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VOL 24 / ISSUE 07 / 24 FEBRUARY 2022 / £4.49

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CONFLICT IN UKRAINE: What escalation means for markets

Contents

Airbnb's next growth leg might not be so smooth

The platform looks like a great business but it may have a perception problem

Inflation isn't necessarily bad news for all companies. When hosting platform Airbnb published its latest results on 15 February, chief executive Brian Chesky said rising prices and the pressure on household finances might drive more individuals to list their homes on the site.

This begs the question of where these hard-pressed homeowners might stay while they rent out their properties and opens something of an ethical can of worms around Airbnb's operating model which could add to the regulatory concerns facing the company.

Airbnb has what many people look for in a business. It can grow rapidly without requiring lots of investment on its part. It doesn't own any properties itself – it just markets them on behalf of the property owners or hosts using the platform.

It does have marketing costs and clearly needs to ensure its web platform is up to scratch but there is limited meaningful competition to the niche it has carved out since being founded in 2008.

In 2019, before Covid hit, statistics from consumer data consultancy Second Measure showed Airbnb accounted for 20% of the entire US lodging market.

This dominant position creates a network effect, another attribute widely prized by investors. The more properties on the platform, the more it is used by potential guests and the greater the incentive to be on the platform in the first place.

The company was hit hard by the pandemic with its 'professional hosts' – who have perhaps themselves rented out several properties to list on Airbnb – badly affected when stays were cancelled, and the income stopped coming in.

There was fury at Airbnb on the part of hosts when it allowed guests to cancel bookings with a check-in date between 31 March and 31 May 2020 without any penalty.

Nonetheless Airbnb enjoyed a strong start to life as a public company after joining Nasdaq in December 2020 – a well-timed market listing which came just after the development of viable coronavirus vaccines which allowed investors to look forward to a recovery in travel.

The shares went from an issue price of $68 to $144 on its first day of trading but the momentum has stalled, and it is now only a little higher at $174.90.

Now travel bookings are recovering Airbnb faces the challenge of getting enough decent options on the platform to meet demand, hence Chesky's comments about a stream of individual households putting their pads on the platform.

Chesky is an enthusiastic user of the platform he helped create, living permanently in a rotation of Airbnb properties. Longer-term lets, particularly for people looking for interesting places to work from home, are increasingly a key driver for Airbnb.

However, these longer stays are exacerbating the impact Airbnb has on local property markets. This may still be at the margin – a 2017 study by US academics found that a 1% increase in Airbnb listings led to a 0.018% increase in rents and a 0.026% increase in house prices – but perception also plays a part and could lead to stricter rules being imposed on the business.

The EU and several US cities are among those ramping up the pressure and if Airbnb is perceived as a place for rich people to stay and as callously driving up local property and rental prices it could see that pressure become more unrelenting.

By **Tom Sieber** Deputy Editor

The market impact of Russia's Ukrainian incursion

Shares in miners, real estate investors and investment trusts linked to Russia and Ukraine suffer

A de facto invasion of Ukraine by Russian forces has ramped up market volatility and sent oil prices to the cusp of $100 per barrel and safe-haven gold to within touching distance of $1,900 an ounce, at the time of writing (22 Feb).

Hopes of a de-escalation are looking increasing forlorn as Vladimir Putin orders troops into Ukrainian regions held by separatist rebels which have been backed by Russia since 2014.

Western intelligence services are warning this is a precursor to a full-scale invasion of Ukraine although second-guessing Putin is something of a fool's errand at this point.

The imposition of sanctions on Russia, in response to this first step alone, are likely to have a disruptive impact on energy supplies and trade. Germany has said it will effectively cancel the controversial Nord Stream 2 pipeline linking it to Russia.

This could add to inflationary pressures in Europe and might even provide a sufficient economic shock to push the global economy into a downturn.

Russian stocks dropped as much as 14% in response to the latest developments while the rouble also tanked.

UK-listed stocks with exposure to Russia and Ukraine also fell sharply including mining firms **Petropavlovsk (POG)**, **Eurasia Mining (EUA:AIM)**, **Evraz (EVR)**, **Ferrexpo (FXPO)** and **Polymetal (POLY)**, Russian real estate investor **Raven Property (RAV)** and investment trust **JP Morgan Russian Securities (JRS)**.

Investment bank Jefferies is relatively sanguine about the wider impact of Russia's actions at this stage, commenting: 'Whilst the escalation in tensions is unwelcome, it is unlikely to alter global economic variables that much.

'It is not easy for Europe politically and economically to enforce punitive sanctions. It is unclear whether a limited incursion into Eastern Ukraine will force the western nations to adopt the more draconian sanctions being earlier voiced.

'The most contentious and one that the Russian president might have miscalculated is on Nord Stream 2 – the 760-mile pipeline under the Baltic Sea – designed to double Russia's natural gas exports to Germany.'

If Russia were to make moves on Kyiv, it is very difficult to work out what might come next. Would the US opt for a direct military intervention, for example?

There is speculation Putin had explicitly agreed with close ally, Chinese leader Xi Jinping, to delay any action in Ukraine until the conclusion of the Winter Olympics in Beijing.

And while there is less noise around the issue right now, with focus unsurprisingly concentrated on Eastern Europe, Jinping has his own territorial ambitions.

Retaking Taiwan, last held by China more than a century ago before it was ceded to Japan, is seen as a key goal and would represent arguably an even bigger threat to global geopolitical, economic and market stability. [TS]

Russian and Ukrainian stocks and funds slump

Company	Share price change since 18 Feb '22
Eurasia Mining	-25%
Petropavlovsk	-24%
JPMorgan Russian Securities	-15%
Raven Property Group	-14%
Polymetal International	-12%
Ferrexpo	-8%
Evraz	-6%

Table: Shares Magazine • Source: SharePad, data as at 11am 22 Feb 2022 • Created with Datawrapper

The inflation signals keep lighting up

The Bank of England and US Federal Reserve have acknowledged prices are rising too fast

February's flash PMI (purchasing manager index) data (21 Feb) showed the UK economy rebounding strongly from the recent Omicron related lull in activity with the services component registering an eight-month high of 61.8. Readings over 50 signal an expanding economy.

Cost pressures remained elevated across the economy driven by tight supply chains and lengthened delivery times. Input prices increased at the fastest pace since November, before Omicron, representing the second quickest acceleration since 1998.

The latest data will heap more pressure on the Bank of England policy making committee when it meets on 17 March to decide whether to raise interest rates yet again following the first two back-to-back rate increases since 2004.

A strong rebound in January retail sales added more fuel to the inflation fire when the ONS (Office for National Statistics) reported an increase in volumes of almost 2%, double the forecast by economists in a Reuters poll.

Department store and household goods sales were particularly robust showing a 7% increase compared with the prior month with furniture and electrical goods the standout components, rising 16% and 17% respectively.

In a mirror image of lockdown trends, food sales volumes dropped 2.3%, falling below their pre-pandemic levels. Overall retail sales are up 3.6% compared with before the onset of the pandemic.

Share prices of some of the largest branded consumer goods companies such as **Unilever (ULVR)**, **Reckitt (RKT)**, Nestle and Heineken have underperformed of late on fears that consumers may be forced to trade down to cheaper products as their wallets get squeezed by rising fuel and energy prices.

The thinking is that the branded companies

will need to spend more money on marketing to maintain their share of consumer wallets and/or take on some of the pain from higher input costs to avoid higher in-store prices depressing demand. Both these factors look set to hit profitability.

Meanwhile across the Atlantic, better than expected retail sales have increased expectations that the US Federal Reserve will need to raise the policy rate by more than the quarter percentage point previously anticipated when the governors of the central bank meet on 15 March to discuss the economy and reveal the bank's latest financial projections.

New York Federal Reserve Bank president, John Williams recently said inflation had ridden too high and he acknowledged that monetary policy had a role to play in getting it back under control.

Williams signalled that supply chain pressures and a hot labour market made it likely the Fed would consider increasing its target range for interest rates.

James Bullard, president of the St Louis Fed has called for the Fed Funds rate to be 1% higher that the current 0.15% level by July and voiced his support for a 0.5% increase at the March meeting. [MGam]

Pubs and restaurants could see another bumper run

Numis analysts believe consumers are eager to go out despite pressure on finances

Despite significant pressure on family finances from the rising of cost of borrowing and living, Numis analysts Tim Barrett and Richard Stuber believe parts of the leisure sector could soon enjoy a big earnings boost.

They say demand for pubs and restaurants is now above 2019 levels and should improve further now that the Government has removed the remaining Covid restrictions in England.

'We expect the combination of pent-up demand and lower risk-aversion to be powerful, even in the face of inflationary limits on consumer spending power,' the analysts comment. 'Household income growth is lagging non-discretionary expenditure, but we see leisure spending as high up on consumer priority lists.'

The leisure sector has various headwinds including VAT returning to 20% from April, the risk of which is 'overstated' according to the Numis duo. Cost inflation is being partially mitigated by greater use of app ordering which means less staff are required. Staff shortages are now less acute than at the end of 2021, add the analysts.

In *Shares*' view, little is being said about the potential bumper payday for pubs and restaurants in early June when there is a four-day bank holiday weekend for The Queen's Platinum Jubilee. Sunny weather could see a big boost to earnings for the sector and investors may soon start to look for potential winners given the event is fast approaching. [DC]

Banks fail to inspire despite upgrades and buybacks

Muted start to banks' reporting season as HSBC and NatWest endure share price slumps

THE MARKET RESPONSE to the start of the banks reporting season in the form of numbers from **NatWest (NWG)** (18 Feb) and **HSBC (HSBA)** (22 Feb) has been decidedly lukewarm.

Share prices in both banks drifted lower on results. This looks surprising given that NatWest's results were ahead of consensus.

The group upgraded future guidance and announced a £750 million share buy-back. HSBC's results were more mixed, coming in marginally below analysts' expectations. However, in a similar vein to NatWest, future guidance was more positive with the group's 10% plus return on tangible equity being brought forward by a year to 2023.

The group also announced a $1 billion share buyback.

There are a number of factors which explain the muted share price response. Both banks have witnessed strong performance ahead of the results as markets price in a profit boost from higher interest rates.

HSBC shares have increased by 21% year to date and currently sit 4% below their 12-month high. Similarly NatWest shares currently sit 6% below their 12-month high.

NatWest now plans to reduce costs by 3% per year, versus a prior target of 4%. The change in guidance is equivalent to £200 million increase in costs and shows the company is not immune from inflationary pressures.

HSBC's results highlighted the group's exposure to Chinese commercial real estate which resulted in a $413 million impairment charge. [MGar]

The firms which might be next after latest UK takeovers

With Clipper Logistics and John Menzies lined up by acquirers we explore other potential targets

Takeovers of British companies reached a 14-year high by value in the first seven months of 2021 according to data from Refinitiv and the action shows little sign of letting up in 2022.

The total value of deals during this aforementioned period was $198 billion, a more than three-fold increase on the same period in the previous year.

Two more firms, retail logistics specialist **Clipper Logistics (CLG)** and British aviation services company **John Menzies (MNZS)**, are now set to disappear from the London Stock Exchange.

Both firms are in the process of being acquired by foreign trade buyers. This marks a change from last year, when private equity dominated the takeover of UK plc. However the rationale for overseas entities to acquire domestic firms remains the same.

From a valuation perspective London-listed companies appear undervalued compared with international rivals.

Clipper Logistics has agreed a takeover deal with GXO, a New York based rival at 920p a share. This values Clipper at approximately £947 million.

GXO was part of another American warehouse and tracking company XPO Logistics, until August 2021, when it was spun out and listed separately.

John Menzies, the British aviation services company has agreed a £550 million takeover deal with a Kuwaiti rival, National Aviation Services (NAS).

Two initial unsolicited approached at 460p and 510p were dismissed by management as being 'highly opportunistic'. However on 21 February the board recommended a new 608p offer, valuing the company at £550 million.

Possible UK takeover targets

Company	EV to free cash flow trailing 12 months	EV/EBITDA trailing 12 months	Net debt to assets (%)
Balfour Beatty	4.6	9.1	-3.9
Bellway	7.7	6.8	-6.7
Centamin	6.9	3.2	-19.3
Centrica	7.7	3.2	1.7
Crest Nicholson	4.4	5.7	-15.5
Currys	2.1	4.3	13.3
Ferrexpo	2.4	1.4	-10.5
Frasers	9.0	9.3	19.0
Hochschild Mining	4.3	2.4	-3.7
Indivior	5.6	7.9	-44.5
Marks & Spencer	6.9	8.4	33.5
Morgan Sindall	3.0	5.9	-18.3
Rank	8.7	6.5	14.9
Redrow	5.1	5.3	-8.0
Serco	7.5	6.4	23.6
Synthomer	9.7	4.4	17.8
Vistry	6.9	8.2	0.2

EV = Enterprise Value. EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation.

Table: Shares Magazine • Source: Stockopedia, data as at 21 February 2022. • Created with Datawrapper

The table outlines the FTSE 250 companies (easier to swallow than their FTSE 100 counterparts as acquisition targets) which appear potentially attractive on the following metrics (often employed by private equity buyers in particular): enterprise value to free cash flow; enterprise value to earnings before interest, tax, depreciation; and amortisation and net debt to assets. [MGar]

Introducing our new column on US markets: Wall Street Week

Don't miss our regular look at American stocks and shares

UK investors are increasingly interested in US stock markets given the breadth of companies and ease at which you can buy and sell shares listed on places like the New York Stock Exchange and Nasdaq.

The S&P 500, Dow Jones and Nasdaq indices are closely watched by investors around the world, and US stocks have become the bread and butter for diversified portfolios across the UK and beyond.

In response, *Shares* has launched a column called *Wall Street Week* which discusses the big movements on US markets, published each Friday late afternoon on our website. The articles are free to read.

Sign up to receive *Shares*' email newsletter and you'll get the US commentary straight to your inbox on a Monday lunchtime.

To give you a taste of the weekly article, here is the column from 17 February.

WALL STREET WEEK: UKRAINE CONFLICT EDGES CLOSER AND WALMART BEATS THE STREET IN Q4

Joe Biden and Boris Johnson believe Russia will strike out at Ukraine 'within days', and the threat of imminent war in Europe has rocked markets around the world, including the US.

Oil and gold prices rallied over the past week, but experts are urging retail investors against panic selling into falling markets given that history shows geopolitical fallouts rarely trouble equity markets for long.

But while the potential conflict dominates much of the market mood, inflation threats have certainly not gone away. The Fed continues to signal a tightening cycle, and many economists expect the regulator to raise interest rates at each of its meetings this year.

It is no wonder RBC Wealth Management has been telling investors to rethink expectations and anticipate 'periodic bumps in the road'.

You might have expected the tech and small cap indices to struggle most in this environment, yet it was the long-standing Dow Jones Industrial Average that saw the biggest sell-off over the past week, presumably because most of its constituents are international and therefore face bigger problems during times of conflict.

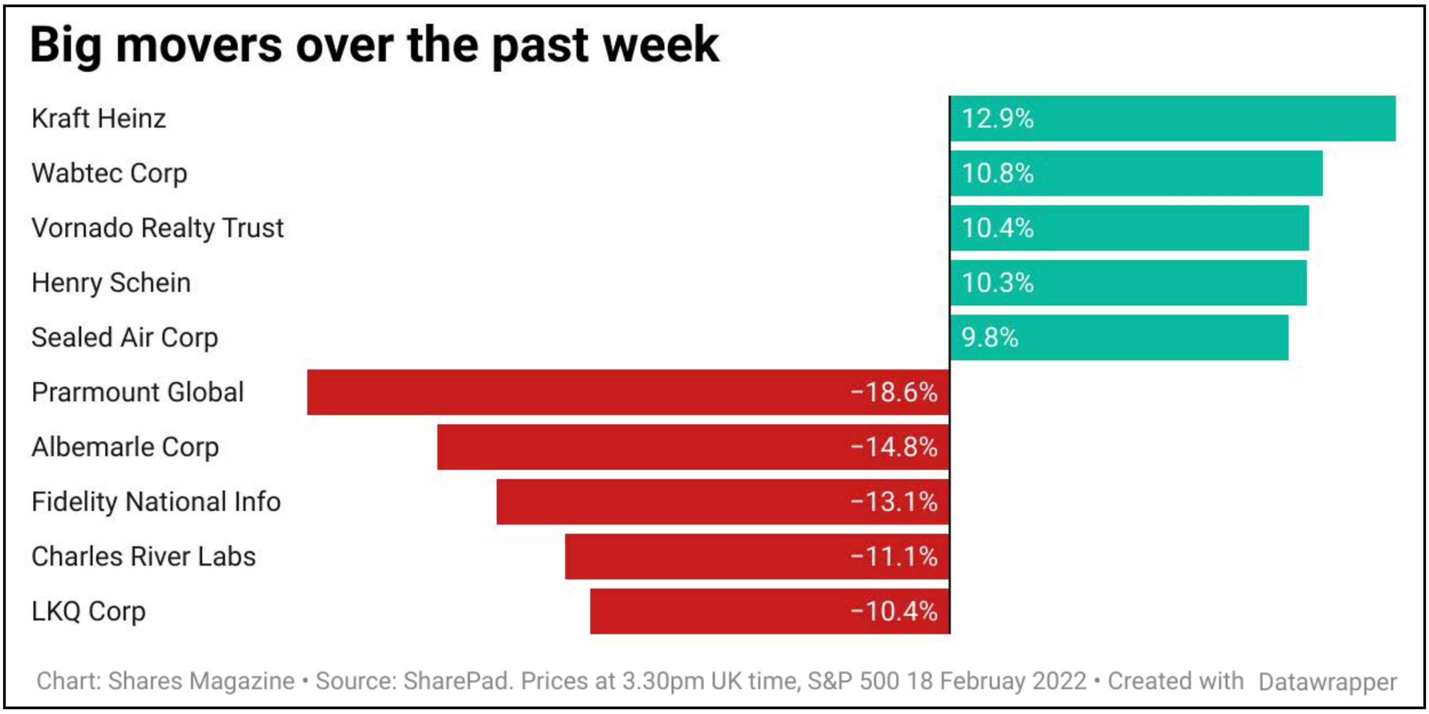
But perhaps Charlie Munger had something to do with it, Warren Buffett's number two at Berkshire Hathaway. He has again thrown his backing behind tech heavyweights, such as Apple, Microsoft and Alphabet, slammed short-term traders, blasted cryptocurrencies, and praised China at *Daily Journal*'s annual meeting, where he has served as chairman since 1977.

WALMART

The world's biggest retailer by sales has had to deal with quite a lot lately, with soaring cost of living whacking consumers in the wallet and its own supply chain costs surging, jumping $400 million above its own expectations in the fourth quarter.

Yet shares in the supermarket chain surged 4% after Walmart reported better-than-expected quarterly results on 17 February. Walmart earned an adjusted $1.53 per share, $0.03 above estimates, issued an upbeat forecast, and announced an increase in its dividend.

The company said it was on track to hit its 2023 financial targets, expecting US comparable-sales growth of above 3%, and also plans to repurchase $10 billion of its own stock in fiscal 2023.



ROBLOX

One of the rising stars of the gaming industry, Roblox has found the high bar set for it by investors hard to live up to since hitting a record $134.72 share price in November 2021, and it isn't getting easier.

The stock endured its worst single day fall on 16 February since it began trading as a public company in March last year, crashing 26.5% to $53.87. That plunge was sparked by a fourth quarter loss of $0.25 a share and bookings of $770.1 million. That was a far cry from the third quarter, when the stock shot up 42% on the day after the company reported strong results despite a three-day outage around Halloween.

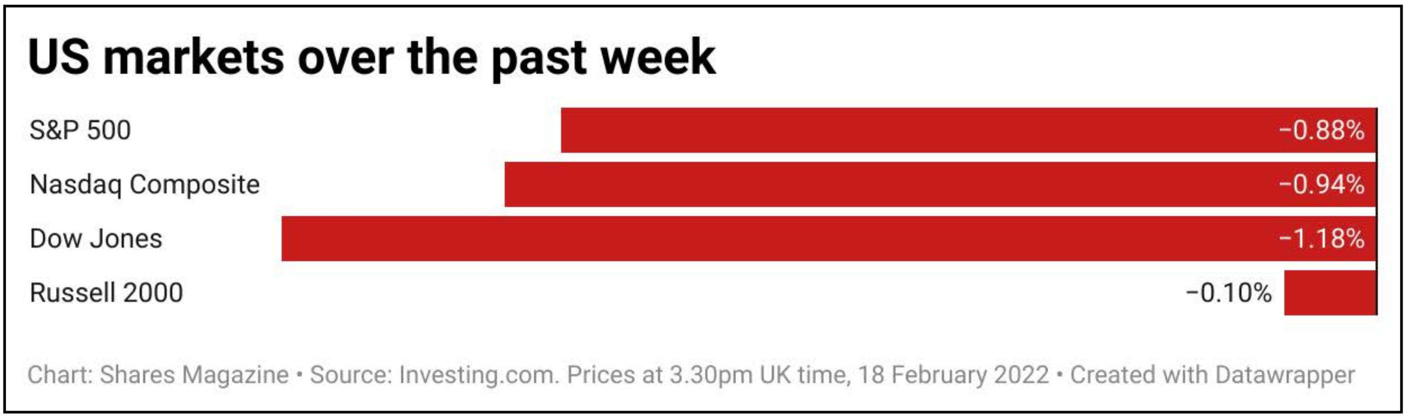
Making money gets harder as 'once stuck-inside kids and teens are now spending weekdays off their devices and out in the real world,' said one analyst, capturing the reopening mood and challenge facing Roblox.

DEERE & CO

Something of an agri-industrials bellwether, Deere & Co on 18 February reported better-than-expected fiscal first-quarter earnings despite a staff strike in October and November compounding the agricultural equipment maker's supply chain challenges.

Deere's tech-heavy tractors and other farm and construction equipment mean it gets closely watched by investors, much like its heavy equipment contemporary Caterpillar, which warned in January that its margins in the current quarter could take a hit from higher production and workforce costs.

Deere now sees full-year sales of $6.7 billion to $7.1 billion, up from its late November guidance of $6.5 billion to $7 billion. Before the Q1 earnings report, analysts forecast 2022 revenue of $6.87 billion.



All roads East

FIDELITY ASIAN VALUES PLC

Asia is the world's fastest-growing economic region, offering investors a potentially unparalleled long-term opportunity.

But with more than 18,000 listed companies, the challenge is knowing in which direction to head. To find the companies which could turn into tomorrow's front runners requires an extensive intelligence network of local analysts across Asia. Coupling that with an approach that seeks mispriced, quality businesses run by trusted people, Fidelity Asian Values PLC is an investment trust that is going places.

PAST PERFORMANCE

	Nov 16 – Nov 17	Nov 17 – Nov 18	Nov 18 – Nov 19	Nov 19 – Nov 20	Nov 20 – Nov 21
Net Asset Value	11.0%	-0.1%	0.0%	9.9%	20.0%
Share Price	14.7%	10.1%	-0.4%	2.3%	20.2%
MSCI AC Asia ex Japan Small Cap (N) Index	24.8%	-4.1%	6.3%	22.6%	25.1%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 30.11.2021, bid-bid, net income reinvested.
 The MSCI AC Asia ex Japan Small Cap (N) Index is a comparative index of the investment trust.

The value of investments can go down as well as up and you may not get back the amount you invested. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. Investments in emerging markets can be more volatile than other more developed markets.

This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid. Overseas investments are subject to currency fluctuations. This fund uses financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations.

To find out more, visit fidelity.co.uk/asianvalues, scan the QR code or speak to your adviser.

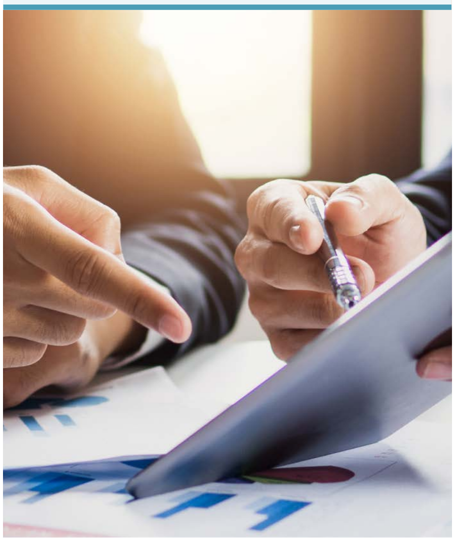
Fidelity INTERNATIONAL

Buy K3 Capital for growth and income

Business services group's chief executive has ambitious growth plans for the next five years

K3 CAPITAL
BUY
(K3C:AIM) 283p

Market cap: £207 million



Business services and advisory group **K3 Capital (K3C:AIM)** has had a busy 12 months, building out new specialisms and integrating acquisitions on its way to creating an end-to-end platform of services for small and medium-sized companies.

On top of its strong earnings growth, the firm pays a generous dividend which based on the current share price equates to a yield of more than 4% for the full year.

LIFECYCLE SERVICES

K3 provides services to smaller firms at every stage of their development, from M&A (mergers and acquisitions) and disposals to advising on tax and handling legal claims through to restructuring and insolvency.

As business confidence has steadily improved over the past year the firm has seen a surge in demand for its market-leading M&A and tax services.

In the six months to the end of November, which marked the first half of its financial year, the group posted a 73% increase in turnover to £31.2 million driven by a 66% rise in M&A revenues and an 85% jump in tax revenues.

Most of the growth in M&A was organic, with appointments up 47% and mandates growing 75% resulting in the number of offers rising 36%.

In contrast, most of the growth in the tax division was due to the acquisition of a specialist R&D (research and development) tax business, with the result that new clients and claims submitted climbed sharply compared with the previous year.

Meanwhile, the restructuring division is a major player in the insolvency market with a 5% national share, behind only **Begbies Traynor (BEG:AIM)**.

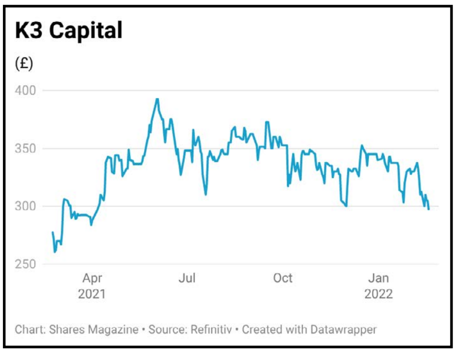
GROWTH POTENTIAL

Chief executive John Rigby is a firm believer in adding new services to meet customer needs in-house rather than outsourcing to third parties and passing up opportunities.

The group launched a debt advisory business to help M&A customers finance bids, and it recently expanded into debt restructuring for struggling companies as it sees less appetite at government levels for firms to be forced into insolvency.

Rigby has ambitious growth targets for K3 over the next five years, too. He forecasts EBITDA (earnings before interest, taxes, depreciation and amortisation) from the existing businesses will increase from an estimated £16 million this financial year to £23 million by May 2023 and to between £33 million and £36 million by May 2026.

In addition to this more than doubling of organic earnings, he envisages adding another £10 million to £17 million through acquisitions, taking total EBITDA to between £50 million and £53 million, which makes today's circa £200 million valuation look very cheap. [IC]



TwentyFour Select Monthly Income offers attractive, regular income

A product ideally suited to someone looking to cover regular outgoings

This closed-end fund is designed to take advantage of the premium returns available from investing in less liquid debt across the full spectrum of the debt markets.

Currently issuing new shares to raise fresh capital, at a reduced premium to net asset value, now is a good time to get exposure.

The portfolio is managed by Gary Kirk and Eoin Walsh of TwentyFour asset management, part of a14-person bond team that manages assets of approximately £12 billion. The assets are well diversified, spread across 140 positions.

The monthly payouts associated with the trust make it a potentially useful product for someone looking to cover regular outgoings and bills.

The trust targets an annual dividend of at least 6p per share (12 payments of 0.5p per share) and a net total return of between 8%-and-10% a year.

Despite the fund's small size, the trust has an attractive feature whereby it offers investors a tender facility every quarter for up to 20% of the fund at a 2% discount to NAV, subject to one month's notice.

This has proved an effective mechanism to control the level of discount at which the shares trade. In addition, company has historically issued shares when the trust trades at a premium to net asset value of around 4% and has begun issuing new shares at a reduced premium to net asset value.

Analysis by Numis indicates the managers have demonstrated a disciplined approach to issuing new shares and have only done so when the capital can be deployed to support the yield, which is currently an attractive 7.2%.

This implies the managers have a positive outlook and see the capacity to deploy fresh funds. Numis estimates that historically, returns generated from the start of issuance have averaged 14% over the following year.

The trust has delivered an annualised return of 7.2% and 6.5% respectively over the last three and five years.

The managers actively manage interest rate sensitivity and in November 2021 put in place protection against rising interest rates which has helped performance so far in 2022 as rates have increased.

The portfolio has exposure to floating rate notes, which benefit from rising interest rates. Around a third of the portfolio is invested in subordinated debt, issued by banks to maintain their regulatory capital requirements.

Asset backed securities comprise around 34% of the portfolio and also benefit from rising interest rates. Within the asset backed market, the managers favour CLO (collateralised loan obligation) debt because of the higher yields available compared with equivalent traditional corporate bonds.

The trust has an ongoing investment charge of 1.1% a year. [MGam]

TWENTYFOUR SELECT MONTHLY INCOME

BUY

(SMIF) 90.16p

Assets: £182.6 million

Premium to net asset value: 3.3%

Yield: 7.2%

Twenty Four Select Monthly Income

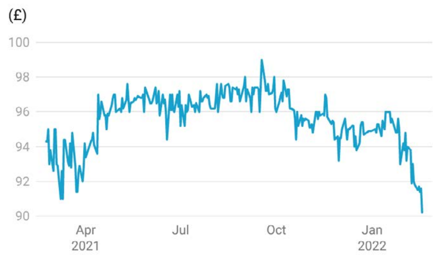


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

VIETNAM OPPORTUNITIES FUND

(VOF) 512p

Gain to date: 11.3%

Original entry point:

Buy at 460p, 23 September 2021

CONSIDERING A VOLATILE start for 2022 for markets in our call on the **Vietnam Opportunities Fund (VOF)** has turned out to be quite a safe option.

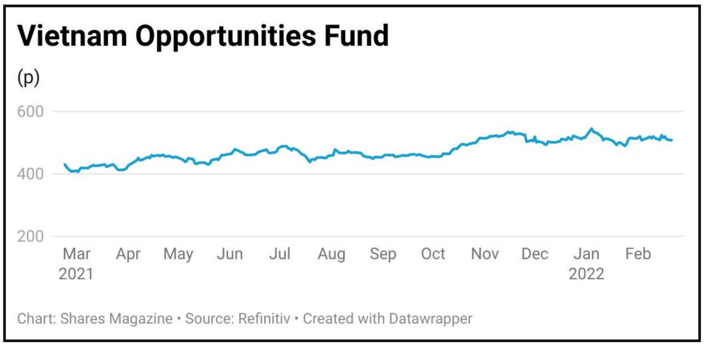
That is largely due to the management team's strategy of investing in attractively-priced growth companies which benefit from the strengths of the Vietnamese economy.

Most holdings are in financial, real estate, food and beverage and steel stocks, which play into the rapidly rising spending power of domestic consumers and particularly their desire for car and home ownership.

These shares holdings typically trade at below market average multiples, which has helped insulate the fund from the sell-off in risk assets.

Despite a modest correction in December, the fund's NAV (net asset value) grew 37.2% last year with total assets approaching $1.4 billion.

The listed holdings, which make up two thirds of assets, generated a 55% return, while the valuation of the private and unlisted equity holdings – which make up 28% of assets – was last carried out at the firm's year-end in June, meaning their current valuation is likely to be significantly higher.



SHARES SAYS:

We continue to like Vietnam as a market and VOF in particular. [IC]

TRISTEL

(TSTL:AIM) 747.4p

Loss to date: 30%

Original entry point:

Buy at 492p, 16 December 2021

INFECTION PREVENTION AND control company **Tristel (TSTL:AIM)** announced alongside a first-half update (21 Feb) it would exit non-chlorine dioxide based products catering to the animal health and life sciences sectors, incurring a non-cash charge of £2.4 million, which caused the shares to fall 20%.

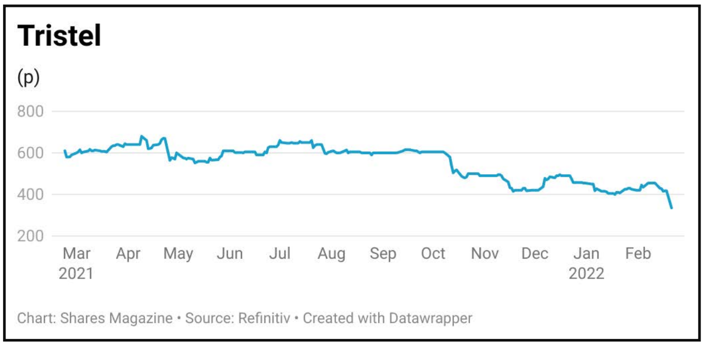
The business continues to be very cash generative, producing £3.4 million of operating cash in the six-month period. Underlying sales grew 5%.

We believe the rationale for the exit makes sense financially and sharpens the business focus allowing the company to sell one product range into the global hospital market, using one proprietary technology.

The decision is expected to have positive effects in the short and longer-term with faster growth in revenue and higher profitability.

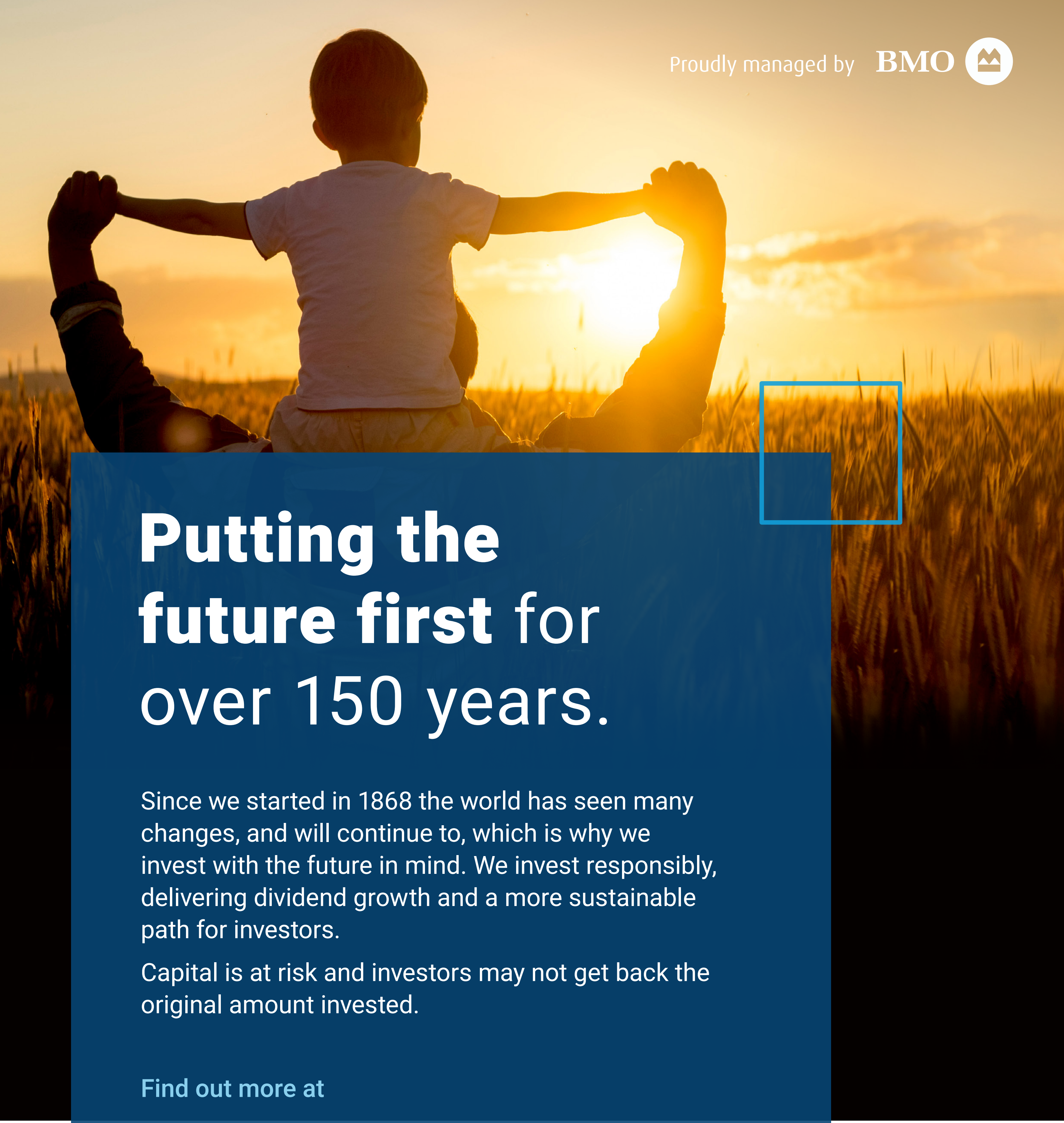
Sales in the discontinued businesses have been falling for several years, which masked the growth in Tristel's core business.

The bulk of revenue now comes from the company's core device cleaning brands, Tristel (medical device decontamination) and Cache (sporicidal surface disinfection).



SHARES SAYS:

Investors hated the write-down but we like the simplified business structure and remain buyers. [MGam]



CUT YOUR BILLS

Invest in companies that help you save money

While average wages may have risen 3.6% last year in nominal terms, the rate of inflation as we exited 2021 was 5.4% and last month it accelerated to 5.5% so in real terms workers are actually less well off now than they were a year ago.

To make matters worse, the Bank of England has forecast inflation will top 7% in April before it starts to come down again. A large part of the increase is due to the lifting of the energy price cap, which could see dual-fuel electricity and gas bills double for some households.

In that scenario, are there any companies which can help consumers cut their bills while ticking ESG boxes by limiting energy usage and pollution and do they represent an attractive investment proposition?

THE SQUEEZE IS COMING

The UK retail price index is expected to shoot up this year as rents, food and energy prices combine in a perfect storm for consumers. The cost of renting is expected to rise by up to £1,000 or 8% in 2022 according to property rental portal

By **Ian Conway** Companies Editor

Homelet, food bills have risen with food and non-alcoholic beverage prices up 4.2% in the year to December, and now petrol prices have hit an all-time high at an average of 148p per litre.

Domestic energy bills have already risen significantly in the past year with gas prices up 28% and electricity prices up 19% according to government figures.

However, earlier this month regulator Ofgem said from April it would remove the price cap on suppliers from its current equivalent annual level of £1,277 per year to around £1,970 per year meaning an unprecedented 54% jump in the average home energy bill.

Yet, because the employment market continues to strengthen, the Bank of England is set to continue raising interest rates with the market now discounting a rise of 0.25% next month and up to four further increases of 0.25% by the end of the year.

On top of these rate rises, consumers face an increase in National Insurance contributions from April and changes to income tax as well as the withdrawal of the £20 Universal Credit uplift, while council tax bills are also set to rise.

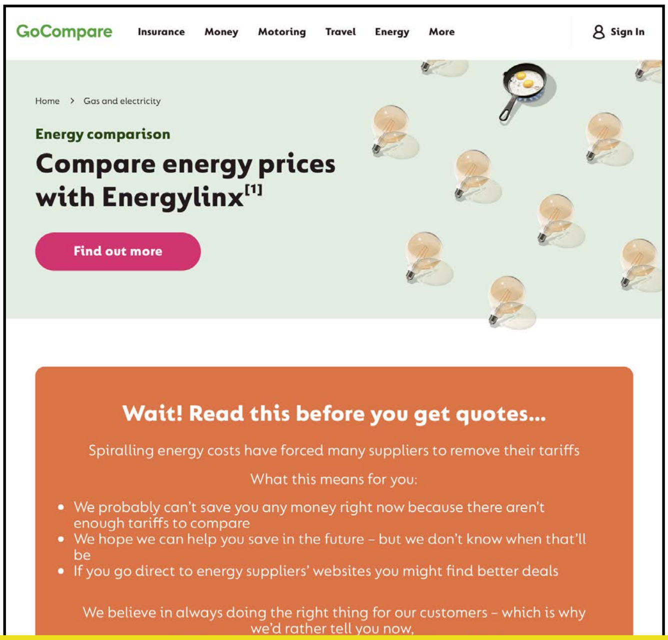
GO-CO A NO-GO

Whereas in the past consumers could expect to fall back on price comparison websites such as **Future (FUTR)**-owned GoCompare and **Moneysupermarket (MONY)** to help them save on their bills, the spiralling cost of energy means many suppliers have removed their tariffs.

As a result, the GoCompare website openly admits 'We probably can't save you any money right now because there aren't enough tariffs to compare. We hope we can help you save in the future – but we don't know when that'll be. If you go direct to energy suppliers' websites you might find better deals.'

BUY
Moneysupermarket at 197.6p

Where the sites may help save money is on car or house insurance and broadband deals, although prices for these services have generally been on a downward trend since the pandemic, especially car insurance as people used their cars much less due to government restrictions. Even with restrictions lifted, traffic volumes are well below 2019 levels.



GoCompare has blunt message for potential energy switchers

From an investor's perspective, Gresham House head of public equity Ken Wotton believes that despite the temporary disruption from energy prices, consumers will continue to use firms such as Moneysupermarket, which is currently trading at its lowest price to earnings valuation for several years with an inflation-beating 6.5% dividend yield despite its high margins and net cash position.

'Moneysupermarket has a really attractive, low-cost customer acquisition engine in MoneySavingExpert, which it acquired a few years ago. Saving money is front of mind at the moment due to the squeeze on peoples' cost of living', and the site has a strong reputation for trusted expertise and advice argues Wotton.

JAM TOMORROW

The big oil and gas companies are apologetic about the rise in prices but aren't about to disappoint their shareholders who are looking forward to large cash returns.

BP (BP.) posted a profit of $7.5 billion last year, its highest for a decade, while rewarding investors with $4.15 billion of share buybacks and dividends.

Shell (SHEL) recorded a profit attributable to shareholders of more than $20 billion last year, helped by the sale of its Permian basin assets, and said it would buy back $8.5 billion of stock in the first half of this year on top of its normal dividend distribution.

Both firms talk about the need to 'incentivise' greater investment in UK natural gas production and how they are spending heavily on alternative or 'green' energies, but the payback on these is much too long term to be of any help in cutting household bills for now.

ENERGY SAVERS

BUY
Sureserve at 86.1p

Fortunately, there are a few quoted companies whose role is specifically to save households and companies money on their energy bills.

Working mainly in the public sector, including social housing, energy services firm **Sureserve (SUR:AIM)** designs and installs heating systems ranging from gas boilers to air source and ground source heat pumps.

There are around 4.1 million social houses in the UK and the market in energy services is worth around £1.9 billion every year, giving the firm plenty of headroom to grow.

Sureserve also installs other energy-saving measures like cavity wall and loft insulation and smart meters to maximise fuel efficiency and financial savings for its customers, who include homeowners and landlords as well as local authorities.

Lastly, the firm also provides energy, fire, electrical, and water and fire compliance services to schools and colleges, other public buildings and the industrial and commercial sectors.

Inspired (INSE:AIM) is a consultancy focused on the corporate energy market, in particular bigger users, advising them on how to get the best deals from their suppliers as well as how to consume less energy to keep their bills and their carbon footprint down.

Unsurprisingly, its energy optimisation business picked up momentum in the second half of last year and group revenues for 2021 were 48% higher than the previous year, most of which was due to organic growth.

As the firm says, the global energy crisis has made energy 'a high-priority board level topic' and it has been working flat out to help customers manage energy prices and reduce their usage.

Record high prices have led some customers to delay their contract renewals while others have moved to short-term contracts until there is more clarity. Once prices start to fall, the firm expects contract renewals and durations to increase which will benefit its energy sourcing business.

Another AIM-listed energy-saving firm is **eEnergy (EAAS:AIM)** which measures customers' usage while helping them cut costs with its LED lighting solutions and encouraging them to switch to greener energy sources like on-site generation via solar panels.

The firm's eLight LED lighting offering means

UK electricity prices: forward delivery contracts - weekly average

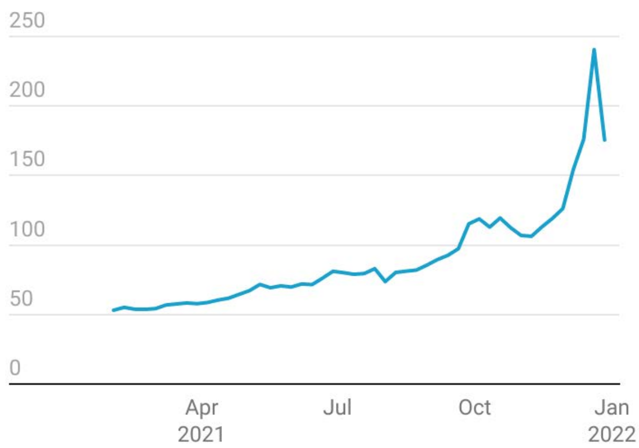


Chart: Shares Magazine • Source: Source: Ofgem • Created with Datawrapper no upfront purchase or installation costs, with the customer paying a monthly fee instead which reduces their working capital needs and gives them an instant saving.

In last month's first half trading update the company posted a 44% jump in turnover and a 250% increase in forward contracted revenues as customers sought out its services.

Meanwhile, trading at its energy management business improved on the previous period and the company is pitching on its strongest ever pipeline of new business opportunities.

In terms of manufacturers who can help firms lower their energy costs, **Spirax-Sarco (SPX)** stands out for its steam systems and electric thermal energy management solutions although its shares aren't cheap at 34.4 times forward earnings.

Customers around the world, from schools to hospitals and even gas and oil rigs, use Spirax's state-of-the-art steam systems to increase efficiency, save energy and reduce costs, while power stations and big manufacturing plants making everything from paper to semiconductors use its heat management products to regulate temperatures and cut their energy bills.

REDUCING ENERGY LOSSES

BUY SIG at 37.3p

Returning to the consumer market, we should flag stocks which make insulating products as no matter how good or efficient a boiler or heating system, if a house is poorly insulated it will leak energy and cost a fortune to heat.

New houses are generally more thermally-efficient than older properties, but the price of new houses is rising even faster than inflation so spending on wall and loft insulation is a good way for existing homeowners to reduce their energy bills.

SIG (SHI) is one of Europe's leading suppliers of insulation, dry lining and roof covering, and has more than 400 sites across the UK and Europe making it a key supplier to builders' merchants and the construction industry.

In its full year trading update last month the firm reported strong momentum exiting the year with 15% revenue growth in the second half driven by the UK interiors market.

Its order book is solid, and the firm has managed the well-documented supply chain issues and volatility in prices to make sure its customers get what they need.

Chief executive Steve Francis says he and his management team are confident the momentum built last year will continue through 2022 and the group will deliver 'solid organic revenue growth' as a result.

UK gas prices: forward delivery contracts - weekly average

Chart: Shares Magazine • Source: Source: Ofgem • Created with Datawrapper

FUND OPTIONS

There are a few funds dedicated to investing in energy-saving technologies, the most notable being the **SDCL Energy Efficiency Investment Trust (SEIT)** which had close to £1 billion of assets as of September last year.

The company invests directly in large-scale projects which deliver cheap, clean, reliable energy solutions at the point of use, bypassing the grid. Typical examples are onsite power generation using combined heat and power units and roof-top solar installations, or energy reduction measures such as efficient lighting, heating and cooling systems.

Its portfolio is made up of a range of proven infrastructure projects delivering energy for commercial, industrial and public buildings in the UK, Europe and North America, with the aim of generating stable dividend income and an element of capital appreciation.

Disclaimer: The author owns shares in SDCL Energy Efficiency Investment Trust

The winners and losers from Google's new privacy initiative

Restricting users' activity on Android phones is another blow for Facebook-owner Meta Platforms

In a recent blog post (16 Feb) Alphabet-owner Google dropped a bombshell for the online advertising eco-system.

It revealed a new policy that will prevent advertisers tracking users' activities, using apps on Android phones. The decision mirrors that taken last year by Apple, that enabled users to opt-out of being tracked by apps on their iPhones and iPads.

The move follows increasing questions regarding the ethics of tacking users' online activity.

Currently Google ascribes specific identifiers to each Android device. This enables advertisers to build granular profiles of individuals, and target advertisements accordingly.

The decision to end this process is significant because Google is the largest global advertising company, and numerous advertisers depend on its tools to reach people online. Its dominance is reflected in its ability to generate $61 billion in advertising revenue in the fourth quarter alone.

WHO WINS AND LOSES FROM THE NEW POLICY

Although the changes are not due to be fully implemented for at least two years, when they do go into effect, Facebook's parent company Meta Platforms is likely to be severely impacted.

After Apple introduced its privacy changes, early reports indicated that over 95% of iPhone users who had downloaded the update, were opting out of ad tracking.

Meta has suggested it stands to lose $10 billion this year due to the privacy changes implemented by Apple.

This provides some indication of the magnitude of the hit that Meta could face from Google's new privacy initiative.

Looking at the Apple precedent, it is interesting to note that Amazon benefited. This is because

Amazon's internal advertising system draws from a massive database of customer purchasing history.

In marked contrast to its rivals, Amazon is not focused on cross-site and cross-app digital advertising. Rather, it utilises its vast amalgamation of shopper profiles to target relevant advertisements to those browsing on its site. Approximately 75% to 80% of US consumers shop on Amazon, at least occasionally.

Given that Amazon's data does not leave Amazon's site (or app), it is considered first party data. Consequently it is not subject to the new privacy requirements.

It is becoming increasingly apparent that companies who are able to demonstrate superior knowledge of their core audience, and extract a high return on investment will emerge as winners.

In the UK market native ad platform **Dianomi (DNM:AIM)**, publisher **Future (FUTR)**, and digital ad play **S4 Capital (SFOR)**, appear well positioned to navigate this new environment.

By **Mark Gardner** Senior Reporter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CUSTOMER EXPERIENCE RATING
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GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

Buy into Bill Ackman's stock picking expertise

Universal Music upside, Netflix potential and an exciting new position are just three reasons to look afresh at Pershing Square Holdings

Investment company **Pershing Square Holding's (PSH)** shares continue to trade at a steep discount to NAV (net asset value).

This discount stands at 29.73% at last count according to the AIC (Association of Investment Companies), one that perhaps reflects the hedge fund's high fees and complexity.

Yet the discount looks overdone as the FTSE 100 fund, run by famed US investor Bill Ackman, continues to flourish by making concentrated investments in quality large cap North American companies and as such it would suit investors with a reasonable tolerance for risk.

The company's annual investor presentation (11 Feb) provided a fascinating peek under the bonnet of Pershing Square, which delivered another strong year in 2021 driven by new investments, existing portfolio holdings and its hedging strategy.

Shares also notes Pershing Square's strategy also proved to be defensive during last year's more volatile market conditions and notes there are a number of catalysts in place that can help to grow net asset value (NAV), including an interest rate hedge, a potential future transaction for portfolio company Pershing Square Tontine.

This SPAC, or special purpose acquisition vehicle, an entity with no commercial operations which lists on the stock market with the aim of making an acquisition, remains on the lookout for deals. Plus there is the potential upside from new holding Netflix and a stake in an as-yet-undisclosed new position.

ANOTHER BANNER YEAR

At the annual investor meeting, Wall Street titan Ackman outlined the two big contributors to Pershing Square's outperformance over the long term. 'One, we own these very well capitalised, dominant high-quality businesses where we are an influential shareholder', he explained, and two, 'we've also been very effective at hedging what we would call Black swan-type risks'.

In 2021, Pershing Square Holdings performed ahead of most market indices, delivering NAV appreciation of 26.9%, beating the total returns from the FTSE 100 and the MSCI World, though it fell just short of the S&P 500. Curiously, the discount to NAV widened by 5.3% from 23% in the beginning of 2021 to 28.3% as of December 31 2021.

Performance drivers included the company's interest rate swaptions (a financial product linked to movements in rates) as well as stocks ranging from home improvement retailer Lowe's to Universal Music Group, hotels giant Hilton Worldwide and fast casual restaurant star Chipotle

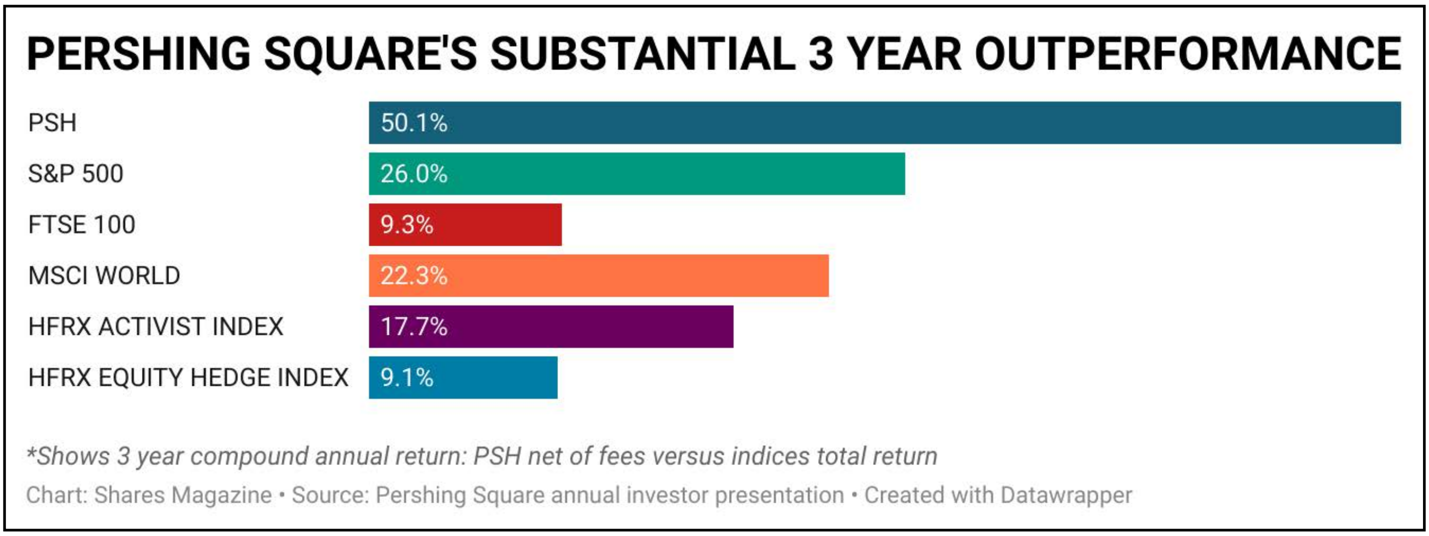
PERSHING SQUARE HOLDINGS

AIC Sector: North America

Ticker: PSH

Latest share price: £27.15 (source: LSE)

Discount to NAV: -29.73% (source: The AIC)



Mexican Grill to name a few.

Portfolio holding Pershing Square Tontine, the US-listed SPAC which failed to consummate a deal to buy Universal Music due to regulatory actions, detracted from performance.

For reasons *Shares* outlined here, Tontine pulled out of its proposed acquisition of a minority stake in Universal Music and instead, Tontine's Universal Music share purchase agreements were assigned to Pershing Square Holdings, which today is a shareholder in the Euronext Amsterdam-listed music powerhouse.

NEW POSITIONS, BIG POTENTIAL

Ackman recounted that since the start of 2021, Pershing Square Holdings has added four new holdings and also exited two highly successful investments in coffee house colossus Starbucks and life sciences-to-diagnostics firm Agilent. 2021's new positions were pizza delivery leader Domino's Pizza, Universal Music and a new position which remains unnamed given that the stake is still being built.

Waxing lyrical about Pershing Square's 10% stake in Universal Music, Ackman said 'we fell in love with Universal in terms of the characteristics of the business', which he described as 'the best positioned company' in both the recorded music industry and the music publishing business with a decades-long runway for revenue and earnings growth.

'The transition to streaming has been one that is very favourable for really all participants in the music ecosystem from the artist to the publisher to the record label and that transition is well underway and inevitable,' explained Ackman, palpably excited by the 'enormous embedded growth in that part of the business'.

Although Universal's share price including dividends increased 37% from Pershing Square's average cost up to the end of 2021, the shares are actually down year-to-date with Universal 'sort of learning its way to be a public company' according to activist investor Ackman.

'We think some of the weakness in the share price this year relates to some confusion on the part of shareholders and their understanding of the business and we expect management to do a good job in telling the story when they announce their results for the year in the next few weeks,' he explained.

At these levels, Ackman calculates that Universal Music is trading at a 'very deep discount' to intrinsic value and believes it 'ultimately belongs on the NYSE or Nasdaq', and will receive 'a much higher valuation when that transition takes place'.

As for Domino's Pizza, 'a very high-quality business', Ackman explained that 'we had the opportunity to acquire a meaningful stake at an attractive valuation in a business that we know well'.

For those tuning in to the investor meeting, Ackman also provided further details on how Pershing's highly profitable interest rate hedge was unwound to fund a new position in the new year, namely streaming company Netflix.

NETFLIX'S WIDE MOAT

Amid a volatile market backdrop in 2022, hedging gains provided the capital to fund a new position in Netflix. This followed a share price plunged in

January after the US-listed company issued lower than expected short term margin and subscriber growth guidance.

In the investor presentation, Pershing Square Holdings pointed out that despite more than a 50% surge in revenue, over 800 basis points of margin expansion and improved free cash flow over the last two years, Netflix's share price has nearly returned to pre-pandemic levels.

Led by 'visionary' management according to the Pershing Square Holdings investment team, the streaming subscription video-on-demand company's powerful competitive moat stems from its investment in an industry leading content library, with pricing power derived from a superior value proposition compared to alternatives.

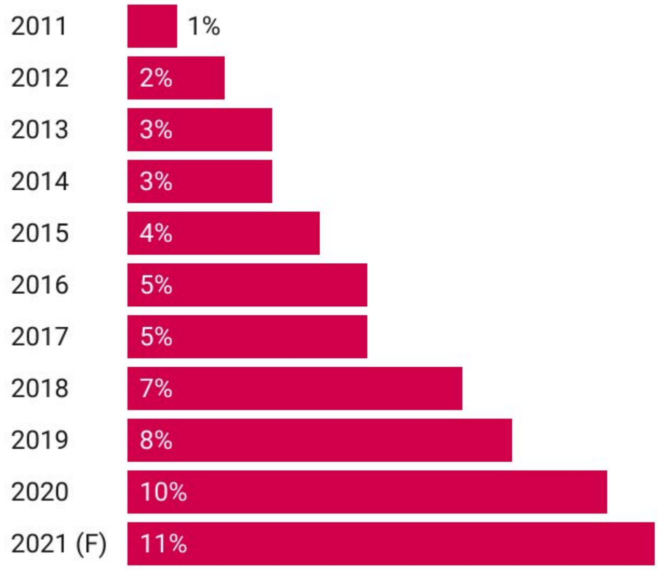
As Pershing Square investment team member Bharath Alamanda explained: 'Our investment thesis really starts with their enormous growth potential – we believe as broadband penetration increases, Netflix's ability to penetrate broadband households increases over time and we see no reason why that subscriber number can't more than double over the next ten years.'

TONTINE TARGETING OPPORTUNITIES

Ackman described Pershing Square Tontine as 'the biggest disappointment of 2021' due to the SPAC's failure to consummate the Universal Music transaction. Undeterred by this setback, the Pershing Square team is working on a couple of potential targets, though a July deadline to complete a merger (albeit with the option of a six-month extension) is now looming.

Regarding the timetable for the launch of the Pershing Square 'SPARC', which stands for special purpose acquisition rights company and is a new structure which is 'a much better version of a SPAC' according to Ackman, the New York Stock Exchange is shortly expected to file a revised rule change that would facilitate the listing of this opt-in SPAC.

NETFLIX'S INCREASING TV MARKET SHARE



Shows Netflix's US revenue as percentage of total US TV and video revenue

Chart: Shares Magazine • Source: Digital TV Research, Pershing Square Holdings annual investor presentation • Created with Datawrapper

Despite having compounded NAV performance at a superb 50% per annum over the previous three years, Pershing Square's shares trade at a wide discount that the board views as 'unacceptable'.

However, the unchanged message from the investor meeting was that the board and manager are unwilling to take action that would impair the fund's longer-term returns and the board is relying on NAV performance and a renewed marketing effort to help address the discount.

One facet of this marketing push has seen Pershing Square Holdings reclassified by the AIC from the Hedge Funds sector to the North America sector, and the board continues to believe that 'the most powerful driver of long-term shareholder returns will be continued strong absolute and relative NAV performance'.

By **James Crux**
Funds and Investment Trusts Editor

Explaining duration and why it matters for bonds and stocks

An increase in rates can have a significant impact on how different investments are valued

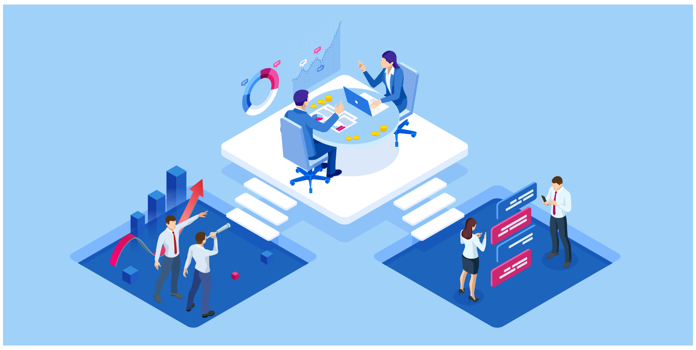
Bonds and interest rates have captured a lot of investor attention in recent weeks following the central banks move to put the brakes on inflation by raising interest rates.

Many investors, whether they are close to or in retirement rely on bonds to provide a stable income while others expect them to provide some protection to equity portfolios in times of market stress.

Last year bonds in aggregate lost money for investors while year to date they are down around 5%.

Bond prices are sensitive to the prevailing level of interest rates and bond duration is often used in that context, so if you are not sure what it means, this article explains what it is and how it applies your savings and investments.

Remember, bond yields move in the opposite direction to prices, so when yields rise bond prices fall and vice versa. But not all bonds fall or rise to the same extent, in other words, some bonds are more sensitive than others.



DURATION COMING TO THE FORE

That is where duration comes to the fore because duration is a measure of bond price sensitivity to a 1% change in interest rates.

As a rule of thumb, the longer the duration, the more sensitive the bond price is to a move in rates. For example, a bond with a duration of two years would be expected to fall 2% for every 1% rise in rates, while a bond with a 10-year duration would be expected to fall 10%, almost five times as much.

By the way, the same sensitivity works in reverse, that, is, when rates fall, the prices of longer

WHAT IS DURATION?

Source: Corporate Finance Institute

duration bonds would be expected to go up more than those of shorter dated bonds.

Duration is a useful tool and effectively allows investors to manage interest rate risk in their portfolios. If investors expect interest rates to rise, they could act pre-emptively by reducing the effective duration of the portfolio.

One of the factors behind the poor performance of bonds over the last year is that, in aggregate, their duration has almost doubled over the last decade, from around six years to almost 10 years, until the recent sell-off.

This means as a whole bond markets have become almost twice as sensitive to rising interest rates, just as interest rate expectations have changed for the worse.

Perhaps not surprisingly, equities have also seen a significant rise in their duration, due in large part to the outperformance of growth and technology shares which are long duration assets. We will return to shares and how they are impacted by rising interest rates later in the article.

HIGHER DURATION EQUALS HIGHER RISK

Put simply, when you buy a shorter dated bond, you achieve your investment return sooner.

Longer dated bonds require you to wait longer to receive the expected return which puts you more at risk of adverse interest rate moves.

Think of it this way, if someone offered to sell you a two-year bond which had a coupon of 2% and you believed interest rates were going to increase, you would demand either a higher coupon to compensate you for the lost interest or a discount on the price.

The longer the maturity of the bond, (the longer you had to wait to receive you return) the bigger the discount you would demand and that is how the market works.

Bonds are valued by applying a discounted cash flow methodology which, as the name implies, involves discounting (reducing) future cash flows (interest payments) using an appropriate interest rate.

THE MECHANICS

An investor buys £1,000 worth of a five-year bond with a 2% coupon, i.e. it pays £20 a year in interest.

All future payments need to be discounted by the interest rate and in the example table we

have used 2%.

In year one, £20 is divided by 1.02 which is £19.61. In year two the discount rate needs to take account of two years of 2% interest, so we multiply 1.02 by 1.02 to arrive at 1.04.

Therefore, in year two £20 is divided by 1.04 which is £19.22. This process is repeated for the number of years left for the bond and then the discounted payments are totalled to give a price of the bond.

As can be seen from the tables overleaf the longer the period to be discounted, the greater the impact on the theoretical value of the bond, making long-dated bonds more sensitive to interest rates.

There are other factors at play that influence the price of a bond, including liquidity and credit risk, but it is fair to say that for major government bonds, interest rate risk has the greater effect.

Although we have highlighted the risks of longer dated bonds in a rising interest rate environment, it shouldn't be forgotten that you don't have to sell a bond. After all, it is still paying you an income in line with what you expected when purchased.

You can hold to maturity when you are likely to get your principle back as well as the interest payments.

If interest rates come back down, over the life of the bond, it may not make a lot of difference to the return. One technical point to highlight is that duration is not the same as maturity.

Duration is calculated using the same discounted cash flow approach that we have discussed and can be thought of as the maturity of a bond adjusted for the average time weighted cash flows.

STOCKS ARE THE LONGEST DURATION ASSET OF ALL

It is no surprise that technology and growth shares have seen the brunt of selling in stock markets as rising interest rate expectations have intensified.

Discounted cash flow — how it works with bonds

Bond A

Holding value (£)	1,000
Coupon (%)	2
Maturity (years)	5
Interest rate (%)	3

	Cash flow (£)	Discounted cash flows (£) at 2%	Discounted cash flows (£) at 3%
Year 1	20	19.61	19.42
Year 2	20	19.22	18.85
Year 3	20	18.85	18.30
Year 4	20	18.48	17.77
Year 5*	20	905.73	862.61
Value of bond		981.89	936.95
Change in price	−4.60%		
***Includes principal**			

Bond B

Holding value (£)	1,000
Coupon (%)	3
Maturity (years)	10
Interest rate (%)	4

	Cash flow (£)	Discounted cash flows (£) at 3%	Discounted cash flows (£) at 4%
Year 1	30	29	29
Year 2	30	28	28
Year 3	30	27	27
Year 4	30	27	26
Year 5	30	26	25
Year 6	30	25	24
Year 7	30	24	23
Year 8	30	24	22
Year 9	30	23	21
Year 10*	30	744	676
Value of Bond		978	899
Change in price	−8.10%		
***Includes principal**			

Source: Shares • Created with Datawrapper

Note: hypothetical example for illustrative purposes only

We have shown that the further out in time that cash flows are expected to occur the more sensitive they are to rising interest rates.

Growth shares are priced to reflect strong growth and investors are implicitly not expecting to see some companies generate free cash flows or dividends for many years.

This means that the stock market and growth shares in particular are even more sensitive to rising interest rates than the longest dated bonds.

Shares has created a stream of cash flows from an imaginary company, Blue Sky Ltd which is expected to grow very quickly for several years. This is an extreme example designed to illustrate the principle.

Blue Sky's cash flows have been discounted at a cost of equity of 5%, or in other words investors should expect a minimum return of 5% to compensate them for the risks of holding the stock, to estimate the net present value of the cash flows and the implied value of the business.

What this exercise clearly shows is that growth stocks are ultra-sensitive to interest rates and they have had a significant tailwind for decades as rates have dropped.

It also underlines one factor which explains why so-called value shares have come back into favour, because they are often already generating cash and are not on such stretched valuations they are less sensitive to rising interest rates. As such they are considered low duration assets.

The US central bank has targeted peak interest rates of around 2.5% compared with the current Fed rate of 0.25%. A 2% increase in the cost of equity for Blue Sky would reduce its theoretical value by around 44%.

By **Martin Gamble** Senior Reporter

Discounted cash flow analysis — effect of a 2% rise in interest rates

Blue Sky Limited

Cash flow (£ million)	20		
Cost of equity (%)	5%		
Estimated growth rate (%)	15		
	Cash flows (£ million)	Discounted cash flow 5%	Discounted cash flow 7%
Year 1	23.0	21.9	21.5
Year 2	26.5	24.0	23.1
Year 3	30.4	26.3	24.8
Year 4	35.0	28.8	26.7
Year 5	40.2	31.5	28.7
Year 6	46.3	34.5	30.8
Year 7	53.2	37.8	33.1
Year 8	61.2	41.4	35.6
Year 39	4659	695	333
Year 40	5357.3	761.0	357.8
Year 41	6160.9	833.5	384.5
Theoretical stock value		9354.7	5239.8
Change in stock value	−44.0%		

Source: Shares • Created with Datawrapper

Note: hypothetical example for illustrative purposes only

Invesco

INVESCO SELECT TRUST PLC – AN INVESTMENT TRUST FOR CHANGING TIMES

By **Invesco**

Invesco Select Trust is a closed-ended fund listed on the London Stock Exchange, but its structure sets it apart from its investment trust peers, and provides investors with a unique opportunity to invest their money across the globe.

Where does the investment trust invest?
Invesco Select is a multi-portfolio trust, which means it can invest across a number of different asset classes, including equities, bonds, commodities, and cash. Geographically, the investment trust can invest in all markets from the UK and US to Asia and everything in between.

What makes the investment trust unique?
While there are a number of multi-asset investment trusts available, Invesco Select has a distinctive structure comprising four independently managed portfolios.

The investment trust is broken down into a UK Equity portfolio, Global Equity Income portfolio, Balanced Risk Allocation portfolio, and Managed Liquidity portfolio.

Why are there four portfolios?
By offering four individual portfolios, investors gain access to a wider range of asset classes and global markets, and therefore access to greater potential sources of returns.

Each of the portfolios has its own individual investment strategy so investors can decide which areas and asset classes appeal to them the most and invest accordingly. The four portfolios also have differing risk profiles meaning investors can tailor their investment, only taking as much risk as they feel comfortable with.

Is my money invested in all the portfolios?
When you invest in Invesco Select Trust you decide which portfolios your money goes into. You can pick just one portfolio, invest in all four, or in any combination of the portfolios. If you think this is the year for UK equities, you may want to direct your funds into the UK Equity portfolio or if you want more global exposure you would lean towards the Global Equity Income portfolio.

Once I invest can I switch within the four portfolios?
Yes, you can. Markets change, investors' needs change, and so Invesco Select Trust gives you the power to change your investment.

The structure of the investment trust allows quarterly conversions between the different portfolios - or share classes - to enable you to react to changing investment conditions. The investment trust sets out the conversion dates, which fall every three months.

Will I have to pay tax if I switch portfolios?
The capital structure of the investment trust means you can move between portfolios while remaining

invested in the market. This means you will not trigger a 'disposal' for capital gains tax (CGT) purposes, which is paid on gains you make when you sell an investment.

The structure of the investment trust also means your money will remain invested in the stock market while you switch, and you won't miss out on any potential stock market rises in the meantime.

Are all the portfolios run by the same manager?

Each of the portfolios are independently managed by their own team of experts. James Goldstone and Ciaran Mallon have run the UK Equity share portfolio since April 2021 after the Invesco Income Growth trust was combined into the Invesco Select trust.

Stephen Anness was appointed to run the Global Equity Income share portfolio in January 2020. Scott Wolle is in charge of the Balanced Risk Allocation sleeve of the trust and Derek Steeden oversees the Managed Liquidity share portfolio.

While all of the managers focus on a specific area and can shape their portfolios as they see fit, they do share a set of common underlying beliefs about what constitutes an attractive investment, such as strong company balance sheets, good management, and competitive positions in their markets. In addition, the Balanced Risk portfolio has the aim of managing the ups and downs of the stock market by spreading investment across a range of different asset classes, including equities, bonds, and commodities. The portfolio aims to provide a positive return to investors while offering a balance of risk for investors.

A full analysis is undertaken on each investment idea which ensures these criteria are met, and are sustainable. The equity holdings are reviewed regularly to ensure they continue to align with the investment trust's investment criteria and objectives.

Which portfolio should I invest in?

Which portfolio, or portfolios, you decide to invest in depends entirely on your opinion on the future of domestic and global stock markets, which regions of the world you believe will do well, whether you are focusing on capital growth or income, the asset allocation you want in your portfolio, and the level of risk you feel comfortable taking.

The most popular portfolio in the Invesco Select Trust is the UK Equity portfolio, which is the largest part of the fund. This does not mean you have to invest money in this part of the fund if you choose not to.

If you are unsure about which portfolios to invest in, it may be a good idea to speak to a financial adviser who will be able to provide you with direction.

The unique benefit of Invesco Select Trust is that you are not stuck in one particular portfolio should stock markets change or your outlook or needs change. The option to convert from one portfolio into another provides you with the flexibility to ensure your investments are working for you, no matter the circumstance.

If you'd like to find out more about the different portfolios, please use the links below.

Balanced Risk Allocation Share Portfolio

Global Equity Income Share Portfolio

Managed Liquidity Share Portfolio

UK Equity Share Portfolio

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When making an investment in an investment trust/company you are buying shares in a company that is listed on a stock exchange. The price of the shares will be determined by supply and demand. Consequently, the share price of an investment trust/company may be higher or lower than the underlying net asset value of the investments in its portfolio and there can be no certainty that there will be liquidity in the shares.

The Invesco Select Trust plc uses derivatives for efficient portfolio management which may result in increased volatility in the NAV.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

The Invesco Select Trust plc – Global Equity Income Share Portfolio invests in emerging and developing markets, where difficulties in relation to market liquidity, dealing, settlement and custody problems could arise.

Fixed income securities may not always make interest and other payments nor is the solvency of the issuers guaranteed. Market conditions, such as a decrease in market liquidity, may mean that the product may not be able to sell those securities at their true value.

The Invesco Select Trust plc – Balanced Risk Allocation Share Portfolio makes significant use of derivatives for investment purposes, which may result in the product being significantly leveraged and may result in large fluctuations in the NAV.

The Invesco Select Trust plc – Balanced Risk Allocation Share Portfolio has exposure to commodities which are generally considered to be high risk investments and may result in large fluctuations in the NAV.

The Invesco Select Trust plc – UK Equity Share Portfolio invests in smaller companies which may result in a higher level of risk than a product that invests in larger companies. Securities of smaller companies may be subject to abrupt price movements and may be less liquid, which may mean they are not easy to buy or sell.

As a result of COVID-19, markets have seen a noticeable increase in volatility as well as, in some cases, lower liquidity levels; this may continue and may increase these risks in the future. In addition, some companies are suspending, lowering or postponing their dividend payments, which may affect the income received by the Invesco Select Trust plc UK Equity Share Portfolio and the Invesco Select Trust plc Global Equity Income Share Portfolio during this period and in the future.

Important information

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

For more information on our products, please refer to the relevant Key Information Document (KID), Alternative Investment Fund Managers Directive document (AIFMD), and the latest Annual or Half-Yearly Financial Reports.

Further details of the Company's Investment Policy and Risk and Investment Limits can be found in the Report of the Directors contained within the Company's Annual Financial Report.

If investors are unsure if this product is suitable for them, they should seek advice from a financial adviser. For details of your nearest financial adviser, please contact IFA Promotion at **www.unbiased.co.uk**

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A breakdown of Latin American emerging economies

Brazil dominates and the region lags other developing markets when it comes to technology

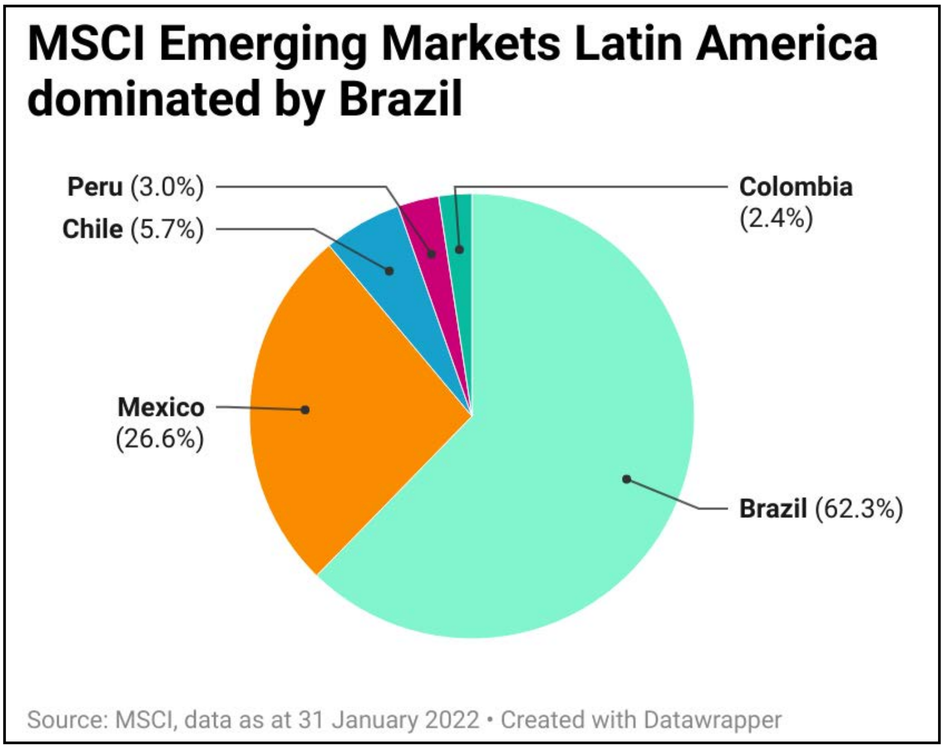
Latin America has five emerging market economies as classified by index provider MSCI. They are Brazil, Chile, Colombia, Mexico and Peru.

The largest by some distance is Brazil. In the MSCI Emerging Markets Latin America index the country has a weighting of more than 60%, Mexico is a distant second at a little over a quarter of the index.

As of 31 January 2022, and since inception on 31 December 1987, this index had outperformed the MSCI Emerging Markets index with an annualised return of 13.2% against 10.4% for the broader benchmark.

However, the sector breakdown shows the region is perhaps less innovative than other emerging markets with financial and natural resources businesses accounting for more than half of the index.

Information technology is just 0.5% whereas in the MSCI Emerging Markets index IT is the largest individual sector with a 21.8% weighting.



Source: MSCI, data as at 31 January 2022 • Created with Datawrapper

The average size of firms in the Latin American index is slightly larger than its broader counterpart at $6.14 billion against $5.42 billion.

Brazilian mining giant Vale is the only company in the Latin American index to make the top 10 constituents of MSCI Emerging Markets.

There is also at least one glaring omission in the list of Latin American emerging market countries, with the introduction of exchange controls seeing Argentina stripped of its existing status and assigned to a standalone category by MSCI in 2020.

Emerging markets: Views from the experts

Three things the Franklin Templeton Emerging Markets Equity team are thinking about today

1. **South Korean** automotive manufacturer signalled that it expected the global automotive chip shortage to ease by the second quarter of 2022. The spread of the Covid-19 Omicron variant has impacted the supply of automotive semiconductors, particularly from Southeast Asia, where Malaysia is the dominant supplier accounting for 10% of basic semiconductors used in cars, smartphones and home devices. An easing of the supply shortages would be positive for the South Korean market as reflected in consensus expectations of 11% earnings growth in 2023. We are positive on the outlook for the South Korean market, in particular the technology sector.

2. Higher commodity prices and stronger domestic currencies drove returns in **Latin America**. Undemanding valuations coupled with growth in Brazil's economic activity index after four consecutive months of decline, and expectations that inflation may have peaked drove equity prices in Brazil. In Chile, investors welcomed president Gabriel Boric's new cabinet that reinforced his moderated stance and promoted economic stability. Similarly, market confidence in Peru was driven by indications that president Pedro Castillo was taking a more moderate approach than widely expected. However, Mexican equities declined on peso weakness and disappointing gross domestic product data, which indicated that the economy entered a technical recession in the final quarter of 2021.

3. **Europe, Middle East and Africa** region rose in January. Markets in the Middle East gained on the back of higher oil prices. The South African market gained on higher metal prices and a stronger rand. Sentiment was further driven by the end of the country's fourth COVID-19 wave and relaxation of mobility measures. In Hungary, strength in the financials sector drove market returns. Russia was among the worst.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

The best UK All Companies funds benefit from flexibility

These collectives have a broad remit which some managers have used to their advantage

Over the last decade UK shares have lagged their global counterparts, in part thanks to the disruption from Brexit, and that is reflected in the performance of the UK All Companies funds sector. A recent shift in the market towards value suggests it could be time for this space to play catch up.

Funds in the category have a pretty broad remit, beyond having 80% of their assets in UK stocks and a primary goal of achieving capital gains.

It is a very large collection of funds but there are two standout performers which would have doubled your money over the last five years.

TAKING ADVANTAGE OF FLEXIBILITY

The two funds in question, **MI Chelverton UK Equity Growth (BP855B7)** and **Slater Recovery (B90KTC7)**, have put the flexibility they enjoy to good use.

Launched in 2014 by Chelverton Asset Management, a small and mid-cap specialist, the fund is steered by experienced smaller companies investor James Baker. The focus is on growing, cash generative businesses.

First the fund screens for metrics like revenue growth, cash conversion, balance sheet strength and margins to arrive at a universe of stocks from which to choose, with Baker then looking at valuation.

Nearly 20% of the portfolio is in the technology sector and more than 50% of its investments have market valuations of £500 million or less.

Top holdings include construction materials firm **Sigmaroc (SRC:AIM)** and publishing firm **Future (FUTR)** and has an ongoing charge of 0.83%.

Slater Recovery is run by the eponymous Mark Slater, son of the late Jim Slater, a famous financier

and author of best-selling investment book *The Zulu Principle*.

He manages the fund based on some of the principles outlined by his father – namely a focus on growth at a reasonable price.

This involves using the price to earnings growth ratio – measuring the level of earnings growth against price to earnings – to identify potential investments.

GROWTH AT A REASONABLE PRICE

Slater Recovery isn't looking for broken businesses – the name instead refers to the period when it was launched in the early noughties when the wider market was rebounding from a major correction.

It has a lot in common with **Slater Growth (B7T0G90)**, which is running just behind it in the performance stakes over five years, sharing around 80% of the same holdings.

However, Slater Recovery typically skews slightly more to the small cap end of the market. Again Future is a top holding and some much larger firms are also in the portfolio like **Tesco (TSCO)** and **Prudential (PRU)**. The ongoing cost of the fund is 0.76%.

In relative terms the investment trusts UK All Companies contingent has underperformed with none of this smaller group able to chalk up anything like the performance of the Chelverton and Slater funds.

The best of the bunch is **Henderson Opportunities Trust (HOT)**. Managers James Henderson and Laura Foll look to pursue a

Best performing UK All Companies funds, ranked by five-year performance

Fund	1 year	3 years	5 years	10 years
MI Chelverton UK Equity Growth B Acc	10.0%	81.1%	124.2%	n/a
Slater Recovery A Acc	16.6%	76.8%	104.9%	232.2%
Slater Growth A Acc	11.3%	74.5%	84.0%	258.4%
VT The Beagle Inc	-10.0%	51.5%	69.2%	141.7%
CFP SDL Free Spirit Acc	-4.8%	40.2%	68.2%	n/a
Premier Miton UK Growth C Inc	1.4%	55.6%	67.3%	180.6%
VT Sorbus Vector A	3.7%	48.0%	64.8%	n/a
Royal London Sustainable Leaders ust C Acc	8.9%	38.3%	63.7%	219.1%
Allianz UK Listed Opportunities C	27.8%	46.1%	62.1%	168.9%
IFSL Marlborough Special Situations A Acc	2.8%	44.5%	57.1%	238.8%
Artemis UK Select I Acc	15.0%	52.0%	54.2%	172.4%
Aviva Inv UK Listed Equity Unconsained 1	20.4%	44.1%	52.0%	150.4%
Lionust UK Ethical 2 Acc	-5.4%	31.1%	51.8%	172.0%
TB Saracen UK Alpha B Acc	8.2%	34.7%	51.6%	168.4%
Artemis SmartGARP UK Equity I Acc	28.6%	45.0%	51.1%	203.3%
Benchmark: FTSE All Share	14.4%	19.1%	28.3%	99.5%

Table: Shares Magazine • Source: FE Fundinfo. Total return in GB. Data as of 17 February 2022. • Created with Datawrapper

UK All Companies investment trusts, ranked by five-year performance

Investment trust	1 year	3 years	5 years	10 years
Henderson Opportunities Trust	2.4%	49.8%	62.7%	311.1%
Artemis Artemis Alpha Trust	2.3%	45.2%	59.2%	75.4%
The Mercantile Investment Trust	-4.3%	34.1%	53.9%	226.4%
Schroder UK Mid Cap	1.2%	30.1%	53.3%	210.9%
Fidelity Special Values	25.3%	28.9%	47.6%	265.3%
Aurora Investment Trust	20.6%	28.4%	46.2%	76.7%
JPMorgan Mid Cap	6.9%	23.8%	38.7%	266.6%
Independent Investment Trust	-1.9%	0.0%	34.5%	209.5%
Baillie Gifford UK Growth Trust	-15.0%	18.1%	30.9%	106.6%

Table: Shares Magazine • Source: FE Fundinfo. Total return in GB. Data as of 17 February 2022. • Created with Datawrapper

diversified approach by dividing the portfolio into seven different 'buckets'.

A DIVERSIFIED APPROACH

These encompass early-stage firms, small and medium-sized outfits delivering compound growth, fast-growing smaller companies, large companies, special situations, resources and recovery plays.

Top holdings include Scottish housebuilder **Springfield Properties (SPR:AIM)** as well as banking firms **Barclays (BARC)**, **NatWest (NWG)** and **HSBC (HSBA)**. The trust has an ongoing charge of 0.88%.

Coming in second to the Henderson trust is **Artemis Alpha Trust (ATS)**. At the helm are Kartik Kumar and John Dodd who look to focus on higher quality companies which enjoy competitive advantages in industries with attractive fundamentals and which have strong management teams. Top holdings include funerals provider **Dignity (DTY)** and retailer **Frasers (FRAS)**. The ongoing charge is 0.93%.

By **Tom Sieber** Deputy Editor

How keeping disciplined pays off in the small cap market

JMI's track record shows why keeping grounded pays off in a market full of opportunity...

The team at JPMorgan UK Smaller Companies (JMI) have had to endure a strange couple of years.

Even though the trust has consistently outperformed its benchmark over the last decade, both as a whole and on a yearly basis, it did not buy into some of the more ebullient members of the UK small cap market during the pandemic.

Most notable among these were Ceres Power and ITM Power, two companies in the renewable energy sector. Both firms had produced triple-digit year-on-year share price returns in the middle of 2021, complete with multi-billion pound market caps.

A disciplined approach

The result was such that anyone who didn't hold the two firms had a couple of significant detractors on their performance relative to the benchmark for a period of time. But the good thing about bubbles, at least for those that don't invest in them, is they usually end up getting popped by reality.

Since reaching some seriously heady heights in early 2021, both Ceres and ITM have lost over half of their value, with neither one currently showing promising signs of a recovery.

Avoiding companies with no earnings, trading at 100x revenue isn't proof that you're a genius but it at least suggests you're unlikely to dive into whatever the next 'hot' stock is and end up wrecking a portfolio. For the JMI team, it's also an example – albeit rather an extreme one – of the benefits their more disciplined approach to the market can yield.

Strong track record

As noted, the trust has historically outperformed its benchmark, the Numis Smaller Companies plus AIM (excluding investment companies) Index. This is not a matter of a few basis points either. In the decade up to the end of January 2022, JMI's total share price returns were more than 2.5x the equivalent figure produced by the index.

For Brittain and Patel, those results reflect the opportunities the market they invest in offers. Smaller companies tend to receive less research coverage, meaning there is more room to buy stocks at attractive valuations.

The JMI portfolio contains a broad mix of companies, some of which would probably sit in the value category and others in the growth bucket. In the never-ending debate about the merits of these two investing styles, JMI's approach, one which has paid off in the past, is more about buying companies it thinks are good and not paying too much for the pleasure of doing so.

A mixed portfolio

Alpha FX is one example of this. The London-based firm provides a mix of currency and payment solutions, and its shares would be more likely to sit in the growth bucket of a portfolio. Revenues at the company have increased more than five-fold since 2016, and the firm's latest half-year results showed a near doubling in year-on-year revenue.

With operating margins averaging around 30% over the past five years, the company is also highly cash generative – something the JMI team are keen on in their investments. Its share price has performed extremely well as a result, despite being relatively 'expensive' by some valuation metrics.

Lending group OSB shares some similar traits to Alpha FX. Like the foreign exchange company, it has managed to produce sizeable increases in revenue and earnings over the past five years.

The difference lies in its valuation. Whereas Alpha FX is an earlier stage business that appears to be priced for growth, OSB is more mature – its roots trace back to the 19th century - and trades at much lower valuation metrics, despite sharing many of the traits that the foreign exchange firm does.

Style - less important than delivering the goods

Both companies can fit within the JMI portfolio because the trust managers focus on buying shares at the right price, rather than obsessing about whether a firm should be classified as a value stock or not.

As we head into 2022 that approach could help support the trust's performance. UK small caps continue to trade at low valuations, relative to both larger cap stocks in the same market and those abroad. This despite the fact they have a higher median earnings growth rate than any other segment of the UK equities market.

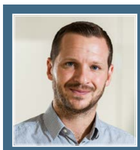
For those seeking exposure to UK small caps, JMI could be an interesting option – particularly if they want managers that are likely to avoid those frothier areas of the market.

Click **here** to read our latest research on JPMorgan UK Smaller Companies...

I'm 79, where should I invest?

Our expert helps with a query about how to put money to work in a low interest rate world

I am retired and have cash up to about £6,000 that I could invest. I am 79 and not sure what to be looking at, obviously interest rates are very low currently. I do not need an income at present from my investment, do you have any general principles that I should pursue?
John



Tom Selby, AJ Bell Head of Retirement Policy says:

Whether you are 19 or 79, there are certain key principles that you should consider when deciding what to do with your hard-earned savings.

For most people, regardless of age, the starting point will be ensuring they have a 'rainy-day' fund in case of financial emergencies. This should provide you with a cushion in the event something unexpected happens, such as your car breaking down or needing to pay for a new boiler.

Aiming for enough to cover three to six months' fixed expenses is a sensible starting point.

If this sounds too steep then just save what you can afford, making sure to shop around for the savings account paying the best possible interest rate to at least mitigate against the impact of inflation.

If you are looking to the longer term – and have already built up a cash emergency fund – then investing in stocks and shares can be a great way to grow your savings. This is particularly valuable in a world where inflation is running hot and interest rates on cash remain low.

When investing, longer term usually means you plan to leave the money untouched for at least five to seven years. For anyone with a shorter time horizon, stocks and shares are unlikely to be appropriate.

The reality of mortality means that the older you are, the less likely your time horizon will be long-term – particularly if you have underlying health conditions.

To give you an idea, the ONS life expectancy calculator suggests a 79-year-old man can expect to live, on average, to age 88, with a 1-in-4 chance of reaching age 92 and a 2.6% chance of celebrating their 100th birthday.

As you get older, inheritance tax may become a more important consideration – particularly if you have loved ones you wish to pass money onto.

If your time horizon is longer-term, think about your overall goal and the risks you are comfortable taking, and make sure where possible you invest in a way that minimises both the tax you pay and your costs and charges.

While from age 75 you are no longer entitled to pension tax relief, ISAs remain a tax efficient way of saving and investing, benefiting from a £20,000 annual allowance, tax-free withdrawals and tax-free growth. However, any assets held in ISAs will form part of your estate on death.

Diversification is also crucial for those looking to grow their fund over the long term. This just means spreading your money around different types of assets around the world, so all your eggs aren't in one basket. You can do this yourself or pay a fund manager to do it for you.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

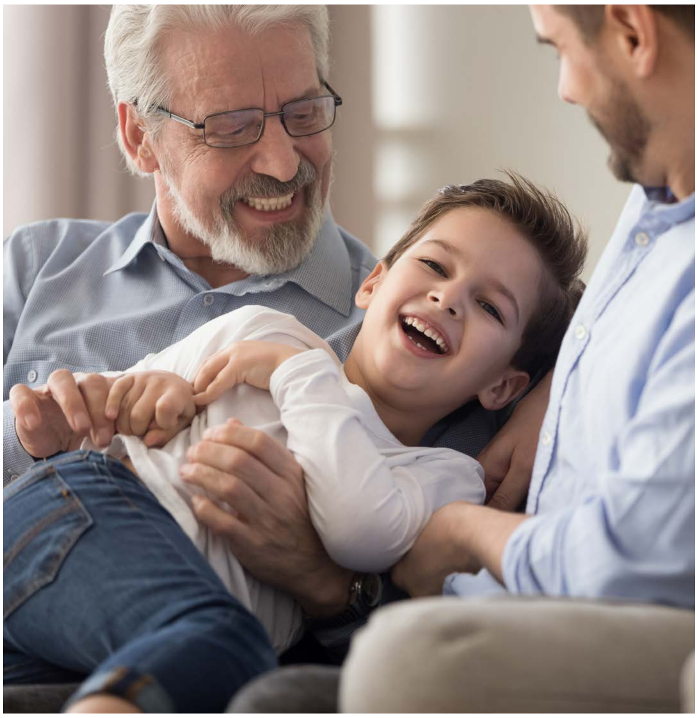
Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

How to value investments for inheritance tax purposes

Working out what HMRC will take from an estate when someone dies

When someone dies and they have investments and other assets outside of a pensions environment, each of those assets needs to be given a value to determine the total value of the estate – and then in turn work out how much inheritance tax is due.

But it can be tricky to work out how to value some of these assets and what date you should value them from. Here is our guide to how to get accurate valuations.



INVESTMENTS IN AN ISA

This is probably the easiest one, as only funds and investments listed on recognised stock exchanges can be held in an ISA. That means their valuation will be readily available.

All you need to do is contact the provider of the ISA and ask them for a valuation, based on the price of the shares, funds and other assets at the market close on the day the person died. One thing to ensure is that you also include the value of any cash sitting in the ISA account too.

Also, if the relevant stock exchange was closed on the day of death, either because it was a weekend or a public holiday, you can base the valuation on either the last day the stock exchange was open before they died or the first day it re-opened after they died, using the lower valuation from the two.

LISTED STOCKS AND SHARES

Investments listed on a stock exchange will have an easy-to-find valuation, as they will be priced regularly. You have two options for any investments outside of an ISA: you can value them yourself or use a share valuing service.

If going through the DIY method, it's probably easiest to set up a spreadsheet, where you can enter the name of the shares they held, the number of each and the face value of those shares.

You'll then need to find the price of those shares on the day they died, which can be done in the financial pages of a newspaper (looking at the paper from the day after they died) or online. You then multiply the value of each share by the quantity they held, and add up the total.

If you use a professional service they will give you a quotation for the price of the shares in a range, for example 91p to 99p. You'll then need to do some sums to work out the accurate price, a process called finding the 'quarter-up price'.

To do this you work out a quarter of the difference between the two prices and add this to the lower price. So in the example above, the quarter difference is 2p (99p minus 91p is 8p, divided by 4 is 2p), and then you add this to the lower figure of 91p to get 93p. The final step is to multiply that figure by the number of shares owned.

One final check you need to do is to see whether a dividend was due to be paid out on the share. If the share is marked as ex-dividend then a dividend is due and will be paid to the estate of the person who died. This means you need to include it in your valuation calculations.

The dividend amount will be listed on the company website or you can use a website such as Investegate to look at the company filings, where they will say what the dividend is. As with the share valuation, you'll then need to multiply the dividend amount by the number of shares to get the total dividend figure, and then add that to the share valuation.

For dividends due on a fund or unit trust, you'll need to contact the fund management group directly to find out the amount that's due. If you google the provider name contact details should be readily available.

UNLISTED INVESTMENTS

These are a little trickier to get valuations for, as they won't be valued as regularly and nor will they be printed in a newspaper or published online. But if the deceased had shares in either a private family company or other start-up businesses that aren't listed you'll have to go to the company directly to get a value for the shares.

The company accountant or company secretary should be able to provide this information. A word of warning: don't just use the face value of the shares. Often shares will be issued at a nominal £1, but that probably won't reflect the current value of the company. Companies' audited annual statements can also provide an indicative net asset value.

One option is to contact HMRC's Shares and Assets Valuation service to help verify the valuation. You can contact them on mailbox@hmrc.gov.uk or via post at Shares and Assets Valuation, HM Revenue and Customs, BX9 1BJ.

By **Laura Suter**
AJ Bell Personal Finance Analyst

RUSS MOULD
AJ Bell Investment Director

The big market pay debate

Will rising wages act as a headwind or tailwind for stocks?

Calls from both the Bank of England's governor, Andrew Bailey, and its chief economist, Huw Pill, for wage restraint do not sit easily alongside the current headline inflation figures. Nor does **Unilever's (ULVR)** statement (10 Feb) that it raised prices by 4.9% in the fourth quarter of last year and has planned further hikes in 2022, thanks to expected input cost inflation of 3% to 4%.

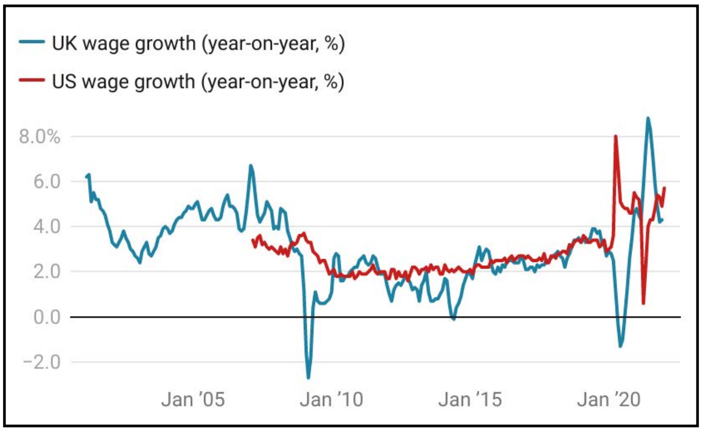
A few small caps, notably own-brand cleaning products specialist **McBride (MCB)**, loo roll maker **Accrol (ACRL:AIM)** and retailer **Joules (JOUL:AIM)**, had dished out profit warnings as they have proved unable to raise prices far or fast enough to compensate for rising costs.

But Unilever is the biggest so far, as it forecast a drop in profit margins of some 1.4 to 2.4 percentage points in 2022, down to 16% to 17%. Even though not all of this is down to higher raw material, freight and packaging costs, as the food-to-personal care giant continues to invest heavily in product development and marketing, it does beg the question of who is able to defend product margins in an inflationary environment if Unilever cannot? After all, it can call upon the power of brands such as Marmite, Hellmans, Dove and Magnum.

Investors must again therefore address three key questions:

- Will workers demand – and get – meaty wage rises in response to their rising bills and expenses? Lowly unemployment numbers would suggest this is their time to strike (either figuratively or literally speaking).

Wage growth remains robust in the UK and US



Source: Office for National Statistics, US Bureau for Labor Statistics, FRED – St. Louis Federal Reserve database

- If they are successful will that drive wider inflation and force central banks to raise interest rates further and faster than currently anticipated by markets?

- Will rising wages, alongside freight, raw materials, packaging, start to take a bite out of corporate profit margins? And, if so, what does that mean for stock market valuations, especially at a time when interest rates are rising?

VICIOUS CIRCLE

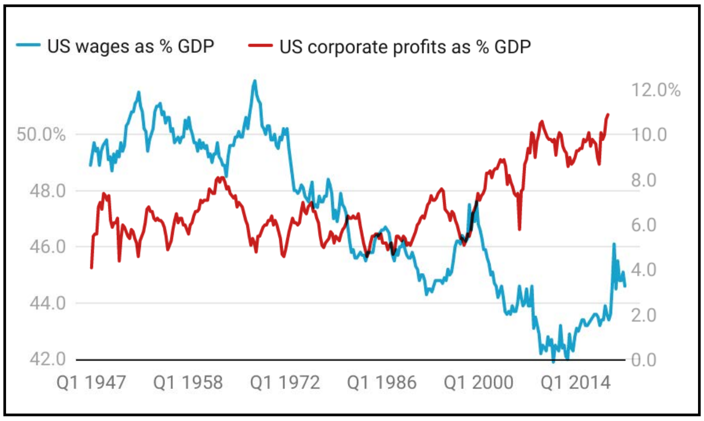
Wage growth is cooling a little on both sides of the Atlantic, but the readings are still high by

RUSS MOULD

AJ Bell Investment Director

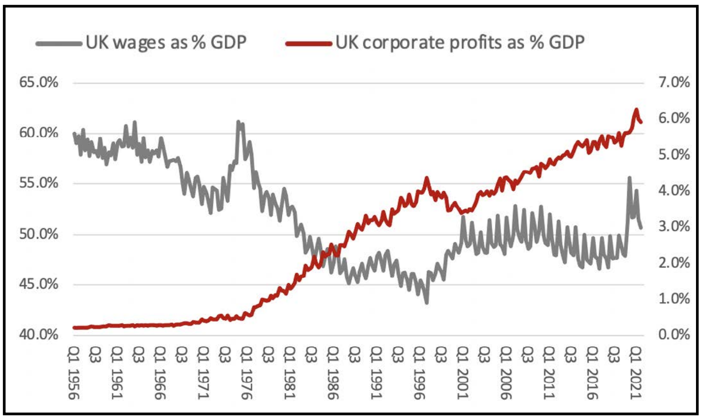
Insightful commentary on market issues

US corporate profits have benefited from sustained pressure on wages



Source: FRED – St. Louis Federal Reserve database

UK corporations have also put the squeeze on workers' remuneration



Source: Office for National Statistics

the standards of the (admittedly relative short) datasets that we have. In the UK, total pay rose by 4.8% year-on-year in the three months to December and US workers' average hourly pay rose 5.7% year-on-year in January.

Low unemployment rates and high numbers of job vacancies relative to the numbers of those without work would suggest labour may just have the whip hand in any pay negotiations. Trades unionists and workers may be happy about that for political, philosophical and economic reasons as there can be little doubt that capital has had its wicked way with labour for much of the past four decades, and beyond.

Since 1947, Americans' pay has fallen by more than four percentage points as a portion of GDP. American corporate profits have increased by around six percentage points over the same time frame.

A similar trend can be seen in the UK, where the data goes back to 1955. Since then, labour's take-home slice of the economy has dropped by almost ten percentage points, while corporations have increased theirs by the thick end of six points.

MARGIN CALL

Investors could therefore be forgiven for wondering what may happen next. After all, corporate profits stand at, or close to, a record high as a percentage of GDP in both the US and UK.

Any margin pressure could therefore restrict profit growth (and that is before UK-based firms face a jump in corporation tax to 25% from 19% from April 2023). And the combination of higher interest rates and slower profit growth is not an ideal one, especially in the US stock market, where valuations are at or near all-time peaks, based on market-cap-to-GDP and the Shiller cyclically adjusted price earnings (CAPE) ratio.

Yet all may not be lost for three reasons. Higher pay could help consumers' keep spending. Companies report sales and profits in nominal, not real, inflation-adjusted terms. Sales up, costs up can still mean profits up, which is why stocks and shares are seen as offering a better hedge against inflation than say bonds.

Granted, some companies and industries may be better suited to coping with inflation than others. Areas where demand is relatively price inelastic, or insensitive, are one – they include oil and tobacco. Industries where demand growth outstrips supply growth (and it takes time to create fresh supply) are another – and that could include mining, especially as central banks cannot print copper, gold or cobalt.

And consumer staples or luxury goods companies with brands can be better placed than most to raise prices thanks to the customer loyalty and pricing power they confer. Luckily, the FTSE 100 has quite a few of those.

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
25 Feb: Evraz, Jupiter Fund Management, Pearson, Rightmove. **28 Feb:** BATM Advanced Communications, Bunzl, Centralnic, Globaldata. Greencoat Renewables, Kitwave, Kosmos Energy. **1 Mar:** Abrdn, Croda, Getbusy, Flutter, Intertek, IWG, Man Group, PPHE Hotel, Quartix Technologies, RHI Magnesita, Rotork, Travis Perkins, Vitec. **2 Mar:** Apax Global Alpha, Aviva, Devro, Hiscox, KRM22, MusicMagpie, Nichols, Polymetal, Trustpilot, Vistry. **3 Mar:** Admiral, Cairn Homes, Coats, CRH, Elementis, Empiric Student Property, Entain, Hunting, HUTCHMED, ITV, Meggitt, Melrose Industries, Mondi, Pagegroup, Parity, Rentokil, Schroders, Spire Healthcare, Synthomer, Taylor Wimpey, Vesuvius. **4 Mar:** Essentra, FBD, Hammerson, Morgan Advanced Materials

Half-year results:
25 Feb: European Opportunities Trust. **1 Mar:** Revolution Bars. **2 Mar:** Hotel Chocolat. **3 Mar:** Allergy Therapeutics, Avation, Darktrace, DotDigital, Galliford Try

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

All chart data sourced by Refinitiv unless otherwise stated

THIS WEEK: 9 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

Growth & Innovation

GOODBODY

SOURCEBIO INTERNATIONAL

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

FEBRUARY 2022

ISSN 2632-5748

Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor webinars and in-person events where you get to hear from management first hand.

Click here for details of upcoming webinars and events and how to register for free tickets.

Previous issues of Spotlight are available on our website.

DISCLAIMER

IMPORTANT

Shares Spotlight is a mix of articles, written by *Shares* magazine's team of journalists, and company profiles. The latter are commercial presentations and, as such, are written by the companies in question and reproduced in good faith.

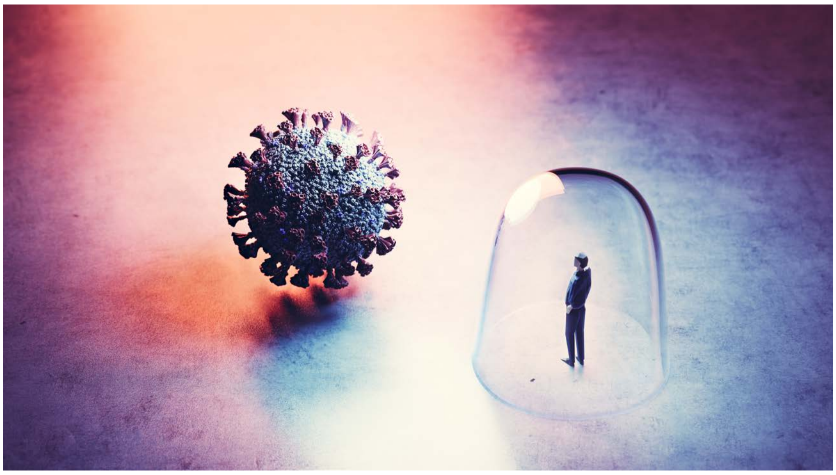
Members of staff may hold shares in some of the securities written about in this publication. This could create a conflict of interest. Where such a conflict exists, it will be disclosed. This publication contains information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments in this publication must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. This publication, its staff and AJ Bell Media do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Introduction to immunology

Understanding the science behind a multi-billion dollar industry

WHAT THE IMMUNE SYSTEM DOES

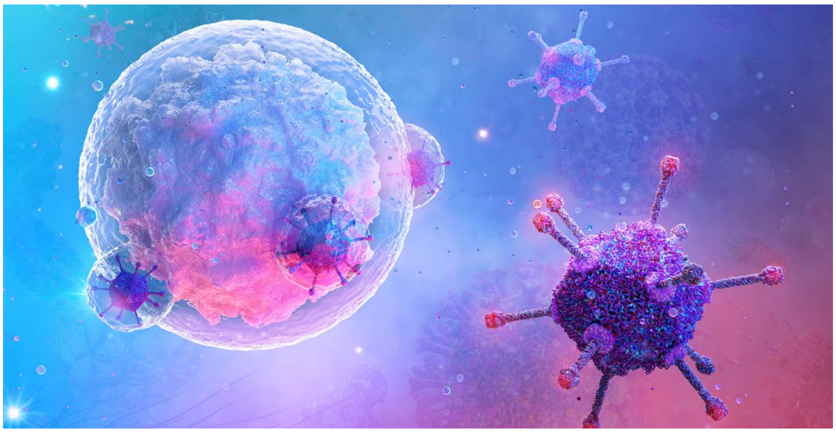
The immune system consists of a series of biological processes designed to protect the body from diseases and infectious organisms. It acts to detect and respond to a wide variety of entities, including pathogens and cancer cells, and is intended to distinguish self-molecules (healthy endogenous cells) from foreign material in order to avoid attacking the body's own healthy tissue.



THE INNATE AND ADAPTIVE COMPONENTS

The human immune system consists of the innate immune system and the adaptive immune system. The innate immune system provides a pre-existing response to broad groups of stimuli and often invokes natural killer cells (NKCs). The adaptive immune system develops responses to stimuli after learning to recognise foreign molecules after an initial exposure.

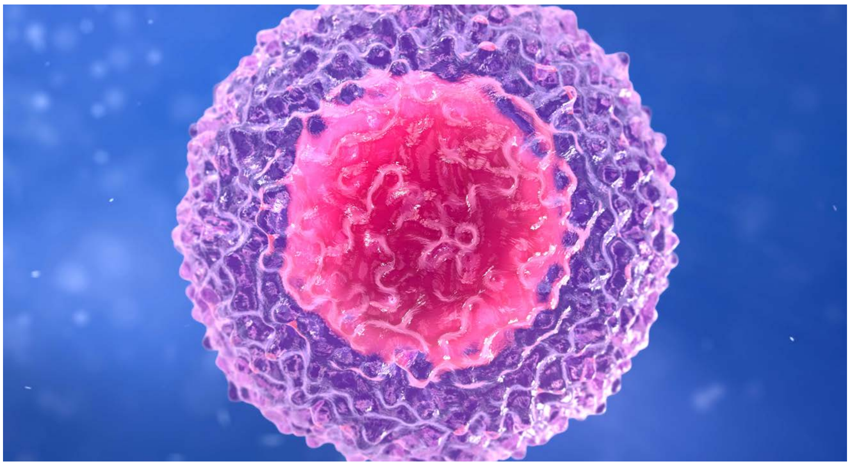
In general, the adaptive immune system provides a stronger immune response and establishes the immunological memory, where a part of a pathogen's characteristic structures can be 'learned' and 'remembered', leading to robust defensive responses after subsequent exposures.



HUMORAL IMMUNITY WITHIN THE ADAPTIVE SYSTEM

The adaptive immune response consists of two main mechanisms (humoral and cellular) and is trained by two types of white blood cells (WBCs), B-lymphocytes and T-lymphocytes. B-lymphocytes are responsible for the humoral immune response, which involves the production of antibodies that can recognise and lead to the elimination and/or targeting of undesired material.

There are five main classes of antibodies (IgG, IgA, IgD, IgE and IgM). When antibody responses are formed by the humoral system, IgM and IgA antibodies develop relatively early in an infection and then subside as IgG takes on a larger role in the immune response. IgG levels can stay elevated for months or even years, depending on the infection.



THE COMPONENTS OF CELLULAR IMMUNITY

The T-lymphocytes provide the 'cellular immunity' axis of protection whereby sub-classes of T-lymphocytes and other forms of WBCs work in a coordinated and networked context to attack undesired or foreign material through processes that can include cytotoxic T cells, macrophages and natural killer T-cells (not to be confused with NKCs employed by the innate immune system).

ANTIGENS AND THEIR SPECIFICITY

Adaptive immunity depends heavily on the recognition of antigens, which themselves are molecular structures that are or can become bound (or 'recognised') by specific antibodies or immune T-cell receptors in circulating blood.

Antigen receptors are tailored to the specific molecular structure of the presented antigens, such that in general, each T-cell receptor or antibody will only react with (ie will only be bound by) the structure of one specific antigen. Upon future exposure to an antigen, only the lymphocytes that recognise that specific antigen are activated and expanded.

'TREATMENTS AIMING TO MODULATE THE IMMUNE SYSTEM WHEN IT IS UNNECESSARILY ATTACKING THE BODY UNDERPIN A GLOBAL MARKET VALUED AT OVER $100 BILLION.'

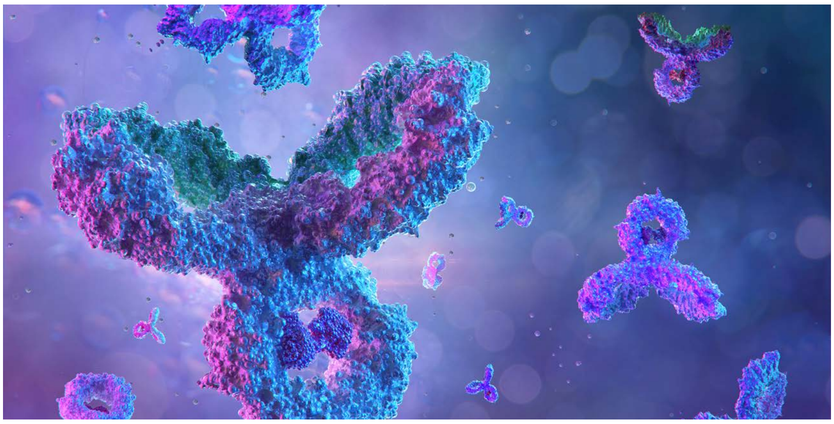
POOYA HEMAMI, EDISON ANALYST

Similarly, most antibodies will only bind and react to one specific antigen (although some antibodies may cross-react and bind more than one).

HOW THE IMMUNE SYSTEM DISTINGUISHES SELF-PROTEINS FROM FOREIGN MATERIAL TO AVOID ATTACKING ITSELF

Antigens may originate from within the body (self-protein) or from the external environment (non-self). When working properly, the immune system should only identify and attack 'non-self' external antigens and avoid reacting to self-proteins (self-antigens) due in part to central tolerance or negative selection (which eliminates any developing T or B lymphocytes that would become reactive to self-protein).

Tolerance involves the elimination of autoreactive (self-reactive) lymphocytes to ensure that the immune system does not recognise self-antigens as foreign material and does not attack the body's own healthy tissue.



This article is based on a report produced by Edison Investment Research, other Edison Explains and thematic research is available here.

GOODBODY
HEALTH

Goodbody Health – bringing revenue to the pharmacy and local level health solutions

www.goodbodyclinic.com

Goodbody Health (GDBY:AQSE) generated more than £1 million in revenue, (over £2,500 per month per pharmacy), in blood and covid testing for the independent pharmacies in 2021. UK pharmacists are under intense commercial pressure, with the reduction in Government subsidy, low margin on each prescription and competition from digital repeat prescription businesses, so this revenue and footfall is a welcome addition.

HOW ARE GOODBODY HELPING PHARMACIES?

Goodbody Health operates within the United Kingdom and Europe as a trusted distributor and retailer of quality, accredited wellness products and diagnostic services to provide a unique 'frontline' healthcare service in the local community and enable customers to manage their health care digitally.

They have an established model in driving footfall and revenue into independent pharmacies using their in-house expertise on marketing and logistics with the back up of a customer support team.

Pharmacies are partnering with Goodbody to sell blood testing products because of the attractive package to themselves;

- No capital outlay to the pharmacist – Goodbody takes the financial risk.
- Commission paid to the pharmacist.
- Free phlebotomy training for two pharmacy employees.
- Courier collections, external laboratories and PPE are all managed and funded by Goodbody.
- Increase footfall and revenue without the need for a 'hard' sell.
- The marketing is produced and implemented by Goodbody.
- Reassured to work with a professional partner to build a long-term relationship.

In the NHS Long Term Plan, it cites a quarter of the UK population, just over 15 million people, have a long-term condition such as diabetes, depression, dementia or high blood pressure – accounting for 50% of all GP appointments.

According to the World Health Organisation, 75% of the total population suffers from one chronic condition, while 50% with two or more conditions.

Blood tests are one of the most common medical tests requested. Figures from the Department of Health for England show over 230 million biochemistry and 47 million haematology investigations were requested in 2014-15, at an estimated cost of £3 billion for the NHS. Early diagnosis improves the outcome of a number of conditions, increasing survival rates in patients and reducing treatment costs for health providers.

This data among other reports, suggests that there is a rising need for blood testing and the over stretched NHS is unable to maintain the level of demand required.

SO, WHAT DOES THAT MEAN TO THE CUSTOMER?

We need to start supporting the NHS and maintaining our own health- we can do this by gaining knowledge and using that to boost and take charge of our health.

Goodbody Health's strategy supports both the NHS and customers by penetrating the fragmented local independent pharmacies network with wellness testing services.

To deliver its strategy, Goodbody has chosen to focus on the independents over the highly commercial entities (Boots, Lloyds, Well) due to the long-standing relationships they have in the local community and with their customers. Certainly, the success Goodbody has had with Covidtesting has proven that the pharmacy model works.

Goodbody Clinics are disrupting the existing inefficient model of courier to laboratory style testing to offer new technologies, a proven model, and expertise to provide customers knowledge to make considered choices for their 'health span'. Now More. Live Better.

> 'Since the pandemic, there has been an increased health awareness and self-managing through evolving technologies, to include blood testing products and services.
>
> 'Goodbody Health has created a powerful combination of state-of-the-art quality diagnostic testing technology integrated with in-house experts comprising of marketing, digitisation, commercialisation and a blueprint of bringing to market to a nationwide distribution network. Goodbody are perfectly placed to support and alleviate the stresses placed on the NHS in this growing market.'
>
> *Marc Howells, CEO Goodbody Health Group.*

WHY INVEST IN GOODBODY?

Every day, you will see reports on the pressures the NHS faces as well as the increasing demand and interest in knowing how we can maintain our own health. The attractive nature of the Goodbody proposition to a pharmacy has meant the rapid growth of the network of over 140 clinics with a planned extended nationwide growth and an ever-growing opportunity for Goodbody.

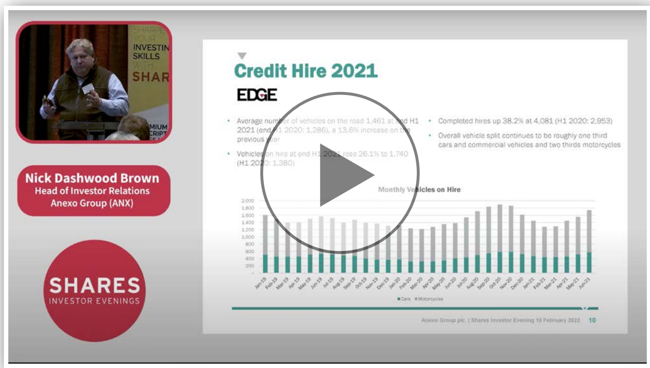
Through their existing blueprint they have a model that works, using their established management team with a proven track record to continue to test and refine communications, products and services whilst building their nationwide network to 2,000 by 2024.

- Goodbody shares trade on the Aquis exchange and are available to trade on most major investment platforms with the ticker GBDY.

- Click to watch **Marc Howells, CEO**, discuss Goodbody's vision.

- Click to watch **George Thomas, Director**, discuss 'Why a pharmacy should work with Goodbody'.

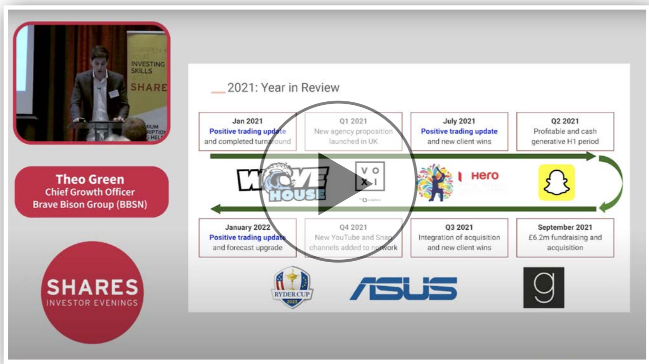
WATCH RECENT PRESENTATION WEBINARS



Anexo Group

Nick Dashwood Brown, Head of Investor Relations

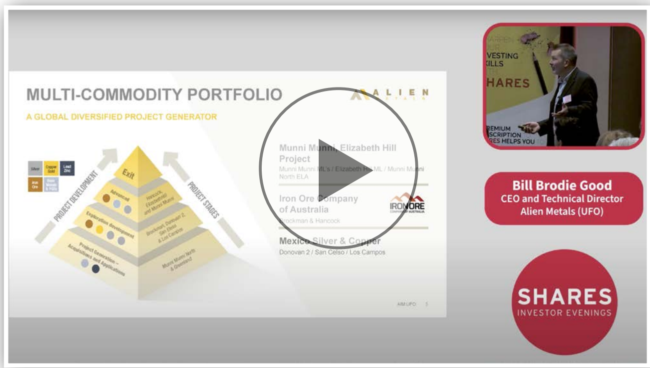
Anexo is an integrated credit hire and legal services group focused on providing replacement vehicles and associated legal services to customers who have been involved in a non-fault accident and don't have the financial means or access to a replacement vehicle. This allows the group to charge credit hire rather than spot hire rates before recovering these charges from the at-fault insurer at no upfront cost to the individual.



Brave Bison Group

Oli Green, Executive Chairman & Theo Green, Chief Growth Officer

Brave Bison Group is the UK's challenger media and marketing company. The business combines a new-era media network, consisting of over 750 social media channels and websites, with digital-only marketing capabilities such as influencer, performance and ecommerce.



Alien Metals

Bill Brodie Good, CEO and Technical Director

Alien Metals is a mining exploration and development company focused on precious and base metal commodities, with its operations located in proven mining jurisdictions. The company is involved in a portfolio of iron ore, copper, silver, and gold exploration projects, principally in Western Australia and Mexico.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

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SHARES SPOTLIGHT

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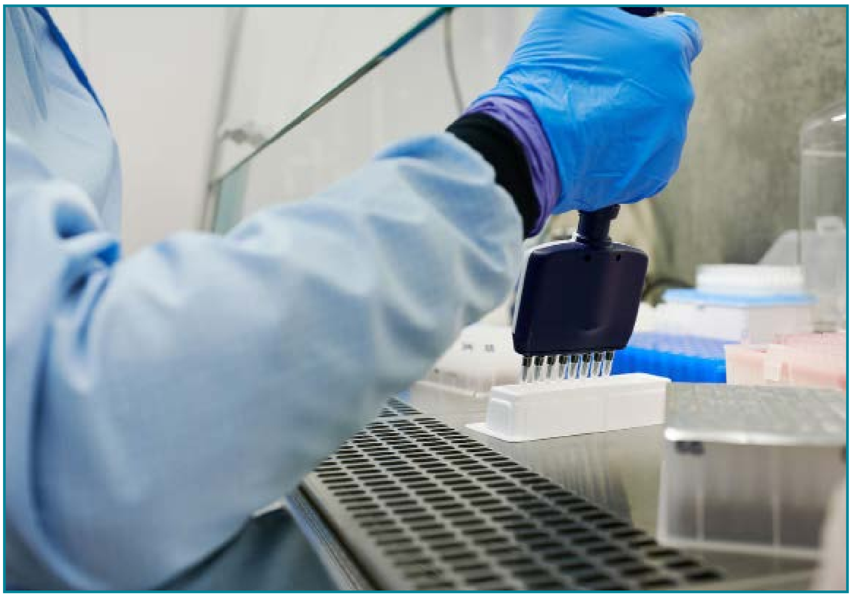
SourceBio International is a leading lab services provider

www.sourcebiointernational.com

SourceBio International plc (SourceBio) (SBI:AIM) is a leading international provider of integrated state-of-the-art laboratory services and products to clients in the healthcare, clinical, life science research and biopharma industries, with a focus on improving patient diagnosis, management and care. The group has its main office in Nottingham, UK with additional facilities in the UK, Ireland and the USA.

SourceBio has achieved significant growth in revenues and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) over recent years. As announced in the trading update issued on 18 January 2022, the group generated revenue of £92.4 million (unaudited) in 2021, an increase of 82% on 2020 revenues of £50.7 million. The group delivered adjusted EBITDA in 2021 approximately 70% higher than the £14.2 million generated In 2020, equating to circa £24 million. This is huge growth in two years from the more modest revenues of £21.2 million and adjusted EBITDA of £3.0 million generated in 2019.



STRONG BALANCE SHEET

The group also ended 2021 with a very strong balance sheet, dominated by £33 million of cash and no borrowings.

It is very clear that SourceBio has successfully navigated two years of transformation and is very well poised to capitalise on future growth opportunities.

The directors have been clear that their strategic approach is to continue to maximise revenue and cash generation from Covid-19 testing services generated through its Infectious Disease Testing business unit. Whilst these revenues may be difficult to forecast and will likely have a finite life, they are important to further increase the cash pile, providing fuel to grow the core business units of Healthcare Diagnostics, Genomics and Stability Storage.

The board believes that these three business units all offer attractive growth opportunities, both organic and inorganic.

In summary, the offering from the four business units comprise:

- **Healthcare Diagnostics** – histopathology and clinical diagnostic services for the NHS and private healthcare across the UK and Ireland. The principal revenue stream is Cellular Pathology Testing which involves the examination of patient tissue pre and post-operative. Whilst this business was heavily impacted by the well publicised delays in elective surgeries, it has now returned to normal levels of trading. Indeed, the sheer size of the current elective surgery backlog provides an opportunity for significant future growth of this business. SourceBio also provides, through its Reference Laboratory, enhanced molecular diagnostic tests.

- **Genomics** Genomics is the study of genes to help progress research and clinical discovery for the phrarmacetical and healthcare industries. SourceBio provides DNA sequencing services for pharmaceutical and biotechnology companies, academia, contract research organisations and other research groups in the UK, Europe and North America.

- **Stability Storage** – This comprises four offerings - Stability Storage services, Manufacturing, Service and Validation and Analytical Testing services. The largest is Stability Storage services, where SourceBio delivers outsourced temperature and humidity controlled environmental storage services for stability trials. SourceBio's customers are pharmaceutical and biotechnology companies, contract manufacturers and analytical testing companies from around the world but primarily in the UK, Ireland and the USA.

- **Infectious Disease Testing** A range of Covid-19 testing services to the NHS, private healthcare providers and private industry, along with employee testing solutions to industry, direct to consumer home test kits and venue testing.

STRATEGY AND BUSINESS MODEL

SourceBio's strategy is to continue to grow each of its core business units through a combination of organic and inorganic initiatives. Specifically, the directors have identified clear strategic initiatives to generate shareholder value:

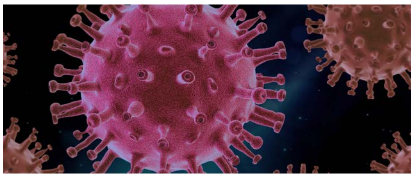
Target organic growth by capitalising on the market and growth opportunities identified in all three core business units of Healthcare Diagnostics, Genomics and Stability Storage;

Selectively execute on attractive and relevant acquisition opportunities; and

Increase its international presence through a combination of organic and acquisitive growth.

ACQUISITION MODEL

As well as the focus on organic growth, SourceBio is actively pursuing a pipeline of attractive acquisition opportunities. Areas of



interest include cellular pathology laboratories to give better access to healthcare in London, additional oncology specialities, further expansion within the USA into cellular pathology and Healthcare Diagnostics, as well as additional Genomics capabilities. Any news of acquisitions secured will be announced in due course.

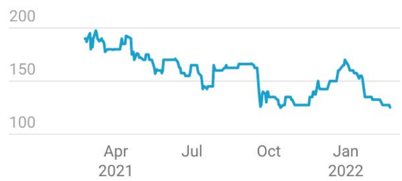
OUTLOOK

As highlighted in the most recent trading update issued on 18 January 2022, 2021 was a record trading year for SourceBio. The company is very well capitalised and has benefitted from very strong cash conversion driving cash balances to over £33 million with a balance sheet free of borrowing.

The board believes that SourceBio is well-positioned to fuel further growth in 2022 through its core business units and to contemplate attractive acquisition opportunities.

Fuller details of the group's financial performance for 2021 together with additional information on the outlook for 2022 will be provided in the company's preliminary results which it expects to announce on 5 April 2022.

SourceBio International



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