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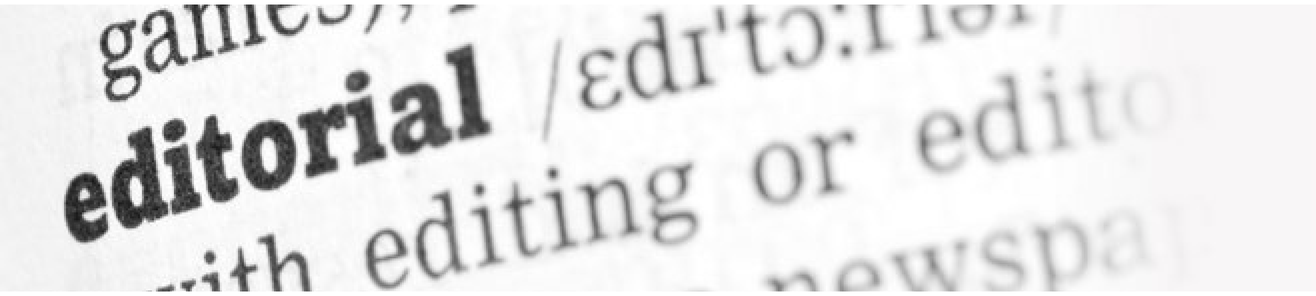

ANOTHER STEP ON THE JOURNEY TO SHAREHOLDER DEMOCRACY

Hargreaves Lansdown's launch of a shareholder voting service marks a significant milestone for investor engagement, says Faith Glasgow

There's no doubt about it: retail investment platforms, as the portals between listed companies and private shareholders, hold the master key to building shareholder democracy and promoting wider participation in corporate governance.

Historically, private investors holding shares through platforms have not been able to vote at AGMs or receive communications from the companies they own easily, because their shares are held in pooled nominee accounts rather than individually in their own names.

If they want to vote, they have to apply to do so, and in years gone by had to pay the broker for the privilege too. It is bureaucratic, time-consuming and entirely out of sync with platforms' wider drive to digitisation - a point hammered home in last year's Treasury review of secondary capital raising.

Interactive investor, the second-largest broker in the UK, took the lead in November 2021 by effectively changing the default setting, so that all its customers are now able to vote at AGMs as a matter of course (though they can opt out if they don't want to be notified when voting events come up).

That move resulted in the number of registered voters on the ii platform rising fivefold from 80,000 to 400,000 in the first half of 2022 – and a 30% upturn in the number of votes processed through the ii platform over 2022 compared with the previous year.

Now, finally, Hargreaves Lansdown – by far the UK's biggest broker, with 1.75 million customers and around £120 billion in assets – has been pressurised into offering something similar. It has put in place the facility for customers to view shareholder meetings and provide voting instructions, via a third party called Broadridge.

Shareholders will be able to cast their votes at UK and European companies, and also to register to attend AGMs and emergency shareholder meetings. This replaces the previous off-putting mess of calls to HL's help desk, emails and web chats.

I wrote about shareholder engagement last summer, and at the time was told by HL that the broker "offers a free service so that investors can vote in AGMs should they wish to do so. However, in the vast majority of cases less than 0.5% of investors choose to vote in an AGM for a UK company."

How times - and shareholders' enthusiasms, apparently – change. When the new service was launched just five months later, in January, HL's spokesperson Tom Lee noted that "retail investors are taking a keener interest in having the power to influence corporations on important issues such as board diversity, climate change and sustainability".

He added: "Providing a new digital capability for this self-service system gives retail investors a greater say in the governance of the companies in which they hold shares and the democratisation of markets."

Of course, it's not all about access to voting opportunities. The danger is that shareholders still don't vote, whether out of entrenched apathy, or because they don't understand the impenetrable jargon of the AGM or EGM agenda and papers, or don't realise how important their individual votes can be in shaping the way the company is run.

So there is a huge amount of work to be done on an ongoing basis to educate investors. In particular, it's an area where a campaign for plain English could work wonders.

ShareSoc continues to be a standard-bearer on the journey to shareholder democratisation, but there's a long way still to go.

Faith Glasgow is a freelance journalist

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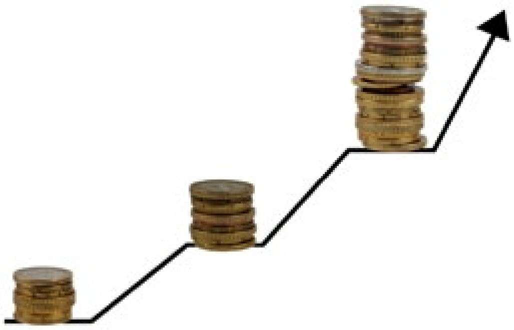
INCOME-HUNTING

Top-yielding funds and investment trusts: the risks and rewards

There are four main areas where fund investors can achieve a yield of 5%-6% or more. Cherry Reynard runs through the options

Over the past decade, income has been elusive. As interest rates dropped, investors needed to take ever-higher levels of risks to achieve increasingly measly levels of income. That flipped in 2022, as central banks around the world hiked rates in response to a rising inflationary threat. Income is now abundant, leaving investors with a dizzying array of options.



Income has become more important as rising inflation and volatile markets have eroded the value of investors' portfolios. Those who rely on an income from their investments are being required to do more with less. Equally, after a grim year in financial markets, a high income provides a welcome ballast for investors. This is likely to increase the appeal of income assets in the year ahead.

There are four main areas where investors can achieve a yield of 5%-6% or more: in the riskier end of the corporate and government bond market; in more 'value'-focused equity income, in commercial property and infrastructure, and in parts of the investment trust market, notably renewables.

In all cases, investors need to judge the level of the income, whether it will grow over time, and whether it is vulnerable to being cut. The world economy has some painful months ahead and investors need to ensure their income can endure through a recession.

Bond funds offering high income

High-yield corporate bonds and emerging market debt have plenty of headline appeal for an income investor. The US high-yield bond market, for example, is currently yielding around 8%. Plenty of funds are offering tempting yields. The Baillie Gifford Emerging Markets Bond fund, for example (as at the start of February), has a yield of 8.3%, while the Schroder High Yield Opportunities fund yields 7.6%.

The counterweight is that the widely anticipated global recession makes defaults more likely. The number of companies defaulting on their bonds has been low in recent years, with weaker companies kept afloat by lower borrowing costs, but this may change in the year ahead.

Nevertheless, James Klempster, deputy head of multi-asset at Liontrust, says these funds do offer value: "Bonds in the high yield or emerging market debt sectors certainly come with risk, most notably of the lender defaulting, but we would argue that the credit spreads – the extra yield you get for lending to these higher-risk countries and/or companies over their lower risk counterparts – makes them look compelling."
He says the income cannot be viewed in the same way as that from low-risk bonds issued by governments such as the UK or the US and adds, "active management is essential, rather than naively following a benchmark index, which is generally most greatly weighted to the largest debt issuers".

Gavin Haynes, investment consultant at Fairview Investing, suggests the Capital High Income Opportunities fund, which blends emerging market debt and high-yield bonds and is currently paying an income of over 8%.

In interactive investor's Super 60 list of investment ideas is M&G Emerging Markets Bond, which has a yield of 5.6%.

UK equity income funds

Even where yields are high, most fixed income suffers from the problem that the income doesn't rise in line with inflation. For many years, this has been a secondary consideration because inflation has been benign, but now a confluence of factors – deglobalisation, geopolitical tensions – is conspiring to push inflation higher. This is where equity income has its big advantage: the starting payouts may be lower, but they usually grow in line with prices.

Daniel Pereira, investment manager at Square Mile Research, says: "Yields on equities have also become more generous, and many strategies give investors the further benefit of growing that income stream and providing some capital growth. Dividend growth strategies are a great way to meet a need for income over time and typically exhibit less volatility versus the wider market."

He says that while dividend growth strategies are often associated with a lower starting yield, they have typically provided better long-term protection against inflation. Bonds look vulnerable at times of inflation because, for the most part, the income is fixed.

It is worth noting that the highest-yielding equity income strategies can be in "deep value" areas, such as oil and

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Top-yielding funds and investment trusts: the risks and rewards ...continued

gas, mining or tobacco. While these have had a good year in 2022, the longer-term trajectory for some of these assets looks more difficult.

James Calder, chief investment officer at City Asset Management, says that funds focusing on dividend growth should get round this potential problem. He suggests the FTF Martin Currie UK Rising Dividend fund, yielding 3.3%. A higher yield, of 5%, is offered by Man GLG Income. It has a value-based approach, and is a member of interactive investor's Super 60. Another rated option is City of London investment trust, which has a yield of 4.7%. In total, 10 UK equity income trusts have yields of 4%.

Other income avenues

Commercial property and infrastructure have been income stalwarts for many investors. In theory, they should offer a high, inflation-adjusted income, along with capital growth in the value of the underlying assets. However, commercial property has had a trickier year as investors have questioned the long-term growth potential of the sector and the valuations on offer: some of the property investment trusts have seen share price falls of more than 25%.

This has left yields looking appealing, but there are still concerns about some parts of the market – UK retail, for example, office space or residential house prices.

Calder no longer looks at open-ended property funds, because of their well-documented liquidity problems, but says there are some attractive options among investment trusts after the recent falls.

He says: "Investment trusts are trading at a significant discount in some cases. We like generalist managers and some of the 'big box' storage companies. These have been hit by the outlook for the consumer and may get cheaper. This might be a moment to re-examine them." In the long term, he sees a secular growth story. Options include Tritax Big Box and abrdn European Logistics Income.

It is still possible to achieve yields of over 5% among infrastructure investment trusts, although it is less easy to find high yields among open-ended funds. GCP Infrastructure Investment has a yield of over 7%, while HICL Infrastructure's yield is around 5%. The duo have shown real stability in the turbulent markets of the past year, and still look like a good ballast for an income portfolio.

The final option for income-hungry investors is to hunt around in the investment trust sector. The area with most appeal for Calder is the renewables sectors. While performance has been bumpy in 2022, the long-term structural arguments are sound: there is now huge momentum behind the move to renewable energy, which has gathered pace over the past 12 months.

Areas such as wind farms or solar energy producers have, in many cases, inflation-adjusted cash flows, and may also benefit from higher energy prices. This should deliver a stable income to investors over time.

Investec has a buy rating on Greencoat UK Wind, saying the company's strong cashflow should support its inflation-adjusted dividend and allow reinvestment into new assets. It is yielding 5.5%, It also likes JLEN Environmental Assets Group, which has a higher yield, currently 5.9%. It invests in a range of environmental infrastructure assets, including wind, waste, bioenergy and hydro.

There are also some higher-yielding equity income trusts. The BlackRock and Abrdn Latin American-focused funds both have appealing yields, but the region can be very volatile. Income-focused smaller companies trusts have also had a tough year, leaving yields high – one example is European Assets Trust. These may be options for investors willing to take more risk.

It is a far happier time for income-seekers. After a decade of ferreting around in the furthest reaches of the bond market, or among unloved 'value' stocks, income is plentiful. Investors should bag those long-term income streams while they still can.

Cherry Reynard is a freelance journalist. This article first appeared on the interactive investor website on 14 February 2023 and yields are as at mid February

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ISA OUTLOOK

Proposals on limiting ISAs

Kevin Taylor

Social policy think-tank the Resolution Foundation has released a report looking at the government's policies to encourage household saving. It particularly focuses on ISAs and notes that capping ISAs could raise £1 billion in tax for the Treasury.

The report proposes a cap of £100,000 on ISAs , but it is unclear if that's a cap on total contributions or a cap on the total value of an ISA. At one point the report suggests that "individuals would need to choose what accounts to withdraw in order to meet the overall £100,000 limit."; this seems an overly complicated and impractical proposal that wouldn't easily cope with fluctuations in equity values, for example.

At £20,000 per annum the existing contribution limits for ISAs are very generous and only wealthy individuals can fully utilise them every year. Looked at in isolation, it's difficult to find genuine reasons why the best-off should be given such large tax incentives.

However, the £1 billion of additional tax that the Resolution Foundation claims would be collected looks insignificant in the context of HMRC's recent annual summary on tax reliefs. This notes, for example, that the cost of pensions tax relief was an estimated £51.6 billion in the 2021/22 tax-year, split across £26.9 billion of income tax and £24.7 billion of National Insurance. The top 1% of earners pay almost 30% of all income tax, and that increases to 50% when looking at the top 5% of earners. So it's worthwhile making an effort to make sure that those people stay in the UK and pay their taxes here. That unfortunately appears not to be the case, as the Telegraph recently reported that the "ultra-wealthy are deserting the UK".

To paraphrase Jean-Baptiste Colbert: Taxation is the art of plucking the goose with a minimum of hissing. That millionaires are fleeing the UK for lower tax jurisdictions is an indication of "hissing", but it seems unlikely that tinkering with ISA allowances would change that flow of traffic.

Capping the total value of an ISA seems overly complicated, but it would be relatively simple, for example, to reduce the maximum annual contributions to £6,000 (£500 a month) and cap life-time contributions to £100,000. Existing ISA accounts should be grandfathered, but historic contributions would count towards the £100,000 lifetime cap.

I appreciate that these limits are a lot smaller than the current ones but I struggle to justify tax incentives so large that only the super-wealthy can fully utilise them.

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CAMPAIGNS AND POLICY UPDATE

Cliff Weight, director, ShareSoc

Shareholder rights/nominee improvements

Sir Douglas Flint has been appointed to head the Digitisation Taskforce. After years of disenfranchisement of individual investors who beneficially own shares via nominees, real progress is now looking much more likely.

We have yet to meet Sir Douglas, but our views were well reflected in the Austin review which led to Flint's appointment by the chancellor.

We have co-signed an open letter to the business secretary, led by Marks & Spencer. This calls for digitisation so that companies can correspond with their shareholders (including those who hold via nominee) by email, and for hybrid AGMs to be allowed under the Companies Act (currently articles have to be changed to allow this). M&S, with our support, hopes to get over 10,000 signatories to petition for changes for the benefit of retail investors.

Woodford Campaign

The ShareSoc Woodford Campaign now has 1,800 members. We have started a Facebook Group to support those who have been affected and to enhance our ability to share information. The group is already quite active. The Group Litigation Order court hearing failed to impose a deadline for claiming or to require Link to write to shareholders advising them of the possibility of a claim.

Currently only around 20% of eligible claimants have registered, and we believe that time may be running out for WEIF victims. Claims or complaints are subject to statutory time limits, to Financial Ombudsman Service time restrictions, and to the internal decision processes of the relevant law firms.

We have recently published two updates on developments:
Update 10 January - The GLO outcome
Update 11 February - Time to Act

ShareSoc has prepared a decision tree (click here to view), based on its current understanding of the situations. Potential claimants may find this of interest and helpful in considering their own decisions. The

Financial Conduct Authority gave scant detail on progress regarding Woodford in a letter to the Treasury Committee dated 14 December 2022, responding to questions posed during the hearing and updates to the Committee on progress in certain areas.

ShareSoc considers the FCA letter to be insufficient. We have written to the Committee saying: "we respectfully request that the Committee consider asking members of the FCA to appear before the Committee in person so that the progress of the enquiry can be properly scrutinised. This would go a long way to providing reassurance to the many former investors in the WEIF who are fearful that the report may never see the light of day."

The full text of our letter is here.

Consultation responses and lobbying

We have responded to consultations on:

- PRIIPs and UK Retail Disclosure
- FCA CP22/24 - Broadening access to financial advice for mainstream investments
- Public Consultation on the Review of the G20/OECD Principles of Corporate Governance.

In our response to the OECD consultation we propose a fiduciary obligation for the nominee to vote and to take account of beneficial owners' views.

Campaigns/problem cases

i. Hartley Pensions: we are launching a support group. Mark Bentley has joined the client committee, where he represents the interests of Hartley clients.
ii. Home REIT. We are watching developments and considering possible action.
iii. Wentworth Resources. The proposed takeover recommended by the board received 75.3% shareholder support, marginally over the requirement for backing by 75% of voters. Once again, voting difficulties and shareholders' inability to communicate with each other have enabled a board to get its way.
iv. Sirius: Led by Paul Anscombe. We have no further developments to report at this stage in relation to a possible claim. On 19 Feb, ShareSoc's Sirius Claim Group was part of this front page of the Business Section of the Sunday Times. Paul Anscombe is quoted and a good explanation of the issues around the fund raising is made.
v. We have been asked to look at 4D Pharma (DDDD), Polo Resources and Scirocco, and have provided some assistance to concerned investors. Several Polo Resources shareholders have now written to the FCA, and we have raised with the FCA the generic issue of the regulation of overseas companies: the issue is that many foreign directors can avoid UK legal consequences. We have also looked at Morses Club, DeepVerge, and given ShareSoc member Barry Gamble some support with his complaints regarding LightWaveRF.

Other activity

- The FT published Cliff Weight's opinion piece on capital gains tax, a tax that is hideously complex and needs to be simplified. This is even more urgent as the reduction of the CGT threshold from £12,300 to £6,000 and then £3,000 will draw many more ShareSoc members into the net of those having to complete CGT returns. See also the response to Lord Lee's parliamentary question on CGT on page 22.
- An update re VCTs was published.
- Cliff Weight spoke on 9 February at the London Stock Exchange Retail Trading Conference attended by 170 industry professionals (see next page).

As you can see, ShareSoc's small voluntary policy team has been extremely busy. We would like to do more but need more voluntary effort to be able to do so. Please get in touch by emailing info@sharesoc.org if you are willing to help. You can also make a donation to support ShareSoc's work in this area here.

Cliff Weight owns shares in M&S, 4D Pharma and Wentworth Resources and used to own Scirocco, but has recently sold them.

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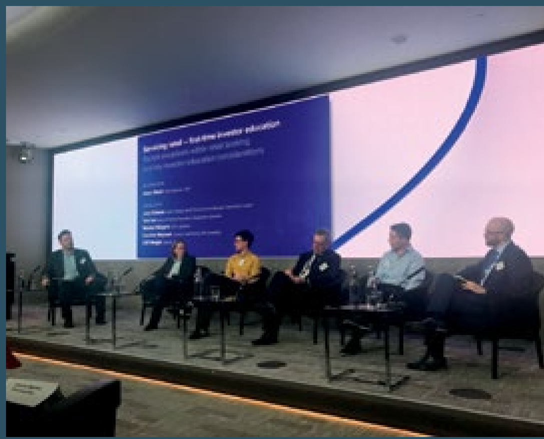
Private investor trading: conference insights

Cliff Weight



I attended the Retail Trading Conference 'Investing in the Future' on 9 February at LSEG's headquarters, and sat on one of the panels. This was a lively, interesting and stimulating conference, with over 170 registered attendees.

After opening remarks from Julia Hoggett (CEO, London Stock Exchange plc and head of equities), who provided an update on regulatory change and product development to enable retail access to the market, we had three panel discussions.

The first, Retail Investor Inclusion, was chaired by Marcus Stuttard (head of AIM, capital markets, LSEG) and covered the evolving retail investor access to the market: tools, products and opportunities.

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Nick Osborne (VP distribution, Primary Bid) highlighted the progress Primary Bid has made in getting retail access to initial public offerings (IPOs) and fund raises. Joe Parkin (head of banks and digital channels, Blackrock) spoke of the huge change with people now personally responsible for saving for retirement. He suggested ballpark numbers of 20 million investing in the UK, and highlighted the need for a correspondingly huge increase in financial education.

Michael Stanley (head of ETP product development & product management, LSEG) chaired the Panel on Market Structure. I was on the last panel, Servicing Retail/First Time Investor Education, chaired by Adam Wood (CEO Turquoise, LSEG).

We discussed the recent evolutions within retail broking (including the recent REX announcement) and key investor education considerations. I was able to underline the importance of education and the role that ShareSoc Investing Basics can play.

FUNDS AND INVESTMENT TRUSTS

Home REIT: a personal viewpoint

Mark Bentley, director, ShareSoc

Background

Home REIT (HOME) appeared to offer rather an attractive proposition. The real estate investment trust was designed to purchase residential properties and lease them at affordable rents to charities and public bodies ("the tenants"), providing accommodation for the homeless. The rent was to be covered by housing benefits paid directly to the tenants, i.e. fully government-backed and was expected to support a dividend of at least 5.5%.

So, a REIT with an admirable social purpose and offering attractive shareholder returns, to boot. What's not to like? I duly invested at the company's IPO in October 2020 at 100p.

The company deployed its IPO proceeds of £240 million rapidly and the market approved, with the shares swiftly moving to a strong premium to NAV. Dividends were paid, in line with expectations.

Less than a year after launch, the company came back to the market to raise a second tranche of funds, to finance further acquisitions from its "significant pipeline of investment opportunities". It raised £350m at 109p, a premium to NAV. I participated in that fund-raise, given the reported performance to date.

By January 2022, the company announced that it had fully deployed, and in May raised a further £263 million at 115p. So far, so good: published results were in line with expectations, with solid asset valuations, good rental income being paid and dividends meeting the company's target.

I took advantage of market turbulence to add to my shareholding in September and again on 17 November.

Then on 23 November came a bombshell in the form of a short report published by Viceroy Research, containing serious allegations about the company. The key allegations, from the investor perspective, were that property valuations were overstated and future income was at risk.

The company published a brief rebuttal, but the shares fell by 25% from my last purchase price to 57.7p that day, versus a last published NAV/share of 111.2p.

Whilst it was conceivable to me that there might be some overstatement of property values, I found it hard to believe that the overstatement could be that large. Net debt was relatively modest, so falls in property valuations would not be significantly amplified in NAV reductions.

Another factor that made me sceptical of the short report was the controls that should have prevented the alleged wrongdoing from occurring:

- A respectable board, experienced in the property sector.
- Independent property valuations conducted by leading estate agency/property consultancy, Knight Frank.
- Auditors BDO

Could all of these really have missed major problems with management of the REIT and valuation of its properties?

I decided to add to my holding at what appeared to be a bargain price. I was not alone: major shareholder M&G Group increased its shareholding from 9.8% in September to 13.2% by 17 November, and then to 15.4% after the short report was published.

Annual results

Annual results for Home REIT for the year to 31 August were due on 27 November, but on 25 November the company announced that the results would be delayed as the firm's auditors needed to carry out "enhanced audit procedures" in the light of the allegations.

On 30 November, the company published a full rebuttal. Investors were invited to join a webinar later that day. I duly applied to join the webinar and was initially informed that it was open to institutional investors only! This is wholly unsatisfactory and not conformant with FRC guidelines for engagement with investors (principle 7, p12) , which ShareSoc had helped to develop. I pointed this out and the company's representatives relented and agreed to open the webinar to individual investors as well as institutions.

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The rebuttal and webinar raised concerns. Had Home REIT overpaid for its property portfolios? It was disconcerting that the sums paid to developers often included the first year's rental on the property, which was passed on to the tenant, providing a rent holiday. David Stevenson wrote an excellent article in Citywire about these issues more broadly in the infrastructure fund space.

Action

On 7 December, it was reported in the press that law firm Harcus Parker proposed to take action on behalf of Home REIT's shareholders. ShareSoc has engaged with Harcus Parker and is evaluating the merits of such action.

This development did cause me great concern as a shareholder: should a successful claim be made against the company, that could impact the NAV significantly. I therefore decided at that point to sell most of my holding in Home REIT, at a price of 50p, crystallising a loss. I retain a token holding for monitoring purposes.

Home REIT's announcement on 12 December was rather a mixed bag for shareholders.

Home REIT: a personal viewpoint ...continued

On the plus side, the expected dividend for the quarter ending 31 August was declared. The investment manager would deploy additional resources into management of the property portfolio and reimburse costs that the company had incurred as a result of the short report.

On the minus side, the "enhanced audit procedures" would delay publication of the annual results. If the accounts were not published by 31 December (four months after the year-end), the company's listing would be suspended, as required by the premium listing rules.

In the absence of published accounts, the shares were duly suspended on 3 January, at a suspension price of 38p.

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While all these events unfolded, the parent company of Home REIT's investment manager, Alvarium, was undergoing its own restructuring. In late 2022, it merged with another firm and sought a SPAC combination to effect a NASDAQ listing. This completed on 4 January.

That same day Home REIT announced that the entity managing the company's portfolio had been the subject of an MBO. Was this an attempt to shield the newly listed parent from any liabilities of that entity? ShareSoc has subsequently learnt that such a manoeuvre is unlikely to be effective in law, which is pleasing.

Rent arrears

On 12 January the company announced that two of its major tenants had ceased rent payments. Another announcement on 25 January revealed a further deterioration of rent collection. Despite previous rebuttals, it appeared increasingly that there was substance to Viceroy's short report.

On 27 January, City AM reported that a criminal investigation had been launched:

> *The National Crime Agency is scrutinising property deals involving beleaguered social housing investor Home REIT, City AM has learned.*
> *A number of documents have been handed over to the National Crime Agency, and City AM understands the agency is considering passing them on to the Financial Conduct Authority (FCA) and the National Investigation Service (NATIS), which investigates serious organised crime relating to the public sector.*
> *City AM can also reveal that London-listed Home REIT, which invests in housing for the homeless, has also begun an internal investigation into payments made to a previously undisclosed third party as part of deals where the Home REIT appears to have significantly overpaid for rundown housing stock.*

On 7 February, The Guardian reported that a number of Home REIT's properties were not fit for habitation. On 16 February, the company admitted that 25% of a sample of 67% of its properties required at least some level of refurbishment, and that only 23% of rent due for the quarter ended November 2022 had been collected.

The announcement also disclosed that the company had received an offer from Bluestar Group Limited. It appears that this entity is connected to Alvarium. Will a lowball offer now be forthcoming?

Conclusions

This chain of events is extremely disturbing, both for investors and for the vulnerable individuals Home REIT was supposed to be helping. How did all these issues go undetected for so long?

I met with the AIC (Association of Investment Companies) recently to discuss concerns about the damage these events might do to confidence in companies investing in alternative assets. I was pleased to hear that the AIC holds regular forums with directors of investment companies, to raise awareness of matters that those directors should be attending to.

ShareSoc will continue to monitor this situation carefully and will engage, as it sees fit, to seek remedies and, where necessary, to recommend measures that may help prevent future similar cases.

The author holds shares in Home REIT

The death of KIDs

Roger Lawson

HM Treasury has announced plans to revoke the PRIIPs regulations, which will probably mean the death of KIDs (Key Information Documents).

KIDs are imposed and regulated under the PRIIPs regulation devised by the EU for packaged investment products, such as funds and trusts. KIDs give basic financial information, risk indicators and expected future performance based on past performance. Those who purchase investment trusts, for example, are asked to confirm they have read the KID before purchasing a holding.

But in reality KIDs are grossly misleading for many investment trusts. This is because their estimate of future returns is based on short-term historic data. Many investment trust managers have suggested that they should be ignored and that investors should look at the other data published by the trust to get a better view of possible future returns. I certainly ignore the KIDs for the investment trusts I hold.

The Treasury has issued a public consultation on what might replace KIDs.

A tough year for Fundsmith

Roger Lawson

Terry Smith has published his 13th annual letter for investors in the Fundsmith Equity Fund. As usual it's a good mixture of sound analysis of market events and witticisms.

The fund underperformed the MSCI World Index with a total return of -13.8%, which was better than my own portfolio. As he points out, the only way to beat the market last year was to hold energy stocks and nothing else. But both Fundsmith and I have a focus on growth companies, so we have been underweight in the dinosaurs of the investment world.

As Smith says: "Whilst a period of underperformance against the index is never welcome, it is nonetheless inevitable. We have consistently warned that no investment strategy will outperform in every reporting period and every type of market condition. So, as much as we may not like it, we can expect some periods of underperformance."

He points out that we have gone through a period of "easy money" when central banks ignored the consequences of their actions. "One of the problems of easy money is that it leads to bad capital allocation or investment decisions, which are exposed as the tide goes out," he says.
Smith is particularly critical about the management of PayPal and Facebook (Meta), and also makes negative comments on Alphabet and Amazon and their expenditure on non-core businesses.

He is scathing about the failure of some companies in which the fund has holdings to engage or even to provide information about the return they are getting on investments. "What I am complaining about is the bipolar response some companies have to long-standing shareholders versus newly arrived activists", he adds.

Lastly he attacks the exclusion of share-based compensation from analysis and KPIs in financial reporting, which can completely distort comparisons with other companies' figures.

In summary, another thoughtful report from Terry Smith. I am happy with the fund's continued focus on investing in companies with a high return on capital and high margins with good cash conversion.

The author invests in Fundsmith Equity.

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Baronsmead VCT AGMs

Roger Lawson

I recently attended the two Baronsmead venture capital trust (VCT) AGMs (BMD and BVT) via a Zoom webinar. Both BVT and BMD run very similar portfolios.

BVT's total return last year was -19.20% which was very similar to my overall portfolio return. It achieved a similar return on both quoted and unquoted holdings, which is unsurprising because the valuations of quoted companies will have been used as benchmarks for the latter (Baronsmead claims to run the only "hybrid" VCTs with a mix of quoted and unquoted holdings).

There was 6p in dividends paid last year, which equates to a yield of 7.1% (tax-free, remember). A number of good realisations took place last year, including listed company Ideagen. That translates to a 13x return on initial investment.

But the chair of BVT, Sarah Fromson, warned that returns are likely to be more volatile in future due to the change in VCT investment rules in 2015, which means that managers are having to invest in more immature businesses.

There were few questions from the audience. One issue raised concerned the fees paid by investee companies for directors nominated by the VCT or Gresham House, which seemed to be increasing and are possibly now over £1 million. It was suggested by Baronsmead that having nominated directors on boards assisted with control of the companies.

The author holds shares in both BMD and BVT

VCTs' uncertain prospects

Roger Lawson

Is it a good time to invest in VCTs? I think the jury is still out. We have not yet seen the result of the 2015 changes to the VCT investment rules and it is unclear whether the shift to investment in more early-stage companies will be successful. The valuations of such companies still seem high to me, but it may be some years before we see whether they are justified.

But VCTs are still raising funds, so they must be seeing opportunities to invest in such businesses. There may be a high demand by investors due to the high tax reliefs and good dividend yields offered by VCTs; but we need to be aware of possible changes to the taxation of VCTs due to the "sunset" clause in the legislation.

Former chancellor Kwasi Kwarteng postponed the sunset clause in his autumn mini-Budget, extending tax relief on VCTs beyond April 2025; but there may be problems revising the legislation because of the government's workload. For example, the government has committed to revoking EU-imposed legislation in the UK, but has just added another 1,000 pieces of such legislation to be reviewed, bringing the total number of laws and regulations to be considered and amended or discarded to 3,700.

You can see a report of it on The Association of Investment Companies (AIC) website.

I have substantial VCT holdings, but I have not been adding to them recently, as I do not consider the returns achieved to be good (mainly due to high management costs including the hated performance fees) and I would prefer to see how these issues play out.

The government may have made statements supporting VCTs, but we need definite commitments and no threats to remove their high tax reliefs which is the only thing that makes them good investments.

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PLATFORMS

REX's boost for retail access to share offerings

Cliff Weight

Shareholder rights are central to ShareSoc's campaigning activities. Defending pre-emptive rights and the rights of minority shareholders, and ensuring access for individuals to placings on fair terms are areas where we lobby, represent and campaign for the benefit of ShareSoc members and individual investors more generally.

Primary Bid, in collaboration with the London Stock Exchange, has made huge strides in making IPOs and fund raises more available to retail shareholders. The Treasury is finally putting various initiatives in place following the Hill and Austin reports.

The recent announcement from retail platform REX looks like more good news for individual investors. REX is currently owned and operated by Peel Hunt, which is actively engaged in establishing it as a standalone, independent business to be known as RetailBook. RetailBook is expected to launch in H2 2023.

Hargreaves Lansdown has agreed to partner with and use the REX platform on an exclusive basis for follow-on share offerings by UK listed companies until the end of June 2023. In addition, investment banks Jefferies, Numis and Rothschild & Co have each agreed to collaborate with REX/ RetailBook, with a view to increasing the adoption of the technology in transactions managed or advised on by these key institutions.

Under the collaboration agreements, it is envisaged that the partners will collaborate with and have the right to take up an equity stake in RetailBook alongside Peel Hunt.

Vanguard platform keeps ISAs cheap

Cliff Weight

Robin Powell in the Telegraph has written about the performance of Vanguard funds, highlighting that in general holders have been patient investors and not bought at the top, sold at the bottom or over-traded.

Investing through Vanguard is limited in that you can only buy, hold and sell Vanguard funds, but there are around 85 of these. Against that drawback, Vanguard ISA has annual fees of 0.15% of assets, capped at £375 a year, with no charges to buy and sell funds. And transfers in are free.

Overall, as the table shows, Vanguard fund charges are extremely competitive:

FTSE DEVELOPED WORLD UCITS ETF	0.12% p.a.
FTSE NORTH AMERICA UCITS ETF	0.10% p.a.
S&P 500 UCITS ETF	0.07% p.a.
FTSE 100 UCITS ETF	0.09% p.a.
LifeStrategy funds (mixed asset)	0.22% p.a.

For those who do not want the bother of investing in shares, or do not have the time to monitor a portfolio of shares, then the Vanguard option is attractive.

Click here for more information on the Vanguard platform.

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How do I choose the right platform?

Cliff Weight

ShareSoc's Investing Basics videos have made us think quite a lot about what a new investor should do. If you have suddenly come into money, are new to investing and are wondering what to do with it, then you should seek financial advice (and also watch the ShareSoc investing basics videos).

But if you have saved just a few thousand pounds, or even a few tens of thousands, you won't find a good financial adviser willing to spend their time with you, or not for a sensible fee.

In that case, the best option is a platform. With £5,000 to invest, you need to manage costs carefully, so you might want to look at Dodl, run by ShareSoc Investing Basics sponsor AJ Bell. As the Dodl table below shows, the charges are very favourable:

Investment ISA with...	Monthly subscription?	Annual % charge?	How it works out for a £10,000 investment ISA (monthly / annually)?
Dodl	Nope	0.15% (min £1 per month)	£1.25 / £15
Freetrade	£4.99	Nope	£4.99 / £59.88
Moneybox	£1	0.45%	£4.75 / £57
Nutmeg	Nope	0.45% - 0.75%	£5 / £60
Vanguard	Nope	0.15%	£1.25 / £15
Wombat	£1	0.10%	£1.83 / £22

Point of interest: Interest rates on cash aren't included in this table. Dodl doesn't currently pay interest on cash in your account. If this ever changes, the rate will be shown on the website so you can compare this with other providers' interest rates.

A few things to note

1. Charges and subscriptions based on those published on all providers' websites on 5 August 2022. Charges can and do change so it's best to check websites for the latest figures. 2. Example of annual and monthly charges based on an investment ISA portfolio value of £10,000. 3. Investment charges, e.g. FX charges for shares and ongoing charges for funds aren't included in this table, just the provider's account charges. 4. Freetrade's charge is based on their standard plan. Vanguard's charge is per person rather than per account. And for the purposes of this comparison table, an average of Nutmeg's annual charge has been used (0.60%). 5. Because charges (with the exception of Freetrade) are based on the value of your investments, monthly charges will change as investment values change 6. Though they're important to consider charges aren't everything - make sure the provider you go with offers exactly the products and services you need. 7. Last but not least - remember, Dodl doesn't do advice, just clear info!

By way of comparison, Hargreaves charges 0.45% (that's £22.50 a year on £5,000) and interactive investor charges a fixed fee of £120 (£9.99 per month) for ISA accounts. The fixed fee approach is best for those with larger pots of money to invest, but expensive for smaller amounts.

Note that the above table does not include transaction and fund fees. Readers should check those before choosing an investment platform, taking into consideration the number of transactions they are likely to make and whether they wish to invest in funds.

The lang cat has also produced a useful Guide to ISA Investing. The data is from 2021/2 so may need a refresh, but the cost heatmap is a useful reference point.

Postscript: interactive investor has just introduced a low cost fixed fee charge of £5 a month, for those with less than £30,000 invested.

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COMPANY INSIGHTS

Orchard Funding Group Plc (ORCH): trading significantly below book price

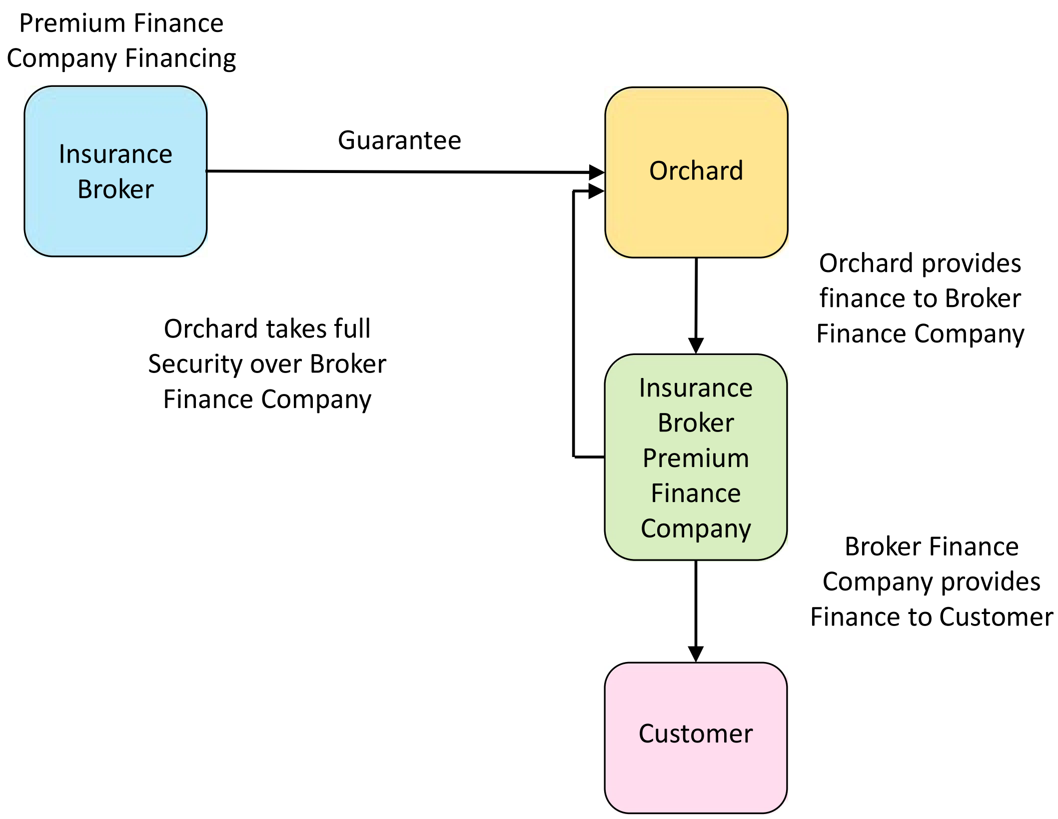
Stephen Gamble

ShareSoc readers will have purchased car insurance or some type of annual insurance policy, and will have been offered the option of paying a little bit more to pay monthly.

But the insurer prefers to receive one annual payment upfront, even for its monthly policies – because it can then invest that money to earn a return.

To bridge this gap, an insurance premium finance company such as Orchard Funding Group effectively lends money to the insured customer to pay the insurer upfront, to be repaid from the monthly instalments.

An example of how this works in practice is shown in the diagram below. Orchard lends the insurance policy cost to a broker premium finance company which provides finance to the customer. The customer makes payments plus interest to the insurance broker premium finance company, which in turn pays to the premium finance company (Orchard Funding Group in this example). The insurance broker owns the broker premium finance company.



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Orchard Funding Group Plc (ORCH) ...continued

It is a very safe form of lending for the insurance premium finance company, for these reasons:

a) If the customer defaults on monthly payments, insurance is withdrawn
b) The insurance broker guarantees the payments it receives
c) Customers are motivated to pay their car insurance as it is a legal requirement
d) It enjoys a security interest over the insurance broker premium finance company

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Orchard Funding group has experienced very low default rates: just 0.26% of total lending over the last four years.

Business description

Orchard Funding makes short term loans (10 months or less) to finance insurance premium policies.

The company has four funding sources: equity capital, retained earnings, borrowings from Toyota Financial Services and NatWest, and recently, a bond issue. Net interest margin is 10% (borrowing at 4.5% and lending at 14.5%).

Orchard Funding lends to many small insurance brokers: so no customer comprises a significant portion of the business.

UK insurance premium finance market

Orchard Funding is a small player in a duopolistic market dominated by:

1 - Premium Credit Ltd, a private company doing £3.52 billion in loans per year, or more than 50% of the market for premium finance. In May 2022, it was purchased by US private equity fund GTCR.
2 - Close Brothers Premium Finance, part of Close Brothers Group Plc, a merchant bank listed on FTSE 250. £1.1 billion in loans per year, or >16% of the market.

Orchard Funding, in contrast, lent £70-£80 million, or 1% of the market in 2021, up from £11.5 million or 0.2% in 2015. The company has shown an ability to grow despite the large competitors. Management says that this is because it is able to serve small independent insurance brokers that larger competitors don't want to deal with.

Valuation

Orchard Funding trades on a P/E ratio of <7x, (earnings £1.6 million vs market cap £10.7 million), with a dividend yield of 5.5%, a dividend payout ratio of about 30%, and a price:book of 0.69x.

Almost all of the company's assets would turn to cash in less than a year if it stopped making loans. Therefore, it qualifies as a Ben Graham net-net: in other words its market cap is 2/3 of the value of net current assets minus total liabilities. If it were liquidated, shareholders would make a profit.

Orchard Funding has also developed its own lending software called Lend XP, based on open banking. The company uses this system to underwrite lending to customers, examining up to seven years of customers' bank statements. The software is also licenced to customers, bringing in an additional revenue stream which is growing over time.

Orchard Funding is a controlled company; the CEO and founder Ravi Takhar owns 55%.

The author holds shares in Orchard Funding Group. Stephen Gamble: @realworthstocks, www.realworthstocks.com

PORTFOLIO REVIEWS 2022

1: Cliff Weight

Performance overview

My portfolio numbers for 2022 were:

Everything – all equities, ISAs, SIPPs, OEICS, property, etc	-6%
Cliff's portfolio F – the ones I actively manage. These are mainly small cap and AIM, i.e. growth shares	-29%
My benchmark = FTSE 100	+1%
My new alternative benchmark = NASDAQ	-33% in $, but only -25% in GBP terms, which is the relevant measure.

Core portfolio

My portfolio of investments is mostly conservatively invested. I started investing in 1984 and I have a very diversified portfolio of mainly UK FTSE100 companies that I tend to buy and hold, overseas OIECs and investment trusts. I rarely trade. I sometimes buy some more. My primary focus is on risk management and on preservation of capital.

My investing approach is both top-down and bottom-up. Top-down, I think about asset allocation. How much in cash and how much in each sector? In 2022, I averaged about 7% cash and this returned a tiny amount of interest. Cash in your portfolio is "dry powder", as it allows you to buy in at a lower price if the market declines.

In my core portfolio, I have large positions in BP and Shell and these did well in 2022. I also hold Supermarket Income REIT, which I regarded as a very safe investment with a good yield, but turned out to be more volatile than I expected – it loses value when interest rates go up – and is now 20% below its peak. My new investments have been mainly in plain vanilla Vanguard trackers – Global and US S&P mostly.

In 2022 I generally avoided travel companies, hotels, pubs and retail (with the exception of Tesco). I still don't have any building shares but, following recent declines, I may reinvest in this out-of-favour sector. I do hold some building infrastructure companies as these will be needed in the recovery.

My focus is on shares in companies supplying the basics of life: water, heating, electricity, food, wine, pharmaceuticals, food retailers, food manufacturers, wifi, broadband, etc. I have few tech shares, as I do not really understand them and also because the best companies are US ones and I do not buy shares in overseas companies, preferring to invest overseas via funds and trackers.
Portfolio F

I retired in 2016 and as a new hobby started a 'fun portfolio', which I refer to as Portfolio F. I allocated 5% of my investments to this.

2022 was an awful year for my fun portfolio, and it lost 29% of its value. Portfolio F started at just under 15% of my total investments and is now 12%. Of my total return of -6%, -5% was due to Portfolio F.

However, to be fair, this year's abject performance is on the back of a great historic performance for Portfolio F.

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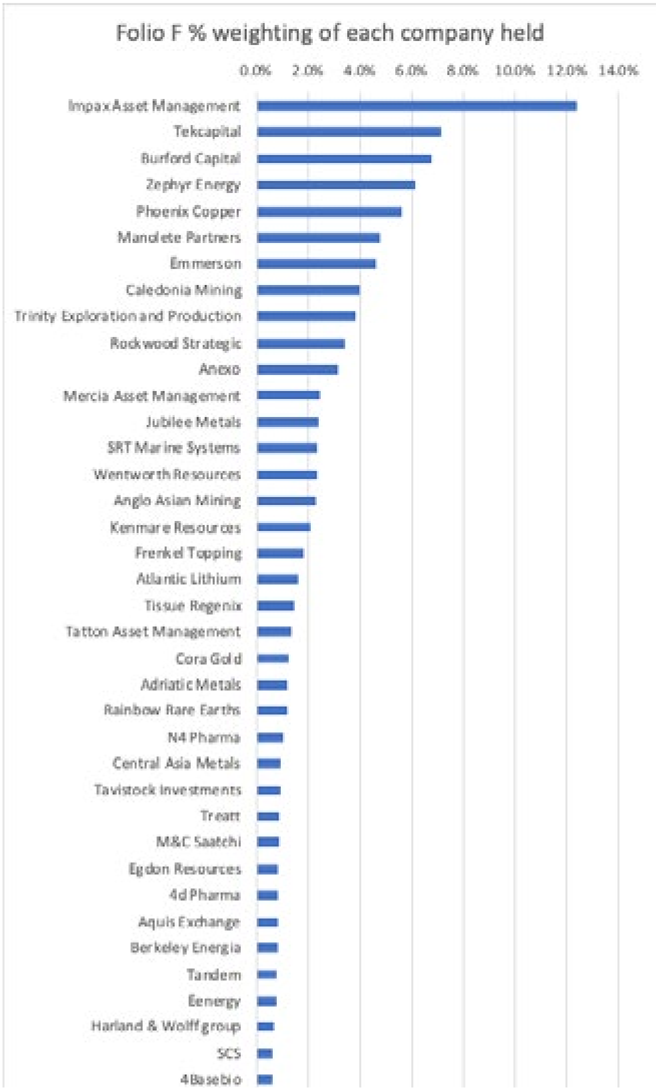
	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
Me	27	34	-24	8	44	27	-29
FTSE100	14	8	-9	8	-14	14	1.0
Me relative	13	26	-15	0	58	13	-30
NASDAQ	8	28	-8	29	43	21	-34

1: Cliff Weight portfolio review ...continued



When I started my fun portfolio, my objective was simple: to do better than the FTSE100. I have achieved this goal, but over time I began to wonder whether it was because of my skill at stock picking, or simply because I was investing in high risk, high beta shares. When I did a comparison with the NASDAQ I concluded it was the latter that was the main driver of my performance. The NASDAQ is not the perfect benchmark for me as I am underweight tech stocks, but it has helped me understand my performance in 2022 and bolstered my morale.

The allocation by company is as follows (as at 31 Dec 2022 – click/tap on the image to see an enlarged version).

Please click here to find out more about holdings, successes and disappointments during 2022.

I did not publish a review of my portfolio in 2021, but here is the link to the 2020 review.

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2: Roger Lawson

Portfolio overview

As I have published in previous years, here is a review of my own stock market portfolio performance for the calendar year 2022. I write this for the education of those new to investing, because I have no doubt that some experienced investors will have done a lot better than me, while some may have done worse.

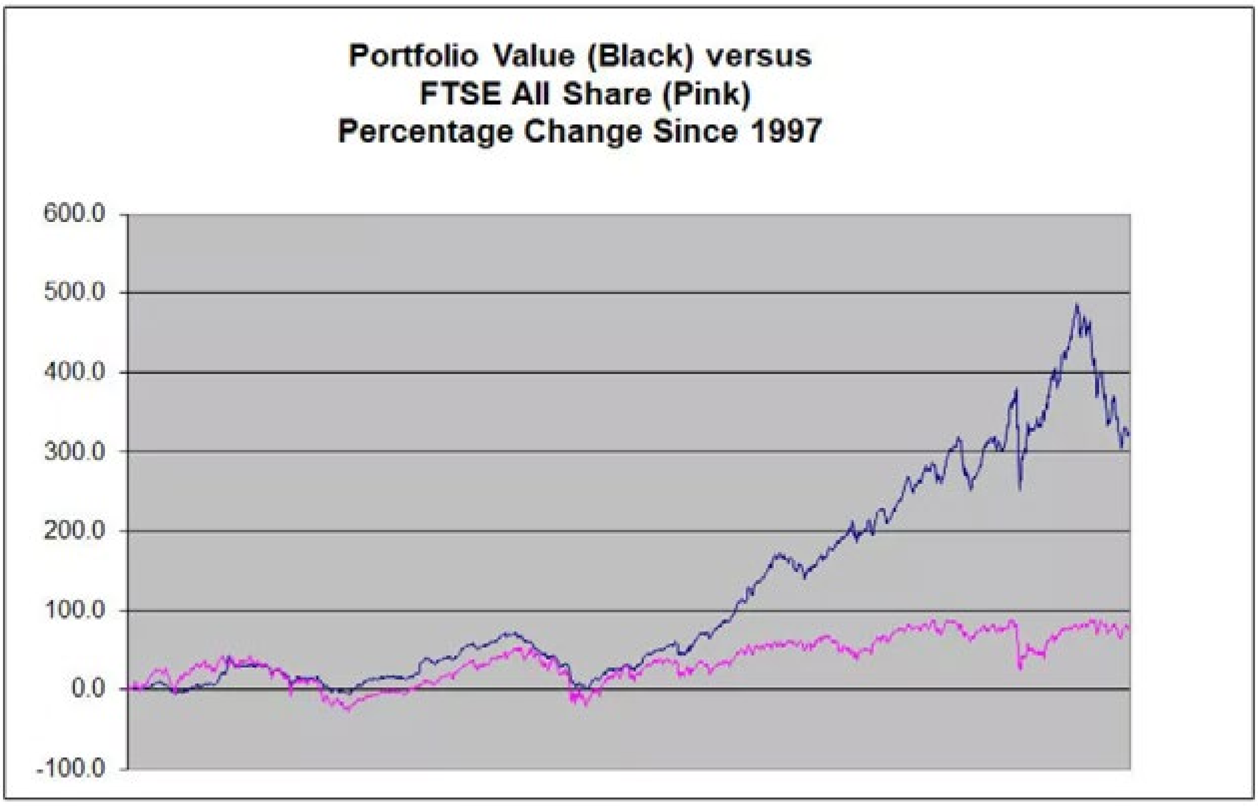
My portfolio is very diversified across FTSE100, FTSE250 and smaller company (including AIM) shares listed in the UK. I also hold a number of UK investment trusts for exposure to overseas markets, and some venture capital trusts (VCTs). Although I have some exposure to AIM shares, they are not the very speculative ones.

I have a relatively large proportion in smaller company and AIM shares, with a strong emphasis on growth technology stocks. This explains the portfolio's very disappointing performance this year.

Here's a summary of my portfolio performance. Total return including dividends was -19.3%, which matches exactly my positive return in the previous year. In other words I managed to completely wipe out the previous years' gains!

This is my worst yearly performance since 2008. The chart below, showing capital returns on our portfolios since 1997 versus the FTSE All-Share, highlights the impact:

2: Roger Lawson portfolio review ...continued



The negative return last year compares with the FTSE All-Share down 3.2%, the FTSE Small Cap down 30.6%, the FTSE AIM-100 down 30.5%, the S&P 500 down 14.2% and the NASDAQ down 27.7%. The FTSE All-Share is dominated by FTSE100 companies – the dinosaurs of the financial world in many cases – of which I hold relatively few.

I sold a significant proportion of the portfolio during the year as prices declined, and moved into more defensive stocks such as big miners and oil companies. This resulted in total dividends rising by 29% over the prior year, so at least income is keeping up with inflation!

I also purchased more holdings in property trusts and REITs, which proved to be a mistake as they fell substantially – although that contributed to the increase in dividends received. Enthusiasm for warehouses and self-storage companies disappeared during the year. SEGRO, Urban Logistics, Safestore and TR Property Trust were big fallers, but I continued to hold them.

VCTs tend not to move with the market in most years but this year was different. They also fell substantially because their AIM holdings fell and unlisted holdings were revalued down to match, but again dividends held up.

Smaller technology stocks were a very mixed bunch –DotDigital fell substantially as did GB Group after a possible bid was rejected. Bids for EMIS and Ideagen helped to offset the otherwise broad-based losses in the portfolios, mainly in my small cap holdings.

Large technology funds such as Polar Capital Technology and Scottish Mortgage were big fallers. My investment trust and fund holdings were all affected by the depressed US markets.

However, I am not giving up on small cap or technology stocks – I'm just buying a few at opportune moments until market prejudice changes.

What does the future hold? This is what I said a year ago: "Inflation is rising as governments pump money into the economy in response to the epidemic, while interest rates are still at record low levels. It's certainly no time to be holding bonds or other fixed interest stocks. It's a return to the good old days when you could buy a house that was rapidly inflating in price, when the mortgage cost was much lower than the inflation gain."

And so it turned out, except that we have subsequently had an abrupt U-turn in government and Bank of England policy to try and tackle rampant inflation. This has dampened the housing market and house prices are forecast to fall substantially this year.

Interest rates may still rise further until we near the next general election when economic stimulus and more QE may look attractive, but I have no urge to move into bonds in a big way until the government stops trying to manipulate financial markets.

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3: Mark Bentley

Portfolio overview

Following on from my reviews in 2020 and 2021, I have now conducted a similar exercise for 2022. See my 2020 review for an explanation of my investment objectives, strategy, "asset types" and investment accounts.

Whilst my complete portfolio has produced a total return of -7%, it is notable that the aggregate historic income yield on my ISA has risen to 6.4% and on my SIPP to 5.6%. These figures exclude cash held in those accounts.

Although both accounts are income focused, they do include some growth stocks that have lower or no yields, so I find this level remarkable. It does, however, reflect rising central bank interest rates and inflation, which cause equity investors to demand higher dividend yields.

I don't expect this level of yield to remain so high for very long, unless inflation proves very stubborn and central banks raise rates significantly above current expectations. Neither do I expect a significant diminution of dividend payments. Dividend levels may reduce for some holdings, but those of other holdings will likely increase to (at least) compensate. Therefore, absent the macro risks that I mention, share prices should rise to bring yields back down to more normal levels.

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Note that I started work on this review at the end of 2022 and, as it has taken me some time to complete, some of the quoted yields and P/Es and other quoted ratios are now out of date. Readers should check all quoted figures (which may contain errors anyway) before relying on them in any way.

Asset allocation

Figure 1 below shows how my asset allocation has changed between the end of 2021 and the end of 2022.

To explain the non-obvious asset types:

- "High yield" are equities yielding in excess of 3%, that don't fall within other asset types
- "International" are mainly investment trusts with a global focus
- "Other" are equities attractive to me that don't fall into any of the other asset types

I have continued to increase my allocation to fixed income securities as interest rates have risen, making the asset class more attractive especially from my point of view as an income-seeking investor. The chief risk here is how high central banks will have to set rates before inflation is "tamed". Bonds are only attractive if they pay more interest than the erosion of principal by inflation.

The natural resources asset class has performed relatively well in 2022. I continue to find the asset class attractive, with an element of inflation protection built in (as long as investee companies' operating costs don't rise faster than the price of the commodity they are producing). So I have not been inclined to reduce my holdings as they've gained relative to other asset classes.

My "Other" allocation has reduced as I've found more attractive investments among existing asset classes. And my cash buffer has declined further as I've been adding to my investments as the market has declined. I've reduced my target cash level from 15% to 10%, so am looking to release some more cash when opportunities to do so arise, as my year-end cash level is well below my target.

Results breakdown

Now let's looks at the comparative returns of each asset class for 2021 and 2022, in Figure 2.

Class \ Account	SIPP	ISA	Overall
Fixed Interest	2.9%	6.4%	3.8%
High Yield	26.8%	24.5%	26.2%
Real Estate	18.8%	14.8%	17.8%
Natural Resources	14.3%	16.9%	14.9%
International	22.3%	21.4%	22.1%
Other	10.3%	2.0%	8.3%
Cash	4.5%	13.9%	6.8%
Total	100.0%	100.0%	100.0%

Asset Allocation 2021

Class \ Account	SIPP	ISA	Overall
Fixed Interest	5.0%	9.1%	6.0%
High Yield	26.8%	27.4%	27.0%
Real Estate	16.2%	17.6%	16.5%
Natural Resources	17.2%	17.3%	17.2%
International	23.8%	20.3%	23.0%
Other	7.0%	1.7%	5.8%
Cash	3.9%	6.5%	4.5%
Total	100.0%	100.0%	100.0%

Asset Allocation 2022

Figure 1 – Asset Allocation

3: Mark Bentley portfolio review ...continued

Returns by Asset Class 2021

Class \ Account	SIPP	ISA	Overall
Fixed Interest	2.4%	8.5%	4.7%
High Yield	22.3%	30.0%	23.6%
Real Estate	31.1%	30.0%	32.3%
Natural Resources	13.6%	30.9%	19.0%
International	16.2%	21.4%	17.1%
Other	14.5%	11.3%	13.4%
Cash	0.0%	0.0%	0.0%
Total	19.8%	25.3%	21.1%

Returns by Asset Class 2022

Class \ Account	SIPP	ISA	Overall
Fixed Interest	-3.3%	-6.0%	-4.4%
High Yield	-5.6%	-1.0%	-4.4%
Real Estate	-23.9%	-18.1%	-23.5%
Natural Resources	14.6%	17.7%	15.5%
International	-9.8%	-12.2%	-10.3%
Other	-12.0%	-10.7%	-11.4%
Cash	0.0%	0.0%	0.0%
Total	-8.1%	-4.4%	-7.0%

Figure 2 – Total Return Breakdown

These figures compare to a FTSE All-Share total return for 2022 of +0.3%, which I use as my benchmark. So, after two years of outperformance, it is disappointing to underperform in 2022 – but it could have been worse: the FTSE All-Share is dominated by FTSE100 stocks and the FTSE100 is one of very few global indices to have gained in 2022. The FTSE250 midcap index, by comparison, produced a -17.4% total return in 2022. But changing my benchmark would be cheating!

Once again, having a diverse asset allocation came to my rescue. In 2021 real estate was the best-performing sector, but it has been disastrous in 2022 (see my thoughts on the sector and its prospects here). It is notable that for three years in a row, natural resources has produced good returns and is the only sector producing a positive return this year. Whilst the sad Ukraine conflict has damaged most sectors, natural resources have benefited. I don't expect this sectoral outperformance to continue forever but, equally, I can't predict when it will end. I still find stocks in the sector that appear cheap to me, so I'm not inclined to sell.

I know that quite a few investors avoid the sector, finding it risky, but these returns demonstrate in my opinion that it's worth putting the effort in to learn about the sector. Whilst the junior end of the sector contains many spivs and charlatans, separating the wheat from the chaff is easier at the larger, revenue- and profit-generating end of the spectrum. I also rely on the expertise of others by investing in natural resource-focused investment trusts.

See the 2020 article for an explanation of how I calculated these returns using SharePad's features, which use the "Modified Dietz" method. See @MiserlyInvestor's excellent thread for an explanation of returns calculation.

For an indepth examination of the portfolio and how it fared in 2022, please click here.

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CAPITAL GAINS TAX CHANGES

CGT needs to be simplified

ShareSoc director Cliff Weight has written an opinion piece, which the FT published on 11 January.

Cliff argues that capital gains tax (CGT) is hideously complex and needs to be simplified. This is even more urgent as April's reduction of the CGT threshold from £12,300 to £6,000 and then £3,000 will draw many more into the net of those having to complete CGT returns.

For long-term shareholders of companies where there have been rights issues, consolidations, capital repayments, demergers and splits, CGT returns require detailed record-keeping.The article highlights this example:

> *A UK investor – let's call her Sue – inherited some shares in aerospace group Flight Refuelling when her father died in 1985. Later, in 2004, her mother passed away and she inherited more stock in the company, which had been renamed Cobham in 1994.*
>
> *When the group was taken over in the 2019-20 tax year, she needed to work out her capital gains and the tax she owed. A straightforward exercise? Anything but.*
>
> *After rights issues and consolidations during her period of ownership, all of which affect the calculation of CGT, Sue found herself ensnared in complexity.*
>
> *Hers is not an uncommon experience for private investors engaging with the CGT regime. Onerous, baffling and unfit for purpose, the rules are in desperate need of updating and reform.*

Cliff also highlights another problem, which is the base cost. For assets owned before 1982, investors must take the market value at 31 March 1982 as the "base year" when calculating CGT. Keeping records that go that far back is challenging – and particularly difficult for executors of the estates of those who have died.

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Parliament responds to Lord Lee's CGT question

Cliff Weight

Baroness Penn, Treasury, has provided an answer to the written parliamentary question (HL3755) from Lord Lee, Patron of ShareSoc.

Lord Lee's question, tabled on 24 November 2022, read as follows:

To ask His Majesty's Government what estimate they have made of (1) the number of additional taxpayers who will have to complete capital gains tax returns as a result of the proposed reduction in threshold, (2) the amount of additional tax revenue that is likely to be raised, and (3) the extra cost of administration that will be required as a result of those changes.

Baroness Penn responded on 8 December as follows:

A measure was announced at Autumn Statement 2022 to reduce the annual exempt amount (AEA) for capital gains tax (CGT) to £6,000 for tax year 2023 to 2024, with a further reduction to £3,000 for tax year 2024 to 2025 and subsequent tax years.

In 2024 to 2025, 260,000 individuals and trusts are estimated to be brought into the scope of CGT as a result of the measure.

However, some of those taxpayers brought into the scope of CGT would already have been expected to complete the capital gains tax supplementary pages within Self Assessment for the following reasons:

- To report a loss;
- To claim a relief;
- Where the total amount or value of the consideration for all 'chargeable disposals' of assets made by the person in the year exceeds four times the AEA before April 2023 (£50,000 from April 2023)

The amount of additional tax revenue that is expected to be raised as a result of the measure is set out in the table below:

Tax Year	2022 to 2023	2023 to 2024	2024 to 2025	2025 to 2026	2026 to 2027	2027 to 2028
Exchequer impact (£million)	0	+25	+275	+425	+435	+440

These figures are set out in table 5.1 of Autumn Statement 2022 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2022 which is available on the gov.uk website.

A cost in the region of £100,000 will be incurred in delivering the relevant IT changes to support safe implementation of this measure. HMRC also expects to receive additional contact from customers who require support as a result of this change.

Parliament responds to Lord Lee's CGT question ...continued

ShareSoc's view:
The answer seems to raise even more questions and fails to address the second question about the amount of tax revenue likely to be raised by the additional 260,000 taxpayers (we estimate this at £156 million, but it could be less if behavioural responses reduce the amounts raised). It also fails to provide an adequate answer to the third question around the extra cost of administration that will be required for the additional 260,000 taxpayers (who we estimate will be paying an average of an extra £600 per head).

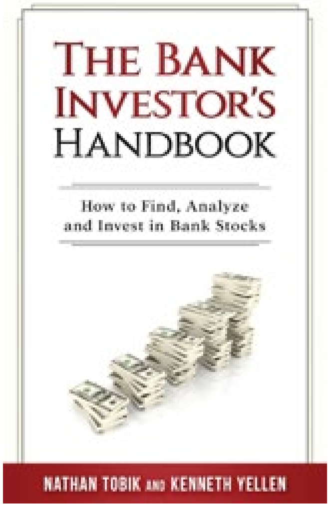
ShareSoc has written to Baroness Penn, asking to meet to discuss our ideas.

BOOK REVIEWS

The Bank Investor's Handbook

Stephen Gamble

You probably use a bank or its services several times a week, but do you know how it operates as a business? Are you curious about investing in banks but don't know where to start, or feel fear of the unknown, perceiving them as risky?



If so, you might want to read *The Bank Investor's Handbook* (2017), by Nate Tobik and Kenneth Yellen. This introduction to investing in banks says that it aims to do two things:

1 - Give you the basic tools to become a successful bank investor
2 - Help you to learn enough about bank investing to be able to decide if they are something you want to invest in or not.

The authors adopt a humourous tone throughout, and don't assume that readers have much prior knowledge – it's pitched at people who know what a company income statement and balance sheet is, but might not know anything about financial stocks.

The authors are US-based – Nate Tobik has been investing in banks for many years, and founded a website analysing publicly available bank data, and Kenneth Yellen is a consultant and bank investor. They write describing US banks, so the book will be particularly useful for the non-US investor seeking to understand the US banking industry from the outside. However, a fair amount of the material is not specific to the US banking industry, so if you want to understand how banks work in general, it is a useful introduction.

The book is structured in two main sections: the first deals with how banks work, how to understand them and how to think about risk, and the second with how to apply this information to investing in banks.

It opens by describing why banks are needed in society and the different types and sizes of banks from small to large, and then makes a case for investing in banks. It makes the interesting point that since banks are lenders to small businesses, by investing in banks you can gain exposure to the growth of these small businesses which are not otherwise available for investment through the public markets, e.g. service businesses, or banks focused on specific sectors of the economy.

The third chapter explains how banks operate, using a very simplified fictional bank, to explain the business model in simple terms. The fourth chapter switches gears to talk about the types of risks of banks that most people think of first, having lived through the 2007-8 financial crisis: leverage, or debt of banks, and also the perceived complexity of their balance sheets. It also delves into various ways to value banks and finally investment strategies.

Chapter 7 explains how the US banking industry is structured, giving a good summary of bank operating companies and holding companies, mutual conversions, etc, and why it looks the way it does today. Like the UK, there are four big banks and in the US they have 60% of the deposit market. But unlike the UK, there are 6,000 smaller US banks competing for the remaining 40% of the deposit market – contrasting with the much more consolidated UK banking market: 344 banks and 52 building societies.

The second section is about applying the knowledge to make better investment decisions. M&A is a continuing trend in the sector, having reduced from about 15,000 in the 1980s to about 6,000 now; of these, about 1,000 are listed in the stock market. There is a detailed discussion on how to find potential M&A targets and undervalued banks, and a summary of how to screen for and find bank investment ideas.

Finally, the authors give an overview of the main things to look for when searching for bank investments, in order of importance, from asset quality to income and expenses - summarising the learnings from the book in actionable steps. The order of importance is helpful: I know from personal experience that the more quickly poor investment ideas can be eliminated, the more time can be saved to look at the good ones.

In summary, the book largely delivers on its promise to give readers the basic tools to understand banks, and decide if they wish to invest in them or not. I would recommend it as a good introduction to the sector.

The Bank Investors Handbook is available on Amazon and various other bookstores.

Stephen Gamble: @realworthstocks | realworthstocks.com

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SIGNET NEWS

SIGnet launches Tyne-Tees investor group

Stephen Gamble and Mark Bentley, co-conveners for the SIGnet Tyne-Tees group

SIGnet is excited to announce the launch of a new group, for members in the Tyne-Tees area. Currently, the nearest group is in Leeds. SIGnet is offering this new Tyne-Tees group for members in the north-east.

SIGnet groups are for discussion about shares and investing. Members are welcome regardless of their investing experience or investment style. SIGnet groups offer an opportunity to meet, socialise and learn from fellow investors. We plan to meet regularly, mostly in-person with occasional online meetings, depending on the preferences of group members.

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The benefits of being part of a group include:

- Learning from the experience of other investors, and sharing your own
- Hearing and debating new stock, fund or trust ideas
- Discussing how to be a better investor
- Improving your investing network, making friends with other investors
- Having some fun!

If you are interested in joining the new group, please contact ShareSoc.

SIGnet is calling!

Ray Williams, ShareSoc director responsible for SIGnet

If you belong to ShareSoc you are not a run of the mill private investor. You have the curiosity and insight to see that ShareSoc provides vital support, not just in its campaigning against injustices, but also in providing company meetings, educational material and information to help you make your investing decisions.

You may also recognise that investing can be a lonely business, working in isolation without the resources available to professionals or access to colleagues with whom to discuss investment ideas.

If ShareSoc has given you a way to improve your investment decisions, then SIGnet can help you further along that path.

SIGnet is a national network of investor groups who meet to exchange ideas and practices and to enjoy the pleasure of networking with others who share the same interest in investing.

SIGnet was started in 1998 when its founder, John Lander, wrote to the Investor's Chronicle with a letter for publication. He was probably expecting a trickle of responses in the Chronicle, if he was lucky, but instead he got a very large response indeed, and SIGnet quickly became a national network of investor groups.

Every group was free to focus on investing in the way that interested that group, while benefiting from the support of a small central organisation.

Importantly, SIGnet has developed a format which allows every person in the group to participate and benefit. This is one reason why SIGnet is still in existence and growing a quarter of a century later.

Regrettably, I will shortly step down from my role as director of SIGnet due to changed family circumstances, so that important role will need to be filled.

SIGnet is calling! ...continued

Being the SIGnet director on the ShareSoc board is a huge opportunity to make a difference, and can provide enormous personal satisfaction. SIGnet is small enough to allow changes to be made rapidly, with results coming equally rapidly. The role is supported by an enthusiastic team who work hard to see SIGnet grow and prosper. SIGnet has the resources of ShareSoc behind it and there is a lot of room for it to expand.

ShareSoc members are invited to nominate themselves for election to the role of SIGnet director. Please send nominations with contact details to Sandra Falvey, office manager, at Sandra.falvey@sharesoc.org.

Nominations will be accepted until 5pm on Friday 7 April and will be followed by hustings and a vote before 30 April. Appointment is subject to the agreement of the ShareSoc board.

Details of the roles and responsibilities of the SIGnet director are available. You will also find the mercifully few rules that we live by in SIGnet on our website.

If you'd like to know more, feel free to write to me at ray.williams@sharesoc.org or ring me on 07722 138245 for more information and reasons why SIGnet can do a lot for you.

INVESTOR EDUCATION

ShareSoc Investing Basics videos update

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The ShareSoc Investing Basics Videos were successfully launched on 26 October at the London Stock Exchange and reported by our media partner This is Money.

To maximise the audience reach, ensuring the videos are seen by as many investors as possible, we continue to fundraise. This will support marketing efforts and social media promotion. Our current sponsors are interactive investor, AJ Bell, IG Group and Aquis.

We are also seeking distributors who will be able to distribute and disseminate the videos.

There is a long list of potential sponsors and distributors whom we have contacted or plan to contact. Many of these are platforms and brokers. Some are wealth managers. Others such as Lloyds, NatWest and Aviva are helping schools with financial education by providing materials and lesson plans for teachers to use. Better Finance has agreed to help distribute them in Continental Europe and Eire (see next page).

We believe our videos have a valuable place in schools. We are also talking to organisations such as Young Enterprise, CISI, TISA, FLIC (the FT Financial Literacy Campaign) and GoHenry.

If you would like to assist in distributing the videos, please contact us at info@sharesoc.org. We also encourage all of our members to share the videos with their friends and family - simply copy and paste this link: www.investingbasics.org

Better Finance publishes ShareSoc Investing Basics videos

Better Finance is a pan-European organisation that aims to empower consumers in the field of finance. It works towards promoting financial literacy, ensuring consumers are well-placed to make informed financial decisions, advocating for fair and transparent financial practices, and campaigning for better consumer protection.

ShareSoc is a member of Better Finance and attends many of its meetings and conferences. ShareSoc also benefits from the policy papers that Better Finance produces, which we can share with the UK government and regulators. Mark Northway is our Better Finance representative and is an observer on their Board.

BF BETTER FINANCE

We are working together to maximise the impact of the ShareSoc Investing Basics Videos throughout Europe. Better Finance has reviewed the videos and endorsed them, and has now made the videos available through its YouTube channel.

We aim to identify ways for each of the 27 EU countries to use the videos. Those readers who have watched the videos will know they are in English, but they can also be subtitled in other languages or dubbed if necessary.

SHARESOC MATTERS

Jema Arnold appointed as a director of ShareSoc

We are delighted to announce that Jema Arnold has been appointed as non-executive director. Jema Arnold qualified as a chartered accountant at Price Waterhouse, then specialised in financial recruitment to creative and consumer-facing businesses at organisations including Robert Walters, PageGroup and Korn Ferry. She is an active investor who is passionate about financial empowerment and keen to encourage wider interest in and knowledge of investing.

Jema said: “ShareSoc provides essential information, networking, education and lobbying functions for private investors, and I am delighted to join as a director to make my contribution toward this important work.”

Jema started her investment journey in 1983, but after a 17-year break recently joined ShareSoc and SIGnet in order to broaden her investing knowledge. She is already actively involved in two SIGnet investor groups and is known to many members.

We are very proud to welcome Jema as a director. She increases the diversity of experience and thinking within the Board at a time when ShareSoc is seeking to widen its appeal to a greater diversity of investors.

Calling all ShareSoc members!

Amanda McTomney, general manager, ShareSoc

As the ShareSoc community grows, we continue to look for ways to connect and engage with our members. We want to hear about your experiences as investors, your insights into the market, and your opinions on issues affecting shareholders.

We welcome article submissions for our newsletter and our blog. Whether you’re an experienced writer or just starting out, we encourage you to share your thoughts and ideas with us. Articles can cover a wide range of topics, including company analysis, investing strategies, market trends, or even book reviews.

By submitting an article, you not only have the opportunity to showcase your expertise and share your views with our community, but also to contribute to the wider conversation on investing and the stock market.

Our newsletter and blog are read by thousands of investors and can help you build your profile and establish your credibility as a thought leader in the industry.

If you attend an AGM, please submit a report. Our AGM report library is a unique and valuable resource but only works if members share their experiences.

Simply email your article to info@sharesoc.org and we will review it for publication.

We look forward to reading your submissions and hearing your perspectives. Thank you for being a valued member of the ShareSoc community!

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Events update

Amanda McTomney

Following the success of the December physical event, the next meet-the-company seminar will take place in London on 29 March, with presentations from Time Finance (TIME), SDI Group (SDI), abrdn Private Equity Opportunities Trust (APEO) and Central Asia Metals (CAML).

This is a fantastic opportunity to see presentations from the company representatives and to network with fellow investors over a buffet and glass of wine. Click here for more information or to register.

Arrangements are being made for a further meet-the-company in London towards the end of April. Details will be available very shortly, so please keep your eye on the upcoming events section of the website. We will also look to revisit the regional seminars, previously held in Manchester and Birmingham, so that members outside of London also have access to in-person company presentations.

In addition, ShareSoc and SIGnet are preparing to exhibit again at the Master Investor show on Saturday 15 April at the Business Design Centre, London. If you haven't done so already, please click here to register, using discount code SHARESOC for free tickets. If you are visiting, please do pop by the ShareSoc /SIGnet stand and say hello.

Company webinars continue to be a key offering, allowing members across the whole of the UK to attend presentations and have the opportunity to ask questions of company representatives. If for any reason you are unable to watch a webinar live, you can always submit a question in advance to info@sharesoc.org and/or watch the recordings on our YouTube channel.

We are always keen to showcase interesting companies. Many thanks to those members who provide suggestions within the webinar and seminar feedback forms, which we review and act upon.

UPCOMING EVENTS

22/03/23 - SHARESOC WEBINAR WITH GALLIFORD TRY
Registration: https://bit.ly/3m5JH8J

28/03/23 - VCTS: AN ESSENTIAL PART OF YOUR INVESTMENT PORTFOLIO
Registration: https://bit.ly/3JaVzxV

28/03/23 - SHARESOC & YELLOWSTONE WEBINAR WITH LLOYDS BANKING GROUP
Registration: https://bit.ly/3YLXMWm

29/03/23 - SHARESOC GROWTH COMPANY LIVE SEMINAR – LONDON
Featuring: Time Finance plc (TIME), SDI Group plc (SDI), abrdn Private Equity Opportunities Trust (APEO), Central Asia Metals PLC (CAML)
Registration: https://bit.ly/3K6f4tz

22/05/23 - SHARESOC & YELLOWSTONE WEBINAR WITH SAINSBURY'S
Registration: opening soon

PARTNER EVENTS

21/03/23 - SHARES INVESTOR WEBINAR
Registration: http://bit.ly/3TbNIVj

15/04/23 - MASTER INVESTOR SHOW
Registration: https://bit.ly/3FeaRRm

If you don't do so already, please subscribe to the weekly events email, which provides details of ShareSoc and third party events, and follow ShareSoc on Twitter, LinkedIn, Facebook and Instagram.

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News and social media

Join the discussion!

The ShareSoc home page (www.sharesoc.org) contains links to our Twitter, Facebook, Instagram and LinkedIn pages - see the bottom left hand corner of that page. This makes it easy to sign up and follow the news or add comments.

Support

ShareSoc with a donation

Are you finding your ShareSoc membership of value? If so, please consider donating to help us continue to support individual shareholders. Go to this page for more information

Protection

of your personal data

Sometimes ShareSoc sends emails that promote third party events or offerings, but we never share your personal data with other companies. If you do not wish to receive promotional emails, do let us know.

Publication and contact information

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Address changes

Please notify ShareSoc's Membership Secretary of any change of postal or email addresses (do that using the Contact page on our main web site).

Not that we write to people usually, but if an email address stops working, then we do send a letter to you. Paid subscription reminders may also be sent by post, so make sure your details are up to date!

ShareSoc

UK Individual Shareholders Society

Visit www.sharesoc.org for more