Pitch doctoring

Our analyst argues the upcoming budget should see radical action to boost the UK market...

Update
21 February 2024

Analysts:

Thomas McMahon
+44 (0)203 795 0070

What is a belief? If you haven't studied philosophy, that probably seems like a trivial question – "it's just what I think, innit?" But it's actually a much more subtle issue than it first appears. Do you, for example, believe that an anvil is about to fall out of the sky onto your head? It seems unlikely these words have ever formed themselves in your mind – if they have, I am intrigued – but it seems intuitive to say you believe this will not happen. One way of resolving this issue is to see belief as a matter of behaviour. To believe something is to behave as if it were true – and part of that behaviour would be to open the mouth and allow sounds to come out which are interpreted by other Homo sapiens living around here in such a way as to confirm to them that you too will not expect an anvil to fall out of the sky if you walk over the hill, and therefore they could make plans, such as to set out to the shops with you or rob you. Incidentally, this implies AI is not 'I', and the machines will never be intelligent, let alone conscious. It implies that intelligence is not number crunching, and beliefs do not appear in any machine learning program. But before I digress too much, let me now pivot to my main point which is – obviously – about personal taxation policy.

Behaviours reveal beliefs, and time and time again the British state acts with a very naive view as to what other countries believe. We are told, for example, that international human rights law is an instrument to influence other countries to improve the treatment of their citizens. Yet behaviours reveal beliefs, and while Russia was a member of the European Convention on Human Rights (ECHR) it made it clear how little it regarded human rights by the lack of fair trials, lack of fair elections and disgusting prison conditions, amongst other crimes. Membership of the ECHR was a means to an end for Russia, nothing more. When it comes to the current UK government's proposal for a British ISA, many of the objections reveal a similar naivety. Many commentators have retorted that any incentive for UK savers to invest in UK-listed companies could lead to suboptimal asset allocations. But let's get real about what market-cap-weighted indices represent. Even the countries most committed to free enterprise will interfere when they think their national interests are seriously threatened, with the US getting particularly tough on Chinese takeovers in recent years. Market-cap-weighted indices have been created by regulation and interference as much as private capital flows. No foreign entity will be taking over NVIDIA, and the Taiwanese government's shareholding in TSMC and seat on the board would not limit its actions should private investors seek to take it over or break it up. These examples are obviously inspired by the example of Arm Holdings, recently listed on the NASDAQ as a wonderful success for Japanese investor SoftBank and American stock markets. We British will have to comfort ourselves with the knowledge that global economic welfare has been maximised.

Opening up your economy to foreign capital without restriction creates a free-for-all in which might is right. The NASDAQ's success is a snowball: as capital gathers in one centre, it becomes harder and harder to resist – this dynamic has been prevalent in the recent era of globalisation in which the winner takes all. But the British state has the ultimate power within its borders, and it is time it used it to protect and nurture the incredible companies and industries we have, before they are all 'optimised' away. A British ISA, in which extra tax advantages accrue to holding companies listed here, is one small and positive step that could be made to reward those excellent businesses established in this country. (Of course, the retail punter should not be made to shoulder the entire burden, and institutional investors should have to play a role too.)

Another objection has been that companies with global operations would be rewarded, not just those operating here. But this misses the point, in my view. Even companies wholly operating abroad bring revenues to the country by virtue of listing here, and their presence helps create a centre of gravity that brings in other listings and makes it easier and cheaper to raise capital here. Besides which, it is arguably businesses that are operating abroad that we most want to nurture. Many small- and mid-cap British companies are global businesses, developing innovative new technologies or products in industries with huge potential for growth, and currently they are not getting the ratings they deserve. Ultimately, their long-term presence here has to be in doubt.

A good example would be YouGov, which is currently considering listing in the US. YouGov generated c. 43% of its revenue from the US in FY 2022, and sees the country as a critical source of growth. When we spoke to Jonathan Brown and Robin West, managers of **Invesco Perpetual UK Smaller Companies (IPU)** late last year, they flagged that they had bought the stock on share-price weakness. YouGov does polling and other market research work, and has spearheaded the development of online methods, being a great example of a UK business leading the way in taking a service industry online.

Another smaller British company seeing strong growth in the USA is 4Imprint, which prints promotional materials, from pens to hoodies. The company has seen strong growth through the pandemic period and grown market share. Dan Whitestone, manager of **BlackRock Throgmorton Trust (THRG)**, flagged the company when we last discussed his portfolio last summer, in particular the single digit market share in the US, which means the runway for growth is huge.

Last year Sue Noffke, manager of **Schroder Income Growth (SCF)**, added a position in Victrex. Victrex is a world leader in high-performance polymers, with its product range well protected by patents. Victrex's polymers are used across industrial, medical and sustainability applications. Only 1.4% of its £307m revenue from external sales was from the UK in FY 2023. Germany, the USA and China were the chief sources of revenue. (We published a note on SCF in January: you can read it **here**.)

These are just three examples from recent manager meetings of UK-listed companies that have been flagged to us as representing exciting overseas growth stories with attractive valuations. The presence of these companies on the London market shouldn't be taken for granted. So what does the British state believe about the UK stock market? Well, what does its behaviour imply? Its current inaction implies the state either thinks it doesn't benefit us to protect it, or it doesn't want our society or economy to reap the benefits of a vibrant market.

Disclaimer

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.