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SHARES

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DITCHING RUSSIA

Time to boost investment in oil and gas drilling and renewable energy

INVEST IN GOLD if you seek protection against **inflation, recession** and **war**

ALSO INSIDE: Two stocks offering attractive income

Contents

Daniel **Coatsworth**

Amazon's share price is about to become a lot cheaper

History tells us that stock splits are often good news for investors

A high price can stop investors from buying a particular stock, simply because they cannot afford it. Not everyone has the $1,000+ which it costs to buy a single share in many US-listed companies. It's a long-standing frustration but slowly we are seeing solutions to the problem.

Amazon has joined the likes of Alphabet, Apple and Tesla in doing a 'stock split'. Each existing Amazon share will be replaced by 20 new ones in June. By increasing the number of shares in issue Amazon's price will automatically drop and become a lot more affordable for people who only have a limited amount of money to invest.

Existing Amazon investors needn't worry about the stock split bringing down the price by a large amount as from a technical perspective the exercise is unrelated to the value of the company.

However, in Amazon's case the news of the impending split has served to push up the price of the stock as investors are speculating it might be in more demand post-split.

Let's say someone owned 10 shares in Amazon. At the time of writing the shares traded at $2,936 and the business was valued at $1.49 trillion. If the stock split were to happen now, the shareholder would have their 10-stock holding replaced by 200 new shares. The business would still be worth the same at $1.49 trillion, but the share price would be reduced by a factor of 20 to $146.80.

Put another way, someone who had $2,936 invested in one Amazon 'old' share would still have the same $2,936 investment – but they would now own 20 shares at the lower price (20 x $146.80 = $2,936). It's like cutting a cake into more pieces and giving the existing investor more slices.

Stock splits have a psychological benefit as the reduced price might seem like a bargain to certain investors who haven't taken the time to understand what's gone on. You may also have a group of investors who can now afford the shares for the first time. These two factors can sometimes result in positive share price gains.

Average performance of companies that have announced stock splits since 1980

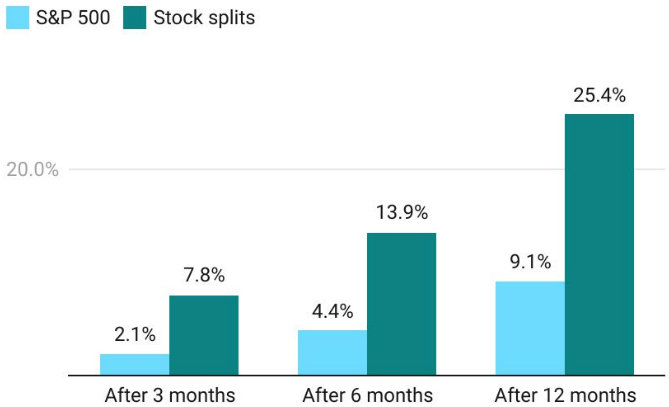


Chart: Shares Magazine • Source: BofA Research Investment Committee, Bloomberg • Created with Datawrapper

Bank of America looked at the performance of companies announcing stock splits since 1980 and found they outperformed the S&P 500 by 16.3% over the 12 months after the split announcement. However, it also said that stock splits saw negative returns about 30% of the time over the first 12 months, with an average 22% decline.

In the future it is possible that companies won't bother with stock splits if the ability to buy and sell fractional shares becomes more commonplace. These are a portion of a share.

For now, high prices aren't really a problem on the UK stock market, with only four names in the FTSE All-Share index trading above £100, being **Lindsell Train Investment Trust (LTI)**, **Personal Assets Trust (PNL)**, **Spirax-Sarco Engineering (SPX)** and **Ferguson (FERG)**.

Investors in China should brace for even greater volatility as risks multiply

Tech stocks suffer major sell-off before rebounding on Beijing's promise of support measures

Amid all the concerns on investors' minds, China has risen to the fore after technology stocks were crushed earlier this week.

Due a combination of factors, the Hang Seng Tech index collapsed 11% on 14 March to its lowest level since before the pandemic. The following day it fell by a further 8.1% but then soared by 22.2% on 16 March when Beijing pledged support to try and stabilise markets.

Among the biggest losers in the sell-off was Tencent, which faces a record fine after its WeChat Pay mobile payment app was accused of money laundering by the Chinese regulator.

Due to an unexpected resurgence of Covid in both Hong Kong and mainland China, the government has locked down Shenzhen city which is a major technology hub as well as being China's fourth largest port.

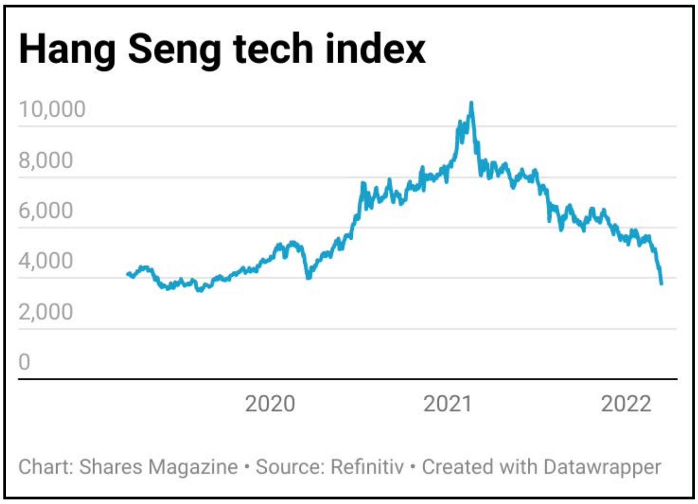
Cases in China doubled in one day, prompting measures that threaten half the country's GDP (gross domestic product), according to Bloomberg.

Economic growth is already expected to be weak at just 5.5% this year, and there is mounting speculation China's central bank may cut interest rates again.

Moreover, the property crisis which began with troubled real estate group Evergrande has continued to rumble on in the background with more than a dozen developers defaulting on their debt.

Yet the country's biggest test is still to come, namely where it stands on the Russian invasion of Ukraine.

So far Beijing has trodden a fine line, refusing to condemn or support Vladimir Putin but calling for talks to resolve the situation.



Reportedly Russia has asked China for military assistance, but the US has said any country which helps Russia skirt sanctions will face reprisals themselves.

In a think-piece Hu Wei, vice-chair of the Public Policy Research Centre of the Counselor's Office of the State Council, outlined the choice his nation faces.

The paper suggests the war in Ukraine is 'unwinnable' and Putin's best option is to end it 'decently through peace talks'. China is then likely to face a resurgent – and unified – West led by the US and NATO, so it needs to make a strategic choice now.

China's economic ties with Russia are far less important than its links with the West, therefore it cannot be tied to Putin and needs disentangle itself as soon as possible.

'Cutting off from Putin and giving up neutrality will help build China's international image and ease its relations with the US and the West,' adds Hu Wei. 'Though difficult and requiring great wisdom, it is the best option for the future'.

Whether President Xi agrees, investors need to be prepared for more market volatility in the coming days and weeks. [IC]

Sanctions create potential earnings boost for non-Russian potash producers

Shares in Nutrien, K+S and ICL have soared in the past month

Image used under license from Nutrien Ltd

The EU's move to cut off Belarus, one of the world's top suppliers of potash, is creating a potential earnings boost for non-Russian and Belarus potash companies. Belarus has permitted Moscow to use its territory as a conduit to invade Ukraine.

Potash is a term commonly used for potassium and it is a crucial ingredient for agricultural fertilisers. Its production is heavily concentrated in just four countries. Over 75% of the world's potash production comes from Canada, Russia, Belarus and China, and over half of the world's reserves lie within the top two producing nations.

Bank of America says Russia and Belarus are the second and third largest potash producers globally, accounting for 20% and 18% of global supply respectively.

Potash is a naturally occurring substance, but the levels of potash in surface-level agricultural soils have been in gradual decline as farming techniques have intensified. Lands once rich in potassium have slowly become depleted and farmers must now add it in to grow decent crops.

This has driven the need for potash to be produced elsewhere and sold to farmers so they can top up their land's potassium levels after each harvest. Potash is also used to increase the production of corn, the major feedstock for bioethanol production in the US.

Soaring energy prices have already been pushing fertiliser prices higher and the EU's move to curtail Belarusian potash exports will accentuate this trend.

Potash prices have increased from less than $250 a tonne in April to $800 recently. However, analysts at Bank of America believe prices could rise further and they recently raised their 2022 potash price forecast to $850 a tonne from a previous estimate of $650.

This strong pricing environment might explain why shares in potash companies have been soaring in recent weeks. For example, Nutrien is up 34% in the past month. It was formed in 2018 from the merger of PotashCorp and rival Agrium and is the largest potash producer in the world, operating principally from six mines in Saskatchewan, Canada.

German group K+S is up 22% in the past month. It is one of the largest producers of potash in Europe and also specialises in magnesium and salts. Its operations are predominantly based in Germany, but it has been expanding elsewhere with projects in Canada, the US and Chile.

ICL, an Israeli company dual-listed in Tel Aviv and New York, has seen its shares rise 8% in the past month. It has gradually expanded into a global business since helping to establish its home country's potash industry 80 years ago. The company is the sixth largest potash producer in the world. [MGar]

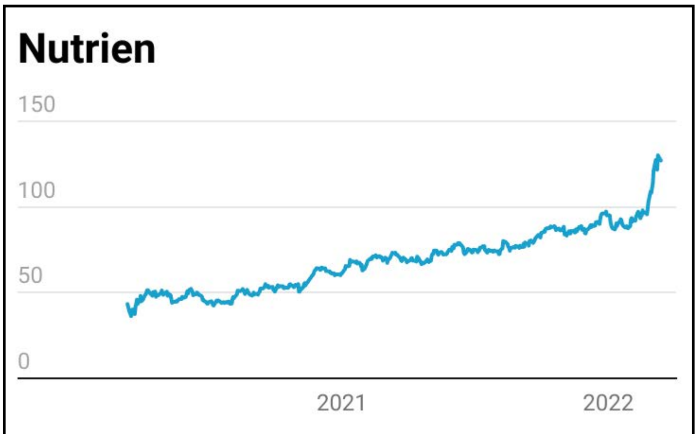
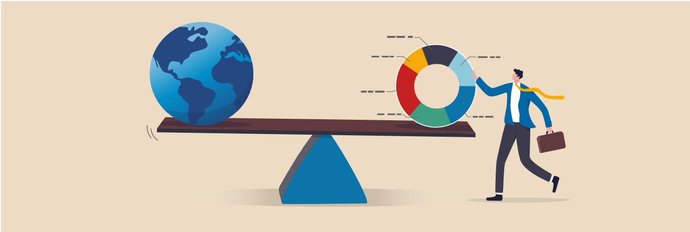


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

Why global shares could receive a major boost from large pension fund rebalancing

Portfolio rebalancing could see billions of dollars flow into equities very soon



Strategist Nikolaos Panigirtzoglou at JP Morgan estimates global shares could benefit from a $230 billion buying spree as some of the world's largest investors rebalance portfolios before the end of March.

The activity will be driven by large pension funds and sovereign wealth funds looking to maintain certain levels of asset allocation such as 60% in stocks and 40% in bonds.

Globally stock prices are down around a tenth so far in 2022 while European shares are down around 15%. US pension funds which manage around $8 trillion would need to shift around $24 billion from bonds to equities, assuming they fully rebalanced according to Panigirtzoglou.

Japan has the world's largest government pension fund valued around $1.6 trillion and could buy as much as $40 billion worth of equities. Meanwhile, Norway's $1.3 trillion oil fund has benefited from a rise in oil prices and could see a shift from bonds into equities of around $22 billion.

Increased market volatility has seen Switzerland's central bank intervene in the currency markets to stem the rise of the Swiss franc, seen as a haven in times of stress. The country has the world's lowest official interest rate of minus 0.75%.

JP Morgan estimates the Swiss National Bank could decide to move around $15 billion into shares before the quarter end in line with its policy of investing some of its reserves into equity markets. [MGam]

Mike Ashley increases Frasers' stake in German fashion retailer Hugo Boss

He takes advantage of market weakness to buy more shares in the business

IT'S BEEN AN expensive but lucrative couple of weeks for Mike Ashley's **Frasers (FRAS)** retail group which has increased its stake in German luxury fashion firm Hugo Boss to 18.2%, taking advantage of recent share price weakness.

The holding, which is made up of a 4.5% direct stake and a 13.7% stake through the sale of put options, has a market value of around €475 million or £390 million.

Shortly after Frasers bought more stock, Hugo Boss forecast earnings before interest and tax would rise between 10% and 25% this year, spurring a sharp rally in its shares.

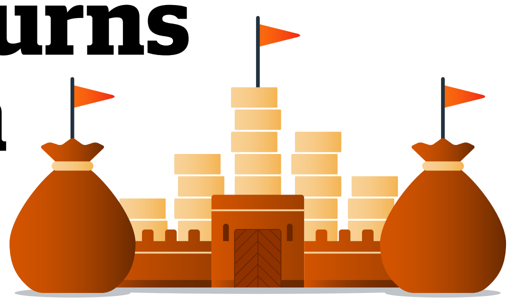
Ashley said Frasers 'continues to intend to be a supportive stakeholder and create value' for both firms through its stake.

As well as its trademark apparel, Hugo Boss sells accessories such as shoes, watches, eyewear and stationery items.

Last month, Frasers bought the operating assets of Studio Group for £26.8 million in cash after the firm called in the administrators.

Frasers was the biggest shareholder in Studio when it was a listed company and Ashley had repeatedly called for a strategic review, described the firm as having 'buried its head in the sand whilst the world around it changed'. [IC]

Quality growth strategy delivered strong returns in 2021 for Smithson



Unfortunately the investment trust's performance in 2022 has been disappointing so far

While its performance in 2022 has been poor, mid cap investor **Smithson Investment Trust (SSON)** reported a respectable return for 2021.

It achieved a net asset value total return per share of 18.9%, slightly ahead of the 17.8% return for the MSCI World Small and Mid-cap index.

In common with other funds run by asset manager Fundsmith, Smithson only buys quality companies, trying not to overpay for them and holding them for the long term.

As manager Simon Barnard admits, this strategy inevitably means the trust owns various high growth companies which trade on more expensive multiples than the market average.

Considering the US 10 Treasury yield jumped by two thirds from 0.91% to 1.51% in 2021, Smithson should theoretically have underperformed the market last year as investors rotated into value stocks. Instead, the trust beat the market thanks to superior stock selection as several of its big holdings delivered positive news. Moreover, its highest-rated holding was one of its best performers, gaining 30% last year.

As Barnard says, while in theory value should have worked better than growth, 'sometimes financial theory proves to be just that, a theory, which doesn't actually play out perfectly in the financial markets, driven as they are by millions of fallible, emotional people'.

The top five contributors to the trust's performance in 2021 were cyber security firm Fortinet, software provider Nemetschek, credit rating and data manager Equifax, fast-food chain **Domino's Pizza (DOM)** and heater and boiler maker AO Smith.

The top five detractors were travel software firm Sabre, medical device maker Ambu, industrial laser designer IPG Photonics, financial software supplier Simcorp and payments provider Paycom.

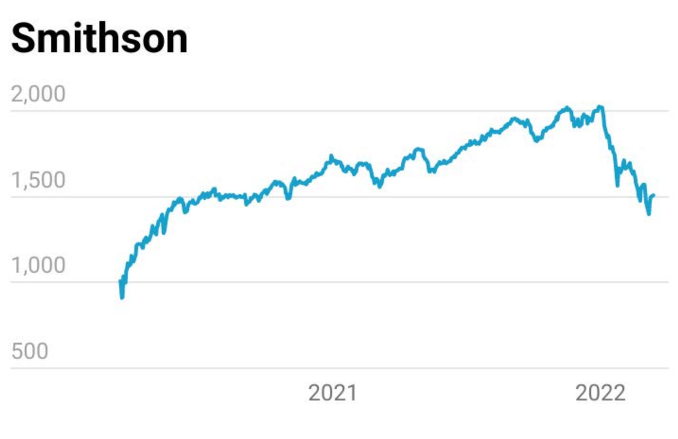


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

Despite a 22.8% fall in the trust's total return NAV so far this year, against an 8.4% fall for the benchmark, Barnard isn't disheartened.

Owning high quality companies with sustainable growth 'is a winning strategy over the long term, has been shown to work through several economic cycles, and is one which we know we can execute successfully,' he argues.

A value strategy is 'inherently more difficult, as you cannot hold value companies for the long term if all you are doing is owning a poor-quality company at a low price, which you hope will re-rate in the future'.

For the value manager, the longer their holdings take to re-rate the lower their annualised returns, whereas growth companies are by their nature continually creating value, meaning time is on their side. [IC]

Disclaimer: The author of this story (Ian Conway) and the editor (Daniel Coatsworth) own shares in Smithson Investment Trust

Buy this Canadian fund for income and exposure to attractive sectors

There is a lot to like about Middlefield Canadian in the current climate

Anyone seeking a compelling investment trust that's cheap and pays a decent income should consider **Middlefield Canadian Income (MCT)**.

It offers an attractive 4.1% dividend yield but also trades at a 15.2% discount to net asset value versus a 12-month average discount of 13.8%, according to Winterflood.

The trust is the top performer in the Association of Investment Companies' North America sector on a one-year performance basis with a 37.4% share price total return.

Shares believes the near and long-term set-up for Middlefield Canadian Income is positive, with the diversified portfolio and quarterly dividend payer offering exposure to best-in-class financial institutions and healthcare names, among other sectors.

'Healthcare companies provide needs-based products, and many companies typically carry high levels of inventory, making them an attractively priced defensive sector,' says fund manager Dean Orrico.

Investors in Middlefield Canadian Income also get exposure to the energy sector and the emerging renewable power industry in Canada.

Russia's invasion of Ukraine and its disruption of the flow of oil and gas means energy prices could remain elevated for some time, boosting the earnings of attractively valued Canadian energy companies in the trust's portfolio.

MIDDLEFIELD CANADIAN INCOME TRUST

BUY

(MCT) 124.75p

Discount to NAV: 15.2%

Total assets: £194 million

Extra profits will give these energy companies the opportunity to reinvest money back into their business to support future growth, as well as paying down debt, buying back shares and increasing shareholder dividends.

Investors in Middlefield Canadian also get exposure to the real estate market. Orrico comments: 'Real estate owners have the ability to pass on rising costs via higher rents and some leases also include inflation-linked escalators.'

While investors are now expecting a more moderate increase in interest rates due to the fallout from Putin's attack on global growth, soaring inflation means rates are still going to go up.

This will create a headwind for indebted companies with limited earnings visibility, which the trust eschews, and a tailwind for the stable, cash flow generative companies run by competent management teams that the fund favours.

CANADA'S ATTRACTIONS

Middlefield Canadian Income offers something different to its North America investment trust peers thanks to its Canadian equity bias.

Canada is a robust, reliable international market too often overshadowed by the US. And while the devastating Ukraine crisis means the growth trajectory of the global economy will remain uncertain, it is worth noting that Canada benefits from higher energy

PERFORMANCE OVERVIEW

	1 year	3 years	5 years
Middlefield Canadian Income Trust	37%	57%	59%
MSCI ACWI equities index	6%	40%	51%

Table: Shares Magazine • Source: FE Fundinfo, 15 March 2022. Total return in GB • Created with Datawrapper

independence and produces some of the commodities that are being impacted by sanctions, wheat and potash among them.

Furthermore, it is also a secure net exporter of oil and natural gas, and both the consumer and the Canadian banking system are on solid footing.

Canadian equities outperformed most developed markets in 2021 and the country's economic recovery should continue well into 2022 as consumer demand and supply chain challenges recover from the pandemic.

WHAT'S IN THE PORTFOLIO?

While highly sensitive to the plight of the people of Ukraine, Orrico points out that 'as far as the Canadian investment landscape goes, we think we are fairly well positioned'.

He adds: 'Our trade with Russia/Ukraine is very minimal, we are a country that is abundant in resources and when you think about the impact on oil and gas prices, that is clearly benefiting Canadian businesses that are leveraged to the energy market.'

As of the end of January 2022, top holdings in trust included AltaGas, an energy infrastructure company with a focus on clean energy; and Capital Power, a power producer across North America on a path to net carbon neutrality by 2050.

Middlefield Canadian Income is also invested in various Canadian banks including TD Bank, Bank of Montreal and CIBC, as well as a trio of real estate investment trusts. For example, its portfolio includes a position in RioCan REIT whose recent fourth quarter results revealed a rebound in retail occupancy and a 6.25% dividend hike.

Shares also notes the investment trust recently initiated a position in profitable Canadian energy company Whitecap Resources, which is expected to generate nearly $1 billion in free cash flow, after distributions and buybacks, in 2022.

WHAT ABOUT TECH?

Technology represents only a small part of the trust and one relevant company in the portfolio is customer relationship management software group Salesforce. While it hasn't had a good year so far on the market, down 24% since 1 January, Middlefield Canadian takes a longer-term view of its opportunities.

'We expect that customer relationship management will benefit from global normalisation as businesses bring employees back to the office and shift their spending from expense-focused digital tools enabling remote work to revenue-generating ones such as CRM software,' comments Orrico.

While Middlefield Canadian's 1.3% ongoing charge is on the more expensive side for equity investment trusts, we note it has outperformed the MSCI All-Countries world index, a popular benchmark for global shares, on a one, three and five-year basis. There is a lot to like about its portfolio in the current market environment so add this trust to your portfolio now. [JC]

Middlefield Canadian Income

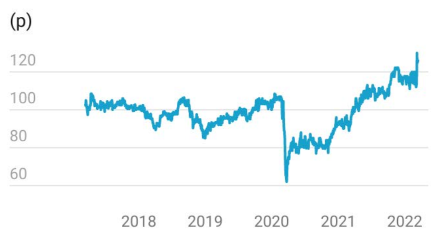


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

Fancy 9% dividend yield? M&G is the answer

The asset manager has come a long way since being spun out of Prudential

M&G

BUY

(MNG) 225p

Market cap: : £5.9 billion

British insurer and asset management firm **M&G (MNG)** surprised the market with better-than-expected full year results on 8 March. This has made investors look more closely at the investment opportunity and we think you should do the same.

M&G's shares are cheap, trading on 8.3 times 2023 forecast earnings, and the dividend is very attractive with a 9.2% prospective yield based on next year's expected payment. Berenberg forecasts M&G will pay 19.82p per share in dividends for 2022, 20.65p in 2023 and 21.68p in 2024.

The UK life market benefits from strong macro trends that continue to drive change and growth in the industry.

Over the past decade, and since the global financial crisis, insurers have focused on improving capital buffers, cutting costs and de-risking their balance sheets to improve their solvency and margins.

In the UK, the combination of an ageing population and the ongoing shift of responsibility for retirement income from corporates and the state to the individual should continue to fuel growth in the long-term savings market for years to come. M&G is ideally positioned to benefit from these trends.

The company was spun out of **Prudential (PRU)** in 2019 and since then it has completed key demerger targets ahead of schedule. It achieved £2.8 billion capital generation over two years, versus an original target of £2.2 billion by the end of 2022. Annual cost savings of £145 million were achieved a year earlier than planned.

This strong performance has enabled the group to announce a £500 million share buyback programme. This amount, together with dividends, will mean the group has returned £1.8 billion of capital to shareholders, equivalent to 32% of its market value at the time of the demerger.

There are some potential areas of risk. For example, the group could face prolonged outflows in retail asset management, with lower growth in institutional asset management.

However, for now, we see plenty of reasons to stay positive. For example, the group should continue to build up excess capital, assuming cash generation of £800 million per year. Given that dividends account for 66% of this cash generation, it is apparent that excess capital will continue to accumulate in the business. Research by Berenberg suggests a figure of £1 billion.

Asset management flows have turned positive for the first time since the demerger from Prudential. Moreover, there are encouraging indications regarding the prospect of a continued turnaround in the retail division.

The launch of M&G's saving product PruFund in Italy offers a significant competitive advantage and could prove to be a welcome addition to earnings in the medium term. [MGar]

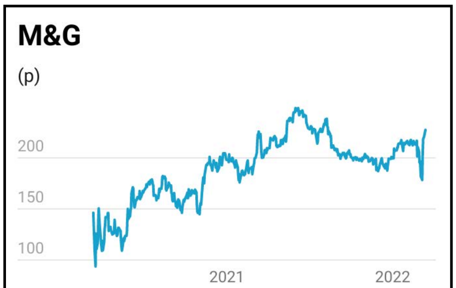


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

THARISA

(THS) 155.8p

Gain to date: 18%

Original entry point:

Buy at 132p, 28 October 2021

SANCTIONS ON RUSSIA have led to a rally in metal prices on the assumption that supplies from this country will be disrupted.

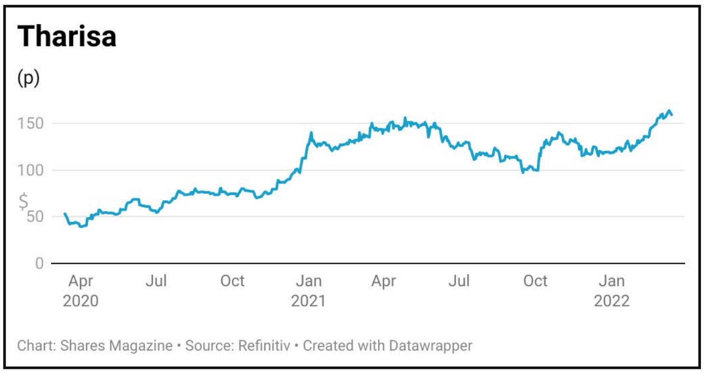
South Africa-based chrome and platinum group metals producer **Tharisa (THS)** is a beneficiary of these sanctions as market prices are going up as global supplies could tighten if Russia's output is no longer part of the global supply mix.

However, one cannot rule out a slowdown in the global economy because of the war in Ukraine. This in turn would reduce demand for commodities.

Investors who are nervous about the near-term outlook may want to take any profits on Tharisa given the shares have just hit a new record high. However, we're sticking with the trade in the view that commodities demand is not going to fall off a cliff.

Tharisa has all the hallmarks of a business you want to own in the current environment. It generates lots of cash, it pays generous dividends, it makes good returns on the money invested in the business and the shares are cheap.

We might see increased volatility in the share price but investing in a commodities producer should be beneficial in a world of rising inflation.



SHARES SAYS:
Stick with the shares. [DC]

HEPTAGON EUROPEAN FOCUS EQUITY FUND

(BPT3468) £203.48

Loss to date: 18%

Original entry point:

Buy at £248.02, 12 August 2021

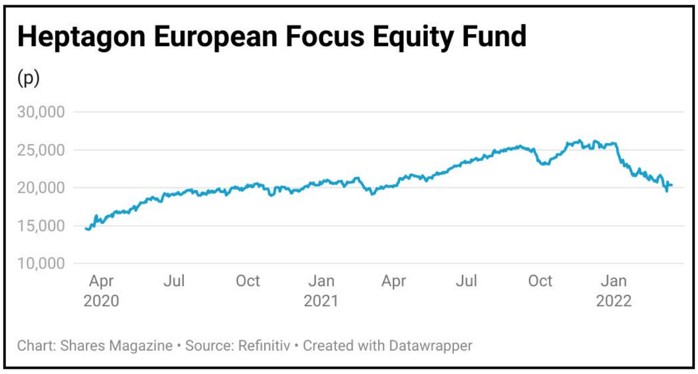
HEPTAGON EUROPEAN FOCUS EQUITY Fund (BPT3468) has a well-defined investment process with a preference for high quality growth companies. Importantly, manager Christian Diebitsch believes they continue to deliver on expectations.

However, the fund has disappointed recently due to exposure to growth and technology stocks which are currently out of favour.

Diebitsch isn't interesting in gravitating towards areas of the market which are performing because of rising inflation and interest rates. His approach is to steer clear of low growth, capital intensive, mature companies which don't offer the growth he desires.

The disciplined approach was vindicated by recent full year results from several companies in the portfolio which he said produced 'excellent' growth and outperformed market expectations.

Diebitsch said these companies increased their outlook for growth in 2022 prompting analysts to upgrade their earnings forecasts.



SHARES SAYS:
The fund is ahead of its benchmark over one year and comfortably ahead over longer periods. It remains a great way to get exposure to Europe's best companies. Stay positive. [MGam]

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Heptagon European Focus

HILL & SMITH

(HILS) £14.12

Loss to date: 7.1%

Original entry point:

Buy at £15.20, 20 May 2021

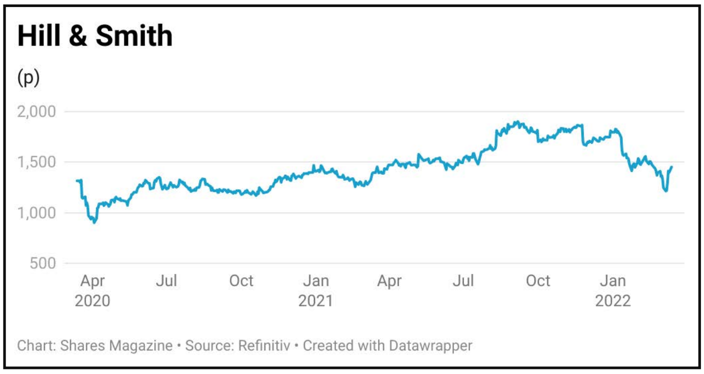
IT'S BEEN A disappointing start to 2022 for road safety engineer **Hill & Smith (HILS)** with more than a year's worth of share price gains wiped out.

Most of the damage was done in early January when news came that the UK Government would temporarily halt the rollout of new smart motorways. These use the hard shoulder as an extra lane during peak traffic periods, but a series of serious collisions and fatalities have raised safety concerns and sparked a full investigation of their suitability.

What may puzzle investors is why Hill & Smith's share price should collapse by 25% when the company earns barely 2% of its annual revenue from smart motorway builds.

Last year's group operating margins returned to management's long-run 12% to 15% range (12.2%), a stark recovery from 2020's 10.6% despite rising staff and raw materials costs.

The medium-term outlook for UK roads activity 'remains positive' according to broker Numis, with additional opportunities in the US and France. This could mean a sharp share price recovery once markets regain stability.



SHARES SAYS:

We believe Hill & Smith remains an attractive long-run growth and income investment. Stay positive. [SF]

HARGREAVES SERVICES

(HSP:AIM) 550p

Gain to date: 71.9%

Original entry point:

Buy at 320p, 25 February 2021

PROPERTY AND INDUSTRIAL services firm **Hargreaves Services (HSP:AIM)** is the gift that keeps on giving for shareholders.

First half results for the period to November blew away estimates thanks to major strategic progress in both the land and industrial businesses.

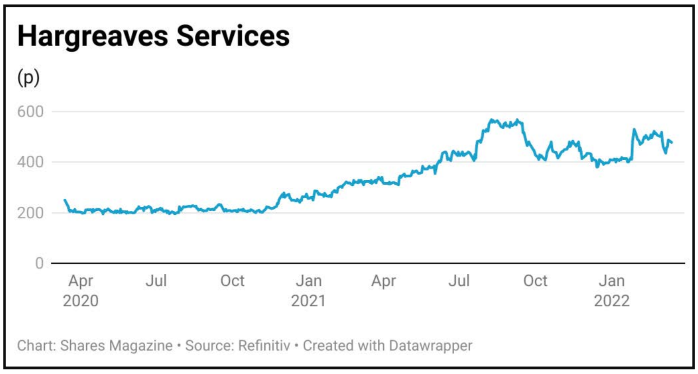
There was also a strong contribution from the German operation HRMS, which trades raw materials, and its DK recycling subsidiary.

Now the firm believes its second half results will be even stronger than the first half thanks to the continuing strong performance of HRMS and the recycling business. On top of higher levels of activity, surging prices for pig iron and zinc are driving a an increase in operating profits.

Analysts are currently forecasting full year pre-tax earnings of £20 million after the firm posted a profit of £10.4 million in the first half. Therefore, they will need to upgrade their estimates on the back of the 15 March announcement.

Moreover, they will need to raise their 2023 forecasts as well as the firm expects strong market conditions to continue until at least the end of this year.

Even if commodity prices fall back, Hargreaves believes operational improvements at DK will lead to HMRS profits exceeding market forecasts by at least 30% in coming years.



SHARES SAYS:

Stick with this great investment. [IC]

Gold could protect your wealth in difficult times such as now

The metal price is near its all-time high as investors seek assets that hold or grow their value in times of inflation, recession and war

Gold is on the cusp of setting a new all-time high amid rampant inflation, fears of an economic downturn and war in Ukraine. The precious metal is proving its 'safe-haven' credentials in a crisis yet again.

In this article we discuss the prospects for gold, how it compares with other assets, and how you can gain exposure to this traditional store of value as part of a diversified portfolio.

WHY HAS THE PRICE SHOT UP RECENTLY?

Gold prices were already rising before Russia invaded Ukraine, but it was this act which saw prices move within sight of a new record as many investors sought to park their money into something other than shares amid a falling market.

The previous high of $2,072.50 per ounce was marked less than two years ago in August 2020 at the height of the coronavirus pandemic.

How actively managed gold funds have performed

Fund	1-year performance (%)	3-year performance (%)	5-year performance (%)	10-year performance (%)
LF Ruffer Gold C Acc	17	111	103	12
Ninety One Global Gold I Acc	26	77	80	20
BlackRock Gold & General D Acc	17	66	43	-2
IFSL SIM Junior Gold & Silver Miners C	-7	56	12	-66
ES Baker Steel Gold & Precious Metals B	17	57	2	n/a
WS Charteris Gold & Precious Metals B Acc	4	57	n/a	n/a

Table: Shares Magazine • Source: FE Fundinfo. Total return in GB. Data as of 10 March 2022 • Created with Datawrapper

COULD RUSSIA SELL ITS GOLD?

According to the International Monetary Fund, Russia had more than 2,000 tonnes of gold as at the end of January and is the fifth largest sovereign holder of gold in the world.

There is speculation the country might sell some of these gold reserves to ease the enormous financial pressures it is under thanks to sanctions.

Any sale is likely to happen off-market, given the risks for mainstream buyers of dealing with Russia, so it wouldn't hit global flows of the metal, but it could still impact sentiment. China is flagged as possible purchaser as it looks to build its own gold reserves.

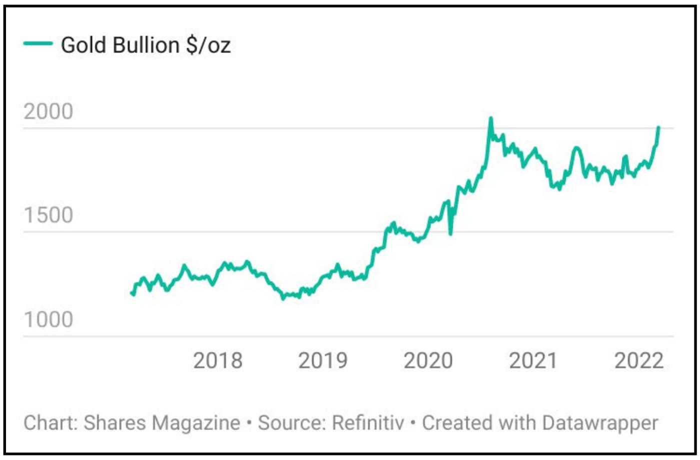
GOLD STARTED TO SHINE IN 2019

Arguably gold has been on an upward path since the beginning of 2019 when Brexit, tensions between the US and China, and the US Federal Reserve's decision to start cutting interest rates dominated the market's attention.

Gold, which has very limited practical applications, tends to be in demand during periods of economic or geopolitical strife, when inflation threatens paper currencies or there are significant falls in bond and equity markets.

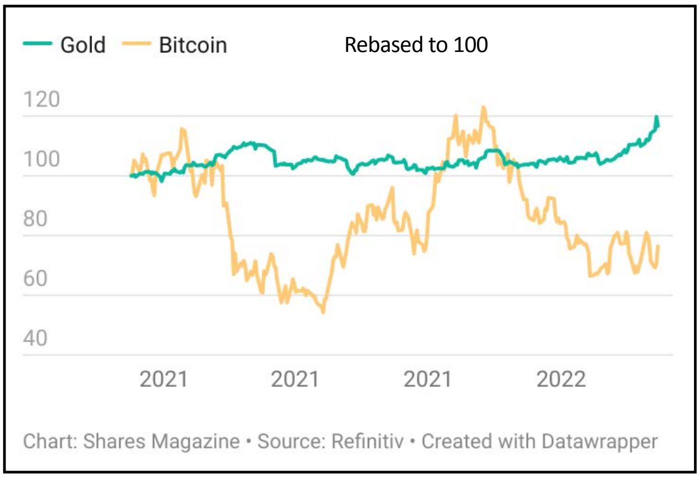
Its status as a safe-haven asset is based on its historic role as a store of value and the fact that, unlike currencies, its value cannot be manipulated through adjustments to interest rates.

It is also rare and tightly supplied, you can't create it at will, and as Adrian Ash director of research at gold trading platform BullionVault notes 'it won't go bust on you'.



IS BITCOIN THE NEW GOLD?

In recent times there has been a debate in some quarters over whether gold might be usurped by an alternative asset like bitcoin.



The cryptocurrency has fans who would argue it shares some of gold's qualities in being scarce and not easily reproduced, but can an asset which has traded as high as $50,000 and as low as $25,000 in a matter of months really be construed as a safe place to put your money?

BullionVault's Ash says there is 'absolutely no evidence bitcoin ate into gold investment flows' and adds that the two couldn't be more different as 'gold is the most physical of tradeable assets'.

GOLD HAS A TRACK RECORD

Unlike bitcoin, gold also has a track record of performing through several crises. Often when a market correction is at its height gold will be sold too, given it becomes one of the few liquid assets available to market traders which can be offloaded without taking too much of a financial hit.

You saw this pattern in the 2007/8 financial crisis and the Covid-19 pandemic. Though on both occasions gold fell less than the wider market and, once the initial indiscriminate selling was out of the way, the metal price then enjoyed a strong run.

GOLD HAS REBOUNDED FAST AFTER TROUBLING EVENTS

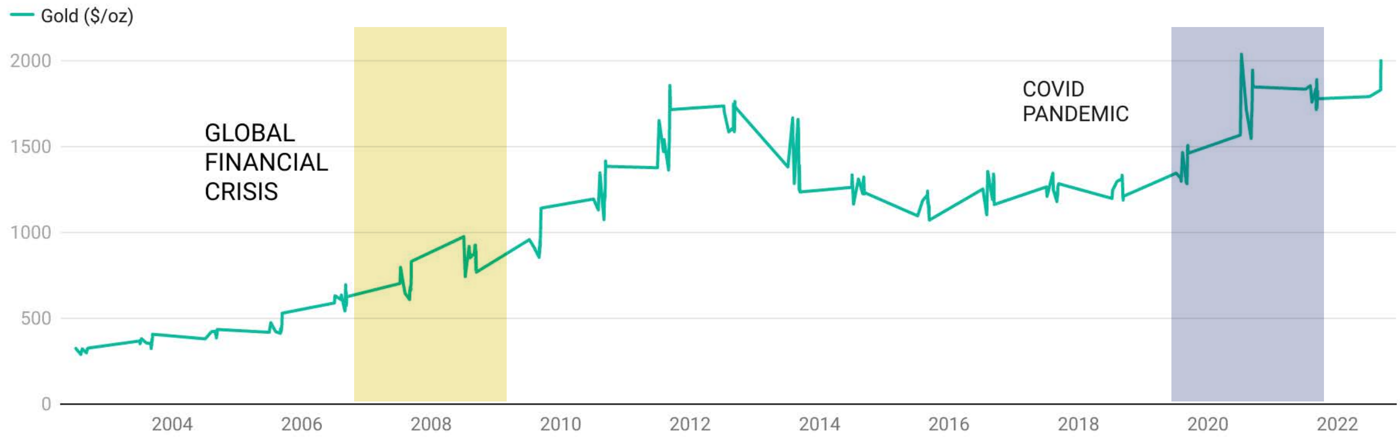


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

The CEO of gold explorer **Greatland Gold (GGP:AIM)** Shaun Day comments: 'I think we've seen gold over the last five years really return to being that store of value through global volatility, be that economic or geopolitical.'

Day adds: 'With that combination of economic volatility amplified by geopolitical uncertainty, in particular the Russian war in Ukraine, but also the role that China plays in the world, it adds up to a more volatile universe that we live in, and I think those things should make you feel very confident about the sense of having gold as part of a diversified portfolio.'

He also highlights the return of inflation as being in gold's favour. BullionVault's Ash says if we see stagflation – where rising prices are accompanied by a slump in the economy – 'this is probably the ideal environment for gold thanks to its relationship with real interest rates'.

PROTECTION AGAINST STAGFLATION

By 'real' rates, Ash means they have been adjusted for inflation. When real rates are rising, holding a non-interest paying asset like gold is less attractive. However, central banks are constrained from increasing rates too far, too fast against a backdrop of substantial government, corporate and consumer debt and economic uncertainty despite inflation hitting multi-year highs.

Therefore, real interest rates are currently negative and look set to remain so for the foreseeable future. 'The persistence of historically low interest rates in a high-inflation environment should be supportive for the price of both gold and silver,' says investment bank Berenberg.

CAN THE PRICE GO HIGHER?

Given gold is close to a record, is there a risk that by investing in the precious metal at current levels you are buying at the top? BullionVault's Ash says this is a fair question.

He notes that if you bought gold at the start of the 1980s when Russia's invasion of Afghanistan, revolution in Iran and surging inflation drove the price to $850 per ounce, you would still be out of pocket in real terms today – i.e. taking into account inflation.

Gold should act as an insurance policy. It could help you when markets are struggling but equally could lag when equities are rallying. The accompanying chart shows how gold has performed relative to the MSCI World index, a popular benchmark for global equities.

While there are no guarantees, Ash believes the drivers for gold are there to sustain prices in the medium to long term.

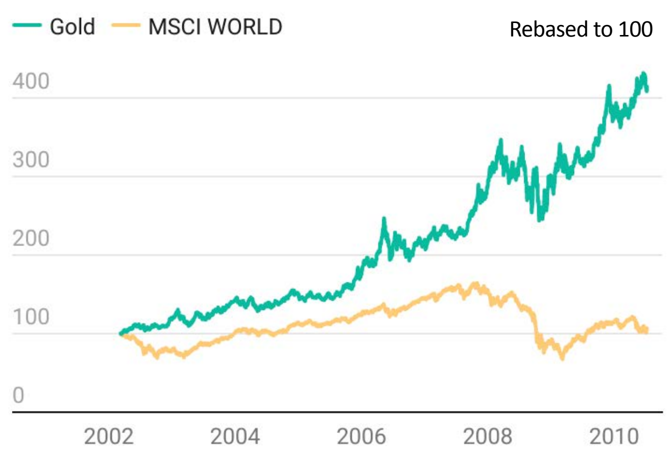


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

HOW TO INVEST IN GOLD

There are many ways to invest in gold. You can buy physical gold online through a specialist platform like BullionVault. This allows you to buy physical gold bars which are then stored in vaults in London and other locations including Zurich and New York. You can sell or withdraw your bars without any penalty.

Another way of gaining direct exposure to the gold price is through buying shares in a gold exchange-traded fund, which would typically be backed by physical bullion held in a segregated account. There are several products available on the UK stock market but the cheapest among those with a large amount of assets is **Invesco Physical Gold (SGLP)** which has an ongoing charge of 0.12%.

An alternative route is to invest in gold miners, whose revenue and profit are boosted by higher gold prices, assuming they haven't locked into fixed-price sales contracts.

Historically, gold miners have often outperformed a rising gold price. When the gold price is falling, miners can decline by a greater amount.

Gold miners also offer the potential for income, which is not available by directly investing in gold.

Diversified exposure to gold mining stocks is possible through ETFs and funds. Examples include **iShares Gold Producers (SPGP)**, which tracks a basket of the largest companies involved in the exploration and production of gold, for an ongoing charge of 0.55%. The ETF has delivered a five-year annualised return of 11%.

Among the more established actively managed funds is **BlackRock Gold and General (B5ZNJ89)**, however it has lagged the iShares gold mining ETF with an annualised return of 7.4% over the same five-year period.

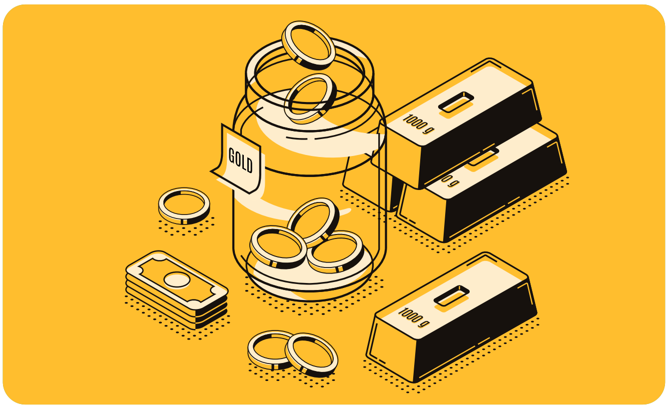


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

Investment trust **Golden Prospect Precious Metals (GPM)** invests in a portfolio of 49 gold and silver miners. It trades at a 16.4% discount to net asset value but has a high ongoing charge of 2.07% according to Morningstar.

In terms of buying individual company shares, the ranks of London-listed gold miners have been hit by a huge sell-off in Russian gold producers **Polymetal (POLY)** and **Petropavlovsk (POG)** since the invasion of Ukraine. Egypt-focused **Centamin (CEY)** carries the risk of being reliant on a single asset in a jurisdiction which itself has not always been stable.

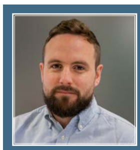
West African gold miner **Endeavour Mining (EDV)** will be promoted to the FTSE 100 index on 21 March. The company has moved from the development stage to meaningful production, supporting strong free cash flow and dividends.

Berenberg forecasts 2022 output of around 1.4 million ounces at an all-in sustaining cost, a widely used measure of the cost of operations, of $878 per ounce. This should result in healthy margins at current gold prices.

By **Tom Sieber** Deputy Editor

DITCHING RUSSIA

Time to boost investment in oil and gas drilling and renewable energy



By **Tom Sieber** Deputy Editor

The human tragedy unfolding in Ukraine is having dramatic ramifications across the world, not least in the energy market.

The US has banned the import of Russian oil, LNG (liquefied natural gas) and coal. Europe is not able to turn the taps off overnight as it is more reliant on Russia to meet its energy needs. However, the direction of travel is clear – the West is committed to weaning itself off Russian hydrocarbons.

This will be a painful process for individuals, businesses and governments and is likely to require significant investment in everything from renewables and nuclear energy to traditional oil and gas. In the short term, LNG imports and even coal could play a part in making up the shortfall and keeping the lights on across Europe.

There are several different industries and businesses which could be an important part of the transition and this article will explore some of those which are exposed and ways to invest.

THE OLD REGIME

Until 24 February 2022 and its invasion of Ukraine, Russia had a central role in the global energy mix.

According to the International Energy Agency, Russia is the world's third largest oil producer behind the US and Saudi Arabia and was the world's largest exporter of oil to global markets.

It accounts for nearly 20% of global natural gas production, second only to the US, and continues to be a significant exporter of gas, particularly to Europe.

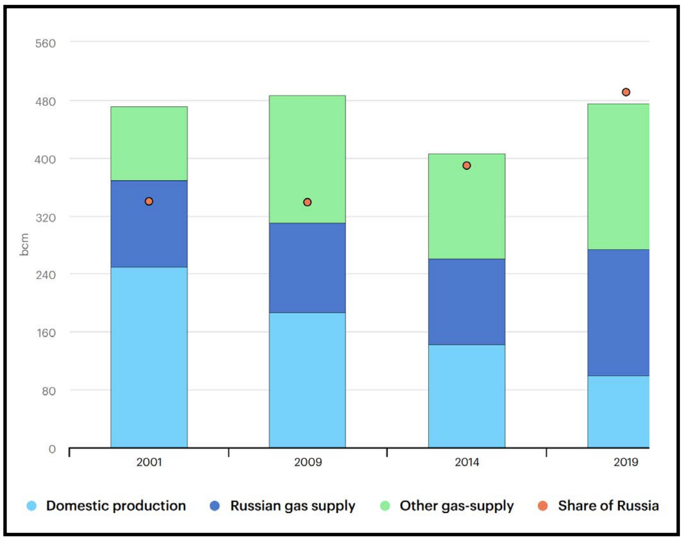
Around 40% of Europe's gas and 25% of its oil comes from Russia. This compares with 4% of the UK's gas and 8% of its oil. The US doesn't import any Russian gas and Russian oil represented less than 2% of total US supply and 8% of all its imported oil.

The UK gets a big chunk of its oil and gas from domestic production with the remainder made up by imports, principally from Norway but also LNG shipments from countries such as Qatar and the US.

However, both the UK and the US are affected by the surging energy prices resulting from such a significant chunk of supply effectively coming out of the market.

The UK has said it will phase out Russian imports of oil by the end of 2022 and noted it is not dependent on Russian natural gas. At the time of writing (11 March) a new energy strategy for the UK was believed to be imminent.

Share of Russia in European Union and UK gas demand, 2001-2021



Source: IEA, as at 24 February 2022

EU PLAN OUTLINED

The EU has published the outline of its own plan for what it describes as 'affordable, secure and sustainable energy' to make itself independent from Russian fossil fuels 'well before' 2030. As well as moving towards other energy sources, this plan includes room for windfall taxes and imposed limits on household energy costs.

The problem is that boosting the contribution from other forms of energy is not something which can be done overnight.

Germany has signed a contract to build its first LNG import terminal, but it is not expected to be operational until 2024 while the typical build-time on a nuclear power plant is at least five years. Russia's position as a big player in the world's metal markets means the cost of all this infrastructure is elevated too as metal prices have soared in recent weeks due to sanctions disrupting supplies.

However, the gravity of Russia's actions against Ukraine means the West's will to prioritise energy security is not something which is likely to evaporate in the short or even medium term.

SHORT-TERM SOLUTIONS

Short-term fixes may involve leaning more on polluting sources of energy like coal. Australia, for example, is looking for coal developments to be expedited to boost exports to Europe. Another solution is to use less energy in absolute terms by making buildings better insulated or upgrading energy networks.

For those countries with substantial reserves of oil and gas there may well be efforts to incentivise new investment. Below we discuss in more detail the levers countries can pull and some relevant investment ideas.

RENEWABLES AND ALTERNATIVE ENERGY

Investment bank Berenberg notes that as part of the EU's new power strategy: 'Member states should swiftly map, assess and ensure suitable land and sea areas that are available for renewable energy projects.' Both in the UK and Europe accelerating a shift into renewables is likely to involve speeding up the permitting process for this type of project.

There also needs to be investment in battery storage to help mitigate for the unpredictable nature of wind and solar power generation.

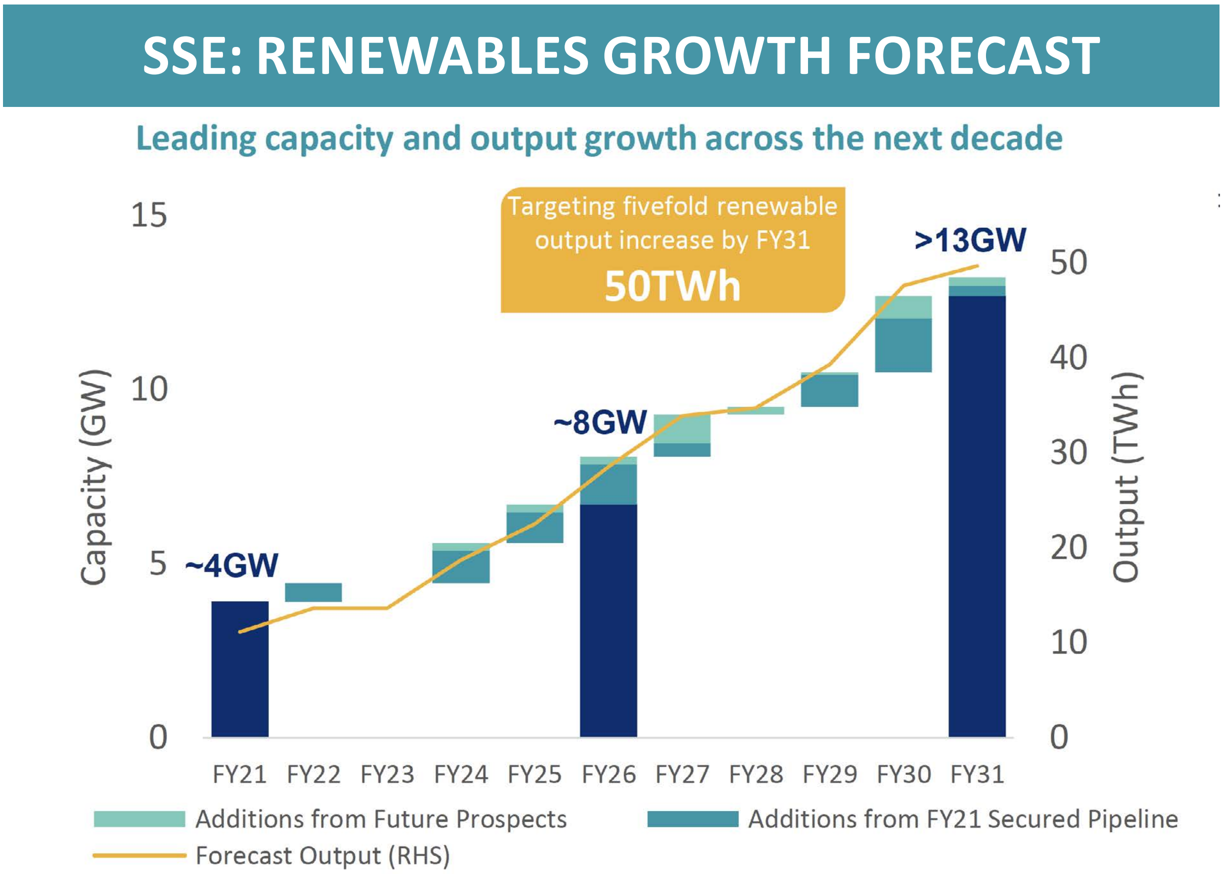
Companies with direct exposure to renewables include London-listed utility **SSE (SSE)**, which builds and operates large onshore and offshore wind farms, as well as the likes of RWE and Orsted in mainland Europe.

Clean energy companies, centred around the use of hydrogen as an alternative fuel, have soared on the stock market in the wake of Russia's decision to invade Ukraine. However, the likes of **Ceres Power (CWR:AIM)** and **ITM Power (ITM:AIM)** are still broadly flat year-to-date despite the recent surge in their share prices thanks to previous weakness on the market.

Both businesses are still some way off achieving profitability, though they have a decent amount of cash in the bank as they look to commercialise their technologies.

On 10 February, Berenberg issued research on the clean energy sector whereby it had a 'buy' rating on Ceres Power and a 'sell' on ITM. It likes Ceres for its blue-chip partners and leading solid-oxide technology. The bank dislikes ITM because of scale-up, technological and competition risks.

Exposure to a diversified portfolio of renewables infrastructure is possible through **The Renewables Infrastructure Group (TRIG)**. Even



Source: SSE, February 2022

though the trust trades at a 17.3% premium to net asset value, it pays an attractive yield of 5% and will be a beneficiary of elevated power prices.

Increased investment in renewables should also increase the value of its assets and create further opportunities for the trust.

Investec, which has a 'buy' recommendation on the shares, comments: 'TRIG remains well placed against the current macro-economic and geopolitical backdrop through its ability to enter into fixes/hedges at elevated forward pricing and/or through capturing materially higher spot prices where revenues remain unhedged.'

NUCLEAR POWER

There are obstacles to more widespread adoption of nuclear power. Green parties across Europe are increasingly powerful and are broadly opposed to any expansion in nuclear, and Russia currently produces a large proportion of the world's enriched uranium for nuclear reactors.

Germany has already expressed scepticism over any plans to expand or extend its nuclear sector and there was no mention of this form of energy in the EU's recently published plan. New nuclear developments also have long lead times.

However, given nuclear is a low-emission option capable of providing substantial and predictable baseload energy, it could well form part of the solution.

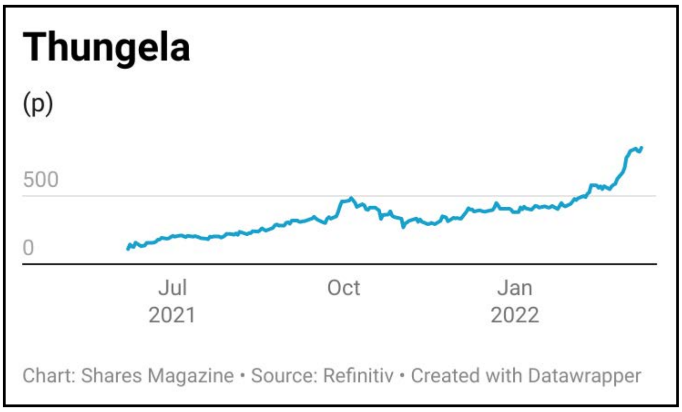
Regulators in the UK are currently looking at designs from **Rolls-Royce (RR.)** for small modular reactors which could largely be built in a factory, reducing development time and costs. The UK Government has put up £210 million of funding to help back the technology, although the first plants aren't expected to be operational until the 2030s.

One way to get to exposure to any revival in nuclear power is through **Geiger Counter (GCL)** which invests in companies involved in producing uranium for the nuclear power sector. As of 30 September 2021, the trust had no holdings in Russia with more than 80% of its assets based in Canada and Australia. Shares in the trust trade at a modest 1.45% premium to NAV although the ongoing charge is relatively high at 2.67%.

Another relevant share to the nuclear theme is **Yellow Cake (YCA:AIM)** which invests in physical uranium.

OIL & GAS (AND COAL)

One controversial move could be to lean on coal-fired power stations. Shares in coal producer **Thungela Resources (TGA)** have already increased by 109% year to date amid a surge in coal prices, showing there is still plenty of life in the coal sector.



Another move is for countries like the UK which have material domestic reserves of oil and gas to ramp up investment in exploiting those resources.

There is speculation the UK might reverse a ban on fracking for shale gas, while separate reports suggest a new round of North Sea exploration licences could be in the offing for the first time since 2019.

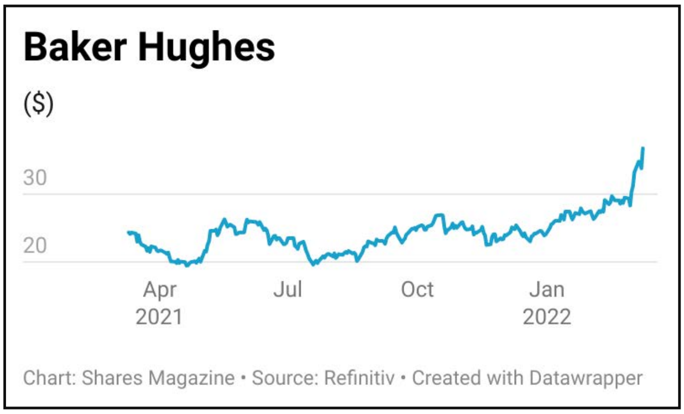
New licences tend to take decades to move into production but increased spending on existing fields could help boost output.

Any support for the North Sea oil and gas industry is likely to be accompanied by requirements for operators to reduce their emissions.

A good way to play a potential renaissance in the UK North Sea is to buy shares in **Serica Energy (SQZ:AIM)**. Based on consensus 2022 forecasts, the shares trade on a price to earnings ratio of 3.3 times and, unusually for an AIM-quoted oil company, they also pay dividends with the shares yielding a modest 1.3%.

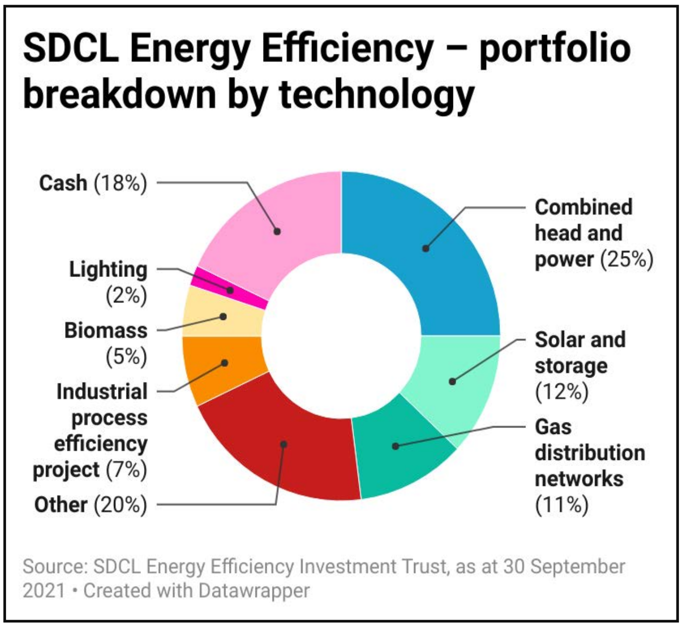
The company is the largest listed independent producer in the North Sea – with 85% of its production accounted for by gas. The main risk it faces is the introduction of a windfall tax by the UK Government to help cushion the impact of soaring energy bills on consumers.

On a broader basis, increased investment in offshore oil exploration could benefit oil service companies. It's interesting to see how the market has recently bid up shares in services giant Baker Hughes, mostly likely because the Russian/Ukraine war has raised awareness that the West needs to take more action to secure future energy supplies.



ENERGY EFFICIENCY

On the basis that the cleanest form of energy is that which you don't use, energy efficiency is likely to form an important part of the West's future energy strategy. One way to play the theme is **SDCL Energy Efficiency Investment Trust (SEIT)**.



The trust has nearly £1 billion of assets, ranging from roof-top solar installations and on-site power generation to energy reduction through more efficient heating, cooling and lighting.

It earns a contracted return on these projects based on the efficient supply and reduction in demand for energy.

More than 52% of its assets are in the US and 23% in Europe and the shares trade at a 12.8% premium to NAV. The trust yields 4.8%.

Read more on other energy efficiency investments in this article.

This sell-off is unlike any other and so are the opportunities

We compare previous down markets and ask if history is a useful guide

In past periods of market stress, we have been able to look back at previous sell-offs and predict with reasonable accuracy which sectors were likely to perform best when sentiment recovered.

However, both major declines since the start of this decade have been very different to previous episodes which means history may not be much of a guide to what happens next.

Given the inflationary environment, we believe investors would be best served focusing on companies with the ability to raise prices thanks to high barriers to entry and low risk of product substitution.

HISTORIC PRECEDENT

Over the decade of 'normal' markets from 2010 to 2019 we had the comfort of knowing that when jitters occurred the sell-off was likely to be brief and certain sectors could be relied on to lead us out of the doldrums with index-beating returns.

The short, sharp declines which took place in 2011, 2016 and 2018 all triggered a drop of more than 10% in the FTSE 350 index.

All three sell-offs may have been unique in terms of their cause, but in all three cases most sectors followed a predictable path down and up again.

On average, the downturns wiped around 17% off the index while the average rebound was 19%, and to all intents and purposes the market returned to 'as you were' mode within a couple of months.

Stocks bounced back quickly after sell-offs between 2011 and 2018

FTSE 350 index

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

Best FTSE 350 sector performers during 2011, 2016 and 2018 sell-offs

Sector	Average Downside on sell-off	Average Upside on rebound
Beverages	−3.5%	23.6%
Software & Computer Services	−9.0%	29.7%
Pharmaceuticals	−9.8%	20.6%
Personal Goods	−9.8%	20.5%
Health Care	−12.1%	20.1%
FTSE 350 Index	−16.9%	18.9%

Table: Shares Magazine • Source: Sharepad • Created with Datawrapper

The best performing sectors across all three periods were, in descending order, beverages, software and computer services, pharmaceuticals, personal goods, and health care equipment and services.

Not only did these sectors fall less than the index, they rebounded by more.

The beverages sector was the stand-out performer, losing just 3.5% on average when the market fell and gaining 23.6% when stocks rallied.

ALL CHANGE

When markets sold off in February 2020, due to the acute impact of the Covid-19 pandemic on the hospitality industry, beverage stocks performed almost as badly as the index, dropping 31% against 34% for the benchmark.

As well as travel and leisure, energy stocks took a beating alongside life insurers and car makers.

Personal goods and pharmaceuticals were once again reasonable hiding places, while telecoms and utilities were the other outperformers.

What really caught investors out was that, far from getting back to 'business as usual' a few months later, the index only managed to recover 60% of its losses by early June 2020 before rolling over again.

Best & worst FTSE 350 sector performers in Feb-Mar 2020 sell-off

Sector	Change
Personal Care	−13%
Pharmaceuticals	−14%
Personal Goods	−19%
Telecoms	−25%
Gas, Water & Multi-Utilities	−26%
Industrial Metals & Mining	−43%
Oil, Gas & Coal	−44%
Autos & Parts	−45%
Life Insurance	−49%
Travel & Leisure	−55%
FTSE 350 Index	−34%

Data from close 19 February 2020 to close 23 March 2020

Table: Shares Magazine • Source: Sharepad • Created with Datawrapper

Best & worst FTSE 350 sector performers in Mar-June 2020 rebound

Sector	Change
Leisure Goods	82%
Travel & Leisure	61%
Life Insurance	59%
Construction & Materials	56%
Industrial Metals & Mining	55%
Personal Care	18%
Personal Goods	17%
Gas, Water & Multi-Utilities	16%
Telecoms	4%
Banks	1%
FTSE 350 Index	31%

Data from close 23 March 2020 to close 5 June 2020

Table: Shares Magazine • Source: Sharepad • Created with Datawrapper

Some sectors came close to recouping their losses, namely construction, general industrials, industrial metals and precious metals, but for the sectors that fell the most the rebound fell way short.

CURRENT STATE OF PLAY

Fast forward to today and after a 10% fall from 10 February to the low on 7 March the FTSE 350 seems to have stabilised.

Once again, though, the unique nature of the sell-off makes predicting which areas of the market will outperform from here a fool's errand.

Some sectors have gone up since 10 February, such as aerospace and defence. Given the commitment by countries including Germany to increase their military spending, this makes complete sense.

Best & worst FTSE 350 sector performers in Feb-Mar 2022

Sector	Change
Electricity	8%
Aerospace & Defence	5%
Industrial Metals & Mining	4%
Gas, Water & Multi-Utilities	3%
Pharmaceuticals	1%
Leisure Goods	−17%
Nonlife Insurance	−17%
Travel & Leisure	−19%
Autos & Parts	−23%
Precious Metals & Mining	−30%
FTSE 350 Index	−10%

Data from close 10 February 2022 to close 8 March 2022

Table: Shares Magazine • Source: Sharepad • Created with Datawrapper

Other sectors to have posted gains are electricity, gas, water and multi-utilities, industrial metals and mining and pharmaceuticals.

Among the familiar faces posting the heaviest losses have been autos, travel and leisure, leisure goods and non-life insurance.

With the conflict in Ukraine putting upward pressure on commodity prices, in particular energy, it's hard to see any of these sectors recovering in a hurry.

There is also the small matter of valuation. Equity markets were arguably priced for perfection before the conflict and investors were already reassessing their risk appetite in view of a potential acceleration in interest rate hikes by the Federal Reserve.

ALL EYES ON THE ECONOMY

Typically, we aren't led by macro-economic developments, but the phrase we're hearing more and more in the context of high oil prices is 'demand destruction'.

As the saying goes, the cure for high prices is high prices. In other words, prices only fall when demand falls.

'Making forecasts at this stage is fraught with difficulty, however some outcomes seem certain,' says Stephen Anness, co-manager of **Invesco Select Trust (IVPU)**.

Anness believes energy prices will stay high 'for the foreseeable future', while food prices will likely rise as we go through the year.

'The squeeze on consumer disposable incomes globally will continue, especially in Europe as rising defence spending may have to be funded through higher taxes,' he adds.

High energy prices act like a tax on consumers, preventing them from spending on other items.

The US consumer may be in a better place as the jobs market is still strong and fuel price rises are coming from a lower base.

The US and Canada also have oil and natural gas resources they can tap, unlike most of Europe which is reliant on imported gas.

Fortunately, the UK isn't dependent on Russia for its gas supplies, but we will still feel the knock-on effects of the war in Ukraine as fuel and food prices rise due to shortages.

PRICING POWER AND SCARCITY VALUE

The move up in utility stocks since the beginning of the crisis in Ukraine suggests investors have already identified these stocks as having the right qualities for the current environment. Barriers to entry are high and the product they supply can't easily be substituted.

Utilities are also a classic 'value' investment in terms of traditional measures such as price to book and price to earnings, although these typically ignore their large debt loads.

Interesting, banks, which are also considered 'cheap' and in theory should be outperforming in a rising interest rate environment, haven't worked at all this year.

It's assumed that higher rates reflect growth in the economy, which should ultimately feed through into loan growth as companies invest to grow their businesses.

In this instance, however, rates are rising to head off inflation not because of a resurgence in economic activity.

Indeed, the word 'stagflation' is increasingly being used by pundits to describe the scenario of rising prices and moribund growth.

On a positive note, the banks themselves are in much better shape than during the financial crisis and credit provisions are at all-time lows but given the level of competition loan pricing will always remain keen.

LONG-TERM WINNERS

The two sectors which stand out for us are software and computer services and real estate investment trusts.

Both operate on a business-to-business basis, both have high barriers to entry, and both could be said to have pricing power.

Neither could be said to be cheap, but in an age of digitisation software is no longer 'nice to have', it's a must-have. Real estate firms own high-quality, long-duration assets which they monetise through rents which typically include an adjustment for inflation.

Cloud computing and cyber security companies provide vital services to their customers and contracts are typically extended or renewed at higher prices.

Real estate firms, particularly those in the commercial and industrial sectors, own assets such as supermarkets and distribution warehouses which are simply irreplaceable, and their customers are willing to sign up for long periods with rent reviews at or above inflation.

In addition, real estate trusts tend to pay steadily rising dividends which is a further source of comfort.

By **Ian Conway** Companies Editor

What is the Vix 'fear index' and why does it matter to investors?

It is effectively a crowd sourced estimate for the amount of future uncertainty

The Vix is often called 'the fear index' and if you have ever wondered what different readings mean this article is for you.

Before getting to the details, it is worth explaining the difference between uncertainty and risk because it is more than just semantics.

Investment is all about managing risk. It can be calculated when all known possible outcomes and their likelihood can be identified. Analysts often use this type of risk analysis.

For example, let's say a pharmaceutical company expects next year's earnings to grow 20% if it gets a new drug approved, but only 5% if approval is denied.

Using trial data already in the public domain, an analyst makes an educated guess there is a 55% chance of success.

This allows a risk adjusted calculation to be made. The probability of success is multiplied by the best-case scenario and the probability of failure is multiplied by the worst case.

In other words, best case 20% x 0.55 + worst case 5% x 0.45 which equals 11% + 2.25% for a result of 13.25%.

This approach is not perfect, but it does allow investors to manage risk and quantify expectations.

Uncertainty is a completely different beast and means not all possible scenarios are knowable or there is low confidence in their likelihood.

War is uncertain in every way. Even if all the economic ramifications are known, attaching sensible probabilities to them is a fruitless task.

The Vix index is designed to capture uncertainty. The higher the Vix, the greater the jumpiness in share prices.

It is calculated from options pricing and is the expected volatility (fluctuation) of the S&P 500 index of US shares over the next month. It is custom to quote volatility on an annualised basis.

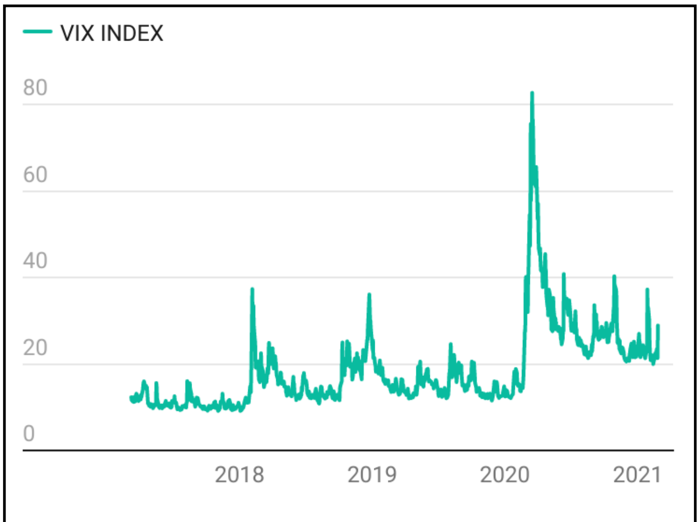


Chart: Shares Magazine • Source: St Louis Fred • Created with Datawrapper

To convert the Vix to a daily basis it is divided by 15.87, which is the square root of the number of business days in a year.

A Vix of 15 means investors should expect daily changes of 0.94% in the S&P 500 index (up or down) on average over the next month.

Historically the Vix has averaged around 15 and in times of stress like the pandemic it surged to 80, implying investors expected daily moves in the S&P of 5% (80/15.87).

The Vix responds to events rather than leading them. Think of it like people rushing to buy house insurance after their home has burnt down.

Periods of high volatility can be scary, but they usually don't last because investors respond to uncertainty by reducing exposures and buying protection. This is the reason the Vix spikes.

Long-term investors often use heightened volatility to their advantage to pick up shares they like at knock-down prices.

By **Martin Gamble** Education Editor

The UK tech shares down more than 50% as growth slows and inflation bites

We consider why Essensys, DotDigital and Made Tech have fallen out of favour

The UK's technology sector has been hammered in recent months as investors ditched high growth companies for safer havens amid stock market and geopolitical uncertainty. Hot running inflation risks eating into future profits, which means investors now prefer lower growth companies which are enjoying good profit today, not waiting for bigger earnings years down the line.

This shift has had a savage impact on the wider UK tech scene, particularly on the AIM market.

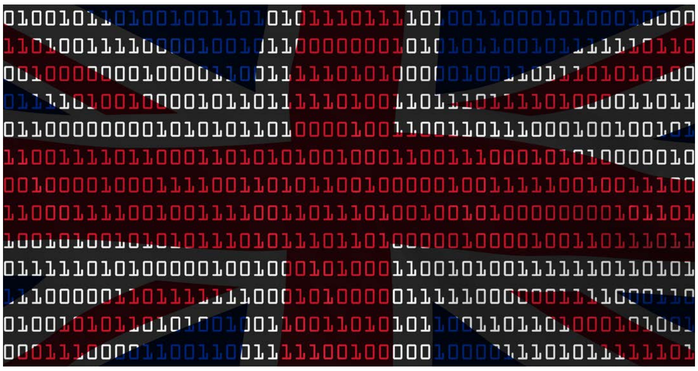
According to data from SharePad, seven AIM technology companies have lost more than half their value since the turn of the year thanks to slowing growth, missed forecasts and other factors. These include IT systems supplier to government departments **Made Tech (MTEC:AIM)**, communications software firm **LoopUp (LOOP:AIM)** and online marketing platform provider **DotDigital (DOTD:AIM)**.

Business ratings internet company **Trustpilot (TRST)** is the only FTSE All-Share tech firm to have

UK tech's 50% fallers

	Shares year to date
Essensys	-70.8%
LoopUp	-62.8%
DotDigital	-59.3%
Made Tech	-57.6%
DeepMatter	-51.1%
Actual Experience	-51.0%
Location Sciences	-50.5%

Source: Sharespad, 14 March 2022 • Created with Datawrapper



lost more than 50% of its value in 2022, which will make investors once again wonder about the level of risk they are taking when buying AIM shares.

WHAT HAPPENED TO ESSENSYS?

No tech stock has fallen as far as **Essensys (ESYS:AIM)**, the provider of software services to the flexible workspace industry. Just a few months ago, fund manager Anna MacDonald of Amati Global Investors was championing the potential for an exciting 2022 for Essensys on *Shares*' podcast.

She knows the company well, having followed its progress since it joined AIM in 2019, making an investment in the company in early 2021.

As MacDonald pointed out on the podcast, Covid had been good for the company as people sought more flexible arrangements during stop-start lockdowns and landlords embraced changes through Essensys' low-cost platform.

But at the start of March, Essensys said it would

Essensys

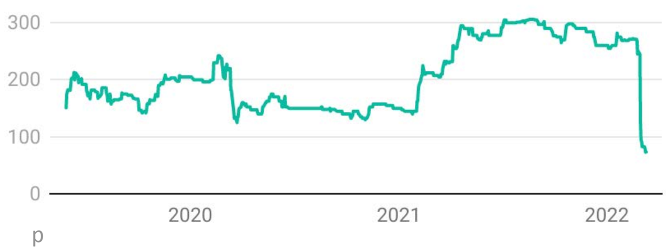


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

miss forecasts for the financial year to 31 July 2022 due to Covid-related challenges delaying progress. First-half revenue grew just 3%, hardly matching the high-growth levels that investors typically desire from a tech stock.

WHAT HAPPENED TO DOTDIGITAL?

Slowing growth has also cost DotDigital dearly this year, with inflationary pressures raising staff costs and forcing margins down, presenting additional headaches.

'Considering the slower growth profile and risks discussed, compounded by a de-rating across the sector, we believe DotDigital can no longer sustain a premium rating,' said analysts at Numis.

DotDigital

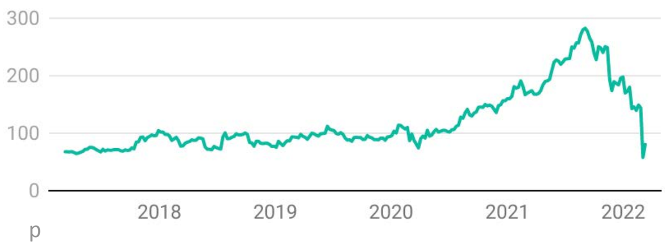


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

Berenberg's analysts cut their earnings forecasts for Dotdigital over the next three years, although they still believe there is scope for the company to eventually reclaim historical operating margins.

'The company will probably have to spend circa £2 million to £3 million a year more over the next three years on new customer acquisition, to be able to maintain its low to mid-teens growth rate, but after that, earnings before interest and tax margins could return to the 20%-plus level seen thus far,' Berenberg said.

The share price sell-off from 197.8p at the end of 2021 to the current 78.6p strongly suggests investors are not willing to wait.

WHAT HAPPENED TO MADE TECH?

At the end of February, public sector-focused digital services company Made Tech released its first results since listing in September 2021. The figures for the half year to 30 November 2021 saw gross margins fall six percentage points to 39.1% after the company was forced to take on more higher cost contractors and incur wage inflation, yet it still showed remarkably strong growth.

Revenue surged 131% to £11.7 million unaided by acquisitions, while adjusted earnings before interest, tax, depreciation and amortisation soared six-fold to £1.2 million.

The market's response? The stock crashed from 93.5p to 50.5p in a day and has drifted even lower since. The anticipated challenges of recruitment appear 'more acute than initially expected and Made Tech will need to leverage its Academy programme to alleviate the high proportion of contractors used to meet customer delivery requirements,' said Megabuyte analyst James Preece.

'Ensuring a healthy team structure with the appropriate senior experience in place to manage young talent will be crucial to its longer-term delivery success and growth,' he added.

In *Shares*' view staff costs and recruitment remain an issue for the company, yet business growth figures suggest that Made Tech is executing well.

Berenberg in early February felt the market was already pricing in a large miss on EBIT margins when the shares were trading at 118p. On that basis, things will have to get far worse for the company to disappoint what are now very low expectations, with the stock at 47p now trading on a mere eight times forecast earnings.

As larger peer **Kainos (KNOS)** continues to demonstrate, helping government departments embrace the digital age remains a long-run growth opportunity for suppliers, and that opportunity does not seem fairly reflected in Made Tech's share price. We believe Made Tech is worth buying at the current depressed levels, albeit only for investors who are patient and understand there are still plenty of near-term risks to earnings and therefore the share price.

Made Tech

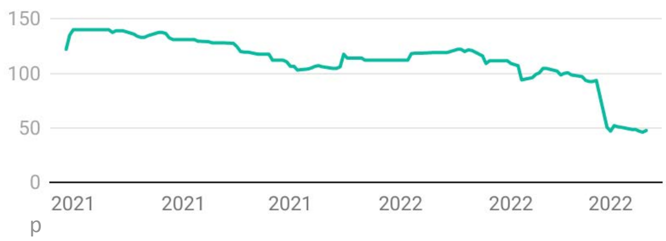


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

By **Steven Frazer** News Editor


65%

DANNI HEWSON
AJ Bell Financial Analyst

Can Marks & Spencer keep its sparkle once turnaround CEO Steve Rowe steps down?

A change in leadership comes at a crucial time in the retailer's history

The trouble with fairy tales is they always come to an end; what investors can't know is if Steve Rowe's magic will last once the clock strikes midnight on the day of his departure.

Marks & Spencer's (MKS) outgoing CEO managed to deliver what many doubted was doable, he turned around the fortunes of the retail giant, dragged it kicking and screaming into the 21st century, but not without a few battle scars and more than 60 store closures.

Starting work at the company when he was just 15 years old it wasn't until 2016 the brand veteran took over the reins of a very tired, rather unkempt behemoth.

Two years in, I remember interviewing shoppers outside the Leicester city centre store which had been earmarked for closure; most agreed the business had lost its way and felt the only bright spot was the food offer.

There was speculation the food business might be spun off as the rest of the business sank deeper into decline and for the first time in its then 35-year history it was demoted from the FTSE 100. Down but far from out.

Perhaps it needed someone with the brand running through like a stick of rock to fathom out how to blend tradition with innovation, keeping core customers happy while finally attracting new ones.

Lines were streamlined, online was championed and not one but two profit upgrades were issued in the past year. Something had clicked, you could feel it when you walked into a store or perused the website.

A tricky tenure for Rowe

Rebased to 100

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

DANNI HEWSON
AJ Bell Financial Analyst

COULD THERE BE TROUBLE AHEAD?

It wasn't surprising that the announcement of Steve Rowe's departure initially unsettled investors, with the share price dipping on the news.

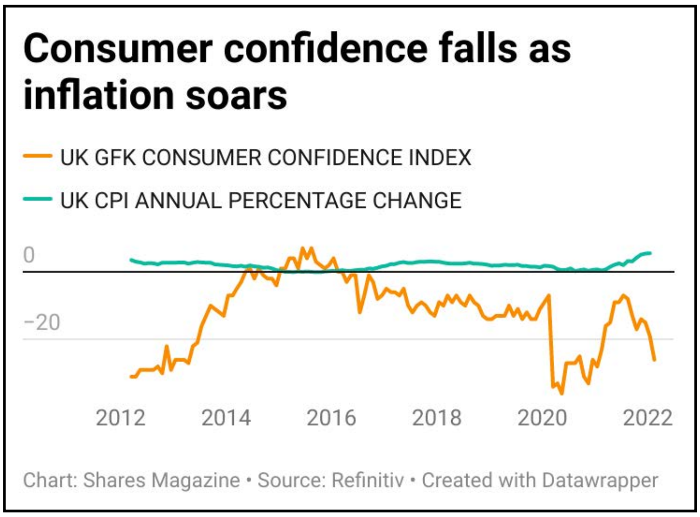
But the succession plan was logical, putting two internal candidates into Rowe's well-worn shoes. Both will play to their strengths which, undoubtedly by design are also the areas Marks & Spencer can expect to experience the most growth going forward.

Stuart Machin will be CEO and comes from the incredibly successful food arm, and Katie Bickerstaffe is co-CEO and comes from the clothing and home division, the latter having finally found its mojo in recent months.

The pair will have plenty to deal with, though Rowe has undoubtedly left the business in a far better shape than it was in when he inherited it.

With inflation already high after the pandemic upset supply chains, Russia's invasion of Ukraine is expected to force the cost-of-living crisis longer and deeper. Supply chains just beginning to slide into a normal rhythm are having to dance to yet another new tune.

And as inflation soars consumer confidence is taking a pummelling and all retailers are anticipating a fight for our patronage.



FIT FOR THE FIGHT

Marks & Spencer's transformation is ongoing. Just this week it announced yet another tie-up with


The new leadership team: (Left to right) Eoin Tonge (chief strategy and finance officer), Stuart Machin (CEO), Katie Bickerstaffe (co-CEO)

a well-loved British brand. Early Learning Centre won't just be on sale in 10 stores it will be ready to play.

Activity tables will be at the heart of the offer, drawing in families who might then stick with the Marks & Spencer brand for the whole of their children's school journeys.

Rather like its high street neighbour **Next (NXT)**, Marks & Spencer subscribes to the 'more is more' theory. More brands under the same umbrella means more choice for the consumer, more reasons to step into a store or browse the website. But unlike in previous years it's continuing to streamline its own offer. Smart staples and active wear, clean lines, clear identity.

Just delivering the rest of the plan isn't going to cut it. Investors have had a taste of success; they want to keep enjoying it and that will require constant reinventing.

Do the new CEOs have that in them, do they have their own sparkle? The good news is that Archie Norman, the retailer's formidable chair, is still in place – though how much of the brand's successful adaptation can be levelled at him can only be speculated upon.

And whether his replacements like it or not Steve Rowe isn't just riding off into the sunset. He's remaining on hand to offer advice or act as a sounding board for up to a year after he officially steps down in May. Investors like continuity but give the choice between safe and sparkle there's little doubt which shareholders would pick.

What makes small, small?

Lots of funds purport to invest in small companies but DSM is the real deal...

Financial professionals are probably among the most adept people in the world when it comes to linguistic gymnastics. What may mean one thing in normal circumstances, can mean quite another when it appears in the marketing material for an investment fund.

Take the word 'small', for example. It's hard to imagine some of the biggest companies on a given exchange fitting that description. And yet there are funds which invest in 'small' companies that end up holding these sorts of firms.

To be fair, this is an extreme example and there isn't always malintent behind this process. Sometimes there is just a large grey area when it comes to figuring out what makes a 'small' company 'small'.

For example, a FTSE 250 firm is obviously going to be smaller than a FTSE 100 one. And yet relative to many companies listed on AIM, the FTSE 250 company is likely to look gigantic.

The informational edge

With that in mind, it doesn't seem unreasonable that many UK small cap funds tend to cluster around companies that sit between the large caps of the FTSE 100 and the tinier firms further down the market.

But for many, those sorts of businesses would still hardly fit the small cap bill they're looking for. Yes, they may not be sitting alongside the likes of BP and Shell, but they're still businesses that often have multi-billion pound market caps.

Perhaps more importantly, lots of small cap investors want to gain an informational edge on the wider market. The sorts of firms mentioned above may receive less analyst coverage than their larger peers, but they still receive plenty of attention from both research teams and the press. Gaining an edge via good research is still possible then, but not as much as investors might like it to be.

Fortunately there are still options available to investors looking to get exposure to some of the smallest firms on the London Stock Exchange today. Arguably the clearest example of this is **Downing Strategic Micro-Cap (DSM)**.

The investment trust lives up to its name by focusing on the truly 'small' end of the London listed equities market. Companies in the portfolio, which also includes some unlisted businesses, typically have market capitalisations below £150m at initial investment.

Fund managers Judith MacKenzie and Nick Hawthorn tend to take a value-oriented approach to the market. That can mean looking for businesses which the DSM team believe are undervalued relative to their current share price. Alternatively, it can mean picking firms that are still trading at higher valuations but which offer good value for money based on their prospective growth opportunities.

The reason they're able to do this is that these sorts of firms tend to be unloved by the wider market. Partly this is because large funds often can't take stakes in micro-caps because of liquidity constraints.

It also goes back to that issue of research coverage. In some instances, there may be no analysts covering a particular firm. For the DSM team that means there is more opportunity to carry out detailed proprietary research and uncover attractively valued companies.

A shift to value?

Of course, neither of those two factors is a guarantee of success and, since launching in 2017, DSM has struggled at times to see returns on its investments. But that may have also been because of some of the stylistic headwinds that were working against the trust.

As we head into 2022 there do seem to be signs that this is changing though. Political instability and inflation mean investors seem increasingly unwilling to pay vast sums of money in return for promises of future cash flows that may not arrive.

At the same time, some of the companies in the DSM portfolio, which is typically a highly concentrated collection of 12 to 18 stocks, are starting to produce the goods and are seeing share price increases as a result.

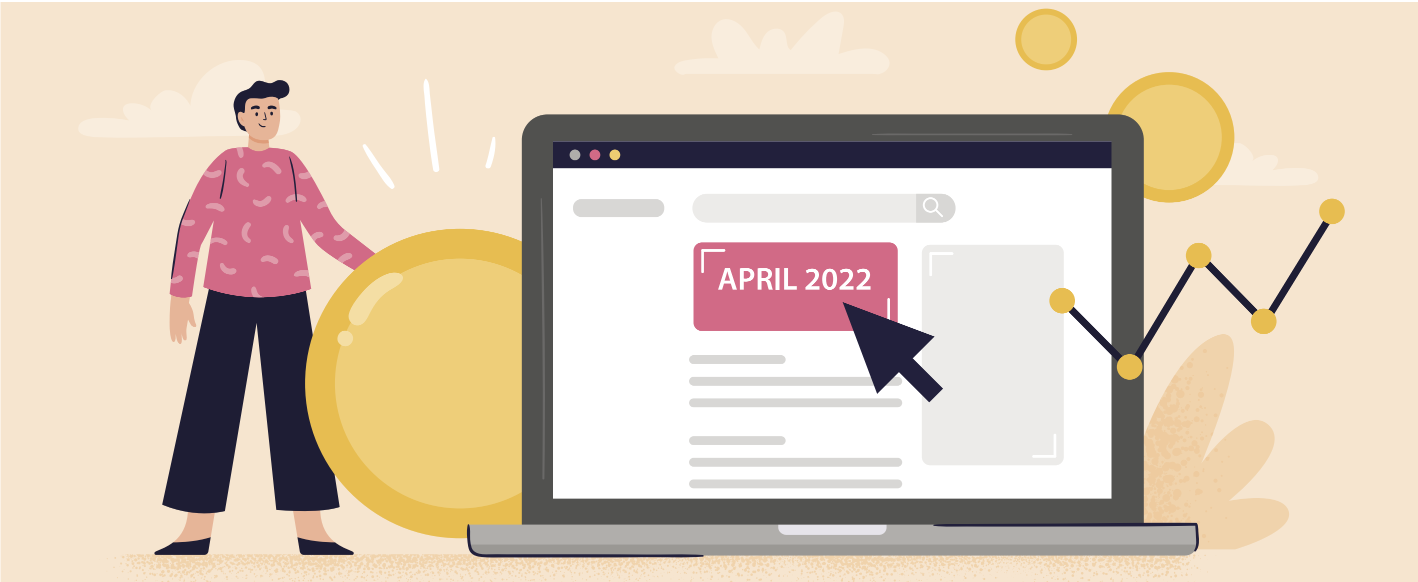
Publisher Digitalbox, for example, has had multiple earnings upgrades since the trust invested and its share price has risen as a result. The same is true of other holdings, like engineering group Hargreaves Services.

Its still early days, and the world is even more uncertain than usual at the moment, but these could be promising signs for DSM. Against that backdrop and given that the trust trades at a 20% discount as at 10 March 2022, those seeking exposure to the smallest companies on the market may find the trust appealing.

Click **here** to read our latest research on Downing Strategic MicroCap...

Five big personal finance changes heading your way in April

Discover what will happen to tax rates, the state pension and energy bills



April is the cruellest month, begins TS Eliot's modern masterpiece, *The Waste Land*. The poem was published 100 years ago, but the sentiment could well apply today.

UK consumers are facing a perfect storm of rising taxes and bigger bills from next month, which means that financially speaking, April is going to be the start of a tougher period for British households.

1. ENERGY BILLS TO SOAR

The rising cost of energy will be a huge concern for many of us. From April, the rise in the energy price cap means the average bill will increase by £693 to £1,971 a year.

More than 22 million households will have to fork out that extra £693 a year on average from April, meaning that collectively, the nation's energy bills will rise by more than £15 billion.

Higher bills will especially affect older people, who spend a larger proportion of their income on energy, with 40% of pensioner households now expected to be in fuel poverty because of the hike, according to the Resolution Foundation.

One of the knock-on effects of the Ukraine crisis is that energy prices have leapt upwards again, which means the UK may well face even higher bills when Ofgem announces the next price cap in October.

2. YOU MIGHT PAY MORE TAX

If that wasn't enough, many households are also going to be paying more income tax from April onwards if their salaries have gone up. That's because the personal tax-free allowance will be frozen at £12,570, and the higher rate income tax threshold will be frozen at £50,270 until 2026.

Normally these thresholds would be expected to increase broadly in line with inflation to offer some protection to taxpayers.

The Treasury forecasts that freezing these allowances will cost taxpayers £1.6 billion in the coming financial year, and a total of £19.2 billion by 2026.

FROZEN RATES IN THE NEW TAX YEAR (2022/23)

- Personal tax-free allowance is frozen at £12,570
- The higher rate income tax threshold is frozen at £50,270
- Capital gains tax allowance is frozen at £12,300 until 2026
- Inheritance tax threshold and main-residence nil-rate band are frozen at £325,000 and £175,000 respectively
- Pensions lifetime allowance is frozen at £1,037,100

3. NATIONAL INSURANCE IS GOING UP

The spring tax crunch doesn't stop there either. To fund extra health and social care spending, the Government is increasing National Insurance by 1.25 percentage points for employees in April, and the same for employers too.

4. WATCH OUT FOR DIVIDEND TAX CHANGES

The new tax year will also see a 1.25 percentage point increase in the tax on dividends. Everyone gets an annual tax-free dividend allowance of £2,000, but anything above that is taxable, unless it's held in a tax shelter such as an ISA or a SIPP.

From April the dividend tax rates will be going up to 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers, and 39.35% for additional rate taxpayers.

5. A STING IN THE TAIL FOR PENSIONERS

The Government chose to suspend the pension triple lock last year, which in theory would have seen the state pension increase by around 8%, in line with earnings. The state pension will instead rise by 3.1%, in line with September's CPI figure.

As a result, the basic state pension will increase from £137.60 per week to £141.85 per week in April, and the new state pension will increase from £179.60 per week to £185.15 per week.

While an increase in the value of the state pension is better than nothing, with inflation running hot, this is going to mean pensioners feeling the pinch.

If inflation hits 7% in April, this means the increase in the new state pension from £179.60 to £185.15 will feel like a cut to £173.04 when adjusted for inflation.

The higher level of inflation we're now seeing should eventually find its way into the state pension increase in April 2023, but that still leaves a tough year ahead for pensioners, many of whom will be facing higher energy bills in the here and now.

There's no getting away from the fact that the next year is going to be a tough one for UK consumers, though the crisis in Ukraine clearly lends some perspective to the financial hardships that will be suffered on these shores.

UK savers and investors are not without defences against tax rises either. While household budgets are going to come under pressure, those who are still able to put some money away from the future should make the best use of ISAs, pensions and judicious tax planning, to provide some much-needed shelter from the coming tax storm.

By **Laith Khalaf**
AJ Bell Head of Investment Analysis


SIPPs | ISAs | Funds | Shares
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RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
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Capital at risk.
Pension rules apply.
Recommended Provider Which? Investment Platforms May 2020
Recommended Provider Which? Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020

Can you help me understand pension crystallisation?

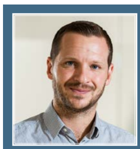
Market volatility has prompted a reader to change their pension access plans

Because of current market volatility and the impact on my pension I am now considering crystallising 50% of my pot and taking my 25% tax-free lump sum instead of crystallising all my pension.

Then at some later date I'll crystallise the remainder either all at once or in smaller chunks, taking 25% tax-free each time.

Can I take an income from the crystallised portion of my pension pot even when part of the overall pension pot is uncrystallised?

Greg



Tom Selby, AJ Bell Head of Retirement Policy says:

'Crystallising' means accessing your pension, either for immediate withdrawal or allocating funds that remain invested to provide retirement income as required.

This triggers a test against your available lifetime allowance. The allowance limits the amount you can save tax-free in pensions over your lifetime and is £1,073,100, although some people with lifetime allowance 'protection' will enjoy a higher cap.

'Uncrystallised' funds are those where you have yet to allocate to provide a retirement income. It is increasingly common for people to partially cry stallise their pension, meaning some of their pot will be crystallised and some uncrystallised.

Finally, savers are entitled to up to 25% of the amount they crystallise tax-free up to their available lifetime allowance.

For example, someone with a £100,000 pension could crystallise £20,000 of this amount, with £5,000 tax-free and £15,000 going into drawdown. The remaining £80,000 would be the uncrystallised portion of the fund.

In terms of the practicalities, you can take an income from your partially crystallised pension – you'll just need to make sure there's enough money designated to provide the income you want.

It's worth noting that when you take taxable income from your crystallised pot for the first time, this will trigger the money purchase annual allowance, reducing the amount you can put into your pension and benefit from tax relief from the standard annual allowance £40,000 to £4,000.

In addition, you will lose the ability to carry forward unused allowances from the past three tax years.

You should also think carefully about why you're choosing to access your pension. Volatility is part-and-parcel of long-term investing, and decisions about withdrawals should be based on your long-term retirement strategy rather than short-term market movements.

When you come to commencing withdrawals it's important to consider the sustainability of your retirement income plan. If your investments underperform expectations or you take big withdrawals – or both – you may need to reduce your income to ensure you aren't at risk of running out of money.

You'll also need to review your withdrawals regularly – at least once a year – to check your retirement plan remains on track.

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.

WATCH RECENT PRESENTATION WEBINARS

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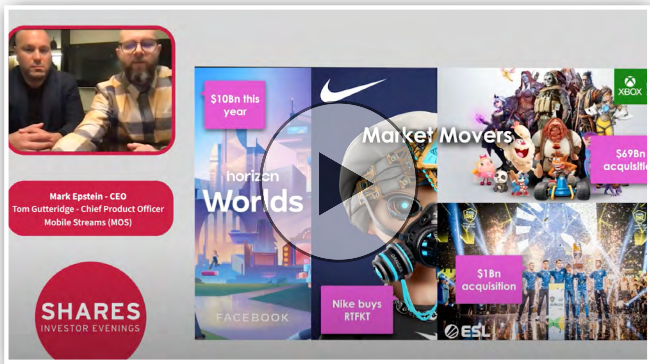
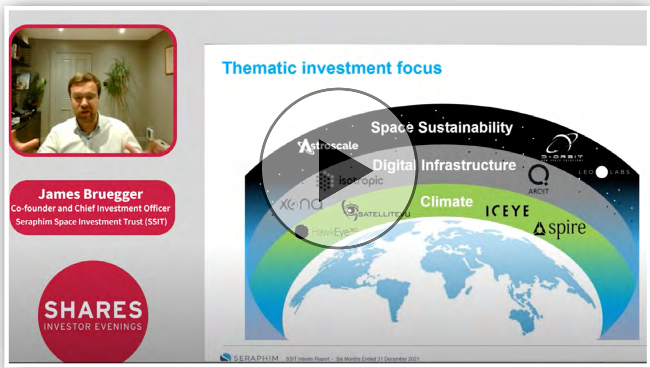
Ben Crawford, CEO & Michael Riedl, CFO

In 2021, CentralNic celebrated 25 years in the domain and web services industry. CentralNic has annually doubled in size six out of the past seven years through a combination of organic growth and winning new clients.



Mobile Streams
Mark Epstein, CEO & Tom Gutteridge, Chief Product Officer

Mobile Streams (MOS) is engaged in the sale of mobile content through Multi-National Organisation's, the sale of mobile content over the internet and the provision of consulting and technical services. care digitally.



Seraphim Space Investment Trust
James Bruegger, Co-founder and Chief Investment Officer

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Why takeover activity has fired up the UK logistics industry

GXO's bid for Clipper Logistics is part of a global trend towards consolidation in the sector as the e-commerce boom creates a major tailwind for earnings

The news last month that distribution firm **Clipper Logistics (CLG)** had agreed a £965 million takeover offer from US-based rival GXO Logistics has propelled the normally staid world of third-party logistics into the limelight.

Crucially, the deal is predicated on revenue synergies, derived from moves like cross-selling and having complementary geographic locations, rather than cost cutting. This reflects the ever-increasing demand for e-commerce services and last-mile solutions.

With more deals happening elsewhere in the sector as global players look to expand we take a look at the options for UK investors.

DAVID AND GOLIATH

GXO Logistics, which is headquartered in Greenwich, Connecticut, employs 120,000 people globally across more than 900 distribution centres totalling roughly 200 million square feet.

Its customers include global blue-chip companies such as tech giant Apple, consumer goods maker Nestle and sporting goods brand Nike.

Last year, GXO turned over $7.9 billion in revenue, a 28% increase on 2020, largely driven by organic revenue growth.

The firm's contract wins and sales pipeline were the highest in its history closing out 2021, with customers increasingly demanding innovation and global scale according to chief executive Malcolm Wilson.

He sees 'significant growth opportunities heading into 2022 as the tailwinds of e-commerce, automation and outsourcing continue unabated'.

Clipper, based in Leeds, is a minnow by comparison, with sales in the six months to last October of £406 million and 52 sites under management totalling just 14.3 million square feet.

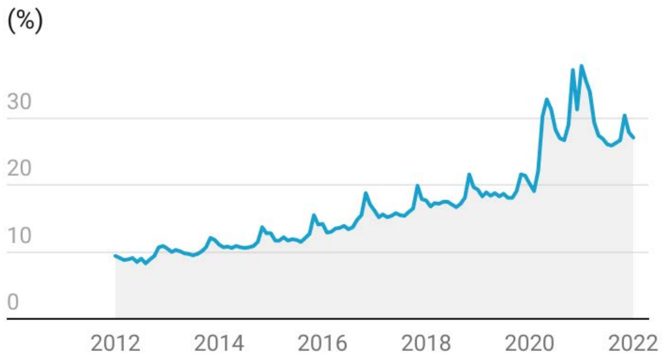
However, the firm's turnover grew slightly faster than GXO at 33% in the first half thanks to strong e-fulfilment demand from customers like cycling and car accessories retailer **Halfords (HFD)**, global beauty brand L'Oreal and supermarket chain Morrisons.

Another attractive feature of Clipper is its significant 'reverse logistics' or returns business, which it operates for customers including online fashion platform **ASOS (ASC)**, clothing retailer H&M and department store-to-food seller **Marks & Spencer (MKS)**.

It also operates in the fast-growing life-sciences logistics business, an area where GXO is looking to expand.

The chance to combine the two firms was a 'one-of-a-kind growth opportunity' according to Wilson, who described Clipper as 'an exceptional business' and called the revenue synergies from the deal 'compelling'.

UK Internet sales as a percentage of total retail sales



Data correct as of 18 February 2022

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

WHY NOW?

One of the few positive outcomes of the pandemic as far as businesses are concerned has been the dramatic and seemingly permanent uplift in e-commerce as more of us shop online more frequently.

According to the UK's Office for National Statistics, in December last year nearly 27% of all retail sales by value were conducted online. This excludes fuel sales, which have to be made in person, but includes food sales.

In February 2020, just 19% of UK retail sales were online, while at their peak in January 2021 online sales actually accounted for 37% of all retail sales or almost double pre-pandemic levels.

While they have drifted back, they still averaged 29% of sales last year or 50% more than pre-pandemic, and every retailer and logistics firm, as well as warehouse firms storing the goods, believes this trend is only going one way – up.

With more businesses opting to sell direct to customers as well as, or sometimes instead of, via traditional retail channels, the demands on the logistics sector have never been greater.

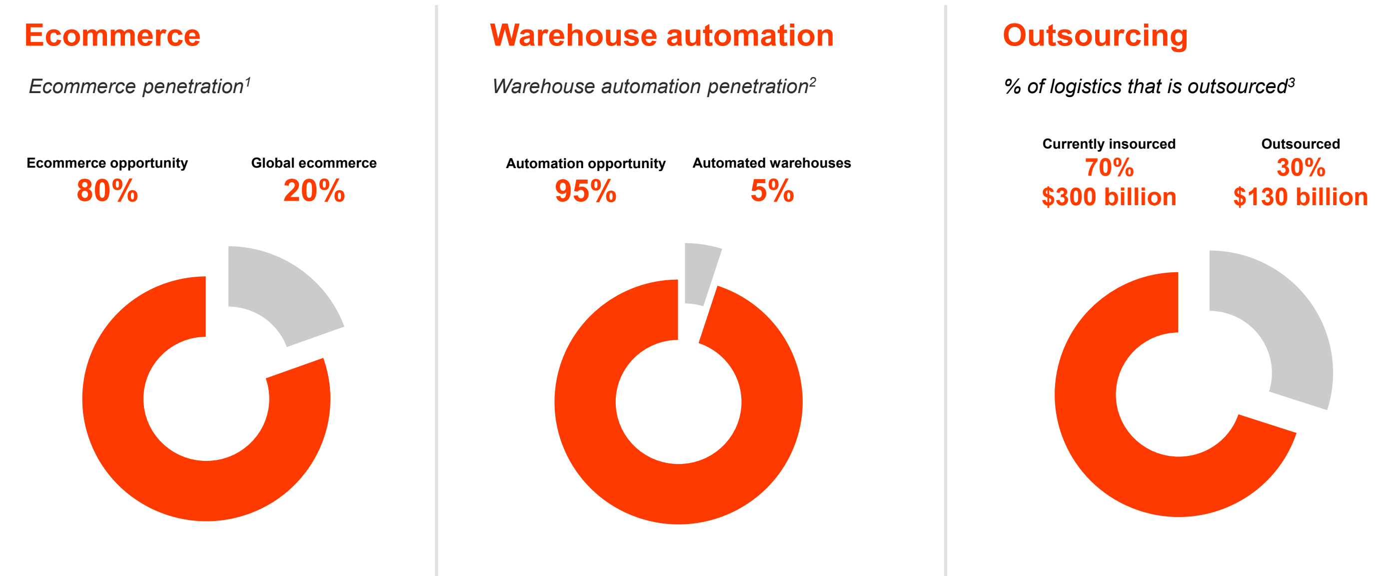
Taking on new e-fulfilment clients means greater investment in people, equipment, space and systems. Space is already extremely tight, with most industry experts estimating there is less than 5% of free warehouse space available to rent in the UK.

As a result, rents have sky-rocketed. Add to that increased spending on automation and a need for up-to-the-minute computer systems to make sure deliveries run perfectly to schedule, and the need for more financial resources is clear.

Neil Shelton, GXO's chief strategy officer, describes the level of investment in automation technology in the logistics sector as being set for a rapid increase.

As well as automating new facilities, his firm

Opportunities for the logistics sector



Source: GXO, third party research

1 Represents global ecommerce market 2 Represents approximate penetration in U.S. and Europe 3 Represents North America and Europe

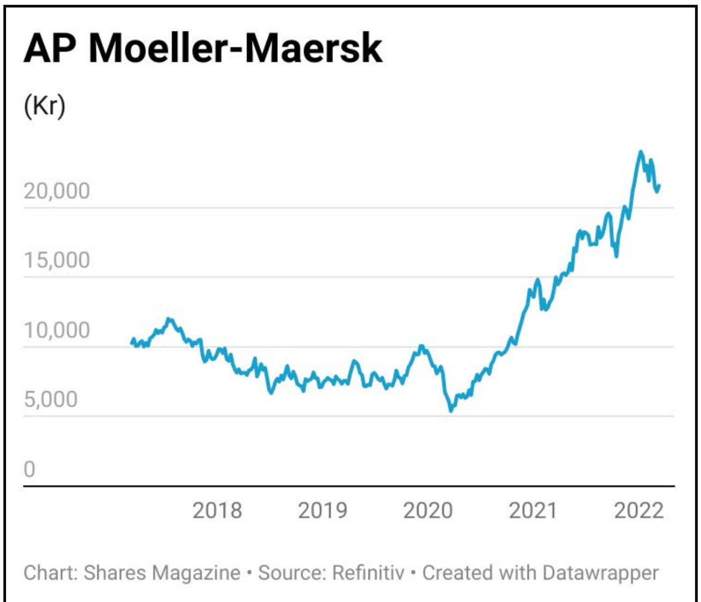
is retro-fitting the latest technology to existing facilities to increase efficiency and service levels.

This probably explains why the board of Clipper recommended GXO's takeover offer. Integrating it into a bigger group with greater cash-flow generation now gives it the financial heft it needs to continue growing and taking on new customers.

GLOBAL TREND

Cross-border acquisitions aren't just happening in the UK, and a growing number of deals are cross-sector as well.

Last month, Danish group AP Moeller-Maersk, one of the world's biggest shipping companies, paid around $1.7 billion for US landside logistics firm Pilot Freight Services.



Pilot is a last-mile and full-mile solutions provider with 87 locations in North America, and specialises in business-to-consumer home delivery for big, bulky goods, including home installations.

Primarily the operator of a fleet of ocean-going container ships, Maersk has been building itself up as a 'logistics integrator' to broaden its customer relationships.

In the fourth quarter of last year alone its logistics and service business turned over almost $1 billion, a 46% increase on the previous year and more than double Clipper's first half turnover.

As well as acquiring Pilot, Maersk recently announced it would buy LF Logistics, 'a significant contract logistics player with a vast footprint across Asia-Pacific', and Grindrod Intermodal which offers logistic services in South Africa.

It's worth highlighting that UK firms can be consolidators, not just targets. Specialty baked products maker **Finsbury Food (FIF:AIM)** agreed last month to take its stake in its jointly-owned European distribution business from 50% to 85% and to acquire the remaining 15% in due course.

The business will continue to operate as it did, under the same management team, but bringing it into the group gives Finsbury greater control over distribution in its European end markets.

BUILDING RESILIENCE

Besides e-commerce, another major factor driving the growth of the logistics industry is companies wanting to shorten their supply chains and building up stockpiles in the UK rather than relying on imports from abroad.

After the well-documented supply chain disruption brought about first by Brexit, then by the pandemic, companies are looking to build in greater resilience by bringing inventories closer to home.

That could mean stockpiling foreign-made widgets, or it could mean giving the contract to a UK company to manufacture instead. The ultimate aim is to ensure the product is available when and where the customer needs it.

What the pandemic and the ensuing shortages have shown is that when a product is critical to a customer – be it bricks to a housebuilder, rubber seals to a pump maker or a special ingredient to a food producer – price takes a back seat to availability in terms of priorities.

In other words, firms that can supply their customers with the products they need on time and to specification can charge more at no extra cost.

As more UK companies decide to 're-shore' supplies or the manufacturing of key items back to the UK, the need for more advanced, 'just-in-time' distribution within the UK will increase.

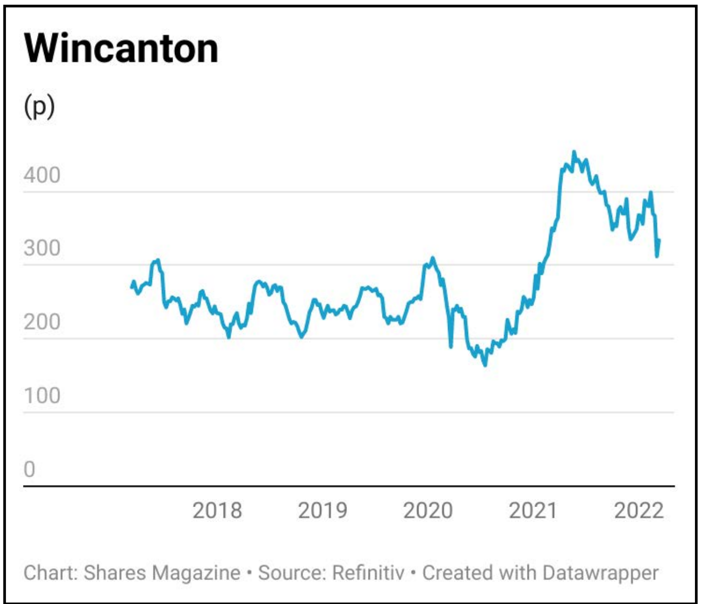
Soumen Das, chief finance officer of industrial property giant **Segro (SGRO)**, believes re-shoring is 'probably the least talked-about but possibly most interesting long-term trend of this decade' from an economic viewpoint.

UK LOGISTICS COMPANIES

Give there is likely to be more consolidation in the logistics sector, it's worth knowing who are the runners and riders.

The main pure-play UK third-party logistics firms in order of market value are **Wincanton (WIN)**, **DX Group (DX.:AIM)** and **Xpediator (XPD:AIM)**.

There are also half a dozen property firms which specialise in large and medium-sized industrial warehouses whose customers include big retail firms as well as logistics providers.



Not surprisingly, Wincanton, whose customers include Asda, Dobbies, Lakeland, Primark, The Range and Waitrose, had a bumper last quarter.

Digital and e-fulfilment revenues for the three months to December jumped 51%, helped by the acquisition of Cygnia, and the firm raised its full year profit outlook after securing 'a number of significant contract wins and extensions'.

DX Group is a last-mile delivery firm with customers ranging from sole traders all the way to nationwide retailers such as B&Q.

It specialises in handling irregular dimensions and weights and is primarily used for business-to-business deliveries.

DX shares are currently suspended pending the publication of the company's full year results, but when they last traded in December at 30p the firm had a market value of £172 million.

Xpediator is a road freight firm with extensive operations in central and eastern Europe as well as the UK and a market value of £66 million.

Last year the business turned over more than £300 million thanks to a 'strong increase' in freight forwarding revenues.

This year it hopes to build on its partnership with e-commerce specialist Synergy Retail Support by bringing more customers on board and ramping up activity at its warehouses.

For investors wanting to take a more broad-brush approach to the sector there is the **L&G E-commerce Logistics ETF (ECOG)**, which invests globally to replicate the Solactive E-commerce Logistics Index.

The tracker fund has no UK exposure but holds a collection of stocks including AP Moller-Maersk, FedEx, Japan Post, UPS and Walmart and has some $420 million in assets.

Some of the biggest winners from the surge in logistics demand have been the providers of warehouse space. **Aberdeen Standard Logistics Income (ASLI)**, **Tritax Big Box (BBOX)**, **Segro (SGRO)** and **Urban Logistics (SHED)** are prime examples.

As Colin Godfrey, chief executive of Tritax, put it to *Shares*, the UK is now 'a landlord's market' with rising rents and capital values almost assured for the next few years given the enormous overhang of customer demand for prime logistics space.

By **Ian Conway** Companies Editor

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
18 Mar: Eurocell, Contour Global. **21 Mar:** Photo-Me. **22 Mar:** Luceco, Oxford Nanopore, Diaceutics, Pebble, Zotefoams, Kape Technologies, Alliance Pharma, Staffline, Sabre Insurance, Fintel. **23 Mar:** Pittards, Dignity, Surgical Innovations, Judges Scientific, Henry Boot, Sigmaroc. **24 Mar:** Eve Sleep, Sopheon, Venture Life, Bridgepoint, Robinson, Secure Trust Bank, Arbuthnot Banking, Atalaya Mining.

Half-year results:
18 Mar: JD Wetherspoon. **22 Mar:** YouGov, SCS, Duirnal, Softcat.

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