

How to invest like a prime minister

The prime minister's tax return and profits have sparked a lot of interest, but what can they teach us all about investing



David Brenchley | Saturday March 25 2023, 12.01 am, The Times

Rishi Sunak's profits of £4 million from a US-based investment fund over the past three years made a big splash this week.

On Thursday Sunak became the first prime minister since David Cameron to publish their tax return and the figures have been pored over by many.

Most of the income that Sunak reported in the past tax year came from the sale of investments such as shares or funds, which meant he paid capital gains tax at 20 per cent on much of that income, rather than income tax at 45 per cent. He reported £1.6 million in capital gains and £172,415 in dividend payments.

Almost all of Sunak's wealth is held in a US-based investment fund, which was put into a "blind management arrangement" when he entered the cabinet in 2019 to avoid conflicts of interest. This means that trustees are responsible for the fund management and Sunak doesn't know what they invest in.

The fund has not paid money directly to Sunak during the period in question and he has indicated that he will not cash it out until after he leaves office.

The tax summary has little detail on the sources of the fund's income, so it's hard to get a sense of exactly what the portfolio of a prime minister looks like — but we can take some guesses. Laith Khalaf from the investment firm AJ Bell said that it was likely that Sunak's fund took an active, global and multi-asset approach to investment. It probably invests across assets such as stocks, bonds and possibly private equity.

Rishi Sunak's tax return

	2019-20 £	2020-21 £	2021-22 £
Income			
Earnings			
Member of parliament	79,444	81,908	81,908
Ministerial salary	19,180	74,256	74,255
Savings income			
Bank interest	2,479	472	293
Investment income			
Interest	41,703	7,371	690
Dividend	195,637	174,363	172,415
Total income	338,443	338,370	329,561
UK income tax	123,107	124,473	120,604
Less foreign taxes withheld/paid	(29,346)	(16,638)	(13,937)
Capital gains			
Gains	679,946	1,439,211	1,641,431
UK capital gains tax	133,589	285,382	325,826
Total UK tax paid	227,350	393,217	432,493

Source: Evelyn Partners

Going for growth

The main takeaway from Sunak's portfolio is that it generates a lot more capital gains than it does dividend income. At 42 years old, Sunak has the advantage of time — he can invest over decades. This gives him the luxury of being able to invest for growth.

That was seemingly confirmed by Downing Street, which told The Times that it was “entirely routine for savers to choose to invest in funds that focus on long-term growth rather than short-term dividend income”.

Khalaf said: “Higher long-term returns tend to be associated with investing in the stock market, and some global equity funds fit the bill nicely.”

Investors could start with a core fund such as Fidelity Index World. This fund aims to provide the return of a global stock market index for a low cost. Its biggest holdings are Apple, Microsoft and Amazon and it has an annual charge of 0.12 per cent.

Some actively managed funds to complement this are Fidelity Special Situations, which invests in the US bank JPMorgan Chase, the Google owner Alphabet and the healthcare firm UnitedHealth and charges 0.92 per cent; and Baillie Gifford Global Alpha Growth, which targets faster-growing firms such as the health insurer Elevance Health, the tech investment firm Prosus and the credit ratings agency Moody's. It charges 0.59 per cent.

- Rishi Sunak's tax return shows he made £5m in three years
- Rishi Sunak and Akshata Murty net worth — Sunday Times Rich List 2022

Legacy investments

Before becoming a politician, Sunak worked in finance. He started as a US equities analyst for the bank Goldman Sachs before working for hedge funds such as Theleme Partners and TCI Fund Management. It is possible that he has some legacy investments from these days, said Emma Wall from the investment platform Hargreaves Lansdown.

Theleme invests mainly in American healthcare, technology and finance stocks. Its largest holdings are the vaccine maker Moderna, the bank Wells Fargo and the trading platform Charles Schwab, according to the website Whale Wisdom.

TCI, run by the Surrey-born billionaire Sir Chris Hohn, is also mainly invested in American firms, with its largest holdings being Microsoft, Alphabet and Canadian National Railway.

You can invest in these companies directly through an investment platform, or Jemma Jackson from the fund manager Interactive Investor said you could consider Pershing Square Holdings Trust, a hedge fund available to retail investors where holdings include the record label Universal Music Group and the hotel operator Hilton.

Sunak also worked for his father-in-law Narayana Murthy's company, Catamaran Ventures, which mainly invests in early-stage Indian businesses, such as the country's stock exchange NSE and the gaming platform Loco. It also invests in Elon Musk's SpaceX and the social network Reddit.

Retail investors cannot back these kinds of firms directly, but SpaceX is the fifth largest holding in the Scottish Mortgage investment trust while India Capital Growth Trust has about 22 per cent of its portfolio invested in small Indian companies.

Private equity and early-stage businesses are high risk, so these should account for a small part of your portfolio.

Investors could also buy shares in Infosys, the company founded by Sunak's father-in-law. Sunak's wife, Akshata Murty, holds a 0.93 per cent stake in the company that is valued at about £600 million, said Jackson.

MPs' pensions

What the scheme is invested in

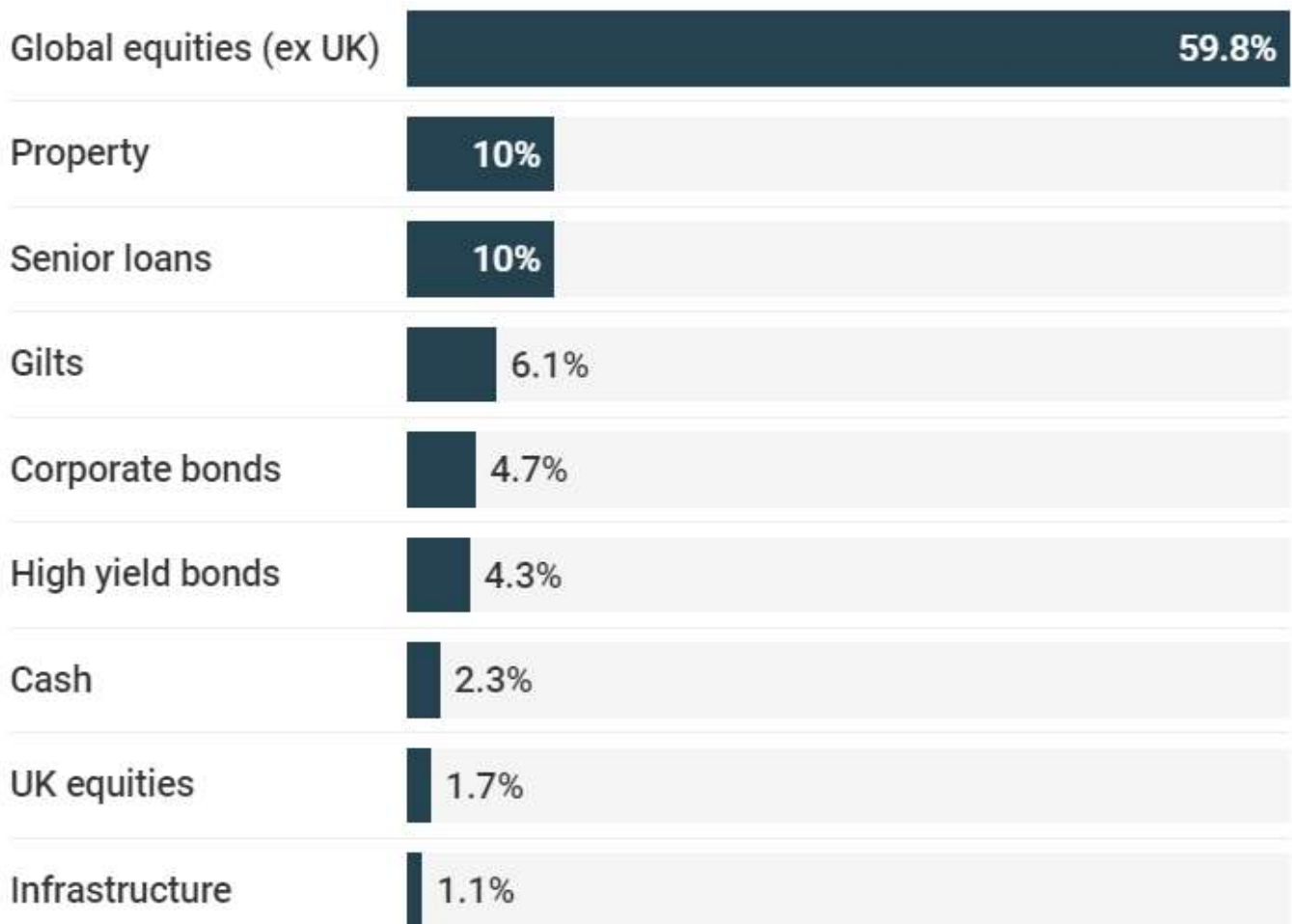


Chart: The Times and The Sunday Times • Source: House of Commons

Pension scheme

Part of Sunak's investments might be tied up in the Parliamentary Contributory Pension Fund, the default pension scheme for MPs. This is a defined benefit scheme, where investment returns do not have direct implications for member's pensions payouts, which are guaranteed, based on earnings.

The scheme, which had total assets of £834.9 million on March 31, 2022, had about 60 per cent in shares of global companies that are not listed in the UK.

"The parliamentary pension fund is invested for long-term growth, with a global equities bias you'd expect from a pension fund," Wall said.

The next largest weightings were to property and senior loans at about 10 per cent each. Senior loans are debt issued by companies that are high up in the pecking order.

If a company goes bust, holders of senior loans get their cash back before creditors and stockholders.

Interestingly, the scheme lists just a 1.7 per cent weighting to UK equities, which is much less than the 4 per cent of global equities that British businesses account for. "That is hardly backing Great British business," Wall said. "Perhaps it's a case of diversifying risk away from the day job."

The global equity slice is made up of three funds including a low carbon fund and a multi-factor fund. Neither is available on platforms, but you could consider the JPMorgan Carbon Transition Global Equity exchange traded fund (ETF), Xtrackers MSCI World ESG (environmental, social and governance) ETF, HSBC Multi Factor Worldwide Equity ETF and JPMorgan Global Equity Multi-Factor ETF.

Again, the property investments look to be unavailable on platforms, but there are property funds on their best-buy lists. AJ Bell suggests the iShares MSCI Target UK Real Estate ETF, while Jackson highlighted the Balanced Commercial Property trust.

The FP Foresight UK Infrastructure Income Fund may sit in the infrastructure portion, which boosts your exposure to UK assets. It invests in a basket of investment trusts that own assets such as wind farms, hospitals and passenger trains.

On the bonds side, consider the Vanguard UK Government Bond Index Fund for UK gilts, GAM Star Credit Opportunities Fund for credit and the Invesco High Yield Fund.

The MP who invested his way to a million
Lord Lee of Trafford became the first Isa millionaire in 2003. The former Tory MP, who became a Liberal Democrat in 2001, began investing in a tax-friendly Personal Equity Plan in 1987.

The life peer is one of the few parliamentarians to publish his portfolio. Most of the companies he invests in are small British businesses, but he has a core of large and mid-cap stocks, including the Phoenix pensions group, which pays a dividend yield of 9 per cent; the insurers Legal & General and Aviva, which yield 8 per cent and 7.1 per cent; and the sugar company Tate & Lyle, where the yield is 2.3 per cent.

His smaller companies include the Vimto maker Nichols, the lender Secure Trust Bank, the flavouring firm Treant and the engineering firm Goodwin.

Lord Lee recently sold his holdings in the drugmaker GSK, the energy network operator National Grid and the medical centre owner Primary Health Properties.