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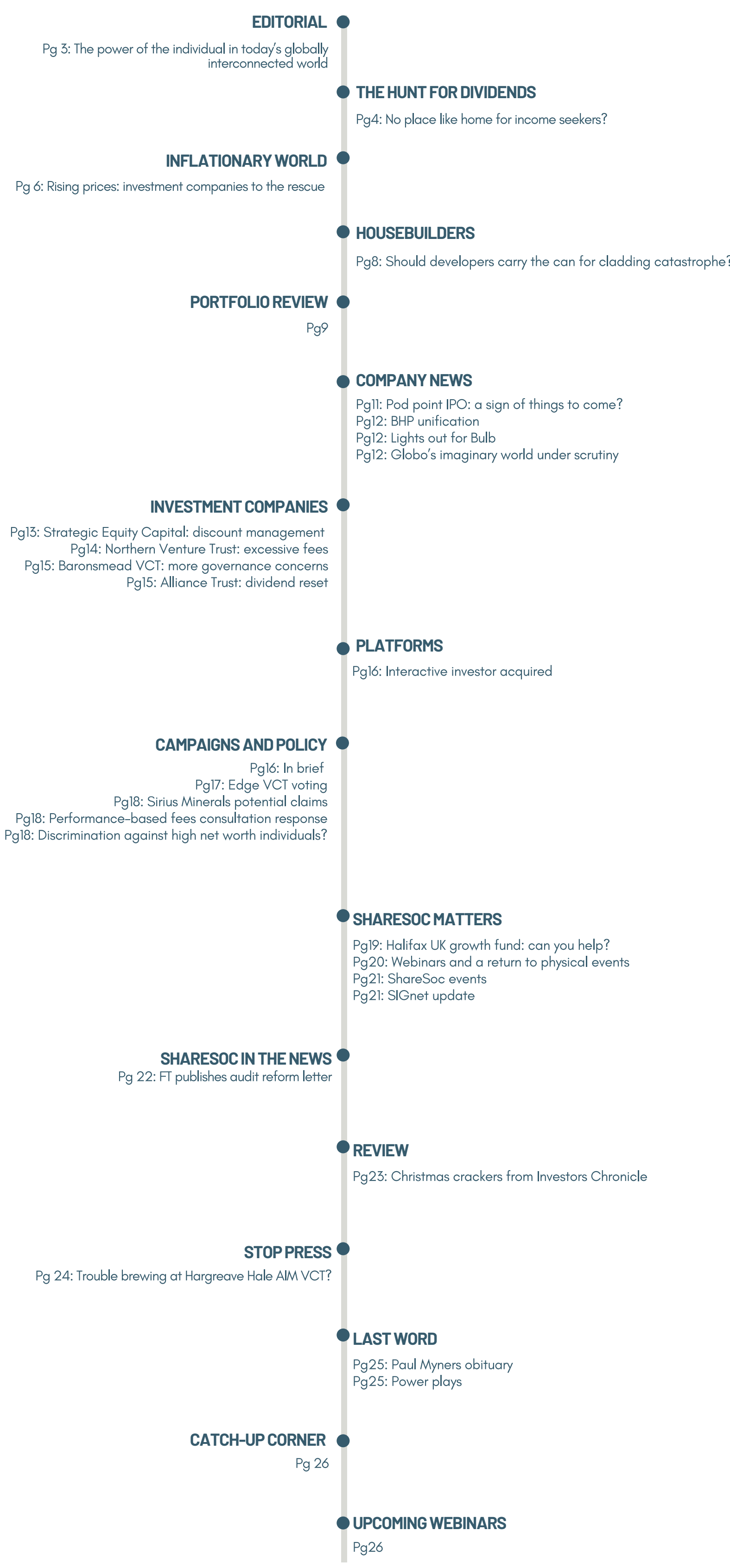

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EDITORIAL

The power of the individual in today's globally interconnected world

Sheryl Cuisia, Chair

The voice of the individual has amplified in the wake of the rapid societal and technological developments seen over the last 30 years. At ShareSoc we are invested in you, the individual investor. We are committed to making UK investing better and fairer for all by connecting, informing and empowering individuals.

With 11 productive years of promoting individual investors' rights under our belt, we are excited to evolve even more to serve the needs of our membership and today's increasingly diverse individual investor base. People, progress and planning for prosperity are at the core of everything we do at ShareSoc, including in this next chapter of our organisation.

Research from finder.com and Equiniti's Shareholder Voice Report points to 33% of all British people owning shares, 2.2 million people being subscribed to a stocks and shares ISA, and 13.5% of all UK shares being owned by individuals. Furthermore, 75% of Gens Z and Y plan to buy stocks and shares in the future. With statistics like these, there is good reason for ShareSoc's ambition of widening our network and our collective influence even further.

In his annual letter to CEOs, Larry Fink, Blackrock's chief executive, discusses the "power of capitalism" and how wealth generation by companies, for the benefit of all stakeholders, can be increased if there are mutually beneficial relationships between companies and their employees, customers, suppliers and communities.

This message very much sings to ShareSoc's commitment to the individual investor community, building good market relations and giving back to society. It is also a nod to the 'millennial' mindset of effecting positive change through collaboration and active engagement, things we practise everyday at ShareSoc.

With our membership's continued support and the commitment and hard work of our amazing team, we can empower, educate, run events and engage on individual investors' behalf with market participants. As ShareSoc's new chair, I am delighted and honoured by the opportunity to work with such dynamic and dedicated individuals to improve established systems for the benefit of investors (and aspiring investors) from all walks of life.

In her latest book, ***Share Power***, Merryn Somerset Webb – like Larry Fink – makes the case for reinvigorating capitalism, but her emphasis is on shareholders like you and me taking back control. In ShareSoc's view, this can be achieved by energetically creating a networked community of informed and collaborative individuals who can engage constructively for change.

Given my background in entrepreneurialism and shareholder engagement, you should expect to see vigour, realistic positivity, measured creativity and constructiveness in my approach to progress for our community.

We hope that you will enjoy this edition of ***ShareSoc Informer***.

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THE HUNT FOR DIVIDENDS

No place like home for income seekers?

A dividend recovery took place in 2021. In 2022, should fund investors back their home market or take a global approach, asks Danielle Levy*

It has been an extraordinary year for income investors, following the trials and tribulations of 2020. In stark contrast to the dividend cuts and cancellations last year, investors have benefited from a dividend recovery here in the UK and abroad, powered by the reopening of economies and the roll-out of Covid-19 vaccination programmes around the world.

In the UK, this recovery has been profound. During the third quarter, UK dividend payments totalled £34.9 billion, up some 89.2% from their 2020 lows, according to Link's UK Dividend Monitor. The numbers were driven by a boom in mining dividends, which quadrupled year-on-year to £12.8 billion.

There was also the resumption of payments from oil majors such as BP and Royal Dutch Shell, which benefited from a rebound in energy prices; and the return of banks to the dividend register (having been banned from making payments by the regulator in 2020). Unusually large one-off special dividends, totalling £7.2 billion, also provided a boost to investors.

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In light of these numbers, Link predicts that headline UK dividends are on course to total £93 billion in 2021, which represents an increase of close to 45% on 2020 – albeit still 16% below pre-pandemic levels. It will take time to recover from the unprecedented scale of cuts last year and it is not a surprise that a number of weak spots remain. For example, many UK airline, travel and leisure stocks are still unable to make payments.

Looking at the world at large, there were similarly upbeat headline figures during the third quarter. Janus Henderson recorded a 22% jump in global dividends to $403.5 billion (£302.9 billion), buoyed by a resurgence in underlying payments and strong growth in special dividends. In total, 90% of companies either raised their dividends or held them steady during the quarter, a much higher number than usual. The asset manager anticipates that global dividends should return to pre-pandemic levels by the end of this year.

So, as we look to 2022, where do the most attractive income prospects lie: at home or abroad?

Kamal Warraich, an investment analyst at Canaccord Genuity Wealth Management, suspects the UK's dividend recovery will continue in 2022. He is particularly encouraged to see an improvement in the FTSE 100's dividend cover ratio, which measures the number of times a company can pay dividends to its shareholders. On aggregate the FTSE 100's dividend cover ratio has risen to two times, up from 1.6 times in 2019.

As a rule of thumb, a dividend cover ratio of around one times or lower suggests dividends are vulnerable, as the company is using most if not all its profits to fund the dividend. A figure of two or more is viewed as comfortable, because it is a sign the business is not over-distributing.

"Bear in mind that many companies withheld dividends due to uncertainty in 2020, or because they were asked to by the regulator, not because they didn't have the cash to pay them," Warraich adds.

UK income prospects

Kelly Prior, who forms part of the multi-manager team at BMO Global Asset Management, suspects there will be a "rich stream of opportunity for a tick-up in dividends" both in the UK and abroad. But overall, she believes the domestic market has scope to recover the furthest.

Banks form a decent slug of the FTSE 100 and, although shareholders were hit by the regulator's dividend ban last year, Prior is optimistic about their prospects in 2022. Banks are emerging from the pandemic with strong balance sheets and have the potential to benefit from the Bank of England's recent decision to raise interest rates from 0.1% to 0.25%, as well as any future interest rate rises.

This is because they stand to make more money when interest rates are higher, as they earn more in interest from loans and mortgages relative to what they pay out to customers.

Prior also highlights rising inflation as a factor to consider. In December, UK inflation soared to 5.4%, its highest level in almost 30 years, on the back of rising energy prices and supply chain issues. Economically sensitive companies, which are typically classified as "value" stocks, make up a significant portion of the UK's biggest dividend payers, and Prior notes that these companies tend to perform better than their "growth" counterparts in an inflationary environment. She currently favours the JOHCM UK Equity Income and Chelverton UK Equity Income funds for exposure to the home market.

Nathan Sweeney, Marlborough's deputy chief investment officer of multi-asset, says his firm increased its allocation to UK companies on account of the attractive valuations on offer relative to other markets. "Investors have been steering clear of the UK for some years, with one of the reasons being the uncertainty around Brexit," he says.

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No place like home for income seekers? ...continued

"However, we've been seeing private equity houses snap up UK companies, and that shows they see them as good value because stock market valuations here don't look expensive," Sweeney adds. "So we believe the UK market could be one to watch in 2022."

Marlborough currently has exposure via the iShares UK Dividend ETF. This passive fund holds 50 companies that provide a higher yield than the FTSE 350 index.

The pitfalls

There are, however, a number of drawbacks associated with the UK market, the most notable being the dominance of companies on the dividend register that are not considered environmentally friendly.

"Some investors may have doubts on environmental or ethical grounds about investing in a fund that holds companies such as Rio Tinto, Royal Dutch Shell,. BP or British American Tobacco, which are among the biggest dividend payers in the UK stock market," Sweeney explains.

This brings another issue to the fore: the high level of concentration in the UK market. Around 15 companies account for more than 60% of dividends paid in the UK today. "This can result in disappointment if one of these giants runs into trouble unexpectedly," Sweeney comments.

Going global

Global equity income funds, on the other hand, provide investors with better diversification, as fund managers have a broader pool of companies to choose from. Investors can either opt for an actively managed global equity income fund or passive index fund or exchange-traded fund (ETF). Alternatively, investors could take a targeted approach by focusing on dividend-paying companies in a specific region, for example via a European equity income or Asian equity income active fund or an ETF.

Prior says there are income opportunities for those looking to take a global approach, but these can be nuanced. "The global indices are dominated by the US, where income stocks are rare beasts. It has never been a rich hunting ground, with the market dominated by quality growth stocks that are more concerned with reinvesting their earnings or issuing share buybacks, rather than paying it out to their shareholders as dividends," she explains.

"There are certainly opportunities in Europe and Asia, however, and we have dedicated exposures in these markets where the opportunities are generally away from the big index names." Her top international picks include the Fidelity Global Enhanced Income and Montanaro European Income funds.

Warraich points out that, as in the UK, a large proportion of global dividends come from economically sensitive companies, so these stocks could be affected by any fallout from new Covid variants in the future.

He believes it is best for investors to take a 'combined approach' by holding both UK and global equity income funds in portfolios. In the UK, his team invests in the Threadneedle UK Equity Income fund, which protected its dividend well relative to the FTSE 100 and peers last year. Abroad, Warraich likes the JPMorgan Global Growth & Income Ord investment trust, highlighting its strong returns over the past five years, not least during the pandemic.

"Investment trusts have a track record of preserving and even growing their dividends throughout major economic downturns. This is due to their ability to retain earnings and boost income in the more difficult years," he concluded.

** Danielle Levy is a freelance journalist. This article first appeared on the interactive investor website*

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INFLATIONARY WORLD

Rising prices: investment companies to the rescue

Closed-ended funds have a number of weapons in their arsenal when it comes to staying ahead of inflation, reports Faith Glasgow *

After a decade and more in which we've barely thought about the threat of rising prices, inflation is back with a vengeance. The latest figures from the Office for National Statistics show the consumer prices index (CPI) rose by 5.4% in the 12 months to December, up from 5.1% the previous month.

It's the highest rate of inflation since March 1992. And it's clearly worrying investors. A recent survey of customers by broker interactive investor found that inflation was the second greatest concern behind a stock market crash, cited by 22% of respondents.

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Prices have been pushed up by a combination of factors, including supply-side and labour shortages, spiralling energy costs and escalating demand. For investors, the danger is that the value of some assets will not keep pace (cash and fixed interest holdings being obvious examples).

Investment companies, however, can work very effectively in an inflationary environment. To a large extent this is a reflection of their closed-ended structure and the type of assets particularly favoured by this structure.

Structural advantages

Because they issue a fixed number of shares on the stock exchange, investment company managers don't have to buy or sell assets in response to changes in investor demand, as open-ended fund managers do. Instead, investor demand plays out through changes in the share price and the discount to net asset value.

As a consequence, as Rob Morgan, chief analyst at Charles Stanley, explains: "Investment trusts can be more appropriate vehicles to access more esoteric, 'illiquid' real assets that cannot be traded easily." Many of these happen to be well suited to protecting against inflation, and we'll look at them shortly.

There are other structural attributes that also help investment companies beat inflation. The closed-ended structure means managers don't have to reserve a chunk of cash specifically to cover redemptions, so, as Morgan points out: "There can be less 'drag' from low-return cash."

For income seekers seeking a steadily rising real income, trusts' ability to hold revenue reserves of up to 15% of annual dividends received and use them to grow or maintain payouts in less prosperous years is also important.

Additionally, the facility to gear or borrow to invest with the aim of enhancing returns can help investment companies beat inflation, adds Morgan, "especially if debt is secured at an opportune time at a low rate".

Natural protection

As we've seen already, investors favour closed-ended funds for investment in 'real', physical assets such as infrastructure, renewable energy and commercial property, because they are typically not easy or quick to trade.

These types of assets tend to pay returns at least partially linked to inflation. For instance, says Mick Gilligan, head of managed portfolio services at Killik: "Several infrastructure trusts disclose an 'inflation delta' – an estimate of the sensitivity of their NAV to the inflation rate."

He gives the example of HICL Infrastructure, which estimates its inflation delta to be 0.8. "So if inflation turns out to be 1% a year higher than HICL's base assumption, in every future forecast period the expected return from the portfolio would increase by 0.8%."

Ben Yearsley, investment director at Shore Financial Planning, picks out renewable energy trusts. "Many of them benefit from Renewable Obligation Certificate (ROC) payments from energy suppliers, effectively meaning that some of the electricity they generate is sold for a predetermined price that increases with inflation every year."

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Rising prices: investment companies to the rescue ...continued

Greencoat UK Wind specifically links its dividends to 'RPI inflation and real NAV preservation,' says Andrew McHattie, publisher of the Investment Trust Newsletter. Similarly, he adds: "Bluefield Solar Income says that two-thirds of its revenues are directly linked to RPI, meaning that earnings would naturally rise in an inflationary environment."

The downside, however, is that most trusts in the various infrastructure sectors trade on a premium, in several cases a double-digit one.

Another obvious sector for inflation protection is commercial property, continues McHattie. "Many leases provide for rental payments to increase in line with inflation, and there is a wide range of property trusts available, including generalists like Standard Life Property Income and specialists such as Tritax Big Box, Supermarket Income REIT or Impact Healthcare REIT, where all leases are inflation-linked," he comments.

Morgan warns that some of the generalist property trusts, particularly retail-focused ones, have struggled in recent years in the face of online competition. "Areas with overcapacity are less likely to make a good inflation hedge, due to the structural challenges," he argues. "However, other areas such as warehouses, logistics, data centres and healthcare property could be more resilient." Again, though, valuations among these specialist trusts tend to be more expensive, with large premiums prevalent.

Equity strengths - and vulnerabilities

What about more conventional equity-focused investment companies? Over the longer term, the combination of capital growth and dividend payments tends to offset inflation, but there's no guarantee of equities delivering either over the short term.

Equities can be potentially vulnerable in several respects. First, as Morgan explains: "High levels of inflation tend to be something of a double-edged sword. If a company cannot pass increased costs onto customers, then it can result in a fall in sales and profits."

He therefore favours trusts investing in firms with 'pricing power', whose products and services are in strong demand and can put up their prices to reflect higher costs, such as the smaller-cap Smithson Investment Trust. In their hunt for pricing power and resilience, the managers target "sellers of small ticket items that are consumed regularly, dominant operators within a niche, franchisors and businesses with strong brands," Morgan adds.

Another problem, for growth-focused companies in particular, is that inflation tends to spark interest rate rises, making corporate debts more expensive to service.

However, observes Gilligan, natural resources stocks are an exception to that generality, because of the strong

link between commodity prices and inflation. "This has provided a helpful backdrop for Blackrock World Mining recently, with the shares generating a 94% return over the last two years, comfortably ahead of wider equity markets," he says.

Both Yearsley and McHattie make a case for equity income funds because of the dividend booster. "There is a case for reconsidering the older style of traditional equity trusts with a value tilt, like Bankers Investment Trust or BMO Managed Portfolio Trust, where the managers have reweighted some holdings to position for potentially higher inflation," adds McHattie.

Flexible strength

Finally, if you're concerned about preserving the real value of your capital whatever the wider environment, there are several trusts in the Flexible sector that focus on doing just that. Investment companies such as Ruffer, Capital Gearing and Personal Assets use a range of assets, including gold, inflation-linked government bonds, global equities with strong pricing power and real estate, to protect against inflation as well as delivering growth, adjusting relative weightings as the situation demands.

At Ruffer, for example, Morgan says the managers are concerned that the central banks will come under mounting pressure to "dial back stimulus" and increase interest rates in the face of sticky inflation, leaving equity and credit markets vulnerable. To that end, "they have increased allocation to protection strategies, reduced the equity component of the portfolio and upped their weighting to long-dated inflation-linked gilts."

And the good news is that - in contrast to other inflation hedging sectors - these flexible trusts are on the whole trading around par or on very modest premiums.

** Faith Glasgow is a freelance journalist. This article first appeared in the AIC newsletter, Compass, in January 2022*

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HOUSEBUILDERS

Should developers carry the can for cladding catastrophe?

Roger Lawson nurses burnt fingers from his holding in Persimmon after the latest announcement on the cladding crisis

In October last year I started to buy a holding in Persimmon (PSN). The outlook for the housing market seemed bright and the company was trading on a prospective p/e of 11 with a yield of 8.6%. Forecasts for revenue and earnings growth were positive for the next couple of years.

But Secretary of State Michael Gove has put a spanner in the works by announcing on 10 January that the government is going to get developers to fix the cladding crisis. Initially it's to be a matter of persuasion, but if they don't come up with the money by early March there is the threat of legislation to force them to act. The share price of Persimmon dropped sharply as a result, along with those of all the major public housebuilders.

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In April last year the company said it was "committed to undertake fire remedial works on buildings constructed using cladding materials that may no longer comply with current government guidance and building regulations". It announced a £75 million fund to cover developments identified as in need of rectification.

In the annual report, the company said: "As announced on 10 February 2021, we have therefore decided that for any multi-storey developments we have built, we will ensure that the necessary work to protect residents is undertaken. Where we own the building, we will act to do what is necessary to keep the residents safe. Where we do not own the building, we will work with the owner and offer our support. Ultimately, if the owners do not step up and meet their obligations, we will ensure the work is done to make the buildings safe. To meet this commitment, we have recognised a £75 million provision."

But the government is now asking developers to do more. In a letter, the Secretary of State has asked companies to agree to:

1 - make financial contributions to a dedicated fund to cover the full outstanding cost to remediate unsafe cladding on 11-18 metre buildings, currently estimated at £4 billion.
2 - fund and undertake all necessary remediation of buildings over 11 metres that they have played a role in developing.
3 - provide comprehensive information on all buildings over 11 metres which have historic safety defects and which they have played a part in constructing in the last 30 years.

How did we get into this devastating situation, which has left hundreds of thousands of people with unaffordable bills to rectify defects, and unsaleable homes?

Following the Grenfell Tower fire disaster, it was discovered that cladding used in many buildings was inflammable despite meeting fire safety regulations. It was also found that many buildings had other defects such as inflammable insulation, inflammable balconies and missing fire gaps, so the total bill to rectify all affected buildings might reach many billions of pounds.

The government has already committed £5 billion to rectification work, but more is needed to cover buildings up to 18 metres high. Big builders are being asked to stump up much of the cost, irrespective of whether they were to blame. Much of the responsibility should be assigned to those who manufactured and sold the defective cladding, or to the government for not imposing and enforcing adequate regulations.

Those who were at fault should certainly pay the cost of rectification but the government seems to be wanting to bully those with money to pay up by using the court of public opinion, and threats. This is wrong.

Perhaps the moral of this story is that it is always a mistake to invest in companies that might be affected by government interference or political whims.

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Portfolio review

Sharesoc director Mark Bentley assesses the strengths and weaknesses of his investment portfolio over the past year

In the wake of my review in 2020, I have conducted a similar exercise for 2021. Last year's article carries an explanation of my investment objectives, strategy, asset types and investment accounts.

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Table 1 – asset allocation

Portfolio review ...continued

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Table 2 – Total return breakdown

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COMPANY NEWS

Pod point IPO: a sign of things to come?

Roger Lawson

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BHP unification

Roger Lawson

As a small shareholder in BHP Group (BHP) I have received a heavyweight document (285 pages) explaining the proposed unification of the company. The proposal was to remove the dual-listed structure of the Australian and UK companies and the associated complex corporate structure.

For UK shareholders of BHP Group Plc this means that their Plc shares will be replaced by Depositary Interests (DIs) in BHP Ltd (the Australian company), on a one-for-one basis. Those DIs will be administered by Computershare and this is similar to the way most foreign registered shares are managed. Those with BHP Group Plc paper share certificates will have those replaced by electronic DIs.

Share dividends will be paid directly in sterling, as before.

For those with very small holdings of certificated Plc shares there is a facility to sell their shares if they do not wish to hold the Ltd shares in future.

One major implication is that the new Ltd shares will not be eligible for a premium listing on the London Stock Exchange but will be only a "standard" listing. This may cause some institutions who manage index-based funds such as UK focused trackers to need to sell the shares, although as the new shares will increase the total number of Ltd shares listed worldwide, other funds may purchase the shares to maintain their index proportions. There may be some short-term volatility in the share price as a result.

BHP Plc shares have historically traded at a lower price than the Ltd shares, and that differential will be eliminated.

Note that the exchange of shares for UK shareholders should not incur any capital gains liability – it will be treated as a 'roll-over', not a sale/purchase transaction. There will also be no Australian withholding tax applying to future dividends.

BHP management gave a presentation to ShareSoc members before Christmas on the unification, which I watched, and as a result I saw no reason not to support this transaction.

The proposal was approved by shareholders on 20 January.

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Lights out for Bulb

Roger Lawson

In November, energy supplier Bulb collapsed and was put into Special Administration. Bulb had 1.7 million customers and is the largest of 28 alternative energy suppliers to go under in recent months. Nobody was willing to take on Bulb's customers, so effectively the company has now been nationalised.

Energy suppliers have all been hit by the rapid rise in gas prices, and the price cap imposed by Ofgem has prevented them from raising the prices they charge to their customers. Established suppliers such as Telecom Plus (TEP) have consistently complained that the newer energy suppliers were building a customer base by selling at less than cost, and the irrational price cap proved to be their undoing.

Telecom Plus, which I hold, published its half-year results at about the same time as Bulb collapsed. It reported net customer growth in October of over 15,000 and is expecting "around 10% growth in customer base during H2 with double-digit annual percentage growth thereafter". There is always someone who benefits from financial disasters.

To read more of Telecom Plus's view of the energy market going forward, click here.

Globo's imaginary world under scrutiny

Roger Lawson

Shortly before Christmas I was interested to read in the Financial Times that the FCA has filed an action in the High Court against the former CEO and CFO of Globo (GBO).

That company collapsed in 2015 after the accounts were shown to be a complete work of fiction with the claimed cash on the balance sheet non-existent and revenue also fictitious. It was similar to the more recent case of Patisserie Valerie (also ostensibly audited by Grant Thornton). The FRC declined to take action over the audit of Globo, but it is good to hear that after so many years the FCA is finally taking some action.

Globo well demonstrates the weakness of UK audits, poor enforcement by the FRC and FCA, the lack of transparency over what they are doing and the length of time it takes for those bodies to take action.

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INVESTMENT COMPANIES

Strategic Equity Capital: discount management

ShareSoc director Cliff Weight considers SEC's persistently wide discount, and identifies structural headwinds that mean things are unlikely to change soon

SEC's average discount since 1 May 2018 has been 16.2%, some 7.2% worse than its peer group. Initiatives over that period have included changing the manager, buybacks, reinstating a discount control mechanism, outsourcing distribution to Abrdn and a change of investment strategy, taking the trust into smaller cap stocks with lower liquidity. Nothing worked, until Odyssean Investment Trust suggested a merger of the two trusts, at which point the discount narrowed. Why is SEC historically such an outlier?

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Strategic Equity Capital: discount management ...continued

Northern Venture Trust: excessive fees

Roger Lawson

Northern Venture Trust (NVT) published its annual report in January. It shows that the manager (now Mercia) collected a performance fee of £2.5 million which, by my calculation, raised the overall fees and expenses as a percentage of closing net asset value to 4.5%.

This is way too high in my opinion, even allowing for the work involved in managing a portfolio of small, unlisted investments. When launched back in 1995 Northern did not have a performance fee; it was added later despite opposition from many shareholders, myself included.

It would be best to remove the performance fee. Other VCTs such as the Amati AIM VCT do not have one and they outperformed Northern last year in terms of total return.

Issues including excessive management fees, poor corporate governance and general behaviour prejudicial to the interests of shareholders are a perpetual problem in relation to VCTs.

You can access the Northern Venture Trust AGM Report 2022 here.

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Baronsmead VCT: more governance concerns

Roger Lawson

In another example of VCTs falling short on corporate governance standards, we have an AGM for Baronsmead VCT (BVT) in prospect on 16 February. As a shareholder, I will be expressing the following concerns to the chairman:

- In the last year the board has appointed two new directors, Michael Probin and Fiona Miller Smith. Michael Probin undoubtedly knows a lot about the VCT sector because for many years he was the investor relations manager at Livingbridge. But they were the investment manager for the Baronsmead VCTs until Livingbridge sold its investment management business to Gresham House, so Michael Probin can hardly be considered to be "independent". Even Fiona Miller Smith's appointment is questionable: the Annual Report says she worked for Murray Johnson Private Equity in the past. Murray Johnson used to manage VCTs but its track record was atrocious; it lost the management contracts as a result and Murray VCTs subsequently changed their names. I will be voting against both appointments.
- Another concern is that the AGM is to be a physical-only meeting, so people like me who are particularly vulnerable to Covid infection are effectively unable to attend. It is quite unreasonable not to provide an electronic attendance option for investors while the Covid epidemic is still prevalent.
- Lastly, the chairman of the company, Peter Lawrence, was first appointed a director of one of the Baronsmead VCTs in November 1999 and has been one ever since: that's over 22 years' service. That is contrary to the principles embodied in the UK Corporate Governance Code. He cannot be considered independent. I will be voting against his reappointment, as I have done in prior years.

In summary, although the company, like many VCTs, reported a good financial performance last year (total return up 25.8%), this does not offset the questionable corporate governance. It also means that the company paid out a performance fee of £1.9 million, thus increasing the overall expenses of the company to 3.0% of closing net assets. It's an excessive figure in my view, when performance fees are simply unnecessary in VCTs.

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Alliance Trust: dividend reset

Roger Lawson

In an announcement at the start of November from Alliance Trust (ATST), the board concluded that an increased dividend will benefit existing shareholders and enhance the attractiveness of the Company's shares. It expects the overall annual dividend to increase by 32.5% over the 2020 dividend. The proposed increase will be well covered by distributable reserves and income, it is suggested.

ATST had a reported yield of 1.43% last year according to the AIC. Reported yield is the figure a lot of private investors look at when identifying good investments, when they should instead be looking at total return and overall performance.

As far as the tax position of most private investors is concerned, turning capital growth into dividend income is a mistake, as they will end up paying more tax. If they need more cash they could simply sell some shares. As was very evident at the AGM, the emphasis on dividend growth is aimed at pleasing investors.

There were some interesting comments on Alliance Trust by Mark Northway in our last ShareSoc newsletter. He pointed out that the change to a "best ideas" portfolio approach managed by Willis Towers Watson since 2017 has not returned significantly above-average performance after costs as anticipated. A huge amount of effort has been put in but with little benefit, he suggests. But perhaps that just shows how difficult it is to beat index benchmarks consistently, particularly when the trust's portfolio is so diversified. At least the trust's performance is no worse than its benchmark, as used to be the case before the revolution and appointment of a new manager.

PLATFORMS

Interactive investor acquired

Roger Lawson

Interactive investor has announced that it is being acquired by Abrdn (formerly Aberdeen Standard Life), for a reported £1.5 billion. Interactive investor has been providing a popular and low-cost share dealing platform for private investors and has recently been owned by JC Flowers. Interactive acquired The Share Centre a few months back and now has some 400,000 clients.

Reassuringly, interactive investor clients won't have to learn their way around a new platform, as there is a commitment to keep the business as a separate, independent, whole-of-market operating entity with existing management and the same pricing, while Abrdn has relatively few direct retail clients. Abrdn is a large fund manager, though, so cynics may anticipate that the interactive investor platform will promote its funds in due course. Indeed, any changes may be of concern to existing interactive clients.

The comment published in the FT is relevant: "The most successful platforms in recent years have been those independently owned," said David McCann, analyst at Numis. He added that "creeping bureaucracy, lack of management focus and the worst sin of trying to cross-sell products from the parent group to platform customers amount to very real risks for the success of the tie-up".

That pretty much sums up my view of the likely benefits or disbenefits of this merger. Abrdn has the financial resources to help interactive investor in an increasingly competitive platform world, but will large company management really understand the needs of retail investors?

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CAMPAIGNS AND POLICY

In brief

1 - **Audit and governance reform**: many members have told us of their concerns about the disasters at Carillion and many other companies. We view the audit and governance reforms as crucial and have pressed for these to be moved forward as quickly as possible. We are concerned about lobbying to slow down this progress and co-signed a letter to the FT.
2 - **Woodford campaign**: Leigh Day continues to progress its claim. We met with the Chair and CEO of the Financial Ombudsman to discuss how they were dealing with Woodford claims. Link has refused to provide a copy of the shareholder register to allow us to communicate important information of interest to affected investors.
3 - **Voting guidance and shareholder engagement**: We continue to test our new ideas with a pilot study of FTSE30 companies. This is a major exercise and reports have been published for around 20 companies. See here for more info.
4 - **Consultation responses**: We will respond to the Treasury Secondary Markets Placings Consultation.
5 - **SVS/ITI**: we continue to provide a Support Group to help those whose assets were with SVS when it went into administration and were transferred to ITI.
6 - **FCA**: We continue to liaise positively with the FCA over numerous issues that we think are important to individual investors and ensure that the FCA gives due regard to the views of individual investors.
7 - **VCT Investor Group**
1 - Edge: We were successful in putting our requisitions to the company's shareholders in January, allowing them to make an active decision on the future of their company. See separate report below.
2 - Gresham House Strategic: Disappointingly, a group of shareholders led by the sacked fund manager (Gresham House Asset Management) has succeeded in getting the board to agree that Gresham House Strategic trust will be wound up and shareholders' cash returned, after the board review into the trust broke down.
8 - **Bacanora Lithium**: On 21 January, Ganfeng Lithium, the major shareholder in Bacanora, announced 90.3% acceptance for its takeover offer and a squeeze out of the remaining shareholders.
9 - **Sirius Minerals Shareholder Group, Sirius Claim Group**: We continue to evaluate the possibility of a claim (see separate report below).
10 - **High fees for modest/average performance by fund managers**: We are investigating closet indexing concerns and the potential benefits of a class action.
11 - **Performance-based fees**: ShareSoc and UKSA have submitted a joint response to the DWP's consultation on the proposed removal of performance-based fees (see report below).

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Edge VCT voting

Cliff Weight

ShareSoc and the ShareSoc Edge VCT Campaign have forced votes on director re-elections and the future of Edge Performance VCT (EPVCT). Those votes would not have happened without ShareSoc's intervention and the sterling efforts of Robin Goodfellow, Richard Roth, Andrew Kenny and others.

The outcome is a success even though our resolutions were outvoted – it's still a major coup for shareholder democracy and shareholder rights, both of which were being denied to EPVCT investors.

A 35% vote against the Board is a serious signal of shareholder dissatisfaction and one of the highest protest votes of the past couple of years. ShareSoc views this level of dissent as a clear vindication of the campaign. Our goal was to allow shareholders to decide the future of their company, and this is precisely what we achieved.

It will be interesting to see what happens next. A buyback of 15% of the shares should eliminate most if not all of those who wish to sell. This will cost about £3 million, leaving the VCT at £15 million NAV - still sub-scale with high fees, but with a shareholder base that is committed to its future.

The Edge case study highlights the following obstacles to shareholder democracy:

1 - Email addresses are not recorded on the shareholder register. This is a serious anachronism in the world of zero cost electronic communication, and prevents companies from communicating effectively and effciently with their owners.
2 - The shareholder register does not include the identity of the beneficial owners (those who own shares via nominees). This means that communication between companies and their beneficial owners relies on goodwill facilitation by platforms and custodians; in most cases such communication is effectively blocked.
3 - The definition of "Member" in S303 and S314 of Companies Act 2006 does not include beneficial owners. This should be changed.
4 - Part 9 of CA2006 is inadequate in passing on information rights, ownership rights and voting rights.
5 - Shareholder democracy does not work if shareholders cannot talk to each other quickly, cheaply and easily.
6 - CA 2006 allows companies to avoid holding an AGM, by starting and immediately adjourning the AGM. This loophole needs closing. There are occasions when companies will still need to be able to adjourn an AGM. Edge was not one of them.
7 - The pendulum has swung too much in favour of directors. It is too difficult to unseat bad directors.

A write-up of the Edge Performance VCT AGM can be read here.

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Sirius Minerals potential claims

Paul Anscombe, Chair, Sirius Claim Group

The Sirius Claim Group continues to work with potential legal partners to consider potential claims.

There are a number of potential avenues under consideration, but in all cases they must pass two significant challenges. First, they must be deemed viable by both legal and financial partners, and secondly, the potential financial outcome must substantiate the time, effort and risk of pursuing.

Reviewing potential claims is a time-consuming and very detailed task, but we are confident that this stage of the process will be concluded by April. However, despite all the hard work that has been done so far, there can be no guarantee that a viable claim will be identified.

As we enter this final period of review, the more information we have to corroborate what we know, the better. We would welcome contact from any previous employees of Sirius Minerals if they have any information to share; this would be in confidence and can be anonymous. Please email us at: siriusclaim@montana55.co.uk

We appreciate that it is frustrating for ex-shareholders that we cannot provide further detail at this stage but, this is to ensure that we do not prejudice any potential claim(s). We ask for your continued patience and understanding.

Readers will have seen that Anglo American has now removed Chris Fraser from the project, meaning that all the original management has now been replaced. Additionally, the board has made both financial and timescale reassessments of the project.

Performance-based fees consultation response

Cliff Weight

ShareSoc and UKSA have submitted a joint response to the Department for Work & Pensions November 2021 consultation, "Enabling investment in productive finance – proposals to remove performance-based fees from the charge cap".

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We are seriously concerned that the DWP has failed to think these proposals through. The ministerial foreword says, for example: "In the last few months, the government, alongside industry and regulators, has made significant steps towards addressing the barriers to investment in long-term illiquid investments in the UK." We would prefer the DWP and the regulator to speak also to those who are likely to question the wider consequences for pension savers, such as UKSA and ShareSoc, and not just to those who have a vested interest in the approval of such fee structures.

We made three key points:

First, fee structures in general are notoriously complex and usually disguised, nearly always confusing consumers to the extent that they are unable to assess whether the scheme offers value for money. Performance fees are even more complex.

Secondly, annual performance fees offer a free option to the manager. If negative, the manager suffers no direct losses; if positive, the manager takes a fee, so the fee structure has option-like characteristics. We note with serious concern the suggestion that 'clawback', which would mitigate the optionality, could be banned.

The proposed system seems weighted towards incentivising managers to take on greater risk – at no meaningful risk to the manager but at significant risk to investors.

Thirdly, there is no strong evidence that management of any kind can provide superior performance in the long run. This is particularly true when investors (for example the members of a DC pension fund) may have little understanding of the assets in which their money is being invested, and no idea of the risks.

Discrimination against high net worth individuals?

Roger Lawson

The cost of the Financial Services Compensation Scheme (FSCS) has been increasing substantially over recent years, as mis-selling scandals have proliferated and more firms have gone bust. This has led to complaints from those firms who fund the scheme, and has led the FCA to undertake a Compensation Framework Review.

This includes looking at possible changes to the scope of protection, such as limiting it to mainstream products. But a more worrying proposal is that high net worth (HNW) or sophisticated investors be excluded from compensation. The FCA suggests that such individuals might be expected to absorb losses, might be able to take their own private action against a failed firm, or would have a better understanding of the risks they were taking when dealing with unauthorised firms.

This is a very dubious argument when people only need to have liquid assets of £250,000 or more to qualify as HNW individuals. Many moderately wealthy individuals would fall into that bracket, but would hardly be in a position to finance complex legal actions. FSCS compensation is already limited to £85,000.

More information on the review, together with an online response form, can be found here. The deadline is 4 March.

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SHARESOC MATTERS

Halifax UK growth fund: can you help?

Cliff Weight

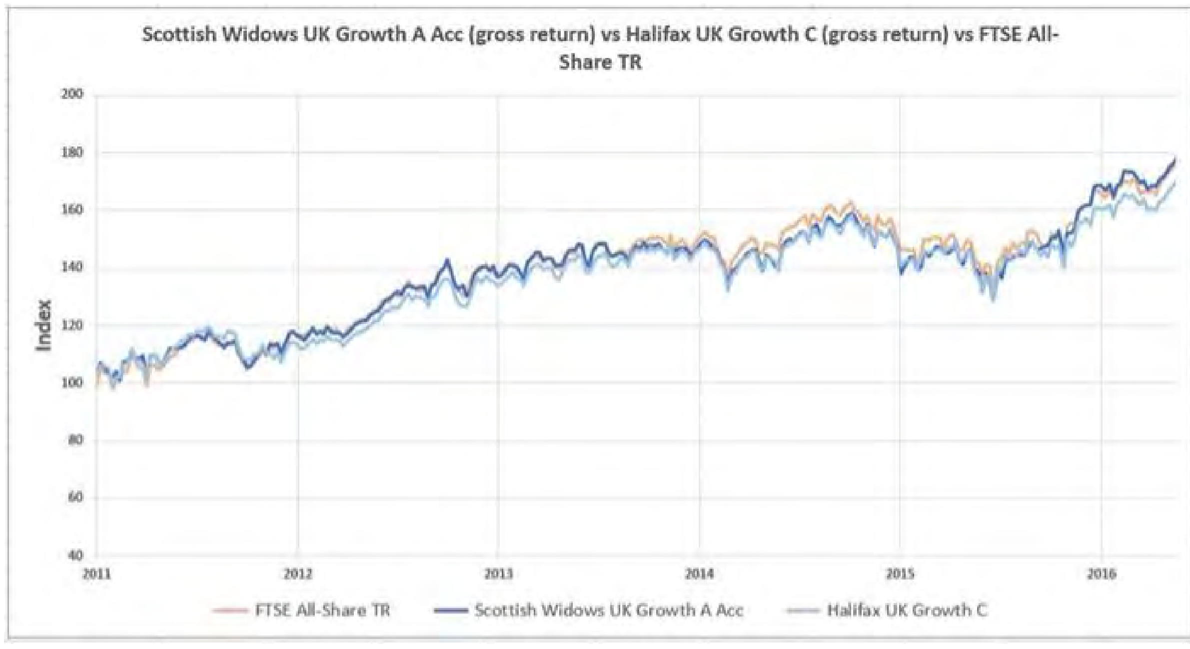
Harcus Parker (HP) is reviewing potential claims against fund managers and others for closet tracking (the practice of describing a fund as actively managed and charging for that service, but in fact merely tracking an index).

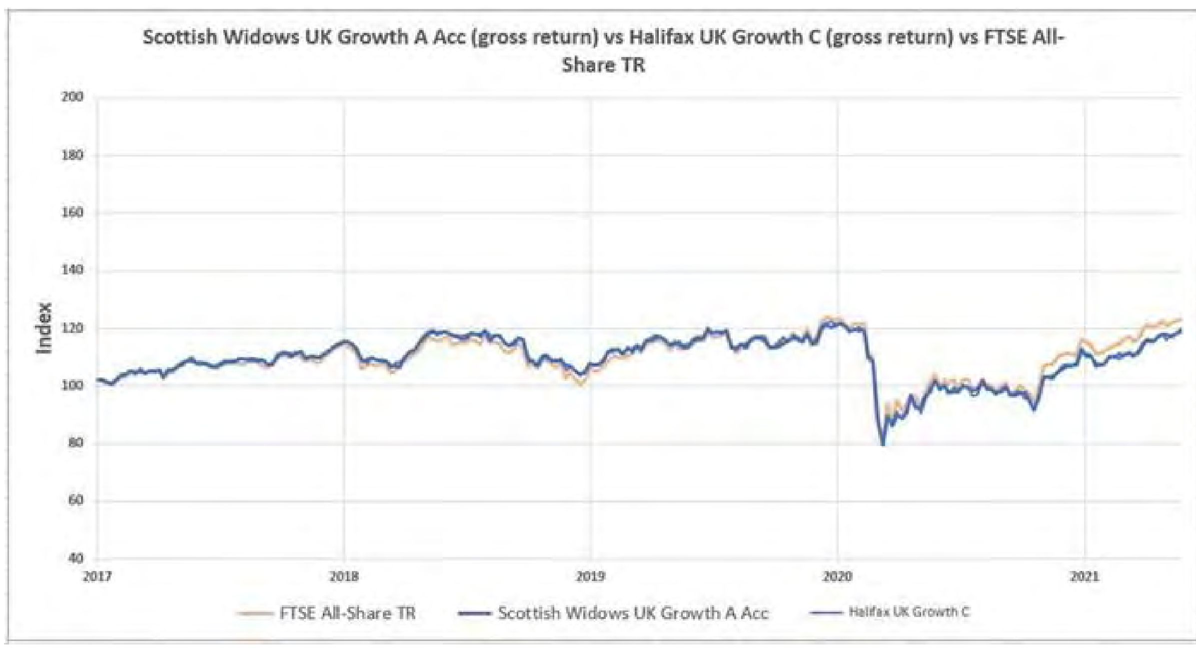
HP is currently focusing investigations on two subsidiaries of Lloyds Banking Group, Scottish Widows and Halifax. HP has identified that the Halifax UK Growth fund appears to be managed in exactly the same manner as the Scottish Widows UK Growth fund, which was the subject of a previous blog. HP suspects that it too is closet tracking the FTSE All-Share Index.

The graphs below show that from August 2011, before deduction of fees, the performance of the Halifax and Scottish Widows UK Growth funds has been all but indistinguishable from that of the FTSE All-Share Index.

There appear to be prolonged periods of closet tracking punctuated by very short, marginal elements of differential performance versus the index. The chosen cut-off date in early January 2017 used in the charts coincides with the FCA's investigation into closet trackers published in March 2018.

If you have invested in the Halifax UK Growth fund, ShareSoc would really like to hear from you in order to assist HP in its investigations. Please contact us by email at info@sharesoc.org.





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Webinars and a return to physical events

Mike Dennis, Director, Sharesoc

In November last year a survey was sent out to 7,975 ShareSoc members seeking their opinions on a return to physical events, and we were very pleased to receive 503 submissions. We would like to thank everyone who took the time to respond. Below is a summary of what you told us.

Attended event	
Seminars	171
Webinars	251
Site visit	71
None of the above	175

65% of respondents had attended at least one of our events in the past.

Of those who had attended seminars, the split was as follows:

Seminar location attended	
London	113
Manchester	26
Birmingham	14

It was also encouraging to learn that 71% of those respondents who had not previously attended an event intend to do so in the future.

The preferred type of event for a company presentation was a webinar, seminars coming second.

Preference for type of events			
	1st choice	2nd choice	3rd choice
Webinars	226	88	111
Seminars	109	204	107
Site visit	108	112	191

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Respondents were also asked to choose the five most important factors that determined their preferred type of event. Travel requirements and total time for the event received considerably more votes (303 and 251 respectively – see table below) than other factors, telling us clearly that the efficient use of time is a key determinant of attendance. This is consistent with the choice of webinars as the most popular format.

5 most important factors	
Travel to/from the event venue	303
The total amount of time required for the event	251
The level of interest I have in the presenting company/ies	190
Hearing ShareSoc member opinions of the presenting company/ies	169
Hearing company answers in person	167
Social interaction with other ShareSoc members	152
One to one access to company management	146
The time of day	145
Present health risks associated with social contact	127
Asking questions in person	127
Visiting/seeing company facilities in person	111
The day of the week	101
Computer screen "fatigue"	32

Hearing other members' opinions on the presenting company was also a popular factor. This can easily be achieved at physical events, but also online through the SIGnet 'After Meetings' which take place after most webinars. But any meaningful social interaction (which is also popular) is only possible with physical meetings.

Interestingly, "present health risks associated with social contact" was chosen by fewer members than we expected, although the timing of the survey (pre-Omicron) may have something to do with that.
What does this tell us? First, and unsurprisingly, the webinar format is the most popular with our members, primarily because of their convenience.

So **webinars are here to stay** and will be an important part of our events offering. Secondly, however, the desire for more social interaction and face-to-face contact with company management, as well as creeping Zoom fatigue, tell us there is a growing desire for a return to seminars as Omicron begins to tail off and things return to normal.

So for those of you desperate to share a sandwich and a glass of wine with your fellow members, help is on the way. **We intend to start up our seminar series again in the spring** and we are already searching for suitable locations – more news to come on this soon.

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ShareSoc events

Mike Dennis

The weeks either side of the New Year tend to be quiet ones for company presentations – but we did squeeze in several webinars this time, so you had something to watch during the darker evenings. Large caps included Sainsbury's, Lloyds Bank and BHP, alongside a diverse collection of small caps and investment trusts.

As we approach the spring reporting season, company presentation activity levels will increase and we'll keep you posted on what's coming up with our regular Monday Events emails. If you're not subscribed to receive these emails just update your member communications preferences to receive them.

In November, we took the opportunity to seek member feedback on preferences for the types of company events we provide. To read more about this see the article in this newsletter. Suffice to say that we plan to return to the physical world in the spring, with our first company seminar in over two years.

You can now see the back catalogue of the past couple of years of company presentations and campaign webinars on our recently updated and improved YouTube channel. There's a wealth of material on individual companies, and they're more in-depth than you will find on most other websites. This is good material to help you with your investment research. Have a look through our collection here.

And don't forget to give us your suggestions for company presentations by posting your messages in our forum.

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SIGnet update

Danny Wallace, SIGnet director

Within SIGnet, we have the SIGnet Challenge. Each group that wishes to participate submits a portfolio for the start of each year, with the conclusion at the end. Initially, the approach was a little 'go big or go home'. However, over the years the Challenge has proved very useful. It seems to sharpen the market perspective, as the group entries are on display in the SIGnet newsletter and the trades are logged and visible to see. It's intriguing to see how many groups pick out the same stocks.

The bragging rights for 2021 are awarded to the SIGnet Herts Group with a percentage increase of 43.55% – an excellent result from an excellent group. The Herts group have been meeting for more than 24 years, and work very well together. Congratulations to them; but their win filters through the network and sets the bar for the rest of us too.

The end of the year also tends to be a marker point for individual portfolios. How did members get on? What benchmarks were used and why? How can results be improved? Clearly, portfolios are set up for different reasons: some for growth, others for income, others again for wealth preservation. But it is good to know which sectors are returning results and what is achievable.

So, that was 2021. Now for 2022. What a start – we appear to have kicked off the year with all our tech breaking at once. It is quite awful. SIGnet groups have already started to meet, emails have been hotly exchanged. It is at times like this that the support of the group really helps. What should I do? Sell, hold, buy?

My thoughts go back to Feb/March 2020, when I rationalised my portfolio, sold the things I didn't think would do well and moved into things I thought would survive and possibly do ok. I am looking at this rout in the same way. I continue to compare notes with others, but of course while members acknowledge the various routes taken, their choice must be the one with which they feel comfortable.

The SIGnet network continues to grow, adding new members and new groups. The strength of our network is that we have many different groups with different styles, locations and experience levels. We tend to introduce new members through one of the national online groups. From there, either they can stick with that group or we can suggest other groups which may suit them better.

SIGnet is available for everyone to enjoy. If you would like to join, share your thoughts and listen to others, then please visit the website and submit your form.

SHARESOC IN THE NEWS

FT publishes audit reform letter

Cliff Weight

Badly needed corporate audit reform is on the ropes, it seems. In November the FT published our letter sent jointly with UKSA, "Investors are let down by the decision to dilute boardroom rules".

It read as follows:

> *Many investors will be disappointed to read the article headed "Backlash spurs dilution of audit reform" (Report, November 9). The reforms are supposed to restore trust in governance and audit. Sir John Kingman's review emphasised that the best way to do this was to focus on "the interests of consumers of financial information, not producers". So why is the government being so swayed by the latter?*
>
> *In submissions to the government, CFA UK, the Corporate Reporting Users' Forum and representatives of retail investors all backed a form of UK "Sarbanes-Oxley", the 2002 US federal law that established sweeping auditing and financial regulations for public companies.*
>
> *This lays down requirements for an effective system of internal controls, signed off by the company's leaders whose assessment is subject to external audit. The government's impact assessment cited evidence that the US regime had resulted in more accurate financial information, more conservative accounting practices and a decrease in fraud.*
>
> *The cost — £2.3bn spread over 10 years — sounds high but is less than a tenth of 1% of the £2.6tn market value of the FTSE All-Share. The annual ongoing cost would be less than 0.004 per cent of the £5tn-plus enterprise value of the index. Debt holders also have a keen interest in accurate financial information.*
>
> *The solution left to investors is to press boards to commission external audits as part of the audit and assurance policy. It is to be hoped that a directors' statement on the effectiveness of internal controls will be mandatory so as to make their responsibility for accurate financial information explicit and actionable.*
>
> *We support the government's interest in fostering a healthy business environment and that is what the proposed reforms aim to do. So why water down measures that would reduce the risk of fraud and misstatements? As usual, however, the UK seems likely to fall back on the corporate governance code, which the good follow and the bad neglect.*

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We have made our views very clear in the various responses to consultations from the government, BEIS, FRC, FCA, etc.

I wrote to my MP, Crispin Blunt, asking him to forward our letter to the Chancellor and the Secretary of State for Business and ensure they are aware of our views. I shall also ask a question at AGMs and company meetings that I attend, along the lines of:

Do the company and its directors support the audit reform proposals that are intended to restore trust in governance and audit? There appears to have been some lobbying against these proposals, which are in the best interests of shareholders and from which good companies have no reason to fear. Can you reassure your shareholders that you have not been party to any such lobbying?

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REVIEW

Christmas crackers from Investors Chronicle

Roger Lawson

Over the Christmas period we were treated to a bumper edition of the Investors' Chronicle. The magazine has improved of late under the editorship of Rosie Carr. Whether she has a bigger budget or is just picking better writers I do not know, but she certainly deserved the job after working for the magazine for many years.

A couple of interesting articles from the latest edition:

"What does it cost to be an effective private investor?" by Stephen Clapham. In this piece, Clapham comments that "private investors are, in my experience, not nearly willing enough to invest in tools and education to improve the performance of their portfolios". I agree with that. They tend to rely on broker/platform recommendations, newspaper articles, or tips from bulletin boards instead of doing their own research using the available tools.

Stephen mentions services such as SharePad, Stockopedia, VectorVest and Sentieo. I am not familiar with the last two, but I use both SharePad/Sharescope and Stockopedia as they provide slightly different functionality. I use spreadsheets to record all transactions and dividends and to monitor cash. This enables me to manage different portfolios across multiple platforms/brokers and comprising some 80 different stock holdings. I have been doing this since my portfolios were much smaller and less complex, and I would recommend such an approach even to those who are only starting to invest in equities.

As the article mentions, half the members of ShareSoc have a portfolio of over £1 million and may be representative of private investors, so they may be making profits of well over £50,000 per year from their investments, particularly of late. A few hundred pounds per year to help them manage their portfolios and do research should be considered money well spent if it helps them to improve their portfolio returns by just a fraction of 1%.

The article is a good summary of the kinds of tools and services private investors should be using to help them.

"The Generation Game", by Philip Ryland highlights the declining performance of UK stock markets since the 2008-09 financial crisis. Ryland shows graphically how the FTSE 100 index has fallen way behind the S&P 500 and the MSCI World Index. It makes for pretty depressing reading if you have been mainly investing in UK large cap stocks in the FTSE 100.

It also reinforces the message that if you want a decent return from your equity investments, you need to include overseas markets and UK small and mid-cap companies in your holdings. That is what has worked in the last few years, and I expect it to continue to be the case. Why? Because the growth is present in those companies, while the FTSE 100 is dominated by dinosaurs with no growth. Technology stocks are where growth is now present, and there are few in the FTSE 100; in fact the market capitalisation of Apple now exceeds that of the whole of the FTSE 100.

But the key message is that if you want to make real money investing in equities you need to be selective and not just follow the crowd.

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STOP PRESS

Trouble brewing at Hargreave Hale AIM VCT?

Mike Dennis

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I have been a shareholder in Hargreave Hale AIM VCT (HHV) for quite some time, and have been happy with the tax-free dividend stream they have sent me over the years. I recently received the AGM proxy form for the 3 February AGM and was reviewing the annual report, when something caught my attention.

An investee company called Honest Brew (HB), one of HHV's more costly investments at a cumulative total of £2.8m, has been having a difficult time over the last couple of years and the holding is now valued at £277,000 – a paper loss of around £2.5m and the largest loss in HHV's portfolio.

On further reading, it emerged that HB is chaired by David Brock (DB) – the same David Brock who chairs HHV! My antennae started to twitch more rapidly at this point.

It turns out that DB and his family own more than 20% of HB, while HHV now owns 37% – far in excess of its share of any other investee company. Last year, HHV also stumped up an extra £300,000 in the form of HB loan notes to add to the £2.8m it has already spent on HB shares.

The auditor comments in HB's 2020 annual report: "We draw attention to the fact that the company has recorded a loss for the year ended 31 December 2020 of £953,215 (2019: £1,013,965) and, as at that date, the company had net liabilities of £441,791 (2019: £355 net assets). As stated on page 4 these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern."

HB's accounts for the year ended 31 December 2020 were filed on 25 January 2022, **over one year after the end of its financial year**, so I was quite fortunate to be able to see them before completing my proxy form. I would imagine that very few HHV shareholders will have time to read the HB accounts before they submit their proxies.

What's going on here? Was this all done in an objective manner consistent with the approach to all other HHV investments and in the best interests of HHV shareholders? How were the negotiations on the HHV investments and loan notes conducted when the chair of both companies is the same person?

HHV's annual report does offer some comfort: "David Brock is chairman of and an investor in Honest Brew in which the Company has an investment, and so absents himself from Board decisions relating to that investment."

It's unclear what involvement DB had on the HB side in the decisions and the negotiations – I could not find any references to this in the HB documentation. There is clearly a possible conflict of interest here, so it would be wise for Brock to depart from the HB board.

I further note that DB has been on the HHV board for 12 years which is well beyond the recommended maximum period for good corporate governance. For these reasons, I have chosen to vote against David Brock's re-election to the board. I have also voted against the re-election of Oliver Bedford, because I don't believe it is good practice for VCT investment managers to sit on the board of companies whose investments they look after.

The ShareSoc VCT Investor Group, shares my concern about the issues of tenure and director independence. Members with an interest in VCTs are encouraged to join.

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LAST WORD

Paul Myners obituary

Roger Lawson

Lord Myners has died at the age of 73. He had a big hand in the rescue of the banks in the financial crisis of 2008 as a treasury minister in the Labour government, after becoming the socialists' favourite capitalist. He was also responsible for the Myners Report into institutional investment which had some influence on corporate governance and institutional stewardship in the UK.

I met him a few times and he had a very persuasive personality, but he was not always straightforward. He was a master of evasive answers in parliament, including a comment on the nationalisation of Northern Rock: "The essential intention in taking Northern Rock into temporary public ownership was to stabilise the banking system and to reassure people that a deposit placed with a British bank is a safe deposit." His forceful actions during the banking crisis, which resulted in the effective nationalisation of big UK banks, were not appreciated by many.

Stuart Rose made extensive comments in an adulatory article in the Financial Times on his work with Myners during the attempted takeover of Marks & Spencer, including this: "The climax of the takeover battle, following the shareholder presentations and the massively attended annual meeting at the Royal Festival Hall, was the final board meeting. Paul's sure-handed chairing saved the day. Using a combination of wisdom, wit, guile, persuasion and patience we saw off Green's opportunistic approach."

Power plays

Roger Lawson

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Boris Johnson has said that the Glasgow climate deal is a game-changing agreement which sounds the death knell for coal power. Let us hope so. My father worked down a pit in Nottinghamshire in his early life and was all for replacing coal power stations with nuclear power. Coal mining is not just a great creator of pollution but also positively dangerous for the miners.

China is one of the largest consumers and producers of coal, and in 2019 there were 316 deaths of coal miners in that country. That was an improvement on previous years but it is still a horrific number.

Nuclear power is considered to be dangerous by many, but in reality it is remarkably safe. For example the Fukushima event in Japan in 2018 only directly caused the death of one person. This is a very good analysis of the safety of various energy sources.

One problem with nuclear power is that it tends to be produced in plants that have very high capital costs and take many years to build. They are also vulnerable to faults when in operation. This often results in high energy costs in comparison with coal or gas. But that might be solved by the development of small modular reactors (SMRs), where Rolls-Royce (RR.) has a potential technology lead from its experience in building nuclear reactors to power submarines.

As the company's recent press release explains, Rolls-Royce has recently obtained more funding from the government and from partners to develop this business.

Will that enable it to recover from the dire impacts of the Covid epidemic on its aero engine business? Perhaps, but not for some years in the future, I would estimate. New technology and new production methods are always vulnerable to hitches and delays of various kinds in development.

There are, of course, alternatives such as wind power, hydroelectricity and solar. But wind is intermittent, requiring investment in big batteries to smooth the load. Moreover, in the last year there was less wind than normally expected in the UK. This has impacted the results of companies such as The Renewables Infrastructure Group (TRIG) and Greencoat UK Wind (UKW).

Which technology will be the winner in solving the clean energy problem is not at all clear, but coal is definitely on the way out for electricity production although it might survive for use in steel manufacturing. UK coal-fired power stations are scheduled to be closed down by 2024.

We must surely all welcome the replacement of coal power generation by other sources.

The author holds shares in TRIG and UKW but not RR.

Catch-up corner: recent webinars on-demand

- Hardide plc (HDD) – 14 /12/21
- Halma Plc (HLMA) – 13/12/21
- Lloyds Banking Group plc (LLOY) – 7/12/21
- Brunner Investment Trust (BUT) – 1/12/21
- Sainsbury's plc (SBRY) – 24/11/21
- Midatech Pharma PLC (MTPH) – 18/11/21
- Ultimate Products (UPGS) – 17/11/21
- BlackRock Income and Growth Inv. Trust (BRIG) – 11/11/21
- In Conversation with Lord Lee, Leon Boros and David Stredder – 4/11/21
- BlackRock Sustainable American Income Trust (BRSA) – 28/10/21
- Impact Healthcare REIT (IHR) – 20/10/21

UPCOMING WEBINARS

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SHARESOC WEBINAR WITH MAXCYTE (MXCT)
8 FEBRUARY 2022
Click here to register

SIGNET AFTER-MEETING ON MAXCYTE (MXCT)
8 FEBRUARY 2022
Click here to register

SHARESOC WEBINAR WITH PEMBROKE VCT (PEMB)
17 FEBRUARY 2022
Click here to register

PARTNER EVENTS

MELLO MONDAY, 7 FEBRUARY 2022
Click here to register

LIVE SHARES INVESTOR EVENING, 10 FEBRUARY 2022
Click here to register

MELLO MONDAY, 21 FEBRUARY 2022
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