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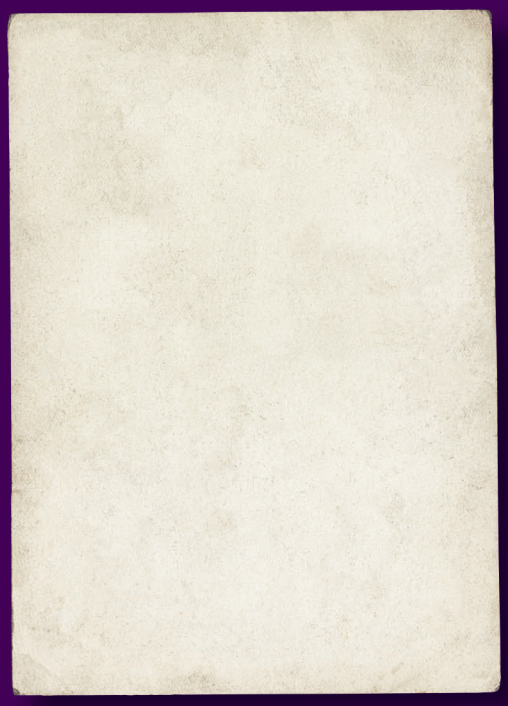

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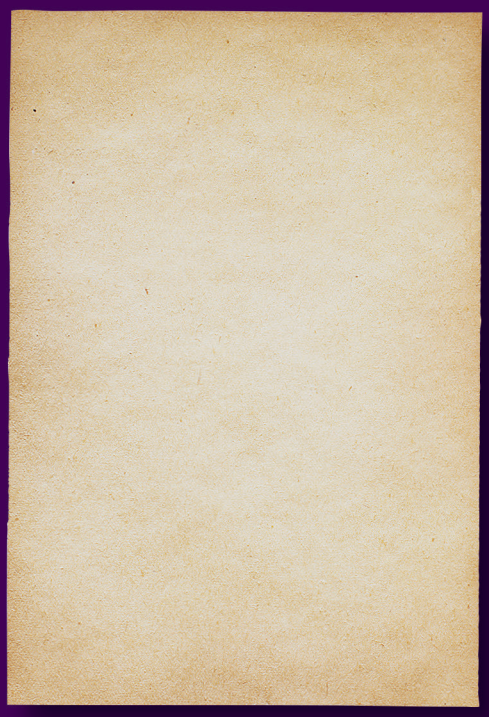

Hamlet



Beethoven's 5th.

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UK trade deals: damp squibs or growth drivers?



Trade deals are invariably presented in glowing terms by their signatories – as a win-win, a new era or a golden opportunity – with big round numbers thrown in to emphasise their value. But will the government's hattrick of deals with the US, India and the EU boost the economy or leave a bitter taste?

The government's rush to seal deals is in part an attempt to mitigate US President Donald Trump's decision to tangle the world in tariff tape, but mostly they stem from its promise to deliver growth. The deals, and future agreements planned with the Gulf states, could potentially positively influence official UK growth projections, fiscal headrooms and revenues.

However, the agreements as they stand are limited in scope, contain controversial and politically sensitive aspects and make concessions that will undo some of the purported gains. Much of the detail remains unclear, with parts of the agreements based on intention rather than immediate action.

For some economists, the deal with the US in particular was a damp squib. It removed some of the more punitive tariffs, such as the 25 per cent levy on cars, aluminium and steel, which matters as cars are Britain's biggest goods export to the US. Disappointingly, however, the lower rate only applies to the first 100,000 cars shipped, capping growth in this market. The outcome is still a 10 per cent tariff on almost all British goods exports while the UK has scrapped some barriers to US exports, including for beef. The White House (naturally) has presented the deal as a "golden age of new opportunity for US exporters" with "billions of dollars of increased market access for American exports, especially in agriculture".

Ultimately the retention of the 10 per cent tariff rate means the deal signed with the US is unlikely to make much difference to UK growth: we are still worse off than before "liberation day". A reminder of this came this week in a trading update from Diageo in which it noted that it faces a $150mn (£112mn) annual tariff bill on its UK and European exports to the US. Avon Technologies faces a potential bill of $800,000, one consequence of which could be that it chooses to relocate more production to the US from the UK.

The 10 per cent tariff however pales in comparison to India's highly protectionist levies of up to 379 per cent. Even so, Britain shipped more than £17bn of goods and services to India last year (and imported £25.5bn in turn). The Indian economy is expected to become the world's third largest by 2028 and the Department for Business and Trade estimates that UK exports to India will be £15.7bn a year higher by 2040 than if the UK's agreement had not been signed. One concession was that Indian workers located in the UK will be exempt from national insurance taxes for the first three years. HSBC's verdict is that ultimately the deal's contribution to UK GDP will be modest at around 0.1 per cent. The main winners will be automotives, alcoholic beverages, medical devices and aerospace products.

Far more politically significant is the accord with the EU, the UK's major trading partner accounting for 41 per cent of all exports. But they could be higher – studies show that leaving the EU has hurt the economy.

The Centre for European Reform's 'doppelganger' modelling shows UK goods exports are lower by around £13.4bn per quarter as a result of Brexit. Key services have also suffered, the think tank says, in particular financial services and transport services. Brexit defenders argue that UK trade has held up well all things considered and that doppelganger comparisons are flawed.

Keir Starmer says the agreement will generate £9bn of benefits a year by 2040. Notable changes are the removal of barriers to food and agricultural product exports, and enhanced access to the defence market – UK defence firms can compete for contracts financed by the EU's €150bn (£126bn) Security Action for Europe loan fund. Arms already make up a significant proportion of UK exports to the EU and could now expand further. However, food exports only account for 0.4 per cent of UK GDP, says Andrew Wishart at Berenberg, so this will only "undo a small fraction of the damage to UK exports wrought by Brexit".

Still, making it easier to do business with our largest and nearest neighbour makes economic sense, especially for smaller firms who have simply stopped trading with the EU. sBut no deal can be one-sided and Britain will have to pay handsomely for this improved access.

Deutsche Bank estimates the long-run benefits to the economy to be around 0.5 per cent of GDP by 2040. The deals are significant; the growth they will deliver almost certainly less so. ●

ROSIE CARR EDITOR
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Cover illustration: Zhenqing Du

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'Diageo's chief executive Debra Crew views "near-term industry pressure as largely macroeconomic-driven, with continued uncertainty impacting both the timing and pace of recovery"'

MARK ROBINSON, P26

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FTSE 100 - PRICE LAST 30 DAYS



S&P 500 - PRICE LAST 30 DAYS



UK STOCK MARKET

Index	Price	1-week change	3-month change	1-year change	52-week high	52-week low	PE	Dividend yield (%)
FTSE 100	8,781.1	2.1	1.4	4.2	8,908.8	7,544.8	15.9	3.5
FTSE 250	21,096.4	1.6	2.3	1.1	21,786.2	17,392.5	14.6	3.4
FTSE All-Share	4,764.6	2	1.5	3.8	4,803.9	4,074.7	15.8	3.5
FTSE Small Cap	6,869.8	0.8	1.8	0.6	7,012.1	5,813.4	26.8	4.2
FTSE Fledgling	12,302.8	4.2	5.2	3.5	12,302.8	10,730.3	19.5	2.9
FTSE Aim 100	3,572.9	0.5	3.6	-9.2	3,949.6	2,931.4	17	2.3
FTSE Aim All-Share	737.6	0.9	2.9	-8.9	812.3	612.9	27.4	2.2

MAJOR DEVELOPED MARKETS

Index	Price	1-week change	3-month change	1-year change	52-week high	52-week low	PE	Dividend yield (%)
S&P 500	5,940.5	0.9	-2.9	11.9	6,147.4	4,835	25.3	1.2
DJ Industrial Average	42,677.2	1.3	-3.4	7.2	45,073.6	36,611.8	22	1.7
Nasdaq Composite Index	19,142.7	0.7	-4.1	14	20,204.6	14,784	29.5	0.7
Euronext 100	1,603.5	0.9	0.9	3.2	1,619.4	1,336.7	15.7	3.1
France CAC 40	7,942.4	0.9	-2.2	-3.1	8,257.9	6,763.8	18.5	2.8
Germany DAX (TR)	24,036.1	1.7	7.7	28.1	24,082.5	17,024.8	17.7	2.2
Japan Nikkei 225	37,529.5	-1.7	-3	-3.9	42,426.8	30,792.7	16.4	1.9
Hang Seng Index	23,681.5	2.5	4.9	20.6	24,874.4	16,441.4	11.7	2.9
ASX All Ordinaries	8,573.4	0.7	-0.3	5.4	8,882.7	7,343.7	18.9	3.1

KEY EMERGING MARKETS

Index	Price	1-week change	3-month change	1-year change	52-week high	52-week low	PE	Dividend yield (%)
China Shenzhen SE/CSI 300 Index	3,817.1	-0.3	-3.5	14.5	4,450.4	3,108.4	na	na
Nifty 50	22,957.3	-0.3	-5.7	7.5	26,277.4	21,247.1	na	na
Russia RTS	1,107.5	-3.5	-5.5	-8.7	1,267.2	723.2	na	na
Brazil Bovespa Index	124,055.5	0.6	-5.5	-3.8	137,469.3	118,222.6	7.3	4.9
FTSE South Africa	4,376.2	-0.8	-4.9	12.8	4,599.3	3,688.2	na	3.2
Thailand SET	1,345.8	-0.5	-7.4	-1.6	1,506.8	1,273.2	14.4	3.5

CRUDE OIL BRENT CRUDE SPOT



GOLD NYMEX NEAR TERM



UK GOVERNMENT YIELD - 10-YEAR



RISERS AND FALLERS – FTSE ALL-SHARE

Source: FactSet, data correct at 20 May 2025

Risers 1 week	Price (p)	Return (%)
Burberry	1048	26.8
Vanquis Banking	83.9	19.5
Rank	125	18.1
Diploma	4860	14.1
Speedy Hire	24.4	13.5
Greggs	2182	13.1
Vodafone	77.7	12.9
Topps Tiles	38	11.8
Secure Trust Bank	682	11.4
Greencore	210	11.1

Risers 3 months	Price (p)	Return (%)
Secure Trust Bank	682	61.2
Vanquis Banking	83.9	48.2
Rank	125	47.4
Xaar	102	41.7
Bakkavor	202.5	41.6
BAE Systems	1796.5	39.9
Hochschild Mining	270.6	39.5
Gore Street Energy Storage	62.8	34.3
Urban Logistics Reit	154.6	33.5
Airtel Africa	180.7	33.3

Risers 1 year	Price (p)	Return (%)
Metro Bank	120.8	231.9
JPM EM Europe ME&A Securities	248	147
St. James's Place	1092	128.8
Int'l Consolidated Airlines	335.3	90.1
Rolls-Royce	817.6	87.2
On The Beach	260	86.5
Playtech	352.5	81.2
Currys	125.2	74.4
TBC Bank	4470	66.5
Fresnillo	1041	62.8

Fallers 1 week	Price (p)	Return (%)
VPC Specialty Lending	15.1	-50
Petra Diamonds	21.1	-16.3
Auction Technology	481	-13
CAB Payments	44.6	-12.5
Future	667	-11.9
Capricorn Energy	211.5	-11.9
Tullow Oil	13.9	-11.1
Ceres Power	71.2	-10.3
Synthomer	102.4	-9.2
Aston Martin Lagonda	76.3	-9

Fallers 3 months	Price (p)	Return (%)
Mobico	28.5	-59.1
Petrofac	4	-46.1
VPC Specialty Lending	15.1	-45.5
Treatt	257	-37.5
Severfield	31.8	-36.4
Aston Martin Lagonda	76.3	-32.7
Future	667	-32.7
XP Power Ltd.	800	-32
4imprint	3510	-30.6
Spectris	2052	-30.3

Fallers 1 year	Price (p)	Return (%)
John Wood	18.4	-90.2
Videndum	77	-73.4
CAB Payments	44.6	-72.8
Synthomer	102.4	-69.3
Digital 9 Infrastructure	7.9	-67.5
VPC Specialty Lending	15.1	-66.3
THG	26	-64.7
Tullow Oil	13.9	-63.3
Ceres Power	71.2	-62.5
Petrofac	4	-62.1

RISERS AND FALLERS – S&P 500

Risers 1 week	Price ($)	Return (%)
Dollar General	102.2	17.7
Humana	255.3	11.5
Super Micro Computer	42.8	10
Elevance Health	412.5	9.9
Moderna	28	9.8
Steris	250.5	8.4
Dominion Energy	58	7.8
Cigna	325	7.7
Gilead Sciences	109.1	7.6
Enphase Energy	49	7.5

Risers 3 months	Price ($)	Return (%)
NRG Energy	159.7	43.8
Axon Enterprise	742.8	37.1
Dollar General	102.2	34.2
Mosaic Company	35.5	33.5
Huntington Ingalls Industries	228	28.2
GE Vernova	450	25.1
Amphenol	86.3	24.4
Leidos	160.3	23.3
Monster Beverage	63	23
Quanta Services	345	22.7

Risers 1 year	Price ($)	Return (%)
Palantir Technologies	125.6	480.9
GE Vernova	450	179.6
Axon Enterprise	742.8	154.3
Texas Pacific Land	1370.7	122.1
Tesla	343.8	96.5
Howmet Aerospace	165.1	96.4
NRG Energy	159.7	96
Tapestry	82.5	94.3
Netflix	1192	86
DoorDash	205.18	80

Fallers 1 week	Price ($)	Return (%)
Fiserv	165.9	-13.2
First Solar	167.2	-12.7
AES	11.2	-10.4
United Airlines	76.3	-7.6
Builders FirstSource	114.6	-7.4
APA	17.3	-6.6
Devon Energy	32.2	-6.2
Norwegian Cruise Line	18.2	-6
MGM Resorts International	32.9	-5.7
Intel	21.3	-5.7

Fallers 3 months	Price ($)	Return (%)
UnitedHealth	321.6	-36
Teradyne	81.4	-31.3
Fiserv	165.9	-29.2
Norwegian Cruise Line	18.2	-29.2
Albemarle	59.3	-28.1
Super Micro Computer	42.8	-27.8
APA	17.3	-27
Enphase Energy	49	-25.9
United Airlines	76.3	-25.5
IQVIA	145	-25.3

Fallers 1 year	Price ($)	Return (%)
Moderna	28	-80.2
Enphase Energy	49	-56.8
Albemarle	59.3	-54.4
Super Micro Computer	42.8	-52.7
Dow	29.8	-49.7
Estee Lauder	66.1	-49.6
AES	11.2	-47.2
Halliburton	20.5	-46
APA	17.3	-44.2
Biogen	130.6	-43.6

Central Asia Metals lands new US mine

The Kounrad owner will spend $119mn on an ASX-listed copper company with a project in Arizona. Alex Hamer reports

Central Asia Metals (CAML) has finally lined up a "transformative" acquisition, after years of hunting for a replacement for its ageing Kounrad operation in Kazakhstan.

The pick is a yet-to-be-built copper mine in Arizona, to be acquired through the $119mn (£89mn) buyout of **New World Resources (AU:NWC)**. This could double CAML's copper output if built before the Kounrad operation shuts down as expected in the mid-2030s.

The offer represents a 98 per cent premium on New World's undisturbed share price, and will be paid for using a new $120mn loan and cash reserves. CAML was in a net cash position of just under $70mn as at 31 December.

The company's last major acquisition was the Sasa mine in North Macedonia in 2017, and since then management has looked all over Europe and beyond for another opportunity.

The Antler project, a prospective underground mine around two hours from Las Vegas, is currently in the permitting stage. It now needs sign-off from the Bureau of Land Management, given that parts of the project are on federal land. Much of the infrastructure for the mine will be on private property, however, "which [New World] either owns or currently has the right to purchase", CAML said.

A previous study forecast production of around 30,000 tonnes a year for 12 years, with an initial cost of around $300mn.

New World is working on a definitive feasibility study that will probably update these numbers. The company put out a new mineral resource estimate this month, which is 543,000 tonnes of contained copper, at a grade of 3.8 per cent. This is a high grade compared to other copper mines, which are mostly open-pit operations.

CAML chief executive Gavin Ferrar said Antler was "the right asset [and] the right size" for the company.

The miner has not built an underground operation from scratch before but Ferrar said CAML had "all the skills in-house to execute on this project". The company has done major work underground at the Sasa project in recent years, however.

Potential returns are hard to gauge, but RBC Capital Markets analyst Marina Calero said the acquisition would be "positive for the CAML investment case". She flagged the need for clarity on project financing, however, given the potential cost is not far off CAML's current market value.

CAML CFO Louise Wrathall said the debt-funded arrangement for the deal left the door open for future equity financings. She said the project would be "eminently financeable". ●

Diageo expects to absorb half of hit from US tariffs

Drinks giant **Diageo (DGE)** expects to take a $150mn (£112mn) hit from the imposition of tariffs on imports from the UK and Europe into the US, but actions already taken mean it will be able to shoulder about half of this before any pricing change.

The owner of the Guinness, Johnnie Walker and Hennessy brands left its full-year guidance unchanged, after kick-starting a $500mn cost-saving plan as part of a goal of delivering $3bn of free cash flow per year.

Third-quarter net sales grew by 2.9 per cent to $4.4bn. Organic sales were up 5.9 per cent due to "favourable phasing", but this boost is expected to reverse in the final quarter of its financial year. **MF** ●

Rio Tinto ups bet on lithium

Mining giant **Rio Tinto (RIO)** will invest up to $900mn (£672mn) in a lithium project in Chile, adding to its exposure to the battery metal. Lithium prices have been weak for some time because of oversupply driven by new mines and weaker than expected demand.

Under this deal with Codelco, Rio will take a 49.9 per cent stake in a direct lithium extraction project in the Atacama region, called Salar de Maricunga. The miner will put in $350mn initially to fund studies as the partners move towards a final investment decision. "Developing this significant lithium resource will deliver further value-adding growth in our portfolio of critical minerals essential for the energy transition," said Rio chief executive Jakob Stausholm.

Rio bought Arcadium Lithium for $6.7bn last year and has committed to building the Rincon project in Argentina, acquired in 2022 for $825mn. The latter mine is also a direct lithium extraction project.

Codelco has done well out of the Salar de Maricunga deal. The state-owned company only bought the project through a $250mn buyout of Lithium Power last year.

"We had expected Rio Tinto to do more lithium acquisitions [to achieve a market share of more than 20 per cent in lithium] and do approve of the strategy in acquiring assets at the bottom of the cycle," said Ben Davis at RBC. "However, we have not heard from investors that they want to see further investment in lithium, and there is a significant implied premium relative to what Codelco paid." **AH** ●

LITHIUM PRICES HAVE BEEN WEAK FOR SOME TIME BECAUSE OF OVERSUPPLY AND WEAKER THAN EXPECTED DEMAND

Ryanair's passenger growth remains constrained

Ryanair (IE:RYA) continues to expect muted short-term passenger growth because of the impact of delayed plane deliveries from **Boeing (US:BA)**, as the Irish low-cost airline reported annual net income slightly ahead of consensus and boosted its return of capital.

For the year to 31 March, net income dropped 16 per cent to €1.61bn (£1.35bn) as the average fare fell 7 per cent. The company said it expects "to recover most, but not all" of the decline this year.

Annual passenger numbers rose 9 per cent to a record 200mn, and the company expects to hit 300mn by 2034. Guidance for 2026 is still for passenger growth of 3 per cent to 206mn, an estimate that has previously been cut down from 215mn and 210mn.

Ryanair also announced a €750mn share buyback and hiked its final dividend by 28 per cent to €0.227 per share. CA

Currys stays on track as dividends return

Currys (CURY) has confirmed full-year profit expectations that had already been upgraded in April. Adjusted pre-tax profit is expected to jump 37 per cent to around £162mn for the 53 weeks ending 3 May. The electronics retailer has been on a tear in recent months, with its shares climbing a third year-to-date.

Like-for-like sales rose 5 per cent in the 17 weeks since the peak trading period, driven by improved performance in both the UK & Ireland and Nordics regions. Full-year group sales were up 2 per cent, while analysts have forecast a 10per cent rise in operating profit to £222mn.

Currys said that free cash flow would climb significantly for FY2025, helping it to end the year with more than £180mn in net cash and paving the way for the return of cash dividends after a two-year hiatus. VM

KKR takes aim at Assura/ Primary Healthcare deal

The war of words around the takeover bid for **Assura (AGR)** by **Primary Healthcare Properties (PHP)** got spicier as private equity players KKR and Stonepeak tried to pour cold water over PHP's offer.

PHP announced a "firm" cash-and-share bid worth £1.68bn last week, saying an all-cash deal as proposed by the Sana consortium, which is KKR and Stonepeak, would crystallise "value in cash at what the PHP board believes to be an inflection point in the cycle with valuation yields and cost of capital being at a high when viewed on a long-term basis".

Sana, which had its 49.4p a share bid backed by the Assura board in April, then raised questions over the funding and resulting financial stability of the combined group.

Specifically, Sana said the proposed £1.25bn of unsecured loans that PHP intends to take on to finance its bid would raise the total loan-to-value to 55 per cent, which is well above the target range for both companies and very high compared with the 30 per cent average for the Reit sector generally.

Sana argued that this would constrain the new company's ability to invest in its estate, particularly replacing ageing primary healthcare facilities.

PHP chief executive Mark Davies said the new offer of 0.3769 new PHP shares and 12.5p in cash, equalling 51.7p a share, would enable "the shareholders in PHP and Assura to benefit from the rising demand for primary care".

He also talked up "the enhanced financial strength of a larger Reit which is committed to maintaining a strong investment-grade credit rating and is expected to have a reduced cost of capital and annualised cost synergies of approximately £9m".

PHP would aim to bring the combined Reit's loan-to-value ratio down to 40-50 per cent through asset disposals.

Assura is reviewing the new PHP bid. Its board previously recommended the Sana bid to shareholders, and chief executive Jonathan Murphy said the deal "offers an attractive opportunity for Assura shareholders to crystallise value immediately, and enables the company to accelerate its growth via additional investment in critical healthcare infrastructure in the UK and Ireland". JH & AH

SANA ARGUED [£1.25BN OF EXTRA LOANS] WOULD CONSTRAIN THE NEW COMPANY'S ABILITY TO INVEST IN ITS ESTATE

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It shouldn't take more than 5-15 minutes of your time, and none of the data collected will be traceable to any respondent. The survey is accessible at investorschronicle.co.uk/vote25

European hotel stocks face up to a cooler summer

A weaker dollar and the lack of major sporting events is placing pressure on room rates. Michael Fahy reports

The growth in demand Europe's hoteliers have experienced since the lifting of Covid restrictions might be more difficult to replicate this summer – especially given the strong comparatives from 2024.

The Paris Olympics, the European Championships football tournament in Germany and continued strong demand from US tourists all drove room rates to new heights last summer, particularly at the luxury end of the market.

"Paris did incredibly well, but perhaps only during that Olympic period," Aoife Roche, head of data provider STR's European sales & client services team told the International Hotel Investment Forum event in Berlin last month.

Many German cities benefited from double-digit increases in revenue per available room (RevPar), with additional demand coming both from football fans and visitors to various trade fairs, Roche said.

The lack of replicable events this year means that room rates over the peak summer period are likely to come under pressure. RevPar is likely to decline in a few markets in the third quarter, with "France and Germany most impacted", Roche told *Investors' Chronicle*.

There are signs it is already under pressure. In France, RevPar fell by 6.3 per cent in March, as occupancy rates fell by 5.8 percentage points to below 60 per cent, according to STR's parent company, CoStar. In the UK, RevPar was 3.1 per cent lower, with occupancy rates 2 percentage points lower at 73.3 per cent.

Weaker room rates were reflected in recent results posted by listed hotel operators. Earlier this month, **Whitbread (WTB)** said that overall market demand levels were softer in the year to 27 February, with "lower levels of short-lead, discretionary leisure demand". Although UK-wide RevPar has fallen a further 1 per cent since, Chief financial officer Hemant Patel said a "2 percentage point outperformance against the rest of the market" meant it maintained growth.

PPHE Hotel Group (PPH) also attributed a 5.6 per cent fall in like-for-like sales in the first three months of this year to the timing of Easter and a "normalisation" of room rates. The company, which owns and operates 51 hotels in eight countries, generates more than half of its revenue in the UK.

The later Easter meant rates improved in April this year, but things have softened since, CFO Daniel Kos said.

"Going into May, one month it's good, one month it's soft," he said. Rates are also "flat" across Europe. He argued it was too early to discern a trend moving into summer, as leisure bookings are typically only made about six to eight weeks in advance.

In February, tourism body Visit Britain forecast a 5 per cent increase in visitor numbers to 43.4mn and a 7 per cent increase in spending this year. Spending from US tourists was forecast to grow by 9 per cent to £6.7bn – a fifth of total tourism spend.

Yet optimism around the strength in demand is fading – not least because the recent tariff turmoil has knocked consumer sentiment. The weakening of the US dollar – down 6 per cent against the pound and 8 per cent against the euro since the start of the year – means there is a risk that an expected softening in demand growth from US tourists "turns into a bit of a contraction", said Marie Hickey, director of commercial research at Savills.

6.3%

IN FRANCE, REVPAR FELL 6.3 PER CENT IN MARCH, AS OCCUPANCY RATES FELL 5.8 PERCENTAGE POINTS TO BELOW 60 PER CENT

Transatlantic turbulence

Although it could be argued more US consumers travelling more at home would be no bad thing for Europe's biggest hotels business – London-based **InterContinental Hotels (IHG)** earns 40 per cent of its revenue in the country – US airlines and hotel groups are reporting softer demand travelling the other way. **United Airlines (US:UAL)** recently said that second quarter bookings from Europe were down 6 per cent on last year, and bookings from Canada were down 9 per cent.

Sébastien Bazin, chief executive of Europe's second-biggest hotel chain **Accor (FR:AC)**, told *Bloomberg* last month that its US bookings originating from Europe for the summer months were currently down 25 per cent. It has less exposure to the US (23.6 per cent of last year's turnover) than it does to its home market of France (24.2 per cent), though, and Bazin said overall group bookings for summer were up by 3-5 per cent.

Other listed hoteliers have heavier exposures to domestic markets – resorts specialist **Melia Hotels International (ES:MEL)** generates half of its revenue in Spain – and while **Dalata Hotel (DAL)** is pushing onto the continent with a recent opening in Madrid, it remains heavily exposed to Ireland (44 per cent of turnover) and the UK (34 per cent).

This could be an issue, as increased supply in both Dublin and Belfast could weigh on rates over the summer, Roche said.

In valuation terms, IHG is the priciest of the European hotel operators. Its shares trade at 23 times forecast earnings given its greater exposure to a US market that has exhibited faster growth. Melia is the lowest rated at just nine times earnings, according to FactSet.

Its shares have suffered due to fears about market cyclicality and a "lack of trust" over the valuation of its owned assets, Deutsche Bank analyst André Juillard said last month. However, he argued that Spain (and southern Europe generally) has outperformed the rest of the market for the past three years. Data for the year so far shows that at least it should continue to enjoy its moment in the sun.

The German defence stocks catching up to Rheinmetall

A step change in fiscal policy has boosted a range of contractors. Christopher Akers reports

As German rearmament kicks off amid a historic shift in national spending priorities, there are opportunities to be found across an industry scrambling to expand production after 80 years of reliance on US protection.

Investor attention has been focused on national giant **Rheinmetall (DE:RHM)**, but prospects for stocks such as **Hensoldt (DE:HAG)** and **Renk (DE:RENK)** have also been boosted as the German state turns over a new page on defence spending.

Last week, Germany's foreign minister Johann Wadephul referred positively to US president Donald Trump's demand for Nato members to spend a previously unthinkable 5 per cent of GDP on defence, more than double the bloc's current 2 per cent target. Germany loosened its constitutional debt rules in March, which suggests an unmitigated rise in defence spending is on the table.

German defence options

Given its leading sector position and performance, it is no surprise €80bn (£67bn) market cap Rheinmetall has dominated the German defence discussion. Consensus is for revenue to surge to €35bn by 2030 – more than triple the 2024 level. It is the best performing stock on the Dax bourse this year – Rheinmetall is up 240 per cent over the past year, and by 60 per cent since we highlighted the company's prospects in March.

Chief executive Armin Papperger, who noted the possibility of revenue hitting €40bn by the end of the decade, said earlier this month the company was "getting closer to our goal of becoming a global defence champion". Operating profit rose 49 per cent to €199mn in its first quarter against last year.

But there are smaller, and cheaper, options available.

240%

RHEINMETALL IS THE BEST PERFORMING STOCK ON THE DAX BOURSE THIS YEAR – UP 240 PER CENT OVER THE PAST YEAR

Hensoldt shares have almost doubled over the past year. The radar and sensor business is 25 per cent owned by the German government and Italian defence specialist **Leonardo (IT:LDO)** has 23 per cent.

The company posted revenue of €2.2bn last year and raised its 2030 revenue goal from €5bn to €6bn earlier this month, after order intake in its first quarter came in at €701mn, ahead of consensus and driven by contract extensions for Eurofighter military jets. The order backlog rose 18 per cent to €6.9bn.

Analysts at Agency Partners recently raised their 12-month price target for Hensoldt from €40 to €71. They assume rising European defence spending will initially be "weighted heavily towards readiness, munitions stocks, and equipment, before tilting back to personnel and infrastructure".

Another option is Renk, where military vehicles are the key driver of growth and deliver three-quarters of total operating profit.

In Renk's first quarter, revenue rose 15 per cent to €273mn and operating profit was up 38 per cent to €38mn. Management is targeting €2.5bn-€3bn of revenue by 2030, up from €1.1bn in 2024, as Nato defence budgets rise.

Chief executive Alexander Sagel said, "the biggest upside for the time being would certainly come from Germany".

Analysts expect an adjusted operating margin of 19 per cent for Rheinmetall and Renk and 15.5 per cent for Hensoldt by 2027, all up on current figures.

These contractors have also pumped up their dividends as trading has been revitalised. Rheinmetall and Renk raised annual payouts by over 40 per cent, and Hensoldt by a quarter, in their latest financial years.

The low-margin **Thyssenkrupp (DE:TKA)** also offers German defence exposure through its marine division, but the steelmaker has been hit by asset writedowns and falling sales.

It said this month that plans to hive off the marine business through a separate listing are "advancing at pace". Adjusted operating profit plunged 90 per cent to €19mn in the company's second quarter.

A continued threat

Even if a ceasefire comes in Ukraine, the pressure on European militaries will not soften. The International Institute for Strategic Studies said that Russia could rebuild its forces and be in a position to attack one of the Baltic states by 2027.

In this context, German rearmament is set to be a long-term programme. German defence spending hit 2 per cent of GDP last year, and Berenberg expects this to reach 3.5 per cent by 2032. More detail about future spending plans will come at a Nato summit in June.

But rearmament doesn't come without risks. Given the long-term reliance on the US, German defence manufacturers are starting from a small base. A Kiel Institute report last year (before the latest fiscal news) argued that it would take a century to get military capacity back to 2004 levels. For analysts at Panmure Liberum, "the real bottleneck is the lack of production facilities and capacity constraints".

As Germany's car industry struggles, expect to see more auto plants being turned into military production sites.

Defence valuations

European defence valuations have soared since Russia's invasion of Ukraine, and sector outperformance has continued. The Stoxx Europe total market defence index is up 60 per cent year to date against 8 per cent for the Stoxx 600.

This presents investors with a difficult balancing act between growth prospects and valuation.

Hensoldt trades on 34 times consensus earnings for 2026, below Rheinmetall's 40 times and Renk's 38 times. Thyssenkrupp, where the shares fell to multi-decade lows last year, is on 10 times.

Rheinmetall is the only one of the four which has a mean analyst target price above its current share price. However, further reratings should be expected as Germany's historic defence shift takes shape. ●

Investors revolt against bumper pay packets

A stormy AGM season highlights how bumper pay packages are irritating investors. Julian Hofmann reports

Large companies are in the middle of their annual meeting season. These are usually sedate affairs, with director resolutions often passed without comment.

However, this year the AGM season is reflecting an increasingly confrontational tone from shareholders when it comes to executive remuneration. It comes at a time when some chief executives are pointing to the skyrocketing salaries and bonuses paid by US companies, which can be far ahead of UK competitors. Pay votes are also being used to express general unhappiness with the company strategy or performance.

Direct Line (DLG) is the latest in a growing list of companies to face a significant shareholder revolt over executive pay awards.

The insurer, which will disappear corporately, if not necessarily as a brand, into **Aviva (AV.)** following its £3.7bn takeover, saw a revolt of 36.5 per cent against the £7.8mn total package for chief executive Adam Winslow. For comparison, the last report was passed with more than 98 per cent support.

Winslow joined Direct Line last year, having previously headed up Aviva's car insurance division. His package – as supported en masse by shareholders last year – included a clause for a whopping £5.8mn of lost compensation after he joined Direct Line in March 2024.

Shareholder advisory group Institutional Shareholder Services (ISS) recommended that Direct Line shareholders vote against the bonus awards on the table this year.

If all performance targets are met, bonuses would amount to £2.5mn for Winslow and £1.7mn for chief financial officer Jane Poole.

ISS's analysis put Direct Line's executive awards in the top quartile versus peers, whereas it ranked the company's profitability as bottom quartile.

ISS noted: "The company is using the exceptional [long-term incentive plan] award limit for [executive directors] in FY2025 to incentivise its transformation plans. The use of the exceptional limit in the context of the company sale to Aviva is not considered sufficiently justified."

Revolution by proxy

Direct Line is in good company when it comes to significant shareholder revolts this year. For instance, more than 51 per cent of shareholders voted against **Plus500's (PLUS)** pay plans for chief executive David Zruia and chief financial officer Elad Even-Chen, which saw both executives handed $5mn (£3.7mn) each in salary and bonuses.

Shareholders' revolt against Plus500's pay policy has become an annual event – and, in fairness, this year's vote against was significantly lower than the 65.8 per cent recorded at last year's AGM.

ISS and fellow proxy adviser Glass Lewis had pushed against the company's pay plans last year because they felt that Plus500 had not provided an adequate response to shareholder dissent. On the executive pay front, Plus500 said "none of the shareholders expressed concerns with the amount paid to the executive directors".

This comment was made in a November statement to the market, which is required when there is less than 80 per cent support for a resolution.

Centrica (CNA) will have to put out such a statement as well this year, after 40 per cent of shareholders voted against the remuneration report earlier this month. This was up from 10 per cent the year before.

51%

OVER HALF OF PLUS500 SHAREHOLDERS VOTED AGAINST THE COMPANY'S EXECUTIVE REMUNERATION PACKAGE THIS YEAR

Another executive feeling the heat is Karim Bitar, chief executive of specialist medical equipment company **Convatec (CTEC)**, whose remuneration package was up for a vote at the AGM just after this issue of *Investors' Chronicle* went to press. *The Times* has reported that ISS and Glass Lewis have urged institutional investors to vote down Bitar's deal.

In its annual report, Convatec's remuneration committee included a recommendation to raise Bitar's maximum share award from 300 per cent to 425 per cent of his annual salary under the company's long-term incentive plan, which seems to be the sticking point for the proxy advisers.

Are activist investors using pay votes?

Activist investors are an increasingly powerful force in company boardrooms; consultancy firm Accenture says that activist investor campaigns have more than doubled in less than a decade.

Whether 'say-on-pay' votes are one way of casting influence over a board requires careful interpretation, but there is some evidence from the past few years that remuneration conflicts have become part of the activist investor armoury.

For example, recent research from independent compensation consulting firm CAP is enlightening. It analysed proxy voting contests from companies in the US Russell 3000 index, which offers a larger data sample, between 2020 and 2024.

CAP reviewed 48 proxy contests initiated by activist investors, finding that concerns about executive compensation schemes were raised in 23 cases, with the data suggesting that executive compensation was often linked to broader concerns about a company's strategic direction and/or financial performance.

Whether this is now also an automatic catalyst for pay conflicts here in the UK market is not clear, but it seems inevitable that arguments over executive pay will continue as long as shareholders have their say. ●

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How badly has Trump damaged the dollar?

Hermione Taylor discusses why the US can't afford to take dollar dominance for granted.

The dollar has still not bounced back from US President Donald Trump's April announcements. This is rather surprising: in times of uncertainty, the US currency typically gets a boost as investors flee to safety. The dollar's consistent strength over recent years means it also tends to rise when growth stocks do. But it has failed to recover alongside equity markets. It begs a serious question: have Trump's tariff moves permanently damaged the greenback?

Why this time could be different

Rather unusually, this assault on the dollar is coming from within the US. Since his second term began, president Trump has moved at warp speed. On the economic front, he has rapidly introduced measures aimed at overhauling US bureaucracy and trade, while hinting at moves that could undermine the institutions underpinning the dollar. Plans to pay off US national debt using bitcoin and oust Federal Reserve chair Jay Powell have been drowned out by tariff noise and/or shelved, but have still shaken investor confidence in the US government. Analysts at Capital Economics also warn that "the idea that the US might introduce some form of tax on capital inflows is no longer unthinkable".

Last week, Moody's downgraded the US's triple-A credit rating by one notch, warning of deteriorating fiscal and debt metrics. This isn't a new problem (the agency stressed that successive administrations had failed to tackle the issue), but new policies are set to make it worse. Trump's administration is trying to push another tax-cutting package through the house. Estimates suggest the new bill could add another $3tn (£2.2tn) to the US debt stock over the next ten years.

The end of dollar privilege?

Until now, the US has enjoyed a uniquely privileged position as issuer of the world's dominant currency. Close to 90 per cent of cross-border transactions are denominated in US dollars, meaning most international transactions touch the US banking system at some point.

This comes with tremendous influence, and a further key advantage. Thanks to the sheer quantity of ready buyers, no other country can borrow money or expand its money supply so easily. But it also carries costs.

Some in the Trump administration think the capital inflows tied to the dollar's dominance have inflated its value. A strong US currency increases the relative cost of exports, making life harder for US manufacturers. Research from Bank of America suggests every 10 per cent drop in the value of the US dollar translates to a 3 per cent boost in US corporate sales. The relationship is strongest in materials and technology companies, where foreign exposure is highest. Undermining the dollar could start to look like a good policy if you are focused on trade competitiveness.

But damaging the dollar's status carries more nebulous costs. As holders of the world's reserve asset, the US has the privilege of funding borrowing at a lower cost than other countries for a given level of debt. Economists at Deutsche Bank calculate that the level of "exorbitant privilege" is about 70 basis points.

This means the US has been able to increase its debt-to-GDP ratio by 25 percentage points without increasing its interest rate costs.

As debt stands at over 120 per cent of GDP (compared with 96 per cent in the UK by the PSND measure), this remains a significant advantage. But it may not last for ever. Deutsche Bank's Jim Reid says that in the event of a shock "it could take higher Treasury yields (along with USD weakness) for the market to reach a new clearing level at which foreigners are willing to fund their marginal investment in the US".

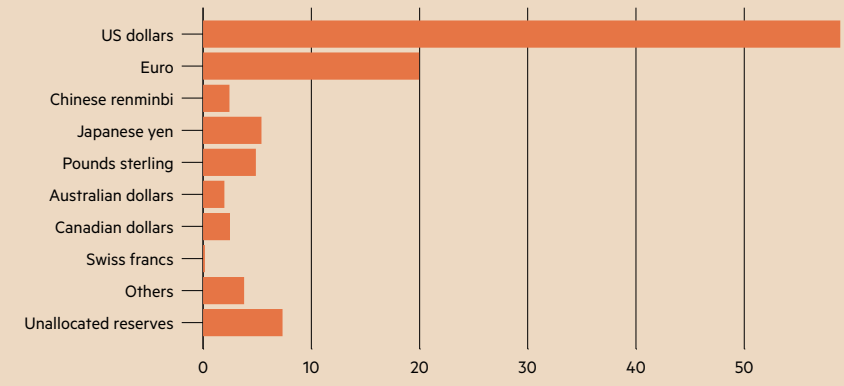
Where next for the dollar?

Presidential announcements are not the only thing driving the dollar. Economists point out that the greenback was able to withstand tariff announcements in 2018. But back then, the Federal Reserve hiked interest rates – diverging from other major central banks, and boosting the dollar. Daniel von Ahlen, an economist at TS Lombard, thinks that while the current tariff regime is "arguably hurting the US more than its individual trading partners", the Fed's current "dovish stall" isn't helping the dollar either.

Von Ahlen says that "more USD downside is likely this year as strongly positive dollar catalysts are few and far between". Analysts at Capital Economics expect the dollar to rebound modestly this year but warn that recent movements suggest that "the greenback has become more vulnerable to further bad news". Assuming that the Fed keeps interest rates unchanged and the US economy holds up relatively well, their forecasts suggest that the dollar could rally from £0.75 to £0.82 by the end of the year.

THE DOLLAR IS STILL THE WORLD'S DOMINANT CURRENCY

Share of global reserves, %, Q2 2023



Source: IMF

Long-term consequences

Despite its recent shaky footing, the US dollar still provides financial plumbing for the global economy, and acts as the world's reserve currency, as the chart on page 14 underlines.

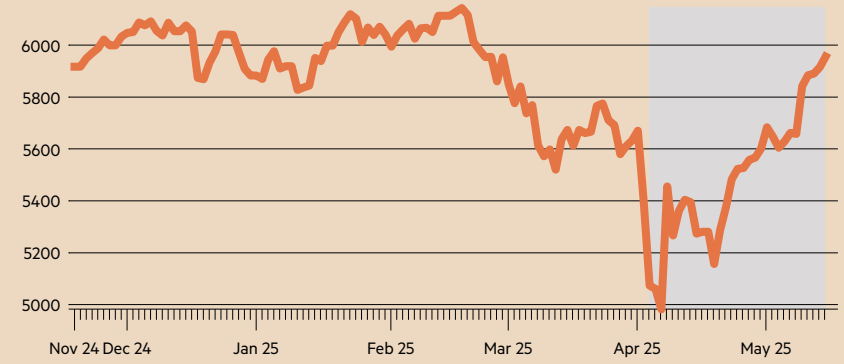
The euro sits in distant second place, but still looks like the strongest rival. It was the key beneficiary of de-dollarisation last year, and economists at ING think that there is scope for demand for euro-denominated assets to grow further. If central banks return to early-2000s levels of demand, euro denominated FX reserves could increase by as much as €450bn (£379bn).

Supply could grow to meet this higher demand. Analysts at Capital Economics expect significant growth in the size of the euro-area bond market over the next five years, leaving the euro the most liquid option available to reserve managers, "and a relatively more appealing one than before".

Others are more sceptical. ING analysts think that while more German debt issuance will help, some kind of European safe asset issued via a capital markets union would be required to truly increase acceptance of the euro. Though China is expected to issue even more debt than European governments, capital controls and political risk will probably continue to curb external demand. For now, there is no clear alternative to the US dollar. ●

US MARKETS HAVE RECOVERED SINCE "LIBERATION DAY"

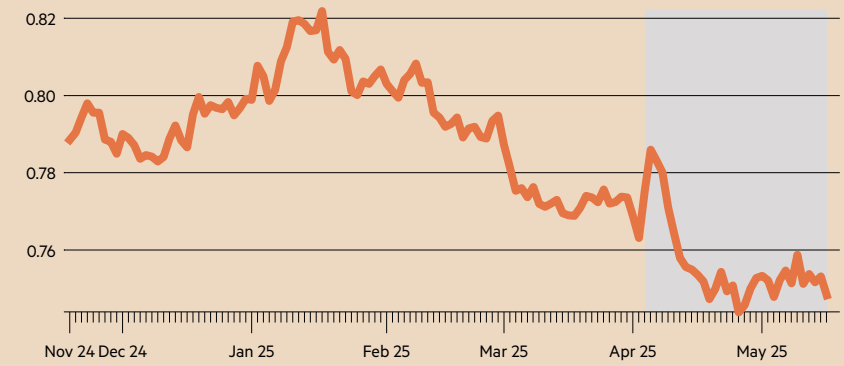
S&P 500 Index



Highlighted range shows post "liberation day" period
Source: LSEG

BUT THE US CURRENCY HASN'T

GBP per USD



Highlighted range shows post "liberation day" period
Source: LSEG

ECONOMIC OUTLOOK

Competing demands are making life more difficult for Japanese policymakers. Attempts to stoke price growth after decades of deflationary pressures have been partially successful, but in the process they have dented the confidence of consumers facing the unprecedented sight of food price inflation. Attempts to ease off the gas are also proving tricky: the Bank of Japan is tapering its bond purchase programme, but that has raised fears of a lack of demand for long-dated bonds: forty-year yields hit a record high of 3.6 per cent this week after a poor debt auction.

With first-quarter GDP falling 0.2 per cent, US tariff impacts still to filter through, and the government looking nervously towards this summer's upper house elections, the sense of unease is growing. Next week will bring a raft of new data, including inflation and consumer confidence readings. **DJ**

MONDAY 26 MAY

Japan: Leading economic index

TUESDAY 27 MAY

Euro area: Consumer confidence, industrial confidence, services sentiment
UK: BRC shop price index
US: Consumer confidence, Dallas Fed manufacturing index

WEDNESDAY 28 MAY

US: Fed minutes, Richmond Fed manufacturing index

THURSDAY 29 MAY

Japan: Consumer confidence
US: Q1 GDP (preliminary)

FRIDAY 30 MAY

Euro area: M3 money supply
Japan: Construction orders, CPI inflation, industrial production, unemployment rate
UK: Nationwide house price index
US: Chicago purchasing managers index, Michigan consumer sentiment index, PCE inflation



Val Cipriani

IC COMMENT

When deferring the state pension makes sense

If you reach state pension age but are still working, or have sufficient income from other pensions, you have the option to defer the state pension to receive a higher amount later on. Could this be a good idea? It ultimately depends on two things: life expectancy and taxes.

For those that reach the state pension age after 6 April 2016, payments increase by 1 per cent for every nine weeks they defer the pension, equating to about 5.8 per cent per year. For example, the full new state pension is currently £230.25 a week; by deferring for 52 weeks, you'll get an extra £13.35 a week. This does not account for any annual state pension increases determined by the triple lock.

You no longer have the option of taking the deferred state pension as a lump sum, which was possible for those who reached state pension age before April 2016. It takes a long time to recoup the payments you deferred – more than 17 years. The current state pension age is 66, gradually increasing to 67 between 2026 and 2028, so if you defer, you can expect to break even at some point between the ages of 83 and 85, depending on your individual circumstances.

If you are in poor health, it isn't really worth considering. If you are well, it is a more finely balanced decision, but still feels a little risky. Unlike with other types of pension, once you pass away, your partner will not inherit any of your state pension (this applies for those who reached the eligible age after April 2016; the rules were different before).

Your tax situation could partially change things. This is especially the case if you are a higher-rate taxpayer when your state pension kicks in, or if the pension pushes you in a higher tax bracket – but you expect your income to reduce later on. This could happen if you are still working, full-time or part-time, when you reach state pension age, or if you have rental income from a property that you plan to later sell.

If adding the state pension to your other income sources results in it being de facto taxed at the 40 per cent rate, deferring will be a more attractive option – especially if you expect less income to come in later on, lowering your tax rate to 20 per cent. This way, it will take you a few years less to break even.

The state pension increased last April to £11,973 a year, from £11,502 in 2024-25. This brings it closer and closer to the tax-free personal allowance of £12,570 – meaning that the pension could become subject to income tax as soon as the next tax year. And with income tax thresholds due to remain frozen until 2028, more pensioners are paying higher rates of tax in general.

As such, deferring could make sense in certain cases as a tax-efficiency measure. But it is still a bet on you living long enough to get the money back, so it might be worth exploring other options first.

If you do decide to do it, the practicalities are quite straightforward. When you reach the appropriate age, you should receive a letter explaining how to claim your state pension. If you don't claim it, the pension is automatically deferred. ●

How to retire part-time

Only working half the week is a great way to ease yourself into retirement. But make sure you do it in a tax-efficient manner, writes Val Cipriani

Nowadays it is common for people to phase-in retirement, rather than suddenly stop work altogether. You might want to spend more time with your family earlier on, even if you can't afford to fully retire yet; or you might wish to continue to do some work because you love your job and are worried about boredom in retirement.

Whatever your reasons, working a few hours per week can offer great flexibility from both a financial and personal perspective. But make sure you fully think your plan through – especially how you draw your pension and when – to avoid bad tax surprises.

Tax-free lump sum

Once you make the transition from full- to part-time work, your income will decrease and you will probably need to top it up from your pension. You should try to do this as tax-efficiently as possible.

"Ensure that you always consider all income sources before deciding how much income to draw from your pension – wages, rental income, other pensions, state pension, dividends, interest," says Harvey Armstrong, financial consultant at Lumin Wealth. Pension income is subject to income tax just like your salary and everything else, and once your gross income crosses the £50,270 threshold, you start paying the 40 per cent rate of income tax on a portion of it.

If you are near the threshold, one option is to use the 25 per cent tax-free lump sum. "Taking tax-free cash from your pension and using it to top up your income is particularly effective as it does not affect your tax position. In a situation where people are working part time, a good use of tax-free cash is

to draw it in tranches, rather than as a lump sum," says Andrew King, retirement planning specialist at Evelyn Partners. "Over the years, this allows for strategic withdrawals if your income varies, and also enables you to keep as much money in the pension fund as possible, for the longest period, so the savings continue to grow tax-free."

There are two ways of taking the tax-free lump sum in tranches: you can use phased drawdown or take an uncrystallised funds pension lump sum (UFPLS). A phased drawdown means you can crystallise your pension pot in steps. Each time you do, you can take the relevant portion of tax-free cash and leave the rest invested. For example, say you have a £400,000 pot; you can put £100,000 into drawdown, of which you take £25,000 as a tax-free lump sum. This leaves £75,000 crystallised but untouched, and £300,000 uncrystallised.

You can do this without having to pay any taxes as long as you stick with withdrawing tax-free cash. But if you start taking income from the £75,000 you have crystallised, you will owe income tax on the sum. Either way, the next time you need to draw from your pension, you can crystallise another portion of the pot and take the relevant 25 per cent tax-free again.

Meanwhile, with a UFPLS, you can make withdrawals without crystallising your pot at all. However, only 25 per cent of each withdrawal will be tax-free, while the rest will be subject to income tax. Added to your part-time work income, this could push you into a higher tax bracket.

The other downside of a UFPLS is that it triggers the money purchase annual allowance (MPAA), which limits the gross amount you can add to your pension every year to £10,000, instead of the usual £60,000 (the allowance is also limited by your earnings). With drawdown, the MPAA is not triggered if you stick to taking the tax-free cash, but comes into play if you draw income from your pot on top.

If you are still working part-time, you might still be making pension contributions from your salary. Depending on your age, you might also decide to go back to full-time work for a period later on. So avoid triggering the MPAA if you can.

Implementing the best withdrawal strategy might require some admin and effort, so make sure you start early. "Be aware that some pension providers do not offer flexibility in how tax-free cash is taken, so make sure that you are with a provider that allows such flexibility," cautions King. You should also make sure that your provider is clear on the fact that you want to use drawdown and not a UFPLS, if that's the option you are choosing. If your pension scheme does not offer what you need, you can always look at transferring your pension.



Using tax-free cash from your pension to top up your income is effective as it does not affect your tax position

Other options

You should also consider how other types of pensions might impact your tax situation. Once you start receiving the state pension, this will take up the vast majority of your tax-free personal allowance and can push you into a higher tax band. The same can happen if you start receiving a defined benefit pension.

If you are still working part-time and already have a regular source of income, you may not need the money yet. You could consider delaying any final salary pension past the scheme's normal retirement date, or deferring the state pension, Armstrong suggests.

Aside from your pension, also look at other tax-efficient ways of drawing income in retirement. Taking anything you need above the higher-rate tax threshold from your individual savings account (Isa), for example, is an option to avoid the 40 per cent rate.

If you are married, also consider your joint tax position. For example, if your salary from part-time work uses up most or all of your basic-rate tax band, and your partner has a lower level of income, you could look at drawing from their pension instead.

Tax-efficiency aside, it's also tricky to decide how early you can afford to reduce your working hours or how much to take from your pension in the first place. Do not automatically assume that you will need the same amount you required while working full time – it might be more or less depending on how your lifestyle changes. On one hand, you might travel and socialise more; on the other, when you work full time, a bigger portion of your income typically goes towards tax and pension contributions. If you can draw some money from your pension and investments tax-free, your income requirement may be quite a bit lower than your gross salary.

Finally, consider your investment strategy. If you intend to start drawing from your pension soon, it may be time to reduce risk a little. However, if you start drawing from your pension early, your pot will need to support you for multiple decades to come. So make sure you do not de-risk too much, too soon – a common mistake. Part-time work already provides you with a guaranteed stream of income, which can cover your essential expenditure and potentially allow you to take more investment risk for longer instead. ●

‘I’m selling my buy-to-let: how should I invest £875,000?’

Our readers are about to retire and have a lot of cash to put into stocks and shares. Val Cipriani takes a look

Selling a rental property and reinvesting the proceeds offers a more flexible way of funding your retirement than being a landlord – but it also involves some big investment decisions when it comes to allocating the cash.

William, 65, faces such a dilemma. He and his wife Catherine, also 65, are well set up for retirement. They have Isas and pensions with nearly £1.2mn invested in total, plus £150,000 in savings accounts and Premium Bonds. They own three properties: their home (worth £1.2mn), a holiday home (£500,000) and a property they let out (£875,000).

William currently earns about £160,000 a year. He estimates that once he stops working in the next two years, the couple will need to draw around £60,000 a year after tax from their investments, to top up their state pensions and William’s defined-benefit pension, which pays about £5,000 a year.

He intends to sell the rental property and invest the money. He plans not to draw more than 4 per cent of their overall portfolio every year, and will sell or rent out the holiday home if more income is necessary.

Once the rental property is sold, the couple will have around £2.2mn. A 4 per cent withdrawal equates to about £88,000, and should be enough to cover their expenses. However, as a good chunk of the assets are in William’s pension, he needs to think about the best way to draw the money tax efficiently.

William has been investing for about two decades. In terms of his attitude to risk, he says he would not mind seeing the value of the portfolio drop by up to 25 per cent during a downturn: “Having lived through numerous market corrections – Black Monday, the dotcom bubble, the global financial crisis – I know that the markets bounce back in due course.”

However, he has been moving towards a less aggressive strategy as he prepares his portfolio for retirement. He is also undecided on how to allocate the proceeds from the property sale, although he will aim to use as much as possible of the couple’s Isas and pension allowances.

“I should be more cautious going forward and have sold many direct holdings in the technology sector to invest in safer areas,” he says. “I intend to allocate about 20 per cent of the portfolio to individual shares, which I will select and manage myself. The rest will be invested in a mix of active and passive funds, which should require less attention.”

He plans to invest more in income stocks and funds, and adds: “I was considering increasing my exposure to Asian markets and perhaps the US – but limiting my exposure to the technology sector, which is already quite high.”

William is conscious of his significant exposure to cash, which accounts for about 21 per cent of the invested portfolio on top of his cash and Premium Bond savings. This is earning 4 per cent interest at the moment, but the rate will be going down.

William is also aware of a potential future inheritance tax issue and will look at gifting assets to children and grandchildren. “But not for some years unless our health situation changes,” he adds. “We would need to retain sufficient funds to cover potential care costs.” ●

IC PORTFOLIO CLINIC

Want to see your portfolio analysed by our experts? Email portfolio.clinic@ft.com. We welcome portfolios of all sizes and experience levels. None of the commentary should be regarded as investment advice. It is general information based on a snapshot of the reader’s circumstances.

THE COUPLE’S ASSETS

Account/Asset	Value (£)	% of portfolio
Let property	875,000	32
William’s pension	827,600	31
Holiday home	500,000	18
William’s Isa	179,600	6.6
Cash & Premium Bonds	150,000	5.5
Catherine’s Isa	145,300	5.4
Catherine’s pension	29,100	1.1
Total	2,706,600	

THE COUPLE’S COMBINED INVESTMENT PORTFOLIO

Holding	Value (£)	% of portfolio
Ardtur European Focus Absolute Return Fund (IE00BZ1J0228)	147,700	13
iShares 100 UK Equity Index (GB00B7W4GQ69)	141,600	12
Treasury 4.75% 22/10/43 (TR43) Gilt	99,300	8.4
Amazon (US:AMZN)	56,500	4.8
M&G Credit Income Inv. Trust (MGCI)	52,100	4.4
Polar Capital Global Insurance (IE00B61MW553)	47,700	4.0
Alphabet (US:GOOGL)	42,200	3.6
M&G (MNG)	30,000	2.5
Fidelity Index US Fund (GB00BJS8SH10)	25,000	2.1
Ballie Gifford Managed (GB0006010168)	24,100	2.0
Fidelity Index World (GB00BJS8SJ34)	22,100	1.9
Netflix (US:NFLX)	21,000	1.8
Artemis Corporate Bond Fund (GB00BFZ91W59)	19,400	1.6
Legal & General Group (LGEN)	16,800	1.4
Ashtead Group (AHT)	14,400	1.2
JPMorgan US Tech. (LU0082616367)	14,000	1.2
National Grid (NG.)	13,900	1.2
Coca-Cola (US:KO)	13,500	1.1
Liontrust Balanced Managed	13,200	1.1
Abrdn Global Innnovation Equity (LU0837983864)	13,100	1.1
Aviva (AV.)	13,100	1.1
Microsoft (US:MSFT)	13,100	1.1
Persimmon (PSN)	12,900	1.1
Volvo (SE:VOLV-B)	12,600	1.1
IQVIA Holdings (US:IQV)	11,600	1.0
Allianz Global Artificial Intelligence (LU1597246385)	7,800	0.66
Computacenter (CCC)	7,700	0.65
Allianz Technology Trust (ATT)	4,900	0.41
Safestore Hoildings (SAFE)	4,600	0.39
XP Power (XPP)	3,900	0.33
Scottish Mortgage (SMT)	3,400	0.29
Takeda Pharmaceutical (JP:4502)	3,100	0.26
dotDigital Group (DOTD)	2,400	0.20
Entain (ENT)	2,100	0.18
Cash	250,800	21
Total	1,181,600	



LUCIE MEAGHER, PRIVATE CLIENT INVESTMENT DIRECTOR AT TYNDALL INVESTMENT MANAGEMENT

You want to move to a more cautious strategy, but your existing portfolio already looks well-balanced, with around 65 per cent in stocks and 35 per cent in bonds and other assets. I do agree, however, that you could diversify your holdings into more sectors and geographies.

You are considering adding some Asian exposure. I would suggest investing some of your cash in **Stewart Investors Asia Pacific Leaders (GB0033874768)** for a diversified portfolio of high-quality companies with strong franchises and resilient financials.

Vietnam looks interesting at the moment – it has suffered in the short term as a result of the US tariff announcements, but has good long-term growth prospects. It could also move into the emerging market indices, which could result in further flows into the market. **Vietnam Enterprise Investments (VEIL)** is an option, on a 21.8 per cent discount to net asset value as at 14 May.

CC Japan Income & Growth (CCJI) would provide some exposure to Japan and has a strong record of generating income growth. Japan has been undergoing a transformation in recent years, with corporate governance evolving and resulting in improved shareholder returns.

For US exposure with a lower weighting to technology, you could consider **Findlay Park American Fund (IE00BWY58M24)**, which has a high exposure to services companies, which should be less impacted by tariffs.

Looking at your stocks, you mention reducing your exposure to technology. You could further trim some of your larger holdings such as **Amazon (US:AMZN)** and **Alphabet (US:GOOGL)**, which currently represent 8 per cent of your portfolio.

Given you own three insurance businesses, you could also sell **Legal & General (LGEN)**. I prefer **Aviva (AV.)**, which is very well run and about to become the dominant player in the UK insurance market, as it closes the acquisition of Direct Line. **M&G (MNG)** also looks preferable with a low valuation, good growth story and a 9.5 per cent dividend yield.

You could add to your holding of **Entain (ENT)**, currently only 0.2 per cent of the portfolio. The company has an interesting turnaround story – it lost its way under a previous management team but is now performing well under the new chief executive. It is also exposed to the high-growth US gambling market, which is opening up following liberalisation.

To increase the income generated by your portfolio, you could reduce your position in the **Ardtur European Focus Absolute Return Fund (IE00BZ1J0228)** in favour of **Polar Capital European Ex UK Income (IE00BWX5D394)**, which focuses on well-run companies that have fallen out of favour for short-term reasons, and has a yield of 4.8 per cent.

The **IFSL Church House Investment Grade Fixed Interest Fund (GB00B11DPK96)**, which currently yields 4.8 per cent through a portfolio of high-quality UK corporate bonds, is also worth looking at.

Most of your assets are held in Isas and pensions, but if the sale of the property goes ahead, you could consider purchasing some direct UK gilts to replace part of your cash savings. For example, the Treasury Gilt 0.875% 31-Jul-2033 has a yield-to-maturity of 4.3 per cent, most of which is coming from a tax-free capital gain instead of income.



MATTHEW BIRD, CHARTERED FINANCIAL PLANNER AT FALCO FINANCIAL PLANNING

Congratulations! Your £2.2mn of investment assets should be enough to provide you with £60,000 of annual income in retirement.

Your asset mix, excluding property, roughly consists of 65 per cent in stocks and 35 per cent in bonds and cash, which would appear to loosely fit your attitude to risk. But as you are already aware, your cash position is quite high, so consider moving part of it into a mix of bonds to increase the expected return. Options include **iShares UK Gilts All Stocks Index (GB00B83HGR24)**, **Vanguard UK Investment Grade Bond Index (IE00B1S74Q32)** and **Schroder Strategic Bond (GB00B71PW951)**.

You are wise to try to shelter as much as possible of the property sale proceeds into tax-efficient Isas and pensions. If relevant, you can carry forward unused allowances from the previous three tax years to maximise your pension contributions.

On the equities front, if you are specifically looking for income, **Vanguard Global Equity Income (GB00BZ82ZW98)** might be worth a look. It has a 3.2 per cent yield.

Your holdings look broadly sensible. There's always a chance that individual stock holdings can fall precipitously if the business runs into difficulty, but you seem to be diversified enough to mitigate company-specific risk.

You cite caution on US tech valuations, and you are generally correct to be mindful of this, but the situation is nuanced, and not all tech companies are highly rated. Most companies that are plays on the artificial intelligence (AI) theme have rich valuations, but some look reasonable value.

For instance, your holding in Alphabet, currently trading on a forecast price/earnings ratio of 16.6 times, does not appear expensive, and recent results were strong. There is a risk that AI will disrupt its search and ads business, which generates about 57 per cent of the revenue, but there was no sign of this in the results. And if search is disrupted, the company does have the potential to pivot to other businesses in which it has interests.

YOU ARE WISE TO TRY TO SHELTER AS MUCH AS POSSIBLE OF THE PROPERTY SALE PROCEEDS INTO TAX-EFFICIENT ISAS AND PENSIONS

Annuity rates are at a 16-year high. You could consider annuitising some of your pension to secure more guaranteed income for life. It would mitigate sequencing risk – the negative impact of withdrawals during falling or sideways markets – and longevity risk, which is about the possibility of living to an exceptional age. An annuity purchase might also allow you to invest the rest of your savings more aggressively.

How to build a truly global portfolio

How can passive investors fix the possible flaws in their portfolios? *Alex Newman* reports



Picture the scene: you're at a party, the nation's best-loved weekly investment magazine artfully positioned in your jacket pocket. Spotting the well-known calling card of a stockpicking sophisticate, someone sidles up to you with a question to which they've clearly given some thought.

"I know I need to put my money to work," they begin. "But is there a good way to do it if I don't know anything about investing, don't really want to learn, and worry I'm going to get ripped off?"

Aha, you think, public service calls. And so, with calm efficiency, you explain the basics of platform-based passive investing: its low fees, low maintenance, and superior performance to all but a few active funds. Other party-goers glance over, with what you suspect (though you're not certain) to be an expression of awe.



"This global equity tracker thing – does the 'global' bit mean you're invested everywhere?" asks your companion, clearly intrigued.

Good question, you reply, pointing out that this is where it gets tricky. You explain that when factoring in the relative and absolute weight of American stocks, the maths of index funds means that a typical 'all-country' index is 64 per cent invested in the US – even if, strictly speaking, just a fifth of the holdings are US shares.

The most popular global equity index doesn't invest in most stock markets or even the world's second-largest economy, you add, outlining how these quirks then bump the US allocation to over 70 per cent.

"So let me get this straight," your interlocutor continues. "This 'passive' investing approach, developed in the US by US academics and largely sold to ordinary US investors by US asset managers, says US stocks are at least twice as important as the rest of the world combined? That doesn't sound very passive to me."

To which, you concede they might have a point.

All-seeing MSCI

If our newbie investor friend did opt for a passive global fund, there's a good chance it would look like the MSCI World Index. In an era of free-moving capital and information, the benchmark has become the north star for many global equity investors.

Launched in 1986, it tracks the performance of around 1,500 of the largest, most liquid listed companies across 23 "developed" markets. As an advert for passive investing, it could hardly have been a bigger success. By taking a (nearly) global approach to stocks, it offers a big expression of the idea that by buying the 'entire' market, investors can both diversify and give themselves the best chance of capturing winners.

A 71 PER CENT WEIGHTING TO US STOCKS, EVEN IF PASSIVELY ASSIGNED, REPRESENTS A HUGE BET ON GLOBAL EQUITY MARKETS' FUTURE SOURCE OF PROFITS

It has also set a remarkably high hurdle for returns. Since MSCI began publishing the index, its nominal returns (that is, before inflation) have averaged 9 per cent a year in sterling terms. Over the past 10 years, those annualised returns have climbed to 12 per cent, and to more than 14 per cent in the past five.

The challenge of consistently beating that record explains why cheap tracker funds that mirror the MSCI World and peer indices such as the FTSE All-World, Morningstar Global Target Market Exposure or S&P Global 1200 have become the default option (and indeed recommendation) for millions of investors.

Despite that challenge, many more investors – both retail and institutional – have managed to outperform, without doing any more work. To achieve this, they simply went all-in on the overwhelming driver of global indices' underlying returns: the S&P 500. For UK-based investors, a 9 per cent fall in the dollar over five years hasn't stopped the US blue-chip index from compounding at 15.7 per cent a year in sterling terms.

Of course, the outperformance of US stocks long pre-dates the post-Covid-19 era. Over the past four decades, the US has shrugged off the dotcom crash, the financial crisis, the pandemic, the 2022 return of inflation and (so far) Donald Trump, to post the strongest stock market performance in the world.

This might is nowhere more clearly demonstrated than in the evolution of the MSCI World's regional weightings.

When the index was first devised, all eyes were on another market – Japan – which accounted for nearly the entire value of the Asia-Pacific region. Then, after the Japanese asset bubble popped in the early 1990s, soaring US and European stock markets quickly filled the gaps. Trouble eventually arrived in the 2000-03 and 2007-08 crashes, but while the US was arguably most humbled by those episodes, no market was immune. In any case, those calamities are now a flicker on a long-term trend line. Since bottoming out in relative terms in 2009, both America's stock market and its currency have only gone one way, swamping all before them.

The result of this run is that, as of April, the MSCI World index has a 71 per cent allocation to US stocks, down from a peak of 74 per cent at the end of 2024.

From one angle, this has striking implications for future returns. If the price of ►

► a stock is the present value of its future expected cash flows, the same is also true of a stock market, and of the combined value of all the stocks and stock markets in the world. A 71 per cent weighting to US stocks, even if passively assigned, therefore represents a huge bet on global equity markets' future source of profits.

Of course, if all companies were valued the same, investors might have less to worry about. But as we know, this isn't the case. At the time of writing, the S&P 500 trades on around 25 times earnings, against 17 for non-US "developed markets". In absolute and relative terms, then, US stocks have further to fall when they revert to their long-term mean. This is doubly true for the largest and most highly valued US stocks, which in a break from historical norms are now expected to deliver the highest returns.

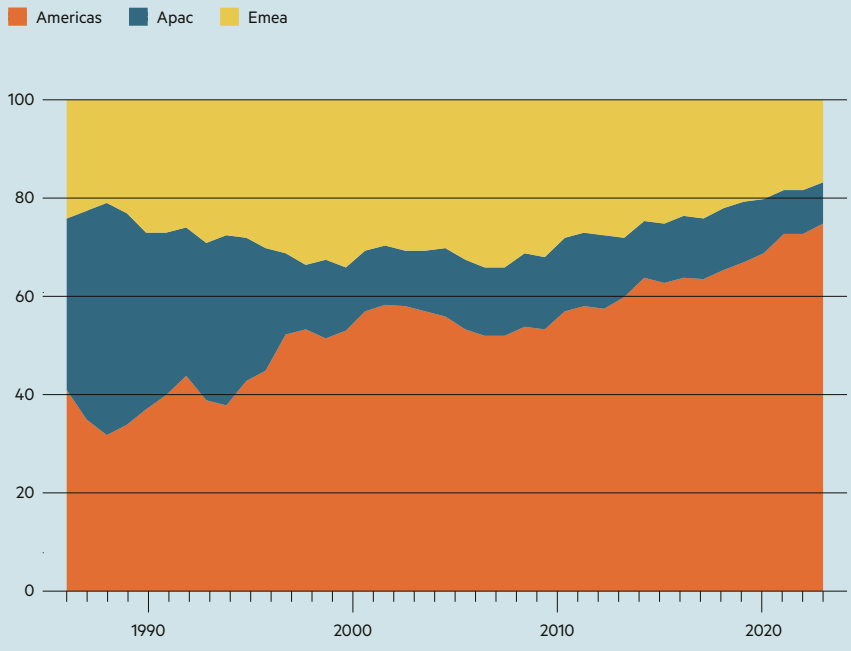
Given the index represents the world's largest "developed" markets - where risks tend to more closely resemble one another than in fledgling, less liquid stock markets - this suggests remarkable faith in the US. What's more, given US corporates' aversion to paying dividends, the two-thirds allocation to US stocks further lowers the future cash returns investors can expect (or might hope to more efficiently redeploy in an accumulating tracker fund). A big weighting to the US magnifies the speculative focus on capital gains.

Second, the way MSCI and other index providers classify global markets is often odd. Despite being controlled by Beijing and home to hundreds of mainland Chinese companies, Hong Kong is a "developed" market, while China - perhaps the world's most advanced technological power, and certainly its largest economy in terms of purchasing power parity - is still "emerging". That label also applies to South Korea, which finds itself lumped next to countries such as financial aid case Egypt and inflation-ravaged Turkey.

However, these contradictions obscure the biggest problem with major global equity indices, which is the dominance of the world's deepest and most highly valued market. Even in an 'all-country' index such as the MSCI ACWI, the largest "emerging" market (China) makes up just 3 per cent, which is just a little less than the UK. In portfolio terms, that's a rounding error, and means that if Chinese or Japanese equities are the next decade's big winners, they will require a gargantuan run of outperformance to make a difference at the index level.

THE MSCI (AMERICAN) WORLD INDEX

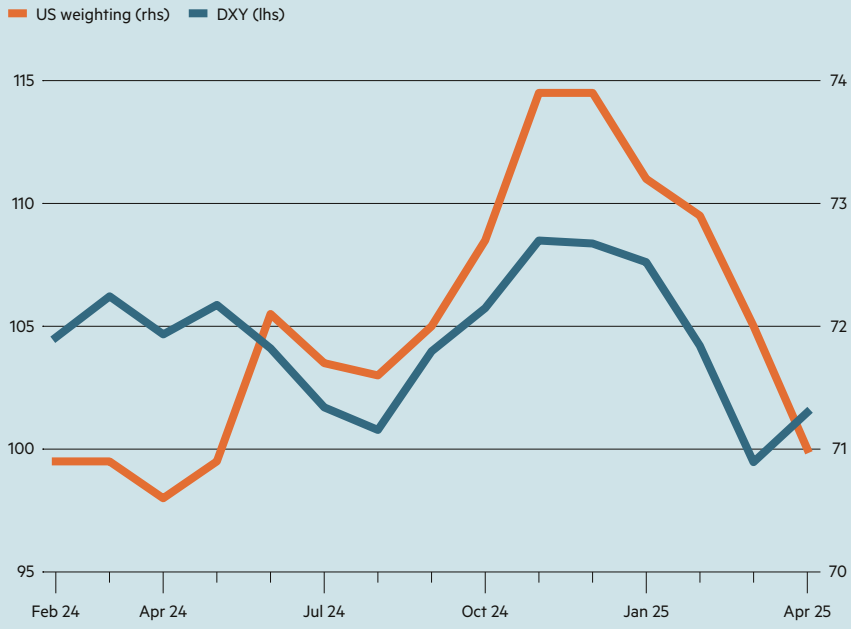
Regional weighting of the MSCI World Index, 1986 to 2024 (%)



Source: MSCI

US WEIGHTING MOVES WITH THE DOLLAR

US stocks weighting (%) in MSCI World Index versus DXY US dollar Index ($)



Source: MSCI, FactSet, Investors' Chronicle

US and them

Indices are forward-looking but by neutrally accepting the price set by the market, global equity indices also accept plenty of assumptions that are rooted in the recent past.

For many passive investors and pension holders, the opening months of 2025 will have produced a sudden realisation of the risks of a US equity-dominated portfolio. For overseas owners, this has meant a double hit. When souring economic sentiment was followed by increasingly belligerent trade noises from the White House, the fall in US equities was compounded by a falling dollar.

This, it turns out, is another problem of extreme US concentration.

In a global portfolio, the relative strength of other currencies should help soften the occasional weakness in the greenback. But when more than two-thirds of the portfolio is priced in dollars, this additional layer of diversification is reduced. If, as some believe, the US is taking active measures to weaken the dollar, then this could lead to sustained price falls in global equity trackers, which are a dollar-denominated asset.

With hindsight, such blind spots are easily traceable. At the start of 2025, market commentary was awash with talk of 'US exceptionalism', the notion that there was no better investment destination on earth, and belief that American capital markets' gravitational-like pull on investor capital and international business would continue to propel it forward. Nosebleed valuations were justified because, well, America wins. And on the days it doesn't win, every American with a 401(k) will be using a chunk of their pay cheque to buy the S&P 500 regardless.

If there is a silver lining from the "liberation day" tariff announcements, it is that global investors no longer see America with such starry eyes. Markets may have neutered Trump's wildest threats, but the idea of the US as a reliable partner, let alone the leader of global trade and the financial order, has taken a big knock. The toothpaste, as they say, is out of the tube.

Global investors who for years wanted a reason to sell expensive US stocks, but clung on for fear of missing out, now have several. The double-digit returns made by European equities in 2025 may give similar pause for thought.

Unwinding the exceptionalism story could conceivably lead to sustained selling for several years. For the passive investor mindful of this threat, then, what might a more sensible level look like?

SALES BY REGION: S&P 500 VERSUS MSCI ACWI

	S&P 500		MSCI ACWI	
	Equal-weight (average)	Market weight	Equal-weight (average)	Market weight
North American sales	71.5%	60%	30.4%	49.7%
Total EBIT margin	15.1%	25%	13.1%	24.3%
North American EBIT margin	13.6%	21.9%	13%	21.8%

Source: Investors' Chronicle, FactSet

Finding 'enough'

For true believers in index investing and efficient markets, quibbling over the 'right' level of US equities in a global equity portfolio misses the point. The market, and the market alone (which in this case, means the dollar-denominated value of global stock markets) sets the level. End of.

We don't have to take the purists' word for it, however. After all, beneath global equity indices' elegant construction are lengthy rule books and judgments on inclusions, exclusions and balances. Ultimately, everyone struggles to define the limits of the global equity market.

One approach would be to stay with the MSCI World but trim the size factor. The **Invesco MSCI World Equal Weight UCITS ETF (MWEQ)**, which launched in September and is based on MSCI's own equal-weight version of the index, does just that. However, because its investable pool of stocks is based on the same market-weighted list as the MSCI World (albeit rebalanced every quarter), US stocks still make up 40 per cent, with continental European nations on a combined 25 per cent, Japan at 14 per cent, Canada at 6.3 per cent and the UK at 5.7 per cent.

This pivot might suit someone who is particularly worried about the outlook for certain US sectors or megacap names. The downside is that by levelling the playing field across all markets, you get the same exposure to every great "developed" market company trying to take their place.

A value tilt, such as the **SPDR MSCI World Value UCITS ETF (VALW)** takes a different spin, by cutting exposure to the priciest US stocks and overall US allocation to 38 per cent, while lifting the value of Japanese and UK holdings to 19 and 12 per cent, respectively. Continental Europe again accounts for around a quarter of the fund.

Another route, if you simply feel there's too much US in your global tracker, is to sell a portion and use the proceeds to overweight the non-US world, solely through an MSCI World ex-US tracker such as iShares' **MSCI World ex-USA ETF (XUSE)**, or in conjunction with an allocation to a corresponding "emerging" index, such as the **iShares MSCI Emerging Markets ETF (EEM)**. An investor wanting to mirror MSCI's equal-weight version of its ACWI index might aim for as little as 21 per cent in the US, for example. This, it turns out, is also much closer to the relative size of the US economy in a global context.

While this method might increase global diversification, it's important not to conflate regional markets with their respective economies. Just as the FTSE 100 shouldn't be seen as a 'play' on the UK economy, the members of the S&P 500 do a lot of business overseas. Just 38 per cent of **Apple (US:AAPL)** sales are domestic, for example.

For the average US blue-chip, that proportion is higher, at 71 per cent, per FactSet data. But re-weight by market cap, and average home market sales fall to 60 per cent. What's more, global-facing S&P 500 constituents tend to be more profitable, attracting a higher rating. The ratio of America's stock market value to its GDP – used to determine the cheapness of US stocks and a metric Warren Buffett once described as "probably the best single measure of where things stand at any given moment" – matters less than it once did.

Still, some of this effect is cancelled out by the often sizeable profits generated in the US by corporates domiciled in Europe, Korea, Japan and elsewhere – although their stocks are typically less highly valued. Even in a passive global equity portfolio that drastically lowers its headline exposure to America, there's no getting around the US – a fact that every international trade minister now knows too well. ●



Dave Baxter

IC COMMENT

Keep an eye on these small-cap big bets

Even those who don't like active funds can still use their top picks as inspiration – and that's especially useful in the somewhat under-researched world of UK small-cap shares.

That's why we've broken out managers' top picks in the past, both via our regular Ideas Farm segment and an analysis carried out by my colleague Dan Jones last year ('Professionals' favourite small-cap picks', *IC*, 9 July 2024).

Both of these look at the most popular holdings for a selection of top-performing UK small-cap portfolios. Now the Association of Investment Companies has provided its own take, assessing all holdings among UK small-cap investment trusts and disclosing the most widely held names.

Some common favourites crop up in all three pieces of analysis, from forex manager **Alpha Group International (ALPH)** to **Gamma Communications (GAMA)**. On top of that, **XP Power (XPP)** and **4imprint (FOUR)** are especially widely held in the AIC UK Smaller Companies sector.

If a stock is widely held, that could either provide some reassurance about its qualities or warn us of a crowded trade.

Small-cap funds often tend to keep position sizes small to mitigate stock-specific risk and, in some cases, liquidity issues.

For instance, the biggest position in **Aberforth Smaller Companies (ASL)**, the biggest trust in its sector, accounts for just 3.4 per cent of its assets. It's the same for **Henderson Smaller Companies (HSL)**, the second biggest name by market cap.

Small position sizes mean we need to look more closely at a fund's sector preferences, the trends it targets and a fuller array of its holdings to get a sense of what a portfolio does.

But if we are talking stock specifics, there are some UK small-cap funds that do take big bets.

Let's start with **Odyssean (OIT)**, which has an activist bent and sits in our Top 50 Funds list because of its distinctive approach and history of good returns.

It holds power supplies provider XP Power, one of the most popular stocks in the AIC's analysis, on an 11.1 per cent weighting. Yet XP Power's share price has more than halved in the past 12 months. OIT manager Stuart Widdowson puts this down to a "periodic industry downturn", predicting a strong recovery in time.

OIT's concentrated approach means it is feeling plenty of other stock-specific pain right now, too. **NCC Group (NCC)**, which makes up almost 15 per cent of the portfolio (and is not widely held among the trust's rivals), is down by around 19 per cent over a year, while **Elementis (ELM)**, which makes up slightly more of the Odyssean portfolio than XP Power, has also had a very rough time of it.

Notably elsewhere is **Strategic Equity Capital's (SEC)** 10.5 per cent position in **Brooks Macdonald (BRK)**, another very poor performer over the past year. It has plenty of other big positions too, including video games developer **Everplay (EVPL)**, formerly known as Team 17, which has been flat over 12 months.

I don't want to disparage these funds too much, given it has been a rocky ride for small and mid-cap shares in general of late and given that their medium-term returns are still strong.

But it's worth keeping an eye on those companies that play an especially big role in a fund's performance. Whether the pain continues, or whether recoveries emerge, will have a big bearing on such trusts. ●

The shares held by Ruffer and rivals

Wealth preservation trusts have a markedly different approach to one another. Dave Baxter reports

The so-called "wealth preservation" investment trusts are often judged on their ability to shield shareholders from equity volatility – and have done well on this front as of late.

Personal Assets (PNL) and **Ruffer (RICA)** shares made modest gains in April, a month that saw the MSCI World index lose almost 3 per cent in sterling terms, while **Capital Gearing (CGT)** was down by a meagre 0.1 per cent. All three of these trusts are also sitting on gains for 2025 so far. The trio are known for having allocation to equities while making use of more defensive assets to protect investors in the event of a sell-off.

Ruffer makes notable use of short-dated bonds and cash, for example, while Personal Assets and Capital Gearing each have big allocations to inflation-linked government bonds. The funds tend to have other quirks, from their particular currency preferences to Ruffer's use of derivatives.

It's easy to focus on how these portfolios defend investors against different threats, be this market volatility or rampant inflation, and that should certainly inform a budding shareholder's choice of which to back.

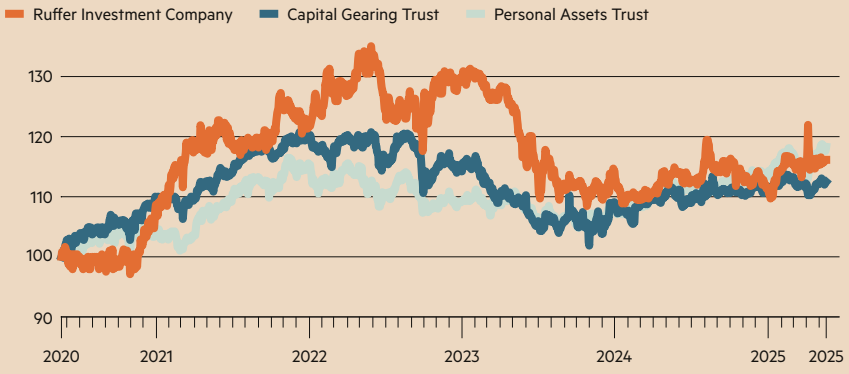
But they all aim to generate growth too, in part by using equities. For those using such trusts as a core holding that can protect but also grow wealth over time, it's worth understanding the different forms of equity risk they take.

These trusts don't always have the most substantial portfolio disclosure, and can differ notably in terms of what they do tell investors. But we have examined what the trusts do tell us to understand exactly where they are invested.

We exclude **RIT Capital Partners (RCP)** from the analysis due to the fact that, while it is often viewed as a wealth preservation trust, it takes a wildly different approach from

FIVE-YEAR RETURNS

Share prices rebased



Source: LSEG

TOP FIVE EQUITY HOLDINGS IN EACH TRUST

RUFFER		PERSONAL ASSETS		CAPITAL GEARING	
Holding	**Allocation (%)**	**Holding**	**Allocation (%)**	**Holding**	**Allocation (%)**
iShares MSCI China ETF	2.1	Unilever	4.7	JPMorgan Japan ETF	2.1
BP	1.6	Alphabet	3.6	North Atlantic Smaller Cos	1.9
Prudential	1.4	Diageo	3.4	Vanguard FTSE 100 ETF	1.9
Amazon	0.9	Visa	3.4	PRS Reit	1.2
Newmont Corporation	0.9	Heineken	2.7	iShares FTSE 250 ETF	1.2

Source: April factsheets

the other three, including big allocations to unlisted assets.

RIT shares held up nicely in April but in recent years they have behaved less defensively than those of the other three.

Recent activity

Capital Gearing had the lowest equity allocation of the three at the end of April, on 17 per cent versus 26.7 per cent for Ruffer and 36 per cent for Personal Assets.

However, these can shift substantially – especially when markets are volatile. In such times it's worth monitoring the commentaries penned by the wealth preservation management teams, as well as keeping an eye on their monthly asset allocation disclosures.

Managers from Personal Assets and Ruffer recorded podcast interviews with the *IC* in April. Personal Assets pointed to upping equity exposure "at the margin" while Ruffer manager Jasmine Yeo said the team had not chosen to "aggressively re-risk" the portfolio amid the big market falls of that month. April updates for the three different trusts available on their websites offer us some more detail.

Ruffer argues that "a portfolio focused on protection and non-US assets looks eminently sensible". Personal Assets' update points to "select opportunities" to invest in high-quality businesses. In total, the team increased the trust's equity allocation by five percentage points in April.

Capital Gearing, meanwhile, notes that it has maintained a defensive stance with a focus on inflation protection.

Different flavours of equity risk

Asked about how the approaches differ between the trusts, Killik & Co's Mick Gilligan notes that Ruffer's share picks tend to have something of a value bias. Personal Assets buys "high quality mega-cap direct equities", favouring companies with pricing power and rarely backing cyclical shares. Manager Charlotte Yonge highlighted this preference in the IC Interviews podcast, pointing to **Visa (US:V)** as one holding demonstrates pricing power.

Gilligan meanwhile notes that Capital Gearing "very rarely invests in direct equities". Instead, it tends to look for cheap markets or sectors via investment trusts, if discounts look attractive, or via tracker funds if not. The team also buys trusts focused on infrastructure and property.

Ruffer does have some cyclical names, from **BP (BP.)** to Asia-exposed insurer **Prudential (PRU)**.

Note that it also has more direct exposure to Asia, principally expressed via a position in an MSCI China ETF.

Its biggest regional allocation is to the UK, which makes up 11 per cent of the fund, with Europe on 5.4 per cent, North America on 4.7 per cent and Asia on 3.1 per cent.

Ruffer's biggest individual equity sector allocation, making up 4.2 per cent of the fund, is in financials, with 3.9 per cent in consumer discretionary shares. The other two trusts tend not to break out their equity exposure in this way.

Capital Gearing's mixture of tracker funds and investment trusts includes the unusual **North Atlantic Smaller Companies (NAS)**, which focuses on smaller companies principally based in the US and UK.

Personal Assets holds some big consumer goods names as well as some US tech plays. Looking beyond its top five it also holds **Nestlé (CH:NESN)** and **Microsoft (US:MSFT)**.

As per regulatory demands, trusts do tend to reveal more information about their individual holdings in their annual and interim reports.

Capital Gearing's report for the six months to 30 September 2024 notes that it held trusts such as hedge fund **BH Macro (BHMG)**, infrastructure plays **3i Infrastructure (3IN)**, **International Public Partnerships (INPP)** and **HICL Infrastructure (HICL)**, and **Polar Capital Global Financials (PCFT)**. It also held the **SPDR MSCI Europe Energy ETF (ENGE)**.

A Ruffer report covering the six months to the end of 2024 shows that the team diversifies pretty aggressively, with around 100 equity holdings.

Equity exposure is partly achieved via funds such as **Ruffer Gold (GB00B8510Q93)** and the China ETF mentioned earlier, but most positions are in individual companies.

Most of the positions account for less than 0.5 per cent of the portfolio apiece. Ruffer is therefore taking less stock-specific risk, though it will require deep resources to monitor so many different companies effectively.

Determining the exact driver of performance for the trusts can be difficult, given that they differ both by the equity exposure they take but also the diversifiers they favour.

But once those factors have been accounted for it's worth noting Personal Assets is ahead of the others in terms of five-year share price total returns, as at 19 May, with a 25.3 per cent gain. That said, Capital Gearing and Ruffer are not far behind. ●



Mark Robinson

IC COMMENT

Diageo aims to bolster dividend cover and reduce leverage

Michael Fahy recently asked within these pages whether the booze industry in the US had suffered its own "surgeon-general" moment. At the start of this year, Vivek Murthy (then the holder of that public health position) outlined the link between alcohol consumption and various forms of cancer. The warning was reminiscent of the 1964 breakthrough announcement which set out specific health risks associated with smoking.

If you take the time to review industry advertising from the 1960s, it's clear that the tobacco industry wasn't being entirely candid about the long-term impact of its products on the nation's health. From the vantage point of the 21st century, it may seem odd that anyone would require an official proclamation to appreciate the dangers of smoking. But, then again, we in these isles had been warned about its noisome effects some 360 years earlier by King James I. The first Stuart monarch had already imposed heavy duties on the importation of the leaf, reflecting his assertion that the practice was "dangerous to the lungs". The late king was obviously ahead of the curve, but it could be argued that tax revenues from tobacco were to become every bit as addictive as nicotine itself.

It's doubtful whether government campaigns about the evils of alcohol will ever reach the same fever pitch as those relating to tobacco, even if we do live in increasingly proscriptive times. And it's worth noting that for all of the social stigma, and the legislative and tax burdens placed on the tobacco industry, it still commands the interest of investors. Consider that almost two-thirds of **Altria's (US:MO)** share register is composed of institutional investors, the likes of Vanguard, BlackRock and Charles Schwab. You wouldn't necessarily describe the industry as being in "rude health", but it's probably in better shape than many within its customer base.

The surgeon general's injunction over the link between alcohol and cancer came at a time when the industry has been faced by some worrying consumer trends, chief among them greater price consciousness and its impact on premiumisation. The effect of prolonged inflation is particularly noticeable in certain categories like craft beer and spirits. Valuations for both **Pernod Ricard (FR:RI)** and FTSE 100 constituent **Diageo (DGE)** have halved since the beginning of 2022, the point at which prices for consumer goods started to easily outstrip the growth in household incomes. Leaving aside company specifics, the overarching threat to spirits producers is if consumption has become more price elastic than it was prior to the inflationary spiral.

There were few clues as to whether this is playing out at Diageo, at least based on the group's third-quarter update which was delivered ahead of its latest capital markets day. Management reiterated fiscal 2025 guidance, while stating that organic profits are moving up more briskly than net sales growth, and the group's inventory issues appear to be easing.

Diageo's chief executive Debra Crew views "near-term industry pressure as largely macroeconomic-driven, with continued uncertainty impacting both the timing and pace of recovery". Washington's tariff shenanigans will obviously come into the equation. Short of any changes to the existing regime, the unmitigated impact is estimated at c.$150mn (£112mn) on an annualised basis. Management reckons that half of the impact could be absorbed without any price increases, as managing risk in this area is a standard function of the globalised business.

It's too early to judge the degree to which margins will find support from the group's new $500mn cost savings programme, nor its potential impact on operating leverage. But the leverage ratio is predicted to contract, and management has indicated that the group will deliver c.$3bn in free cash flow per annum from fiscal 2026 onwards.

The market will doubtless welcome any self-help measures, along with the reintroduction of quarterly sales updates. And the prospect of reduced leverage and rising free cash flows will serve to reassure those investors who have been fretting over whether Diageo would be able to sustain dividend growth going forward.

The heavily indebted group still trades above the industry average at 12.2 times cash profits to enterprise value; its short-term moving average dipped below its 200-day measure in May 2022 and has yet to recover. Improved earnings visibility may not be enough to reignite interest in the stock, but sentiment could improve in response to further inventory destocking. A pessimist might take the view that the intensified focus on capital discipline suggests that the group isn't altogether confident in trading its way out of the share price slump, even though it has reported sequential improvement in organic net sales. ●

It's time for National Grid to deliver

The key utility player is launching major spending push, but regulator sign-off is needed. Alex Hamer reports

National Grid NG. 1,046p BUY

MULTI-UTLITIES

- **Profits climb on higher US energy rates**
- **DPS down after equity issue**

The money is raised, the plan is in place. Now it's time for **National Grid (NG.)** to ramp up spending and show investors that its plan to fix the UK's power systems will be possible. The company raised £7bn in new equity last year to help fund £35bn in capital spending between 2026 and 2031.

This outlay and its potential returns still need approval from regulator Ofgem, but National Grid is already working on significant grid improvements under the 'accelerated strategic transmission investment' framework.

Six of these projects are in construction and another five should get planning permission this year. The government is also busy trying to fix the planning logjam that is currently impacting projects. National Grid chief financial officer Andy Agg told *Investors' Chronicle* the government's planning and infrastructure bill wouldn't "radically accelerate work", but would serve to "de-risk our delivery plans over the next five years". National Grid has asked for a return on equity of 6.3 per cent for its five-year plan, which is at the top end of Ofgem's range. The regulator will decide on this next month.

Agg said National Grid was trying to balance "the needs of consumers and investors", adding: "[It's] a huge step up from what we've delivered in the past." Group return on equity was 9 per cent in FY2025, down from 10.5 per cent the year before.

In the 12 months ended 31 March, National Grid also reported underlying operating profits of £5.4bn, 12 per cent ahead of last year and up £100mn compared with analyst forecasts.

The income statement reflects the uplift in spending: the cash outflow for the 2025 financial year was £5.9bn, compared with £3.7bn the year before. The rights issue brought in £6.8bn net to help balance out the increase, which came partly from a £1bn rise in UK electricity transmission spending.

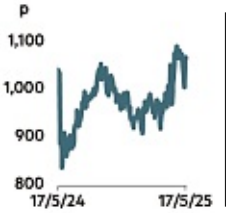


National Grid is trying to balance 'the needs of consumers and investors'

Capital spending also rose in the US divisions, although it also saw higher operating profits, with New York's rising 43 per cent to £1.45bn on an underlying basis. This took it above UK electricity transmission as the largest contributor to underlying operating profit.

The changes don't stop with the spending increases. Chief executive John Pettigrew will retire in November, with former **Shell (SHEL)** upstream and integrated gas boss Zoe Yujnovich taking the top job.

National Grid's massive investment in UK and US energy infrastructure will expand its earnings potential, with operating profit set to climb steadily. Risks remain, but a higher premium on the regulated asset base should emerge as investors see success with the programme. Buy. ●



Ord Price: 1,046p
Market Value: £51.3bn
Touch: 1,045-1,046p
12-Month High: 1,104p
Low: 827p
Dividend Yield: 4.5%
PE Ratio: 17
Net Asset Value: 771p
Net Debt: 123%

Year to 31 Mar	Turnover (£bn)	Pre-tax profit (£bn)	Earnings per share (p)	Dividend per share (p)
2021	13.7	1.66	37	49.2
2022	18.5	3.44	60.6	51
2023	21.7	3.59	74.2	55.4
2024	19.9	3.05	55.5	58.5
2025	18.4	3.65	60	46.7
% change	-8	+20	+8	-20

*Includes intangible assets of £13.1bn, or 267p a share
Last IC view: Buy, 990p, 7 Nov 2024 Ex-div: 29 May Payment: 17 Jul
NB: 2024 EPS restated to reflect bonus impact of rights issue

Auction Technology ATG 492p BUY

CONSUMER DIGITAL SERVICES

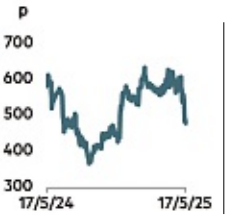
Judging the macroeconomic impact on **Auction Technology Group (ATG)** is tricky. During the inflationary surge, there were arguments it would benefit from the rising price of second-hand goods. Similarly, during a recession there is an argument that businesses might seek out ATG websites in the search for cheaper second-hand equipment.

Ultimately, ATG has proved a bit more cyclical than investors hoped. However, despite revenue slowing from its rapid growth a few years ago, it is now showing some resilience. In the six months to March, revenue increased 3 per cent, while operating profit was up 43 per cent. This pushed up the operating margin 5 percentage points to 17 per cent.

As it is an online auction business, it is capital-light. This allows it to generate a lot of cash, with cash generated from operations rising 39 per cent to $38.3mn (£30mn). This helped bring net debt down by $35.1mn to $107mn. It also launched a $40mn share repurchase programme.

Broker Peel Hunt has trimmed its organic growth forecast slightly to 4 per cent, but likes the "impressive cash conversion". It also pointed to the fact that ATG achieved these results despite being disrupted by tariffs and having to switch the business on to new finance software.

ATG might not be the high-growth stock it was a few years ago, but this is reflected in the valuation. Peel Hunt currently has the company trading on an attractive 2026 free cash flow yield of 6 per cent. The argument now is for steady growth and strong cash conversion at a reasonable price. And for us that looks a justifiable appraisal. Move to buy. AS ●



Ord Price: 492p
Market Value: £596mn
Touch: 487-492p
12-Month High: 658p
Low: 365p
Dividend Yield: nil
PE Ratio: 32
Net Asset Value: 559¢*
Net Debt: 16%

Half-year to 31 Mar	Turnover ($mn)	Pre-tax profit ($mn)	Earnings per share (¢)	Dividend per share (¢)
2024	86	3.11	5.3	nil
2025	89	8.9	5.7	nil
% change	+3	+186	+8	–

*Includes intangible assets of $806mn or 665¢ a share £1 = $1.30
Last IC view: Hold, 504p, 27 Nov 2024

Grainger GRI 223p — HOLD

REAL ESTATE HOLDING & DEVELOPMENT

The market reacted positively to **Grainger's (GRI)** half-year figures, yet the residential landlord, which aims to convert to a Reit, continues to trade at a sizeable discount to net assets.

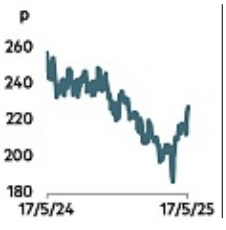
Several external factors will colour sentiment towards the private rented residential sector over the coming months, but management has clearly delivered on the areas within its influence. Grainger has largely kept a lid on costs, with the EPRA cost ratio falling by 170 basis points to 32.8 per cent, although that is at the upper end of the average industry range.

Its integrated operational platform has been designed for scalability, enabling the property company to accelerate earnings growth, often as a consequence of "actionable insights" gleaned from the platform. Like-for-like rental growth improved over the period, and the occupancy rate remains solid at 96 per cent.

EPRA earnings have increased 23 per cent, while net rental income was 15 per cent to the good. Financial performance has benefited from growth in underlying rents, which, in turn, has supported valuations. Reported profits were buoyed by a £28.7mn valuation uplift, against negative revaluations of £75.6mn at the 2024 interim mark.

Management maintains that the investment case is backed by supply-constrained markets, rising investment in the buy-to-rent sector and a favourable political backdrop, although that last point may be open to question. It anticipates 50 per cent earnings growth from the end of Grainger's last financial year through to FY2025.

The discount to 2026 consensus earnings now stands at 29 per cent, and there is a 3.5 per cent dividend yield to take on board. That is certainly attractive, but we are yet to witness a marked improvement in sentiment towards the sector. Hold. **MR**



Ord Price: 223p
Market Value: £1.59bn
Touch: 222-224p
12-Month High: 276p
Low: 184p
Dividend Yield: 3.5%
Trading Prop: £311mn
Discount to NAV: 25.7%
Investment Prop: £3.04bn
Net Debt: 78%

Half-year to 31 Mar	Net asset value (p)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	298	-31.2	-3	2.54
2025	300	74	7.5	2.85
% change	1	–	–	+12

NB: NAV represents EPRA net tangible assets
Last IC view: Hold, 270p, 16 May 2024 Ex-div: 22 May Payment: 7 Jul

United Utilities UU. 1,096p — HOLD

WATER

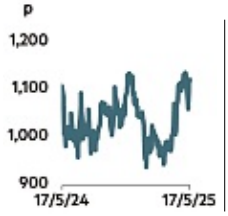
Luckily for Lake Windermere, **United Utilities (UU.)** managed to avoid spilling any more raw sewage this year into one of the country's most famous habitats. However, its full-year figures, while generally acceptable because of a combination of higher interest income and relatively lower costs, still left a lot of unanswered questions over the long-term viability of water companies as privatised, publicly listed utilities.

The results showed that the company is feeling the pressure as concerns about its business model grow, not least a long list detailing its "material litigation" issues at home and abroad. However, operationally the income statement benefited from its exposure to index-linked debt at a time when inflation has been falling.

For instance, a lower applied interest rate meant underlying net interest charges on its more than £9.1bn of net debt were £9mn lower at £284mn. At the same time, higher average rates over the same period meant the company earned £92.5mn, or almost double the amount compared with last year, on its cash balances.

Customers are having to foot at least part of the bill for infrastructure renewal, with a big increase in spending on UU's leaky pipes clear from these results; net regulatory capex spending was up 47 per cent to £1.08bn.

The water industry has never been held in lower public esteem. Yet income investors will find the projected dividend yield of almost 5 per cent for 2026 appealing, given the indexation that comes with it. In this context, a FactSet consensus earnings multiple of only 11.5 for 2026 begins to resemble compensation for the prospect of increased government intervention. Hold. **JH**



Ord Price: 1,096p
Market Value: £7.5bn
Touch: 1,096-1,097p
12-Month High: 1,145p
Low: 928p
Dividend Yield: 4.7%
PE Ratio: 28
Net Asset Value: 293p
Net Debt: £9.1bn

Year to 31 Mar	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	1.81	551	66.5	43.2
2022	1.86	439	-8.3	43.5
2023	1.82	256	30	45.5
2024	1.95	170	18.6	49.8
2025	2.14	355	38.8	51.9
% change	+10	+109	+109	+4

Last IC view: Hold, 1,105p, 16 May 2024 Ex-div: 19 Jun Payment: 1 Aug

Sage SGE 1,215p — BUY

SOFTWARE

The promise made by many fast-growing software companies is that they will benefit from 'operational leverage'. In theory, most software costs are upfront and there is little marginal cost to each additional customer. As the business grows, so should the operating margin.

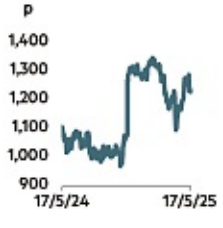
In practice, this doesn't always work out, but it has in the case of accounting software business **Sage (SGE)**. In the six months to March, annualised recurring revenue increased 10 per cent, while the underlying operating profit rose 16 per cent.

North America continues to be the fastest-growing market, with underlying revenue increasing 11 per cent. The US makes up 46 per cent of the business, followed by the UK (28 per cent) and Europe (25 per cent). This geographical diversity will create increased resilience if the economy starts to sour.

In some regards, Sage should be well placed in this scenario. It sells subscription accounting software which, once installed, is costly to replace. However, it sells mostly to small and medium-sized businesses, which tend to suffer disproportionately when the economy worsens.

Broker Investec says "Sage is not directly exposed to tariffs as an enterprise software vendor, but second-order macro slowdown effects should be considered". This concern, coupled with the fact that Sage trades on an expensive forward price/earnings ratio of 30, means that despite Sage's "defensive characteristics" Investec is maintaining a hold stance.

We are more bullish. Even if an economic slump makes new customer acquisition harder, the software provider can expand its offerings to its existing customer base. This includes its "rapidly scaling" AI-powered assistant Sage Copilot. Given its track record and £200mn share buyback extension, it deserves the benefit of the doubt. Buy. **AS**



Ord Price: 1,215p
Market Value: £11.9bn
Touch: 1,214-1,215p
12-Month High: 1,349p
Low: 954p
Dividend Yield: 1.7%
PE Ratio: 35
Net Asset Value: 82p*
Net Debt: 122%

Half-year to 31 Mar	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	1.15	203	15.3	6.95
2025	1.24	236	18.2	7.45
% change	+8	+16	+19	+7

*Includes intangible assets of £2.4bn or 247p a share
Last IC view: Buy, 1,281p, 20 Nov 2024 Ex-div: 29 May Payment: 27 Jun

Greencore GNC 210p — HOLD

FOOD PRODUCTS

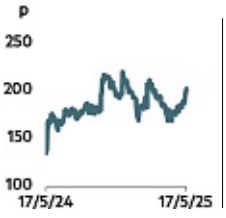
Half-year results from food group **Greencore (GNC)** were overshadowed by news that its £1.2bn acquisition of **Bakkavor (BAKK)** has been agreed. The takeover is ambitious – Bakkavor is the bigger of the pair, so Greencore is having to pay nearly £500mn in cash and give away 44 per cent of the enlarged entity.

It has arranged £825mn in new bank debt, and leverage will increase to 2.5 times the combined entity's cash profits, Greencore's management said. It is confident it can make the deal pay, though. Greencore says £80mn in annualised savings can be made within three years. Even with £90mn of one-off costs, leverage could be brought down to 1.5 times within two years of completion.

Management also expressed confidence in securing the necessary regulatory clearance, even though both are significant suppliers to **Tesco (TSCO)**, **Sainsbury's (SBRY)** and **Marks and Spencer (MKS)**. Chief executive Dalton Philips said their products were complementary, with Greencore focused on 'food to go' such as sandwiches and salads and Bakkavor on 'take-home' products such as pizzas and ready-meals. The greater power it will wield in the supply chain will be a cause for concern, however. Trade union Unite has already warned of weakened competition, suppressed wages and price hikes for consumers.

So far, the takeover hasn't been a distraction – Greencore reported a 6.5 per cent increase in half-year sales and a 50 per cent uplift in operating profit, while nudging full-year guidance 2 per cent higher.

Greencore has been a solid performer, but the share price slide since we last reported on the company has brought its valuation down to 14 times consensus earnings. This deal makes it a riskier prospect, though. We stick to hold. **MF**



Ord Price: 210p
Market Value: £927mn
Touch: 210-210.5p
12-Month High: 248p
Low: 135p
Dividend Yield: 1.1%
PE Ratio: 17
Net Asset Value: 102p*
Net Debt: 42%

Half-year to 28 Feb	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	866	14.7	2.5	nil
2025	922	26.7	4.5	nil
% change	+6	+82	+80	-

*Includes intangible assets of £454mn, or 103p a share

Last IC view: Hold, 215p, 3 Dec 2024 Ex-div: na Payment: na

Big Yellow BYG 1,018p — BUY

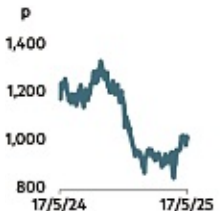
STORAGE REITS

Big Yellow (BYG) delivered its full-year figures after the close of trading on the London bourse, which can occasionally raise eyebrows among cynics. But the self-storage operator reported a 2.3 per cent increase in like-for-like store revenues, along with an 8 per cent rise in adjusted profits to £116mn. Statutory profits came up short on the prior year due to a lower revaluation surplus, but overall performance was still creditable given lingering macroeconomic uncertainties.

The Reit's maximum lettable area ticked up slightly through the year, while the occupancy rate rose by 40 basis points to 78.7 per cent. Trading conditions have worsened since April, so there has been "softening of demand and some loss of occupancy", according to executive chair Nicholas Vetch. But with realised rates on the rise, revenues continue to move in the right direction.

Cash flows are also on the up, which, combined with moderating store operating costs, should help to support shareholder returns going forward. Higher property taxes and energy bills have stymied financial performance in recent years, so positive news on the cost front will bolster investor sentiment. Nonetheless, property rates, which account for 35 per cent of operating costs, still increased by 15 per cent, partly due to the impact of new stores and the unwinding of taper relief.

A London focus and determination to keep a lid on net borrowings have aided performance. However, the discount to net assets suggests the market isn't sold on near-term prospects, even though self-storage demand continues to grow on the back of the ongoing housing crisis and the rise of ecommerce. Buy. **MR**



Ord Price: 1,018p
Market Value: £2mn
Touch: 1,014-1,018p
12-Month High: 1,344p
Low: 829p
Dividend Yield: 4.6%
Trading Prop: na
Discount to NAV: 22%
Net Debt: 16%
Investment Prop: £2.99bn

Year to 31 Mar	Net asset value (p)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	889	266	152	34
2022	1,187	699	385	42
2023	1,184	75.3	40.1	45.2
2024	1,240	241	127	45.2
2025	1,297	204	103	46.4
% change	+5	-15	-19	+3

Last IC view: Buy, 1,104p, 19 Nov 2024 Ex-div: 3 Jul Payment: 25 Jul

Kainos KNOS 754p — BUY

SOFTWARE

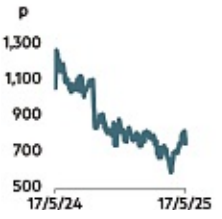
Our advice regarding **Kainos (KNOS)** so far has been "don't worry and buy the dip". The software consultant saw revenue fall in the first half of last year, but there were mitigating circumstances and growth was expected to return.

It appears Kainos expects challenges to last longer than expected. The drop in revenue was because of a slowdown in government work and a reduction in digital services. Last year's earlier than expected general election and the subsequent hiatus in digital investment contributed to a 9 per cent fall in public revenue.

In response, management reduced the workforce by 7 per cent, resulting in restructuring costs of £8.4mn and long-term savings of £19mn. Two-thirds of this will be reinvested, with the remainder offsetting wage inflation and increased national insurance payments. Chief executive Brendan Mooney told the *IC* this restructuring was to move spending away from "lower-growth digital services to other higher-growth parts of the business".

The hope is that Kainos is past the bottom. In the fourth quarter, it returned to "low single-digit percentage revenue growth", while bookings activity accelerated in the second half of the year. House broker Investec says the results "point to stabilising-to-improving business traction", and expects Kainos's profit margins to start improving.

Kainos's strong cash generation and balance sheet means a slightly longer than expected recovery is not a problem. The fall in share price gives it a free cash flow yield of 6 per cent, and it announced an intention to launch a further share buyback programme of £30mn. Clearly, the board believes a recovery is coming. And so do we. Buy. **AS**



Ord Price: 754p
Market Value: £924mn
Touch: 754-755p
12-Month High: 1,288p
Low: 580p
Dividend Yield: 3.8%
PE Ratio: 27
Net Asset Value: 113p*
Net Cash: £123mn

Year to 31 Mar	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	235	50.3	32.5	28.2
2022	303	46	29.1	22.2
2023	375	54.3	33.6	23.9
2024	382	64.8	39	27.3
2025	367	48.6	28.4	28.4
% change	-4	-25	-27	+4

*Includes intangible assets of £41.5mn, or 34p a share

Last IC view: Buy, 846p, 11 Nov 2024 Ex-div: 2 Oct Payment: 24 Oct

Premier Foods grows profits and raises dividend

Brand strength offers protection, argues chief executive Alex Whitehouse. Michael Fahy reports

Premier Foods PFD 202p **BUY**
FOOD PRODUCTS

- Branded goods now make up 88 per cent of sales
- Dividend lifted by 62 per cent as pensions match ends

Premier Foods (PFD) reported a slight beat to analysts' expectations and a big uplift in its dividend.

Although revenue grew just 1 per cent, this included results from two factories that were closed during the year. Adjusting for these, headline revenue grew by 3.5 per cent and sales of branded goods by 5.2 per cent. These now make up 88 per cent of total sales.

The increase was delivered by volume growth, with the company employing "sharper promotional price points" to win business. This is reflected in the fact that although market share increased by 80 basis points in volume terms, it rose by only 21 points in value terms.

This is something worth keeping an eye on, especially as the grocers keep profit expectations in check in anticipation of a price war.

Yet chief executive Alex Whitehouse argued that Premier currently isn't "seeing any major challenges in that area", and expects growth this year to be more balanced between volume and price increases. "Having strong brands is also really helpful," Whitehouse said.

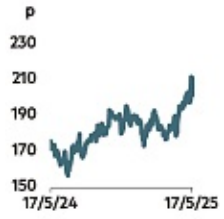
A 6 per cent increase in trading profit showed that the company has been able to maintain margins, and a 29 per cent jump in operating cash flow also allowed net debt to be cut by £92mn to £144mn. Net debt is now just 0.7 times cash profits, down from 3 times in 2019, chief financial officer Duncan Leggett said. This gives it more cash to invest – capital investments rose by 26 per cent last year to £41mn, and will climb by more than a fifth this year to £50mn, with the money being spent on automation projects to drive efficiency and capacity improvements.



Premier Foods has been able to maintain margins

An increase in its pension surplus means Premier no longer has to make additional payments into the scheme every time it pays a dividend. As a result, the company is lifting its dividend by 62 per cent to 2.8p a share.

Premier's shares are up by a fifth over the past year and, at 14 times, consensus forecast earnings are ahead of their five-year average of 10 times. This is a reflection of a much improved balance sheet, though, and with more cash available it has "optionality" to increase shareholder value, including through bigger acquisitions, said Clive Black of house broker Shore Capital. Double-digit sales increases from its last two purchases – The Spice Tailor and FUEL10K – suggest management has a good idea of what it's doing in this area. Buy.



Ord Price: 202p
Market Value: £1.8bn
Touch: 201-202p
12-Month High: 208p
Low: 154p
Dividend Yield: 1.4%
PE Ratio: 14
Net Asset Value: 166p*
Net Debt: 15%

Year to 29 Mar	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2020	0.95	123	12.5	1
2021	0.9	103	9	1.2
2022	1	112	10.6	1.44
2023	1.14	151	13	1.728
2024	1.15	161	14.3	2.8
% change	+1	+7	+10	+62

*Includes intangible assets of £974mn, or 112p a share
Last IC view: Buy, 187p, 14 Nov 2024 Ex-div: 26 Jun Payment: 25 Jul

Diploma DPLM 4,894p **BUY**
INDUSTRIAL SUPPLIERS

Diploma (DPLM) has built a reputation as a textbook steady compounder, and its half-year results show why. The FTSE 100 industrial distributor upgraded its organic growth and operating margin guidance for 2025, sending its shares to an all-time high.

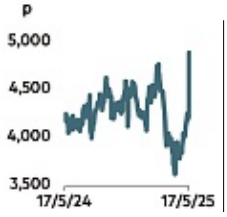
The company, which supplies everything from specialist wiring to seals and sterile medical products, now expects 8 per cent organic growth this year, up from 6 per cent. Operating margins are forecast to come in at 22 cent, compared with previous guidance of 21 per cent.

That confidence is backed by a solid set of first-half results. Organic sales rose 9 per cent in the six months to 31 March, with the controls business leading the way at 16 per cent. The life sciences segment was up 6 per cent, while the seals division was flat.

Adjusted operating profit jumped 25 per cent to £157mn, ahead of analysts' forecasts, and margins edged up by 1.9 percentage points to 21.5 per cent thanks to cost control, operational leverage and margin-boosting acquisitions.

Net debt rose 44 per cent to £378mn, but leverage is still modest at 1.1 times Ebitda – against a board policy of below two times. Cash flows have also been solid, with a conversion rate of 78 per cent. The group has made bolt-on mergers & acquisitions a core pillar of its growth story, and the balance sheet leaves plenty of room for further deals.

Diploma's shares now trade at around 31 times forward earnings, a discount to their five-year average. This isn't cheap, but investors may be willing to pay up for a consistent performer. The fact that more than 75 per cent of its products are sourced locally should also help shelter it from any tariff turbulence. Buy. VM



Ord Price: 4,894p
Market Value: £6.6bn
Touch: 4,894-4,900p
12-Month High: 5,020p
Low: 3,532p
Dividend Yield: 1.2%
PE Ratio: 39
Net Asset Value: 704p*
Net Debt: 46%

Half-year to 31 Mar	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	638	77.8	43.1	17.3
2025	729	122	71.5	18.2
% change	+14	+57	+66	+5

*Includes intangible assets of £1.04bn, or 776p a share
Last IC view: Buy, 4,186p, 20 Nov 2024 Ex-div: 29 May Payment: 13 Jun

Topps Tiles TPT 36p — HOLD

HOME IMPROVEMENT RETAILERS

Topps Tiles (TPT) is making some progress towards the medium-term sales target it set a year ago after returning to growth in the first half. The tile retailer reported a 4.1 per cent rise in sales to £128mn, helped by new product lines and double-digit growth from trade customers.

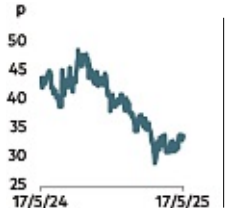
That improvement has continued, with group revenues in the first seven weeks of the second half up 9.5 per cent year on year. "We are pretty confident this will be a new record year of sales for the business," outgoing chief executive Rob Parker told *Investors' Chronicle*.

The group managed to offset most inflationary pressures with cost savings, lifting adjusted profit before tax by 3.2 per cent to £3.2mn. On a statutory basis, it swung from a £1.5mn loss a year ago to £1.9mn pre-tax profit, including a £1mn trading loss from tile distributor CTD.

Topps acquired CTD out of administration in August last year, but the deal was held up by a Competition and Markets Authority probe. Clearance finally came in April after the companies agreed to divest four stores. Management now expects CTD to break even by the end of the financial year.

Net debt remains low at £1.2mn, but lease liabilities of more than £96mn limit headroom for further M&A, reinvestment or shareholder returns. Meanwhile, Parker, who will leave later this year, has not yet been replaced. His departure follows public criticism from the company's largest shareholder, Austrian private equity firm MS Galleon.

A forward price/earnings multiple of 9.2 times is not overly demanding for a company regaining momentum, but the strategic direction remains hazy until a new chief executive is in place. We downgrade to hold. **VM**



Ord Price: 36p
Market Value: £70mn
Touch: 35-36p
12-Month High: 50p
Low: 28p
Dividend Yield: 5.6%
PE Ratio: na
Net Asset Value: 2.2p
Net Debt: £97.5mn

Half-year to 29 Mar	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	123	-1.47	-1.12	1.2
2025	143	1.88	0.61	0.8
% change	+16	-	-	-33

Last IC view: Buy, 43p, 30 Jul 2020 — Ex-div: 5 Jun — Payment: 11 Jul

Jadestone Energy JSE 21p — BUY

AIM: OIL: CRUDE PRODUCERS

Jadestone Energy (JSE) has been a poor investment for years, with operational issues knocking production. More recently, an onshore gas project in Indonesia, Akatara, has helped increase production to a record high and reversed the slide in profitability seen between 2023 and 2024. Production in 2024 averaged 18,696 barrels of oil equivalent per day (boepd), a one-third increase on 2023 when rig shutdowns constrained output.

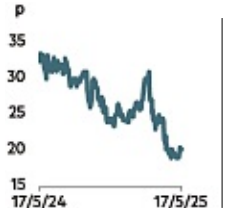
Yet shares slumped to an all-time low below 20p last month, following on from a February trading update that disappointed investors.

There is an interim chief executive in place to help right the ship, with the company's share price slump meaning its market value is well behind Peel Hunt's Ebitda minus exploration spending forecast for the year of $156mn (£118mn). The investment bank expects the company to become free cash flow positive in 2025 for the first time since 2022, with an estimate of $47mn.

This year has started well. Production was up to 20,830 boepd at the end of April, and net debt was down by half to around $50mn.

But the shares have fallen a third since the February trading update that set full-year output guidance at 19,000-22,500 boepd, which Peel Hunt analyst Werner Riding said would be "hard to miss". This is now 18,000-21,000 boepd due to the sale of a 9.5 per cent interest in the Sinphuhorm field in Thailand for $39mn.

Jadestone's shares have dropped so much since our initial buy call in September 2021, at 78p, that it's hardly been worth downgrading and crystallising losses. Gas prices holding up and Akatara hitting its first full year of production keep us hanging on despite the company's record. Buy. **AH**



Ord Price: 21p
Market Value: £111mn
Touch: 20.5-21.5p
12-Month High: 35p
Low: 18.6p
Dividend Yield: nil
PE Ratio: na
Net Asset Value: 3.5¢
Net Debt: £122.5mn

Year to 31 Dec	Turnover ($mn)	Pre-tax profit ($mn)	Earnings per share (¢)	Dividend per share (¢)
2020	218	-57.2	13	1.62
2021	340	-4	-4	1.93
2022	422	63.2	2	0.65
2023	309	-103	-18	nil
2024	395	-43.4	-8	nil
% change	+28	-	-	-

£1 = $1.33
Last IC view: Buy, 29p, 17 Sep 2024 — Ex-div: na — Payment: na

LondonMetric Property LMP 195p — BUY

DIVERSIFIED REITS

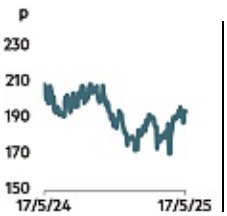
The upbeat assessment by chief executive Andrew Jones that shareholders in **LondonMetric Property (LMP)** "have every reason to be optimistic" is backed by a range of full-year metrics, although you would be hard-pressed to justify it based on share price performance alone.

Net rental income more than doubled to £391mn, with total property and accounting returns standing at 8.3 per cent and 9.7 per cent, respectively. The rise in reported IFRS profits was even more stark, buoyed by a positive revaluation movement of £119mn, set against adverse movements in derivatives, disposals and other movements of £35.8mn. Financial performance benefited from annual rent reviews and a 98 per cent occupancy rate.

The results mirror the change in the scale of operations due to the successful integration of the LXi and CTPT acquisitions, with the former deal representing more than £3bn in assets.

The Reit has increased its annual dividend for the 10th year in a row, with related European Public Real Estate Association (EPRA) earnings coverage standing at 109 per cent. Management is guiding for a 5.3 per cent increase in the first quarterly dividend for FY2026 to 3p. FactSet consensus gives EPRA net asset value and earnings per share at 209.1p and 13.2p, respectively, rising to 219p and 13.4p in March 2027.

LondonMetric, unlike the majority of its peers, trades at a thin discount to net assets. But we reiterate out buy call, based not only on a well-covered forward dividend yield in excess of 6 per cent, but also on the composition of a portfolio weighted towards growth areas of the property market, such as logistics and healthcare. Buy. **MR**



Ord Price: 195p
Market Value: £4.03bn
Touch: 195-196p
12-Month High: 210p
Low: 167p
Dividend Yield: 6.1%
Trading Prop: £1.1mn
Discount to NAV: 2%
Net Debt: 55%
Investment Prop: £6.4bn

Year to 31 Mar	Net asset value (p)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	191	258	28.6	8.65
2022	262	738	78.8	9.25
2023	204	-508	-51.8	9.5
2024*	192	120	10.6	10.2
2025*	199	353	17.1	12
% change	+4	+194	+61	+18

NB: Q4 dividend = 3.3p per share. EPRA net tangible assets
Last IC view: Buy, 192p, 26 Nov 2024 — Ex-div: 29 May — Payment: 9 Jul

Land Securities LAND 591p — BUY

DIVERSIFIED REITS

Full-year results for **Land Securities (LAND)** seemed to confirm the general trend of rising rents and constricted space, as a generalised return to work in the premium London offices in which the Reit currently specialises powered an increase in rental income. However, a subtle change in strategy is on the cards.

The rise in rental income was part of the brighter outlook. For the year, this increased by 5 per cent to £552mn on a like-for-like basis, with occupancy a whole 100 basis points better at 97.2 per cent, driven mainly by its London and major retail portfolios. About 80 per cent of its customer lettings base have either maintained or increased their floorspace over the past 12 months.

The Reit is expanding its portfolio of 'destination' shopping sites – notably a £490mn investment in Liverpool One, which brought Landsec a 92 per cent stake in the site. Other major retail investments included £120mn for a further 17.5 per cent interest in the Bluewater shopping centre in Kent. This was largely balanced by £496mn of disposals, including £400mn of hotel assets that were shortly due major upgrades.

Management signalled that Landsec is going to change its capital allocation policy over the next two to five years. It will reduce its exposure to offices by £2bn and shift capital towards residential, which it believes will be less volatile.

Broker Peel Hunt forecasts a price/earnings ratio of 12 for 2026, with an attractive dividend yield of 6.8 per cent. In our view, this offers enough compensation for risk to maintain our buy stance at a time when the share price is still at a large discount to net assets. Buy. **JH**



Ord Price: 591p
Market Value: £4.4bn
Touch: 590-591p
12-Month High: 691p
Low: 490p
Dividend Yield: 6.8%
Trading Prop: £81mn
Discount to NAV: 48%
Net Debt: 69%
Investment Prop: £10bn

Year to 31 Mar	Net asset value (p)	Pre-tax profit (£bn)	Earnings per share (p)	Dividend per share (p)
2021	975	-1.39	188	27
2022	1,070	0.88	117	37
2023	945	-0.62	-83.6	38.6
2024	863	-0.34	-43	39.6
2025	877	0.39	53.3	40.4
% change	+2	-	-	+2

Last IC view: Buy, 593p, 15 Nov 2024 — Ex-div: 12 Jun — Payment: 25 Jul

Future FUTR 699p — BUY

MEDIA AGENCIES

Future (FUTR) blamed "macroeconomic uncertainty" for cutting its revenue guidance, following a drop in digital advertising demand in the second quarter. The publisher now expects a low-single-digit decline in organic revenue this year, compared with an earlier forecast of 1 per cent growth.

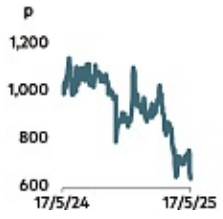
The slowdown was most visible in March, when advertisers delayed or pulled campaigns. Organic US digital advertising revenue fell 5 per cent in the six months to 31 March, while UK revenue was down 14 per cent. April brought signs of improvement, with US digital ad sales returning to growth.

Growth in affiliates, print advertising and magazine sales helped keep the company's business-to-consumer revenues flat overall during the half. Last year's star performer, price comparison site Go.Compare, saw revenues drop by 1 per cent, with double-digit growth in non-car insurance sales.

A sluggish enterprise tech market is still weighing on the business-to-business division, with organic revenues down 13 per cent. Organic sales fell 1 per cent overall to £378mn, and adjusted operating profits were down 5 per cent to £101mn. However, despite higher staff costs, the margin held steady at 27 per cent.

Future remains a cash machine. Adjusted free cash flow was £111.5mn, with 111 per cent adjusted operating profit conversion. A higher cash balance reduced net debt to £241mn, and leverage was stable at 1.1 times Ebitda.

Newly appointed chief executive Kevin Li Ying is sticking with this year's 28 per cent operating margin target. The company's growth strategy may hit a few bumps ahead, but with the shares trading at 5.8 times forward earnings and with a healthy cash cushion, investors aren't being asked to pay much for the potential upside. Buy. **VM**



Ord Price: 699p
Market Value: £745mn
Touch: 686-699p
12-Month High: 1,160p
Low: 631p
Dividend Yield: 0.5%
PE Ratio: 9
Net Asset Value: 1,025p*
Net Debt: 25%

Half-year to 31 Mar	Turnover (£mn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	392	46.6	29.2	nil
2025	378	56.6	38.4	nil
% change	-4	+21	+32	-

*Includes intangible assets of £1.51bn, or 1,419p a share

Last IC view: Buy, 940p, 13 Feb 2025 — Ex-div: na — Payment: na

SSP SSPG 175p — BUY

RESTAURANTS AND BARS

SSP (SSPG) flagged lower demand in North America "following recent geopolitical events" as its like-for-like sales in the region fell 2 per cent in the first six weeks of the second half of its financial year.

But the FTSE 250 Upper Crust owner, which sells food and drinks to travellers at airports and railway stations, maintained annual guidance for revenue of £3.7bn-£3.8bn and an adjusted operating profit of £230mn-£260mn.

For the half-year, like-for-like sales growth came in at 5 per cent. Muted growth of 2 per cent in North America and 3 per cent in continental Europe (SSP's biggest market) was offset by growth of 8 per cent in the UK and a 13 per cent uplift in Asia-Pacific and related markets.

Adjusted operating profit was up by a fifth to £45mn. Management said the benefits of its profit improvement plan in Europe, where profit fell 12 per cent in the half, would be seen in the second half.

In post-period trading, like-for-like sales were also up by 5 per cent. The company disclosed a "modest impact" on trading at its **Marks and Spencer (MKS)** units after the retailer was hit by a cyber attack.

SSP also confirmed that the float of its joint venture in India, Travel Food Services, had been pushed back from the spring to the summer.

Plans to tighten capital expenditure to £230mn this year and less than £200mn in 2026, and expectations of big improvements in free cash flow generation, raise prospects of a share buyback.

Given this context, SSP's undemanding valuation of just 5 times EV/Ebitda (enterprise value against cash profits) keeps us bullish. Buy. **CA**



Ord Price: 175p
Market Value: £1.4bn
Touch: 174.9-175.4p
12-Month High: 213p
Low: 134p
Dividend Yield: 2%
PE Ratio: na
Net Asset Value: 21p*
Net Debt: £1.91bn

Half-year to 31 Mar	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2024	1.52	12.8	-1.3	1.2
2025	1.66	-37.3	-7.7	1.4
% change	+9	-	-	+17

*Includes intangible assets of £747mn, or 93p a share

Last IC view: Buy, 181p, 3 Dec 2024 — Ex-div: 29 May — Payment: 27 Jun

Avon Technologies AVON 1,627p HOLD

DEFENCE

Avon Technologies (AVON) delivered a solid set of half-year results as the protective helmets and respiratory gear maker benefited from stronger demand from Nato countries amid rising European defence spending and struck a bullish tone on the impact of US tariffs.

Management upgraded the full-year outlook in March, and the results confirmed that the company is on track to deliver revenue growth of more than 10 per cent and an operating margin above 12 per cent.

Adjusted operating profit was up 48 per cent to $17.5mn (£13mn), helped by a better mix of higher-specification products. The margin rose from 9.4 per cent to 11.8 per cent. The order book climbed by a quarter to $247mn (£185mn) as the Avon Protection unit enjoyed eye-catching growth of 69 per cent.

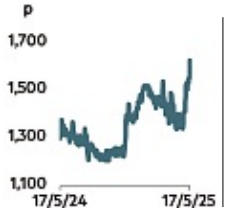
Net debt (including lease liabilities) fell slightly to $74.7mn.

Given exposure to the US, it is encouraging that management doesn't expect tariffs to hinder its ability to reach medium-term margins of 14-16 per cent. It estimates an $800,000 hit on components shipped to the US if levies of 10 per cent are maintained.

House broker Peel Hunt argued the company "has more immediate flexibility than some of its competitors to relocate production over time".

The shares remain well below their peak in late 2020, after which they crashed on delays to US defence contracts. But Avon is moving in the right direction and has exposure to attractive markets. The company is still confident about hitting medium-term targets in 2026, a year ahead of its original plan.

Avon trades on 28 times 2025 earnings. Hold. **CA**



Ord Price: 1,627p
Market Value: £492mn
Touch: 1,624-1,640p
12-Month High: 1,702p
Low: 1,153p
Dividend Yield: 1.1%
PE Ratio: 100
Net Asset Value: 557¢*
Net Debt: 44%

Half-year to 31 Mar	Turnover ($mn)	Pre-tax profit ($mn)	Earnings per share (¢)	Dividend per share (¢)
2024	127	-1.5	-3.7	7.2
2025	149	3.1	8.1	7.6
% change	+17	-	-	+6

£1 = $1.34. *Includes intangible assets of $121mn, or 399¢ a share
Last IC view: Hold, 1,400p, 19 Nov 2024 Ex-div: 7 Aug Payment: 5 Sep

Marks and Spencer MKS 370p BUY

FOOD RETAILERS AND WHOLESALERS

Full-year figures for **Marks and Spencer (MKS)** demonstrate that digitalisation can be a double-edged sword. It has helped the group drive structural cost reductions of around £300mn over the past three years, which has supported underlying profitability. Despite this, the market's focus has switched to last month's cyber attack, which has led to a suspension in online shopping and reduced availability of some food items.

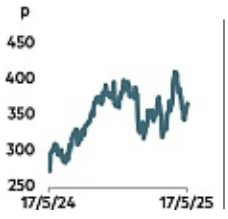
Measures are in progress to "reduce the interdependency of systems", but the incident underlines how vulnerable businesses have become to attacks of this nature.

The financial impact of the cyber attack will be apparent in the retailer's interim figures, but shareholders can take solace from the fact that underlying profits – up 22 per cent to £876mn – beat market expectations and the annual dividend rose by a fifth.

The rise in profitability was largely down to 8.6 per cent like-for-like growth in food sales. This reflected volume growth in core categories, together with increased market share. This fed through to a 70 basis point rise in the adjusted profit margin to 5.4 per cent – the envy of most high-street grocers. Sales and profitability also showed a marked increase in the fashion, home and beauty segment.

Sales were running ahead of plan prior to the cyber attack, but the group is guiding for a £300mn hit to operating profits for 2025-26. The net impact should be lower thanks to insurance and other mitigating factors, but M&S might still be on the hook for potential fines under data protection regulations.

Assuming this is a one-off issue, the group's EV/Ebitda multiple of 5.05 times still sits below the peer group average. Buy. **MR**



Ord Price: 370p
Market Value: £7.62bn
Touch: 369.6-370p
12-Month High: 418p
Low: 272p
Dividend Yield: 1%
PE Ratio: 25
Net Asset Value: 143p
Net Debt: 70%

Year to 29 Mar	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	9.16	-209	-10.1	nil
2022	10.9	392	15.7	nil
2023	11.9	476	18.5	nil
2024	13.0	673	21.9	3
2025	13.8	512	14.6	3.6
% change	+6	-24	-33	+20

Last IC view: Buy, 403p, 6 Nov 2024 Ex-div: 29 May Payment: 4 Jul

Great Portland Estates GPE 337p BUY

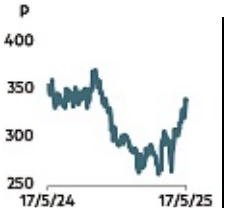
OFFICE REITS

There were no great surprises in **Great Portland Estates' (GPE)** full-year results. A great deal of the operational and transactional initiatives had been covered in April's fourth-quarter update, but the central London property investor's return to profitability is cause for celebration, even though last year's £350mn (gross) rights issue initially gave rise to concerns over dilutive effects. But the focus has switched to growing earnings through rental uplifts amid a rising property market.

Just under half of the proceeds have been ploughed into four West End acquisitions at a 53 per cent discount to replacement cost. Management has identified strengthening demand for prime office space in the capital, as reflected in the 15 per cent increase in the rent roll. That said, rationalisation measures are also being considered in a bid to optimise returns on the portfolio.

The existing portfolio benefited from a 3.6 per cent valuation uplift, while rental values and European Real Estate Association (EPRA) net assets also headed in the right direction. There is now sufficient liquidity to rejig the portfolio thanks to the completion of the rights issue, along with a new £250mn sterling bond issued in September. The loan-to-value ratio, at 28.5 per cent, is more than manageable, which, along with upgraded rental value guidance, places the group in an advantageous position despite some wider market uncertainties.

We maintain that the current discount to net assets is unwarranted, especially given that FactSet consensus gives EPRA NAV of 505p, rising to 537p in FY2027. Buy. **MR**



Ord Price: 337p
Market Value: £1.37bn
Touch: 337-339p
12-Month High: 381p
Low: 260p
Dividend Yield: 2.3%
Trading Prop: na
Discount to NAV: 32%
Net Debt: 45%
Invmt Prop: £2.96bn*

Year to 31 Mar	Net asset value (p)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	779	-202	-80	12.6
2022	835	167	66.1	12.6
2023	757	-164	-64.8	12.6
2024	473	-308	-101	12.6
2025	494	118	30.2	7.9
% change	+4	-	-	-37

*Includes £507mn investments in joint ventures.
NB: EPS/NAV figures restated to take account of the 2024 rights issue
Last IC view: Buy, 301p, 12 Dec 2024 Ex-div: 29 May Payment: 7 Jul

Vodafone's prospects look more positive

The telecoms company appears to be past the worst of its troubles in the German market. Arthur Sants reports

Vodafone VOD 73p — HOLD

TELECOMMUNICATIONS SERVICES

- New €2bn buyback launched
- Multi-billion-euro impairment taken on German business

For a while now, Germany has been dragging down the performance of **Vodafone (VOD)**, and now this has been officially recognised in the form of a multi-billion-euro impairment. In the year to March, Vodafone recorded impairment charges of €4.4bn (£3.7bn) for investments in Germany because of "materially higher competitive intensity in the mobile market". This swung the group from an operating profit of €3.7bn last year to a loss of €0.4bn.

The German business has been impacted by a combination of changing regulation, more competition and a slowing economy. In some ways, it is a microcosm of the wider problems suffered by telecoms companies. As a result, organic services revenue fell 5 per cent to €12.2bn, while its adjusted cash profit margin slipped 2.7 percentage points to 36 per cent. However, management believes the worst is behind it and expects Germany to return to growth this year.

Strong growth in Africa and a steady performance from the UK business helped offset the German decline. African organic revenue grew 11 per cent to €7.8bn, and it is now Vodafone's second-largest location. In both South Africa and Egypt it managed to keep growing its customer base while increasing prices. It also offers digital payment services alongside mobile services, and in Egypt 'Vodafone Cash' users increased by almost a third to more than 11mn.

The African business has been one of Vodafone's successes and is now reaching a point where its high growth figures will start to have a meaningful impact on the group.

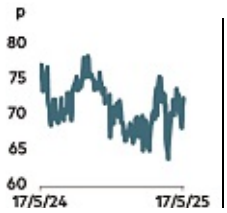
In the UK, organic service growth was slower at just 1.9 per cent. It is no longer benefiting as much from inflation-linked price rises and it only increased its mobile customer base by 7,000. The question is how much the UK business will benefit from the merger with Three, which will be completed in the first half of this year. Vodafone is downplaying the benefits, presumably because it wants to avoid the attention of competition regulators, but the hope will be that the increased scale will lead to improved profit margins.



Vodafone is no longer benefiting as much as it was from inflation-linked price rises

Vodafone is guiding (excluding the UK merger) for adjusted cash profit for this year to be between €11bn and €11.3bn. Meanwhile, adjusted free cash flow is expected to be between €2.6bn and €2.8bn, which would represent around 8 per cent growth.

There is a case that the worst is now behind Vodafone. The impairment has been taken and German regulation won't get worse. With a free cash flow yield of 10 per cent, the stock looks better value than it has for while. If the German business can show stronger signs of recovery then a re-rating would be justified. Hold.



Ord Price: 73p
Market Value: £18.1bn
Touch: 73-73.44p
12-Month High: 80p
Low: 62p
Dividend Yield: 5.2%
PE Ratio: na
Net Asset Value: 217¢*
Net Debt: 78%

Year to 31 Mar	Turnover (€bn)	Pre-tax profit (€bn)	Earnings per share (¢)	Dividend per share (¢)
2021	43.8	0.44	0.38	9
2022	45.6	4.1	7.71	9
2023	37.7	13.1	43.7	9
2024	36.7	1.62	4.45	9
2025	37.4	-1.48	-15.9	4.5
% change	+2	-	-	-50

£1 = €1.19. *Includes intangible assets of €33.4bn, or 135¢ a share
Last IC view: Hold, 68p, 12 Nov 2024 Ex-div: 5 Jun Payment: 1 Aug

Cranswick CWK 5,550p — BUY

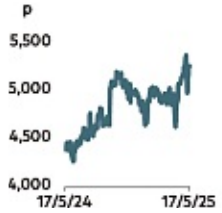
FOOD PRODUCTS

Cranswick (CWK) delivered statutory profits that were ahead of market expectations for FY2025, and rewarded shareholders with a double-digit dividend hike. The Hull-based pork and poultry producer grew adjusted operating profits by 14 per cent to £207mn on an impressive 48 basis point increase in the underlying margin to 7.6 per cent.

The marginal increase might be partly down to a strong Christmas trading period and a favourable sales mix, although management cites "growing agricultural operations, excellent capacity utilisation and tight cost control". That makes sense given the extent of vertical integration within the business, a feature which has been reinforced by the £24mn acquisition of JSR Genetics, along with a £32mn deal to acquire sausage-maker Blakemans post-period end. But the simple fact that volumes were on the rise also supports unit profitability. The integration of JSR Genetics will not only enable Cranswick to expand its pig herd, but allow it to offer customers an "end-to-end supply chain".

Fresh Pork export revenue rose 10.2 per cent, with prospects buoyed following the reinstatement of the group's China export licence at its Norfolk primary processing facility following a four-year hiatus. By contrast, its application for a large processing unit in Norfolk was recently rejected. There was better news on the poultry front, where revenue was up by a fifth thanks to new cooked and prepared retail listings.

The shares have been in uptrend since 2022, and have risen by 25 per cent over the past year, leaving them trading at 2.8 times book value – high for a food producer, but not prohibitive given growth prospects. Buy. MR



Ord Price: 5,550p
Market Value: £3bn
Touch: 5,530-5,550p
12-Month High: 5,550p
Low: 4,203p
Dividend Yield: 1.8%
PE Ratio: 22
Net Asset Value: 1,823p*
Net Debt: 17%

Year to 29 Mar	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	1.9	115	176	70
2022	2.01	130	196	75.6
2023	2.32	140	208	79.4
2024	2.6	158	210	90
2025	2.72	182	251	101
% change	+5	+15	+19	+12

*Includes intangible assets of £211mn, or 389p a share
Last IC view: Buy, 4,870p, 26 Nov 2024 Ex-div: 17 Jul Payment: 29 Aug

JD Sports Fashion JD. 87p — HOLD

APPAREL RETAILERS

JD Sports Fashion (JD.) shares fell 7 per cent after the sports and fashion retailer revealed a 2 per cent drop in like-for-like sales in its first quarter in what it described as a "volatile and promotional market".

While this outcome was as expected by management, investors were perturbed both by trading weakness against recent quarters and by the lack of reference to 2026 guidance in the results.

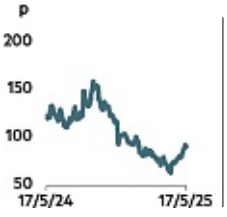
There were no surprises with the annual figures themselves. Revenue was up in all markets other than the UK, where it fell by 4.1 per cent, reflecting the divestment of non-core businesses during the period. North American sales were boosted by the acquisition of US retailer Hibbett last July, while European trading benefited from the purchase of French trainers seller Courir in November.

Gross margin was down 20 basis points to 47.8 per cent, while adjusted pre-tax profit fell 4 per cent to £923mn, in line with reduced guidance of £915mn-£935mn.

Meanwhile, the recently announced $2.4bn (£1.8bn) acquisition of **Foot Locker (US:FL)** by **Dick's Sporting Goods (US:DKS)** has highlighted JD Sports' lowly rating.

Analysts at Panmure Liberum pointed to JD Sports' "relative undervaluation", given it posts six times more pre-tax profit than Foot Locker and this isn't reflected in its market cap when set against the acquisition price.

JD Sports trades on 7 times forward earnings, well under its five-year average of 32 times. A takeover could feasibly emerge as the company continues to battle short-term headwinds. Hold. **CA**



Ord Price: 87p
Market Value: £4.48bn
Touch: 87-88p
12-Month High: 162p
Low: 61p
Dividend Yield: 1.1%
PE Ratio: 9
Net Asset Value: 57p*
Net Debt: 89%

Year to 1 Feb	Turnover (£bn)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	6.17	324	23.1	1.44
2022	8.56	655	7.17	0.35
2023	10.1	487	3.65	0.8
2024** (restated)	10.5	811	10.5	0.9
2025	11.5	715	9.5	1
% change	+9	-12	-9	+11

*Includes intangible assets of £2.4bn, or 46p a share
**FY2025 is a 52-week period, while FY2024 is the 53 weeks to 3 Feb 2024
Last IC view: Hold, 143p, 2 Oct 2024 Ex-div: 12 Jun Payment: 11 Jul

Helical HLCL 235p — HOLD

OFFICE REITS

The bullish mood among London-focused office developers continued with **Helical (HLCL)**, after the group reversed last year's heavy valuation loss in its investment estate into a net gain of £32mn, after cashing in on the forward £333mn sale of 100 New Bridge Street, EC4.

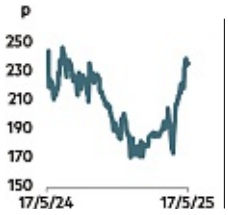
There is a general sense that office valuations are finally recovering, and Helical also benefited from the trend. For instance, in these results, the valuation of Helical's total portfolio was up by 5.8 per cent.

Asset disposals have allowed the company to recycle up to £245mn of equity, bringing the company's underlying net debt down by well over 60 per cent to £113mn as the balance sheet was progressively deleveraged – this left the loan-to-value ratio at a historically low 21 per cent. This did have a negative impact on EPRA EPS, which was 2.2p (2024: 3.5p) and reflected the sale of its investment assets.

Meanwhile, the rental market continued to pick up during the year as workers slowly drifted back to the office. Helical secured 12 new lettings, with a combined contracted rent of £5.8mn (of which its share was £3.6mn). Total leased footage was more than 30,000 sq ft, post the period end, after a total of eight lease renewals is factored in.

Management sounded upbeat: "Although macroeconomic and geopolitical uncertainties persist, the outlook for London commercial real estate has strengthened."

Broker Peel Hunt updated its forecasts to assume a material return of capital in 2027, driving the expected dividend yield to 10 per cent. With low debt and rising values, it looks time for an upgrade. Hold. **JH**



Ord Price: 235p
Market Value: £290mn
Touch: 235-236p
12-Month High: 259p
Low: 167p
Dividend Yield: 2.1%
Trading Prop: £0.13mn
Discount to NAV: 32%
Net Debt: 23%
Invmt Prop: £373mn

Year to 31 Mar	Net asset value (p)	Pre-tax profit (£mn)	Earnings per share (p)	Dividend per share (p)
2021	501	20.5	14.8	10.1
2022	551	72.9	72.8	11.15
2023	489	-64.5	52.6	11.75
2024	327	-190	-155	4.83
2025	347	27.9	22.8	5
% change	+6	-	-	+4

Last IC view: Sell, 185p, 26 Nov 2024 Ex-div: 26 Jun Payment: 4 Aug

SSE SSE 1,767p — HOLD

CONVENTIONAL ELECTRICITY

SSE (SSE) has trimmed £3bn from its five-year investment plan, pointing to changing macroeconomic conditions and red tape slowing down approvals. The new £17.5bn capex plan still has most of its projects committed, but about 10 per cent could still be delayed or cancelled.

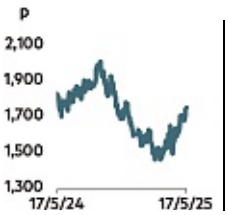
The biggest cuts are in renewables and thermal, where spending is expected to fall by £1bn and £1.5bn, respectively. Upgrades to its regulated electricity networks remain a priority, with its transmission and distribution divisions still accounting for 60 per cent of the total capital investment plan.

This is a safer bet – regulated assets offer more predictable returns, which should help calm nerves about SSE's rising debt pile. Adjusted net debt and hybrid capital rose by 8 per cent to £10.2bn, pushing leverage to 3.2 times Ebitda.

That figure is expected to rise to 4 times by the end of 2027, but SSE should have enough funding flexibility to support its investment plan. The group has access to around £2bn of additional hybrid borrowing, and the option to sell a stake in its distribution arm.

An internal efficiency review is also under way to keep costs in check and make sure spending lines up with actual growth prospects. The decision followed a 25 per cent drop in adjusted operating profit to £2.4bn in the year to 31 March, dragged down by a 75 per cent plunge in its thermal division, even as its network business held up well.

SSE reconfirmed its FY2027 earnings per share target of 175-200p a share and hiked its final dividend by 7 per cent. With CCO Martin Pibworth set to become chief executive, we await a fuller update on the company's strategy after the investment cuts. Hold. **VM**



Ord Price: 1,767p
Market Value: £20bn
Touch: 1,768-1,769p
12-Month High: 2,019p
Low: 1,447p
Dividend Yield: 3.6%
PE Ratio: 16
Net Asset Value: 1,143p
Net Debt: 75%

Year to 31 Mar	Turnover (£bn)	Pre-tax profit (£bn)	Earnings per share (p)	Dividend per share (p)
2021	6.82	2.42	219	81
2022	8.7	3.48	241	85.7
2023	12.5	-0.21	-14.7	96.7
2024	10.5	2.5	157	60
2025	10.1	1.85	108	64.2
% change	-4	-26	-31	+7

Last IC view: Hold, 1,706p, 13 Nov 2024 Ex-div: 24 Jul Payment: 18 Sep

THE WEEK AHEAD

MONDAY 26 MAY (Bank holiday)

TUESDAY 27 MAY

Economics: BRC shop price index
AGMs: Alba Mineral Resources (ALBA), EnQuest (ENQ), GreenRoc Strategic Materials (GROC)
Companies paying dividends: BlackRock World Mining Trust (6.5p), Mortgage Advice Bureau (14.8p), Quilter (4.2p), Robert Walters (17p), Stelrad (SRAD), M&G Credit Income (1.96p), Pembroke VCT (2p)

WEDNESDAY 28 MAY

Trading updates: Kingfisher (KGF)
Finals: C&C (CCR), Pets At Home (PETS)
AGMs: Aptitude Software (APTD), Aquila Energy Efficiency Trust (AEET), Evoke (EVOK), Glencore (GLEN), Golden Prospect Precious Metals (GPM), Haleon (HLN), LSL Property Services (LSL), Microlise (SAAS), Xaar (XAR)
Companies paying dividends: Bakkavor (4.8p), Croda International (63p), Mobius Investment Trust (1.7p), Ocean Wilsons (91.536p), Smith & Nephew (17.48p)

THURSDAY 29 MAY

Interims: Hollywood Bowl (BOWL)
Finals: Auto Trader (AUTO), Capital Gearing Trust (CGT)
AGMs: Churchill China (CHH), Getech (GTC), GlobalData (DATA), Gulf Marine Services (GMS), Hemogenyx Pharmaceuticals (HEMO), IG Group (IGG), Property Franchise (TPFG), PYX Resources (PYX), RM Infrastructure Income (RMII)
Companies paying dividends: Ashtead Technology (1.2p), Baillie Gifford Shin Nippon, (0.6p), Coats ($0.0219), ConvaTec (3.64p), Costain (2p), Dowlais (2.8p), Merchants Trust (7.3p), Octopus AIM VCT 2 (1.8p), Reckitt Benckiser (121.7p), Travis Perkins (9p), Octopus Titan VCT (1.8p)

FRIDAY 30 MAY

Economics: Nationwide house price index
AGMs: Aseana Properties (ASPL), Beacon Rise (BRS), Old Mutual (OMU)
Companies paying dividends: Arbuthnot Banking (29p), Bellevue Healthcare Trust (2.52p), Boot (Henry) (4.62p), Derwent London (55.5p), Dunedin Income Growth (4.6p), Elementis (2.28p), Fresnillo (51.1257p), Global Opportunities Trust (10p), Greggs (50p), Ibstock (2.5p), International Workplace ($0.009), JPMorgan American Inv (8.25p), Kenmare Resources ($0.17), Nexteq (3.7p), PPHE Hotel (21p), Reach (4.46p), Senior (1.65p), Shaftesbury Capital (1.8p), STV (7.4p), AEW UK REIT (2p), Alternative Income REIT (1.55p), Bankers Investment Trust (0.686p), CQS Natural Resources Growth and Income (1.26p), CQS New City High Yield Fund (1p), CVC Income & Growth (€0.02), Diverse Income Trust (The) (1.05p), Ecofin Global Utilities & Infrastructure (2.125p), EJF Investments (2.675p), Greencoat UK Wind (2.59p), Hansa Investment Company (0.8p), Henderson Far East Income (6.2p), JD Wetherspoon (4p), Marwyn Value Investors (2.265), Sequoia Economic Infrastructure Inc (1.71875p), Target Healthcare REIT (1.471p), Taylor Maritime ($0.02), City Of London Investment Trust (5.4p), Custodian Property Income REIT (1.5p), Octopus Renewables Infrastructure Trust (1.54p), Picton Property Income (0.95p), Tetragon Financial ($0.11), Alfa Financial Software (2.4p), Aquila Energy Efficiency Trust (36.837p), BP Marsh & Partners (8.08p), Fresnillo (51.1257p)

COMPANIES GOING EX DIVIDEND ON 29 MAY 2025

Company	Dividend	Pay date
Avingtrans	1.9p	27 June
Intertek	102.6p	20 June
Origin Enterprises	€ 0.0315	20 June
Informa	13.6p	11 July
Hill & Smith	32.5p	4 July
Alfa Financial Software	1.4p	27 June
Diversified Energy	$0.29	30 June
H&T	11p	27 June
Yu Group	41p	19 June
RTC	5p	27 June
Gamma Communications	13p	19 June
Ultimate Products	1.55p	27 June
JTC	8.24p	27 June
Hilton Food	24.9p	27 June
Brave Bison	0.02p	27 June
Coca Cola HBC AG	€ 1.03	24 June
ASA International	$0.041	27 June
Premier Miton Global Renewables	2p	27 June
Associated British Foods	20.7p	4 July
Alliance Witan	7.08p	30 June
Temple Bar Inv Trust	3.75p	27 June
Card Factory	3.6p	27 June
Lords Group Trading	0.52p	4 July
Victrex	13.42p	27 June
On the Beach	1p	27 June
National Grid	30.88p	17 July
Sage Group	7.45p	27 June
abrdn Equity Income Trust	5.7p	27 June



Simon Thompson

IC COMMENT

Volvere VLE 2,100p — BUY

- **Full-year revenue rose 14 per cent to £49mn**
- **Pre-tax profit up 74 per cent to £6.3mn**
- **Net cash rose 19 per cent to £27.1mn (1,232p)**
- **NAV up 12 per cent to £41.9mn (1,720p)**

The Aim-traded investment company **Volvere (VLE:2,100p)** delivered the eye-catching annual results I had anticipated when I suggested buying the shares at 1,800p in my 2025 Bargain Shares Portfolio.

The turnaround specialist's only trading business, an 80 per cent shareholding in Royal Leamington Spa-based Shire Foods, continues to outperform, boosting full-year underlying pre-tax profits (before intra-group management charges) from £3.8mn to £6.2mn, on 14 per cent higher revenue of £49mn. Volvere acquired its interest in the frozen pie and pastry manufacturer for just £0.5mn between July 2011 and December 2012.

The company has received total dividends of £6.4mn to date, including £4mn in the latest financial year, and conservatively values its retained 80 per cent stake at £15.2mn (690p) based on Shire Foods' net asset value of £19.1mn. Clearly, it's worth more than three times annual pre-tax profit, highlighting the hidden value in Volvere's accounts.

Even factoring in a less benign trading environment due to industry-wide cost pressures (staff, raw materials, supply chains), management still expects Shire Foods to deliver a creditable performance this year. It has proven adept at managing cost pressures, tripling pre-tax profit in the past three financial years. A high-quality product offering is supportive of demand and is freeing up production capacity for higher-margin product lines. This should help mitigate the impact on volumes resulting from the inevitable pass-through of cost increases by supermarkets to consumers.

The healthy profit contribution from Shire Foods also explains the £5mn increase in Volvere's net cash to £27.1mn (1,232p), a sum that equates to 59 per cent of the company's market capitalisation of £46.2mn (2,100p) and generates annual interest income of £1mn.

Offering 43 per cent potential upside to my sum-of-the-parts valuation of £66.3mn ('An investment company in deep value territory', 24 March 2025), Volvere's shares remain undervalued. Buy.

Angling Direct ANG 42p — BUY

- **Annual revenue up 12 per cent to £91.3mn**
- **Underlying cash profit grew 20 per cent to £3.4mn**
- **Adjusted pre-tax profit rose 23 per cent to £2mn**
- **Net cash of £12.1mn (16.5p) supports growth strategy**

Established in 1986, Norfolk-based **Angling Direct (ANG:42p)** is the leading omnichannel specialist fishing tackle retailer in the UK, and one with a growing presence in Europe.

The £30.8mn market capitalisation company sells more than 25,000 fishing tackle products from industry-leading brands alongside its own brands 'Advanta' and entry-level offering 'Discover', through a network of more than 50 UK retail stores, a digital platform and the MyAd Fishing Club app, which increased its membership by 86 per cent to 409,000 members in the last financial year. The increasing penetration of MyAd not only provides greater insights into customer behaviours and buying patterns, but is driving customer loyalty, too.

In addition, Angling Direct has opened seven stores to expand its geographical footprint in the past two years, closely matching major fishing hotspots and licence holder data to mitigate store expansion risk. New stores require an investment of £0.4mn, but typically reach profitability within 12 months, hit maturity within three years and have a short four-year pay-back period. In the latest financial year, the UK retail business (store and online) increased cash profit by 12 per cent to £4.2mn on sales of £86.4mn, buoyed by 6 per cent like-for-like store sales growth and 8.4 per cent growth in online sales. Angling Direct is the market leader, with a 15 per cent share of a UK addressable market worth £550mn in annual revenue. Such is its ambition that the company aims to boost UK cash profit to £6mn on £100mn of revenue in the next three years.

Bearing this in mind, the directors are using the company's balance sheet strength and cash flow to scale the business faster than its traditional 'greenfield' approach, by entering new catchment areas through selective acquisitions, including three small bolt-on acquisitions last year. As single store operators come under increasing pressure due to rising costs, expect the pace of consolidation in the home market to ramp up.

Angling Direct is well placed to exploit the opportunity, having the financial clout and the economies of scale to support the investment needed in working capital and technology. The directors believe there are more than 80 catchment areas which can be serviced by Angling Direct, so offering a large domestic market to target.

European losses narrowing

Importantly, the annual cash loss from the European business is narrowing (down from £1mn to £0.8mn). Analysts at brokerage Singer Markets forecast a much-reduced cash loss of £0.5mn in the 2025-26 financial year based on revenue rising from £4.9mn to £6.2mn, so reducing the drag on profits.

On this basis, expect Angling Direct's cash profit to increase by 12 per cent to £3.8mn in the 12 months to 31 January 2026, rising to £5.1mn the following year, when recent UK store openings will start to make a more meaningful contribution to earnings. Net cash of £12.1mn (16.5p) provides ample firepower for the organic and acquisition-led growth strategy.

To put the valuation into perspective, Angling Direct's enterprise valuation of £18.8mn equates to just 5 times current-year cash profit estimates. Moreover, if you attribute nil valuation to the loss-making European business as it progresses to break-even, the

UK business is effectively priced in for a bargain basement 4.4 times last year's cash profit. For good measure, an ongoing earnings and net asset value per share accretive £4mn buyback programme is a sensible use of surplus cash given the deep share price discount to book value of 53.6p.

So, having suggested buying the shares at 39p (Alpha Research: 'Catch a small-cap stock with big potential upside', 6 February 2025), I maintain my 55p fair valuation. It is slightly below Canaccord Genuity's upgraded target price of 60p (from 57p), which is based on a 6 times cash profit multiple to enterprise valuation for the 2026 calendar year. Buy.

H&T HAT 648p **HOLD**

- Bid values H&T at £351mn
- Represents a 44 per cent bid premium
- 9.4 times operating profit estimates to enterprise valuation

Financial services group **H&T (HAT: 648p)** is the latest small-cap on my watchlist to attract the attention of a predator, having received a 650p a share recommended cash offer from FirstCash, a leading international operator of pawn shops and provider of payment solutions to credit-constrained consumers. H&T shareholders will also receive the 11p a share final dividend scheduled to be paid on 27 June.

As the UK's largest pawnbroker and the country's sixth-largest jewellery retailer, H&T offers multiple attractions for FirstCash, including geographical diversification to its existing operations (US and Latin America); enhancing scale and operating leverage across the group; and providing a complementary platform to increase UK market penetration as well as potential expansion into European markets.

The bid has been pitched at a 44 per cent premium to give H&T an enterprise valuation of £351mn, representing a multiple of 9.4 times forecast operating profit for the current financial year. The cash offer looks a fair price to me, representing a 41 per cent premium to Shore Capital's year-end net asset value estimate of 461p and valuing the shares on a forward price/earnings (PE) ratio of 12.2. The broking house pencils in 16 per cent cumulative earnings per share (EPS) growth over the 2024-27 forecast period, so the exit earnings multiple is full based on a price/earnings-to-growth ratio. Structured as a scheme of arrangement, and in the absence of a rival offer, I can see the cash bid receiving the requisite 75 per cent approval from shareholders to be voted through.

It means that H&T's shares have delivered a 67 per cent total return (TR) since I suggested buying at the annual results ('This company is set up for another golden year', *IC*, 18 March 2025) and a bumper 133 per cent profit since inclusion in my 2022 Bargain Share Portfolio, during which time the FTSE Aim All-Share TR index has shed 28 per cent of its value. Hold.

Mpac MPAC 400p **BUY**

- Annual revenue rises 7 per cent to £122mn
- Adjusted pre-tax profit up 49 per cent to £10.6mn
- Forward PE ratio of 8.9

Mpac (MPAC:400p), a specialist provider of automated packaging systems, previously flagged up a dramatic earnings improvement in a pre-close trading update, so investors were anticipating an eye-catching performance.

A key take was the improvement in both gross margin (up from 27.7 per cent to 30.1 per cent) and operating margin (up three percentage points to 9.8 per cent), which was driven by the timing of project completions. Analysts at Equity Development believe the step change in profitability is sustainable, embedding similar margins in their forecasts for the next two financial years.

Another point to note is the strength of the year-end order book, up from £72.5mn to an all-time high of £118.5mn. The first-quarter order book of £103.5mn was broadly in line with expectations, and a book-to-bill ratio of 41 per cent includes good prospects in Mpac's short-cycle service business, which accounts for a quarter of sales. Importantly, no orders have been cancelled due to tariffs, and the directors highlight a good order pipeline.

Contribution from acquisition supports earnings growth

Management also flags up the integration of two acquisitions at the end of 2024: Boston Conveyor & Automation (BCA), a US-based supplier of robotic automation and conveyor solutions to the food, life sciences and general industry sectors; and Netherlands-based CSi Palletising, a leading provider of design, manufacturing and installation services for end-of-line automation and palletising solutions.

CSi is complementary to Mpac's existing business and significantly improves and enhances its capability and offering in end-of-line and palletising solutions.

BCA gives further breadth and depth to Mpac's capabilities, with a particular focus on the handling and primary packaging of products, and has several clients in common with other Mpac businesses. Synergies from acquisitions are "gaining traction" and delivering an increase in cross-selling quotations, too.

That is important as the step change in revenue embedded in Equity Development's current-year forecast of £218mn, up from £122mn in 2024, is underpinned by the contribution from acquisitions. Mpac is on track to hit those expectations, which support 64 per cent predicted growth in pre-tax profit to £17.4mn and 29 per cent higher EPS of 45.1p. Mpac raised £30mn in an oversubscribed equity raise to fund both acquisitions, hence a larger share count dilutes the EPS growth rate.

The positive news contrasts with Mpac's weak share price performance since January's pre-close trading update. The group generates more than 90 per cent of revenue overseas servicing blue-chip clients across verticals including healthcare, food, beverage and clean energy. In particular, the US will account for 30 per cent of group revenue in 2025, hence why some investors have become more cautious given economic uncertainty resulting from the new tariff regime.

Substantial upside to fair valuation

However, the narrative and trading outlook from Mpac hasn't changed, even if the rating has. The forward PE ratio is now only 8.9, and Mpac's enterprise valuation of £154mn equates to 7.3 times operating profit estimates of £21.2mn.

So, having included the shares, at 156p, in my 2018 Bargain Share Portfolio, and with analysts' fair value estimates of 700p (Shore Capital), 800p (Panmure Liberum) and 865p (Equity Development), there is scope for earnings expansion to drive a higher rating when macroeconomic concerns recede. That is important as forecast free cash flow of £13.8mn (2025) and £17.3mn (2026) is earmarked to pay down net debt of £37.5mn, which funded the acquisitions, rather than pay a dividend. Buy. ●

■ **Special offer**. *Simon Thompson's books Successful Stock Picking Strategies and Stock Picking for Profit can be purchased online at www.yorkbookshop.com at the special discounted price of £5 per book plus UK P&P of £4.95, or £10 for both books plus UK P&P of £5.75, subject to stock availability.*

What next for US stocks?

A relaxation in the trade war and the elevation of Scott Bessent is good news for businesses, but plenty of issues remain. Arthur Sants reports

In the past six weeks, the US has started a global trade war, triggered a market sell-off and then retreated from its most extreme tariff policies. The equity market has crashed, some investors have panicked and the economy has shrunk. Despite all this, the S&P 500 index is in positive territory for the year. It has taken an unconventional path, but to the typical investor, that doesn't matter.

On 12 May, the US and China announced a de-escalation of their trade fight. In the week that followed, the S&P 500 rose 5 per cent, meaning it is up more than a fifth from the lows reached after the original tariff was announced. Since then, the US has shifted to a 10 per cent global tariff and reduced its additional China tariffs to 30 per cent for 90 days. It has also announced carve-outs for specific sectors and industries, such as semiconductors and smartphones.

Power shift

There has also been a shift in power within US President Donald Trump's administration. During the "liberation day" announcement outside the White House, it was commerce secretary Howard Lutnick who took centre stage, passing Trump the large board with the original tariff rates on it. In the following days, senior trade counsellor Peter Navarro did the rounds on the TV networks defending the policy. Navarro is the leading trade hawk in the White House. He outlined his position in the Project 2025 document (a right-wing manifesto of what a Trump presidency could look like) and believes trade deficits to be damaging to the US economy. Unsurprisingly, the market doesn't like Navarro. TS Lombard calculated that in the days that comments from Navarro and Lutnick led the headlines, the S&P 500 fell 0.9 per cent on average. In contrast, when the more business-friendly Treasury secretary Scott Bessent was front and centre, it rose 0.1 per cent on average.

"There are clearly conflicting views within the administration about where policy is ultimately headed," says TS Lombard economist Dario Perkins. "Bessent provides a very different take from that of the likes of Peter Navarro, [former US trade representative] Robert Lighthizer or even Howard Lutnick, and there is no question which take is friendlier to financial markets."

Bessent led the recent negotiations with China, and in the press conference afterwards, he spoke in conciliatory terms, saying "the consensus from both delegations is that neither side wanted a decoupling".

The reversal of the worst of the tariffs has led to an improvement in the US economic outlook. In the past two weeks, the odds of a US recession this year have fallen from 52 per cent to 37 per cent, according to Polymarket.

Fiscal is the problem

Rather than the trade deficit, Bessent's main concern is the fiscal deficit. Since he took office, he's been clear about the importance of bringing down the 10-year Treasury yield to cut borrowing costs. The plan is to reduce government spending, lower the cost of borrowing and encourage private sector investment through lower taxes and deregulation. Perkins refers to this plan as "crowding in" the private sector and believes it would be "very bullish for 2026", if successful.

Some extreme examples of this deregulation push have started to emerge. Late last week, Republicans in the House of Representatives added a last-minute provision to Trump's proposed budgetary bill, prohibiting any state or local government from pursuing "any laws or regulation regulating artificial intelligence models, artificial intelligence systems or automated decision systems". The only exemption to this is if the law helps "remove legal impediments to, or facilitate the deployment or operation of these systems".

This followed the administration's announcement it was planning to repeal the 'AI diffusion rules' introduced by the previous Democratic administration to limit the amount of artificial intelligence (AI) chips exported from the US. The rules also put strict limitations on the amount of AI technology most intermediary nations could import. The new administration was worried these restrictions could lead to US companies, such as **Nvidia (US:NVDA)** and **AMD (US:AMD)**, falling behind Chinese technology rival Huawei.

This commitment to exporting more AI technology was underlined by Trump's recent deals with the United Arab Emirates to deliver hundreds of thousands of Nvidia graphics processing units. Another multi-billion-dollar deal to sell Nvidia and AMD chips to Saudi Arabia has also been announced. Amid this news, the two companies' share prices rose 15 per cent and 12 per cent last week.

The billions of dollars of deals signed with sovereign nations are "making 2026 and 2027 look like solid growth years" for Nvidia, says Melius Research analyst Ben Reitzes, who describes the prior AI diffusion rules as "silly".

Traditional Republicans

Alongside deregulation, Bessent hopes to "crowd in" investment by deleveraging the US government balance sheet. Thirty-year Treasury yields stand at more than 4.9 per cent, making it costly for private businesses to borrow and invest. Bessent will hope to bring this down, though Trump's second term has been marked by rising bond yields so far.

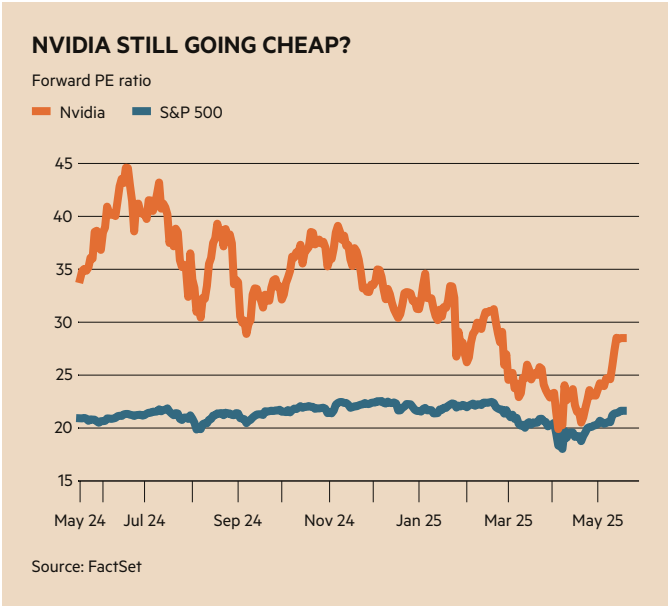
Perkins believes 'Bessentonomics' could look similar to policy enacted under Bill Clinton when the government managed to eliminate the budget deficit. During that period, "the central bank kept interest rates low, bond yields trended lower, and a strong expansion in private-sector credit comfortably offset the impact of fiscal austerity".

A couple of weeks before "liberation day", T Rowe Price fixed income portfolio manager Steven Boothe told *Investors' Chronicle* he was expecting the higher tariffs and reduced government spending to slow nominal growth and for bond yields to fall. "I don't know whether [the so-called Department of Government Efficiency] is going to meaningfully reduce the deficit, but it is going to cut spending on the margin, which will be a fiscal spending deceleration," he said.

Given that the US economy contracted in the first quarter, Boothe's forecast has been partly correct. However, he expected this economic contraction to be short-term in nature because it would be followed by tax cuts and deregulation. "The government wants to onshore business, and it is going to do it through tax incentives and regulation cuts to make easier to do business and drill holes," he explained.

The administration is trying to pass a spending bill that extends the 2017 tax cuts expiring this year. To offset some of this, it proposes government spending cuts and eliminating some tax credits.





The administration believes the tax cuts will boost growth, increasing receipts and reducing the deficit. However, the non-partisan Committee for a Responsible Federal Budget has estimated it would add $3.3tn to public debt over the next decade.

In the past two weeks, the 10-year Treasury bond yield has started to climb back towards the 4.5 per cent mark. Meanwhile, rating agency Moody's has stripped the US of its triple-A credit rating. "The US's significant economic and financial strengths [...] no longer fully counterbalance the decline in fiscal metrics," said Moody's.

If Bessent wants yields to fall while the government cuts a range of taxes, he will need to find much more significant cuts to spending than this budget is proposing.

Wall Street expected Trump to run a traditional low-tax and pro-business administration. The "Trump put" is the theory that he wants the stock market to perform well and will choose policies that support equities. The "liberation day" announcement created doubt around this story, but his decision to back down on the worst of the tariffs, coupled with his proposed low-tax budget, has reignited the market's animal spirits.

Compared with a few weeks ago, the environment for stocks has improved. The big tech companies delivered strong results and impressive growth from AI products; tariffs have been significantly rolled back, and Bessent seems to have taken the wheel. DIY investors who led the dip buying after 2 April will feel vindicated in their decisions.

At one point, Nvidia traded on a forward PE ratio of just 20, as cheap as it has ever been, and lots of DIY investors saw this as an opportunity to buy. Nvidia's share price has recovered in light of the deals signed last week. But as the graph shows, it trades at a discount to its near-term average.

Lots of doubt

However, even if recent weeks have shown a shift back towards a business-friendly policy mix, there is still scepticism. Perkins says if the administration is serious about "crowding in" then it requires "clarity about government policy, not the chaos and uncertainty of Trump 2.0's first 100 days in office".

Business confidence has been falling consistently and this could lead to a "tightening in credit conditions, as corporate profits decline and banks restrict access to lending".

Although tariffs have been reduced, they are still significant. According to UBS US chief economist Jonathan Pingle, the China climbdown reduced the US aggregate weighted tariff rate from 24 per cent to 15 per cent. This is still higher than it has been for decades.

The surge in the S&P 500 is presumably pricing in further concessions from the US in the coming months, but Trump is unlikely to completely walk back the regime. In fact, last Friday, he said the US plans to unilaterally levy tariffs on many of its trade partners "over the next two to three weeks".

For Perkins, the bull case in the next 18 months is bond yields falling, private sector credit driving an economic recovery, while policy stimulus in other countries helps drive US economic growth. At least, this is what Bessent hopes will happen.

But the bear case is that the recent policy chaos tips the US into recession, the Fed is slow to cut rates, and the Trump administration makes another unforced error that scares the market. A possible scenario is that he again threatens to remove Fed chair Jerome Powell, which spooks the bond market and pushes up yields. "It is one thing to have a "normal" cyclical downturn and another to be entering a recession where international investors are already starting to doubt the basic competency of policymakers," says Perkins.

Citi group US equity strategist Scott Chronert believes the S&P 500's recent rally might be short lived and "fundamental pressures should continue to linger". Given this, he continues to advocate for the larger cash-generative tech stocks of the Nasdaq 100 over the smaller domestic companies of the Russell 2000. "Although small cap valuations remain attractive, a fundamental pivot [towards smaller companies] remains elusive," he says.

For equities, we are in a moment of respite. The recent market tribulations show the best policy for investors is to ignore the day-to-day noise. Politicians don't like markets to crash under their watch, and the equity market looks to have tamed Trump, for now. The next question is whether the bond market can do so again, if necessary. ●



Alex Hamer

IC COMMENT

Is it time for cobalt to make a comeback?

Cobalt is very cheap. The metal, used in lithium-ion batteries and the subject of bull runs in 2016-18 and 2021-22, is in real terms less expensive than a decade ago and potentially much further back. This is quite a comedown from a few years ago, when the world's largest carmakers were knocking on **Glencore's (GLEN)** door for guaranteed supply, and being rebuffed.

The price has plummeted from slower growth in electric vehicle sales than forecast, a shift to batteries without as much or any cobalt after the last price run-up, as well as significant increases in supply. This latter factor is the result of Chinese miners expanding copper production in the Democratic Republic of the Congo (DR Congo), as cobalt is a byproduct of copper at those operations.

A new investment vehicle that will list in London next month aims to pick this as a low for the market. It has already done that, in a way – when *Investors' Chronicle* first published plans of the IPO in October, cobalt was trading at around $24,000 (£18,200) a tonne, or $11 per pound, on the London Metal Exchange. It is now at $33,000 a tonne, after DR Congo decided to limit exports of the metal to boost prices. The country is the top exporter by far, thanks to its massive copper deposits, and decided enough was enough, calling a four-month ban on exports that ends in June.

The main backers of Cobalt Holdings are Glencore and Anchorage, the latter a previous punter on the cobalt market. For Glencore, the appeal is obvious – make an equity investment in a company that could help boost the market by limiting supply and monetise its cobalt position.

It has stockpiled the metal previously after the price slumped and also cut supply to get prices higher. Chinese company **CMOC's (CN:603993)** new production more than accounted for Glencore's efforts, however.

But Glencore's strategy is straightforward in this case. If cobalt's value climbs, so does the value of the cobalt it has sold on to Cobalt Holdings, as well as its equity stake. On top of Glencore's $24mn position, the overall raise is expected at $230mn. Of this, $200mn will go to buying 6,000 tonnes of cobalt and the rest will go towards operating costs.

It's a similar idea to **Yellow Cake (YCA)**, which also signed a deal with major uranium miner Kazatomprom for a guaranteed supply of the nuclear fuel. Jake Greenberg, who worked on the Yellow Cake float, is behind Cobalt Holdings. This idea has been tried before, in Canada. Cobalt 27 raised money in 2017 and paid over $80,000 a tonne for its cobalt holdings. It fell apart when the price tumbled, burning many millions of shareholder dollars.

So the downside here looks to be far less precipitous. But what is the likelihood of DR Congo export ban lifting prices in the medium and long term? Panmure Liberum analyst Tom Price said in February that it would likely encourage buyers to look for alternative sources of substitutes for cobalt. While these won't be easy to find – the country supplies 85 per cent of the world's cobalt – Chinese battery makers have already cut their need for the metal by changing battery chemistries.

Tesla (US:TSLA) has done this as well. In Cobalt Holdings' favour is the forecast for cobalt demand to rise by 25 per cent this year, and Panmure Liberum also sees the market switching from surplus to deficit by 2027.

Recent years have shown that the usual levers of the mining industry (prices go down, then supply follows) are not as applicable for a byproduct, especially where China is involved.

But we would agree with Cobalt Holdings' idea that there's not far to fall from here. ●

Sink or swim: gold miners have a wave of cash on the way

Mining companies have often wasted opportunities in boom times, but the new crop of gold leaders insist this time will be different. Alex Hamer reports

Gold miners have often promised investors growth for growth's sake, spending on expansion only to see higher operating costs and the cost of capital erode returns.

With gold now sitting comfortably above $3,000 (£2,260) an ounce, management teams are facing a (happy) test of capital allocation policies that were agreed when margins were far lower.

So they will have to consider what is best for shareholders – seek quick-return investments that could boost earnings, or hand a chunk of the heightened cash flow back to investors?

Some will do both, given the wave of profits now hitting balance sheets. M&A also becomes a possibility because shares are trading higher, although potential targets will be more expensive as well.

If nothing else, the industry recognises shareholders' keenness for higher payouts.

"Investors, generally speaking, have been looking forward to this because they see this now as kind of payback time," says **Endeavour Mining (EDV)** chief executive Ian Cockerill. "This is shareholder return time, and we, along with many others, are certainly looking at strong capital returns to shareholders, particularly with respect to dividends."

Endeavour can do it all. Analysts see capital spending dropping by $200mn this year, to $473mn, and sales climbing by almost $1bn to $3.6bn. The result is free cash flow rising from just under $260mn to $1bn. ►

► But for companies which have to make harder choices, higher payouts and growth spending are in competition as usual. Ixios Gold fund manager David Finch told the Money of Mine podcast this month there is often a gap between how investors see gold miners and the strategies put forward by management, who "think they have a mission to grow production".

Those buying gold mining equities often see them by contrast "as leveraged exposure to the gold price plus a dividend yield", Finch said. His fund has also described the sector as being "plagued by poor capital allocation, weak corporate governance and poor shareholder returns".

This is a common view, and a fair one given miners have often been outperformed by the gold price. But London does have its success stories, as growth investments have coincided with higher prices. Payouts have also climbed already in some cases – **Hochschild Mining (HOC)** and **Fresnillo (FRES)** are third and fourth on the list of London-listed companies when ranking them by dividend increases over the past six months.

Behind the scenes

Just cranking up payouts is not always the right approach. A healthy dividend can bring in buyers but this has its limits.

Caledonia Mining Company (CMCL), a Zimbabwean gold miner, has a forward yield of 3.7 per cent after its share price climbed almost 60 per cent this year.

This bounce came after a fourth-quarter sell-off last year, however. The company is listed in Zimbabwe, London and New York, which chief executive Mark Learmonth said brought with it a range of investor aims.

"The Zim institutions are our biggest source of equity, and the dividend for them is absolutely critical," he says. Vice-president for corporate development Maurice Mason adds that competing internal options for cash include the new Bilboes project in central Zimbabwe and balance sheet repair.

"It's quite conceivable that, if we deliver this project, and we should have the financing capacity of this gold price to do it, we could easily have $200mn of free cash flow a year, and we're a $250mn company."

Caledonia is still far from that stage, and Mason and Learmonth are considering the best way to fund the expected cost, estimated in 2024 at around $400mn.

But the company is undoubtedly doing well – Q1 cash profits were $22.6mn, almost 150 per cent ahead of the first quarter last year. The April sale of the company's solar plant also took it to a pro forma net cash position of $19mn, compared with net debt of $4.6mn as of 31 March.

Currently, this combination of a weak share price and higher earnings means the company's implied cost of equity has shot up from around 20 per cent last year to 45 per cent.

"It's a period of immense flux," says Learmonth. The higher cost of equity is important because Caledonia will need to fund Bilboes using a mix of debt and equity.

Mason says Caledonia's more cautious approach is not as widespread as it should be in the sector. "Most people's objective is to build their project, not to deliver underlying value per share," he says.

The Zimbabwean miner has already diluted shareholders to take control of the new Bilboes project, after buying it using new equity. This took the share count up by a third.

The impact of the higher cost of equity is significant as it raises the hurdle rate for overall project success.

Miners have often run into issues after diving into a mine build without considering what success might actually look like. Hummingbird Resources, for example, fell to earth after operational hiccups at its new mine meant debt repayments became unaffordable, even with gold over $2,500 an oz last year.

Doing it all

Serabi Gold (SRB) has been mining the precious metal in Brazil for over a decade. The company's market value has risen from £20mn to over £100mn in the past two years, while analysts at Peel Hunt forecast free cash flow of $33mn this year, triple the 2024 number.

Management has left the door open for multiple uses of that cash – "while we believe that the best use of surplus cash in the short-term would be to further drive organic growth, we will continue to evaluate investment opportunities and risk against shareholder return strategies," said chair Michael Lynch-Bell in the 2024 annual report.

The company last year brought in a dividend policy of 20-30 per cent of free cash flow, and Peel Hunt analysts estimate a $10mn dividend, or 13¢ a share, for this financial year.



Gold is now sitting comfortably above $3,000 (£2,260) an ounce

That incremental growth is where the easy wins lie – Endeavour is also thinking about ways to benefit from the higher price with the Assafou project in the Ivory Coast that was already in motion.

"What's really exciting about that project is certainly the higher gold price makes some of the satellite deposits around the main Assafou pit [viable to mine more quickly]," Cockerill says. "There's lots of optionality coming in at these prices, no question."

Growth remains important. Putting more into dividends is good for shareholders, but could come at the cost of long-term health.

Buybacks are similar but could make each share more valuable by reversing some of the inevitable past dilution. This is where company execs are often happy to talk up the investment opportunity of buying up their own stock. It also helps per-share metrics.

While it might be a slightly unsatisfying conclusion to a discussion of how best to use the incoming wave of cash, the answer is that it's really up to the investor.

Want higher payouts? Consider dividend yields and growth. Think the gold price will hold at current levels or even climb again after this current lull? Look for miners that run projects where they can squeeze out more ounces without having to totally rewrite mine plans.

Portfolio manager of the **CQS Golden Prospect Precious Metals fund (GPM)** Keith Watson says it's often the smaller players who can do this.

"There's more scope for margin enhancement in the smaller operators, the type of companies that we look at that tend to be much more focused on individual project grade [gold per tonne of ore], maintaining that and getting more profitable ounces out of the ground," he says. ●

What makes a great British CEO?

The CEO, a new book by the financial historians Michael Aldous and John Turner, is above all a wonderful economic and social history of the individuals who have led British companies since the Victorian era onward.

It charts the gradual transition from politically connected aristocrats to a more professionalised business class, through the mis-steps of mid-century managerialism, debates over excessive pay and on into today's hyper-global era, in which the top executive wields increasing levels of power with ever-greater detachment from their workers and even shareholders.

The character list includes both the villainous and the brilliant, including several one suspects would have been immortalised had their considerable talents been directed to political office. Others, despite their enormous success and impact, remain footnotes, including the shipping magnate John Ellerman, once described as "the Invisible Rockefeller" for his private life and an immense personal wealth that on his death in 1933 was worth £14bn in today's money.

Given the breadth of their survey, you might expect the authors to identify some trends that make for a successful chief executive. And they do, albeit largely in the biographical, qualitative sense. Being the child of immigrants or raised in a religious minority is often a lead indicator. Diligence, strong organisational skills and excellent cognitive ability (to understand the world, set strategy, and look beyond their narrow disciplines) are all must-haves.

Unfortunately, the artificial intelligence functions my financial data provider has been crowing about of late don't extend this far. When I asked the platform to rate Bill Winters' emotional intelligence based on **Standard Chartered's (STAN)** latest earnings call transcripts, it drew a blank.

However, Aldous and Turner identify several features that contribute to what they term "a managerial malaise at the top of the UK's companies".

A hard work ethic being a near-universal trait for both good and bad CEOs, the authors instead locate the problem in blue-chip boardrooms' fondness for highly educated outsiders. This, they argue, ends up downplaying the virtues of long-term thinking, and deep institutional knowledge and relationships, in favour of highly credentialed managers with little loyalty, skin in the game or strategic nous.

Andy Hornby – former HBOS chief, serial CEO and current head of the private equity-owned Restaurant Group – is painted as "emblematic of this new pathway, with a university degree, an MBA, and a fast track to the executive suite".

Fortunately, the authors' insights provide enough biographical filters to build a shortlist of FTSE 350 bosses that live up to their standard. To do this, I've excluded all CEOs with an MBA, more than one degree, and who were appointed directly to the role from outside the company. I've also insisted they spent at least five years at the firm, and three years in the role – which I've deemed enough time for them to build up a mandatory shareholding of at least £3mn.

Looking over the 17-strong field (see the online version of this article for the full list) recalls that familiar investing conundrum about where luck ends, and skill begins. For example, while **Barclays' (BARC)** CS Venkat has won plaudits for his clear focus on shareholder returns, the share price rally since his appointment in 2021 has a lot to do with higher interest rates.

However, the list includes some bona fide C-suite stars of recent years, like Kevin Rountree of **Games Workshop (GAW)**, **Intermediate Capital (ICG)** chief Benoît Durteste and **Compass' (CPG)** Dominic Blakemore. All have generated significant, market-beating value by anticipating growth trends or following what works. **AN**

FUND MANAGER BEST IDEAS: TECHNOLOGY

Based on top five holdings

	No.of funds		No.of funds
Nvidia	9	Advanced Micro Devices	1 (NEW)
Microsoft	8	Amphenol Class A	1
Apple	6 (-2)	Applied Materials	1
Alphabet	5 (+2)	ASML Holding	1
Meta Platforms Class A	5	Corpay	1 (NEW)
Broadcom	4 (-1)	Fabrinet	1 (NEW)
Amazon	3 (-1)	Intuit	1 (NEW)
Oracle	2	MercadoLibre	1
ServiceNow	2 (NEW)	Netflix	1
TSMC	2	Salesforce	1

Source: Morningstar, 18 May 2025

NEW 52-WEEK LOWS

Name	TIDM	Price	% from low
Nativo Resources	NTVO	1p	0%
EARNZ	EARN	3p	0%
Petra Diamonds	PDL	21p	0.5%
Braveheart Investment Grp	BRH	2p	1.3%
Great Western Mining	GWMO	1.58p	1.6%
Genedrive	GDR	1p	1.9%
Synergia Energy	SYN	0p	2.7%

Source: FactSet, 21 May 2025

NEW 52-WEEK HIGHS

Name	TIDM	Price	% from high
Wickes Group	WIX	224p	0%
Direct Line Insurance Grp	DLG	300p	0%
Kier Group	KIE	166p	0%
Costain Group	COST	125p	0%
Lloyds Banking Group	LLOY	78p	0%
Ba Gif UK Gwth	BGUK	199p	0%
Coca-Cola HBC	CCH	3,966p	0.1%
Next	NXT	12,820p	0.1%
Aviva	AV	607p	0.1%
Supermarket Income REIT	SUPR	81p	0.1%
Fidelity Special Values	FSV	354p	0.1%
Shires Income	SHRS	265p	0.2%
Currys	CURY	125p	0.2%
Phoenix Group Holdings	PHNX	622p	0.2%
Games Workshop Group	GAW	15,940p	0.2%
Bakkavor Group	BAKK	203p	0.2%
Edinburgh Invt Trust	EDIN	802p	0.2%
JPMorgan Claverhouse	JCH	770p	0.3%
Telecom Plus	TEP	2,025p	0.3%
JPMorgan European	JEDT	547p	0.3%
H&T Group	HAT	648p	0.3%
City of London Invt	CTY	480p	0.3%
Barclays	BARC	330p	0.3%
Fidelity European Trust	FEV	413p	0.4%

Source: FactSet, 21 May 2025

SHORTS

Company	Short Interest	No. of Shorters	Chg Wk to 20 May
J. Sainsbury	6.6%	7	-0.4%
Yellow Cake	6.6%	8	0%
Ocado Group	6.5%	8	0%
Aberdeen	6%	7	0%
Close Brothers Group	4.3%	6	-0.6%
Wood Group (John)	4.1%	4	0%
Domino's Pizza Group	4%	4	-0.3%
Ashtead Technology Holdings	3.9%	5	0.1%
Vistry Group	3.9%	5	0%
Melrose Industries	3.8%	5	0.5%
Alphawave IP Group	3.8%	6	-0.6%
Asos	3.7%	5	-0.7%
Petrofac	3.7%	1	0%
Boohoo Group	3.7%	4	0%
ITM Power	3.6%	2	0%
Vanquis Banking Group	3.4%	1	0%
Essentra	3.3%	4	-0.2%
AFC Energy	3.2%	1	0%
CVS Group	3.2%	3	0%
NCC Group	3.1%	3	-0.1%
Hammerson	3%	4	0.2%
Mondi	2.9%	4	0%
Clarkson	2.8%	3	0%
Pets At Home Group	2.8%	4	0%
Auction Technology Group	2.7%	3	-0.2%
ITV	2.7%	4	0.6%
Wizz Air Holdings	2.5%	3	-0.2%
Wpp	2.5%	4	0.5%
Burberry Group	2.4%	3	-0.1%
FD Technologies	2.4%	3	0.5%
Yougov	2.4%	4	-0.5%
Easyjet	2.3%	2	0.4%
Whitbread	2.3%	3	0.5%
Tullow Oil	2.3%	2	0%
THG	2.2%	4	0%
Judges Scientific	2.2%	3	0%
Senior	2.2%	2	-0.1%
Moonpig Group	2.1%	2	0.2%
Indivior	2%	2	-1.1%
Discoverie Group	1.9%	2	0%

Source: FCA, 20 May 2025

FIVE BIGGEST SHORT INCREASES

Company	Short Interest	No. of Shorters	Chg Wk to 20 May
Hikma Pharmaceuticals	1.1%	2	1.1%
On The Beach Group	0.7%	1	0.7%
ITV	2.7%	4	0.6%
Sthree	0.6%	1	0.6%
JTC Ord	1.1%	2	0.6%

Source: FCA, 20 May 2025

1-MONTH EPS UPGRADES

		Forward EPS Change		
Name (Price)	EPS NTM	1 mth ago	1 mth % chg	3 mth ago
LendInvest (31p)	1.7p	0.9p	80%	0.6p
Playtech (353p)	8.5p	4.9p	71%	3.1p
Caledonia Mining (1,275p)	181p	114p	59%	115p
International Workplace Group (191p)	7.9p	5.5p	43%	5.4p
TruFin (88p)	3.6p	2.7p	36%	2.3p
Carr's Group (146p)	6.3p	4.7p	35%	4.6p
Ferrexpo (67p)	2.3p	1.7p	34%	3.5p
Frontier Developments (190p)	11.9p	9.0p	32%	8.8p
Staffline Group (40p)	4.3p	3.3p	32%	3.2p
Petro Matad (2p)	0.2p	0.2p	30%	0.1p
Made Tech Group (29p)	1.4p	1.1p	25%	1.1p
Cordel Group (7p)	0.2p	0.2p	25%	0.1p
Afentra (42p)	12.8p	10.3p	23%	9.5p
Dillistone Group (9p)	0.4p	0.4p	23%	0.2p
PPHE Hotel Group (1,428p)	124p	102p	22%	98.3p
ActiveOps (126p)	3.0p	2.5p	20%	2.6p
Digitalbox (4p)	0.2p	0.2p	19%	-
Lords Group Trading (36p)	3.0p	2.5p	19%	2.3p
CT Automotive Group (36p)	10.2p	8.6p	18%	9.0p
Amaroq Minerals (78p)	5.1p	4.3p	18%	2.8p

Source: FactSet, 21 May 2025

1-MONTH EPS DOWNGRADES

		Forward EPS Change		
Name (Price)	EPS NTM	1 mth ago	1 mth % chg	3 mth ago
Gemfields Group (4p)	0.0p	2.2p	-100%	1.9p
Ten Lifestyle Group (60p)	4.9p	30.1p	-84%	4.5p
Revolution Beauty Group (5p)	0.1p	0.6p	-78%	0.5p
iomart Group (31p)	0.7p	3.1p	-77%	4.2p
Renewables Infrastructure (78p)	1.7p	7.1p	-76%	7.2p
Molten Ventures (310p)	16.6p	50.9p	-67%	34.9p
Petra Diamonds (21p)	0.5p	1.1p	-51%	-3.0p
Greencoat UK Wind (113p)	5.5p	9.6p	-42%	14.9p
Mothercare (3p)	0.3p	0.5p	-37%	0.5p
Union Jack Oil (9p)	1.7p	2.5p	-32%	2.3p
RWS (85p)	14.2p	20.8p	-32%	20.5p
1Spatial (53p)	1.7p	2.5p	-32%	2.7p
Cambridge Cognition Hldgs (37p)	1.4p	2.0p	-31%	1.9p
AOTI (90p)	5.1p	7.2p	-30%	6.8p
Naked Wines (79p)	2.3p	3.3p	-30%	4.0p
Venture Life Group (52p)	4.8p	6.7p	-28%	6.5p
Mobico Group (29p)	8.9p	12.3p	-27%	12.7p
Touchstone Exploration (19p)	2.1p	2.8p	-25%	3.6p
Zambeef Products (4p)	1.9p	2.5p	-24%	2.5p
Xaar (102p)	2.4p	3.2p	-23%	4.7p

Source: FactSet, 21 May 2025

FIVE BIGGEST SHORT DROPS

Company	Short Interest	No. of Shorters	Chg Wk to 20 May
Urban Logistics Reit	1.3%	2	-1.7%
Indivior	2%	2	-1.1%
Ricardo	0.8%	1	-1.1%
Asos	3.7%	5	-0.7%
Alphawave IP Group	3.8%	6	-0.6%

Source: FCA, 20 May 2025

Late Bloomers screen shrinks again

Our Late Bloomers screen is designed to exploit mean reversion. But its long-term returns have been distinctly below average

Mean reversion – the idea that a stock's average historic price, valuation or earnings can be used to determine whether it is cheap – is one of the more compelling concepts in investing.

For a start, past averages contain a lot of information. A company's long-term average annual profits set a baseline for what its customers expect, its executives are measured by and its assets can generate. Without profound change in a company's fundamentals, mean reversion assumes the past is a reliable (if rough) guide to the future. When enough of the market bets against this happening, so the theory goes, stocks' recovery potential can become mispriced, creating value opportunities.

Our Late Bloomers screen has sought to exploit this idea since it debuted in 2014.

Ostensibly designed to find cyclical stocks that are late to benefit from improving economic conditions, its selection criteria owe a lot to mean reversion. To locate shares that appear cheap against their own long-term valuation range, it looks for what we have previously dubbed the 'ultimate source' of earnings. For most companies the screen assumes this source to be sales, while for property firms, housebuilders and financials it is net assets.

Turning this into a valuation metric involves the use of Z-scores, which allow us to compare how cheap or expensive a valuation looks relative to its 12-year history. If a full history does not exist, the reference is a minimum of six years, from which the screen derives the Zeus ratio – the Z-score of earnings' ultimate source. A ratio below -1 suggests a stock's valuation is towards the bottom of its historic range. This, combined with four other tests, aims to establish whether the catalysts exist for a re-rating to occur.



IC ALEX NEWMAN

The full criteria, which are applied to all constituents of the FTSE All-Share (excluding investment trusts other than Reits) are:

- **Value:** Zeus ratio of -1 or less.
- **Recovery potential:** Real estate companies get a free pass on this test. For financials, return on equity needs to be at least one-third below its 10-year peak. For other sectors, operating margin at least a third below 10-year peak.
- **Balance sheet:** (i) For financials, equity representing at least 5 per cent of assets and return on assets of at least 1 per cent. This is a test suggested by the great Peter Lynch, the former star manager of Fidelity's flagship Magellan fund. (ii) For utilities, which have very defensive earnings streams well suited to supporting high levels of debt, net debt to book value (gearing) of less than 150 per cent. (iii) For real estate companies, gearing of 75 per cent or less. (iv) For housebuilders, gearing of 25 per cent or less. (v) For all other sectors, net debt of 1.5 times cash profits or less.
- **Growth:** Growth in 'earnings' ultimate source' (the 'eus' in Zeus) over the past 12 months.
- **Positive free cash flow:** Free pass for financials and real estate.

12-MONTH PERFORMANCE

Name	TIDM	Total return (7 May 2024 - 14 May 2025)
Next	NXT	38.9
BAE Systems	BA.	26.6
ITV	ITV	17
Compass	CPG	13.9
UK Commercial Property*	UKCM	2.8
Shaftesbury Capital	SHC	2.5
Big Yellow	BYG	-9.4
Pharos Energy	PHAR	-11.2
Workspace	WKP	-12.8
Antofagasta	ANTO	-13.4
Capital Limited	CAPD	-29.5
Croda International	CRDA	-33.2
FTSE All-Share	-	**7**
Bloomers	-	**-0.7**

Source: LSEG. *Delisted 16 May 2025

Zeus, brought low

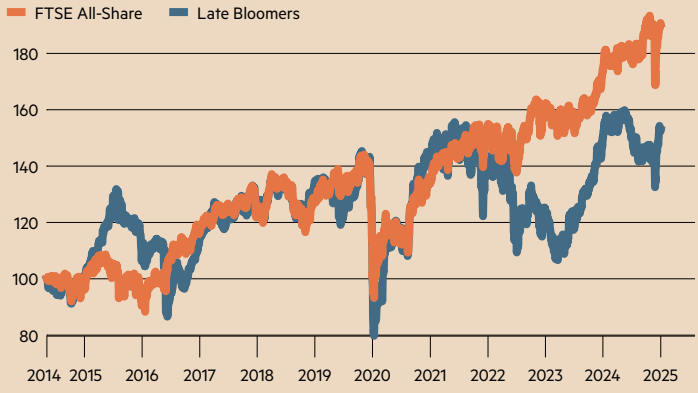
A compelling concept? Tick. Nuanced construction? Yep. Unfortunately, neither of these factors have translated into market alpha. I think this is down to some flaws in the screen's rules.

Since inception, the Late Bloomers screen has delivered a 45.5 per cent headline total return, equal to a compound annual growth rate of 3.5 per cent. An investor who had simply bet on the market would, by contrast, be up 84.3 per cent on the same measure, an average total return of 5.7 per cent a year. That's already bad, but if we factor in a 1.5 per cent annual charge to reflect real-world transactional charges and occasionally wide bid-offer spreads, the return drops to a quite dreadful 23.2 per cent.

The past year's performance was rather typical of the screen's long-term output. The dozen selections from the 2024 screen produced a negative average total return of 0.7 per cent, against a (positive) 7 per cent total return from the All-Share. A chunky weighting to real estate – via the since-acquired UK Commercial Property, ►

FROST RETURNS TO LATE BLOOMERS

Late Bloomers screen vs benchmark (total return, 2014 to date)



Source: LSEG

▶ **Shaftesbury Capital (SHC)**, **Big Yellow (BYG)** and **Workspace (WKP)** Reits – did not pay off; nor did resources outfits **Antofagasta (ANTO)** and **Pharos Energy (PHAR)**, whose declines were in part due to the weakness of both commodity prices and the dollar.

The remaining six companies fared much better, posting an average total return of 5.6 per cent despite woeful runs from the resources-exposed **Croda International (CRDA)** and **Capital Limited (CAPD)**. Given their inclusion was only down to my decision to admit companies that pass just one of the recovery tests (and reduce the reliance on a rally in commercial property), this raises some serious questions.

Chief among them is why the screen has maintained its faith in property stocks. This year, for example, the sector accounts for all five selections to pass every test (see table below). Not only does this massively reduce diversification and concentrate risks, but it follows several years of weak price returns.

There's no confusion as to why they score so lowly on the Zeus test. Before interest rates started to rapidly climb in 2021, investors' hunt for yield meant they were happy to buy property stocks at or above their net asset value (NAV). Even after three and a half years spent trading at a discount, the long-term average has not fallen far enough for the screen to consider the sector fair value.

So are investors being overly bearish? I'm not so sure. For one, in an economy where many landlords are struggling to out-earn their cost of debt, the leverage standard is arguably too weak, while the sector's exemption from the free cash flow test looks to be a mistake. As to the sector's recovery potential – a factor the screen leaves untested – there simply aren't clear catalysts.

This isn't to say Reits are guaranteed another market-lagging year. Consolidation and sustained interest from private and overseas buyers, many of whom will place mean reversion at the heart of their investment decisions, suggest that some discounts to NAV will be closed through corporate activity.

TODAY, THE SITUATION IS MORE DYNAMIC, COMPLICATING OUR INTERPRETATION OF WHAT MAKES A CYCLICAL STOCK CHEAP

But the reality is that mean reversion, and the tests that help establish where the mean is, are all moving targets. This was less of an issue in the days of low volatility and flat interest rates. Today, the situation is more dynamic, complicating our interpretation of what makes a cyclical stock cheap.

Finally, I've also become more sceptical of the idea of an 'ultimate source' for earnings. Growth in sales and book value may correlate with earnings growth over time, but it's not causative. Overheads can – and often do – rise at a faster rate than the top line. And assets need buyers to prove they are worth what a company says they are.

In short, my doubts are starting to outweigh my curiosity in the Late Bloomers screen. While I'll track its progress in the months ahead, it's unlikely that it will return next spring. After years of iffy selections and poor returns, I no longer believe that its smart-seeming methodology has simply been unlucky. ●

2025 LATE BLOOMERS SCREEN STOCKS

Name	TIDM	Mkt Cap	Net Debt*	Price (p)	ZEUS	Fwd PE (+12mths)	Fwd DY (+12mths)	P/BV	3-mth Mom	3-mth Fwd EPS change
Derwent London	DLN	£2,166mn	-£1,427mn	1,929p	-1.15	19	4.3%	0.6	-2.4%	-3.4%
Big Yellow	BYG	£1,949mn	-£373mn	991p	-1.89	17	4.9%	0.8	7.4%	1.2%
Segro	SGRO	£8,935mn	-£4,314mn	660p	-1.59	18	4.8%	0.7	-9.7%	0%
Safestore	SAFE	£1,391mn	-£900mn	636p	-2.17	15	4.9%	0.6	7.8%	-1.5%
Tritax Big Box Reit	BBOX	£3,508mn	-£1,873mn	141p	-1.47	16	5.8%	0.8	-5.8%	-0.7%

Source: FactSet. *FX converted to £

This bargain oil stock is building for 2026

African producer Vaalco Energy is in a temporary fallow period, but the shre price has fallen too far. Alex Hamer reports

Vaalco Energy EGY 280p **BUY**

OIL: CRUDE PRODUCERS

Despite reduced interest from generalist buyers and a lack of new listings, the London market does still have a competitive junior energy sector.

This is helped by companies from the US and Canada picking London as a complementary listing to their New York or Toronto presence. The whittling down of the sector has also served to cut away some of the poorest performers. In this weak price environment, investors can find good value, a dividend and resilience in various companies.

Screening for companies that generate free cash flow and pay a dividend, there are plenty of flavours – growth-focused, highly stable, or takeover targets.

Of those that offer a dividend and generate positive free cash flow, there is **Harbour Energy (HBR)**, **Diversified Energy (DEC)**, **Energean (ENOG)** and **EnQuest (ENQ)** in the mid-cap space. Smaller players include **Pharos Energy (PHAR)** and **Caspian Sunrise (CASP)**.

Also in this crew is **Gulf Keystone (GKP)**, the Kurdish oil producer. Its valuation and earnings have been savaged by Turkey's decision to shut down a pipeline to the Mediterranean, as it has to sell oil locally for far cheaper. It is still paying a dividend, though, and had net cash of $100mn (£74mn) as of 31 December.

These companies are without doubt cheap – Gulf Keystone, Energean, Harbour, Diversified and Pharos all have dividend yields of 5 per cent or more (23 per cent in Gulf Keystone's case). But investing is also about picking companies on the upswing.

For this reason we are looking at an operator that is set to report weaker numbers in 2025, **Vaalco Energy (EGY)**. The company reported free cash flow of $1.5mn last year, down from $120mn the year before. Improvement this year is unlikely.

That sounds like a serious downward slide but this number was also impacted by a $70mn working capital shift and some sales moving into 2025. As an Egyptian operator there is also usually a delay in getting paid for oil by the state. This has improved recently, however. Between the end of 2024 and 31 March, the 'Egypt receivables and other' line in Vaalco's balance sheet fell from over $35mn to $3.2mn.

That said, this will be a building year for Vaalco, and guidance reflects that. Production will be down, while costs will be up. Capital spending is forecast at $250mn-$300mn, triple the 2024 figure. This has already been reduced from $270mn-$330mn on lower spending on Canadian assets because of the current oil price.

Overall, earnings are not going to look good this year. Stifel sees an adjusted pre-tax loss of $7.2mn, from a profit of $125mn in 2024.

But there are reasons for optimism. Firstly, investors have sold off Vaalco more heavily than others in the sector, with its share price tumbling 44 per cent in the past 12 months. Secondly, this year should be the company's nadir in terms of profits, as capital spending hits a peak and production drops.

Last week, management laid out a plan to increase production from 20,000 barrels of oil equivalent per day (boepd) to 50,000 boepd by 2030. This will come from a new field in Equatorial Guinea and fresh output from Côte d'Ivoire once Vaalco's floating, production, storage and offloading (FPSO) ship is back from refurbishment next year. "This growth is entirely self-funded with significant free cash flow generation from 2028 onward," says Stifel analyst Chris Wheaton. Stifel is Vaalco's house broker.

Vaalco has assets in Egypt, Côte d'Ivoire, Gabon and Canada. The lion's share of the 21,400 boepd forecast for this year comes from Gabon and Egypt. This has already grown significantly in recent years, with production rising from just over 12,000 boepd in 2022.

The growth came from two acquisitions – TransGlobe Energy in 2022 and the 2021 purchase of a 28 per cent interest in the Etame field in Gabon for $44mn, which increased its holding to 59 per cent. The company also spent $40mn on 27 per cent of a Côte d'Ivoire offshore field last year.

Alongside this spending and growth, the company has also introduced a dividend, first paid in 2022. Doing this without taking on debt has kept the balance sheet risk fairly low. There is a reserves-based lending facility on the books, but Vaalco has not yet tapped this. It's there as an "insurance option", said chief executive George Maxwell at last week's capital markets event.

How to spend it

As the portfolio has many growth options, Vaalco faces a variety of spending decisions to hit the goals outlined at the capital markets day. The goal is to get production up to around 30,000 boepd by 2027 even without the new Equatorial Guinea project being completed.

This includes drilling more wells in Egypt and Gabon, and completing the Côte d'Ivoire FPSO project. The FPSO arrived in Dubai earlier this month and should be back on its way to West Africa by March. When this happens, it can return the Baobab field in Côte d'Ivoire to full production and plan further expansion work.

This would be more profitable than bringing the new fields in Equatorial Guinea into production, given the lower cost of adding barrels.

The Stifel forecasts for 2026 are for production to rise back to 25,700 boepd and for Ebitda minus exploration costs (a standard industry measure) to gain back some ground on the 2024 level of $285mn. The investment bank sees this falling to $176mn for 2025.

But the key forecasts are operating costs. Stifel sees operating costs per barrel of oil equivalent dropping from $5.60 last year to $3.10 this year and $2.30 in 2026. This is not fully indicative of profitability given it doesn't account for the hefty capital bills on the way, but does show the type of projects Vaalco is working with.

For comparison, onshore South American producer **PetroTal (PTAL)** has operating costs per barrel of around $10. It is a similarly sized company to Vaalco and much more consistently profitable – Stifel also sees net income of around $100mn a year for PetroTal out to 2027. ►

But the focus here is on growth – that is where a less consistent company like Vaalco can provide upside to an investor. The actual return on the combined $558mn in capital spending planned for 2025 and 2026 will come quickly.

The Etame field in Gabon will see a new well spudded in September and a broader campaign at a neighbouring area to reopen wells closed (or shut in, to use industry jargon) a decade ago when the oil was found to have too much hydrogen sulfide. This is now less of an obstacle because of 'sweetening' measures that remove the hydrogen sulphide. The drill rig now on site is booked for five wells and another five contingent slots, management said this month.

Beyond actually drilling or re-opening offshore wells like in Gabon, Vaalco is also confident in improving production at existing operations. This, combined with the greenfield options in the portfolio – potentially still developable if the oil price recovers from current levels – means the company can manage step-changes in production every few years.

"As the industry moves forward, there will be more and more of these types of somewhat stranded resources out there, where they're not a 500mn or a 1bn barrel oilfield, but there's a value to unlock this and [taking them to production]," said Vaalco chief operating officer Thor Pruckl.

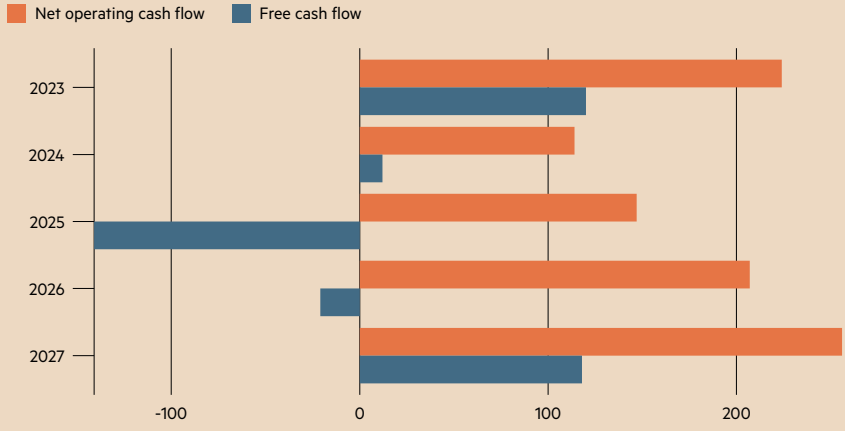
This is not an immediate good story. Investors will likely stay away while the 2025/2026 build continues, and there are execution risks in expanding production across Gabon, Côte d'Ivoire and Egypt, let alone building out a new field in Equatorial Guinea.

But by continuing on the current path the company could reward patient shareholders – especially given the discount to peers. Compared with the 45 per cent drop in its shares, fellow Egyptian operators **Capricorn Energy (CNE)** and Pharos are each down around 16 per cent in the past year.

This leaves Vaalco on a EV/Ebitda ratio of 1.9 times, even using the weaker 2025 outlook. Others in the industry are sitting on even lower valuations – more consistent but growth-constrained PetroTal on 1.3 times, for example – but the growth prospects and uptick in earnings in 2026 and 2027 make this one to buy and hold for us. ●

VAALCO SHOULD SEE FREE CASH FLOW RETURN IN 2027 AS SPENDING EASES

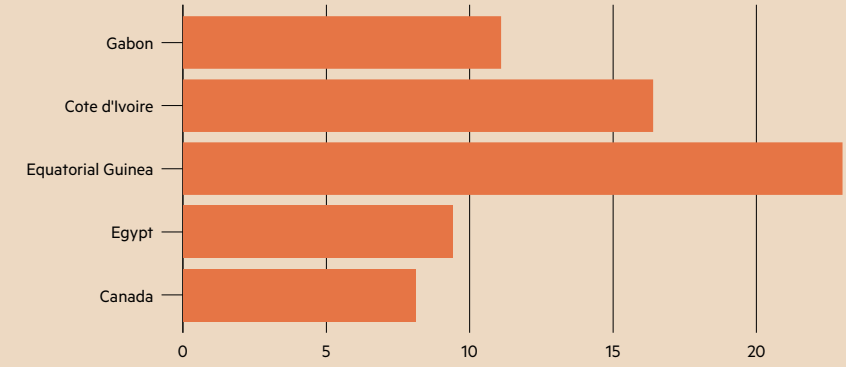
Forecasts from 2025 ($mn)



Source: Canaccord Genuity

VAALCO HAS RESERVES IN THE BANK

Oil and gas reserves as of 31 December, mn barrels of oil equivalent



Source: Company

Company details	**Name**	**Mkt Cap**	**Price**	**52-Wk Hi/Lo**
	Vaalco Energy, Inc (EGY)	£273mn	280p	526p/268p
Size/Debt	**NAV per share***	**Net Cash/Debt (-)**	**Net Debt/Ebitda**	**Op Cash/Ebitda**
	386p	-£35.4mn	-	70%
Valuation	**Fwd PE (+12mths)**	**Fwd DY (+12mths)**	**FCF yld (+12mths)**	**CAPE**
	21	7.1%	-	25.9
Quality/ Growth	**EBIT Margin**	**ROCE**	**5yr Sales CAGR**	**5yr EPS CAGR**
	26.4%	23.1%	41.4%	66.9%
Forecasts/ Momentum	**Fwd EPS grth NTM**	**Fwd EPS grth STM**	**3-mth Mom**	**3-mth Fwd EPS change**
	-36%	121%	-20%	63.3%



Year endto 31 Dec	Sales ($mn)	Profit before tax ($mn)	Earnings per share (p)	Dividend per share (p)
2022	354	123	74	-
2023	455	150	56	-
2024	479	140	56	-
Forecast 2025	347	14	4	19.8
Forecast 2026	436	19	40	19.8
Change (%)	+26	+36	+900	-

*Converted to £ NTM = Next 12 months
STM = Second 12 months (ie, one year from now)

A US-light global equity winner

This fund has generated good gains while looking past the US. Dave Baxter reports

Brunner BUT 1,349p BUY

CLOSED-END INVESTMENTS

As hard as it is to argue against taking a global investment approach in the long run, the onset of the trade wars has made doing so much harder in our very recent history (see page 20).

Politics (in particular the actions of the US president) has seemed almost impossible to predict, with little clarity on offer about which regions might succeed in more fractious times.

More pressing, of course, is the question mark hanging over the US stock market.

The S&P 500 has looked invincible for much of the last decade, and only two of the last 10 full calendar years have seen it lurch into the red in sterling terms.

Betting against the dynamic US economy, and the tech majors that dominate its stock market, has seemed like a recipe for disaster. Yet protectionist measures could now well hinder the US economy and many of its market stalwarts.

As we discuss in our cover feature this week, that poses a problem for MSCI World trackers, which have a roughly 70 per cent weighting to the US, as well as for the many active global equity funds with big US allocations.

Markets have already bounced back pretty robustly from April's sell-off, showing that it probably makes sense to stay invested rather than, for example, going to cash.

But this year's trade wars should remind us that an over-reliance on the US could prove painful. Staying invested in global markets, but in a more diversified manner, would be one sensible compromise.

American world

Many of the big beasts in the global equity space still have plenty riding on the US, making it hard to avoid. **Fundsmith Equity (GB00B41YBW71)** has more than 70 per cent in US-listed shares, with **Morgan Stanley Global Brands (GB00BJNQ8J24)** at close to 80 per cent.

Very few of the more prominent funds have less than half their portfolio here. The tech majors also appear prominently in many of these funds too.

There is, of course, good reason for this. The S&P 500 has returned around 90 per cent over the five years to mid-May 2025 and more than 200 per cent over a decade to that point, putting it miles ahead of other major indices. Generating top returns without a big US allocation has been a difficult task.

And yet one fund has managed some excellent returns without committing too much to the US, or to any other individual market.

Brunner (BUT) has made a share price total return of 109.3 per cent in the five years to 14 May, putting it comfortably ahead of the S&P 500 and making it one of the best-performing global equity funds over that period.

Importantly, the investment team has done so well while also deliberately keeping the fund diversified.

Self-styled as an 'all weather' portfolio, the fund aims to generate growth while also getting investors through periods of market turbulence.

The investment managers look to diversify by investment style, noting that they "balance quality, value and growth factors, but always with a focus on cash flow", albeit with a skew to quality.

As such the team looks for key quality metrics (like strong balance sheets and high barriers to entry), but also value tenets, such as a company's valuation relative to its return on equity, and growth characteristics.

The portfolio is also well diversified by geography. Brunner has something of a home bias in part because of an unusual benchmark it uses for performance, consisting of 70 per cent in the FTSE World ex-UK index and 30 per cent in the FTSE All Share.

That equates to a decent UK allocation. Around a quarter of the portfolio is in the UK, with top holdings including **Shell (SHEL)**, **Auto Trader (AUTO)** and **Unilever (ULVR)**.

Some 22.7 per cent of the portfolio is in European shares such as airport operator **Aena (ES:AENA)**. It has a modest allocation to Asia, too, with **TSMC (TW:2330)** as one of the top holdings, and a minuscule allocation to Japan.

It isn't the case, of course, that the team ignores the US or the likes of the Magnificent Seven. US shares still account for 44 per cent of the portfolio and **Microsoft (US:MSFT)**, on a 5.5 per cent weighting, is the fund's top holding. **Alphabet (US:GOOGL)** also features, as does **Visa (US:V)**. But it has more of a balanced approach than many other funds.

The bottom line

Investors ultimately care about returns, and Brunner has tended to deliver on that front even in markets driven by the US tech giants. As the chart over the page shows, Brunner shareholders beat the rich gains of the MSCI World index in both 2023 and 2024, and they took less of a beating in the painful growth sell-off of 2022.

2025 has been more of a mixed bag, with Brunner shares having a difficult first quarter and still down by more than the global index for the year to date. It's notable, however, that Brunner shares were actually flat for the month of April, a time that saw US and global markets fall 3-4 per cent in sterling terms.

The portfolio is unsurprisingly quite a mix. There is 'tech' exposure via the likes of Microsoft, Alphabet and TSMC but other trends will affect the portfolio, too.

Take travel play **InterContinental Hotels Group (IHG)**, platform **Charles Schwab (US:SCHW)**, biotech company **Thermo Fisher Scientific (US:TMO)** and industrial conglomerate **Roper Technologies (US:ROP)**. Looking at sector exposures, financials account for 23.6 per cent with information technology on 22.7 per cent and industrials on roughly the same.

Recent additions to the portfolio have also been eclectic. Last year saw the managers initiate positions in **Bank of Ireland (IE:BIRG)**, **General Electric (US:GE)**, **Inchcape (INCH)**, Roper Technologies, Alphabet, **American Financial Group (US:AFG)** and Auto Trader.

Bank of Ireland was bought on the premise that it has recapitalised in the wake of the financial crash and that the banking landscape in Ireland has improved, with debt levels falling and lending standards ►

▶ improving. The team views Inchcape, which markets and distributes cars and parts on behalf of auto businesses, as "the leader in what is a highly fragmented market where we believe scale is becoming more important".

Of Alphabet, they note: "It has become a prodigious generator of free cash and recently paid its maiden dividend. We believe the company will continue to grow, albeit not at the pace seen in the past."

Auto Trader, meanwhile, is liked for its dominant position in the second-hand car market, its pricing power, lack of debt and asset-light nature.

The catch

Brunner is still open to the ups and downs of markets, and its diversified approach could mean missing out on what seem like easy wins.

The team has not held **Nvidia (US:NVDA)**, for example, and noted that not having it in the portfolio cost the trust well over two percentage points of relative performance in 2024.

Instead, they have targeted the artificial intelligence trend via "more prudent and diversified avenues", from TSMC to components providers **Amphenol (US:APH)** and **Schneider Electric (DE:SND)**.

However, it's worth noting that the fund still made gains elsewhere, underscoring its ability to perform well even without the market's hottest stock.

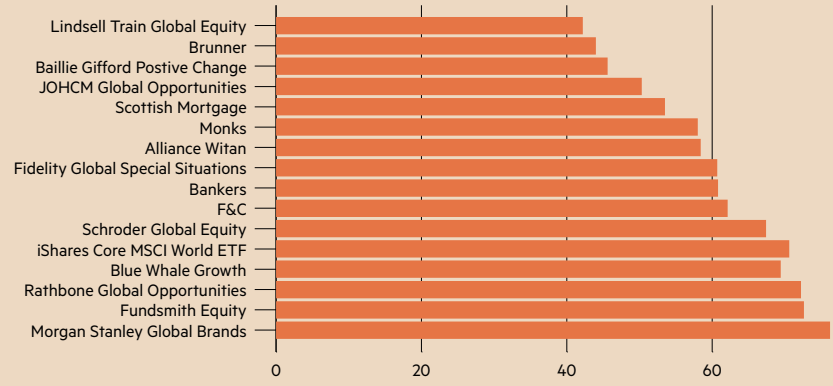
Investors will have to exercise patience when just a handful of the market's biggest stocks are on a tear and a fund such as this seems more pedestrian.

One final note is that the fund's decent UK allocation might cause overlap for a reader who also picks their own domestic shares. But looking beyond what should be a limited intersection, this is a steady play on global markets in unpredictable times. ●

BRUNNER SHARES WERE ACTUALLY FLAT FOR THE MONTH OF APRIL, A TIME THAT SAW US AND GLOBAL SHARES TAKE A DRUBBING

AMERICA IS HARD TO AVOID

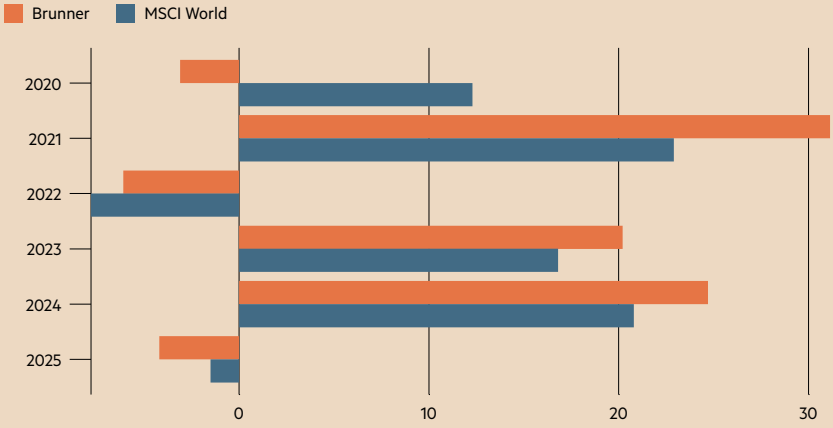
US/North America allocation (%)



Source: Latest factsheets

BRUNNER VERSUS THE INDEX

Sterling total return (%)



Source: FE 2025 data as at 19/05/2025

BRUNNER'S SECTOR EXPOSURE

Sector	Allocation (%)
Financials	23.6
Information technology	22.7
Industrials	22.6
Healthcare	12.9
Consumer discretionary	8
Energy	4.7
Utilities	3.1
Consumer staples	2.4

Source: Brunner as at end of March

Price (p)	1,349	**Share price dividend yield (%)**	1.7
AIC sector	Global	**Investment managers**	Julian Bishop, Christian Schneider
Market cap	£602.9mn	**Ongoing charge (%)**	0.63
Discount to NAV (%)	-3.7	**More information**	*brunner.co.uk*

Source: AIC

The case for private over public debt

John Baron highlights attractive 'alternative' fixed-interest investments



JOHN BARON

My column last month ('UK stands to benefit from the great rotation', *IC*, 25 April 2025) reminded readers that, while the portfolios have been overweight UK equities relative to benchmarks, they have been underweight equities for some time because of concerns previously highlighted which preceded President Donald Trump's so-called "liberation day". The threat of increased tariffs adds to these concerns.

Usually, government and corporate bonds would be beneficiaries by way of increased asset allocation. However, while ensuring portfolio balance, better risk-adjusted returns are on offer within the fixed-interest securities space, including asset-backed securities (ABS) and specialist lenders – which also offer attractive running yields.

Portfolio positioning

Spanning a range of strategies and income levels, the 10 live investment trust portfolios managed in real time on *www.johnbaronportfolios.co.uk* tend to be underweight bonds relative to benchmarks. The reasoning relates to the outlook for inflation. Columns dating back to 2021 ('Preparing for inflation', *IC*, 13 March 2021) have suggested inflation was going to be 'stickier' and more volatile than hitherto, in part because of shortened supply chains, courtesy of heightened geopolitical tensions and the pandemic. This would also contribute to the sourcing of cheap labour becoming more difficult. This adversely impacts on profitability unless prices rise.

Add in the inadequacy of some global trade and financial organisations, the inflationary effects of globalisation being in retreat, the new balance between capital and labour, an ageing population gradually shrinking the supply of labour, and one is detecting long-term structural shifts in the inflation equation. We have reached the end of cheap labour, cheap capital, cheap resources and cheap goods. Add in concerns about ever-higher levels of government debt, and government bond markets are demanding commensurate levels of yield by way of compensation.

By contrast, good-quality corporate bonds look the better investment given the healthier state of company finances. This is reflected in yield differentials with gilts having narrowed somewhat. As such, the investment case is now less strong, though still preferred in comparison to gilts, in helping portfolios achieve their diversification and income remits. Portfolio holdings include **CQS New City High Yield Fund (NCYF)** and **Invesco Bond Income Plus (BIPS)**, which operate at different points along the corporate risk spectrum, and which yield 9 per cent and 6.7 per cent, respectively. However, other fixed-interest opportunities beckon.

At a time when public debt in general looks expensive, private sector debt instruments offer better risk-adjusted returns. These are typically loans to companies or organisations not financed through public markets like stock or bond exchanges. Instead, these loans and credit are usually sourced from non-bank lenders, such as private equity and specialist lenders, in part because potential clients do not usually meet the more conventional bank lending criteria or may require more tailored loans which better reflect the specialist nature of their business or operation. Such loans are typically higher-risk than gilts or corporate bonds, as reflected by their higher running yields.

Yet this is an asset class which is navigated by experienced managers who possess a good track record of capitalising on this neglected part of the debt market and thereby achieve superior risk-adjusted returns, in part courtesy of the enhanced 'illiquidity' yield premiums on offer. These managers and lenders are an important cog in the economy, and are supported by strong debt-specialist teams who often go further than the credit rating agencies in breaking down and understanding the debt instruments in question. And this is at a time when the agencies themselves are still adhering to the lesson of the financial crash of 2008-09 in remaining cautious when assessing risk. An important lesson was learnt.

Given the specialist nature of this part of the debt market, this is also an asset class which very much benefits from the closed-ended structure of investment trusts by allowing managers to take the long view and not be buffeted by investor monies being withdrawn when markets are volatile. This ability to stand back also means they can take advantage of shifts in market mood and buy when sentiment trails the fundamentals. Meanwhile, some investment trust discounts enhance the yields on offer, with specialist lender companies in particular standing on attractive discounts relative to their history, record and outlook. ►

JOHN BARON'S PORTFOLIO PERFORMANCE

1 Jan 2009 – 30 Apr 2025	Growth	Income
Portfolio (%)	428.9	298.2
Benchmark (%)*	282.9	190.4
Year to date (to 30 Apr)		
Portfolio (%)	-2.7	-1.4
Benchmark (%)*	-2.7	-0.7
Yield (%)	3.4	4.5

*The MSCI PIMFA Growth and Income benchmarks are cited (total return)

Yet, despite the prospect of continued superior risk-adjusted returns being achieved, maintaining portfolio balance remains important. Such exposure should be part of a basket of debt holdings, both public and private, when looking to fixed-interest securities. At times of severe market stress, good-quality bonds will be more defensive. However, private debt should continue to do well over time. Meanwhile, these bond proxies help supplement income generation. By way of illustration, at the time of writing, the holdings listed below assist the website's Autumn (called Income in this column), Winter, Dividend, Overseas, Green and Green Isa portfolios, yield 4.5 per cent, 5.4 per cent, 7.1 per cent, 4.7 per cent, 7.8 per cent and 7.5 per cent, respectively.

Portfolio holdings

TwentyFour Income Fund (TFIF) is a case in point. This FTSE 250 company focuses on asset-backed securities with exposure to residential mortgages and car and consumer loans – mostly in the UK and Europe more widely. It has a good record of avoiding defaults and capitalising on the premium returns that these less liquid securities tend to offer, in large part because their specialist teams go to great length in analysing potential investments. Approximately a fifth of the portfolio is lower-risk 'investment grade', with half designated sub-investment grade and a third not rated.

The company recently commented on the asset class: "The ABS market has experienced record issuance during the past 12 months as banks have increasingly turned to ABS as a funding tool post the end of quantitative easing. Supply and demand have remained robust, with increased issuance leading to an overall improvement in average asset quality, benefiting the company […] the portfolio manager noted the strength of the European securitised market […] with rates remaining higher for longer, income would remain the driver of performance." The company stands on a small premium and yields 10 per cent.

M&G Credit Income Investment Trust (MGCI) also invests in ABS, mostly in Europe, but adopts a slightly more cautious approach. Around 75 per cent of its assets are investment grade and the lower risk has meant returns have been lower, the company's dividend equating to a yield of nearly 8.9 per cent. Like TFIF, the company is not geared. A recent statement confirmed a robust market: "We remain positive on the outlook for investment-grade credit, and given its yield benefits and defensive characteristics, it is, in our opinion, an attractive asset class to be invested in at this point in the economic cycle." This lower-risk approach suits the remit of the website's more defensive portfolios.

Meanwhile, as for 'specialist lenders', **Sequoia Economic Infrastructure Income (SEQI)** seeks income and capital appreciation from mostly private debt infrastructure investments. Nearly 60 per cent of assets consist of senior secured loans, which is defensive given their low default rates and volatility, and low correlation to other assets, while 40 per cent are floating-rate investments. Exposure is diversified by geography and sector. The portfolio's good default rate helps to account for its sound performance relative to its high-yield benchmark since first listing in 2015 – including 2020, when the company maintained its dividend during the pandemic.

Given the extent of international exposure, currency risk is reduced as overseas valuations are hedged back into sterling. The portfolio is relatively short dated, with investments having an average life of less than four years. This allows flexibility to capitalise on higher-interest loans given rates have peaked. In addition, the redemption of its investments at par value as loans mature ('pull to par') is incremental to NAV and will add about 4.2p per share as at April 2025. A recent statement suggests confidence about the outlook, and the fully covered 6.875p dividend equates to a near-9 per cent yield when bought courtesy of the c. 17 per cent discount.

BioPharma Credit Investments (BPCR) has a successful record as a specialist lender to companies in the life sciences sector. As it stated recently: "We remain focused on our mission of creating the premier dedicated provider of debt capital to the life sciences industry while generating attractive returns and sustainable income to investors." The managers have a good record. The loans are secured on approved, commercial-stage products (as such, the risk is not clinical), while their servicing and repayment is dependent on the products' success (the risk rather relates to projections when it comes to future sales).

Given both the uncorrelated and defensive characteristics of its revenue streams, BPCR plays an important role in assisting with diversification. The company pays a regular seven cents dividend, which is usually supplemented with special dividends courtesy of the way some fees are structured, including the provision of warrants as part of the loan, and one-off transaction fees. Special dividends have been paid in seven of the eight years since launch, and last year's distribution of 10.2 cents (including specials) equates to a yield of 11.6 per cent at time of writing, which again is enhanced by the double-digit discount.

GCP Infrastructure Investments (GCP) seeks to generate sustained distributions through exposure to infrastructure debts and related assets. Nearly two-thirds of the portfolio's investments contribute to the green economy, while the balance largely consists of exposure to supported living, healthcare and education. The board "adopted a capital allocation policy of realising c. 15% per cent (£150mn) of the portfolio to rebalance sectors and reduce equity exposures, and to […] facilitate the return of capital to shareholders of at least £50mn, whilst maintaining the dividend target". GCP stands on a 30 per cent discount to NAV and the dividend equates to a near-10 per cent yield. ●

MORE ONLINE

For more portfolios and commentary from John's company, please visit the website at: *johnbaronportfolios.co.uk*. John has also joined a team that forms a separate discretionary management business called Baron & Grant. (*www.baronandgrant.com*)

Cash in the static

Will a Japanese activist investor's approach work for unloved cash-rich UK stocks?



Bearbull

IC OPINION

When it launched in February 2020, **Nippon Active Value (NAVF)** set out a clear strategy to unlock the Mount Fuji-sized pile of cash and cash equivalents trapped within Japanese stocks.

The trust is run by Rising Sun Management (RSM), a team whose long pedigree as a corporate activist in Japan has in recent years been given a boost by government demands for listed companies to improve their returns on equity and close sometimes-gaping discounts to book value.

Once upon a time, getting Japanese boardrooms to listen was a challenge. But as RSM chair Paul ffolkes Davis told us last year, companies are now much more receptive to shareholder pressure, including from RSM's Tokyo-based all-Japanese team of analysts.

The fund's success in the five-and-a-bit years since its launch – most recently demonstrated by the shares' brief return to a premium to net asset value (NAV) – has offered satisfying evidence that sometimes, given a fair wind and the right ideas, investment managers can live up to their promises.

Over the past three years, two elements of the performance stick out: the consistency of NAV growth and the share price's total return. The latter stands at 79 per cent, making NAVF the UK's best-performing overseas equity fund that doesn't mark its asset values, focus on US tech or rely on a wildly hopeful bet on the unfreezing of Russian assets.

Among Japan-focused trusts, it is also the best-performing over three and five years in terms of both NAV growth and total share price returns, and behind only **JPMorgan Japanese (JFJ)** and **AVI Japan Opportunity (AJOT)** over 12 months. Lest this seems like plain sailing on the tide of a rejuvenated Japanese stock market, note that the Topix's doubling over five years is less forceful when priced in anything but the yen. Measured in sterling, the MSCI Japan is up just 43 per cent.

79%

OVER THE PAST THREE YEARS, NIPPON ACTIVE VALUE'S SHARE PRICE TOTAL RETURN STANDS AT 79 PER CENT

This doesn't mean NAVF's strategy is counter-intuitive. Indeed, it is focused on several well-known features of Japan's corporate culture. Chief among them, as Naoki Ito at Verdad Capital points out, has been Japanese boardrooms' failure to grasp the "investor perspective on capital expenditures and capital allocation". In essence, this is a shareholder preference for the certainty of dividends over cash-hoarding, heavy capital spending on low-return projects and cross-shareholdings – a clubby arrangement in which companies acquired shares in peers to fend off hostile takeovers.

Unsurprisingly, all three are targets for the fund, which details two connected ratios in its monthly updates. The first compares adjusted cash – which the fund's managers define as net cash plus cross-shareholdings – to market capitalisation. The second, which simply adds other net assets to the numerator and again compares to market capitalisation, gives a broader reading of the untapped value in its holdings.

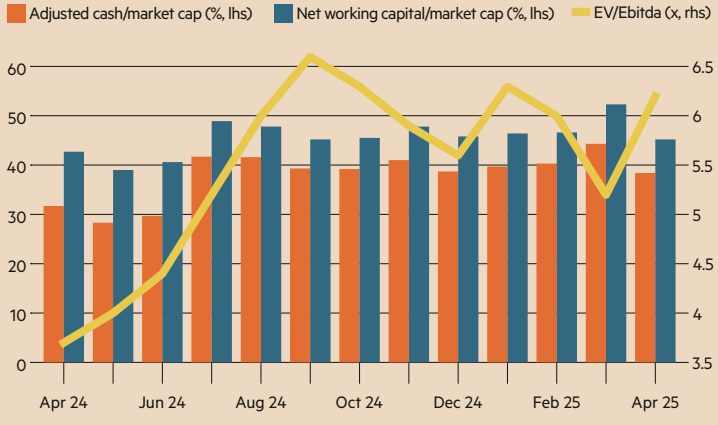
Over the past year, the average enterprise value to Ebitda (EV/Ebitda) multiple of its portfolio companies has crept up from less than four to just above six. While this implies valuations are rising, a steady climb in the adjusted cash ratio points to the fund's ongoing pursuit of companies with a higher proportion of cash and cross-shareholdings. It also suggests NAVF acquires a good amount of downside protection in each of its campaigns.

Albion Active Value?

Aside from its performance, Nippon Active Value has a lot to recommend it. By ignoring benchmarks and instead badgering companies to ►

NIPPON ACTIVE VALUE'S CASH FOCUS

Portfolio characteristics of NAVF's holdings



Source: Nippon Active Value. Adjusted cash = (cash + cross shareholdings - debt)
Net working capital = (cross shareholdings + total current assets – total liabilities)

► rethink their balance sheets, the fund offers an idiosyncratic play on a market that is already poorly represented in most investor portfolios. At the very least, this should help to reduce correlation.

Might a similar approach to cash-rich stocks work in a UK context, too? Clearly, without a large slab of capital or direct access to management, we'll have to forgo the activism. What's more, some features of the Japanese market simply don't translate. Not only do London-listed firms rarely own easily liquidated shares in rivals, but most are also highly aware of global investors' appetite for returns, via dividends and, increasingly, buybacks.

Above all, it's much harder to find companies outside the investment trust world that trade at a discount to book value. In part, this is because boardrooms and executives tend to look down on cash. Western capitalism's easy-going attitude to debt – that it can juice returns on equity, provide an extra line of corporate accountability and lower a stock's correlation with cash returns – is already firmly entrenched.

For evidence, just look to the FTSE 100. While average gearing remains below its pre-pandemic high, less than a fifth of stocks are in a net cash position. Of those, the average ratio of net cash to shareholder equity is just 15 per cent, while only **Kingfisher (KGF)** and **Barratt Redrow (BTRW)** trade below book value.

This isn't to say that one-time members of the blue-chip index don't offer opportunities, mind.

Take **Deliveroo (ROO)**. For my money, it has always been a trifecta of dubious service, labour practices and execution. **DoorDash (US:DASH)**, however, has seen something apparently few have spotted. Explaining his company's acquisition of the UK-listed firm this month, co-founder and CEO Tony Xu said the tie-up would marry his group's "strong operating playbook with Deliveroo's local expertise to invest in innovation and execution at an even higher level".

81%

QUILTER DEEMS 81 PER CENT OF ITS £1.95BN CASH BALANCE AS 'AVAILABLE FOR GENERAL USE BY THE GROUP'

The keen pricing of the deal rather suggests Deliveroo's cash offered a nice insurance policy, too. Having generated positive free cash flow and a small net profit for the first time in 2024, its days of endless cash burn appeared to be over. Despite that, its market value continued to fall in early 2025, making a suddenly stable (and slowly growing) cash pile increasingly attractive.

When DoorDash made its bid, Deliveroo's net cash had just climbed above 30 per cent of its market value for the first time in two years.

Is this the sort of cushion investors of all stripes should look for, then? By screening the FTSE All-Share for companies with positive forecast net income and an adjusted cash ratio to market capitalisation of at least 25 per cent, we get a shortlist that at least approximates NAVF's method.

While the average earnings ratio (the inverse of the price to net income, or 6.6 per cent) is nothing spectacular, the average enterprise value to cash profits ratio of 4.7 is in line with the kind of stock NAVF goes for.

While this ratio ordinarily suggests that a stock is cheap for a reason, the presence of several high-momentum construction stocks in the lists shows that over a medium-term horizon, the effective use of cash for shareholder returns can act as a multiplier for even average profit growth.

As for the heavy bias towards unloved asset managers, some of this can be explained by requirements to use cash for capital buffers or liquidity management. However, it's worth paying attention to individual policies on cash. **Quilter (QLT)**, for example, deems 81 per cent of its £1.95bn cash balance as "available for general use by the group". Though some of this is policyholder cash and used for capital buffers, it is both earning Quilter interest and largely excluded in its pitiful market valuation.

Might that be enough to tempt an activist or DoorDash-like white knight? When there's enough cash under the mattress, investors can probably afford to sit tight while they wait to find out. ●

bearbull@ft.com

BLUE-CHIP GEARING

FTSE 100 constituents	2019	2020	2021	2022	2023	2024
Median leverage (net debt to equity)	53%	50%	39%	48%	45%	48%
Proportion in a net cash position...	14%	13%	21%	17%	20%	17%
...of which median net cash ratio to equity	18%	39%	19%	19%	15%	15%

Source: *Investors' Chronicle*, FactSet. Excludes constituents with negative shareholder equity

CASH-RICH STOCKS

Company	TIDM	Market cap (£mn)	FY25E Net Income (£mn)	Price/net income (x)	EV/ Ebitda (x)	Net cash (£mn)	Equity (£mn)	Net cash/ equity	6-month shares	Net cash/ MC
Quilter	QLT	2,046	72.3	28.3	3.7	1,655	1,423	116%	37%	81%
Schroders	SDR	5,368	370.9	14.5	2.5	3,399	4,453	76%	-7%	63%
Funding Circle	FCH	339	12.8	26.5	14.6	165	220	75%	39%	49%
Ashmore	ASHM	980	63.2	15.5	7.2	468	884	53%	-25%	48%
Jupiter Fund Management	JUP	411	31.5	13.0	0.5	195	834	23%	-3%	48%
Liontrust Asset Management	LIO	235	21.2	11.1	-	104	171	61%	-50%	44%
Mears	MER	331	38.0	8.7	3.7	144	184	78%	1%	43%
Galliford Try	GFRD	405	30.0	13.5	1.6	174	122	142%	56%	43%
Clarkson	CKN	1,059	67.3	15.7	6.5	431	496	87%	-13%	41%
Costain	COST	340	37.6	9.0	2.5	134	236	57%	46%	39%
Centrica	CNA	7,849	627.4	12.5	0.8	2,858	4,328	66%	9%	36%
Balfour Beatty	BBY	2,500	213.3	11.7	7.3	862	1,130	76%	34%	34%
Aberdeen	ABDN	2,998	161.7	18.5	-	901	4,931	18%	10%	30%
Plus500	PLUS	2,418	205.7	11.8	5.4	699	511	137%	47%	29%
Phoenix	PHNX	6,314	285.8	22.1	-	1,683	1,213	139%	23%	27%
Ninety One	N91	1,354	142.1	9.5	-	351	367	95%	-9%	26%
Average	-	**2,184**	**149**	**15.1**	**4.7**	**889**	**1,344**	**81%**	**12%**	-

Source: Investors' Chronicle, FactSet. As at 21 May 2025

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Altria †26
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*Alternative Investment Market †Overseas shares

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