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PAST PERFORMANCE

	Feb 17 – Feb 18	Feb 18 – Feb 19	Feb 19 – Feb 20	Feb 20 – Feb 21	Feb 21 – Feb 22
Net Asset Value	34.6%	-11.2%	7.7%	41.6%	-18.1%
Share Price	45.9%	-9.8%	6.5%	46.1%	-15.9%
TSE Topix Total Return Index	12.1%	-7.1%	3.5%	16.9%	-0.4%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 28.02.2022, bid-bid, net income reinvested.
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Contents

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octopus investments

A brighter way

12 months to 28 February (%)	2022	2021	2020	2019	2018	10/12/2018 28/02/2022
FP Octopus UK Multi Cap Income Fund S Acc	7.6	15.5	18.1	n/a	n/a	58.3
IA UK Equity Income Sector - Average Fund Total Return	13.4	3.3	-1.3	-0.5	4.3	22.2
FTSE All-Share Index Total Return	16.0	3.5	-1.4	1.7	4.4	26.4

Past performance is not a guarantee of future returns.

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Source: Lipper, 28/02/17 to 28/02/22. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling.

No short-term fix to the UK's painful energy crisis

Watch out for profit warnings linked to surging costs of gas and electricity

Amid soaring energy prices and talk of fuel rationing, there is real pressure for the UK to come up with a sustainable plan for secure and affordable energy.

While a published document from the Government may still be some weeks away, comments from ministers suggest there are likely to be three key areas of focus as a move to reduce reliance on overseas oil and gas ramps up. These are wind (onshore and offshore), solar power and nuclear energy.

On the solar front Stifel analyst Ian Scoulter notes: 'A key issue for potential investors will be the subsidies and other incentives which may be available to cover construction costs.

'At current power prices of around £200 per MWh (megawatt hour), unsubsidised solar is very viable – in the past we have suggested that non-subsidy solar projects start to make sense with a price in excess of £50 to £60 per MWh.

'However, investors may be looking for some form of subsidy scheme that provides downside protection if power prices fall back from current significantly elevated levels to more normal levels.'

Shares will look at the nuclear issue in a more detail in an upcoming edition and the outlook for some of the other energy sources were discussed in a recent feature, but the key point is that not one of them is likely to be a short-term fix. Even trying to ramp up supplies of domestic gas and oil will take time.

And yet the pressure on UK households and businesses is acute right now as those on default energy rates endured a 54% surge in regulator Ofgem's price cap on what is being called Bleak Friday (1 Apr). A further rise is coming down the track later this year.

There have been some attempts by the Government to ease the burden and the issue is certainly receiving plenty of airtime. However, the impact on businesses is perhaps getting less of a hearing.

Cornwall Insight, a consultancy, calculates small and medium-sized enterprises in the UK are facing an average gas bill rise of 250%.

In an online blog, Cornwall's principal consultant Craig Lowrey comments: 'Wholesale market volatility, amongst other factors, has seen gas prices jump significantly for all consumers. However, unlike domestic customers, non-domestic customers have yet to see any dedicated government support to manage the record high energy bills they are facing.

'Insecure contracts and record high energy bills will eat further into SME profits in an already challenging economic environment.'

Investors will need to be alert to small caps which are significant users of energy as there is a growing risk that such an eye-watering rise in gas and electric bills could eat into their profits.

By **Tom Sieber** Deputy Editor

Tesla to split stock again following stunning recent share price rally

Electric car maker sees valuation top $1 billion again after 13% run following announcement

Nasdaq-listed **Tesla (TSLA:NASDAQ)** wants to split its shares for the second time in less than two years after the stock's latest surge.

While the split details weren't disclosed, when the stock last split in 2020, it handed investors five new shares for every existing one owned. More interestingly, that previous announcement also led to a rough 33% rally in the share price between the announcement (11 Aug 2020) and the stock split taking effect on 31 August 2020.

Tesla made its new stock split intentions clear at its annual shareholder meeting on 28 March 2022. Since then, the price has rallied from $1,010.64 to $1,145.45, a gain of 13%.

Shareholders will have to vote in favour of the split but investors backing seems highly likely. If we assume a similar five-for-one division, it would see shareholders handed five shares at $229 for every $1,145.45 one they now own.

Tesla stock struggled in the early part of this year as investors turned their back on growth in the face of rampant inflation, a rising tide of interest rate hikes and the geopolitical turmoil created by Russia's invasion of Ukraine.

But the stock has staged a sharp rebound since the middle of March, following the company receiving German government backing to deliver the first cars built at its new factory outside of Berlin.

Shares are up a fraction shy of 50% since 14 March, a run that coincides with Tesla's latest stock split announcement, giving the company a market value of $1.18 trillion.

Fanning the share price flames was news on 2 April that Tesla had delivered a record number of its cars in the first quarter, despite supply chain challenges. The electric carmaker said it delivered 310,048 cars from the start of this year to the end of March, up from 184,800 a year earlier, according to figures released over the weekend.

A number of other high flying tech stocks have announced splits recently, including **Amazon (AMZN:NASDAQ)** and Google-owner **Alphabet (GOOG:NASDAQ)**. Both have announced plans for 20-for-one stock splits since the start of February.

Meme stock **GameStop (GME:NYSE)** also unveiled plans for a stock split on 31 March. GameStop's share price jumped around 19% in after-hours trading yet investors seem more sceptical of its move, with the share price failing to hang on to those initial gains.

At $170.73, GameStop shares are just 2.5% up from where they closed before the announcement was made. The rationale for a split looks less clear than with the tech giants too as its shares already trade at a more bite-sized price. [SF]

Investors to focus on the outlook as Tesco reveals earnings next week

Rising prices and falling volumes have already sparked a warning from Morrisons

On 13 April **Tesco (TSCO)**, the UK's largest supermarket chain by market share, release its results for the year to the end of February 2022.

There is likely to be more attention on the outlook for the current year rather than on what happened last year.

Consensus forecasts compiled by the company are for revenue including fuel sales to reach £61.2 billion, an increase of 5.7% compared with £57.9 billion the previous year, and for operating profit to recover to £2.8 billion against £1.7 billion.

Much of the increase is expected to be down to higher food and fuel prices rather than volumes, and it should be said the range of estimates for both sales and earnings is quite wide.

Analysts are forecasting a sharp slowdown in revenue growth to just 1.4% this year, implying sales of £62.1 billion, while profit is seen flat at £2.8 billion.

Research firm Kantar recently reported that food price inflation at the supermarkets reached 4.2% in the 12 weeks to March 20 and 5.2% in the preceding four weeks, the highest rate since April 2012.

At the same time, total supermarket sales for the 12 weeks were down 6.3% on the previous year.

That means in volume terms sales were down more than 10%, which is major concern for the supermarkets.

Significantly, own-label products made up more than 50% of all grocery spending for the first time as shoppers traded down.

Meanwhile, discounters Aldi and Lidl saw their sales increase by 3.6% each meaning they took a record 15% share of the market.

The Government has forecast retail price inflation could hit 9% later this year, which combined with national insurance changes and a huge jump in fuel bills could see living standards fall sharply.

Tesco consensus earnings forecasts as compiled by the company

(£ billion)

	Feb 2022 Est	Feb 2023 Est	Feb 2024 Est
Revenue including fuel	61.2	62.1	63.1
Highest estimate	67.3	69.8	71.7
Lowest estimate	55.5	56.3	57.9
Operating profit	2.81	2.81	2.89
Highest estimate	2.88	2.96	3.21
Lowest estimate	2.69	2.64	2.67

Table: Shares Magazine • Source: Tesco. Data correct as of 5 April 2022

This week, supermarket chain Morrisons, now owned by private equity firm CD&R, warned its sales and profits could be hit as shoppers face a 'cost of living crisis'.

The company said it was taking mitigating action but cautioned 'unless these conditions improve, the impact of these developments could have a material adverse impact on our sales and profits for the year', which we take to be a thinly-veiled profit warning.

Shore Capital's head of research Clive Black suggested Morrisons was lagging the sector in terms of sales and investors shouldn't be too perturbed by its comments.

'We still see a UK grocery market where there are favourable economic traits: compound annual value growth that exceeds new capacity, rational behaviour in the main, value added streaks in the food system, scope for ongoing cost reduction, capital discipline by the superstore players and so strong free cash flow generation', Black concluded. [IC]

Airline revenue and profit at risk if Covid sickness disruption drags on

Industry had hoped for bumper Easter holiday after two years of misery

The UK's airline industry is facing another slap in the face with hundreds of flights cancelled because of widespread Covid staff sickness, hiking the risk that prolonged disruption could impact revenue and profit.

Budget flyer **EasyJet (EZJ)** axed 222 flights during the weekend of 2 and 3 April 2022, with another rough 60 flights to and from the UK grounded on 5 April following 62 cancellations the day before.

British Airways, owned by **International Consolidated Airlines (IAG)**, also cancelled 62 flights on Monday (4 April) as travellers faced frustration on journeys ahead of Easter, the first holiday since the end of coronavirus travel restrictions.

'As a result of the current high rates of Covid infections across Europe, like all businesses, EasyJet is experiencing higher than usual levels of employee sickness,' said the airline. Staff absences were running at around double their normal levels.

'We expect to make similar levels of pre-emptive cancellations over the coming days, due to the ongoing high level of sickness,' said EasyJet.

Latest data from the UK's Office of National Statistics showed that the percentage of people in England testing positive for Covid-19 continued to increase in the week to 26 March 2022. 'We estimate that 4,122,700 people in England had Covid-19, equating to 7.6% of the population or around one in 13 people,' the ONS said in its latest research note released on 1 April.

ONS figures for Scotland, Wales and Northern Ireland were similar.

The removal of virtually all coronavirus restrictions has brought a surge in passengers wishing to travel but exacerbated staff shortages in the aviation industry through rising sickness. Airlines had been betting on a bumper Easter holiday to help boost their recovery after two years of pandemic misery.

Investors seemed to be taking a relaxed view for now, with share prices remaining stable, yet the concerns will grow if further cancellations in the run-up to Easter are perceived to put revenue and profit forecasts at risk.

The use of vouchers to compensate passengers affected by the disruption is also a big headache for a sector which is still working its way through similar vouchers issued during the pandemic.

And the rising cost of fuel and the significant debts carried by airlines are further pressures which could contribute to turbulence in share prices.

Yet both EasyJet and IAG were largely flat during trading on 4 and 5 April, at 550p and 142p respectively, while **Wizz Air (WIZZ)**, another low-cost carrier, even gained more than 1% to £29.37 over the same period.

EasyJet is scheduled to update on first half trading on 12 April, while IAG posts its first quarter results on 6 May. [SF]

Why Starbucks boss Howard Schultz has suspended buybacks

Founder takes the helm again at Starbucks and pauses share purchases

The founder of **Starbucks (SBUX:NASDAQ)**, Howard Schultz has returned as CEO, with the coffeehouse colossus seeking a permanent replacement for departing chief Kevin Johnson.

And in a move that surprised Wall Street, he has immediately suspended billions of dollars in share buybacks to free up cash to invest in employees and stores whilst trying to fend off US trade unions.

Buybacks don't guarantee positive share price performance, as Starbucks' 25% year-to-date drop demonstrates, and Schultz is keen to prioritise spending on cafes and staff to drive long term growth and ensure Starbucks stays competitive.

There's a lesson in this for corporate leaders in the UK, where nearly £33 billion of buybacks have already been announced by FTSE 100 firms so far in 2022 according to AJ Bell's first 'Buyback Bulletin', leaving them on course to break 2018's record £34.9 billion. On a sector basis financials are currently the largest generator of FTSE buybacks in 2022, followed by oil & gas then consumer staples.

Management's willingness to purchase stock will be seen by bulls as further support for their argument that UK shares are cheap. Yet as AJ Bell's investment director Russ Mould points out, history shows companies have a habit of buying stock back during bull markets (when their stocks tend to be more expensive) and not doing so during bear ones (when their stock tends to be much cheaper).

Buybacks disappeared when stocks were at their cheapest (2009, 2020) and proliferated near market tops (2006, 2018) when stocks were at their most expensive.

Without satisfied customers, there will be no business at all, a risk Starbucks' Schultz clearly recognises, so the would-be investor must ensure that the firm is spending enough on research, product development, capital investment and marketing before it gives away any cash.

There is also the risk that firms buy back stock using debt, potentially weakening their balance sheets and competitive position. [JC]

FTSE 100 Q1 buybacks by sector

Sector	2022 (£ billion)
Financials	10.5
Oil & gas	7.4
Consumer staples	6.9
Industrial goods & services	3.2
Consumer discretionary	2.4
Telecoms	1.2
Mining	0.4
Technology	0.3
Health care	0.2
Utilities	0.2
Real estate	0.0
TOTAL	**32.7**

Table: Shares Magazine • Source: AJ Bell, company accounts. Data to 30 March 2022.

DISCLAIMER: Financial services company AJ Bell referenced in this article owns Shares magazine. The author of this article (James Crux) and the editor (Tom Sieber) own shares in AJ Bell.

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Allianz Global Investors

Casual dining group The Fulham Shore offers great scope for growth

Franco Manca and The Real Greek operator is underappreciated by the market

We have admired restaurant group **The Fulham Shore (FUL:AIM)** and its senior management team, which is one of the most experienced in the UK hospitality sector, for some time.

We almost recommended buying the shares in late 2019 but luckily given the impact of Covid forgetfulness – or inertia – meant we never actually pulled the trigger.

With the business having survived the pandemic and emerged in such good shape we think now is the time to snap up the shares.

THE FULHAM SHORE
BUY
(FUL:AIM) 16.5p
Market cap: £105 million

A RARE SURVIVOR

Any hospitality firm which managed to weather such a perfect storm as the pandemic hasn't just come out the other side a more resilient business but also one with better growth prospects due to the number of competitors which fell by the wayside.

The casual dining industry was already suffering from over-capacity in the run-up to Covid with many 'samey' restaurant chains like Ask, Bella Italia, Café Rouge and Prezzo struggling.

Even higher-end and household-name chain's such as Carluccio's and Jamie's Italian ended up falling into administration.

Many of these firms expanded too quickly and paid up for 'landmark' sites which came back to bite them when trading tailed off.

It's also notable how many failed restaurant chains were Italian-themed, while Franco Manca – Fulham Shore's sourdough pizza brand – has gone from strength to strength.

Expansion has been measured, particularly during the pandemic, while rather than falling into the same trap that undoes many hospitality firms, namely trying to be all things to all people, Franco Manca does one thing and does it extremely well.

As its website says, whatever the question, the answer is pizza.

BUILDING THE BRANDS

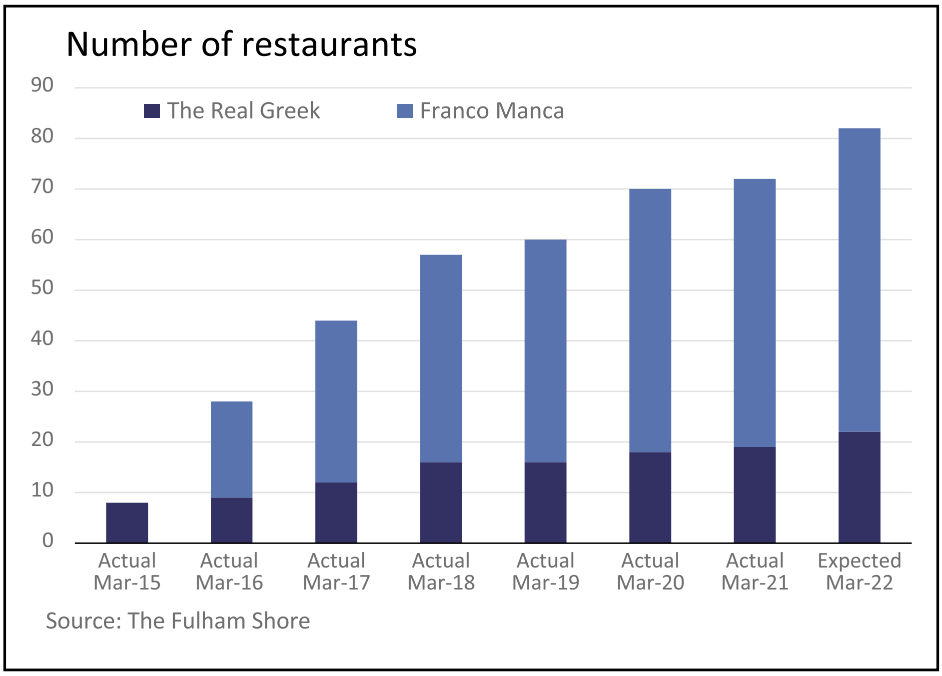
The group's second brand is The Real Greek, which actually pre-dates Franco Manca by nearly 10 years but has half the outlets.

Franco Manca was acquired when it had just 11 restaurants compared with 59 today, while the Real Greek had just 6 outlets when it was acquired compared with 23 today.

Both brands have scalable business models based on good quality products, high restaurant volumes and an attractive price point, typically between £10 and £16 per head.

Both businesses buy their products directly from growers and suppliers in Italy and Greece which means they can control the quality of their ingredients and they can fix prices far in advance.

Buying direct also cuts out the wholesalers here and abroad who typically take their cut before selling on to restaurants, which means the firm can pass



on lower prices to customers.

Group chairman David Page lives and breathes the restaurant trade, having started in the business managing a Pizza Express outlet in Kingston upon Thames more than four decades ago.

The name of the game is volume, not margins, says Page. 'Chasing margins is very dangerous. What you really need is to get lots of turnover, which you do by offering a very good product for a very low price. Once you've got lots of people through the door, the margins take care of themselves.'

Between them Page and managing director Nabil Mankarious own more than 30% of the business, so their interests are very much aligned with shareholders.

INVESTING TO GROW

While its margins may not be as high as some firms, the restaurants themselves actually generate more profit than many of their peers.

Thanks to their profitability, and the availability of desirable sites at rents which are actually lower than before the pandemic, the group is using its high levels of cash flow to open 18 more outlets this year taking the total to 100.

As far as Page is concerned, the best way to create value is by investing in the brands.

'The best thing for shareholders is to build up the value of each of the brands and then someone might come knocking for one or both of them.

'That's how you make the shareholders money, by growing the share price', he adds.

Once the business is mature the firm might start paying dividends, but Page has said before he thinks between them the two brands could reach 250 outlets.

RISK FACTORS

We know challenges lie ahead for the hospitality sector, not least the cost of living crisis and its impact on peoples' disposable income.

However, Fulham Shore's value-for-money proposition should help insulate its brands from the worst of a contraction in discretionary spending and eating out.

Similarly, staff availability and costs are likely to be headwinds if infection levels rise or new variants emerge, but with the experience of the pandemic we think the group will be able to ride them out.

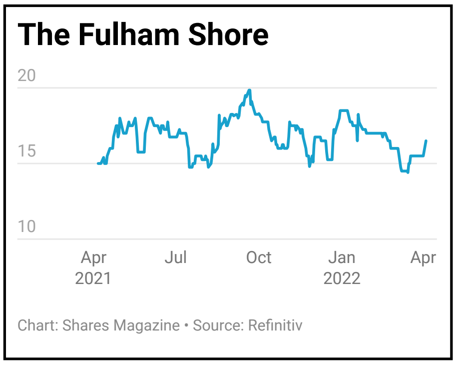
Assuming the country doesn't go back into full lockdown, the group's growth prospects look very good.

Sales and operating profit for the year to March 2022 are set to be ahead of market estimates of £73 million and £16.5 million, respectively.

By comparison, **Restaurant Group (RTN)** posted revenue of £636 million and operating profit of £81 million last year.

Much of those sales and earnings come from the phenomenally popular Wagamama, which has over 150 restaurants as well as dark kitchens and another 50 overseas franchises.

For us, that demonstrates the scope for growth for Fulham Shore's equally well-priced, scalable brands.



Buy Rathbones as wealth management bid frenzy highlights value appeal

In wake of Brewin deal company looks well set whether it attracts takeover interest or not

Royal Bank of Canada's recent £1.6 billion bid for rival asset manager **Brewin Dolphin (BRW)** at a 62% share price premium, has highlighted what a scarce and valuable asset **Rathbones (RAT)** is on the stock market.

And despite a rally on a read-across from the Brewin news, the shares are currently trading on just 12.3 times forecast earnings and offer a 4.2% dividend yield.

Investors should buy as the current valuation doesn't reflect its potential as a bid target and, importantly given it always risky to purchase a stock purely in the expectation of a takeover offer, the inherent strengths of the business.

Rathbones is a full service wealth management company providing discretionary wealth management and asset management services in the UK.

The company is ideally positioned to harness the structural growth in the UK wealth management market, which according to research by Berenberg will accelerate from 9% to 12% per year over the next three years. The group also has a fast growing mutual funds business.

Rathbones has a strong proposition that is likely to be attractive to potential clients. It operates across the full spectrum of services, from discretionary management, where a professional manages a tailored portfolio of assets on an investor's behalf, to multi-asset solutions, investing in everything from stocks to bonds to property and more, to single strategy funds.

STRONG RECENT GROWTH

The strength of the product offering is reflected in the recent growth in both assets under management and fund inflows.

At its pre-close update in January, the group revealed that overall assets grew strongly over both the quarter and the year.

Assets under management stood at £68.2 billion at the end of December 2021, an overall increase of 23% year-on-year.

The investment management division witnessed a 12% increase in assets to £50.3 billion, while the funds arm experienced a 33% increase to £13 billion.

Royal Bank of Canada's surprise offer for Brewin Dolphin and the wider dealmaking trend within the UK wealth management sector means investors are turning their attention to other potential transactions.

Rathbones is arguably a more attractive business than Brewin Dolphin. This is because 19% of Rathbones' assets under management and pre-tax profit is generated from its funds business, which generates higher margins than investment management.

On a pre-synergy basis Royal Bank of Scotland is paying 21 times current year's earnings for Brewin Dolphin. Rathbones currently trades at a significant discount to this and a bid at a similar multiple would imply a share price of more than £30 a share.

Reports of interest from **Natwest (NWG)** in Tilney Smith & Williamson offer further evidence of a wealth management sector in a consolidation phase.

RATHBONES
BUY
(RAT) £21.20

Market cap: : **£1.32 billion**

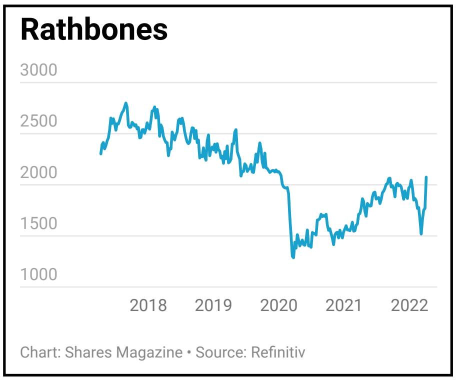


Chart: Shares Magazine • Source: Refinitiv

BELVOIR

(BLV:AIM) 260p

Gain to date: 10.6%

Original entry point:

Buy at 235p, 10 June 2021

CONSIDERING PROPERTY FRANCHISE and finance group **Belvoir (BLV:AIM)** was trading at 280p when it reported first half earnings six months ago, being able to buy shares today at 260p after such a positive full year trading update is a big bonus.

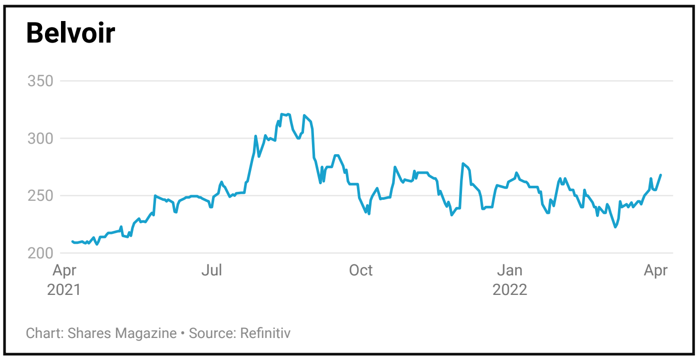
Not only is the group growing sales organically, it continues to add new and interesting businesses which give it access to even more customers.

Revenue for the year to December was up 37% to £29.6 million with new businesses contributing 12% growth and the underlying business posting 25% growth.

From being a pure lettings business when it launched the firm now has a thriving estate agency selling houses and offers mortgages through the Nottingham Building Society having acquired the advisory arm in July 2022.

The tightness of the rental market and the continued strong demand for new housing and finance mean the group is perfectly placed to cover each aspect of the property market both directly and via franchisees.

Net cash at year end was £7.4 million and the firm is happy to keep a small level of net debt while it uses the significant cash flows from its recurring revenue to invest for future growth.



SHARES SAYS: ↗
Keep buying. [IC]

EUROMONEY

(ERM) 993p

Loss to date: 11.4%

Original entry point:

Buy at £11.12, 7 October 2021

INVESTORS SHOULD STICK with **Euromoney (ERM)** despite a soggy recent share price performance as its recovery is coming to fruition.

On March 31 the information services and events business revealed robust second quarter revenue growth.

This was primarily driven by continued demand in FastMarkets (commodity price benchmarks), and FPS Subscriptions (market and people intelligence).

The turnaround in the Asset Management division is also ahead of plan and there is a more encouraging outlook for the Events business.

There has been a consistent improvement in booking trends with various second quarter large events including Capacity Middle East, Metro Connect, IMN Build to Rent East, securing sales at levels above 2019.

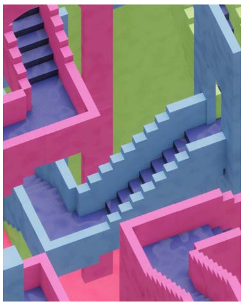
Accompanying the trading update Euromoney management showcased their people intelligence business to analysts.

The division helps companies run their recruitment and HR functions more efficiently.

Numis media analyst Steve Liechti says: 'We see a nice inflection point: Euromoney is now delivering post self-help as well as focus and investment in high quality subscription growth. Events also get much better from here.'

SHARES SAYS: ↗
We remain positive. [MGar]

ZOO DIGITAL
(ZOO:AIM) 119.3p



Loss to date: 1.4%
Original entry point:
Buy at 121p, 13 May 2021

ZOO DIGITAL (ZOO:AIM) shares have huffed and puffed for a year but never quite managed to cling on to gains, leaving the performance largely flat since we flagged the stock on 13 May 2021.

Yet those 12 months have seen a substantial expansion of its global operations, and we remain confident that this investment will at last start to pay-off for investors.

On 4 April 2022 Zoo Digital launched its Copenhagen-based hub which will tap directly into hugely successful Scandi-thriller market. Think *The Girl with the Dragon Tattoo*, *The Killing* and *The Bridge*.

This initiative follows on from recent launches of ZOO Turkey, ZOO Korea and, most importantly, ZOO India. One of the biggest TV and film markets in the world, India's streaming TV and movie industry is forecast to grow from $1.9 billion in 2021 to circa $4.5 billion by 2026, according to information from broker Shore Capital.

To re-cap, Zoo Digital offers a cloud-based dubbing and subtitling studio platform that allows TV and film producers to broadcast to a global market. Netflix's massive hit *Squid Game* would never have become the worldwide phenomenon it has without multiple languages being available. The US streaming giant is a Zoo Digital client, as is Disney and all the other major US film studios.

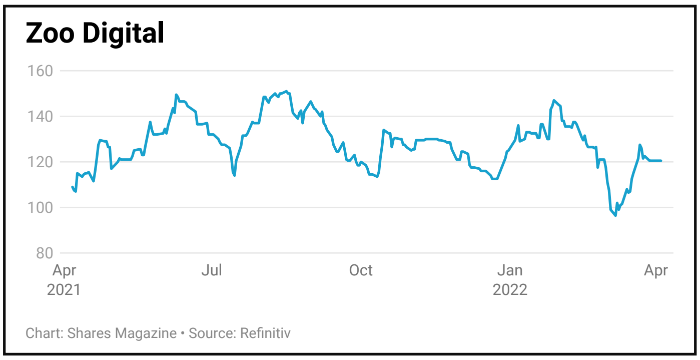


Chart: Shares Magazine • Source: Refinitiv

SHARES SAYS: ↗
Still worth holding for the long-term. [SF]

BLOOMSBURY PUBLISHING
(BMY) 403.2p

Gain to date: 42.5%
Original entry point:
Buy at 283p, 4 February 2021

OUR FAITH IN **BLOOMSBURY Publishing (BMY)** continues to be rewarded with another encouraging trading update (30 Mar).

The company guided for revenue to be 'comfortably ahead' and profit 'materially ahead' of consensus expectations for the 12 months to 28 February.

A revival in reading seen during the pandemic looks to be continuing and Bloomsbury has demonstrated its ability to successfully mitigate ongoing supply and cost challenges.

Peel Hunt analyst Malcolm Morgan said: 'Bloomsbury goes from strength to strength. It is a first-rate publisher, evidenced by the commercial and critical success it generates.

'It is well financed – with significant cash assets on the balance sheet and investment in working capital, with the value of the library of publishing rights unrecognised on the balance sheet.

'It is diverse in its subjects (children, adult, special interest, academic and professional), in the channels via which its product can be consumed (physical, e-books, online resources, rights), by the territory served (direct operations in the UK, US, India, Australia, and globally through export) and the nature of its routes to market (high street, online and direct).

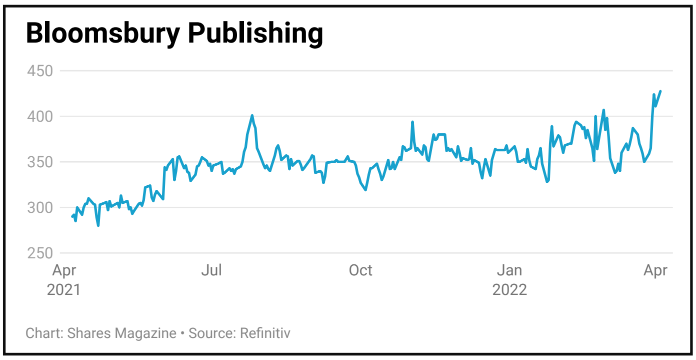


Chart: Shares Magazine • Source: Refinitiv

SHARES SAYS: ↗
We continue to rate the shares as a 'buy'. [TS]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INVEST WITH CONFIDENCE

Four funds that make a perfect portfolio

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

There are lots of great actively managed funds for investors to choose from but even the best fund managers in the business fail to outperform the market each and every year.

In fact, recent history has taught us that the fortunes of even the most revered professional stock pickers can suffer reversals; this can be for a variety of reasons including investment styles or geographic areas of focus falling out of favour or perhaps through self-inflicted mistakes often brought on by star manager hubris.

First-time investors who don't have the time or the inclination to research stocks and want to avoid fund manager risk can look at exchange-traded funds (known as ETFs for short or sometimes tracker funds) instead.

LOW COST EXPOSURE

ETFs are a low-cost and simple way to get exposure to major asset classes and create a diversified portfolio. They are cheaper than actively managed investment funds because they simply track an index of stocks and shares or other investments like bonds.

A traditional investment fund, such as a unit trust, has a fund manager deciding what should go in and out of their portfolio and, as a result, their fees tend to be much higher than an ETF.

After all, you're paying a person to manage the investments. A few actively managed funds do manage to beat their benchmarks consistently, however given the difference higher fees can

Four funds for a perfect portfolio

£10,000 hypothetical investment

Fund	Percentage of portfolio	£	Ticker	Ongoing charges (%)
Lyxor Core MSCI World ETF	60%	6000	LCWL	0.12
HSBC MSCI Emerging Markets ETF	20%	2000	HMEF	0.15
iShares Core Global Aggregate Bonds ETF	10%	1000	AGBP	0.10
iShares Global Infrastructure ETF	10%	1000	INFR	0.65

Past performance is not a reliable indicator of future returns

Table: Shares Magazine • Source: Shares Magazine, Morningstar

make to investor returns over time, it is fair to question why you would risk trying to do better than the market by paying for an actively managed fund when you can simply track it through an ETF?

As the new tax year has started, anyone who has yet to build a serious long-term portfolio and has at least 10 years to sit back and watch their investments grow should consider this simpler approach.

PUTIN'S WAR IN UKRAINE AND ITS IMPACT ON FINANCIAL MARKETS HAS REMINDED INVESTORS OF THE NEED TO OWN A DIVERSIFIED PORTFOLIO OF ASSETS WHICH DON'T ALL MOVE IN TANDEM

Putin's war in Ukraine and its impact on financial markets has reminded investors of the need to own a diversified portfolio of assets which don't all move in tandem.

On the assumption a first-time investor has £10,000 to put to work in the markets, we have identified four ETFs that cover the main asset classes and would form the basis for a ready-made portfolio.

We think it would be sensible to put 60% or £6,000 of this pot into developed market equities, another word for stocks and shares, to enable you to share in the growth of some of the world's highest quality businesses and most beloved brands.

We reckon another 20% should be allocated to emerging market equities. Admittedly, emerging

markets are often volatile performers, yet they are capable of generating strong returns over the long run and bring exposure to the growth of the middle classes across developing economies. This makes them a decent option for an investor with time on their side

Our ready-made ETFs portfolio include a 10% exposure to bonds, which are IOU's issued by governments and companies to investors in return for cash and can help to cushion volatility.

Bonds usually have a fixed life, called the maturity, and offer different levels of interest to bondholders. Given the new economic environment of rising interest rates and high inflation, investors might also want to diversify portfolios beyond stocks and bonds through a 10% allocation to an infrastructure ETF.

Infrastructure assets offer high barriers to entry, relatively inelastic demand and are typically resilient to economic cycles. They also generate relatively stable and predictable cash flows and have a positive correlation to inflation.

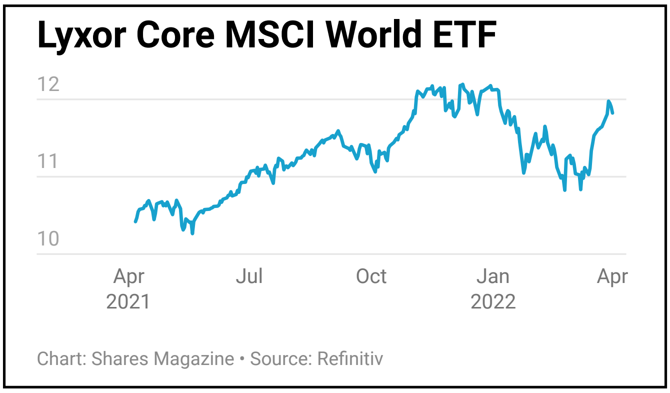
FANTASTIC FOUR

Lyxor Core MSCI World ETF (LCWL) £11.97

Ongoing charge: 0.12%

This is an excellent starting point for an investor seeking diversified exposure to the stock market. It tracks the MSCI World index which is designed to represent the performance of large and mid caps across 23 developed markets countries. The index is a basket of around 1,540 stocks from across the developed world and is dominated by the US through iPhone seller **Apple (AAPL:NASDAQ)**, software giant **Microsoft (MSFT:NASDAQ)**, online shopping-to-cloud computing colossus **Amazon (AMZN:NASDAQ)**, silicon chips star turn **Nvidia (NVDA:NASDAQ)** and healthcare colossus **Johnson & Johnson (JNJ:NYSE)**. The average market value of stocks in the MSCI World index is knocking on for $37.4 billion and over the past three years this product has delivered an annualised return of 15%, according to data provider Morningstar. To find the ETF on your ISA provider's platform, type in the code 'LCWL'.

60% of our portfolio



HSBC MSCI Emerging Markets ETF (HMEF) 881p

Ongoing charge: 0.15%

Periods of significant volatility in emerging markets sometimes detract from what is a more positive long-term picture for developing economies. These have drivers in place which could make emerging markets exposure attractive for an investor with a long-term investment timeframe. These include a growing middle class which is boosting levels of domestic consumption, larger working age populations than in many Western countries and an increasing role for technology which is helping improve the quality of individual businesses. Our key pick here is **HSBC MSCI Emerging Markets ETF (HMEF)**, which aims to replicate the performance of the MSCI Emerging Markets Index, which is made up of large and mid cap stocks across 25 emerging markets countries with 1,420 constituents. Exposure to this index is on offer for a lowly annual fee of 0.15%. As of 28 February 2022, this low-cost passive's largest geographical allocation was mainland China at 31.9%, followed by Taiwan (15.73%), South Korea (12.21%), India (12.2%) and Brazil (4.85%). Top holdings include microchip manufacturing titan **Taiwan Semiconductor (TSM:NYSE)**, Chinese internet giants **Tencent (0700:HKG)** and **Alibaba (9988:HKG)**, South Korean phones-to-semiconductors group **Samsung Electronics (005930:KRX)**, Brazilian mining giant **Vale (VALE:NYSE)** and Indian business consulting-to-IT titan **Infosys (INFY:NSE)**. To find the ETF on your ISA provider's platform, type in the code 'HMEF'.

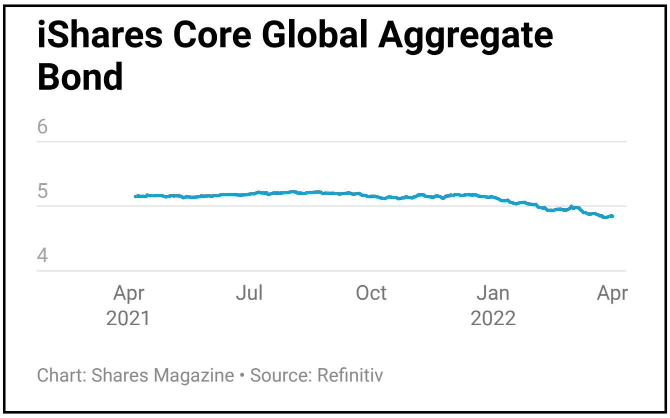
20% of our portfolio

iShares Core Global Aggregate Bond UCITS ETF (AGBP) 484.1p

Ongoing charge: 0.1%

Having a degree of exposure to the global fixed income market can help diversify the first-time investor's portfolio and one sensible low-cost fund option is the **iShares Global Aggregate Bond UCITS ETF (AGBP)**. This passive seeks to track the investment results of the Bloomberg Barclays Global Aggregate Bond Index, which is composed of global investment grade bonds including government, government-related, corporate and securitised bonds, including those issued by the governments of the US, China and Japan, UK, France and Italy. Though the fund has generated a negative net asset value total return of 5.44% year-to-date, the portfolio is diversified across 9,367 holdings. A 1.34% trailing yield is somewhat lower than you would get from a high yield bond portfolio of lower quality bonds,

10% of our portfolio



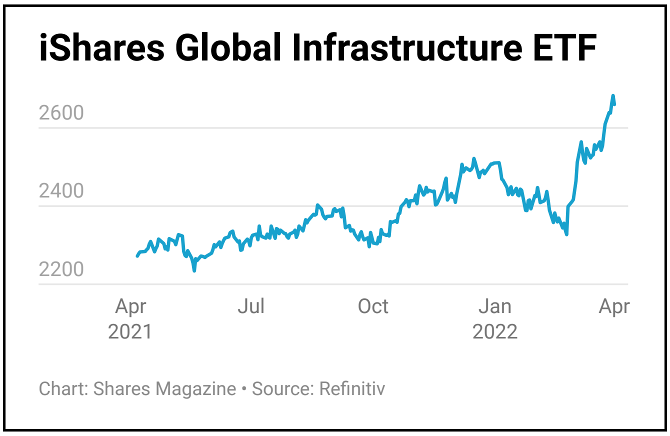
but we prefer the dependability of this bond product, with interest payments underpinned by the security of government issuers and the strong cash flows and fortress balance sheets of corporate issuers ranging from **Goldman Sachs (GS:NYSE)** and **JPMorgan Chase (JPM:NYSE)** to **HSBC (HSBA)**, Microsoft and pharma giant **Abbvie (ABBV:NYSE)**. As of 29 March 2022, the fund's biggest geographical allocation was the US at almost 39%, followed by Japan, China, France, the UK and Germany. To find the ETF on your ISA provider's platform, type in the code 'AGBP'.

iShares Global Infrastructure ETF (INFR) £26.66

Ongoing charge: 0.65%

Known for its reliable long-term income streams, infrastructure has proved a popular area to invest in recent years for its diversification benefits, inflation protection, capacity for steadily rising dividends with modest capital growth. Amid volatile equity and bond markets and the iShares Global Infrastructure ETF has delivered a 3.84% net asset value total return in a volatile year-to-date with 10 year annualised returns of 9.5%, the latter according to Morningstar. This fund seeks to track the performance of the FTSE Global Core Infrastructure Index, which is composed of international infrastructure companies from both developed and emerging countries with a big bias to the US and Canada, has a trailing yield of 1.89% and pays a quarterly

10% of our portfolio



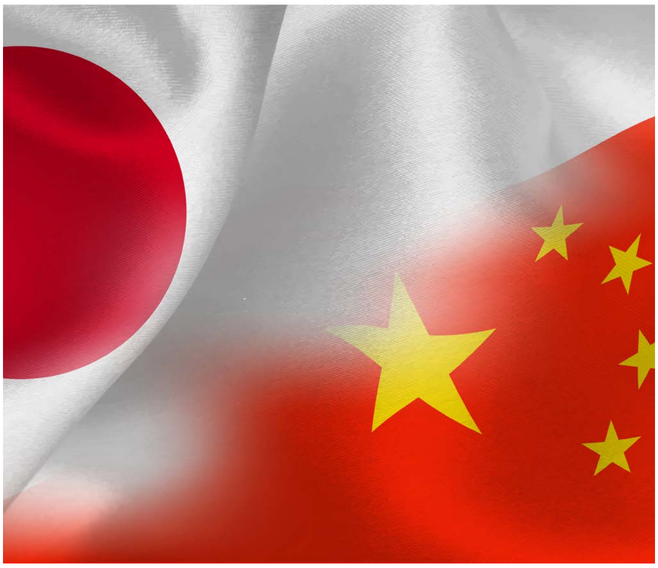
dividend. The annual fee is higher than our three other ETFs at 0.65%, which reflects the extra complexity of building an index that tracks infrastructure-related names. The ETFs top holdings include the likes of railroad company **Union Pacific (UNP:NYSE)**, American electric utility **Nextera Energy (NEE:NYSE)** as well as US mobile phone towers owner **Crown Castle (CCI:NYSE)**. To find the ETF on your ISA provider's platform, type in the code 'INFR'.

AND WHY STOP THERE?

This quartet of trackers alone would bring broad-based exposure to some of the major asset classes, although there is no need for an investor to stop there. To further diversify your portfolio, you could use ETFs to obtain exposure to global small caps; smaller firms are often growing much faster than medium or large companies thanks to their innovative products or disruptive services, agility and entrepreneurial management teams.

Though it is at the centre of geopolitical tensions, investors may want to add ETFs that increase their exposure to China, the world's second biggest economy with an enormous emerging consumer class. Another option is Japan, blessed with a deep stock market that is home to many best-in-class innovative companies that are also becoming more shareholder-friendly.

Low-cost passive funds can also provide you with access the growth potential and resilience of the healthcare sector, while some



ETFs track a basket of investments based on commodities such as gold or themes ranging from water and automation and robotics to digital security.

ETFs also offer a way to invest in property, an asset class that could certainly warrant a place in a diversified portfolio given the benefits of capital appreciation potential, coupled with inflation protection and an income stream.

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China's growth story

Since its launch in 2010, the trust has offered direct exposure to China's growth story; from tech giants right the way through to entrepreneurial medium and small-sized companies, and even new businesses which are yet to launch on the stock market. Portfolio manager Dale Nicholls looks to identify and invest in companies that are best placed to capitalise on China's incredible transformation.

Investing in China's most compelling growth drivers

Dale believes a vast and still expanding middle class is increasingly driving stock market returns in China.

"China is well established now as a major driver of growth and investment performance, not just in Asia, but in the wider world. The sheer size of China's economy, its continued growth and ever-increasing global importance, should see investors increase their exposure to China as part of a balanced investment portfolio."

Past performance

	Feb 2017 - Feb 2018	Feb 2018 - Feb 2019	Feb 2019 - Feb 2020	Feb 2020 - Feb 2021	Feb 2021 - Feb 2022
Net Asset Value	30.8%	−11.2%	5.2%	74.2%	−31.7%
Share Price	32.5%	−8.3%	3.1%	97.2%	−36.5%
MSCI China Index	32.5%	−8.3%	7.6%	30.8%	−28.4%

Past performance is not a reliable indicator of future returns

Source: Morningstar as at 28.02.2022, bid-bid, net income reinvested. ©2022 Morningstar Inc. All rights reserved. The MSCI China Index is a comparative index of the investment trust.

Important information

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The Trust can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility.

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Why Trainline still faces a big test despite ticket commission win

Its shares soared on a new licence proposal but a serious competitive threat remains

Rail ticket site **Trainline (TRN)** may have cleared a significant hurdle on 31 March with the news that it may only see a modest cut to the commission it derives from ticket sales but there is still one big unknown coming down the track which could knock it off course.

Its shares jumped nearly 25% on news that a proposed third-party licence deal with the new state-backed Great British Railways would reduce its commission by half a percentage point to 4.5%. A quarter of a percentage point would be offset by the removal of central industry costs.

At the current 246.5p Trainline is still 30% below the 350p price at which it floated in 2019. The pandemic hasn't helped but market sentiment has also been soured of late by the May 2021 launch of GBR and the news it will become a central hub to sell train tickets online which poses a significant threat to Trainline's market share.

Much will rest on whether Trainline is chosen to provide white label services to GBR in the same way it currently does to various train operators for their own sites. The tender commenced on 1 April and is expected to run for six months.

Winning this tender would provide some protection to Trainline's business, though it would likely result in a hit to profitability if its own site experiences reduced transaction volumes and therefore reduced commission.

Even worse is a scenario in which GBR chooses another partner or takes the whole process in-house. It seems likely that as a government body, tickets sold through the GBR site would be cheaper as they could well be sold free of any commission.

Trainline is an established brand and may offer some innovative features, like flagging cost savings through splitting your journey into multiple tickets that cost less in total than one ticket for the whole route.

However, a new official ticketing site from GBR, likely to be heavily publicised and potentially offering cheaper fares, will test rail users' loyalty to Trainline to the limit.

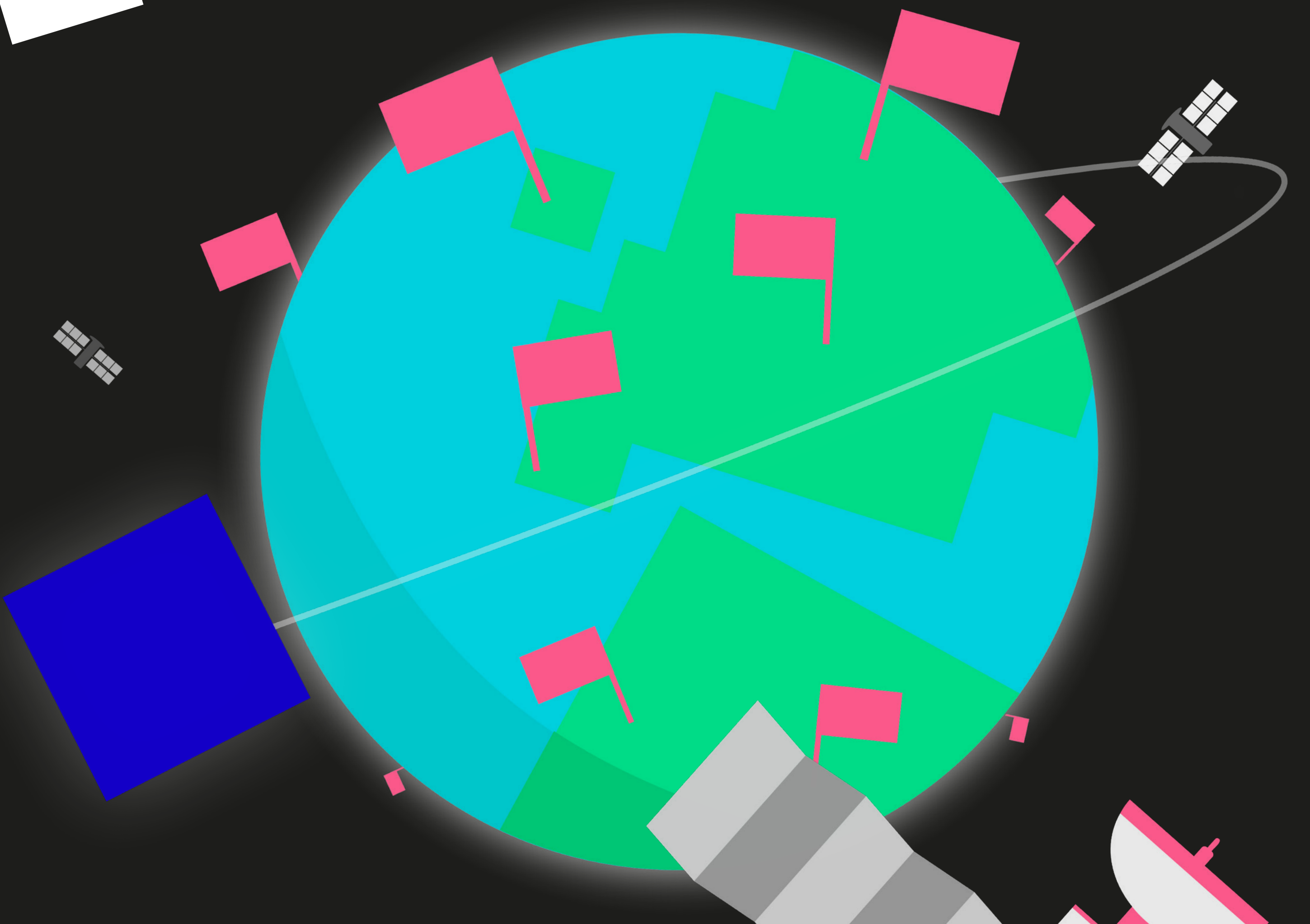
Liberum analyst Ciaran Donnelly remains convinced that, assuming the rail operators stop selling tickets themselves and consumers are faced with a straight choice between GBR and Trainline, the latter will prevail.

Donnelly says: 'The most powerful defence any online platform has is its consumer relationship. It is the most difficult aspect to disintermediate, and we have seen challenger brands try to compete in other markets unsuccessfully, such as **Rightmove (RMV)** and **Auto Trader (AUTO)**.

'Similarly, Trainline has extensive experience competing in this space and has built and retained its market leading position.'

By **Tom Sieber** Deputy Editor

Witan investment trust



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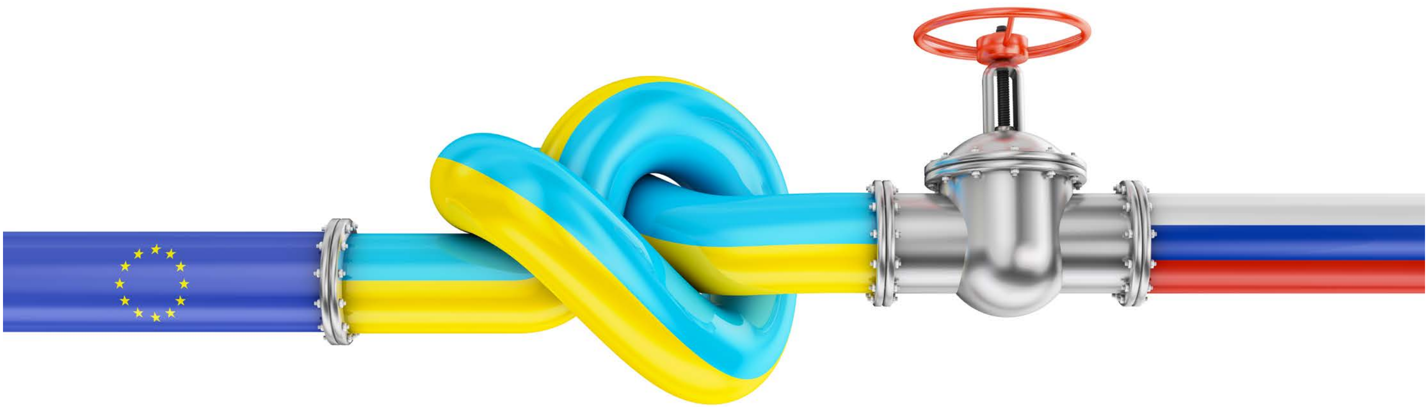
ESG investing faces a watershed after Russia's invasion of Ukraine

How governments, companies and investors react will have lasting effects



Given how widely telegraphed the build-up to war was, it seems unthinkable that politicians and businesses were unaware of the risk that Russia might actually invade Ukraine.

With the invasion now a terrible reality, they are all rushing to reappraise their attitudes and exposure to Russia.

Meanwhile investors, many of whom have spent the last month frantically checking if companies in which they own shares have any exposure to Russia, are now scrutinising their portfolios for other potential unforeseen ESG (environmental, social and governance) risks.

MORAL DIMENSION

Most governments have condemned Russia's actions, but some are still heavily reliant on the country for much of their energy supply.

Germany, for one, is a large consumer of natural gas and relies on Russia for half of its imports.

Despite its parliament condemning the war, Germany's minister for economic affairs expressed the view that where energy policy is concerned a moral dimension 'does not really exist'.

In order to reduce its dependence on Russian gas, Germany is currently seeking alternative supplies from Qatar and the UAE.

Yet both countries have faced criticism over the years for their attitudes towards civil rights.

The UK, another big energy importer, has recently courted Saudi Arabia, which has been condemned by the United Nations for routinely executing people without trial.

The problem for European politicians is, due to a random combination of geology and ideology, most of the world's fossil fuel reserves are located in faraway countries run by people with dubious human rights records.

WRONG SIDE OF HISTORY

For companies which operate in Russia, the invasion of Ukraine has forced them to decide on the very future of their businesses.

One or two have decided to hold their noses and continue as normal, but the vast majority have correctly 'read the room' and ceased trading even though it means forgoing significant revenues.

Jon Hale, director of sustainability research at Sustainalytics, part of Morningstar, says companies that are shunning Russia 'are opening up a whole new front for ESG engagement, setting precedents for how we invest in the future'.

Investors tend to think of ESG as being mostly about the environment and much less about social and governance issues.

For companies though, ESG is about creating a net positive impact for their customers, their employees, their stakeholders and the wider world.

One way a company can do that 'is by being a responsible actor on the public stage when conditions warrant it, rather than shying away from taking stands', says Hale.

As of mid-March, more than 300 international companies had withdrawn from Russia, either of their own volition or due to pressure from stakeholders.

By stopping trading, they are depriving themselves and their stakeholders of income but more importantly they are depriving the Russian economy of revenues with which to wage war.

Meanwhile, overseas assets belonging to Russia's central bank have been seized and several of its retail and commercial banks have been frozen out of the SWIFT global financial payments system.

Regardless of the outcome of the conflict in Ukraine, Russia has become an international pariah and is likely to remain so for years to come.

ENERGY CONUNDRUM

As the price of oil and natural gas has skyrocketed there have been calls to step up fossil fuel production.

Energy firms which just a few months ago were burnishing their 'green' credentials and turning their back on developing new fields are now rethinking their strategies at the prospect of soaring profits.

Yet the longer-term implications of the spike in energy prices are clear: the UK, along with the rest of the world, needs more alternative sources of energy and sooner rather than later.

'Russia's invasion of Ukraine underscores the urgency of shifting to renewable energy', says Hale.

'It's not only about climate change but also more clearly than ever also about ending our dependence on Russia for oil and gas, especially in Europe, because that dependence essentially is financing the invasion, not to mention other autocratic petrostates.'

The European Union, which buys an estimated $800 million of Russian gas every day, has set out ambitious plans to cut Russian imports by two thirds within a year while still hitting its 2030 greenhouse gas emissions targets.

The plans call for more rooftop solar panels, heat pumps and energy saving measures for households, accelerating the decarbonisation of industry by switching to electrification and renewable hydrogen, speeding up renewable power investment and doubling biomethane production.

To secure Europe's future energy needs, however, compromises have to be made.

Work on the Baltic Pipe between the Norwegian sector of the North Sea and Poland has restarted after it was halted last year thanks to ecological concerns, which will displease environmentalists but in the long term will reduce the need for Russian gas.

HIGHER STANDARDS

If companies pulling out of Russia decisively has been a positive surprise from a governance perspective, a big negative surprise has been the discovery that many ESG funds owned fossil-fuel, mining or weapons-manufacturing companies.

Bloomberg points out that at the start of March the largest ESG-focused fund, the US-listed $22.9 billion iShares ESG Aware MSCI USA ETF, had over 3% of its assets invested just in the oil and gas sector, 'the industry most responsible for the accelerating destruction of the planet's atmosphere'.

ESG funds also had more than $8 billion invested directly in Russian government bonds and companies. While the amount is small by comparison with the total amount of assets in ESG funds, 'the revelation has turbocharged scepticism about the merits of ESG investing' says *Bloomberg*.

Despite Russia having a long history of corruption, and the imposition of international sanctions following its annexation of Crimea in 2014, there seems to be no statistical 'screen' to stop ESG funds from investing in say the country's banks or other firms not directly involved in fossil fuels or mining.

MOMENT OF TRUTH

Writing in the *Financial Times*, former Ukrainian finance minister Natalie Jaresko called Russia's invasion 'a moment of truth' for the global business community.

Companies 'must understand that nurturing, upholding, and protecting freedom and democracy is part of their ESG responsibility', says Jalesko.

All too often, 'corporations and their executives engage in marketing or obfuscation of what they're actually doing — what could more accurately be called "ESG-washing"'.

F&C Investment Trust

ESG MATTERS IN 2022

As long-term proponents of investing responsibly we believe that ESG matters year in year out. In early 2022 we have seen social issues come to the fore as the tragic events in Ukraine unfold. These serve as a reminder that we need to question companies' exposure to regimes complicit in human rights abuses.

Climate change also sits high on the agenda. 2021 saw the political impetus behind tackling climate change gain traction – culminating in the commitments made by governments and businesses at COP26. However, questions remain about whether these promises are credible. 2022 will see renewed focus on implementation – turning words and declarations to concrete actions.

We've made the commitment that our portfolio will be net zero by 2050 and we're also working hard engaging with the companies we invest in to ensure that they're on track for meeting – or ideally beating – the commitments they've made.

The movement away from a reliance on fossil fuels will play a crucial role in achieving net zero. The importance of this issue has been underlined by the recent spike in oil & gas prices that have seen our own household energy bills rocket. We see real opportunities in companies related to the energy transition, and this will be a theme throughout 2022 and beyond.

By **Ian Conway** Companies Editor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European shares tend to do well when the US raises interest rates... not this time?

Experts are worried and say it might be better to invest in the US

History suggests European stocks can do well when the US goes through a cycle of raising interest rates, such as we are seeing now. Analysis by Goldman Sachs finds the MSCI Europe share index achieved a 16% annualised return during such periods.

On this basis you might think Europe is a great place to invest. Unfortunately, the Ukraine war changes everything.

Europe is expected to see a sharp rise in inflation, partially linked to having to find alternative sources of energy supply and further supply chain disruption, and that could reduce earnings expectations for companies in the region.

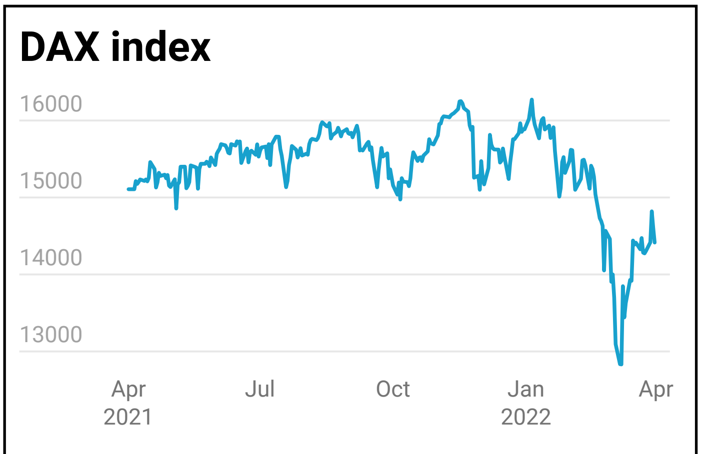


Chart: Shares Magazine • Source: Refinitiv

STAY INVESTED OR LOOK ELSEWHERE?

Shares sees merit in staying invested in Europe as valuations are cheap and there are plenty of high-quality businesses with good longer term growth potential. The catch is that near-term performance could see a lot of ups and downs.

There are already signs that investors are no longer panicking about the war and that peace talks could lead to a resolution. If that does happen, we believe European stocks could rally hard as so much bad news has already been priced in.

Year to date Germany's DAX index is down approximately 10% but that doesn't tell the full story. At its worst point on 8 March, the index was down 19% since the start of January. Since then, it has rebounded by 13%. Investor confidence has

Annualised total return for various assets or indices during periods when the US Federal Reserve is raising interest rates

	%
S&P Goldman Sachs Commodities Index	19%
MSCI Europe	16%
MSCI Emerging Markets	16%
MSCI Japan	15%
Gold	11%
MSCI US	7%
US 60/40 (Equities/Bonds)	5%
DXY (US Dollar Index)	2%
Dow Jones Corporate Bond Index	2%
US 10-year government bond	0%

Table: Shares Magazine • Source: Goldman Sachs, Bloomberg, Datastream, Haver Analytics. Data to 19 January 2022. Data since 1970s or since available

been improving in recent weeks across Europe and other geographic regions.

REASONS TO BE CAUTIOUS

Not everyone shares our positive view, with some experts suggesting it might be time to take some money out of Europe and reinvest in other parts of the world including the US.

Strong consumption has been a key driver of the recovery in Europe, but consumers are now facing numerous headwinds as incomes are squeezed by higher inflation.

This has contributed to a recent decline in consumer confidence, which suggests a significantly weaker outlook for the European consumer.

The US should be among the most resilient economies globally, given its energy independence and its lower share of commodity consumption in gross domestic product.

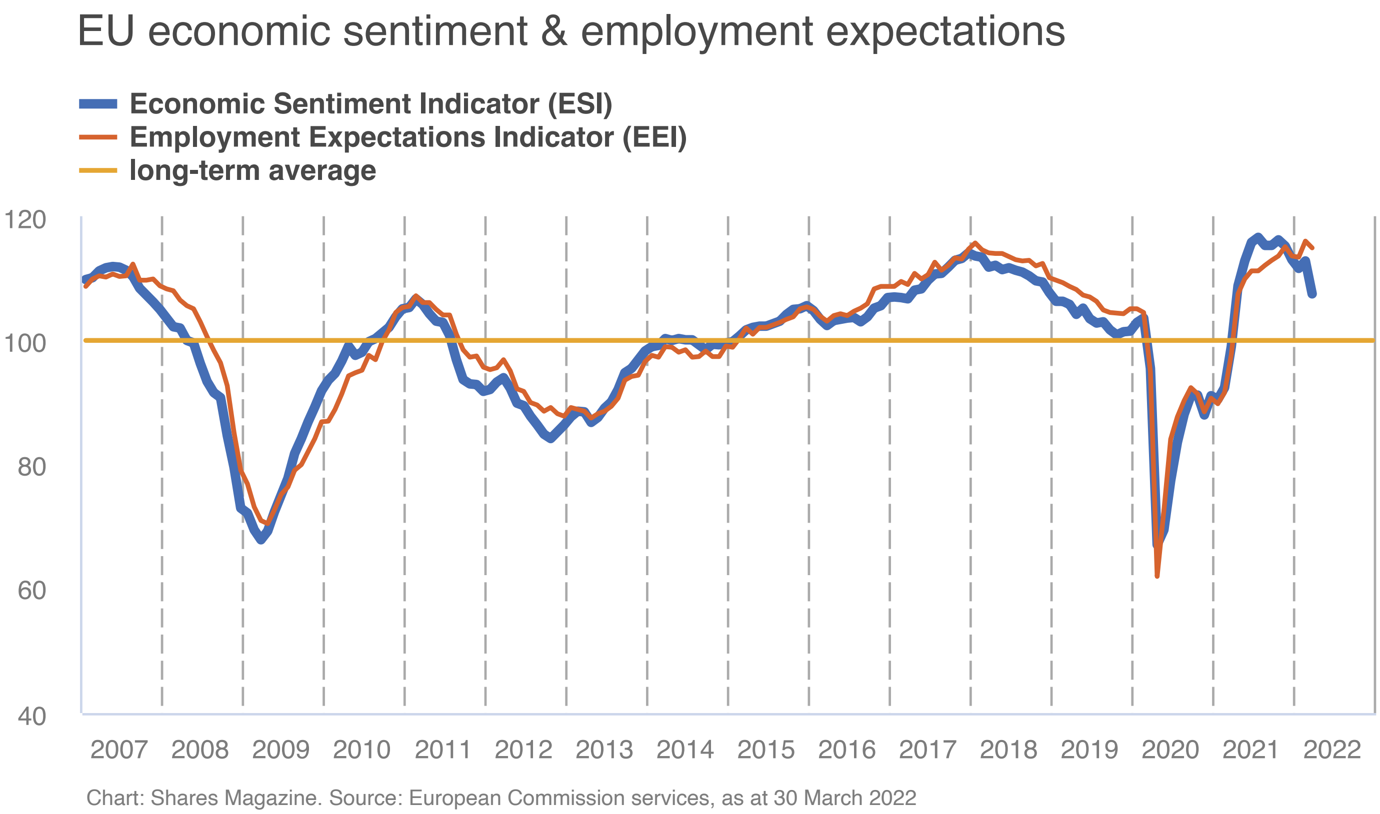
There are still hopes 2022 can be a year of above-trend growth across the Atlantic as strong household and corporate balance sheets keep the economy on a firm footing.

LOOKING AT THE US AND JAPAN

In commentary published on 28 March asset manager BlackRock shifted its favourable stance on European shares in favour of US and Japanese stocks.

This change in geographic asset allocation is predicated on Russia's invasion of Ukraine and the resulting spike in commodities prices.

Wei Li, chief investment strategist at Blackrock Investment Institute, says: 'This is dampening economic growth and exacerbating supply driven inflation with Europe most exposed among



developed markets.

'We expect the energy shock to hit European equities hard. We like the market's cyclical bend in the inflationary backdrop and expect the European Central Bank to only slowly neutralise policy'.

Morgan Stanley's chief Europe economist Jens Eisenschmidt shares similar concerns regarding the increasingly constrained outlook for European consumers.

He says: 'Compared with just a few months ago, the outlook for consumers in 2022 has darkened substantially. Consumers are now facing two distinct shocks this year, higher inflation, in particular higher food and energy prices, which is squeezing incomes. We expect inflation to average 5.3% in 2022, with energy inflation up by around 30% this year as of February 2022.

'Food and utility bills account for approximately 15% of the total consumption basket in the euro area. A sharp increase in prices is likely to represent a tax on consumer's disposable incomes and is likely to be reflected in lower consumption.'

Morgan Stanley estimates the rise in energy and food prices seen so far will result in a 0.5% hit to Eurozone growth in 2022.

DOWNGRADED GROWTH EXPECTATIONS

This more cautious view regarding the outlook is echoed by S&P Global Economics which now expects Eurozone growth to be 3.3% this year, compared to 4.4% in a previous forecast, and inflation to reach 5% this year and stay above 2% in 2023.

It comments: 'Growth could face downward pressure, and inflation could be amplified by a higher and longer oil price shock, outright cuts to the gas supply, stronger confidence effects that would lead households to save more'

The European Commission's March consumer confidence survey showed the second largest fall in the data's history, with the largest fall recorded at the start of the pandemic. That is important to note because historically there has been a close link between consumer confidence and equity performance, both in Europe and the US.

By **Mark Gardner** Senior Reporter

GOING LONG: THE PURSUIT OF EXTREME RETURNS

The value of an investment, and any income from it, can fall as well as rise and investors may not get back the amount invested.

Companies that can deliver extreme returns are by their very nature rare. Being able to invest globally and be agnostic between public and private companies gives Scottish Mortgage the best opportunity of finding them. Whether investing in private or public markets, the goal is always the same: to identify the small number of companies that have the potential to deliver the exceptional growth characteristics that its managers are looking for.

Trying to maximise returns for shareholders over five and ten years means the investors tend to have a different focus to many of the other shorter-term participants in the financial markets. It's not that they are blind to economic headwinds, such as rising inflation or global conflict, but that they are able to see through them. By backing structural trends, the holdings are less dependant than average growth companies are on GDP growth or other elements.

As Lawrence Burns, deputy manager, explains, "We're trying to own companies that face a really transformational, secular growth opportunity, that in all but the strongest of macro headwinds should come to fruition and be meaningful." He cites Mercado Libre, one of Scottish Mortgage's holdings, as an example. It operates online marketplaces in Latin America. "Ultimately, the investment case is about whether you think people are going to buy more online in the future or less, irrespective of how large that retail pie is? And I think that's answered by the fact that despite the macroeconomic difficulties, over the past five years, Mercado Libre has grown its revenues over eightfold."

One of the reasons the company has been able to do this is that online retail is a better and more efficient way to consume. And 'a better way of doing things' is a common theme among the companies Scottish Mortgage backs, whether they are in healthcare or ecommerce. Companies that can lower the price and the cost to the end consumer/patient by providing a better way of doing things. This makes the advantages that they offer even more important and, ultimately, more valuable for shareholders in the long term. It gets to the heart of what Scottish Mortgage is trying to invest in, which is the big changes on a ten-year view.

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Invest in micro cap funds for growth

We explain how micro cap funds can help you profit from the market's smallest companies and flag some recent new purchases

In light of the implications of the unfolding tragedy in Ukraine, the global growth outlook has dimmed, which means now more than ever, portfolios should be as diversified by asset class as possible to in order to maximise returns relative to risk.

Higher risk assets they may be, yet 'micro caps', the London stock market's smallest quoted companies should form at least a portion of a well-diversified portfolio.

WHY INVEST IN MICRO CAPS?

Being early-stage businesses, the fortunes of many micro caps remain focused on the domestic economy and their ability to grow in a stagnant economic climate could prove useful in the current turbulent backdrop.

Micro cap companies offer potential for much more rapid-paced growth than mid or large caps, which means their share prices have a better chance of increasing at a faster rate over the long term. It is much easier for a £50 million market cap to get to a £200 million valuation than it is for a £50 billion company to quadruple in size.

Though there is no standard definition of what constitutes a micro cap, most market watchers consider the asset class to encompass companies valued at below £150 million and certainly sub-£250 million.

Through funds and investment trusts, investors can access the vast potential of opportunity in this under-researched part of the market, where managers are able to exploit liquidity premium and often find it easier to consistently generate market-busting returns.

As Gervais Williams and Martin Turner, managers of **Miton UK MicroCap Trust (MINI)**, remarked in its January factsheet: 'The nature of quoted micro-caps is that they are often overlooked by professional investors, so there is opportunity for active stock pickers to add to the potential upside.'

They also stressed that many UK micro caps 'are relatively young businesses, that are serving industry sectors that are immature. During the pandemic-induced recession in 2020 for example, many businesses in the portfolio continued to prosper despite the global setback.'

One of the main drawbacks for investors in micro caps however is they can suffer from their shares being traded infrequently and in modest volumes. As a result, liquidity can be a major problem, with significant bid/offer spreads (the difference between the price at which you can buy and sell a share) triggering more pronounced share price moves.

10 YEAR STAR TURNS

Shares has crunched the data from FE Fundinfo to find the top 10-year total return performers among the merry band of dedicated UK micro cap funds and shine a spotlight on vehicles which may have shorter track records, yet might appeal to risk-tolerant investors.

In the funds space, **LF Gresham House UK**

Micro-cap trusts and funds, ranked by five-year performance

Investment trust	1 year	3 years	5 years	10 years
FP Octopus UK Micro Cap Growth	1.9%	55.9%	95.3%	n/a
IFSL Marlborough UK Micro-Cap Growth	−10.8%	56.7%	94.7%	229.0%
LF Gresham House UK Micro Cap	−7.9%	30.7%	65.2%	302.2%
Liontrust UK Micro Cap	−7.2%	39.8%	62.6%	238.8%
MI Downing UK Micro-Cap Growth	−19.4%	30.9%	43.1%	n/a
Miton UK MicroCap Trust	−12.2%	54.7%	42.6%	n/a
River And Mercantile UK Micro Cap	25.1%	11.3%	−4.8%	116.7%
Downing Strategic Micro-Cap	−6.3%	−0.7%	n/a	n/a

Table: Shares Magazine • Source: FE Fundinfo, data as at 30 March 2022. Total return in GB. • Created with Datawrapper

Micro Cap (BV9FYS8) has returned 302.2% on a decade-long view and 65.2% over the past five years, consistently outperforming the IA UK Smaller Companies sector, though it has generated a negative return of 7.9% over a one-year horizon amid the market rotation away from risk assets due to fears over rising interest rates.

Managed by the well-regarded Ken Wotton, the fund looks for six key areas when assessing potential investments: entrepreneurial managers, strategy, market opportunity, market position, valuation and financials.

The latter includes earnings potential, quality of earnings and balance sheet strength. Its portfolio currently includes the likes of **Alpha Financial Markets Consulting (AFM:AIM)**, cyber security firm **Kape Technologies (KAPE:AIM)**, wealth manager **Mattioli Woods (MTW:AIM)** and maritime artificial intelligence leader and AIM newcomer **Windward (WNWD:AIM)**, whose customers include **BP (BP.)**, **Shell (SHEL)**, **HSBC (HSBA)** and some leading government agencies.

Other 10-year performance star turns include **IFSL Marlborough UK Micro-Cap Growth (B8F8YX5)**, which has returned 229% over 10 years and almost 57% over five, albeit the fund is down 10.8% over one year.

Ranked first quartile over three, five and 10 years, the Guy Feld and Eustace Santa Barbara-bossed unit trust has 35.9% of its assets in sub-£250 million companies, with customer relationship management software concern **Cerillion (CER:AIM)** among their number, although some 37.3% of assets are in companies that have grown from micro caps into small caps valued at between £250 million to £1 billion, among them recent **Marlowe (MRL:AIM)**.

FP Octopus UK Micro Cap Growth (BYQ7HP6) may be down materially on a one-year view its performance over the longer term is strong.

Whereas the core is populated by profitable, cash generative businesses with an experienced management team, the satellite positions, limited to 25% of the portfolio by value, are higher risk growth opportunities including initial public offerings and exceptional growth opportunities including firms yet to turn a profit.

Launched in 2007, the £253 million Octopus fund has handsomely outperformed the IA UK Smaller Companies sector since inception. Managers Richard Power, Chris McVey and Dominic Weller pursue a long-term approach of investing in small fry that have the opportunity to develop into substantially bigger corporate fish, hopefully with global scale.

As at 31 January 2022, FP Octopus UK Micro Cap Growth's diverse holdings spanned everything from AIM constituent **RWS Holdings (RWS:AIM)**, the provider of language localisation and intellectual property (IP) support services, to Harry Potter publisher **Bloomsbury (BMY)** and construction materials distributor **Brickability (BRCK:AIM)**.

RE-RATING POTENTIAL

All three dedicated micro cap investment trusts have differing approaches to the asset class and trade on varying discounts to NAV (net asset value) that imply the possibility of gains as the shares move bck towards the value of the underlying assets . The aforementioned Miton UK MicroCap, for example, trades at a 5.9% NAV discount.

Shares sees the wide 14.2% NAV discount on investment trust **River & Mercantile UK Micro Cap (RMMC)** as compelling, although prospective investors should note there's a performance fee of 15% of outperformance levied on top of the 0.75% annual management charge.

Managed by the diligent George Ensor, the trust invests in sub-£100 million cap companies and as a closed-ended vehicle, can take a high-conviction, concentrated approach – only 41 stocks populated the portfolio at last count – which is not usually possible with open-ended structures.

Ensor is happy to run his winners as they move up the market cap ranks but it is also worth noting that River & Mercantile UK Micro Cap has continued to return to capital to shareholders at NAV in order to keep its net asset value at around the £100 million mark and continue to run a concentrated portfolio of tiddlers.

Chemistry graduate Ensor invests according to River & Mercantile's tried-and-tested 'PVT philosophy', where stocks are evaluated by a combination of their *potential* to create value, their *valuation* and the *timing* of buying into a position.

Portfolio holdings range from **Instem (INS:AIM**), a provider of IT solutions to the life sciences market and sports nutrition business **Science in Sport (SIS:AIM)** to legal eagle **Keystone Law (KEYS:AIM)** and relative AIM newcomer **CMO (CMO:AIM)**, the online-only building materials retailer.

Ensor recently supported the initial public offering of **Strip Tinning (STG:AIM)**, a supplier of specialist connectors to the automotive sector with a leading market share in glazing connectors supply.

The company raked in £8 million of new money at 185p to build on its initial success in electric vehicle connectors where light, complex connectors are required to combine individual battery cells.

Downing Strategic Micro-Cap's (DSM) 22.3% discount to NAV reflects some difficult early years since its 2017 launch, although recent performance has been encouraging.

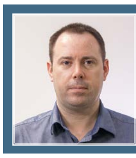
In fact, Shore Capital believes 'the market rotation favouring value stocks, given the prospect of further rate hikes, should provide a supportive environment for DSM's portfolio' as the market searches for value and the broker points out 'most of the structural changes required in the portfolio companies have been implemented, and we believe it is now a matter of reaping the rewards'.

Managed by Judith MacKenzie, the fund employs a value approach and seeks to be influential through taking strategic stakes.

Investors should note the portfolio is highly concentrated at between 12 and 18 positions, among them the likes of **Volex (VLX:AIM)**, **Hargreaves Services (HSP:AIM)** and **Real Good Food (RGD:AIM)**.

Three new positions that value investor MacKenzie has added to the portfolio of late include **Centaur Media (CAU)**, the publisher of The Lawyer and Marketing Week, as well as executive search specialist **Norman Broadbent (NBB:AIM)** and **National World (NWOR)**, an 'illiquid and under-the-radar company trading at the bottom end of the main market' according to MacKenzie.

'National World was a reverse into the regional publishing assets of the old Johnston Press. The management team are top calibre, with experience seldom found in £70 million market caps.'



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

Polar Capital
Global Financials Trust plc

Are you positioned for rising interest rates?

As inflation and the cost of living mounts, financial stocks are typically one of the few beneficiaries from rising rates. This large and diverse sector, which includes banks, insurance companies, asset managers, stock exchanges and fintech companies, offers a compelling investment case today.

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Our 2022 stock portfolio rises against a volatile market backdrop

A solid showing sees us lag the FTSE All-Share but beat the MSCI World

Despite the best efforts of quite a few holdings, our 'stocks for 2022' portfolio is lagging the FTSE All-Share index since being launched in late December 2021. We're up 2.4% versus a 3.2% gain from the benchmark.

Nevertheless, to be in positive territory is a good achievement given how volatile the first three months of the year have been for stock markets, and the FTSE All-Share index has benefited from some weighty commodities-related exposure.

Our selection contains three overseas-listed stocks and so it makes sense to also compare the performance against a global equity benchmark rather than simply a UK one. Our 2.4% share price return comfortably outperformed the MSCI World index (comprising the developed world's largest companies) which was down 4.2% in the first quarter.

PRESSURE ON CONSUMER-FACING STOCKS

It's no surprise that two of the main detractors from performance in our portfolio are consumer facing, given an existing cost-of-living crisis has been exacerbated by the war in Ukraine.

Investors are clearly concerned about people's willingness and ability to spend on their pets, judging by the 20.7% decline in specialist retailer **Pets at Home (PETS)**. However, we should emphasise that spending on pets is non-discretionary which would suggest Pets at Home's earnings might be more resilient than other areas of retail such as electronics and casualwear.

The replacement for the outgoing Pets at Home CEO Peter Pritchard, Sky alumni Lyssa McGowan, looks a decent appointment and a third quarter update in January contained upbeat comments from management.

The 10.6% share price fall in casual dining outfit **Loungers (LGRS:AIM)** is around the half the magnitude of that seen at Pets at Home, perhaps reflecting a perceived greater willingness for people to prioritise to spend on experiences over 'stuff', after a period when Covid restrictions prevented them from doing so.

This also seems to be in evidence at **Jet2 (JET2:AIM)** which is one of our best portfolio performers despite the impact on the travel sector of geopolitical tensions and surging fuel costs.

The company has hedged its exposure to higher fuel prices for the current summer holiday season and Numis analyst Richard Stuber observes: 'Jet2 as a key beneficiary of the rebound in leisure travel given its strong liquidity and exemplary customer track record.'

ENERGY PRICES BOOST

Surging energy prices, sparked by Russia's invasion of its neighbour, have benefited **IOG (IOG:AIM)**, which is up 28.2% since we said to buy last December.

The North Sea firm, which produced its first gas in March, has been beset by teething problems on its fields, as well as some reserves downgrades and delays to maiden output. However, it should now start generating meaningful cash flow, underpinned by an exceptionally strong natural gas market.

The Ukrainian conflict and the risks to the global economy and supply chain disruption, plus a continuing shift out of expensive growth stocks into ones that are trading on lower valuations

SHARES' 2022 Portfolio

Company	Entry price (p)	Price now (p)	% gain / loss
IOG	30.82	39.5	28.2
Jet2	971.8	1145	17.8
London Stock Exchange	6852	7914	15.5
Tate & Lyle	650.6	738.4	13.5
Roche	CHF 401.8	CHF 408.9	1.8
Alphabet	$ 2848	$ 2852	0.1
Schneider Electric	€ 164.66	€ 153.12	−7.0
Loungers	278.5	248.9	−10.6
Accsys	171.75	146.5	−14.7
Pets at Home	467.6	371	−20.7
Portfolio return			**2.4**
FTSE All-Share	**4089.84**	**4222.38**	**3.2**

Past performance is not a reliable indicator of future returns

Table: Shares Magazine • Source: Google Finance. Entry prices taken 20 Dec 2021. Latest prices taken 31 Mar 2022

goes some way to explain the share price decline in French electronics specialist **Schneider Electric (SU:EPA)**. Annual results (17 Feb) included guidance for organic growth of up to 9% in 2022.

Sustainable wood technology outfit **Accsys Technologies (AXS:AIM)** reported a final investment decision had, after a longer-than-expected wait, been made to proceed on its US joint venture with Eastman Chemicals.

However, less positively the company experienced some production downtime at its Arnhem plant, which means earnings for the March 2022 financial year will be at the lower end of consensus forecasts.

HOLDING FIRM

Shares in pharmaceutical giant **Roche (RO:SWX)** may not have delivered strong share price gains in the past quarter but the Swiss firm has ultimately proved defensive during the recent global market sell-off even if there have been some ups and downs along the way. It's a similar story at Google-owner **Alphabet (GOOG:NASDAQ)**, which like Roche is broadly unchanged on its 2021 year-end level.

At one point an indiscriminate sell-off in US technology firms saw Alphabet's shares down nearly 10% on our entry point. They have since recovered sharply, despite the threat posed by tighter regulation whereby a new law proposed by the European Union would clamp down on anti-competitive behaviours among big tech firms.

BIG ADVANCE FOR LSE

London Stock Exchange (LSEG) and **Tate & Lyle (TATE)** have both enjoyed impressive share price performance over the past quarter.

Food ingredients expert Tate & Lyle reported a near-20% surge in core business revenue for the third quarter to December 2021 and also reassured the market it was on track to complete the sale of its North American Primary Products business on time. The deal was due to complete at the time of writing.

London Stock Exchange reported stronger than expected full year results on 3 March, with adjusted earnings of £3.28 billion. The company also announced the $1 billion disposal of its securities execution and post-trade processing services businesses to a consortium of buyers (21 Mar).

By **Tom Sieber** Deputy Editor

ADVERTISING FEATURE

RUFFER

An alternative to alternatives

The dismal performance of bonds in recent months has led investors to question their role in portfolios. Bond allocations are being reduced in favour of alternatives – property, private equity, renewables or infrastructure. But is this the right medicine for ailing balanced portfolios?

The Ruffer portfolio offers an alternative to alternatives – built to defend against inflation and protect capital in volatile markets.

DIFFERENT EGGS, SAME BASKET

Investors have been diversifying away from sovereign bonds at increasing speed. Moving into investment grade, high yield, private equity, infrastructure and renewables. The main driver of returns in these assets is a sensitivity to interest rates. Falling interest rates have provided the perfect backdrop for these assets, but this is beginning to reverse. In effect, investors are swapping one type of risk for another – different coloured eggs, but still the same basket.

Asset markets have shown worrying correlation over recent weeks – true diversification requires looking elsewhere.

ENDURANCE AND AGILITY

Marathon runners and sprinters either need endurance or agility. Investors, however, will need both. Here are three ways, we're building resilient and agile portfolios for a new market regime:

1. Nominal assets to real assets. Inflation-linked bonds, commodities and gold are major constituents of our portfolio – historically they have preserved value in the face of rising inflation and should remain true to form.
2. Swap conventional for unconventional. No longer do 'defensive' stocks look likely to hold up against sell-offs and rising interest rate risk. Derivative protections – in credit and equity markets – have a vital role to play in protecting capital.
3. Prepare to be tactical. The wisdom of buy-and-hold is being challenged. If you believe in a new, more volatile inflationary regime this comes with greater market volatility. This turmoil will create opportunities for those who can be nimble and tactical.

Conventional bonds – long the bedrock of balanced portfolios – have faltered. As investors look to diversify into alternatives, they must ask how alternative those assets really are.

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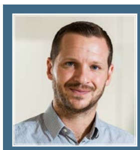
Prices are going through the roof – what should I do with my pension?

Our expert looks at how to manage a retirement pot against an inflationary backdrop

I'm 68 and had a SIPP worth around £120,000 in April last year. I withdrew £10,000 – so around 8% of the fund – which alongside my state pension took my pre-tax income to about £18,000. The remaining fund then grew by 5%, so I now have a fund worth about £115,000.

Given inflation is expected to run at somewhere north of 8% in 2022, I'm thinking of withdrawing an extra £1,000 in April 2022 to cover my costs (so I'll withdraw £8,000 from my fund, leaving me with around £107,000).

I just wanted to check if this approach is sensible or not? I know sustainability is important but I also want to enjoy the healthy years of my retirement.
Robert



Tom Selby, AJ Bell Head of Retirement Policy says:

For the past decade inflation has not been at the forefront of savers' and investors' minds. It is always important to take its impact into account – even relatively benign inflation can have a big impact when compounded over years – but a figure hovering somewhere between 0% and 3% meant it never grabbed headlines.

That has changed in 2022, with surging energy prices and the end of lockdown combining to push CPI inflation to a record 6.2% in February.

Price increases are expected to continue as the year goes on, straining the household budgets of Brits of all ages.

One of the main things you need to think about when taking a flexible income from your pension is what is sustainable.

That will depend on personal circumstances, including your age, wealth, health and investment returns.

As a very rough rule of thumb, a healthy 65-year-old should be able to take between 3% and 4% of their fund value, rising each year in line with inflation, and be confident their money will last throughout retirement.

Based on this rule, someone with a £100,000 pot at age 65 might be able to take between £3,000 and £4,000 a year from their fund. However, a sustained period of high inflation could push this figure down as the amount you need to withdraw to maintain your lifestyle rises.

That isn't to say that you shouldn't withdraw more than this – it is after all your money – but rather to help you understand the potential risk that you will exhaust your fund early.

Let's consider your situation. If we assume your income needs remain static throughout retirement, withdrawals increase by 2% a year from 2023 onwards and investment growth is 4% per year after charges, your fund could run out around your 84th birthday.

However, if inflation runs at 4% a year and withdrawals increase at that rate – meaning spending power is maintained - the fund could be exhausted three years earlier.

Either way there's a good chance your fund will run out early, so think about how you'd fund your lifestyle if that happened.

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.

Heads we win, tails we lose

Ashoka India Equity's unique structure means it is strongly aligned with shareholder interests...

"Beware of the person who gives advice, telling you that a certain action on your part is 'good for you' while it is also good for him, while the harm to you doesn't directly affect him," writes Nassim Taleb in his book Skin in the Game.

Few lines could better capture one of the perennial problems found in the world of investing. Someone managing a fund wants you to invest in it. You both benefit if it goes up. But if the opposite happens, the fund manager is still going to get paid, even though you've lost money.

It's a problem with no good solution. Even fund managers need to get paid at the end of the month. They are also providing a service. Managing an investment portfolio isn't a quick or easy process, so it makes sense that we pay them to do so – just as we pay almost anyone else that provides us with a service or product.

Changing the dynamic

All is not lost, however, as there are fund managers out there taking a different approach to try and balance their interests with their investors.

One of them is White Oak Capital, which manages **Ashoka India Equity (AIE)**. Launched in 2017, the asset management group was founded by Prashant Khemka, CIO and lead PM of both Goldman Sachs India since March 2007 and Global Emerging Markets Equity since June 2013.

AIE was set up by Khemka's team in July 2018. From its launch until the end of February 2022, the trust has been the best performing closed-ended fund in its peer group. It has been remarkably consistent in doing so too. Not only are its total returns superior over the period since its IPO, but it was the best-performer on an annual basis every year since launch.

AIE is also structured in such a way that arguably optimises the fine balance between shareholder interests and the fund manager's need to make money. On the most basic level, it has a discount control mechanism that allows investors to redeem their shares at net asset value (NAV) once a year.

More notably, White Oak does not charge any management fees for running AIE. That may seem like a typo but it's not. Day-to-day expenses are paid for by fees levied on White Oak's other funds and the asset manager only takes a fee if AIE delivers outperformance. Currently that translates into a 30% performance fee on any alpha (performance in excess of the benchmark) the trust delivers in NAV terms.

Significantly, from the shareholder's point of view, outperformance is measured on a three year-long basis. That means any outperformance is more likely to be the result of White Oak's analysts, rather than some sort of short-term fluke derived from favourable market conditions.

Long-term lock in

A couple of other features may make this set up even more attractive for shareholders. For one, the trust pays its performance fee in AIE shares. Half of those shares then have a lock-up period of three years.

That means, to really enjoy the fruits of their labour, the trust team has to deliver returns over a six-year period. There is also no requirement to sell and White Oak has not sold any of the shares it received in performance fees, a sign the managers believe in the trust's long-term prospects.

To top this off, individual analysts working on the trust's portfolio are paid according to their contribution to the trust's performance. The more an analyst's picks improve the trust's track record, the better their compensation from White Oak.

As with any investment trust, AIE's set up isn't perfect and it's not going to protect investors from losses and Indian equities can be volatile, particularly at a time like this when geopolitical risks are high and the traces of the pandemic linger on. But it is a unique attempt to find a middle ground which works for both investors and fund managers, and perhaps the only trust on the market today that won't charge you anything if there is no outperformance.

Whether or not that will ensure the trust delivers outperformance is impossible to say but it's a process that has worked for investors and White Oak so far, and it may appeal to those looking for options in what is an exciting part of the world for growth investors.

Click **here** to read our latest research on Ashoka India Equity...

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Student loans are set to get more expensive – should you pay them off as soon as possible?

Examining the case for clearing those debts built up at university early

Chancellor Rishi Sunak has announced a shake up of the student loan system, which will make it more expensive for people to go to university and mean graduates are paying off their loans for up to 40 years after they leave university.

Graduates and potentially their parents may be left wondering if there's a case for taking action to pay off borrowings as early as possible in light of these changes.

The modified rules extend the period until your loan is wiped out from the current 30 years up to 40 years. It means someone who graduates when they are 21 could be paying off their loan until they are 61.

The next big change is that the threshold at which you start repaying your loan has reduced from the current £27,295 down to £25,000. However, one help for graduates is that the interest on the loan will be simplified to be just the current rate of RPI inflation, where currently it's charged at RPI plus up to 3%, varying by your income.

REPAYMENTS GOING UP

However, the combined impact of these changes mean that many graduates will repay more than double what they currently do. For example, someone who graduates with £45,000 of debt on a starting salary of £30,000 a year will currently pay back £30,900 in total, assuming their salary increases by 3% a year. Under the new system they will repay £71,518 – so almost £27,000 more than they borrowed thanks to the impact of interest over the 40-year term of the loan.

Someone who starts on a lower graduate salary of £20,000 will pay back £7,207 under the new system, whereas previously they wouldn't have repaid any of the loan as they would never have earned enough to get over the income repayment threshold.

PARENTS WHO HAVE A LUMP SUM WILL NOW BE WONDERING WHETHER IT'S BETTER TO PAY OFF THE LOAN OR LEAVE THEIR CHILD TO PAY OFF THE LOAN THROUGH THEIR SALARY

However, the changes do benefit higher earners, who will pay off their loan faster and so incur less interest over the term of the loan, but also benefit from the lower, flat-rate interest under the new system. For example, someone on a starting salary of £50,000 (on the same debt and salary increase basis as above) would pay off almost £117,000 under the current system, but only £62,000 under the new system. Of course, few graduates will start on such a high salary.

SO IS IT BETTER TO PAY OFF THE LOAN STRAIGHT AWAY?

Parents who have a lump sum they could use to pay off the debt will now be wondering whether it's better to pay off the loan as soon as their child graduates (or just not take out the loan in the first place and use that pot of money to pay for their

child's university education) or whether they leave their child to pay off the loan through their salary. However, it's not an easy calculation and relies on some big assumptions about your child's future earning potential.

The first thing to note is that student loan debt is not the same as other debt – you don't have to pay it if you have no income, or your income falls below the new £25,000 a year threshold. So, if you take time out, a career break or work part-time on a lower salary, you wouldn't be liable to pay it. It also doesn't count on your credit file as debt like that volume of credit card debt would, for example.

Regardless, many graduates won't want their university debt following them around for 40 years if they can help it. And, as you repay your debt at a rate of 9% of any income over the £25,000 threshold it means that graduates have a 42.25% effective tax rate over this income level (20% basic rate tax, 13.25% National Insurance and 9% student loan repayments). That could significantly impact their ability to save money for a house deposit, for example, or to live the lifestyle they want.

However, whether it's worth paying off the loan hinges on what your child is likely to earn. Someone with £45,000 of debt on a starting salary of £25,000 who sees a steady 3% a year increase in their salary will repay just over £36,000 in total over the 40 years. That's obviously much less than the amount they initially borrowed and so means it wouldn't be worth paying off the debt when they graduate. However, a small increase in their starting salary to £30,000 changes the figures entirely, as they would pay off just over £71,500, far more than the initial debt.

ACCOUNTING FOR PERSONAL CIRCUMSTANCES

These scenarios don't account for any career breaks, due to having children, going back into education or travelling, where the graduate would make no repayments. And nor do they account for big increases in salary, due to promotions or switching jobs. And both these factors can dramatically impact the sums.

Let's take that person starting on £30,000, with £45,000 of debt and a gradually rising salary. If they took a five-year career break early on in their career and then resumed work on their previous salary their repayments will reduce to just more than £40,000.

Now take that same individual starting on £30,000 with no career break but instead they get three pay rises of £5,000 each in years five, 10 and 15 of their career – now their repayments rocket to almost £104,000 – meaning that it would have made financial sense to pay off the loan when they graduated.

As these figures highlight, there's no easy answer. Some of it will come down to the career your child picks and their likely future choices around career breaks, and some may come down to whether that's the best use of the lump sum you have sitting around.

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

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The impact of a US bond market blitz on stocks and the economy

The recession warnings signs which can be seen in US government debt markets

It was former US president Bill Clinton's economic adviser James Carville who said that if he were reincarnated, he would like to come back as the bond market because then 'you can intimidate everybody.' Now that US bond yields are surging and prices are falling, stock market investors need to seriously think about whether it is time to be frightened or not.

US 10-year government debt or Treasury yields are still way below the prevailing rate of inflation, to suggest that fixed-income investors either do not believe in the US Federal Reserve's apparent new-found resolution to tighten monetary policy or fear that a recession will strike first and force the American central bank to quickly backtrack (again).

The US yield curve, where the yield is almost lower on 10-year paper than it is on two-year Treasuries, suggests the latter argument may be gaining currency.

STRANGER THINGS

The 10-year US Treasury yield stands at 2.36%, a level last seen in May 2019, but that is still miles below the prevailing rate of inflation of 7.9%.

US 10-year Treasury yields are rising sharply

Chart: Shares Magazine • Source: Refinitiv

The strange shape of the US yield curve implies that holders of US Treasuries are far from convinced that the Fed will follow through on its threats of faster interest rate rises, and a reduction in financial stimulus also known as quantitative tightening from May onwards, should it deem them necessary.

Again, yields are nowhere near the prevailing rate of inflation and are instead closely hugging the five-year forward inflation expectation of 2.3%.

RUSS MOULD
AJ Bell Investment Director

In many ways it is easy to understand why. In early February the bond market had priced in a half-point rate rise only for Fed officials to tamp down that expectation, partly as the Russian invasion of Ukraine intervened, and ultimately deliver a quarter-point increase. Nor did the Federal Open Markets Committee deliver its promised plan for quantitative tightening.

For all of its tough talk, the Fed is still running the second-lowest base rate and the biggest balance sheet in its history. Policy is therefore still ultra loose, even as inflation gallops higher. The Fed calling wolf is therefore failing to convince.

US yield curve looks oddly flat

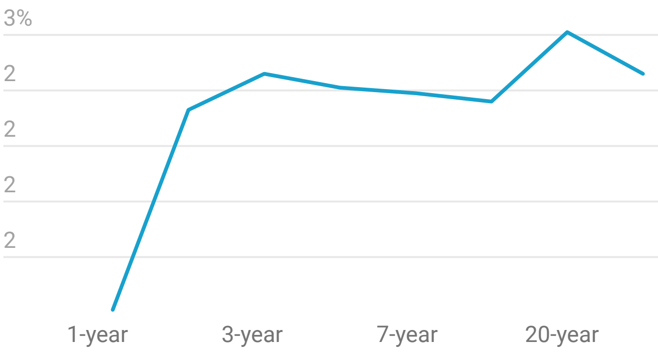


Chart: Shares Magazine • Source: Refinitiv

Perhaps bond markets are thinking about why the Fed is moving so ponderously especially after chair Jay Powell's admission its initial analysis that inflation was transitory is proving well wide of the mark, at least so far.

Bond investors may still think that inflation will fizzle, as the best cure for high prices proves to be high prices and consumers and corporations simply buy less. It may also be that the surge in demand which followed the easing of lockdowns peters out, especially as tax breaks and fiscal stimulus is being taken away just as monetary policy is being tightened.

Indeed, that combination speaks loudly of the risk of a slowdown in economic activity and the bond market is getting close to giving what is often seen as a classic warning of recession – namely an inverted yield curve.

UPSIDE-DOWN WORLD

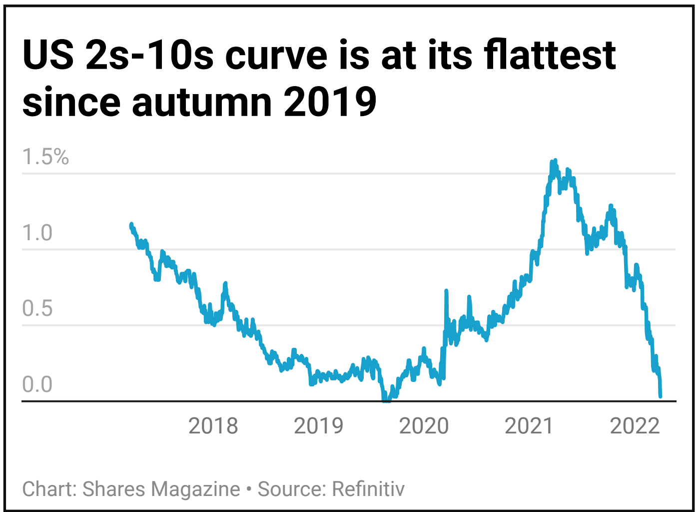
Usually, long-term interest rates are higher than near-term ones, to price in future rate rises in the view that central banks will act to stop an economy from overheating.

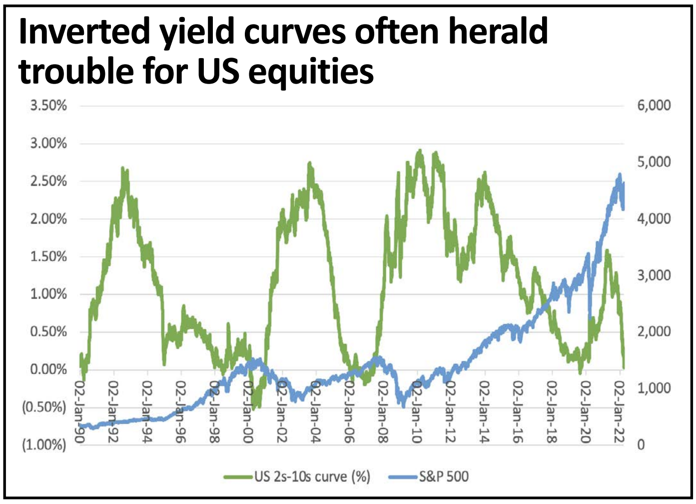
However, on some occasions, long-term rates come in below near-term ones, as markets price in interest rate cuts in the view that central banks will have to step in and boost a flagging economy or even stave off a recession.

This is usually measured by tracking the difference between 2-year and 10-year bonds and is known as the 2s-10s curve. Right now, the yield differential between the two is closing right up and stands at just 0.03%, compared to more than one percentage point just six months ago.

Someone, somewhere thinks the US economy may be about to lose momentum, and fast because the 2s-10s curve is at its flattest since autumn 2019, when US economic data was softening, chaos was about to break out in the US interbank repo market (where institutions trade short-term secured loans) and the Fed stepped in with support *before* the pandemic broke out.

RUSS MOULD
AJ Bell Investment Director





Source: Refinitiv

Perhaps bond markets are sending a cautionary signal, but they may be more worried about a recession than inflation. Granted the 2s-10s curve is far from an infallible indicator but the Federal Reserve must be treading carefully for a reason and stock market investors should take heed, as inverted yield curves tend to suggest there is trouble ahead for the S&P 500 index.

The inverted yield curves which forewarned of economic downturns in 2000, 2007-08 and again in 2020 were followed by bear markets and falls of at least 20% in the US stock market.

Right now, the S&P500, NASDAQ and Dow Jones indices do not seem to care, as they are up since Russia's attack on Ukraine. But on the face of it, either the stock market or the bond market has got it wrong.

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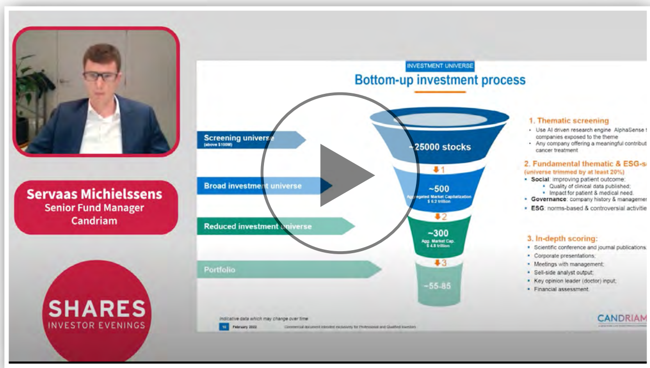

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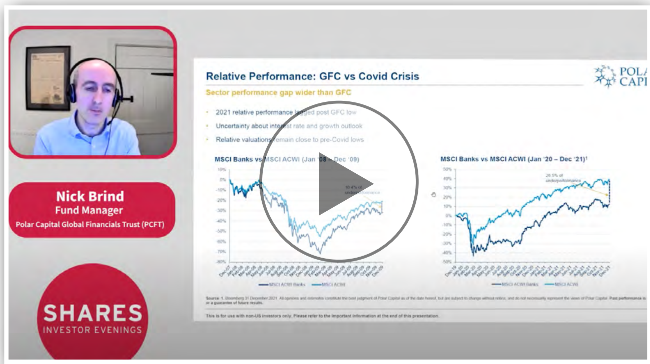

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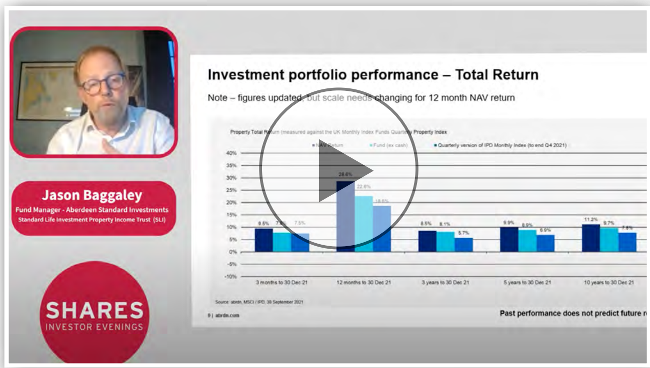

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

11 Apr: Tortilla Mexican Grill. **12 Apr:** Filta, JD Sports Fashion, Northbridge Industrial Services. **13 Apr:** Lookers, Petropavlovsk, Tesco.

Half-year results:

12 Apr: Nanoco.

Trading announcements

8 Apr: CMC Markets. **11 Apr:** Audioboom, Sirius Real Estate. **14 Apr**: Ashmore, Dunelm, Hays

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