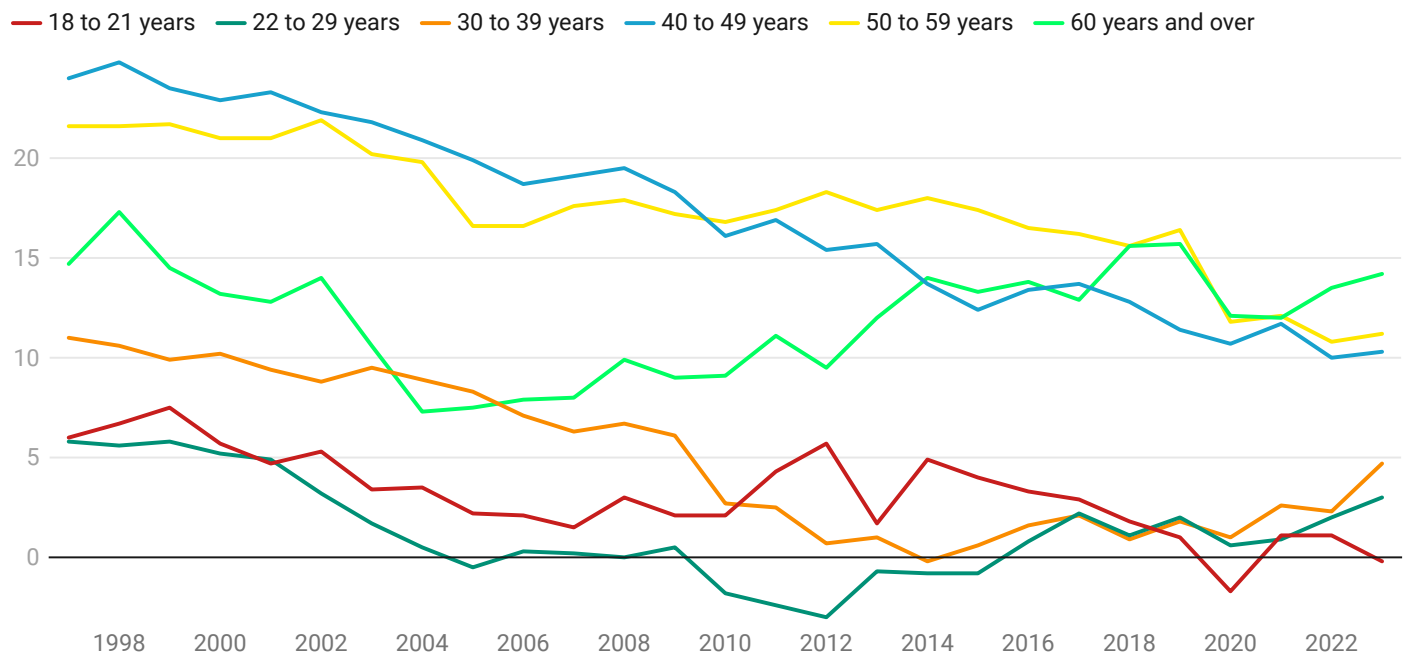
Why not live in the moment, spending every penny to enjoy the now to the full.

That's an incredibly dangerous school of thought not least because time is the one thing you can never get back. For a woman, in particular, the gender pay gap widens as we get older. Looking at the latest figures from the Office for National Statistics, you can almost see the word 'children' wedged between the ages 30 and 40.



## The gender pay gap for full-time employees aged 40 years and over is much higher than for employees aged below 40 years

Unit %



1. The age group for those aged 16 to 17 years has been excluded from this chart because of sample size volatility. 2. Estimates for 2023 data are provisional. 3. Employees are on adult rates, pay is unaffected by absence unless furloughed. 4. Full-time is defined as employees working more than 30 paid hours per week (or 25 or more for the teaching professions). 5. Figures represent the difference between men's and women's hourly earnings as a percentage of men's hourly earnings.

Chart: Shares magazine • Source: Annual Survey of Hours and Earnings from the Office for National Statistics





Whether you take time out of the workplace, cut back on your hours or just don't want the hassle of pushing for promotion when you are juggling childcare or they myriad of responsibilities that come with being a parent, a woman's ability to earn the same as a man does post 40 diminishes.

### STARTING AS SOON AS YOU CAN

So, bearing in mind we tend to live longer, it's really important to start saving for our pensions as soon as we can. Even if you believe you'll still be working into your 70s, giving yourself the opportunity of at least slowing down in your 80s shouldn't be discounted in your 20s.

In fact, that kind of outlook should be the spur to get young people saving more, not less. The problem is, in your 20s you probably think you can work forever. It's only once you hit those later years that you really think about the physical realities of getting older (well at least I have).

The prospect of not owning a home and having to cover rent into later life is also something worth factoring into people's calculations, especially as those helpful guides put out by the pension and lifetime savings association that tell you how much the different standards of living will require a year, currently assume you'll be living rent free by the time you're ready to retire.

And if you understand that you've got 50 years for the wonder of compounding to work its magic then the doom might not seem quite as bleak.

But in fairness to the

twentysomethings of today, they do face an uphill battle to buy a house and realistically just ditching your morning coffee drink or only paying for one subscription service really isn't going to do a great deal in helping create the hefty savings pot needed for a deposit today.

Plus, as interest rates ticked up from their historic lows, I've heard plenty of comments about them 'getting back to normal'.

### WHAT IS NORMAL?

Older people reminiscing about the rates they'd had to deal with when they first stepped onto the ladder. But for most of them, me included, the house prices back then pale into insignificance compared with house prices today and even though wages have also gone up, on average, first time buyers are having to spend almost 37% of their take home pay on their mortgage payments, that's up from 28% just five years ago according to data from Nationwide.

And I was fortunate that when I was buying 100% mortgages were widely available. I didn't have to save a penny for my deposit, which was just as well because even though I returned North and the house was 'affordable' by today's standards, the rent I had been paying in London meant I had very little left at the end of every month.

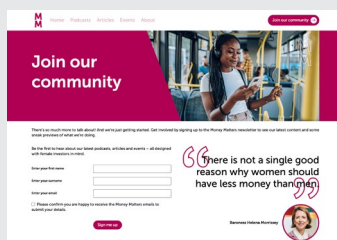
I'm in awe of some of my younger Money Matters colleagues who have slowly and sometimes uncomfortably squirreled away cash

into Lifetime ISAs, grabbing onto that government bonus, and finally brandishing the keys to their first house.

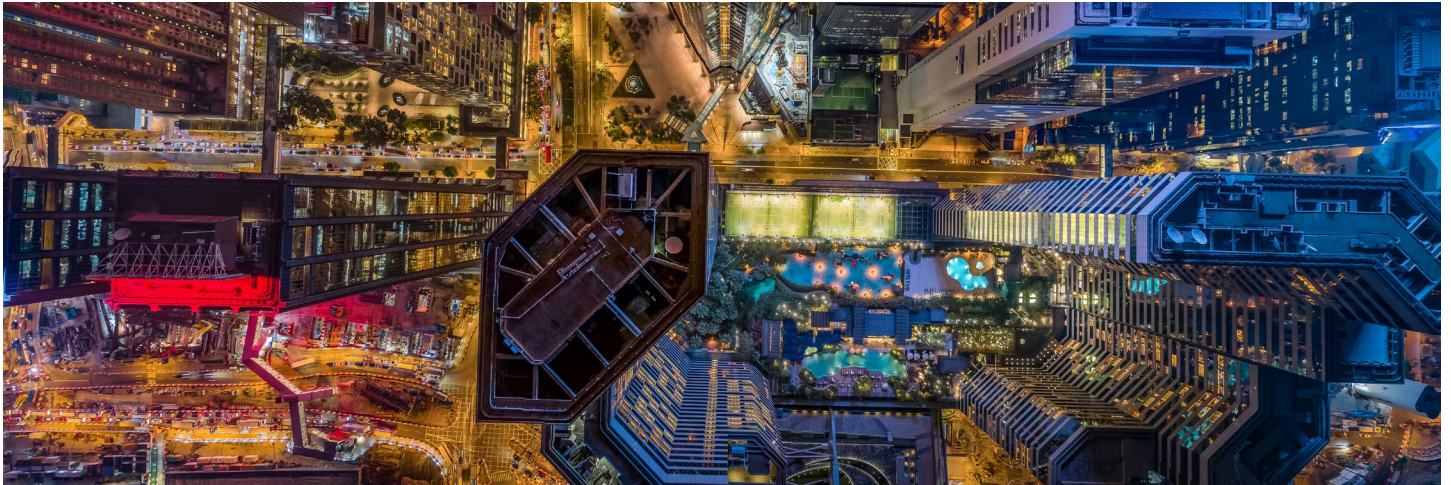
It's easy to fear the doom, especially when a lot of the tips out there telling you how to go about achieving the dream of home ownership seem somewhat disingenuous and often unachievable unless you get help from parents or come into an unexpected windfall like an inheritance.

But starting small and starting early can make all the difference, and that's something a future you will definitely appreciate.

For more information about AJ Bell's Money Matters campaign which is aimed at helping more women feel good investing please sign up for the newsletter here.



# Asian equities – four distinct regions rolled into one



## *Why it's wrong to view Asia as one homogenous region*

According to Robin Parbrook and King Fuei Lee, portfolio managers of the [Schroder Asian Total Return Investment Company plc \(ATR\)](#), one of the most effective ways of investing in Asian equities is to disregard the benchmark. With more than forty years' experience investing in Asia between them, they've been around for long enough to acknowledge that there are times when simply investing in the index will produce good results. However, when investing for absolute returns, it pays to be more selective. Fortunately, the Asian equity opportunity set is large enough and diverse enough for investors to be extremely selective. Indeed, the managers view the Asian market as four separate regions, each with different drivers, and value can be added by transitioning between them as conditions evolve.

### **1. HONG KONG AND CHINA – A CAUTIOUS STANCE**

Between them, Hong Kong and China make up approximately 30% of the MSCI AC Asia Pacific ex Japan Index. As Asia's largest and arguably one of the most diverse economies, China can dominate investor perceptions about the opportunity in Asian equities. The reality is a lot more nuanced, which is helpful in

the current environment, given China's considerable macroeconomic challenges.

The trust's outlook on this part of the Asian equity universe remains cautious due to concerns about returns, high debt levels and the travails of China's property sector. Although China has superficially embraced capitalism in recent decades, large parts of the economy remain under strong state influence. Policy decisions are therefore hugely important to the outlook, and the Government continues to try to offset the problems in its property sector through further significant industrial investment. The knock-on impact of this, however, is likely to mean more over-capacity, more inefficiency, and ultimately, the risk of further prolonging this period of lower returns.

It would be wrong to think of China and Hong Kong as entirely uninvestable, however. There are areas where market forces function relatively well, and the ATR portfolio focuses on these, including sectors such as online gaming and select advanced industrial plays. Nevertheless, the portfolio is currently significantly underweight to this part of the region, with c. 15% of assets invested, split roughly equally between China and Hong Kong.

### **2. AUSTRALIA AND SINGAPORE – STRONG FUNDAMENTALS**

Australia and Singapore together represent about 20% of the index (MSCI Asia ex Japan), and ATR is



currently overweight in this segment. A recent visit to Australia by the portfolio managers highlighted its many strengths, including its robust corporate sector and supportive economic policies. Perhaps often under-reported by the financial press, Australia actually benefits from some of the most favourable demographics across Asia, with positive immigration bringing in a steady flow of skilled workers. Coupled with good infrastructure and high living standards, this leads to better long-term growth prospects than many Asian economies.

Meanwhile, Australian companies tend to pay good dividends, driven by the needs of Australia's unique pension system. A significant proportion of long-term total returns stems from dividends, so the high starting yield available from many Australian businesses gives them the potential to deliver continued outperformance.

Singapore shares similar positive characteristics. Neither economy can claim to be the most exciting growth opportunity in the world, which perhaps explains why market strategists are relatively cautious about their prospects. Nevertheless, both look well placed to deliver attractive long-term total returns, driven by higher dividend pay-out ratios and strong governance. The ATR portfolio is overweight this part of Asia, with about a quarter of portfolio assets dedicated to it.

### **3. SOUTH KOREA AND TAIWAN – TECHNOLOGICAL POWERHOUSES**

The South Korean and Taiwanese stock markets are dominated by the Information Technology (IT) sector, or to be more precise, the semiconductor industry. Companies like Taiwan Semiconductor Manufacturing Company (TSMC), Samsung Electronics and Hynix dominate these markets, making them critical players in the global technology supply chain. Indeed, many investors consider these semiconductor giants to be among the best stocks in Asia, driving substantial innovation and growth.

This has certainly been the case historically, and the ATR portfolio has benefited from their past success. However, the portfolio managers are currently approaching this area with a degree of caution due to the cyclical nature of the semiconductor industry. While the portfolio still holds significant positions in TSMC and Samsung, Parbrook and Lee have been taking profits to manage risk, believing that the current cyclical upswing is now well advanced.

More positively, TSMC stands out as Asia's strongest potential beneficiary of the ongoing boom in artificial intelligence (AI). Although not directly comparable to Nvidia, the US company that has become the AI "poster child", TSMC's role as a primary fabricator of

Nvidia's advanced chips places it in a strong strategic position within the industry. Hence, it remains the largest holding in the ATR portfolio, and the portfolio managers maintain an overweight position to South Korea and Taiwan as a whole.

### **4. INDIA AND THE ASEAN<sup>1</sup> MARKETS - GROWTH AND OPPORTUNITY**

The markets of India and the ASEAN region present a mix of rapid economic growth, structural changes and positive demographics. India's macroeconomic environment is notably strong, with positive policy developments enhancing its growth potential. However, the stock market has already priced in much of this optimism, leading to ATR's portfolio managers taking some profits in this area. With the benefit of hindsight, the decision to reduce exposure to India looks a little early, but the managers remain cautious about chasing the current high valuations.

Elsewhere in the ASEAN markets, the Managers have focused on finding overlooked opportunities at reasonable valuations, in economies that offer improving political stability. For example, returns on equity are rising in the Philippines, Singapore and Indonesia, but the trend of improving fundamentals is not yet reflected in share prices. Hence, the managers are overweight in the ASEAN region, confident that the opportunities they have unearthed have the potential to perform well as the broader market begins to recognise their value and future prospects.

### **CONCLUSION – BACKING SELECTIVE OPPORTUNITIES WITH A TACTICAL OVERLAY**

In summary, even with a cautious stance on Hong Kong and China, the broader Asian market offers ample opportunities for selective investment. There is more latent potential in the other three key parts of the region, where solid fundamentals, technological dominance and favourable economic conditions combine to present a diverse range of stock-specific opportunities with attractive long-term return potential.

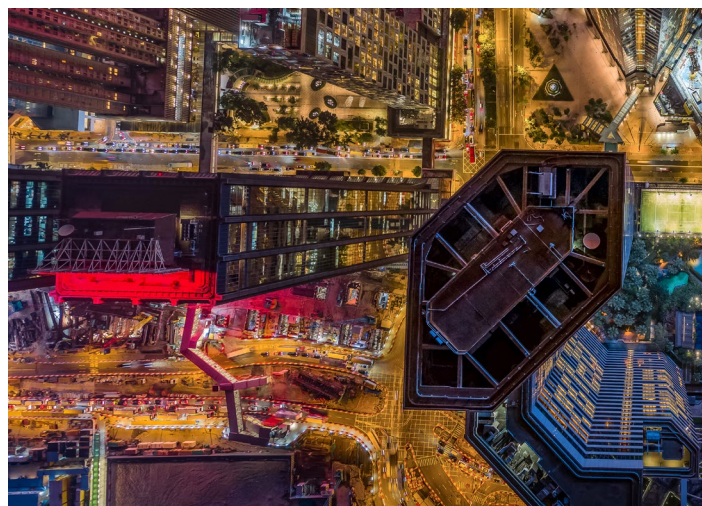
By overlaying these individual investments with a 'top-down' tactical hedging<sup>2</sup> strategy with use of derivatives<sup>3</sup>, ATR's portfolio managers aim to deliver a smoother ride for investors, by lowering volatility to preserve capital. This should mitigate some of the broader risks associated with investing in Asia, while providing Parbrook and Lee the flexibility to deliver potentially attractive long-term total returns, through a combination of a rising stream of dividend income and capital growth.

[Click here to find out more about the Schroder Asian Total Return Investment Company >](#)

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<sup>1</sup> The [ASEAN](#) (or Association of Southeast Asian Nations) include Thailand, Philippines, Indonesia, Malaysia, Singapore, Vietnam amongst others.

<sup>2</sup> Hedging is a type of investment that is selected to reduce the potential for loss in another investment in the portfolio, in order to offset the risk of adverse price movements.

<sup>3</sup> Derivatives is the collective name used for a broad class of financial instruments that derive their value from other underlying financial instruments. Futures, options and swaps are all types of derivatives. The managers use quantitative models and a top-down overlay to analyse economic and market trends and assess near- and medium-term market risks. This informs their use of derivatives, which aim to protect the capital value of the portfolio or facilitate efficient portfolio management.

## IMPORTANT INFORMATION

Past Performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Exchange rate changes may cause the value of any overseas investments to rise or fall.

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# Are gold prices now too high?

Examining whether there is more to come after the precious metal's record rally

**G**old prices remain within touching distance of the all-time highs of \$2,510 set recently amid ongoing geopolitical tensions.

The precious metal is up around 20% year-to-date outperforming most other asset classes.

## WHY HAS GOLD HIT NEW HIGHS

It is not hard to see why investors have flocked to gold due to the crises in the Middle East, the ongoing Russia-Ukraine war, worries about expected interest rate cuts and stock market volatility.

Gold is often seen by investors as a 'safe haven' asset which can hold its value during periods of volatility and economic downturn.

According to the World Gold Council's second-quarter gold demand trends report, total global gold demand increased 4% year-on-year to 1,258 tonnes.

Central banks and official institutions have increased their global gold holdings by 183 tonnes slowing down from the previous quarter but still reflecting a 6% increase year-on-year.

The World Gold Council remains bullish on the

## Gold bullion

(\$)



Chart: Shares magazine • Source: LSEG

precious metal for the next 12 months as investors strive for portfolio protection and diversification 'in a complex economic and geopolitical environment'. Total demand was supported by healthy OTC (over

## Cheapest gold exchange-traded products

	Ongoing charges (%)
Xtrackers IE Physical Gold ETC Securities	0.11
Amundi Physical Gold ETC	0.12
Invesco Physical Gold	0.12

Table: Shares magazine • Source: Just ETF 13 August 2024



the counter) transactions, up 53% year-on-year at 329 tonnes.

### OUTLINING THE BULL CASE FOR GOLD

US investment bank **JP Morgan (JPM:NYSE)** expects gold prices to average \$2,500 per ounce in the fourth quarter of 2024 due to heightened geopolitical risks, expectations the Fed will begin lowering interest rates and central bank buying.

Gregory Shearer, head of base and precious metals strategy at JP Morgan says that gold's resurgence has come earlier than expected as it further decouples from 'real' (inflation-adjusted) yields or interest rates. Typically, gold prices trade in inverse correlation to real rates.

'We have been structurally bullish gold since the fourth quarter of 2022 and with gold prices surging past \$2,400 in April, the rally has come earlier and has been much sharper than expected,' Shearer says.

'It has been especially surprising given that it has coincided with Fed rate cuts being priced out and US real yields moving higher due to stronger labour and inflation data in the US.'

The cheapest and simplest way for investors to buy gold is through ETPs (exchange-traded products).



**We think that gold is overvalued from the perspective of a few key macro drivers and that there are some unrealised vulnerabilities to the pillars of gold's rally.**

Global gold ETPs experienced their strongest month since April 2022 in July, attracting inflows of \$3.7 billion, the third consecutive monthly inflow, according to the World Gold Council. Recent inflows and the rising gold price have pushed global gold ETFs' total AUM (assets under management) to \$246 billion.

### BEAR CASE FOR GOLD

However, some analysts believe the outlook for gold is not rosy for the rest of the year. RBC Capital Markets analysts have maintained a cautious stance ever since the precious metal hit record highs: 'We think that gold is overvalued from the perspective of a few key macro drivers and

that there are some unrealised vulnerabilities to the pillars of gold's rally. While we are cautious, it's more because we do not think gold should be at such high levels just yet.'

The World Gold Council noted in its recent second-quarter report profit-taking in some markets and lower levels of net demand in Europe and North America.

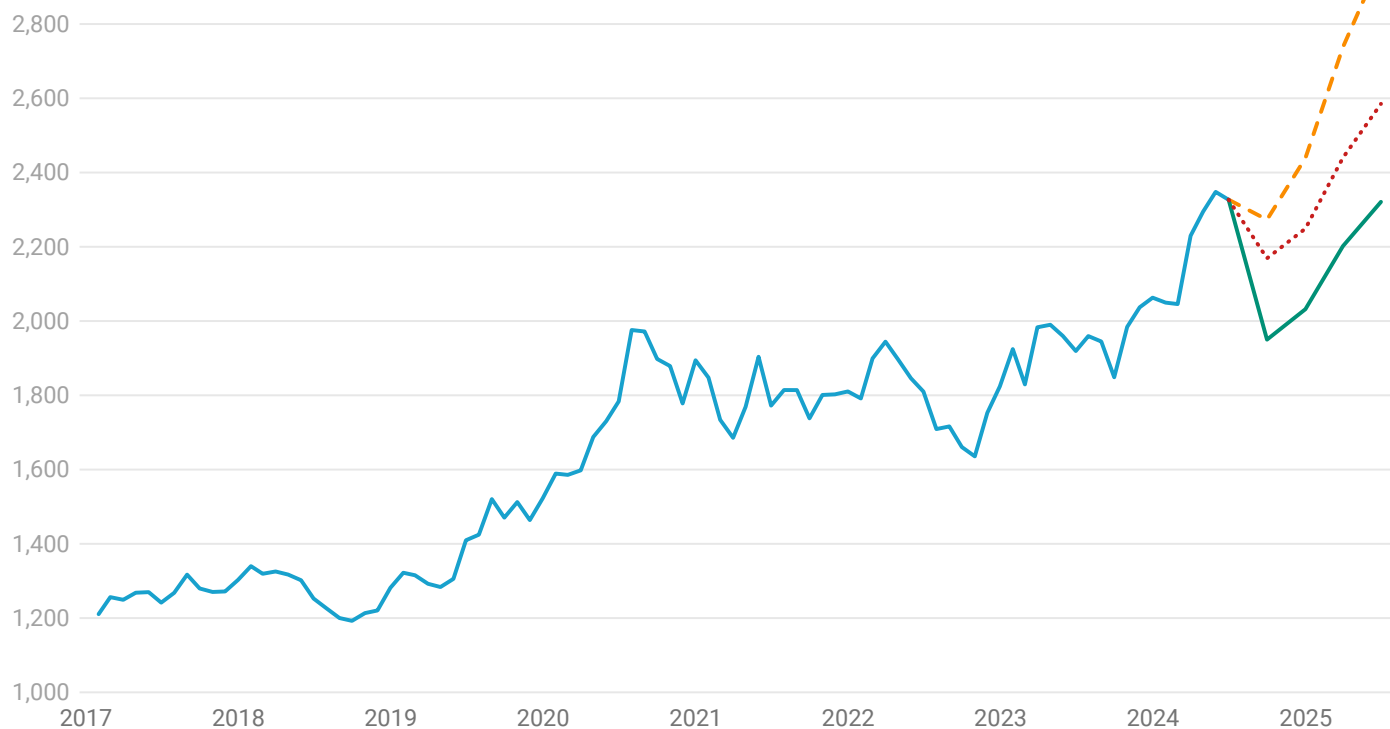
RBC also notes that while May and June saw more stable trends for ETPs (gold-backed exchange-traded products), it remains unconvinced that investors are fully committed.

Investors have sold gold holdings during the price



## Gold price forecast

— Actual — Consensus — Bull — Bear



Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties

Source: WisdomTree Model Forecasts, Bloomberg Historical Data, data available as of June 2024

rally, and a sustained return to buying has not yet been observed.'

Strong demand from global central banks has been a crucial driver of gold's recent rally. However, RBC analysts believe that China's recent pause in gold buying reveals potential vulnerabilities.

'To be clear, we still think that central bank demand will continue to be strong, but there are reasons to be cautious on the volume at record prices and after such a sustained period of strength.'

### A LONG-TERM VIEW

Published in May, a piece of research from former commodity fund manager Claude Erb and Campbell Harvey – a Duke University finance professor – suggests gold will lag US inflation by more than 7% a year over the next decade.

The authors observe that, historically, a high inflation-adjusted gold price has been associated with low inflation-adjusted returns from the

precious metal over the subsequent decade.

Posing the question: 'Has an influx of gold buying ushered in a new age of permanently higher "this time is different" real gold prices or is this simply the latest "wash, rinse, repeat" cycle setting-up a significant fall in real gold prices?'

What lends their scepticism about gold some credence is a report they published in 2012 proposing a so-called 'fair value' for gold which suggested gold was heavily overvalued at the time. From its 2012 high gold dropped more than 40% in real terms to its 2015 low.

Key events in the US political and financial calendar lie ahead including: the Democratic National Convention, the US presidential election and US Federal Reserve meetings which might shape the future price of the precious metal.



By **Sabuhi Gard** Investment Writer



# Why chip stocks need to keep cooking

Much will rest on the semiconductor sector if markets are to keep rising

**R**egular readers of this column will be well aware of its faith in the Philadelphia Semiconductor index, or SOX, as a valuable indicator to follow and after the summer stock market stumble the 30-stock benchmark is well and truly in the headlines. At its early-August low, the SOX had lost 25% of its value in just a month. It has since rebounded by a sixth. Given the SOX's importance as both a guide to global activity and equity investors' risk appetite it should be worth keeping an eye on the index, as whether it rises or droops could have a major bearing on where stock markets go from here.

### GROWTH INDUSTRY

For those less familiar with the SOX, which comprises makers and designers of both silicon chips and semiconductor production equipment (SPE), it has a market following for two reasons.

First, by dint of their ubiquity, silicon chips offer a good insight to global economic activity. Worldwide sales are expected to reach nearly \$600 billion in 2024 and semiconductors are everywhere, from tablets to laptops, cars to robots, smartphones to servers and smart meters to medical equipment.

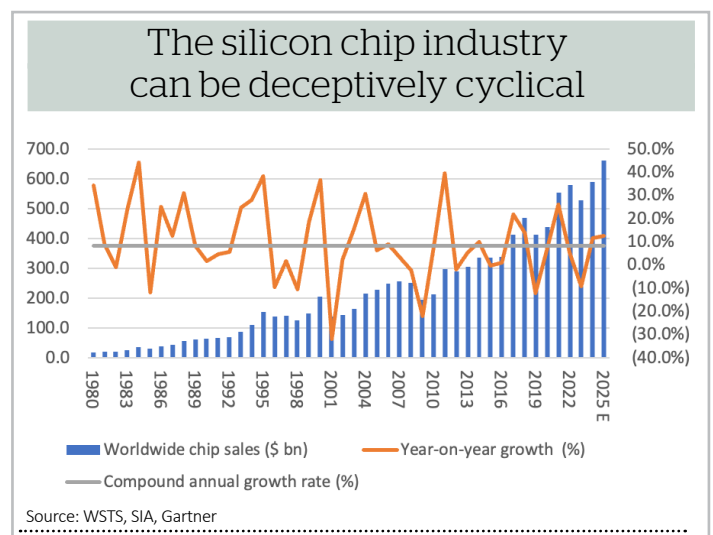
Second, the SOX has a decent history as a proxy for global risk appetite in financial markets. Chip and chip-making equipment firms are generally traded as momentum stocks, surging as earnings estimates rise and recoiling if they fall, thanks to how operationally geared they are: even a small percentage changes in sales leads to a much bigger percentage change in profits, thanks to the fixed costs associated with research and development and, in some cases, the hugely capital-intensive nature of the business (a state-of-the-art

semiconductor fabrication facility, or fab, now costs billions of dollars).

The SOX has received an extra kicker of late from both investors' enthusiasm for artificial intelligence and companies' scramble to invest in this new technology, in chipsets and data servers and centres. This can be seen most clearly, perhaps, in the form of **Nvidia (NVDA:NASDAQ)** and **TSMC (2330:TPE)**, two of the world's 10 largest companies by stock market value. Nvidia designs its chipsets and then outsources their production to its Taiwanese manufacturing partner. If anything goes well, or amiss, at either, investors in AI and AI-related names will well take note, whether they have exposure directly to those, or related names, or indirectly through index-trackers, given their lofty weightings in leading benchmarks.

### BOOM AND BUST

Global silicon chip sales have shown an impressive 8% compound annual growth rate over the past 40-odd years, a figure which easily surpasses trend worldwide GDP growth. However, the industry is notoriously boom-and-bust.







This is due to either, or a combination of:

- the rise and fall of new product cycles (such as mainframes, minicomputers, personal computers, mobile phones, smart phones, tablets, data servers, electric vehicles and so on);
- the vagaries of the economic cycle and increases and decreases in consumer and corporate demand for gadgets and productivity-generating technology;
- surges in supply as chipmakers over-invest in fresh capacity (and given the long lead times involved in fab construction it is very, very, very hard to calibrate increases in output).

## CHIP AND PIN

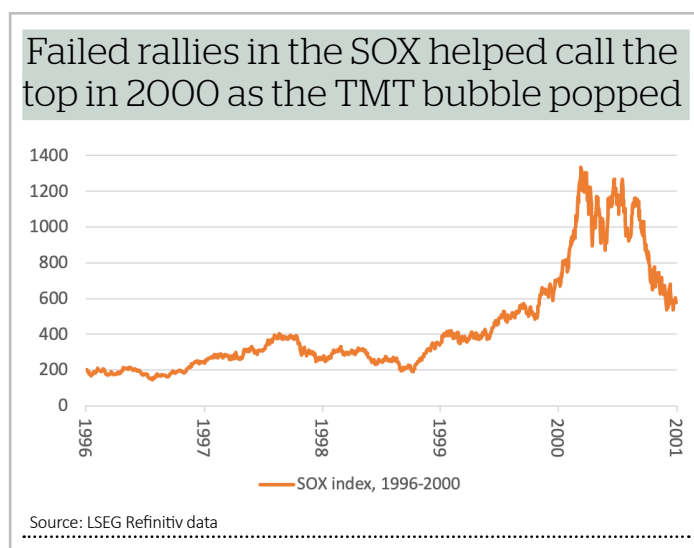
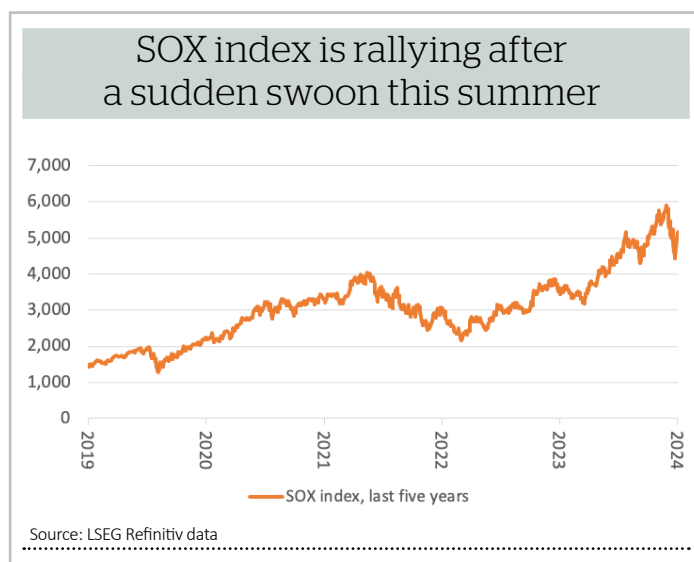
The good news is industry bodies such as the WSTS and SIA are forecasting 12% sales growth for the industry in 2024 and a similar rate of progress in 2025, to take industry revenues to a new all-time high, thanks in part to the AI boom, hopes for iPhone 16 and ongoing economic growth. A 'hard' landing, or unexpected economic slowdown, could upend those forecasts, as could any equally unforeseen slowdown in AI-related investment.

Such a reverse seems unlikely now - but it is not without precedent. Those with long memories will remember the tech, media and telecoms bubble of 1998-2000, which was largely driven by 3G mobile technology, the internet and improved broadband technology and increased data capacity.

The internet and 3G delivered far more than anyone dared dream at the time, but the bubble still burst in 2000-02 when an investment boom turned into a near-term investment bust, as the initial scramble for supply turned into a pause as buyers digested what they had bought and sought to make a return on it.

Stocks like **Cisco (CSCO:NASDAQ)**, **Microsoft (MSFT:NASDAQ)**, **Intel (INTC:NASDAQ)**, **Apple (AAPL:NASDAQ)** and **Oracle (ORCL:NASDAQ)**, 'good' companies with a strong narrative and market leading positions, plunged by anywhere between 65% and 90% as their lofty valuations proved unsustainable – and they were firms whose business models proved robust. Those whose were not inflicted even greater pain on their shareholders.

The past is no guarantee for the future, but this is something even the most bullish investors should at least consider, especially when they look at some the valuations that currently prevail and the growth forecasts they imply over a very long period of time. And the SOX, again, could be a guide. Note the current market action in the index, in the form of the summer pullback and rebound and compare it to the five-year period of 1996-2000 and how the index saw two or three major failed rallies before gravity took hold. Bulls will want to see new peaks reached quickly. Bears will be waiting for a sequence of lower peaks as their sign that the times may be changing.



By **Russ Mould**  
AJ Bell Investment Director

# Alphabet's dividend? Asian tech giants were there first

*Yoojeong Oh and Eric Chan*  
Managers of abrdn Asian Income Fund



- **Asia's technology giants have a strong history of dividend payouts**
- **Around 40% of the companies in the Asia Pacific ex Japan benchmark are now yielding more than 3%.**
- **Governments are supporting corporate governance improvements**

*In April this year, amid some fanfare, technology giant Alphabet*

*paid its first dividend. It may have been just \$0.20 per share, but it was taken as a sign of a new era for the technology sector.*

In reality, Asian companies were already there. Technology behemoths such as TenCent, Samsung and TSMC had already built a robust history of payouts to shareholders.

The potential growth for Asia's technology sector is every bit as compelling as its US equivalent,

but unlike the US tech giants, it is a natural option for income investors. TenCent has been paying a dividend since 2004 and has doubled its payout ratio (from 11% to 25%) over the past 12 months. TSMC - our largest holding on the abrdn Asian Income Fund - has a relatively low starting yield but has been paying a rising Dollar dividend per share every year for the past five years.

These companies have, to some extent, been a bellwether for a



broader change in corporate Asia, one that US companies are only just waking up to. We see this across the region, with cash-generative Asian companies returning profits to shareholders via dividends. Around 40% of the companies in the Asia Pacific ex Japan benchmark are now yielding more than 3%.

### SHARING EARNINGS WITH SHAREHOLDERS

When we talk to management teams on the ground in the region, it is clear they recognise that to attract foreign capital into their equity register, they need to share their earnings with shareholders. This is part of a wider improvement in governance and strong focus on delivering shareholder value.

These initiatives have been encouraged by government initiatives. The Chinese government, for example, enacted a series of measures in 2023, changing the way it evaluates the performance of managers at state-owned entities from net profits to return on equity. The Korean government has also launched a 'value up' initiative designed to address the 'Korea discount' in a number of its stocks. In some cases, the execution of these initiatives has been flawed but it is, at least, an important statement of intent.

This ensures that a dividend investor in Asia has a breadth of choice. It is possible to generate dividends from technology hardware plugged into the AI trend, or from infrastructure companies with a stake in the energy transition. Consumer companies are benefiting from a new middle class, with rising wealth, while the financial sector is helping people preserve that wealth through savings and insurance products. In Asia, dividend investors are not limited to dull, low-growth areas such as energy and mining, but can access a range of opportunities.



### ASIA'S RAPID GROWTH

This diversity is just one of the reasons to look to the Asian market for dividends. Economic growth is also important. Asia is now the most important growth engine for the global economy. It is forecast to deliver around half of the world's economic growth in 2025, creating a fertile environment for companies to grow their dividends and share prices.

The IMF forecasts growth of 4.5% for Asia for 2024, and another 4.3%

in 2025. This is more than double the projections for advanced economies (1.6% and 1.8% respectively). It is also higher than every other region, and all other emerging market areas. Perhaps more importantly, that growth comes without an inflationary sting in the tail.

In achieving these levels of growth, Asia has some clear advantages. It has demographic tailwinds, with young, urbanising populations in countries such as India and Indonesia. A growing, educated



middle class is increasingly driving growth and economic opportunity across the region.

### THE ELEPHANT IN THE ROOM

The problems in China have been a significant deterrent for many investors in Asia. In general, equity income investors, including ourselves, have held relatively little in China, because there isn't the same dividend opportunity there. That said, this is changing over time, and there have been some opportunities that have been difficult to ignore. We remain cautious and selective, but the outlook for the Chinese economy is improving and there are some fast-growing, well-run companies now trading on attractive valuations.

For example, TenCent not only improved its dividend policy, but

started to trade at a much more digestible valuation. Fuyao Glass makes the windshields for cars, including EVs and that has fallen into our price range. Inner Mongolia Yili Industrial Group makes dairy products and is seeing strong demand.

Many of the political risks that existed at the start of year have passed. The biggest risks are now likely to come from outside. The US election will have an impact in the region, with a new president potentially making changes to trade policy or sanctions with China.

There will be repercussions across Asia, both good and bad. There are markets that could benefit should there be stricter policy against China – Malaysia, for example, is attracting a greater share of global

manufacturing, as are Vietnam and Thailand. Korea could benefit if there's a squeeze in Taiwan. These are all risks that we keep a close watch over.

In the meantime, the opportunity set for income investors in Asia continues to expand. Our local analyst teams and broad network in the region allows us to uncover those opportunities wherever they occur, creating a portfolio with potential to deliver a growing income, but also long-term growth.

*Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.*

### Important information

Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Movements in exchange rates will impact on both the level of income received and the capital value of your investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will

immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.

- The Company invests in emerging markets which tend to be more volatile than mature markets and the value of your investment could move sharply up or down.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher-than-average risk of loss.

### Other important information:

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# Seven steps to reduce your inheritance tax bill

How to limit the levy on the money you leave behind

**T**he death tax is dubbed Britain's most hated tax, but only around one in 20 estates pay it. Those numbers are rising, along with the amount of money HMRC is raking in each year.

If you're concerned that your estate might have to pay inheritance tax (IHT) when you're gone, there are things you can do to reduce (or even eliminate) the amount it will pay. Here's seven tips to cut your bill.

## STEP 1: MAKE A WILL

If you die with no will, your estate will fall under the rules of intestacy, which could mean a higher IHT bill, and in the absence of any surviving relatives your estate could even pass to the Crown. A common misconception is that unmarried partners living together have the same rights as those in a marriage or civil partnership. Under intestacy rules, they will not inherit.

You can work out the rough value of your estate today by making a list of your assets – this includes your bank accounts, investments, ISAs and property as well as any debts and liabilities that could be deducted.

Pensions like SIPP's are generally outside of your estate and wouldn't form part of your will, but you should check the position with your provider(s) as to what type of scheme you are in. Any older schemes with death payouts that would fall into your estate should be written into trust. Your provider can help you with this.



## STEP 2: TRANSFER MONEY TO YOUR SPOUSE

Anything gifted to a spouse or civil partner in your lifetime or left to them after you die will be exempt from IHT. And your spouse will also inherit the value of your unused nil rate band, as well as any unused residence nil rate band. Between the two of you, this means up to £1 million could be left to direct descendants without any IHT falling due. This exemption doesn't apply to gifts between unmarried partners, even if you have lived together for many years.

## STEP 3: USE ANNUAL EXEMPTIONS AND ALLOWANCES

There are gifts you can give each tax year that are exempt from IHT and reduce the value of your estate. The 'annual exemption' lets you give away a total of £3,000 each year, either to one person or split between several others. You can also give unlimited small gifts of up to £250 per person, if you haven't used another gift to the same person.

There are also wedding gift allowances for tax-free gifts to someone getting married or entering a civil partnership: up to £5,000 for a child, £2,500 to a grandchild or great-grandchild, or £1,000 to anyone else. These can be combined with other allowances.





normal spending) so that you can use to make regular gifts from income.

### STEP 5: LEAVE MONEY TO CHARITY

Gifts you make in your lifetime to UK registered charities are free from IHT. This also applies to charity legacies you leave on death in your will. You can also reduce the overall rate of IHT that applies on your taxable estate if you leave at least 10% of what's known as your 'net estate' to charity.

Your net estate is your total estate, less the nil rate band(s) available. If the charitable legacies are more than 10% of this net estate value, their value is deducted to give your taxable estate – which will then be taxed at 36% instead of the headline rate of 40%.

### STEP 6: GET LIFE INSURANCE

Depending on cost, a simple way to plan is to take out life insurance to pay the inheritance tax bill, or to cover IHT that could become payable on large gifts for seven years. You should also review any life insurance you already have, particularly what your employer might provide. That's because the payouts from policies will count as part of the estate unless your policy is written in trust.

Writing policies in trust removes them from your estate and means your loved ones don't have to wait for probate to make a claim. As IHT must normally be paid within six months to avoid interest and needs to be settled before probate is granted, insurance could make things easier for your loved ones and prevent assets having to be sold to help pay any bill.

### STEP 7: HAVE FUN AND SPEND IT

It isn't really a tip as such, but a reminder that the simplest way to avoid paying IHT is to spend and enjoy your wealth. That could be through the gifting allowances and strategies outline above, or by making those big splurges in retirement like that bucket-list holiday or that sports car you've always dreamed of. Your wealth and retirement have been hard-earned and as the saying goes: you can't take it with you.

Other gifts that are not exempt or within the allowances above are called potentially exempt transfers, meaning they only escape IHT if you survive for seven years after making it. If you die within seven years then the value of the gift is added back into your estate, but taper relief might reduce the rate of IHT on it depending on the amount of time that has passed.

A powerful gifting allowance that is often missed is making gifts from excess income. You can set up regular gifts from your extra income without limit, provided you can show that they do not reduce your standard of living. The best way to evidence this is to keep records of your regular income and show that you're not having to cut back on your normal spending to make them. The records will also be needed when it comes to administering your estate and claiming the exemption.

### STEP 4: RETIRING? THINK ABOUT DRAWING FROM NON-PENSION ASSETS FIRST

Pensions are usually free from IHT as they do not form part of your estate, unlike ISAs. If you draw on non-pension income and capital first, you are reducing the value of your estate without reducing your pension pot. Pensions can usually be passed on should you die before age 75 free of income tax (as well as IHT). On death after you reach 75, anything left to your beneficiaries is taxable as income when they draw it themselves. At this point you could consider using your pension to provide you with a regular 'excess' income (above your



**Charlene Young**  
Pensions and Savings Expert





# Could conditions be about to turn in favour of active fund managers?

Both in performance and attracting investors' money, passives have been leading the way

**T**he active fund management industry has had a tough time of things of late. Trackers, largely exchange-traded funds, which look to match the returns from global stock markets, have attracted substantial inflows as investors prize their low costs and the diversification they offer.

Compounding this, because the performance of major indices has been driven by a concentrated number of huge tech names, it has been pretty difficult for active managers to outperform global indices.

According to analysts at Bank of America, over the last 15 years there have been \$5 trillion worth of inflows into passive global equity funds versus \$2.5 trillion worth of redemptions from active funds.

However, there may just be some early signs of a shift which could create a more favourable backdrop for actively-managed vehicles.

Bank of America's analysts recently highlighted the smallest outflow from active funds since September 2023 at \$2.9 billion and, along with it, an increase in stock price dispersion. As they observe: 'Dispersion on the rise means flows to active equity funds.'

What is stock price dispersion? Essentially it's the size of the range of returns for a grouping of stocks – Bank of America employs a measure of the percentage of stocks trading below their 200-day moving average.

Generating a return better than the benchmark is hard if the gains and losses in the underlying stocks are very similar to those of the benchmark. However, if the level of dispersion increases then the ability to pick the right stocks becomes more important and, potentially, more prized by investors.



They may therefore feel happier about paying the extra fees associated with active management. Not yet cause for celebration for the industry but a glimmer of hope at least.

**L**uxury continues to have a China problem. As we [reported](#) last week, the sector is among a number of industries in the West which are finding things difficult in the world's second largest economy.

US cosmetics firm **Estee Lauder (EL:NYSE)** is the latest name to feel the pinch, with sales in the 12 months to 30 June dipping 2% and profit dropping 45% as the company projects June 2025 revenue growth in a range between 1% lower and 2% higher.

If achieving growth of any kind is reliant on China bouncing back, then investors could be left disappointed. The danger is this is not just a cyclical downturn but a cultural shift in China away from Western brands and even from the whole idea of putting wealth on display. Time will tell.



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# Can I make contributions to a SIPP if I'm drawing a final salary pension?

Navigating the rules around a potentially tricky retirement conundrum

*I am 59 and have a deferred defined benefit pension. I currently work as a consultant and bill my clients through a limited company; the company pays my monthly salary and the company makes contributions to my personal SIPP.*

*If I decided to start drawing my defined benefit pension and continue to work as a consultant as I am doing now, could both me and my limited company continue to make contributions to my SIPP?*

**Paul**



**Rachel Vahey,**  
AJ Bell Head of Public Policy, says:

Instead of the notion of a fixed day when retirement starts, many people ease into full retirement by taking some form of retirement income at the same time as continuing to work, perhaps on a part-time basis.

You have a defined benefit pension. Also known as a final salary pension, this is one where you are promised annual income for life, based on your salary, the 'accrual rate' of the scheme and the number of years you have been a member of the scheme.

You can access this pension from the age of 55 (rising to age 57 in 2028). However, if you take this type of pension before the 'normal retirement age' of the scheme then a penalty – sometimes referred to as an actuarial reduction – will probably be applied to lower the promised level of income. The size of the penalty may depend on how early you take your pension. The normal retirement age differs depending on the scheme but could be 60, 65 or 66 (the current state pension age). You may want to consider what any penalty means for the income you expect to receive.

If you do decide to take a retirement income,



then this won't affect the ability for you or your company to continue to contribute to your SIPP. You will obviously just need to make sure the level of contributions you pay in meet all the usual rules based on the amount of your consulting earnings. However, there is a potential pitfall to be aware of.

## RULES TO PREVENT MANIPULATION

HMRC has rules in place designed to prevent people manipulating the pension system to get extra tax relief. This concept is referred to as 'recycling' and applies specifically to your use of any tax-free cash you take alongside your defined benefit income.

The authorities are worried people will take out their tax-free cash and immediately reinvest it into their pension to get an extra slice of tax-free cash. For example, someone has a defined contribution pension valued at £40,000, and takes out their maximum tax-free cash (25% of their fund value or £10,000) but rather than spending it, invests it straight back into their defined contribution pension.

They would get tax relief on the 'new' contribution immediately boosting the value of the



## Ask Rachel: Your retirement questions answered

contribution by £2,500 to £12,500 and can then access 25% of that money (£3,125) tax-free as well.

To stop this from happening HMRC has put in rules to prevent 'excessive' recycling. Broadly, these rules kick in where someone takes tax-free cash of £7,500 or more, and where the payment of a tax-free lump sum has resulted in a 30% or more increase in contributions to the pension compared to what might normally have been expected.

The increase in the contributions could happen before or after the person receives the tax-free cash amount.

### **MOST LUMP SUM PAYMENTS WON'T BE AFFECTED**

Another key condition is that the recycling must have been pre-planned – there must be a conscious decision to take the tax-free cash so that, directly or indirectly, significantly greater contributions can be made to the pension.

Most lump sum payments won't be caught by these rules. But it's worth being aware of them

and how they work – anyone who breaks these rules risks being hit with an unauthorised payment charge.

If you are at all uncertain about how these rules might apply in your specific circumstances, it's worth speaking to a regulated financial adviser before doing anything, particularly if you're thinking about increasing your SIPP contributions about the same time as accessing your defined benefit pension.

### **DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?**

Send an email to [askrachel@ajbell.co.uk](mailto:askrachel@ajbell.co.uk) with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

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



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