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VOL 24 / ISSUE 14 / 14 APRIL 2022 / £4.49

SHARES

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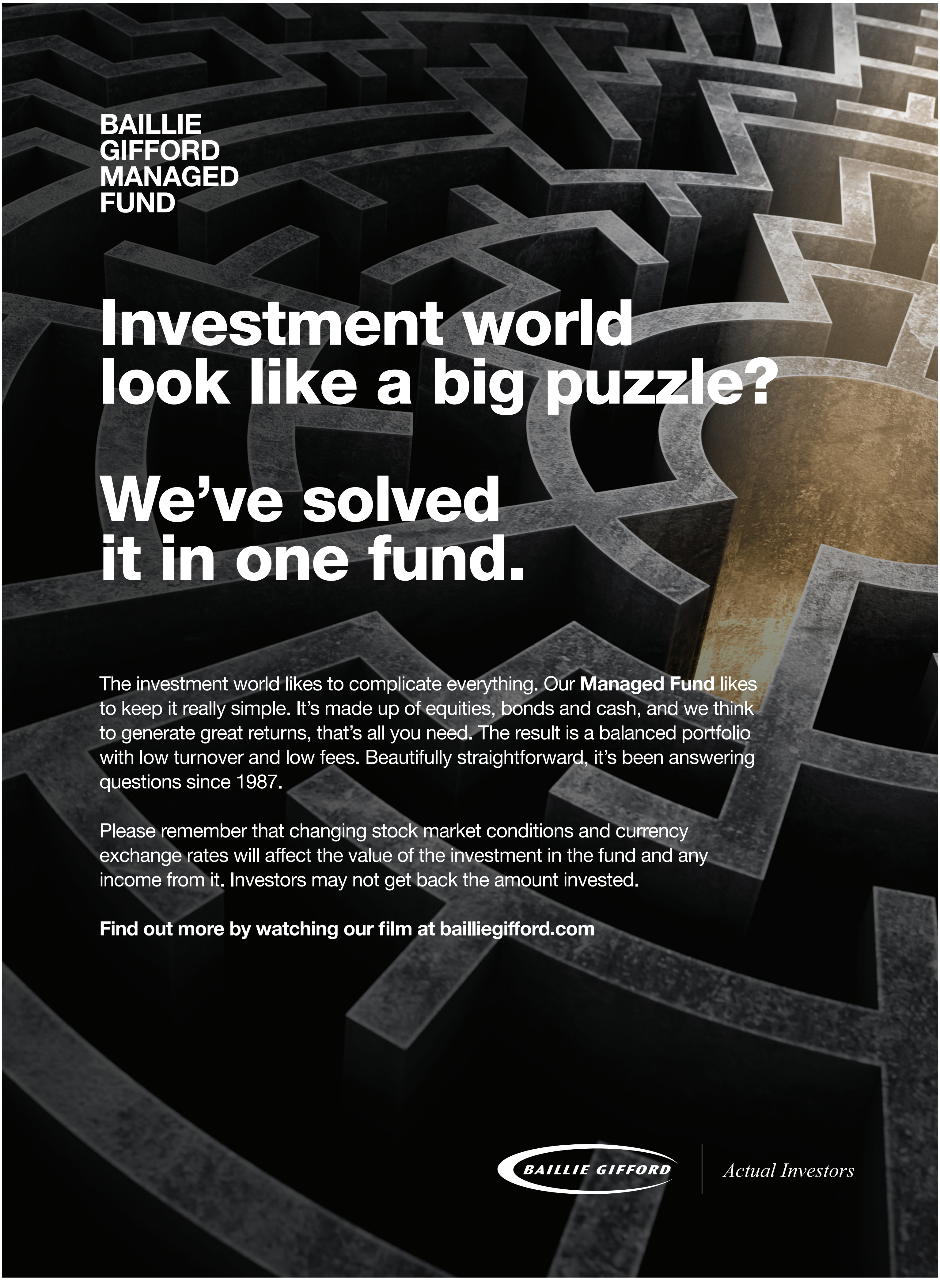
NUCLEAR REVIVAL: How to invest in the world's evolving energy strategy



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Contents

All the bad news priced into housebuilders and retailers? Think again

The sectors have both fallen by 25% year to date but headwinds remain

Stock markets are forward looking which means investors think mainly about a company's prospects when they decide how much they are prepared to pay for its shares, or at what price they want to sell.

Potential bad news tends to be priced into a company's valuation before the event happens. Expectations are lowered and when the company eventually updates on matters, you often see the market shrug off gloomy news because it was already anticipated.

The 'pricing in' part of this trend is in play with retailers and housebuilders, where share prices have fallen by approximately 25% year-to-date based on the performance of the FTSE 350 sector indices.

Both sectors have major headwinds linked to inflation and consumer spending and so earnings prospects are clouded.

It's becoming more expensive to run a retail business because wages are rising, energy bills are going up and raw materials are more expensive. At the same time, consumers are under significant financial pressure which suggests many might put off buying new outfits or gadgets for a while.

Housebuilders face the prospect of rising interest rates which makes mortgages more expensive. The higher cost of living also makes it harder for aspiring homeowners to save up for a property deposit. The cost associated with remediation work on fire safety for certain buildings has been another uncertainty for the sector, although we now have more clarity on this front.

It's easy to conclude all the bad news has been priced in when you see double-digit share price declines over a short period. Unfortunately, there continue to be significant risks for the retail and housebuilding sectors.

Bank of America says a basket of key raw materials for clothing retailers has gone up by 24% year on year. Notably there has been an 85% rise in the price of cotton and a 15% hike in the cost of polyester.

It believes premium-priced retailers are better placed to put up prices or stomach extra costs given they have higher gross margins. The ones to worry about are low-priced clothing retailers as many of their customers will be lower income individuals who will suffer more from the rising cost of living, as bills take up a greater chunk of their monthly income.

Bank of America flags **ASOS (ASC)** and Primark-owner **Associated British Foods (ABF)** as being most at risk of a hit to earnings in this situation.

As for housebuilders, **Barratt Developments' (BDEV)** history on the stock market would suggest anyone invested in this sector should brace themselves for more difficult times. High interest rates and high inflation in the 1970s saw shares in Barratt struggle for quite some time.

This time round the sector in general is in a decent position financially with companies sitting on large amounts of cash which should act as a buffer and ensure generous dividends are still paid.

It feels as if retailers might experience a short sharp shock while housebuilders' problems could be more of a slow burner. In either instance, it pays to be aware of the risks ahead before swooping for supposed bargains.

Why Volkswagen's potential shift to higher profit models matters to investors

The rapid rise of electric vehicles has prompted a rethink for the business

German car giant **Volkswagen (VOW3:ETR)** plans to axe up to 60% of its combustion-powered models by the end of the decade and sell fewer cars overall to concentrate on producing more profitable premium vehicles, according to reports.

'The key target is not growth,' finance chief Arno Antlitz told the *Financial Times*. 'We are (more focused) on quality and on margins, rather than on volume and market share.'

The strategy move would be a departure for the company, which over much of the past decade had been clear it wanted to become the world's number one car maker.

Former VW chief executive Martin Winterkorn, who resigned in the wake of a diesel-emissions cheating scandal, had made it his goal to beat **Toyota (TM:NYSE)** and **General Motors (GM:NYSE)** to become the world's top-selling automaker by 2018.

But the automotive landscape has changed dramatically in recent years with electric and hydrogen-powered vehicles becoming increasingly affordable and reliable, and sales gaining traction with consumers.

In 2021, 2.27 million new passenger plug-in electric cars were registered across Europe, according to data from EV Volumes, a 66% increase on 2020's 1.37 million units.

Volkswagen's ID 3 and ID 4 models were ranked third and fourth most popular last year, selling a combined 124,573 models. Only **Tesla's (TSLA:NASDAQ)** Model 3 and **Renault's (RNO:EPA)** ZOE sold more vehicles.

The move from volumes to higher-priced cars has ramifications for VW enthusiasts and investors alike. The strategic shift could call time on some of the car maker's most popular models, such

as the VW Golf, which first rolled off assembly lines in 1974.

Investors are expected to warm to any shift towards higher-quality profits in an industry that has for decades relied on shifting more cars to increase profits, even if that often meant paying for it with deep discounts and incentives.

Volkswagen has embraced changes to the automotive industry and invested heavily in high-tech manufacturing facilities. 'We have a significantly lower fixed-cost base, so we are less dependent on volume and less dependent on growth,' VW's Antlitz told the *FT*, signposting the 10% reduction made to the company's 2019 €41 billion fixed costs ahead of schedule while investing in software development and new units.

VW shares, which trade on the Frankfurt exchange, peaked in 2015 at €253.20. They have endured a bumpy ride over the past year with widely reported microchip shortages and rising battery raw material costs hurting performance. The shares are currently trading at €149.70. [SF]

Volkswagen

Chart: Shares Magazine • Source: Refinitiv

Supermarkets face twin challenges of rising competition and new legislation

Discounters are gaining share rapidly while 'unhealthy' multi-buys are set to be axed

The latest grocery market share data from research firm Kantar makes chilling reading for the big four supermarket groups.

First, the 12-week 'till roll' data shows the market has been contracting in value terms for an unprecedented 10 months as shoppers make fewer shopping trips.

More worrying for the retailers is the fact volume sales were down more than 10% in the 12 weeks to late March as shoppers not only visited less frequently but reduced the size of their baskets ahead of the hike in energy prices.

It is only the fact food prices are up more than 5% in the last month, the highest rate of inflation since 2012, which is keeping supermarket revenues from falling at the same rate.

Kantar also revealed that as the cost of living weighs on shoppers' minds, own-label products – which are usually cheaper than branded alternatives – now account for over 50% of customer spending.

The second thing which will send a shiver down the spines of management at the big retailers is the speed with which the discounters Aldi and Lidl are taking market share. They now account for 15% of all spending compared with 13% a year ago.

To put that in perspective, **Sainsbury's (SBRY)** market share is 15.1% against 15.6% this time last year, Asda's share is 14.5% against 14.8% and Morrisons' shares is 9.5% against 10.3%. The chart shows the two-year comparable figures.

The only grocers to have maintained their market share in the past year are **Tesco (TSCO)** at 27.4%, Co-op at 6% and **Ocado (OCDO)** at 1.8%.

Meanwhile, Government legislation on HFSS (high fat, salt and sugar) foods means the end of promotions this October on crisps, biscuits and other foods deemed unhealthy by the Department of Health.

HFSS products must also be removed from store entrances, the ends of aisles and checkouts before October to reduce 'impulse buying'.

Asda and Morrison run over 300 HFSS promotions per week on average, while Tesco runs around 120 promotions. Sainsbury's has already stopped multi-buy promotions on all HFSS products. [IC]

Shifting fortunes for supermarkets with Aldi & Lidl gaining further while Asda and Morrisons are losing out

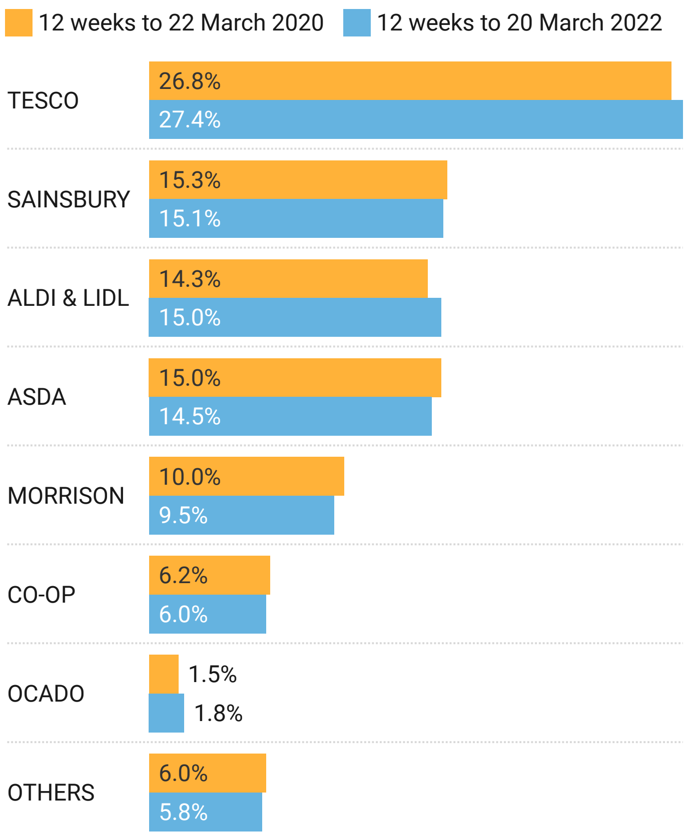
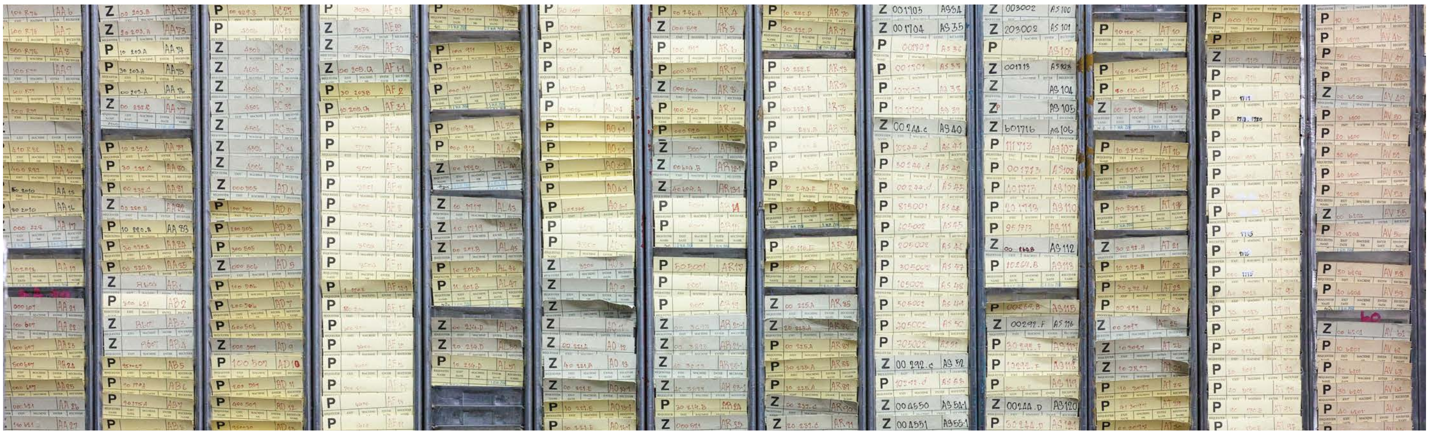


Chart: Shares Magazine • Source: Kantar Worldpanel

The big toll wage inflation could have on British businesses

Starting pay increased at the fastest rate since records began in March



Amid a multitude of inflationary pressures, wage increases are emerging as a particularly significant one.

The governor of the Bank of England, Andrew Bailey, was derided and not unfairly accused of hypocrisy when he preached wage restraint in February. The latest figures from KPMG and REC (Recruitment and Employment Confederation) on the UK jobs market demonstrate why he felt moved to make the comments.

Hiring activity may have slowed in March but that's not due to a lack of trying on the part of companies with overall vacancies increasing for the fourteenth consecutive month and at their fastest rate in six months.

Inflation in starting salaries hit the highest level since records began in October 1997. As has been the case in each of the prior four months, the IT and computing sector recorded the steepest increase in demand for permanent staff of all 10 sectors monitored by the survey. The softest, but still sharp, rise in permanent vacancies was seen in retail.

The fact this is very much a live issue in the retail sector was demonstrated by **Tesco's (TSCO)** announcement of the biggest rise in base pay for a decade and the decision by its peer **Sainsbury's (SBRY)** to sign up to the Real Living Wage, set by campaign organisation The Living Wage Foundation.

Separately, **BT (BT.A)** is facing a possible strike after its largest union, the Communication Workers Union, rejected a pay rise of £1,500 for frontline workers.

A STRONG NEGOTIATING POSITION

Employees are in a strong position with many employers struggling to fill positions and the push for higher pay is understandable as people face up to cost-of-living pressures.

However, the danger is these pressures become even more acute as companies respond to higher wage costs, and other pressures in areas like energy and raw materials, by putting up prices for their goods and services.

Despite the surge in wages, PwC forecasts there could be a fall in real wages of 2% in 2022 as inflation runs ahead of wage growth with the average UK household £900 worse off this year.

Investors will need to keep a close eye on updates from consumer-facing firms, which could see demand hit by the pressure on household budgets, and businesses which are large employers which could see profitability suffer thanks to upward pressure on staff pay.

This issue is not limited to the UK. US-based **Walmart (WMT:NYSE)** has recently announced its truckers will be paid up to $110,000 in their first year working for the company as a part of a new recruitment drive. [TS]

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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IP Group shares offer significant upside at a bargain-basement price

Recent news from its portfolio companies demonstrate the investor's growth potential

Are you looking for the next big thing? Rather than risk all your money on a single stock, intellectual property investor **IP Group (IPO)** will give you exposure to a portfolio of promising companies, each with a bright idea and the potential to make big money in the future.

Not everything will be a success in its portfolio, but it only needs a handful of winners each year to make shareholders happy.

One of its investments is **Oxford Nanopore Technologies (ONT)** which saw its share price jump by 45% upon joining the stock market last year. The Oxford University spin-off specialises in DNA-sequencing and provides rapid Covid-19 testing to the NHS.

There are plenty more exciting companies in IP Group's stable and now is a great time to buy its shares, as we now explain.

IP GROUP
BUY
(IPO) 88.5p
Market cap: £920 million

DECADES OF EXPERIENCE

IP Group began life in 2000 when it took ownership of a joint venture between stockbroking firm Beeson Gregory and the chemistry department of the University of Oxford.

After signing more technical agreements with the universities of Leeds, Southampton and King's College in London, the firm floated on AIM in late 2003.

By 2010, several of the group's university spin-offs were themselves listed on AIM, including **Avacta (AVCT:AIM)**, **GETECH (GTC:AIM)**, **Ilika (IKA:AIM)**, Oxford Catalysts (now known as **Velocys (VLS:AIM)**), **Synairgen (SNG:AIM)**, **Tissue Regenix (TRX:AIM)** and **Tracsis (TRCS:AIM)**.

Every few years IP Group raised more capital to invest alongside the profits it booked each time one of its holdings was listed on a stock market or taken over.

IP Group also acquired Fusion IP, Parkwalk Advisors and Touchstone Innovations to broaden its range of investments and add depth to its management.

With its proven track record of supporting and growing innovative businesses and a market cap approaching £1 billion, IP Group is now a stalwart of the FTSE 250 Index.

BIG BREAKTHROUGH

Last week, two of its lesser-known holdings hit the news. Coatings firm **Applied Graphene Materials (AGM:AIM)** posted results and revealed several new potential growth areas for its products.

Meanwhile, portfolio company First Light Fusion announced it had achieved the world's first nuclear fusion result with 'projectile fusion', paving the way for a faster, cheaper way to fusion energy.

The result, which was verified by the UK Atomic Energy Authority, was the culmination of just £45 million of research spending, which is a drop in the ocean compared with the amounts spent by the

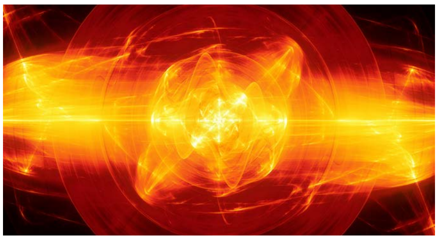
SOME OF THE NAMES IN IP GROUP'S PORTFOLIO

FIRST LIGHT FUSION

Nuclear fusion is the holy grail of energy production. Instead of using complex and expensive lasers or magnets to generate or maintain the conditions for fusion, First Light Fusion's approach compresses the fuel inside a target using a projectile travelling at tremendous speed.

The key technology is the target design, which focuses the energy of the projectile, imploding the fuel to the temperatures and densities needed to make fusion happen.

The company is working towards a pilot plant producing around 150 megawatts of electricity and costing less than $1 billion in the 2030s.



CERES POWER (CWR:AIM)

Ceres Power makes advanced solid oxide fuel cells which can power everything from a family home to an office building or a data centre at low cost and with low emissions. Its products are cost-effective, robust and scalable.

For now, its fuel cells use natural gas, but they can run equally well on biogas or hydrogen. It also makes fuel cells as range extenders for electric vehicles.

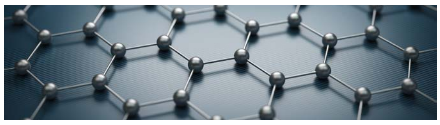
The firm has partnerships with global engineering groups in Europe and Asia and licences its fuel cell technology around the world.

APPLIED GRAPHENE MATERIALS (AGM:AIM)

Graphene is a 'wonder material' made of one atom-thick sheets of carbon arranged in a honeycomb pattern. It is completely transparent and is the thinnest and lightest material known to science.

It is 100 times stronger than steel, is a better conductor of electricity than copper, is five times better at conducting heat than aluminium and is impermeable.

Its commercial value lies in the ability to transfer these properties into other materials, so enhancing their value. Applied Graphene Materials' advantage is in the supply of graphene dispersions that are safe for its customers to handle and easy to incorporate.



nuclear industry.

Third party valuations suggest at its next funding round First Light Fusion could be worth between two and four times its current valuation, meaning an uplift to IP Group's net asset value of between 5p and 10p per share.

Analysts at Numis describe First Light Fusion as 'a future growth driver' for IP Group, comparable to Oxford Nanopore and **Ceres Power (CWR:AIM)**.

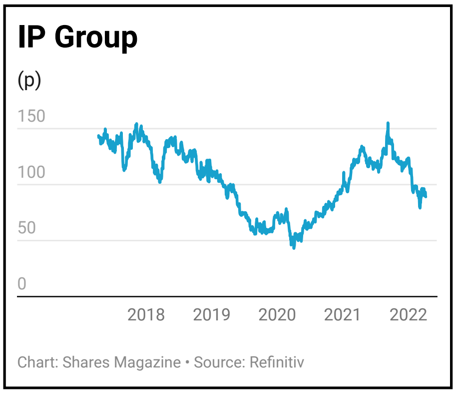
SHARES GOING CHEAP

In its results for 2021, IP Group posted a jump of 142% in net profits to £449 million and a 30% increase in net asset value to £1.74 billion.

The total portfolio value increased 27% to £1.5 billion and there were net portfolio gains of almost £500 million against £231 million the previous year including £84 million from the flotation of Oxford Nanopore.

Net asset value per share as of 31 December was 167p per share against 125p, and the firm had a net cash position of £270 million or more than a quarter of its market value.

Adjusting for the net cash, IP Group currently trades on less than 0.4 times the value of the underlying businesses, which given the long-term growth potential seems absurdly cheap. [IC]



Data expert RELX is a standout stock in a difficult market

The company has resilient earnings as its services are essential for clients

Information services group **RELX (REL)** offers a unique combination of recession-proof earnings, coupled with an ability to generate solid earnings growth in a slowing economy.

This is a particularly valuable trait given the fragile nature of the UK economy and the increasing likelihood of a recession.

RELX is a high-quality professional publisher. Over the past few years its portfolio has been refined to focus on fast growing activities in risk, science and technology, legal and global events.

The company provides information-based analytics and decision tools for professional and business customers to help them make better decisions, get better results and be more productive.

For example, during the early stage of the pandemic it helped various US states to clamp down on fraud involving unemployment claims. And in France it applied machine learning to historical hospital patient data to create models that identify patients at higher risk for healthcare-related adverse events.

Full year results for 2021 demonstrated the strength of the group with growth of 7% in revenue, 13% in operating profit and 15% in pre-tax profit.

On a divisional basis the scientific publishing and legal operations came in at 3% growth with print formats less of a drag than in previous years.

On a group basis, print only accounted for 7% of its revenue in 2021 versus 86% from electronic means, which is a more cost-efficient way of delivering information to customers.

The risk division grew at 9% in 2021, while exhibitions recovered strongly with a 44% gain albeit from a low base.

In 2021, 58% of its revenue came from subscriptions, many of which involve multi-year contracts which highlights how RELX enjoys attractive recurring income.

With net debt to earnings before interest, tax, depreciation and amortisation falling to a ratio of 2.3, management has declared a £500 million share buyback. A figure below three is generally considered to be good.

The company has also retained the firepower for additional earnings-enhancing bolt-on acquisitions within the risk division.

Moreover, scaling the footprint of its electronic information will provide scope for further earnings growth.

Investors should expect most of their returns to come from a rise in RELX's share price rather than income, although a 2.2% prospective dividend yield is a nice bonus.

Trading on 24 times forward earnings, RELX is cheaper than many of its data specialist peers including **Experian (EXPN)** and **Thomson Reuters (TRI:NYSE)**. While that is not a bargain rating, the shares have always traded at a premium to reflect the company's status as an attractive compounder. [MGar]

RELX

BUY

(REL) £24.17

Market cap: : **£47 billion**

RELX

Chart: Shares Magazine • Source: Refinitiv

MARSHALLS

(MSLH) 665p

Gain to date: 4.1%

Original entry point:

Buy at 638.5p, 25 February 2021

BUILDING PRODUCTS GROUP **Marshalls (MSLH)** has taken a big step towards its strategic goal of becoming the UK's leading maker of building products with the £535 million acquisition of Marley.

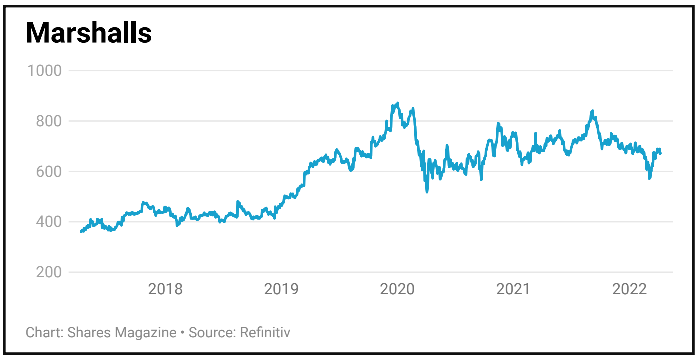
Marley, a leading supplier of roofing products, is highly profitable, generating an EBITDA (earnings before interest, tax, depreciation and amortisation) margin of over 20% throughout the pandemic, above Marshalls' own margin.

The purchase price, which represents a multiple of 10.7 times EBITDA, isn't expensive for a business which will boost Marshalls' earnings growth by double digits in the first full year after completion.

The deal looks well-timed too, given the continued strength of the repair, maintenance and improvement market and the boom in demand for new housing.

Marshalls is financing the purchase through a mixture of cash and new equity which means an increase in the number of shares in circulation.

Crucially, Marley's long-standing management team will remain with the business and they are not allowed to sell their new shares in Marshalls for six months.



SHARES SAYS: ↗

The acquisition makes strategic and financial sense. Keep buying the shares. [IC]

MERCHANTS TRUST

(MRCH) 580p

Gain to date: 9.3%

Original entry point:

Buy at 531p, 30 September 2021

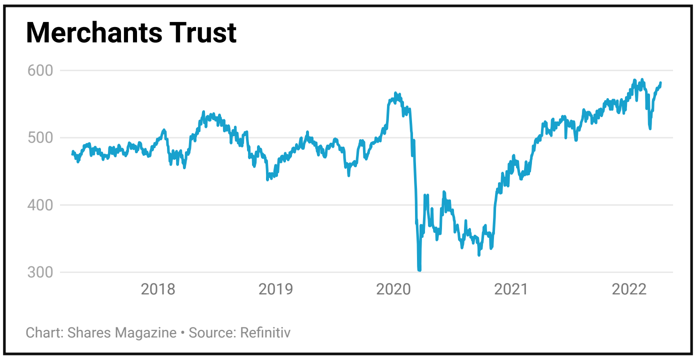
When we flagged the attractions of investment trust **Merchants (MRCH)** in September 2021 we noted it had a track record of outperforming the market and its latest annual results saw it come up trumps again.

The numbers covering the 12 months to 31 January 2022 revealed a 35.7% net asset value total return, almost double the 18.9% generated by its benchmark index the FTSE All-Share over the same period.

The full-year dividend of 27.3p is set to include a 2.3p per share contribution from cash reserves, helping to maintain a now 40-year track record of dividend increases. It used 9.9p of reserves to help fund dividends in 2021.

It leaves cash reserves of 16p per share on the balance sheet for future use, but Merchants expressed confidence that the dividend for the current year will return to being fully covered, allowing cash reserves to be rebuilt.

The portfolio is packed with large UK businesses including **GlaxoSmithKline (GSK)**, **Shell (SHEL)** and **Vodafone (VOD)**. In commentary accompanying the results, chairman Colin Clark observed there are 'opportunities abound when markets are volatile'.



SHARES SAYS: ↗

Merchants Trust is an attractive income investment, currently yielding 4.7%. Buy now. [TS]

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Stocks and funds which could power up on nuclear's glowing prospects

Nuclear is once again a key part of the UK's energy strategy

One of the biggest takeaways from the UK's new 'Energy Security Strategy' announced on 7 April was that nuclear power would be a crucial part of the Government's plan for secure and sustainable energy.

The issue has become particularly pressing amid surging energy costs and the impact of Russia's invasion of Ukraine. In this article we will look at how the UK's plans sit in a global context and the different investment options for playing a revival in the nuclear space.

AMBITIOUS PLANS

The UK Government wants to boost the country's nuclear capacity to 24 gigawatts by 2050 from a current 7 gigawatts, a target underpinned by plans for eight more reactors on existing sites. This would account for somewhere around a quarter of projected electricity demand.

Small modular reactors are expected to play a role in this nuclear expansion and UK engineer **Rolls-Royce (RR.)** is working on designs which could largely be built in a factory, reducing development time and costs.

A new government body, Great British Nuclear, will be set up immediately to bring forward new projects, and a £120 million Future Nuclear Enabling Fund is set to be launched imminently.

URANIUM PRICES HAVE SURGED

The UK's position increasingly chimes with a global push towards nuclear which has been reflected in a significant increase in uranium prices.

They've surged to $61.60 per pound, the highest since just before Japan's Fukushima nuclear plant disaster in 2011.

This event, which resulted in significant radioactive leaks, resulted from a major earthquake and tsunami which hit the power supply and cooling systems on three of the plant's reactors leading to meltdowns.

In the aftermath countries, particularly in the West, turned away from nuclear power on safety concerns and uranium sank to lows of below $20 per pound. In response many uranium miners cut output and shelved developments.

Bringing production back online and ramping up activity is likely to take time and, along with the new-found demand for nuclear power, that is likely to lead to a supply deficit of uranium.

Co-manager of nuclear-focused investment trust **Geiger Counter (GCL)** Keith Watson tells *Shares*: 'It's tight, the inventory of material fuel feedstocks in the US is towards the bottom of a typical two-to-three year working capital level and while mothballed brownfield sites are being brought back into production you are still looking at a huge gap by the end of this decade.

'Lots of greenfield sites will be needed and it takes time to bring any form of development online, particularly with uranium.'

SUPPLY DEFICIT

Watson says it can require anything up to two or three years for independent miners to get more supply online, or 12 to 18 months for state-owned operators.

His colleague on the Geiger Counter trust, Robert Crayfourd adds that demand from the **Sprott Physical Uranium Trust (U.UN:TSE)** is affecting the market whereby a rising uranium price drives greater demand for the investment product and just adds to the upward pressure on pricing.

The contribution of Russia to the global uranium market and the fact that major producer Kazakhstan has historically shipped its uranium through Russia are also factors contributing to a tight global supply outlook.

The chances of higher prices leading to demand destruction look relatively limited with Geiger Counter's Watson observing that 'around 5% of the cost of running a nuclear plant is accounted for by uranium costs even after the recent spike'.

WHY NUCLEAR?

In terms of why countries are turning to nuclear again, Rohan Reddy, the director of research at exchange-traded fund provider Global X, says: 'The biggest thing is there are no greenhouse gas emissions associated with nuclear and when compared with other zero-emissions alternatives like solar and wind, what's really attractive about nuclear is how reliable an energy source it is.'

As Reddy observes nuclear energy's average capacity factor is above 90, which means the average plant remains online generating electricity more than 90% of the time.

Because they are reliant on the wind blowing and the sun shining, solar and wind typically have capacity factors of less than 50%.

This means that unlike nuclear they cannot currently be used for so-called baseload energy – i.e. sources of power for the grid which have consistent, unchanging output.

Battery storage is seen as a long-term solution to this problem but, for now, the batteries required

VARIOUS UK-LISTED SHARES WITH NUCLEAR EXPOSURE

Rolls-Royce could have a significant footprint in the nuclear sector in the future if its plan to develop small modular reactors *(pictured)* comes to fruition.

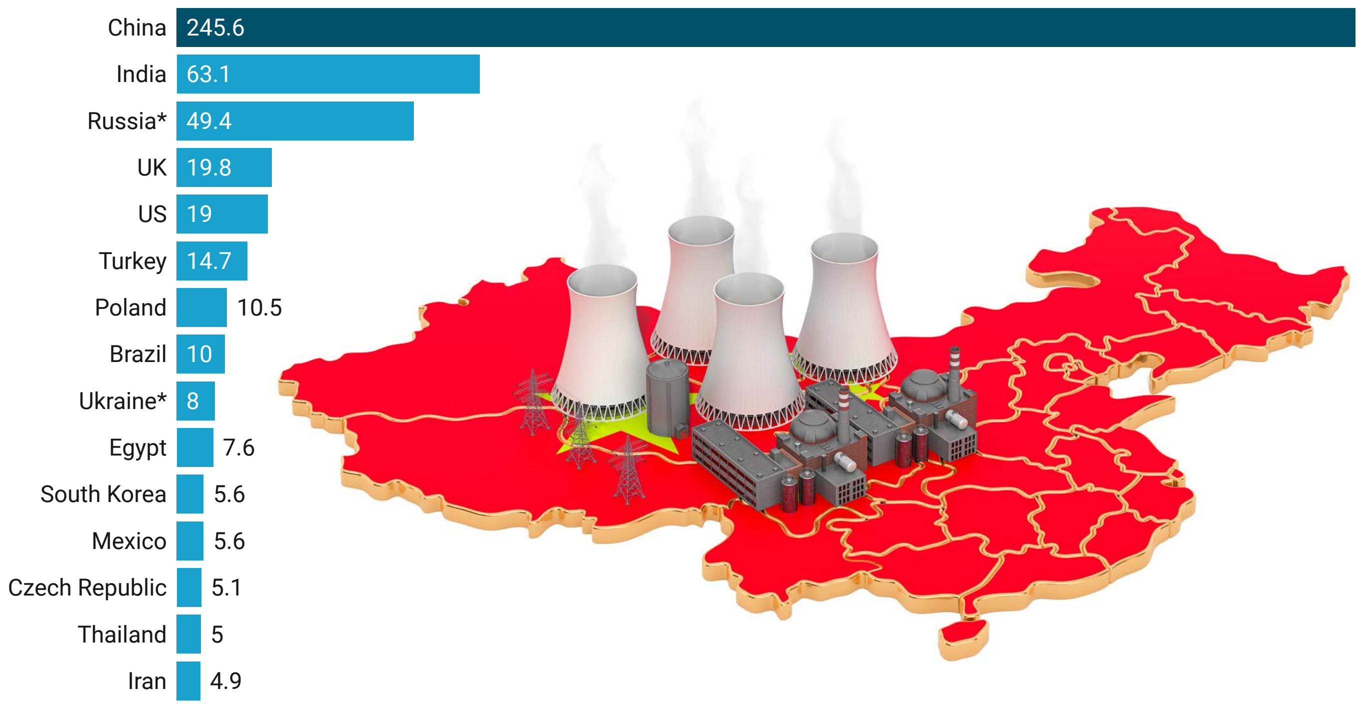
Several other UK stocks provide engineering support and related services to the nuclear industry. These include **James Fisher (FSJ)**, which focuses on testing and analysis as well as specialist equipment, and **Babcock (BAB)** which has worked on nuclear decommissioning at Sellafield and has been a major supplier of services to the UK nuclear sector since the 1950s.

Around 50% of the world's nuclear power plants rely on critical valve technology from specialist engineer **IMI (IMI)**.

In the small cap space, **Goodwin (GDWN)** produces various components for the nuclear sector including primary pump casings for nuclear reactors.

In December 2021 China accounted for more of the global pipeline of new nuclear power than the rest of the world put together

New nuclear power capacity pipeline in gigawatts



** Data prior to Russia's invasion of Ukraine*

Chart: Shares Magazine • Source: GlobalData, shows the aggregate of plants listed as under construction, announced, permitting and financed.

to store power for renewables remain large and expensive – even if there has been significant progress on this front in recent years.

This leaves nuclear power as perhaps the most realistic option for global governments looking to increase energy security and supply while at the same time hitting net zero targets.

HEAVY CHINESE INVESTMENT

China, which has already invested heavily in nuclear power in recent years, has a pipeline of new nuclear power which is larger than the rest of the world combined according to December 2021 figures from analytics firm GlobalData.

Geiger Counter's Crayfourd notes that in Europe and US the shift in policy is likely to be reflected initially in an extension of the life of existing plants. Any new builds announced now are unlikely to be operational until the early-to-mid 2030s.

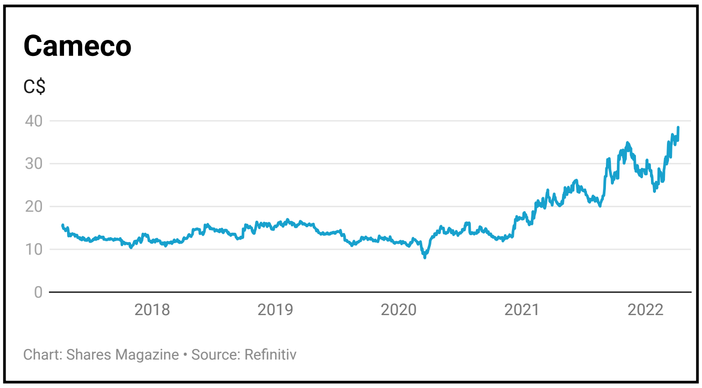
He adds: 'In the next five, six, seven years we are likely to see small modular reactors coming through in a bigger way and they are likely to be far better understood; these could have a faster roll-out of two to three years.'

Crayfourd says the key difference a more supportive policy environment for nuclear can make is to reduce the cost of financing nuclear developments through initiatives like state-backed loans. He notes that around 60% to 70% of the cost of the Hinkley Point C nuclear plant, currently being built by French utility **EDF Energy (EDF:PA)** in Somerset, relates to such financing.

HOW CAN UK INVESTORS GET INVOLVED?

Global X's Reddy says the difficulties of directly tracking the price of an opaque uranium market means 'uranium miners are the most directionally correlated' way of gaining exposure to the nuclear theme.

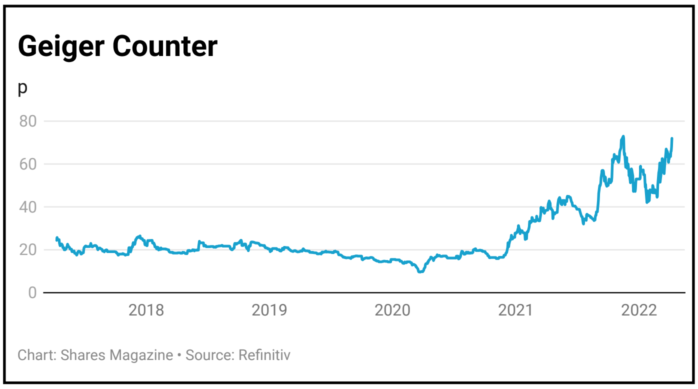
Canada's **Cameco (CCO:TSE)** is the largest listed uranium producer in the world and the second largest uranium producer globally after Kazakhstan's state operator Kazatomprom. Cameco's shares trade on the Toronto Stock Exchange and the New York Stock Exchange.



Most uranium miners are listed in either Canada and Australia so investing in their shares involves extra costs and complexity for UK investors and the risks associated with backing individual companies.

An alternative route for UK investors is to look at two stocks on the London Stock Exchange, namely the Geiger Counter investment trust and **Yellow Cake (YCA:AIM)** which invests directly in physical uranium.

Geiger Counter has a relatively high ongoing charge of 2.67% and the recent strength in the uranium market has led to its shares trading at a 12.8% premium to net asset value. This reflects the trust's scarcity value, given limited options for



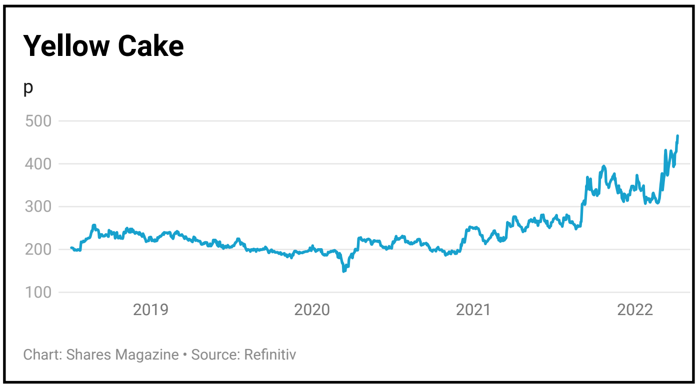
direct exposure to uranium and the nuclear sector on the UK market.

Its performance over the last three years is impressive with a share price total return of 241.6% against 60.9% for the Association of Investment Companies' Commodities & Natural Resources sector, of which it is a constituent.

It invests in a diversified portfolio of uranium miners, with a slight small cap bias which could help support higher growth.

Yellow Cake, which trades in physical uranium, recently announced a plan to purchase $3 million worth of its own shares to narrow the current discount of around 8% to its own net asset value.

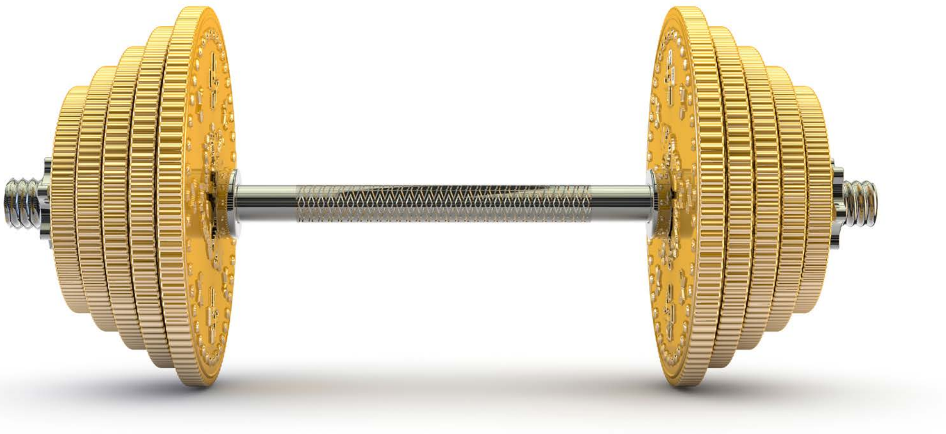
Elsewhere, investors can gain lower cost, diversified exposure to the wider energy space through **iShares Global Clean Energy (INRG)**. The exchange-traded fund has an ongoing charge of 0.65% and a material weighting of around 14% to companies involved in nuclear energy.



By **Tom Sieber** Deputy Editor

MAKE YOUR MONEY WORK HARDER

Invest your cash to stop it being eaten away by inflation



By **Ian Conway** Companies Editor

We all like to have some cash put aside for a rainy day, but if you have more than you reasonably need to meet most contingencies you really need to think about investing the surplus.

With inflation running high you need to get more from your money than simply leaving it sitting in cash. Inflation will eat away at the spending power of this money, but you can fight back by putting the cash in the markets.

Deciding where to invest can be daunting. The answer is finding shares or funds with the ability to generate enough income and capital gains to offset the impact of rising prices.

THE OPTIONS

UK inflation is already at 7% and is certain to go higher in the coming months as the spike in fuel costs from the Ukraine crisis coincides with the lifting of the price cap on household energy bills.

The Bank of England estimates consumer prices could rise by 8% by the end of April, yet in

UK Inflation is racing ahead

Chart: Shares Magazine • Source: Office for National Statistics. Data Jan 1989 to Mar 2022.

parts of Europe inflation is already approaching double figures.

When inflation rises it reduces the real value of cash, meaning your spending power goes down.

If you want to protect your savings from being eroded by rising inflation, there aren't many options available to you.

If you put your cash in a savings account you will be lucky to earn 1% interest, especially as the base rate is just 0.75% for now. One exception is app-only bank Chase which has launched a savings account paying 1.5%, though to qualify you must also open a Chase current account.

If you put your money into 10-year UK government bonds, you could earn a yield of around 1.5% before tax. The yield is set by the market, and functions as the inverse of the bond price.

If yields go up it is because the price of the bonds has gone down, which means your bonds are worth less than you paid for them.

The first rule of making money is not to lose money. You can't afford to lose capital if you want to protect yourself from inflation.

In the past, gold has been a popular place for people to put money when inflation has taken off, but for small investors it isn't straightforward, and in this cycle, gold hasn't really lived up to its billing.

Also, gold doesn't generate any income or pay any interest, so you are 100% reliant on the price going up and not losing any of your capital.

STOCKS ARE THE ANSWER

When you buy a share in a company, you effectively get a 'share' of its earnings.

Rather than the company dividing up any profit each year and sending a cheque to its investors, you make money if the value of your shares increase to reflect the company growing its earnings and/or from any dividend payments which it might choose to make.

If you invest in a fund or investment trust, the same principles apply. They invest in companies or other assets like bonds. If the underlying value of their portfolio increases, so too should the value of the fund units or shares. And if the underlying portfolio generates an income for the fund or investment trust, they will typically pass on some or all that money as dividends to you.

HOW MUCH COULD I MAKE EACH YEAR?

The *Barclays Equity Gilt Study* charts the annual 'real' returns of different UK assets over each decade, meaning they are adjusted for inflation.

Inflation adjusted investment returns (% per year)

Period	UK shares	UK government bonds	Cash
1920-1930	12.8%	13.1%	9.8%
1930-1940	2.3%	4.0%	−1.2%
1940-1950	6.3%	0.3%	−1.1%
1950-1960	12.1%	−4.1%	−0.6%
1960-1970	3.3%	−1.4%	1.6%
1970-1980	0.4%	−3.2%	−3.1%
1980-1990	11.7%	6.0%	5.2%
1990-2000	11.8%	9.4%	4.2%
2000-2010	0.6%	2.4%	1.1%
2010-2020	2.9%	3.8%	−2.2%
Average	**6.4%**	**3.0%**	**1.4%**

Table: Shares Magazine • Source: Barclays Equity Gilt Study 2021

Equity is another term for stocks and shares and a gilt is a UK government bond.

On average, from 1920 to 2020 shares have generated a return over inflation of 6.4% per year whereas UK government bonds have generated a return of 3% above inflation.

The average excess return on cash over the same period was 1.4%, which means investing in UK stocks generated well over four times the returns which cash savers could have hoped to achieve.

It's worth pointing out that these figures relate to a period that includes the Great Crash of 1929, the Second World War, the oil crisis of the early 1970s, the bursting of the tech bubble and the global financial crisis.

Stocks didn't go up in a straight line, in fact far from it, and anyone who invests in shares must accept there will be good years and bad years.

Yet in every 10-year period, equities produced a positive return over inflation, unlike UK government bonds or cash.

The secret is to stay invested through the ups and downs, resist the temptation to sell when things get rocky, and most importantly resist the temptation to try to time the market.

LOOK FOR TOTAL RETURN

There are two ways to make money in stocks: capital appreciation (the value of your shares or fund units goes up) and dividends, and ideally you want to look for shares or funds that offer both.

Over the long run, most of the excess returns from equities have come from reinvesting dividends, that is using the money the company pays you to buy more shares.

This has the effect of compounding your returns, so that each year you own more shares, which means you get a higher dividend and you can buy even more shares to add to your investment.

With funds you can buy an 'accumulation' version which effectively reinvests dividends for you. They work by increasing the value of the fund units rather than automatically using the dividend money to buy more units.

It's also worth mentioning that companies themselves can buy back their equity, which means there are fewer shares in circulation, increasing the value of those which are left.

ARE SHARE BUYBACKS POPULAR?

According to AJ Bell's investment director Russ Mould, so far in 2022 nearly a third of the companies in the FTSE 100 large-cap index have announced share buybacks.

The total amount of cash FTSE 100 companies have this year set aside to buy back their shares is nearly £33 billion, more than in the whole of last year and close to the all-time record of £34.9 billion in 2018, and we are only just over three months into 2022.

When combined with the £80 billion of dividends which analysts expect companies in the FTSE 100 to pay out this year, it implies the index could generate a 5.4% return simply from buybacks and dividends, excluding any change to the value of the shares in the index.

THE LOW-RISK APPROACH

Before you start looking for places to put your money you need to decide how much risk you want to take on.

Bear in mind the reason shares outperform government bonds is because investors need to be compensated for the extra risk in equities compared with the safety of a government guarantee.

Not all stocks carry the same risks, however, and buying individual stocks isn't advisable if you want to minimise your risk.

A fund, investment trust or exchange-traded fund (also known as an ETF) with an emphasis on income might be a better avenue, although not many come with a yield which can match the 7% inflation rate.

The Association of Investment Companies' website allows you to screen all the investment trusts in the equity income sector by various criteria including dividend yield.

One trust which comes close to paying a 7% dividend (5.87%) is **Aberdeen Standard Equity Income (ASEI)**.

It invests mostly in large companies such as **BP (BP.)**, **Shell (SHEL)** and **Rio Tinto (RIO)**, and trades at a small discount to the value of its assets.

The ongoing charge is 0.89%, which means the net yield is just under 5%, and assuming you own shares through a tax wrapper such an ISA then you will pay no tax on dividends and capital gains.

REITs, a term to describe real estate investment trusts, also tend to offer good yields. Many REITS trade at a premium to the value of their assets because investors are willing to pay up for secure long-term income.

Healthcare REITs typically trade at a premium to net asset value and have relatively high ongoing fees, while many logistics REITs now trade at double-digit premiums to NAV.

Commercial property REITs which own a mixture of real estate assets are less highly rated and offer both attractive yields and the potential for capital gains.

For example, **Alternative Income REIT (RGL)**, which manages a £70 million portfolio of assets, currently yields 7.1% and trades at an 11% discount to NAV. Its properties include hotels, retail parks, gyms, care homes and a petrol station. Ongoing fees are on the higher side at 1.27%.

OPTIONS FOR INDIVIDUAL STOCKS

If you decide you want to invest directly in individual companies to beat inflation then you need to look for a combination of attractive yields, cheap valuations and share buybacks.

A quick screen of the FTSE 350 index of stocks using research platform SharePad throws up quite a few companies which might tick the box for investors wanting inflation protection and upside share price potential

Top FTSE 350 dividend yields

Company	Share buyback*	FY22 PE**	FY22 Prospective yield (%)
Persimmon	n/a	8.4	11.1%
Diversified Energy	n/a	10.3	10.9%
Berkeley Group	n/a	9.7	10.5%
Rio Tinto	n/a	7.0	10.4%
Glencore	£407m	5.1	10.4%
Imperial Brands	n/a	6.6	8.8%
M&G	£500m	9.5	8.8%
Direct Line	£100m	10.3	8.7%
Hays	n/a	14.3	7.8%
Taylor Wimpey	£150m	6.9	7.6%
Barratt Developments	n/a	6.5	7.4%
British American Tobacco	£2bn	9.0	7.1%
Legal & General	n/a	8.1	7.1%
Aviva	£3.75bn	10.0	6.6%
Vodafone	£1.2bn	14.4	6.1%

**Buyback announced in 2022. **PE = price to earnings ratio*

Table: Shares Magazine • Source: SharePad, AJ Bell, Shares through a mixture of low valuations and share repurchases.

Housebuilders are both cheap and have high yields, and questions over the size of their liabilities for fixing cladding on high-rise buildings look as though they have been answered with something called the 'Building Safety Pledge'.

Most housebuilders have already put aside provisions for the work, yet their market values have dropped significantly as investors have been worried that the final bill could spiral upwards.

For example, **Persimmon (PSN)**, which yields 11% at today's price, believes its remediation costs are roughly £75 million while its market capitalisation has tumbled by £1.9 billion since early January.

Also weighing on housebuilders' share prices have been concerns that rising interest rates make mortgages more expensive and potentially stop a greater number of people from getting on the housing ladder.

The rising cost of living has also clouded the ability for some people to save enough money for a property deposit. These issues combined have led some commentators to suggest the UK property market may weaken later this year.

Investors therefore need to weigh up these risks when looking at housebuilders, and not simply buy the shares because they pay generous dividends. That said, one could also make the argument that so much bad news has already been priced into the sector.

Miners Rio Tinto and **Glencore (GLEN)** are both yielding over 10%, while tobacco companies **British American Tobacco (BATS)** and **Imperial Brands (IMB)** also have inflation-beating yields and the former is buying back £2 billion of its shares which is a positive tailwind for investors.

Several financial firms are paying generous dividends combined with share buybacks, such as **Aviva (AV.)**, **Direct Line (DLG)** and **M&G (MNG)**.

Finally, mobile phone group **Vodafone (VOD)** is paying a dividend in line with inflation and is currently buying back £1.2 billion of its shares.

DANGER ZONE

If inflation keeps rising as it is forecast to, you might be tempted to go for higher-risk investments such as cryptocurrencies, but that might be a bad move.

Cryptocurrencies don't generate any income and don't pay dividends, so you are totally reliant on the price going up to protect you from inflation.

Proponents claim cryptocurrencies are a diversifier and their returns have nothing to do with the stock market, but they are almost pure risk and when markets get the jitters money could easily flow straight out of them.

Markets can be volatile at the best of times, and you never know when the next crisis might appear. Nobody had a global pandemic on their list of market risks for 2020, for example.

Therefore if you want to put your spare cash to work in the markets, we would stick to funds with an attractive income, reasonable fees and preferably a discount to NAV, or well-known, established FTSE 350 stocks which offer inflation-beating yields.

Disclaimer: AJ Bell owns Shares magazine. The author (Ian Conway) and editor (Daniel Coatsworth) own shares in AJ Bell.

ADVERTISING PROMOTION

Fidelity European Trust PLC
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Fidelity European Trust PLC aims to be the cornerstone long-term investment of choice for those seeking European exposure across market cycles.

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Holding a steady course throughout market cycles

It is an uncertain time for the world and particularly for Europe. It is however vitally important for investors not to be blown off course. Good companies are still good companies and finding them remains the 'secret sauce' of any effective investment strategy.

The outcomes of major macroeconomic events are extremely difficult to predict. Even if we do manage to predict them correctly, it is still very hard to anticipate the impact on financial markets. The pandemic was a good example of this phenomenon. Very few people predicted the trajectory of the pandemic and even fewer predicted the bull market that followed.

The ebb and flow of investor sentiment can create opportunities. Great companies can see their share prices fall for reasons that bear little relationship with their real prospects. This is often a good opportunity to add to holdings. During the pandemic, we saw that it pays to stay invested whatever the headlines. Even if these big global events dampen short term activity, the stock market rewards long term earnings and dividend potential. In many cases, the pandemic has encouraged companies to pursue greater innovation and efficiency, which should result in growing dividends for investors on a multi-year view.

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AJBell Awards 2021 EUROPEAN EQUITY - ACTIVE

Kepler GROWTH RATING

Past performance

	Feb 2017 - Feb 2018	Feb 2018 - Feb 2019	Feb 2019 - Feb 2020	Feb 2020 - Feb 2021	Feb 2021 - Feb 2022
	16.2%	2.4%	10.8%	11.3%	15.7%
Share Price	20.5%	2.8%	11.6%	13.9%	15.9%
FTSE World Europe ex-UK Total Return Index	12.7%	−3.3%	6.5%	14.4%	8.9%

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 FTSE World Europe ex-UK Total Return Index is a comparative index of the investment trust. • Created with Datawrapper

Important information

The value of investments and the income from them can go down as well as up, so you may get back less than you invest. Investors should note that the views expressed may no longer be current and may have already been acted upon. Changes in currency exchange rates may affect the value of an investment in overseas markets. This trust can use financial derivative instruments for investment purposes, which may expose them to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser.

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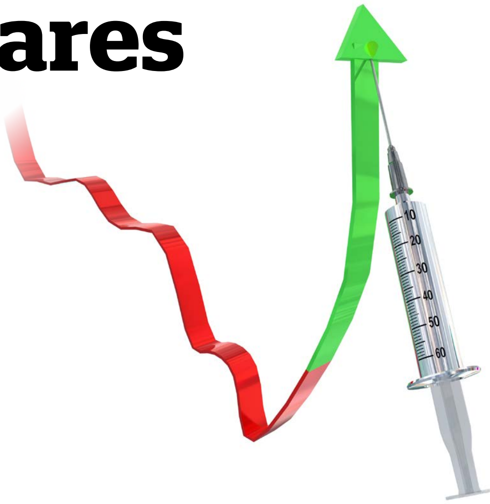
Why there is more to come from AstraZeneca as its shares hit a new record high



The group is on a roll with positive news flow and strategic progress

Shares in pharmaceutical group **AstraZeneca (AZN)** are trading at a record high and it is battling **Shell (SHEL)** to be the largest company by value on the UK stock market.

There are plenty of reasons to expect shareholders to receive further rewards in time, given a packed schedule of new treatment launches which could help underpin double-digit revenue growth, improved margins and bumper cash generation.

The wider sector also looks well positioned given the reality that healthcare is defensive – i.e. spending in this area tends to be resilient in both good and bad economic conditions.

AstraZeneca's share price gains in recent weeks have seen it move from approximately £86 per share to more than £100 with a series of encouraging updates as well as positive sentiment towards the healthcare space contributing to its rise.

A STRING OF GOOD NEWS

On 14 March AstraZeneca's Lynparza drug was approved in the US as a treatment for breast cancer. A fortnight later, the company's Evusheld antibody combination received the green light in the EU as a preventative treatment for Covid-19. The following day, its Ondexxya product received approval in Japan to treat people hospitalised with life-threatening bleeding.

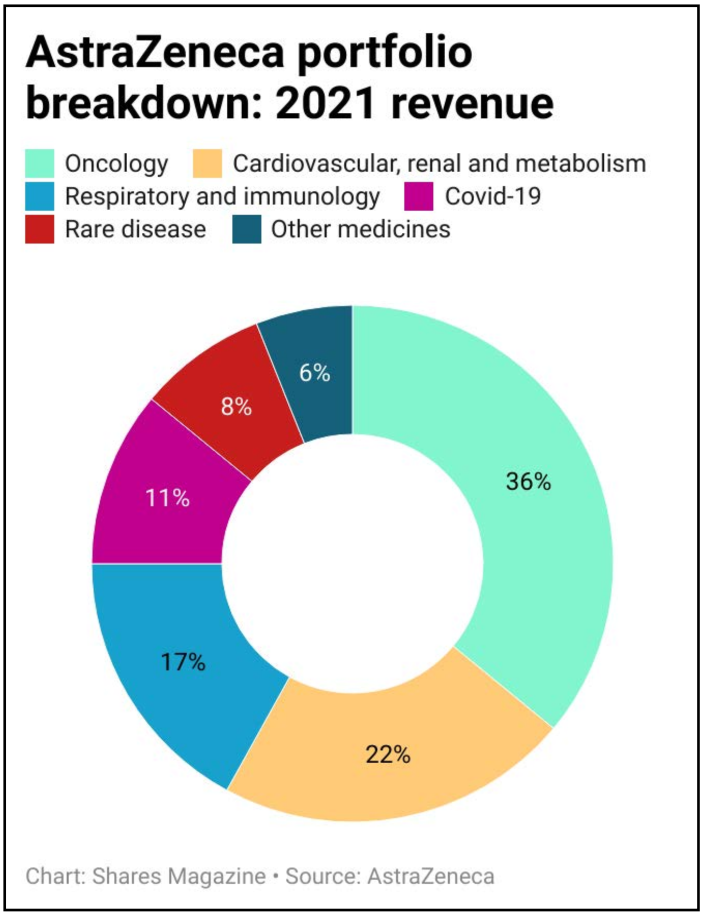
These bits of good news followed full-year numbers on 10 February which encompassed a record fourth quarter revenue performance, up 63% year-on-year to $12 billion and ahead of the consensus forecast of $11 billion.

Its Covid-19 vaccine and sales associated with its $39 billion acquisition of rare disease specialist Alexion both contributed to the strong performance.

GROWTH PLANS

Anglo-Swedish concern AstraZeneca is headquartered in Cambridge and employs more than 80,000 people worldwide. It has a large and diverse portfolio of pharmaceutical products targeting major areas of disease like cardiovascular, respiratory, inflammation, rare conditions and cancer.

The pie chart shows the breakdown of AstraZeneca's portfolio by disease area.



Investment bank Berenberg says: 'The key drivers of near-term sales growth are the oncology (cancer) assets (Tagrisso, Imfinzi, Lynparza and Calquence), which require limited incremental investment.'

In essence, the company has already spent significant sums developing these drugs and is now able to target them at a broader range of cancers.

AstraZeneca's revenue growth profile

£ billions

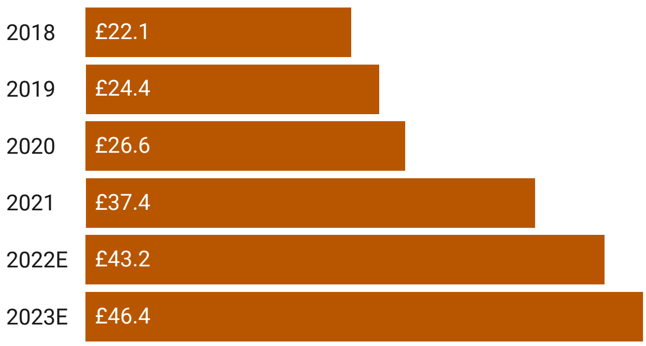


Chart: Shares Magazine • Source: Company reports, Stockopedia

Drug development is inherently risky and is tightly regulated. The big pharmaceutical companies look to mitigate those risks by having highly diversified portfolios of different drugs. However, many are still reliant on certain blockbuster drugs for a big chunk of their revenue.

A classic example is AstraZeneca's US counterpart **Pfizer (PFE:NYSE)** which generated large sales from its Viagra treatment for erectile dysfunction following its approval by regulators in 1998.

Typically, after six years or more a company loses exclusivity on a drug and sales are eroded by generic alternatives. Solutions include investing heavily in research and development to uncover new treatments or acquiring smaller businesses which have enjoyed their own success with developing drugs.

AstraZeneca made a big splash on the acquisition front with the purchase of rare disease firm Alexion in July 2021. The latter has a portfolio of therapies for the treatment of rare diseases caused by an uncontrolled activation of the part of the immune system which produces antibodies that remove damaged cells.

Rare disease treatments can benefit from an accelerated approval process because there are often no alternatives available.

AstraZeneca's priorities for 2022 include strengthening research and development links between its existing business and Alexion and advancing the combined pipeline.

The company has initiated a review of the entire group in the wake of the Alexion deal aimed at integrating its systems, structures and processes for a one-off cost of $2.1 billion. The annual benefit, including previously outlined financial benefits from the Alexion transaction, is expected to be $1.2 billion from the end of 2025.

AstraZeneca

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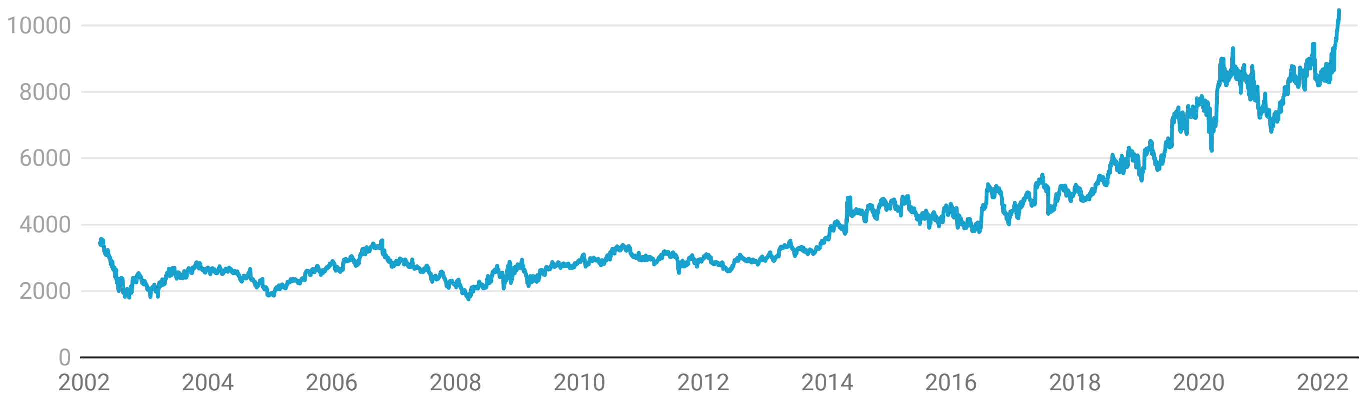


Chart: Shares Magazine • Source: Refinitiv

THE IMPACT OF COVID

AstraZeneca's high-profile work on a Covid vaccine represented a departure for the group and one that has not been without headaches.

Initially sold at cost, with a pledge to continue this policy in the developing world, the vaccine nonetheless attracted scepticism over its effectiveness and safety, some of which has subsequently been debunked.

Given it isn't an obvious fit with the rest of the business, the idea of spinning off its Covid-related assets has been mooted either through a separate stock market listing of the business division, a sale or joint venture with a vaccine specialist.

Covid has had knock-on effects across the whole healthcare system, including a focus on preventative medicine and on the digitisation of healthcare.

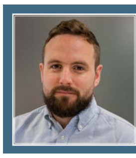
The use of so-called 'telehealth' – delivering health-related services online or over the phone – has, according to consultant McKinsey, increased 38 times on pre-Covid levels and AstraZeneca is looking to boost its own footprint in artificial intelligence, data science and digital technology.

ARE THE SHARES WORTH OWNING?

AstraZeneca's shares are not cheap – they are trading in the region of 20 times 2022 consensus forecast earnings and yielding 2.2%. However, on a long-term view the company is an attractive investment given its strong growth profile.

Investors who don't want to pay a premium rating may wish to look at rival pharmaceutical group **GlaxoSmithKline (GSK)** which trades on a much cheaper rating of 14 times 2022 consensus forecast earnings.

In *Shares*' view, both companies would be good stocks to own as part of a diversified investment portfolio.



By **Tom Sieber** Deputy Editor

This is why shares in ITV have been a bad investment for years

The shares are cheap for a reason because it faces major structural challenges

Being a shareholder in media group **ITV (ITV)** has been quite a rollercoaster ride. Between 1991 and 2000 the shares enjoyed a stellar run, moving from circa 27p to nearly 10 times higher at 269p. They subsequently fell back a lot, bumbled along and then fell some more.

It wasn't until after markets started to recover from the global financial crisis in 2009 that ITV's shares enjoyed another run – this time pushing ahead to 280p in 2015. Since then, it's been a gradual decline with the odd false dawn to excite and then disappoint investors.

This is one of Britain's best-known brands, so why has ITV ultimately failed to generate value for shareholders on a consistent basis?

Chart: Shares Magazine • Source: Refinitiv

A LONG LINE OF PROBLEMS

The latest worry is that ITV's new streaming platform ITVX will require a considerable increase in spending to create the type of content that will attract enough people to make the proposition a success.

But if you go back a few years, it's easy to understand why investors have lost interest. If anything, perennial takeover rumours have been the only thing to breathe any life into the share price for a short period.

ITV's free to air broadcasting model is operationally geared which means its operating profit is sensitive to any change in sales volumes. If there is a slowdown in advertising, ITV's earnings will be hit disproportionately hard.

This looks increasingly likely as advertisers shift their budgets away from television in favour of online channels.

Another concern is that at a time when ITV is launching a new digital platform, consumers are experiencing streaming fatigue. Given the rapid increase in the cost of living, and the associated desire or need to pare back spending, it is questionable if there will be the appetite for another streaming service.

There is a high degree of uncertainty regarding ITV's ability to compete with the plethora of streaming companies, from a size, scale and resource perspective.

The costs associated with launching ITVX are considerable. And across the board ITV intends to invest £1.23 billion in content this year and a further £1.3 billion next year. As a result of these additional costs, consensus forecasts for ITV's operating profit next year have fallen from £800 million to £550 million.

TELEVISION'S DIMINISHING POWER

Berenberg media analyst Sarah Simon has expressed caution regarding television's declining appeal as an advertising medium. She says: 'While advertising has surprised positively, we cannot help thinking that this is inconsistent with the decline in consumption of ITV content.'

In 2021 television viewers watched 15.1 billion hours on ITV Hub and its linear channels. This was a decline of 9% from 2020 when viewers watched 16.6 billion hours.

Research by Insider Intelligence suggests digital video advertising spending will continue to eat away at traditional television budgets. It estimates that in 2022, television will account for just 12.4% of total media spending, down from 13.3% in 2021.

Despite being in lockdown for the first three months of the year, a resurgence in advertising spending enabled ITV to report a 24% increase in group revenue to £3.4 billion for 2021. Of this amount, advertising revenue equated to just under £2 billion. However, the extent to which this level of advertising expenditure is sustainable is in doubt.

The macroeconomic outlook for advertising has turned negative given the current geopolitical uncertainties linked to Russia's invasion of Ukraine, coupled with global input costs, supply chain issues and concerns about consumer spending. This is a potential concern for ITV given its high degree of sensitivity to a slowdown in demand for advertising.

Consumers are likely to reduce their levels of consumption to accommodate their squeezed finances. UK economic growth is likely to slow as consumption accounts for approximately 68% of growth. Under this scenario the impact on demand for television advertising demand and ITV's earnings would be negative.

There is a reason why ITV's shares are so cheap, trading on a mere 5.5 times forward earnings with a 6% dividend yield. This low valuation reflects its struggle for relevance in a digital world and the longer-term structural challenges facing the company.

Global advertising share by category

Year	Television	Digital	Other
2019	29.0%	52.5%	18.5%
2020	27.9%	57.8%	14.3%
2021	25.9%	60.0%	14.1%
2022	25.3%	61.5%	13.2%
2023E	24.4%	63.1%	12.5%
2024E	23.1%	65.1%	11.8%

Table: Shares Magazine • Source: McKinsey & Company, Wilkofsky Gruen Associates

WILL ITVX BE A VIABLE STREAMING CONTENDER?

ITV's new streaming platform will be the centrepiece of its strategy to double digital revenue growth to £750 million by 2026.

The intention is to launch ITVX in the fourth quarter. It will enable viewers to see some of ITV's programmes before they are broadcast on linear TV, as well as its back catalogue of shows.

The service will be free to watch with advertisements. However, there will be an optional subscription that will offer a premiere each week, and 15,000 hours of content. ITV will replace both ITV Hub and ITV Hub+.

However, ITV faces similar challenges to its larger American streaming cousins, intense competition for viewers' attention coupled with the escalating cost of creating popular content.

Recent research by Wells Fargo suggests the cost of admission for those entering the streaming wars will continue to escalate. For the nine largest media and technology companies it forecasts a 10% jump in costs in 2022 to $140.5 billion.

ITV intends to invest £1.23 billion in programmes this year, and a further £1.3 billion next year. This is a modest outlay compared with Disney which is expected to spend $33 billion on content in its 2022 fiscal year. Netflix's content spending is expected to jump 13% this year to $19 billion.

By **Mark Gardner** Senior Reporter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Is your favourite investment trust in safe hands?

Experience counts in fund management but it is always important to have a well-prepared next generation waiting in the wings

Experience counts in the asset management industry and in a phenomenal achievement, Peter Spiller (*pictured*) recently celebrated his 40th anniversary at the helm of wealth preservation specialist **Capital Gearing Trust (CGT)**.

The mind boggles when you consider that during his four decades as manager, Spiller has seen seven UK prime ministers elected, countless international conflicts rage and inflation spike above 9% in 1990.

To coincide with Spiller's milestone, the Association of Investment Companies has released a list of the 27 investment company managers with a track record of at least 20 years.

Out of all AIC member investment companies (excluding venture capital trusts) with a history of longer than 10 years, 143 (45%) have had at least one of their current fund managers in place for 10 years or more, while 27 investment company managers have guided their companies through two turbulent decades.

IMPORTANCE OF SUCCESSION PLANNING

Unlike athletes, who are forced to call time on careers as their powers wane over time, fund managers can become better investors and asset allocators as the years roll by and they hone their skills. In particular they will have experience of more than one economic and market cycle and therefore learn not to get too carried away in a bullish environment nor panic when there is a sell-off.

It is important for investment trusts with long serving managers to have a succession plan in place, since retirement comes to us all. Even if a manager with lengthy tenure remains relatively young, he or she may choose to leave for pastures new and there is also key person risk for boards and investors to consider.

Should something tragic befall a trusted manager, is there a well-equipped deputy versed in the investment process who can step into the role immediately or a team of analysts that can continue to successfully manage the trust and generate good returns?

Communications director at the AIC, Annabel Brodie-Smith, observes: 'A high-profile example is **Scottish Mortgage (SMT)** where the much-respected James Anderson, who has managed the company since 2000, is stepping down this month.

'Since 2009 Anderson has been working closely at Scottish Mortgage with another manager, Tom Slater. Tom will be taking over shortly and interestingly a new manager, Lawrence Burns, was appointed to the company last year.'

WAITNG IN THE WINGS

CG Asset Management's founder Peter Spiller manages Capital Gearing, which has the objective to preserve and over time to grow shareholders' real wealth, alongside Alastair Laing, who was made CEO of CG Asset Management five years ago. Having been co-portfolio manager of Capital Gearing for 11 years, Laing knows the process inside out.

He points out that Chris Clothier joined as the third portfolio manager six years ago and stresses that 'together Chris and I represent one generation of succession planning', a process he says includes many aspects of the business including recruitment, training, culture and firm ownership.

'We are very conscious of managing all these points over time, although I would stress that Peter has no plans to retire – I would expect him to still be actively involved for the 50th anniversary,' says Laing.

Capital Gearing recently recruited an analyst and

LONGEST SERVING MANAGERS

As the table shows, behind Peter Spiller is the second longest-serving manager Simon Knott, who has steered UK smaller companies trust **Rights & Issues (RIII)** for a staggering 38 years. Hot on his heels is James Henderson, who has managed **Lowland Investment Company (LWI)** for 32 years, **Law Debenture (LDWB)** for 18 years and **Henderson Opportunities (HOT)** for 15 years.

Completing the top five are Job Curtis who has headed **City of London (CTY)** for 30 years and Katie Potts, the longest-serving female investment company manager, who has been calling the shots at **Herald (HRI)** for 28 years.

Austin Forey has managed **JPMorgan Emerging Markets (JMG)** for pushing on 28 years, Hugh Young has steered **Abrdn Asia Focus (AAS)** for well over 26 years and Julian Cane has managed **BMO Capital & Income (BCI)** for over a quarter of a century.

And then there is famed 'buy and hold' investor Nick Train, whose successful stock picking approach is based on that of Warren Buffett. Train has presided over both the **Finsbury & Growth & Income (FGT)** and **Lindsell Train (LTI)** investment trusts for more than 21 years.

Longest serving investment trust managers

Investment trust	Manager	Years in post
Capital Gearing	Peter Spiller	39 years 11 months
Rights & Issues	Simon Knott	38 years 2 months
Lowland	James Henderson	32 years 2 months
City of London	Job Curtis	30 years 8 months
Herald	Katie Potts	28 years 1 month
JPMorgan Emerging Markets	Austin Forey	27 years 9 months
Abrdn Asia Focus	Hugh Young	26 years 5 months
British & American	Jonathan Woolf	26 years 2 months
Atlantis Japan Growth	Edwin C Merner	25 years 10 months
Atlantis Japan Growth	Taeko Setaishi	25 years 10 months
BMO Capital & Income	Julian Cane	25 years 0 months

Table: Shares Magazine • Source: Association of Investment Companies, as at 29 March 2022

will shortly have another join the team, and Laing and the trust hope these will represent the second generation of succession planning.

Laing also makes the point that CG Asset Management is majority owned by an Employee Ownership Trust, and because every member of the team is an owner manager under the EOT, this gives significant team stability – no fund manager has ever left CGAM since it was founded in 2001. Laing says there is no risk of the business being sold to a third party as the EOT owns the company.

Finsbury Growth & Income's manager Lindsell Train informed *Shares* it has 'developed a clear path forward regarding succession planning', but stressed that co-founders Michael Lindsell and Nick Train (*pictured*) 'plan to continue to be actively involved in portfolio management and running our business until at least 2029'.

Over the past 12 years, Michael Lindsell and Nick Train have recruited five individuals to join them on the investment team, 'all of whom have become increasingly important in their contribution to the management and performance of our investment strategies'.

This quintet include James Bullock, who has jointly managed global equity portfolios alongside Train and Lindsell since 2015 and manages the **LF Lindsell Train North American Equity Fund**, launched in May 2020.

RISING STAR

Another rising star is deputy portfolio manager Madeline Wright (*pictured*) who works closely with Nick Train on **LF Lindsell Train UK Equity Fund (B18B9X7)** and assists Bullock with the North American fund. Fellow deputy portfolio manager Alexander Windsor-Clive and analyst and portfolio managers' assistants Ben Van Leeuwen and Alice Li could also be future stars in the making.

During his lengthy spell managing BMO Capital & Income, Julian Cane has outperformed the FTSE UK All-Share Index benchmark over the long and medium term and grown the trust's dividend every year since 1992, a 28-year run of unbroken payout growth that has earned the trust coveted AIC 'Dividend Hero' status.

Pressed on his succession plans for the trust, Cane commented: 'First, I have no intention of retiring in the immediate future. I started managing the fund when I was 27 and so should have many productive years still ahead of me. If anything, fund managers should improve with experience.

'Secondly, there are, of course, succession plans in the event that I leave or something untoward happens. In this scenario, the management company would make a recommendation of a new manager to the board from the broader investment team that helps me.

'That bench strength will only increase as the integration with Columbia Threadneedle progresses,' referring to Columbia Threadneedle's recent acquisition of BMO's EMEA asset management business.

LESSONS FROM LONGEVITY

BMO Capital & Income's investors are clearly lucky to have Cane still steering the trust. Cane's advice to his younger self in the role, and presumably to a successor many years down the track, would be: 'Don't be afraid to ask dumb questions – be worried if you get a dumb answer. There are plenty of storytellers amongst company managements and stockbrokers, telling you what they think you want to hear.

'Trust, but verify. Once you've done the necessary research, back your judgement. Your successes will outweigh the mistakes.'

Elsewhere, Evy Hambro (*pictured*) has managed **BlackRock World Mining (BRWM)** for more than two decades. This is a commodities and natural resources trust that can call upon a deep bench of talent in the future.

Hambro has had co-manager Olivia Markham (*pictured*) on the trust with him since 2015 and the BlackRock natural resources team is also the largest in the world by assets and has real depth of expertise.

BlackRock says: 'To help ensure continuity of leadership and management, succession planning is part of our investment teams' ongoing talent development.'

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

Commercial property: the post-pandemic landscape

- After a tough pandemic, commercial property recovered significantly in 2021
- Industrials led the way, while segments of the retail and office markets remained weak
- The outlook for individual sectors within commercial property is diverging with asset selection increasingly important

Commercial property was one of the success stories of 2021, as investors returned to the sector in search of inflation-adjusted income and diversification. However, performance was polarised between sectors and individual assets. The need for discernment characterises the market in 2022 and beyond as the outlook for different sub-segments of commercial property, and more particularly the characteristics of specific assets, diverges.

Over the past 12 months, industrial and logistics property has continued to thrive, driven by strong rental growth and high demand, again producing the best performance with total returns of 36%; in contrast the poorest area of the market, shopping centres, achieved a total return of -5%. In general, investors favoured higher quality assets, with the exception of the industrial sector where secondary assets performed well.

Retail warehousing was also a stand-out in 2021. This marks a break with its recent past and shows that the right retail assets still have a place in a commercial property portfolio. In general, those assets linked to discount retailers and with supermarkets performed best over the year. UK Commercial Property REIT focused its attention on additions in areas it has seen growth including student accommodation, retail warehousing, and selective industrial with value-add opportunities.

What lies ahead?

More recently, in the early months of 2022, the market has started to become less polarised. We have seen industrial property deliver strong returns, but the gap with the rest of the market is far smaller. The yield compression that has characterised the industrial market in recent years is slowing and from here, we believe returns will be driven by rental growth.

Elsewhere, the picture is more complex. Polarisation of prospective returns within each sub-sector of the asset class is apparent – within offices, within retail, and so forth.

The office sector is interesting. Overall, the outlook for the sector is weak as it adjusts to an environment of agile working. It is still not clear the type of office life that will emerge, but it will certainly be different and businesses will need to change their office footprint. However, there is a notable gap between prime office spaces, with demand, and secondary, where demand is limited.

Sustainability credentials are important across all commercial property, but particularly so in the office market, where tenants are increasingly demanding wellness facilities and a low carbon footprint, alongside the usual attributes of a strong location, access to local amenities and proximity to public transport. Offices with these characteristics are in short supply with good rental prospects.

There are also selected growth areas that have been weak, but should see an improvement; for example certain leisure assets and hotels with strong fundamentals.

Today's portfolio

The UK Commercial Property REIT portfolio has benefited from a high weighting to industrial and logistics assets. From here we see a convergence of sector returns where stock picking will become increasingly important.

For example, we are looking at properties where we can reconfigure assets to source potential returns. A recent purchase of an office close to Park Royal in London, one of Europe's most prized industrial/distribution locations, offers us the opportunity to redevelop the site to industrial after taking a good income yield from the existing asset. This was a more compelling opportunity than buying expensive industrial assets in the same area.

We are also interested in building a higher weighting in operational assets, such as hotels, following our two student accommodation development funding projects in Exeter and Edinburgh due to complete later this year.

Within retail, the Trust's focus is on discount and food anchored retail warehousing. Our most recent purchase in retail was a 140,000 square foot retail park close to the Trafford Centre in Manchester with a range of convenience retailers as tenants.

Our portfolio remains focused on those areas showing structural growth, or where the strategic management of assets can aim to improve returns. We believe the Company's well-let portfolio of scale, heavily weighted towards performing sectors, and with share liquidity, should have a broad reaching appeal with potential for future earnings growth.

abrdn

Important Information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future returns.
- The value of property and property-related assets is inherently subjective due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the valuations of Properties will correspond exactly with the actual sale price even where such sales occur shortly after the relevant valuation date.
- Prospective investors should be aware that, whilst the use of borrowings should enhance the net asset value of the Ordinary Shares where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the rental income of the falls for whatever reason, including tenant defaults, the use of borrowings will increase the impact of such fall on the net revenue of the Company and, accordingly, will have an adverse effect on the Company's ability to pay dividends to Shareholders.
- The performance of the Company would be adversely affected by a downturn in the property market in terms of market value or a weakening of rental yields. In the event of default by a tenant, or during any other void period, the Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveying costs in re-letting, maintenance costs, insurance costs, rates and marketing costs.
- Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as upon changes in its market value.
- Any change to the laws and regulations relating to the UK commercial property market may have an adverse effect on the market value of the Property Portfolio and/or the rental income of the Property Portfolio.
- Where there are lease expiries within the Property Portfolio, there is a risk that a significant proportion of leases may be re-let at rental values lower than those prevailing under the current leases, or that void periods may be experienced on a significant proportion of the Property Portfolio.
- The Company may undertake development (including redevelopment) of property or invest in property that requires refurbishment prior to renting the property. The risks of development or refurbishment include, but are not limited to, delays in timely completion of the project, cost overruns, poor quality workmanship, and inability to rent or inability to rent at a rental level sufficient to generate profits.
- The Company may face significant competition from UK or other foreign property companies or funds. Competition in the property market may lead to prices for existing properties or land for development being driven up through competing bids by potential purchasers.
- Accordingly, the existence of such competition may have a material adverse impact on the Company's ability to acquire properties or development land at satisfactory prices.
- As the owner of UK commercial property, the Company is subject to environmental regulations that can impose liability for cleaning up contaminated land, watercourses or groundwater on the person causing or knowingly permitting the contamination. If the Company owns or acquires contaminated land, it could also be liable to third parties for harm caused to them or their property as a result of the contamination. If the Company is found to be in violation of environmental regulations, it could face reputational damage, regulatory compliance penalties, reduced letting income and reduced asset valuation, which could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and/or the price of the Shares.

Other important information:

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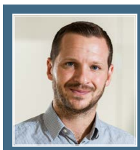
How much will I get from the state pension?

A reader in their 60s also wants to know about pension credit

I'm 62 and have worked all my life, what am I likely to receive from the state from age 66 and how does pension credit work?
Sonia



Tom Selby, AJ Bell Head of Retirement Policy says:

The full flat-rate state pension is worth £185.15 in 2022/23 and you will qualify for it when you turn 66. In order to qualify for the full amount, you need a 35-year National Insurance contribution record.

You need at least a 10-year NI record to qualify for any state pension, with a deduction made for every year of missing NI you have. Once you have a 35-year NI record you cannot build up any more state pension entitlement.

The state pension system was reformed in 2016, meaning millions of people built up rights under a combination of the old system and the new system.

Anyone who built up state pension entitlements under the old system and hadn't reached state pension age before 6 April 2016 has a 'foundation amount' calculated.

Anyone with a foundation amount equal to the full flat-rate state pension at 5 April 2016 would not have been

able to build up any extra state pension – even if they added more qualifying years to their National Insurance contributions record.

Those with a foundation amount below the full flat-rate state pension could continue to build up qualifying years via NI contributions and boost their state pension entitlement.

People with a foundation amount worth more than the flat-rate state pension would receive the full flat-rate amount plus a 'protected payment' to reflect the extra entitlement built up under the old system. They would not gain any extra pension for further qualifying years they accrue.

Use this link to check your state pension entitlement.

Crucially, it is up to you to claim your state pension from the DWP.

Note that the state pension age is scheduled to increase to 67 by 2028 and 68 by 2046 – although a review of the state pension age is underway and due to be completed in 2023.

PENSION CREDIT

Pension credit is another key benefit provided by the state which tends to go unclaimed by lower income retirees.

In 2022/23, if you are over state pension age (66), single and your income is less than less than £182.60 a week then pension credit will top you up to that amount. For a couple, the combined income figure is £287.70.

In relation to pension credit your income includes your state pension, other pensions, employment or self-employment earnings and most social security benefits. As with the state pension, it is up to you to claim pension credit.

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.

DANNI HEWSON
AJ Bell Financial Analyst

NFTs are all the rage but should investors bother with them?

There is a lot of talk about non-fungible tokens but few understand what they are

If you had to search the internet for 'non-fungible token' or 'NFT' on the day Rishi Sunak announced he was asking the Royal Mint to create one, you're probably not alone.

While NFTs have a growing fanbase which resulted in $25 billion being spent on them by collectors and traders last year, according to DappRadar, they've not cut through to mainstream investing yet.

In a nutshell, NFTs are digital assets but the value comes from a unique proof of ownership stored on the same blockchain that's used to buy and sell cryptocurrencies. Some of those assets also have a tangible twin – think of a work of art that can also be physically hung on a wall, but most NFTs are virtual only.

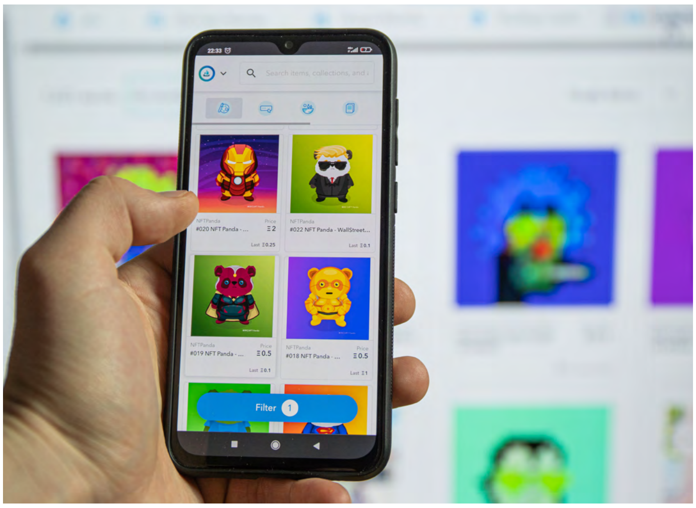
One of the most famous examples of an NFT features the first 'tweet' put out by Twitter creator Jack Dorsey which sold for $2.9 million and is now back on the market for over $48 million.

There is potentially money to be made but the value of NFTs is still largely untested and in the end it all comes down to how much someone else is willing to pay for what you have.

There is no history to look back on and no precedent to determine if your investment decision looks sound. Ultimately it all comes to down to taste and risk.

RANGE OF NFTS

Plenty of individuals and businesses scent an opportunity, from artists like Damien Hirst and pop stars like Justin Bieber to multi-national corporations and sporting conglomerates. This means NFTs have become prolific in a short space of time.



NFTs can be more than just an image, they can capture a moment in time, a phrase of music, a virtual frock or pair of shoes, a skin for your avatar or a GIF.

Prices vary widely, unsurprisingly the rarer the item the more people are willing to pay. Justin Bieber-backed 'Bad Ted', the colourful creation of InBetweeners artist Gianpiero D'Alessandro, has harnessed the pop star's fan network to great effect and the average 'bear' is now selling on NFT marketplace OpenSea for an average of $3,000 though one has fetched over $120,000.

Clearly there is a risk the NFT you acquire might not appeal to anyone else in which case your investment might end up being rendered worthless.

BUSINESSES JUMP ON THE NFT BANDWAGON

Investors who aren't sure about NFTs might find they have shares in one of the myriad companies already on the bandwagon.

Nike (NKE:NYSE) recently snapped up a company

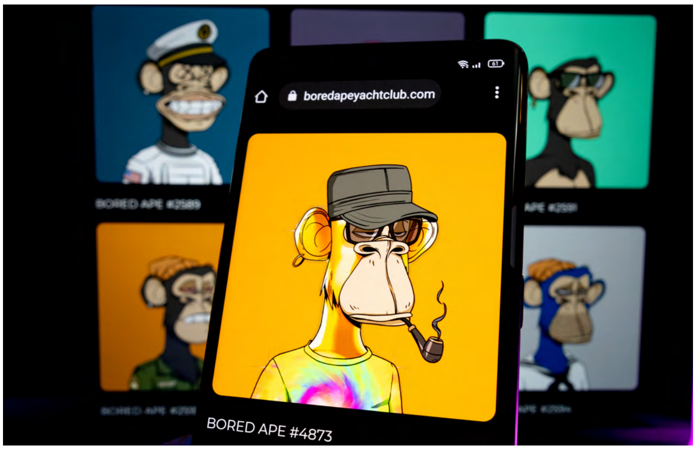
DANNI HEWSON
AJ Bell Financial Analyst

that designs virtual trainers; **Coca-Cola (KO:NYSE)**, Gucci and **Adidas (ADS:ETR)** have also jumped in.

Paramount has come in for quite a bit of stick from Star Trek fans for its journey into the NFT frontier with algorithmically generated 'star ships' on sale for $250 dollars each. The idea is these ships will enable you to engage with the Star Trek universe, set out on 'missions' and experience, well... experiences. But that's still some way off and currently they're the equivalent of a fridge magnet but stuck on your virtual wallet rather than your kitchen's cooler.

One of the most successful forays into NFTs has been from the world of sport. The NFL has taken a logical step from trading cards to trading tokens and it has also given value-added benefits to fans who attended this year's Superbowl as they each received a complimentary NFT which commemorated their attendance – a sort of digital keepsake.

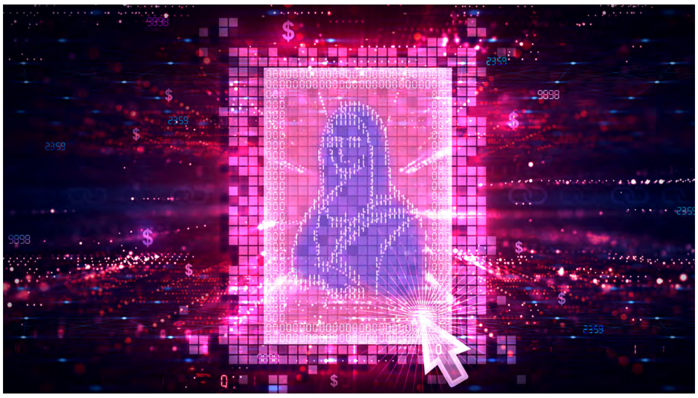
But a charity venture by Liverpool Football Club which looked to sell over 100,000 NFTs was something of a flop and drew criticism from fans that the club was trying to exploit them.



TIP OF THE ICEBERG

Tech companies from **Meta Platforms (FB:NASDAQ)** to **Apple (AAPL:NASDAQ)** are making moves and it's easy to understand why.

My teenage children spend their lives in virtual worlds. They think nothing of spending all their pocket money on skins, avatars, outfits and weaponry needed to succeed in quests or blend in with teammates, though most of those



transactions are not currently in the NFT sphere.

For them, the blending of their real and online lives is seamless, a concept Meta Platforms' founder Mark Zuckerberg is hoping to push further.

Institutions like the Royal Mint getting involved might offer some kind of stability, adding an almost inherent value. And an offering from Damien Hirst came with a deal that after three years you could swap your NFT for the tangible piece and whichever one you didn't choose would be destroyed.

Stunt or smart move, it does give NFT dabblers a modicum of control, much in the same way an NFT from the Royal Mint might confer a modicum of certainty. NFT investment funds are also being launched, another indication the financial sector is sitting up and taking notice.

RISKS TO CONSIDER

There are risks – not just those already discussed but also from an increasing amount of fraud.

The relative newness of the investment means many consumers have little knowledge of exactly what makes an NFT and so don't take the basic steps to make sure the item they are buying is real.

Plus, the burgeoning popularity of NFTs has acted as a magnet for scammers who are clever at exploiting any perceived weakness in the system.

Then there's the basics of making sure your 'seed phrase' – the password to your virtual wallet – is safe and secure. One misstep and you could find yourself counting the cost.

Regulators will catch up as this world progresses. Until then investors need to be on their guard, to be safe and not sorry.

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Christopher P. Bogart, CEO

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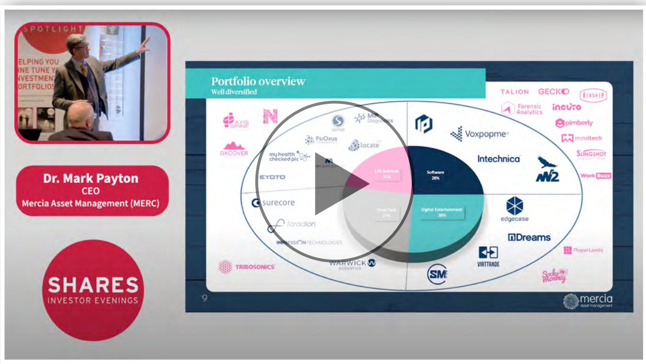
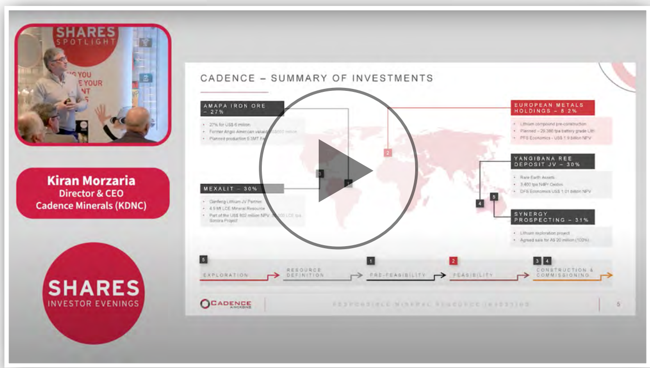


Mercia Asset Management
Dr. Mark Payton, CEO & Martin Glanfield, CFO

Mercia Asset Management is a proactive, specialist asset manager focused on supporting regional SMEs to achieve their growth aspirations. Mercia provides capital across its four asset classes of balance sheet, venture, private equity and debt capital; the Group's 'Complete Capital Solution'.



Cadence Minerals
Kiran Morzaria, Director & CEO

Cadence Minerals is dedicated to smart investments for a greener world. The planet needs rechargeable batteries on a global scale – upcoming supersized passenger vehicles, lorries and buses – require lithium and other technology minerals to power their cells.

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Looking for an ESG investment? They tend to fall into six different baskets

This guide will help you navigate the maze of environmental, social and governance funds

The performance of funds with an ESG (environmental, social and governance) focus has taken a bit of a turn for the worse of late.

The average global ESG fund has returned 6.6% over the last 12 months to 5 April, compared to 8.7% from the typical non-ESG fund, according to data from Morningstar.

That's partly because some of the technology and growth stocks that tend to populate ESG portfolios have struggled a bit this year, and partly because oil and gas stocks, which don't often feature in environmentally-friendly funds, have had a revival thanks to rising energy prices.

The list of top 10 stocks held in global ESG portfolios shows the popularity of US technology stocks in these types of funds.

Longer term performance for ESG funds is still superior though. These investments have returned 66.4% over the last five years, compared to 60.6% from their non-ethical counterparts.

Some of that probably comes down to exposure to the tech sector again, which has performed much better over this longer time period.

While performance is important, it isn't the only reason people invest in ESG funds. Some would like their money to make a positive contribution to climate or social issues, while others simply don't want their money going to companies which may have poor practices. So how do investors go about choosing which fund is right for them?

10 most-held shares in global ESG funds

Stock	Sector
Microsoft	Technology
Alphabet	Communication Services
Thermo Fisher Scientific	Healthcare
Schneider Electric	Industrials
Apple	Technology
Mastercard	Financial Services
Amazon.com	Consumer Cyclical
Novo Nordisk	Healthcare
ASML	Technology
Taiwan Semiconductor Manufacturing	Technology

Table: Shares Magazine • Source: Morningstar

As things stand, there are different approaches to investing ethically which investors might think of under the banners of light green, medium green and dark green.

Below is a summary of the various approaches, and while some people may disagree with the precise colour coding, it is only intended as a helpful grouping. Unfortunately, the fund industry has yet to apply such labels to make it easier to find what you want.

LIGHT GREEN APPROACHES

- **Stewardship**

Stewardship means looking after the investments you manage from the point of view of the environment, society or the economy at large.

At its weakest level this would mean simply voting on proposals made by the company, at the strongest it would mean lobbying the company for change, either in private or in public. It's probably hard to find an active fund that wouldn't claim to engage in some form of stewardship, so it's a broad church. Stewardship can be an important component of ESG investing, but it's probably not enough on its own to warrant the ESG tag.

- **ESG integration**

In this approach, ESG factors are considered when making investment decisions. The effect ESG integration has on a portfolio can be minimal or quite substantive.

For instance, a fund manager could simply receive an ESG rating for each stock, alongside other financial information which informs their investment decision. The ESG rating may therefore be a very small part of the overall decision-making process, and hardly reflected in the portfolio.

It's easy to see why accusations of greenwashing might be hurled at this approach, and there is quite rightly a question mark over whether such funds qualify as an ESG investment.

At the other end of the spectrum, ESG integration can mean a more robust approach. For instance, an investment manager might withhold investment from a company under consideration based on its ESG score, though this is still a judgement call, unlike exclusionary funds where certain sectors are explicitly off limits (see below).

MEDIUM GREEN APPROACHES

- **Tilting**

Some funds use ESG scores to tilt their portfolio away from companies with poor ratings, and towards companies with good ratings.

This approach clearly means that some of your money may still be invested in companies and industries which you're not keen on, but you'll have a significantly lower amount of them in your fund compared to the market, so it strikes a balance between ethics and pragmatism.

- **Best in class**

This is a similar approach which permits investment across a range of industries, even carbon intensive ones, but picks a portfolio of companies which are leading their sector in terms of their ESG credentials.

The benefit of this approach is that it's easier to produce a balanced portfolio, and probably suits those people who believe the likes of **BP (BP)** and **Shell (SHEL)** are critical to the transition to cleaner energy.

DARK GREEN APPROACHES

- **Exclusions**

One way to invest ethically is to exclude certain industries from your fund portfolio. Typical examples would be tobacco, oil and gas, gambling and defence companies.

This might suit investors who don't mind too much where they invest, so long as their money isn't held in companies which they believe are doing harm. This is a traditional way of investing ethically, and it's also straightforward to understand and implement.

- **Positive impact**

Some funds go a step further and seek out companies that are working towards solving some of the ESG problems facing the world, whether that be climate change, financial inclusion or poverty.

These funds can be riskier, often because they can invest in fairly specialist areas. Included in this category are funds which target investment in specific themes, such as renewable energy or clean water, and which may therefore have a very focused portfolio.

Some funds will combine a number of these different approaches, which just goes to show that if you do wish to invest ethically, you need to roll your sleeves up and do a bit of homework if you want your fund to be ticking all the right ESG boxes.

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


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INDEX

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

19 April: JTC. **20 April:** Oxford Biomedica, Wood Group. **21 April:** Bonhill, LBG Media, Serica Energy, Churchill China, Safestyle UK. **22 April:** Zinc Media.

Half-year results

20 April: Carr's.

Trading updates

19 April: Integrafin, Kainos. **20 April:** Petra Diamonds, Antofagasta, Rio Tinto, Bunzl. **21 April:** AJ Bell, BHP, PensionBee, Segro, Meggitt, Rentokil, Relx, DP Poland. **22 April:** Record.

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