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SHARES

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The companies able to charge MORE without hurting demand

Tech sell-off: Quality names caught up in **the rout**

The best and worst performing **property** funds

The **absolute return funds** living up to their name **in 2022**

Contents

When 1.4 billion consumers buy local, that's a global opportunity

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The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets.

The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

The trust can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations.

PAST PERFORMANCE

	Feb 17 - Feb 18	Feb 18 - Feb 19	Feb 19 - Feb 20	Feb 20 - Feb 21	Feb 21 - Feb 22
Net Asset Value	30.8%	-11.2%	5.2%	74.2%	-31.7%
Share Price	32.5%	-8.3%	3.1%	97.2%	-36.5%
MSCI China Index	32.5%	-8.3%	7.6%	30.8%	-28.4%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 28.02.2022, bid-bid, net income reinvested.
 The MSCI China Index is a comparative index of the investment trust.

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

ELITE FUND rated by FundCalibre.com

Fidelity INTERNATIONAL

There could be more pain to endure from rising oil prices

Morgan Stanley believes oil prices could be 30% higher in a matter of months

A higher oil price can be viewed as a tax on economic growth. For all the talk of a transition away from fossil fuels, oil is still key to powering the global economy and prices above $100 per barrel push up the costs for everyone, from the humble motorist at the pump to the largest global business.

There has been a bit of a respite on this front lately, even if Brent, the global benchmark for crude, is still holding just above that $100 mark.

The main reason is a concern about demand, with Chinese lockdowns and the growing fears about a worldwide slowdown influencing prices.

It could be that recent releases from countries' strategic reserves are having some impact too, though probably only at the margins.

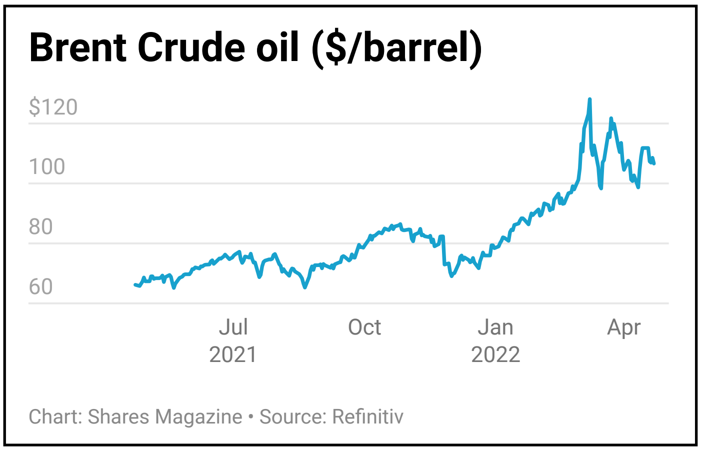
Anyone feeling too relaxed about the situation could be taking their eye off the ball. Going against the prevailing sentiment at present, Morgan Stanley recently lifted its oil price forecast for the third quarter of 2022 from $120 per barrel to $130 per barrel.

Its reasoning is founded on mounting pressures on supply linked to the war in Ukraine (Russia being a major exporter of oil) and Iran with a lack of progress on a new nuclear agreement with the West.

If the investment bank is right, then oil prices are set to surge another 30% in the next few months which would only add to inflationary pressures and put further stress on an already fragile global economy.

Morgan Stanley's commodities team comment: 'Our assessment remains that risks to prices are skewed to the upside. We lower our demand growth forecasts, from 3.4 to 2.7 million barrels per day for 2022.

'However, we lower our supply forecasts even more, driven by further downside to both Russian and Iranian supply. Combined, this leaves our balances tighter than before. We now see a deficit of around one million barrels per day persisting throughout the year.'



Higher oil prices would be good news for the oil and gas producers – and it will be interesting to note the views of **BP (BP.)** and **Shell (SHEL)** when they update on first quarter trading on 3 May and 5 May respectively.

Oil gushing higher would be really bad news for airlines, which are already having to contend with lots of other issues as they struggle in their recovery from the pandemic.

Another move higher in the cost of jet fuel could test existing hedging strategies to their limit at a time when the industry is also facing staffing issues and a significant drop in consumer confidence.

EasyJet (EZJ) posts first-half results on 19 May, while British Airways-owner **International Consolidated Airlines (IAG)**, which recently unveiled plans to base cabin crew for its flagship carrier in Spain to deal with staff shortages, posts numbers for the first three months of 2022 on 6 May.

One thing is for certain. The events of two years ago when US oil prices briefly turned negative, with sellers of oil effectively having to pay parties to store their barrels, feel a very long way off.

By **Tom Sieber** Deputy Editor

Shares in mining companies hurt by Chinese lockdowns and operational issues

Sector under pressure as Beijing continues to pursue zero-Covid approach, threatening commodities demand

The strong run enjoyed by mining stocks has come to a juddering halt after Chinese lockdowns raised the prospect of reduced demand and some of the sector's largest players revealed operational issues and downbeat outlooks.

China is the world's leading consumer of many commodities and the country's continuing policy of pursuing a zero-Covid approach is seen as a major threat to its economic growth and therefore its appetite for the metals produced by global mining firms.

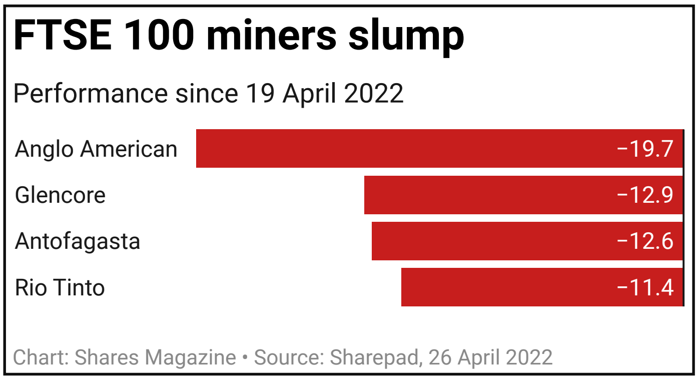
While Chinese first quarter GDP was slightly ahead of expectations, showing 4.8% year-on-year growth, a target of 5.5% annual growth in 2022 now looks a real stretch with the International Monetary Fund slashing its own forecast to just 4.4%.

Jefferies analyst Christopher LaFemina says: 'We would attribute the recent sharp sell-off in mining equities mostly to growing concerns about demand due to Covid lockdowns in China, Fed tightening and recession risk in Europe.

'CYCLE ON HOLD, NOT DEAD'

He adds: 'We expect the sector to remain under pressure for the short term, but we believe this will be followed by a continuation of the powerful upturn in commodity prices that began anew two years ago. The cycle is on hold, but it is not dead, in our view.'

Among the UK-listed miners, for its first quarter **Antofagasta (ANTO)** reported a 24% year-on-year decline in copper production thanks to drought-like conditions affecting its Chilean operations and lower grades of metal contained in material dug out of the ground. Similar issues led to a 13% decline in copper output at **Anglo American (AAL)** in its first quarter with the company also facing labour shortages and higher costs.



The environmental regulator in Chile has also recommended blocking the extension of Anglo American's Los Bronces copper project amid concerns about the impact on a local glacier and water availability.

While the world may need copper to build the infrastructure required for a transition to renewable energy and electric vehicles, miners face a challenge to ramp up output while also limiting the harm they do to the local environment.

Issues with staffing were also seen in **Rio Tinto's (RIO)** first quarter results with a 15% quarter-on-quarter decline in iron ore shipments from its flagship Pilbara operations in Western Australia. Chief executive Jakob Stausholm acknowledged 'a need to lift our operational performance'.

BHP (BHP) in the three months to March 2022 saw volumes fall quarter-on-quarter in iron ore, nickel and thermal coal. [TS]

Can consumer-facing firms beat the big squeeze?

Consumer goods groups and retailers are raising prices but there's a limit to the number of hikes cash-strapped shoppers can stomach

Soft drinks giant **Coca-Cola's (KO:NYSE)** first quarter results (25 Apr) topped Wall Street expectations as consumers gulped down more of its namesake brand as well as Powerade and Costa Coffee as the world continued to reopen.

But the beat was also driven by higher prices, with Coca-Cola's sales performance including 7% growth in price and product mix.

Coca-Cola is well known for its brand strength which should enable it to hike the cost of a can without people losing appetite for the product.

However, rising input costs are adding to margin pressures for consumer-facing firms across the board.

And many are, like Coca-Cola, having to raise prices in order to mitigate the impact. Recent forecast-busting third quarter earnings from **Procter & Gamble (PG:NYSE)** were boosted by price hikes to offset inflation, while food giant **Nestle (NESN:SWX)** raised prices by 5.2% in the first three months of 2022 and has warned rising costs will necessitate further increases over the course of the year.

Associated British Foods' (ABF) budget clothing chain Primark is also set to implement 'selective price increases across some of the autumn/ winter stock' to mitigate soaring costs, though ABF stressed it is 'committed to ensuring our price leadership and everyday affordability, especially in this environment of greater economic uncertainty'.

Consumer facing firms, particularly those known for bargain prices, have to strike a balance between protecting margins and ensuring cash-strapped customers can afford their products.

And ABF appears to be striking that balance, acknowledging that margins in the second half of its financial year will be lower than anticipated.

In the UK, shopper confidence has plummeted to record lows according to the latest Shopper Confidence Index from IGD Shoppervista, with March's Index score falling from -18 in February to -23.

The latest consumer confidence survey from GfK showed the overall index hitting a multi-year low of -38 points, while the March retail sales figures from the ONS (office for National Statistics) showed retail sales volumes falling by 1.4% between February and March.

Morgan Stanley points to three reasons why the months ahead could get more challenging for consumer staples in particular.

Input costs are expected to stay elevated for longer, income constrained and emerging market consumers face 'amplified headwinds' in the form of rising food and energy costs, while downtrading risk is rising, particularly for food and home care companies.

Investors should monitor earnings updates to see which consumer-facing companies have been able to hike prices successfully without alienating their customers.

Toothpaste titan **Colgate-Palmolive (CL:NYSE)** is set to issue figures on 29 April, **Starbucks (SBUX:NASDAQ)** (3 May) and **Walmart (WMT:NYSE)** to follow (17 May). [JC]

Growth names continue to struggle as we reveal stocks at 52-week highs and lows

Real assets have so far provided the best defence against higher rates and inflation

It is one thing for analysts to forecast which stocks and sectors will do well in a rising-rate or inflationary environment, but when it actually comes to pass it's always fascinating to see what works in practice.

Judging by the list of stocks making 12-month highs over the past week, those who favoured real assets were on the money.

Standing tall are **3i Infrastructure (3IN)**, **AEW UK REIT (AEWU)**, **GCP Infrastructure (GCP)**, **JLEN Environmental Assets (JLEN)**, **JPMorgan Core Real Assets (JARA)** and **Taylor Maritime Investments (TMI)**.

Also looking down on the rest of the market are a couple of solar trusts, **Foresight Solar (FSFL)** and **NextEnergy Solar (NESF)**, which had consistently lagged until the invasion of Ukraine sent energy prices skyward, along with a basket of oil exploration and production firms.

Other winners include telecoms testing equipment maker **Calnex Solutions (CLX:AIM)**, payments group **Equals (EQLS:AIM)**, insurance group **Helios Underwriting (HUW:AIM)**, industrial conglomerate **MS International (MSI:AIM)** and people-screen technology firm **Thruvision (THRU:AIM)**.

Honourable mentions go to distributor **Bunzl (BNZL)**, outsourcer **Serco (SRP)** and warehouse investor **Tritax Big Box (BBOX)** which are just a few percent away from making 12-month highs.

On the losing side over the last week have been a handful of overseas funds, mostly in Japan, along with several former growth darlings.

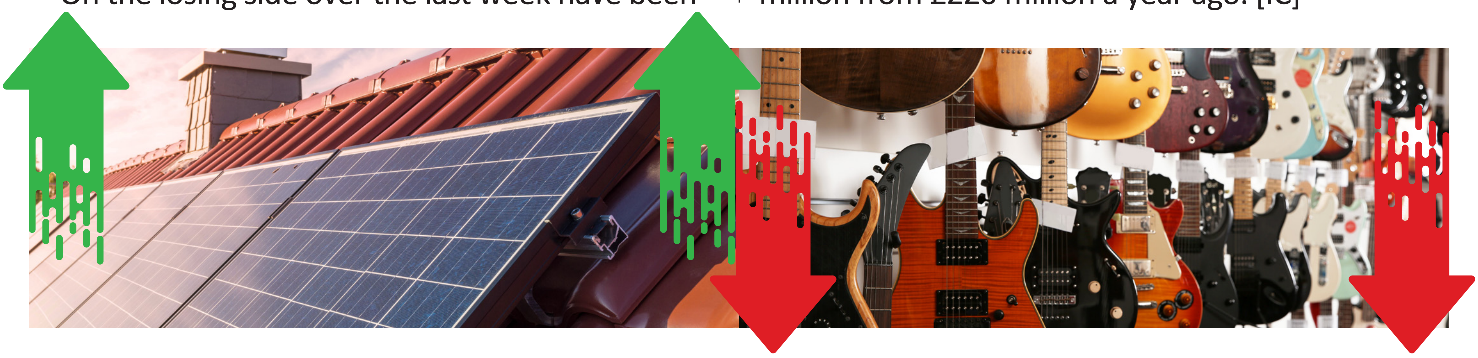
Baillie Gifford Japan (BGFD), **Baillie Gifford Shin Nippon (BGS)** and **JPMorgan Japan Small Cap Growth & Income (JSGI)** are all in the dog house, as are **Abrdn China Investment Company (ACIC)** and **Infrastructure India (IIP)**.

Previous high-flyers now making year-lows include telecoms infrastructure investor **Helios Towers (HTWS)**, legal services firm **Knights Group (KGH:AIM)**, building accessories supplier **Tyman (TYMN)** and logistics group **Xpediator (XPD:AIM)**.

Several life sciences firms have also struggled this year, such as diagnostics companies **EKF Diagnostics (EKF:AIM)** and **Renalytix (RENX:AIM)**, biotech **MaxCyte (MXCT:AIM)**, gene therapy firm **Oxford Biomedica (OXB)** and medical device maker **Rua Life Sciences (RUA:AIM)**.

Other notable losers include former lockdown winners musical instrument seller **Gear4Music (G4M:AIM)**, online card and gift seller **Moonpig (MOON)**, nearly-new car dealer **Motorpoint (MOTR)**, online grocery delivery platform **Ocado (OCDO)** and pet health provider **Pets At Home (PETS)**.

Finally, following a warning over its medium-term future and a fall of more than 65% in its shares this week, convenience retailer **McColls (MCL)** has seen its shares slump to a new 12-month low. McColls' market cap is now just £11 million from £220 million a year ago. [IC]



Why language services group RWS could be the latest private equity victim

Davy estimates over 25% of RWS's market cap would be represented by net cash in 2026

Language services and technology company **RWS (RWS:AIM)** has attracted private equity interest following the announcement (21 Apr) Baring Private Equity Asia fund was considering making an offer for the company.

Under stock exchange rules the private equity fund has until the close of play on 19 May 2022 to make a firm offer or walk away. RWS confirmed no approach has yet been made.

The shares have gained around 25% since the announcement with news of a slightly better than expected first half performance adding to the recent momentum.

However, on a 12-month view the shares have halved from over 700p, so it perhaps not surprising the business has attracted some predatory interest.

Davy points out that most of the language services market is already in private equity hands, leaving RWS the only quoted player following its acquisition of peer SDL in November 2020, which created the world's largest translation company.

The disappointing synergies gleaned from the supposedly transformational deal and the departure of chief executive Richard Thompson who had masterminded the group's growth in the last few years, weighed on the shares.

The cash flow generative nature of the business which has high operating margins and low capital expenditures make it a good fit for private equity players. [MGam]

Novacyt faces £134.6 million NHS legal claim

Despite a difficult time for the shares over the last year they are still up around 10-fold since the start of the pandemic

SHARES IN INTERNATIONAL specialist diagnostics company **Novacyt (NCYT:AIM)** came under further pressure (26 Apr) after it received a claim of £134.6 million from the DHSC (Department of Health and Social Care).

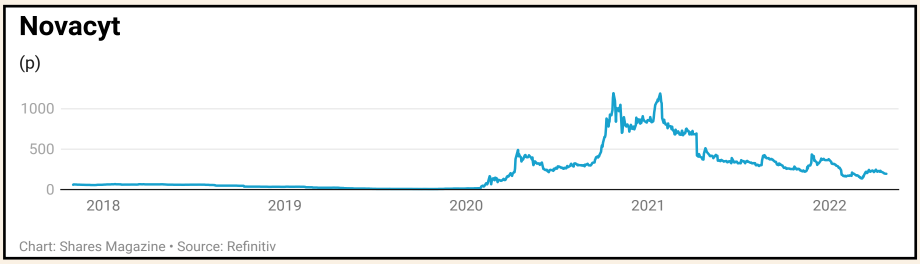
The shares dropped 12% to 167p on the news and languish around 85% below the highs reached in January 2021 before news of the DHSC dispute emerged.

The claim relates to a second contract signed between Novacyt and the DHSC in September 2020 to supply the NHS with rapid PCR Covid-19 testing equipment as well as training services.

The company said the value of DHSC's claim is 'broadly' in line with its previously reported 'disputed' fourth quarter 2020 revenues.

Following a strategic review under new CEO David Allmond the company is seeking to maintain its position as a global first responder to infectious diseases and develop new non-Covid-19 products.

Novacyt has a proven track record of rapidly addressing significant disease outbreaks and was one of the first companies to launch a commercial Covid-19 test in January 2020. [MGam]



Smartly-timed sale and share buyback reveal Spectris' hidden value

Sensor and controls firm shows it is very astute when it comes to allocating its resources

SPECTRIS
BUY
(SXS) £27.09
Market cap: £3.02 billion

Specialist sensor and testing equipment maker **Spectris (SXS)** surprised the market with the recent announcement (19 Apr) it was selling its Omega Engineering division and returning most of the proceeds to investors via a share buyback.

The shares, which had been languishing close to 12-month lows, jumped 5% to top the FTSE 250 on the day but we believe there is much more to come from this high-quality business.

STATE OF THE ART PRODUCTS

Spectris is one of the world's leading manufacturers of high-tech instruments, test equipment and software for industrial applications.

Most of its sales come from its 'platform' businesses, with a third of generated by its GBK (Hottinger, Bruel & Kjaer) division which provides sensing, testing, modelling and simulation solutions to help customers speed up product development.

GBK's core products are sensor hardware and data acquisition and analysis software which enable manufacturers to physically and virtually test their products at each stage of development.

Customers mostly come from the automotive, aerospace, industrial and electronics sectors, where products have to rigorously tested and inspected for reliability, durability and high performance under a range of conditions.

Just under a third of group sales come from the Malvern Panalytical division which specialises in the advanced measurement and analysis of materials.

Its technology is used by scientists and engineers to maximise productivity and develop better products by analysing materials right down to the level of particles to get a better understanding of their chemical, physical and structural composition.

Customers include heavy manufacturers, makers of advanced materials, pharmaceutical makers and food producers.

The last of the 'platform'

Spectris back on growth track

Earnings per share

Chart: Shares Magazine • Source: Company reports, Stockopedia businesses is Omega Engineering, which makes sensors for measuring temperature, humidity, flow and pressure and accounts for around 10% of group sales.

Three other divisions make up the rest of its revenue, serving the industrial automation market, life sciences and electronics with products for controlled environments such as laboratories and clean rooms.

ASTUTE CAPITAL MANAGEMENT

The disposal of Omega to US investment firm Arcline for $525 million (£403 million) demonstrates skillful asset management and at the same time how the wider group is being undervalued by the market.

The price represents a multiple of 20.4 times Omega's adjusted 2021 EBITDA (earnings before interest, taxes, depreciation and amortisation), a considerable premium to Spectris' own valuation of 11 times last year's EBITDA according to Shore Capital.

Omega is in good health and will be a 'highly complementary' fit with Arcline's existing controls business Dwyer, but its margins were below those which Spectris considered acceptable.

Faced with the choice of allocating capital to grow the business to a size that was 'essential to deliver acceptable levels of profitability', the board decided to offload it to a more suitable owner.

The disposal takes Spectris' gross sale proceeds to more than £1 billion over the last three years, typically at valuations

Spectris 2021 sales by end user market

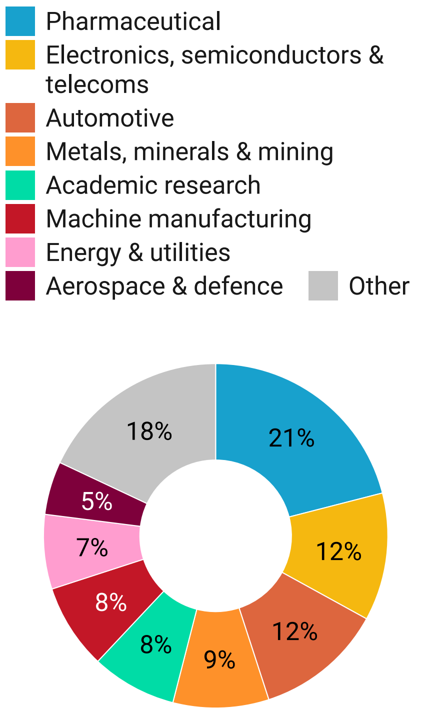


Chart: Shares Magazine • Source: Spectris

above the group's multiple, and leaves it with a much-improved financial profile and a focus on high-precision measurement solutions.

WELL-TIMED BUYBACK

With its strengthened balance sheet, Spectris is now well placed to invest to drive organic growth as well as to invest in R&D (research and development).

It is also eyeing what it calls 'value-enhancing M&A (merger and acquisition) opportunities, from early-life technologies through bolt-ons to larger-scale acquisitions' as well as collaborations with third parties which meet its return criteria.

However, given its confidence in the business over the medium term and the low market valuation of the company, the board has decided the best use of its surplus capital right now is actually to buy its own shares.

Therefore, the firm will buy in up to £300 million of its own stock, or nearly 10% of its current market cap, in two tranches of £150 million, the first to be launched shortly and the second dependent on shareholder approval at its AGM on 14 May.

EXPERT VIEWS

Analysts at Shore Capital applauded the sale of Omega given its lower profit margin than the group average, and said the deal 'highlights the undervaluation of the group'.

With the shares down around 30% year to date and more than that from their high above £40 in September 2021, Shore Capital estimates on a sum-of-the-parts valuation the group trades at a 30% discount to its peers, which implies at least 40% upside from today's price.

Investment bank Berenberg lowered its current-year earnings estimate to account for the loss of sales from Omega but raised their 2023 and 2024 profit forecasts. [IC]

Spectris

Chart: Shares Magazine • Source: Refinitiv

Strong reasons to buy Strix, a global leader in a niche market

Dominant in its core kettle controls space, there is substantial scope for acquisitions to bolster growth

The UK can make fair claim to global leadership in industries as diverse as financial services, medical research, artificial intelligence, the arts and electronics. **Strix (KETL:AIM)** slips neatly into the latter category, and even if the name is new to you, its technology is probably not.

Isle of Man-based Strix has become the world leader in the design, manufacture and supply of kettle safety controls, as well as other components and devices involving water heating and temperature control, steam management, and water filtration.

A pioneer in its field, its products are used 1.2 million times a day in 100 countries by 10% of the global population, according to Berenberg analysis. It has grown its kettle controls market share from around 40%, when we first flagged the investment opportunity in 2018, to 56% today.

And it earns industry leading margins above 30% on earnings before interest, tax, depreciation and amortisation, implying expertise and quality that offers genuine pricing power, a vital ingredient of a good investment during these inflationary times.

It derives most of its revenue from selling components to 200-odd China-based manufacturers, either through its in-the-field sales teams or via online channels, and counts more than 450 brands and retail clients, including Siemens and Tefal.

The key to its ongoing success is safety and quality. When you are dealing with 240 volts (UK main power), the last thing brands wants to risk the fallout from dangerous accident in the home. Strix technology is based on a common design which allows for simple regional safety modifications. That means economies of manufacturing scale without complex and expensive production retooling.

Despite all the obvious challenges felt last year (to 31 December 2021) Strix earned £122.7 million, growth of nearly of 29% on a constant currency basis thanks to a mixture of new product launches, geographical expansion and strong demand in its core kettle controls division.

Its water unit is rapidly emerging as another growth driver, with revenues here jumping 82% last year to £21.4 million, helped by acquisitions, to become meaningful contributor to the whole.

Yet the market has remained stubbornly against the company, blinded by wider macro, geopolitical concerns, and lockdown restrictions in China. Strix shares are down 28% so far in 2022. Growth ahead is likely to be steady rather than spectacular, though there remains a considerable pipeline of acquisition opportunities which could super-charge growth.

Currently trading on a 2022 price to earnings multiple of 13.8, falling to 13.2 next year, we believe there is considerable scope for share price gains as Strix leverages its leading position and technology to expand its market share even further, with acquisitions offering exciting potential to ramp up its water side. [SF]

STRIX
BUY
(KETL:AIM) 218p

Market cap: £455 million

HOMESERVE
(HSV) 970.5p

Gain to date: 43.7%
Original entry point:
Buy at 675p, 24 March 2022

ON 21 APRIL business services group **Homeserve (HSV)** announced it had entered talks with Brookfield Infrastructure in relation to a potential offer.

Brookfield Asset Management is one of the world's largest alternative investment management companies with $688 billion of assets under management.

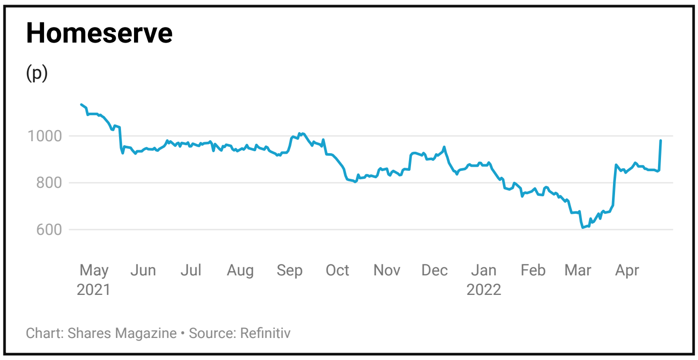
There are a number of factors which make HomeServe a natural target for private equity ownership.

These include its inflation-protected, annuity like income streams. Specifically the defensive and recurring nature of its profits enable it to support higher levels of debt.

As a private company there are a number of actions that could be undertaken that would potentially be harder to execute as a listed company.

Brookfield now has until the close of business on 19 May 2022 to make a firm offer or walk away. The stock has gained 38% since Brookfield's first approach.

Business services analyst David Greenall at Davy suggests the business could be valued at more than £15 a share.



SHARES SAYS:
Hold tight and wait for details of the bid. [MGar]

B&M EUROPEAN VALUE RETAIL
(BME) 508.6p

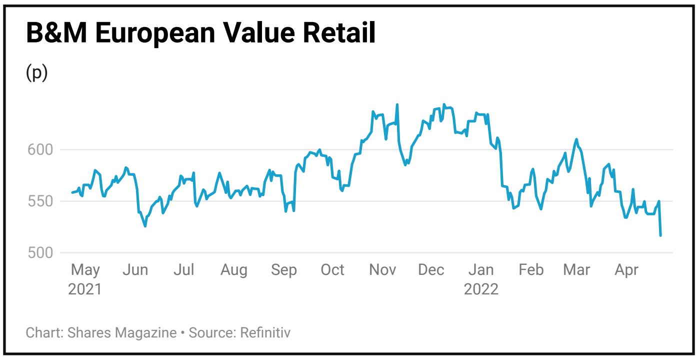
Loss to date: 10.3%
Original entry point:
Buy at 567p, 17 February 2022

OUR BULLISH CALL on discounter **B&M European Value Retail (BME)** is now in the red, the shares caught up in the negative market sentiment towards the retail sector and the news (22 Apr) long-serving boss Simon Arora plans to retire in 12 months' time from his role as CEO.

Arora is credited with turning the variety goods retailer into one of UK retail's biggest modern success stories, so his impending exit creates uncertainty.

Over the coming year, Arora will 'remain fully committed to the business' in his role as CEO and assist in a smooth transition to his successor, with B&M to consider both internal and external candidates for the top job. Reassuringly, his brother Bobby Arora, group trading director, intends to remain with the business.

Shares is sticking with B&M in our belief its value for money proposition leaves it well positioned for inflationary times. As household bills rise, the groceries-to-general merchandise seller should benefit from cash-strapped consumers trading down. B&M is cheaper than the major grocers on everyday branded items, which should enable it to increase its currently modest share in a £300 billion total addressable UK market.



SHARES SAYS:
We are maintaining the faith. [JC]

LOUNGERS

(LGRS:AIM) 257.8p

Loss to date: 7.4%

Original entry point:

Buy at 278.5p, 23 December 2021

RISING INFLATION AND interest rates have dampened investor sentiment towards consumer facing businesses.

But we believe the company remains well positioned to continue its growth trajectory against a less rosy economic backdrop. A recent (26 Apr) trading update confirmed momentum in the business.

The company said it has continued to trade strongly despite 'subdued' trading over Christmas due to the impact from the Omicron variant.

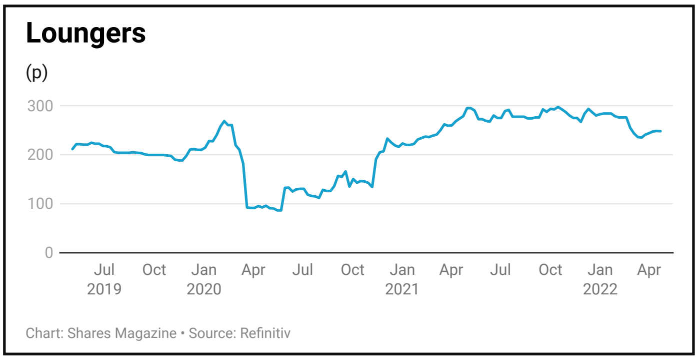
Loungers has maintained its significant outperformance of the market over the 48 weeks to 17 April 2022 with like-for-like sales 22.1% ahead year-on-year.

This pushed revenue to a record £237.3 million, around 5% higher than analysts had pencilled in and 42% above pre-pandemic levels.

The strong performance prompted the company to guide for full-year profit to be ahead of market expectations.

Growth was driven by the opening of 27 new sites including one Cosy Club taking the portfolio to 195 locations. Meanwhile net debt reduced from £44.9 million to £2.6 million.

Although investors must wait for more financial details at the full year results on 13 July, it is encouraging to see profit moving higher.



SHARES SAYS:
Still a buy. [MGam]

ASIA DRAGON TRUST

(DGN) 413p

Loss to date: 19.3%

Original entry point:

Buy at 512p, 24 June 2021

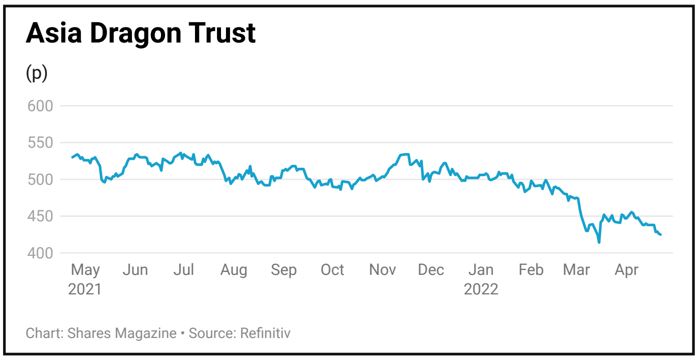
TEN MONTHS AGO, we flagged an opportunity at **Asia Dragon Trust (DGN)** which invests in market-leading companies.

Since then, the trust has faced considerable headwinds as sentiment soured towards Chinese stocks. Last year regulatory clampdown hurt equities in this part of Asia. Now, resurgence of Covid and associated lockdown measures have clouded the country's economic outlook.

These factors have weighed on Asia-focused funds in general and Asia Dragon Trust has been caught up in the storm, resulting in the share price trading nearly a fifth lower than when we said to buy last June.

Its latest set of half-year results showed the trust outperformed its benchmark although both fell in absolute terms. The trust's net asset value declined by 7.7% while the MSCI All-Country Asia ex-Japan index fell by 8.1%.

The two fund managers believe the current market weakness is a good time to buy decent companies at more attractive levels. The trust has also increased its exposure to India with stakes in e-commerce and online insurance companies.



SHARES SAYS:
Even though recent share price weakness is frustrating the trust's quality focus remains attractive. Be patient. [DC]


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

RAISING PRICES

The companies able to charge more without hurting demand

By **Mark Gardner** Senior Reporter

Businesses and investors find themselves in a new and alien economic environment.

For decades inflation has been benign. However the so-called 'reshoring' of global supply chains, Covid and more recently the conflict in Ukraine have caused supply side shocks for fuel and food.

This has resulted in inflationary pressures continuing to build on both sides of the Atlantic. In the US the annual rate of inflation jumped again in March to 8.5% from 7.9% in February. In the UK inflation is currently running at 7%, up from 6.2% in February.

This places businesses in a precarious position. Rising costs can erode a company's profit margins, and ultimately investor returns. Pricing power can help companies fight inflation and protect their margins by passing costs along to the customer.

Businesses with pricing power (the ability to increase price without experiencing a loss in demand) are likely to prosper in the current environment.

Conversely those without it may well be set for a challenging period as their margins and profitability come under increasing pressure.

In this article we identify stocks and sectors which have the ability to raise prices without an undue impact on appetite for their goods and services and flag four specific investment ideas from this rarefied stock market grouping.

PRICING POWER AN ANTIDOTE TO INFLATION

In an interview with the Financial Crisis Inquiry Commission in 2010, Warren Buffett, CEO of **Berkshire Hathaway (BRK.A:NYSE)**, claimed 'the single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to competition, you've got a very good business. 'And if you have to hold a prayer session every time before raising the price by 10% you have a terrible business.'

With corporate leaders describing the current wave of input cost inflation as the worst they have seen in 30 years, investors are naturally searching for companies that can increase prices in the face of these rising input costs.

Terry Smith, founder and chief executive of asset manager Fundsmith, has echoed Buffett's sentiments regarding the importance of pricing power. Smith maintains that one of the reasons that poor returns can persist is because companies with numerous competitors often lack control over pricing.

WHICH SECTORS HAVE PRICING POWER?

The ability to raise prices without backlash not only varies across industries but also within them. In some recent analysis investment bank UBS identified several stocks across US and European markets which benefit from pricing power. A selection of them are in the table overleaf.

In the food and beverage industry, drinks companies tend to pass along higher costs to consumers better than many food companies. This is because a few players with strong brand recognition dominate the beverage industry.

An example of this is **Keurig Dr Pepper (KDP:NASDAQ)**, the producer of soda and single serving coffee pods. The company has a history of pricing power, particularly for its most popular soft drinks, which include Canada Dry, Snapple, and of course Dr Pepper.

The semiconductor sector also enjoys strong

UBS highlights global firms with pricing power

Company	UBS comments
Apple (consumer electronics)	Has been able to maintain and raise prices. End-market demand has been improving year-over-year.
ASML (microchip tools)	We believe ASML has significant pricing power due to its near monopoly position in chip manufacturing tools.
AstraZeneca (pharmaceuticals)	Because pharma launches new products on a regular basis, they have the ability to set prices for those products relatively freely (subject to them being innovative) before those products that enter the normal pricing dynamics until end of patent protection.
Deere & Co (agricultural equipment)	Deere is the leader of agricultural sector in North America, and the brand is highly valued by farmers. Sustainable near-30% gross margins are a sign of strong pricing power.
Ferguson (plumbing materials)	As a distributor, Ferguson is a beneficiary from inflation. Over the past year, inflation has accelerated to high-teens and gross margins have expanded, leading to substantial profit growth.
LVMH (luxury goods)	Strong pricing power as evidenced by price increases ranging high-single digit to low-double digit taken in February globally.
Mastercard (payments)	Mastercard and Visa have demonstrated pricing power. Historically, even when interchange rates have been regulated in certain geographies, both card networks have maintained or expanded their volume-based fees.
Next (clothes and homeware)	Next works to a flat bought in gross margin, passing all input cost inflation (that cannot be offset elsewhere in the business) through the consumer and taking any reduction in volume.
Nike (sports apparel)	UBS Evidence Lab survey and pricing data reveal the Nike brand currently has #1 in mindshare globally and the company has significant room to reduce promotions.
Pernod Ricard (alcoholic beverages)	Over 50% of the portfolio comprises aged spirits where pricing power is strong.

Table: Shares Magazine • Source: UBS, 5 April 2022

pricing power. Today semiconductors can be found not only in mobile phones and laptops but also in everyday household products like refrigerators and ovens. New cars can require as many as 100 chips.

The sector's pricing power in part reflects the mismatch between soaring demand and limited supply, coupled with consolidation within the sector.

This has created a few dominant players with pricing power in specialised areas of the market. For example companies with proprietary chip designs like Broadcom, or Dutch chip component manufacturer **ASML (ASML:AMS)**, are able to increase prices in an inflationary environment.

The rollout of new technologies, like 5G, artificial intelligence and cloud computing have further fuelled the world's appetite for chips. In August last year, **Taiwan Semiconductor Manufacturing (TSM:NYSE)** disclosed that it would raise chip prices by as much as 20%.

HARD TO SHAKE THE HABIT

The tobacco industry is another example of an industry with pricing power. There are two reasons for this. First, tobacco is addictive which makes it hard for customers to quit. Consequently demand for cigarettes tends to be inelastic, meaning that the demand for the product doesn't change in response to an increase in price.

Another explanation for the industry's ability to raise prices lies in its market structure. Consolidation in the sector has created three

ATTRIBUTES WHICH SUPPORT ECONOMIC MOATS

1 INTRINSICALLY LOW OPERATING COSTS

Walmart (WMT:NYSE) thrives as a low-cost producer. It benefits from the reduced costs that come with scale, like buying in bulk. Walmart's low-cost production also hinges on management of its stores as a network—not the raw number of individual stores.

The company limits costs through a management and distribution structure that serves *multiple* stores in a geographic area. The network of stores allows Walmart to limit its stock in any given store and share managerial expenses across the network. Efficiencies flow from a 5,000-store network.

2 NETWORK EFFECTS

The network effect is a powerful moat. The primary goal is user acquisition. Profitability can be sorted out later, as was the case with WhatsApp.

WhatsApp focused on driving user adoption, and Facebook (now **Meta Platforms (FB:NASDAQ)**) bought the company in 2014 without knowing how to monetise users. Zuckerberg felt that any platform with a half-billion users had potential, even if that required a $19 billion bet.

In essence Zuckerberg was paying for the network-based moat.

3 INTANGIBLE ASSETS

Although not always easy to quantify, intangible assets are one of the primary sources of strong competitive advantages for businesses and a key economic moat source.

These can include corporate intellectual property, such as patents, trademarks, copyrights and government licenses. Brands are another valuable intangible asset.

Starbucks (SBUX:NASDAQ), the leading specialty coffee retailer in the world, is a good example of a company with strong intangible assets.

According to Morningstar, the company's attributes include its 'brand strength (evidenced by pricing power), attractive unit-level economics, and successful international replication'.

4 SWITCHING COSTS

Social networks are an example of businesses with switching costs. **Twitter (TWTR:NYSE)** and Meta-owned Instagram are powerful platforms for personal brand building. Followers are non-transferable capital that users store on the platform. Leaving – or splitting time to pursue fans on a new network – comes at a cost. That cost creates inertia that keeps users on an existing network and slows the growth of new ones.

dominant players in **Altria (MO:NYSE)**, **Philip Morris (PM:NYSE)** and **British American Tobacco (BATS)**.

With few competitors, these companies have been able to raise prices to generate more profits, even as cigarette sales volumes have fallen. Earlier this year, Altria increased its cigarette prices by 14 cents per pack, after raising them by 13 cents last November.

ECONOMIC MOATS AND PRICING POWER

At an internal presentation for Google, subsequently published on the 'Talks at Google' Youtube channel, Pat Dorsey, founder of Dorsey Asset Management and former director of equity research for Morningstar explains the critical importance of economic moats in creating pricing power.

The term economic moat refers to a company's competitive advantage over rivals due to deeply ingrained benefits.

Dorsey explains: 'Moats generally manifest themselves in pricing power. Any year if management mentions that due to macro reasons they are having soft realisations (weak performance), means the company doesn't have a moat and pricing power'.

'Will anyone pay 20% premium for a Samsung/ Sony phone? If not, it is not a brand. If it comes with a new feature, it might get some premium for few months, but only until other mobile players replicate the feature. Whereas, Tiffany charges 20% premium for the same diamond. That's a brand.'

PRICING POWER PICKS

ASML (ASML:AMS) $554.10

Online access has become essential to our everyday lives. We shop online, we work online, we socialise online, we consume entertainment and education online. That makes digital tools (smartphones, laptops etc) indispensable and **ASML's (ASML:AMS)** tools are crucial if microchip makers are to follow their development roadmaps to faster, smaller, cheaper chips. 'We believe ASML has significant pricing power due to its near monopoly position in chip manufacturing tools,' says UBS analyst Francois-Xavier Bouvignies. His data puts ASML at a more than 70% market share in legacy lithography products and complete dominance (100%) in next generation tools, called extreme ultraviolet, or EUV. In short, ASML provides essential kit to manufacturers at the heart of a structural shift to digital everything. Factor in company comments earlier this month confirming demand for its systems running ahead of its capacity to deliver them, and gross margins at around 50%, and ASML has a lot of pricing power even if this is reflected in a consensus forward price to earnings ratio of 32 times. [SF]

British American Tobacco (BATS) £33.71

Tobacco giant **British American Tobacco (BATS)** is a great example of a company with pricing power. There are two key factors responsible for its ability to increase the price of cigarettes without experiencing a fall in demand. Tobacco is addictive which people makes it difficult for people to quit. The tobacco industry also operates in a highly consolidated market with the four largest companies controlling over 80% of the market value. Given the strong position of its global brands British American Tobacco has been able to continually improve the price mix. Finance director Tadeu Marroco told *Shares* in 2021 that the elasticity of cigarettes across the world was still very benign at 0.4 to 0.6. Or in other words a 10% increase in price would lead to a 4% to 6% drop off in consumption. The strength of the cigarette business is built on the group having strong global brands at every price point British American has led the US market on price over the last two years with eight price increases with no change in demand. [MGar]

CRH (CRH) £31.94

As the world's largest supplier of construction materials, Dublin-based **CRH (CRH)** is better placed than most to be able to raise prices to its customers. This was evident in the firm's recent trading update, where strong demand for its products across North America and Europe enabled it to more than recoup the rise in input costs and raise its first half profit outlook. As well as enjoying robust underlying growth due to the strength of its markets, the firm invests part of its substantial free cash flow into expanding its market share through acquisitions, creating a virtuous circle of higher earnings and still higher cash generation. The shares' current rating of just over 12 times two-year forward earnings implies little to no growth, whereas consensus forecasts are for double-digit increases in profits. That suggests the market is underestimating the firm's ability to deliver growth, even before considering the upside from share buybacks. [IC]

LVMH (EPA:MC) €643.8

One European-listed name with enviable pricing power is **LVMH (EPA:MC)**, the luxury goods conglomerate behind brands ranging from Louis Vuitton and Christian Dior to Givenchy, Hennessy cognac and high-end watch and jewellery seller Tiffany. Companies behind high-end fashion and drinks brands such as LVMH are blessed with pricing power and high margins. They can mark up prices to more than offset the impact of rising costs. Despite playing on the heritage of its brands, Paris-based LVMH, controlled by billionaire Bernard Arnault, is also highly innovative when it comes to product, which is critical to both pricing power and brand momentum. LVMH has reported (12 April 2022) a good start to the year with sales up 29% to €18 billion in the first quarter of 2022, despite a backdrop of continued disruption from the Covid crisis and the war in Ukraine. All parts of the business achieved double-digit sales growth save for Wines & Spirits, which continued to see supply constraints. Its qualities mean a rating of 23.5 times forecast earnings based on consensus estimates does not look overly expensive. [JC]

Explaining the poison pill defence which could have derailed Musk's Twitter bid

US corporate poison pills give boards power over who owns the business

The world's richest man, Elon Musk seems to have prevailed in his $43 billion takeover of **Twitter (TWTR:NASDAQ)**.

Initially though the Twitter board looked to prevent him from gaining 'creeping' control of the company by adopting a poison pill strategy which was popularised in the 1980s.

The aim was to stop Musk from increasing his stake by purchasing more shares in the open market. By doing so Musk could effectively have gained control of the company without paying a 'control premium'.

How would this defence tactic have worked? Also known as a 'shareholder rights plan', it aims to dilute an aggressor's shareholding.

If Musk breached 15% of Twitter's share capital, the board was threatening to offer existing shareholders an opportunity to buy new shares at a discount to the prevailing price. The new shares would have greater voting rights.

The extra shares issued, which Musk would not have been allowed to purchase, would have increased the total number of shares in issue and reduced Musk's percentage holding in Twitter. This would in theory would have made it prohibitively expensive for him to increase his stake.

In 2012 activist investor Carl Icahn purchased just under 10% of streaming content provider **Netflix (NFLX:NASDAQ)**. The board immediately adopted the poison pill strategy which Icahn denounced as poor corporate governance.

A FAIRER SYSTEM

Poison pill tactics are not allowed under UK stock exchange rules which are designed to prevent 'frustrating actions'. The idea is to give power to shareholders rather than a company's directors.

UK boards must make arguments to convince shareholders not to accept offers from interested parties. Arguably, this is a fairer system because it puts owner's rights above those of company directors.

The potential downside is it makes UK firms more vulnerable to opportunistic bids which might look attractive in the short term but can undervalue the long-term potential of a business.

However, the UK government protects companies of strategic interest from takeover via a blocking 'golden share'. This protects **BAE Systems (BA.)**, **Rolls Royce (RR.)** and some of **Babcock International's (BAB)** dockyard assets.

In the Netherlands companies can defend themselves from hostile takeovers by creating a foundation or *stichting*.

This body issues preferred shares which are priced below the ordinary shares but have greater voting rights. Historically this structure has protected many family-controlled businesses.

In 2015, for example, Dutch pharmaceutical company Mylan (which merged with a division of **Pfizer (PFE:NYSE)** to create **Viatris (VTRS:NASDAQ)** in 2020) used this mechanism to fend off an attempted takeover by Israeli rival **Teva (TEVA:TASE)**.

By **Martin Gamble** Education Editor

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.

Great buying opportunities from the big tech rout

We identify three stocks with excellent recovery and growth potential

The bad news for growth investors this year? US tech stocks have been routed in 2022. The good news for growth investors? US tech stocks have been routed in 2022, presenting buyers with potentially unique opportunities to invest in many high-quality tech businesses at prices they may not see again.

We highlight three such companies later, but first the background.

Both the Nasdaq Composite, which includes more than 2,500 companies, and the Nasdaq 100, the 100 largest in the Composite, have lost nearly 17% year-to date (at the close 17 April). That compares to an 8.4% fall for the S&P 500 and 4.9% decline in the Dow Jones, indices where 'old economy' financials, utilities, industrials and resources stocks have a much larger impact on performance.

UGLY BACKCLOTH

It's not new news that general fears that the pandemic recovery was fully priced in heading into the new year, coupled with concerns about inflation and higher interest rates, caused many of the biggest and most widely held tech names out there to fall sharply.

Throw in Russia's invasion of Ukraine and its little wonder investors have lost their appetite for many global growth companies, tech in particular.

Yes, it's fair to say that there are those that have taken a beating for good reason. One-time growth darling **Netflix (NFLX:NASDAQ)** seems to have waved the white flag in its battle for expansion, with subscriber numbers falling for the first time in a decade, the head on that blister bursting last week (20 Apr) when the stock dropped nearly 40% in a day.

Nasdaq 100 losers, and winners

	Year to date
Netflix	-63.8%
PayPal	-52.6%
Lucid	-48.6%
Zoom Video	-45.1%
Meta Platforms	-44.1%
Moderna	-43.1%
Docusign	-42.6%
Align Technologies	-41.6%
Match	-41.3%
Pinduoduo	-40.4%
American Electric Power	14.8%
Activision Blizzard	18.6%
Kraft Heinz	22.6%
Dollar Tree	23.2%
Vertex Phaarmaceuticals	28.3%

Table: Shares Magazine • Source: Sharepad, 22 April 2022

Previous stay-at-home winners **Zoom Video (ZM:NASDAQ)**, **Mercadolibre (MELI:NASDAQ)** – the Latin American online shopping giant – and Facebook-owner **Meta Platforms (META:NASDAQ)** have all fallen harder than the index. Former digital payments star **PayPal (PYPL:NASDAQ)** had been the Nasdaq 100's biggest loser (until Netflix's collapse). Its stock lost more than 50% of its value as investors pondered changes to its growth strategy and losing its deal as online payments provider of choice to its former parent **Ebay (EBAY:NASDAQ)**, itself falling nearly 18%.

$1.3 TRILLION SELL-OFF

They're part of a $1.3 trillion wipeout in market value for the Nasdaq 100, according to Bloomberg data at the end of March. The loss in value would be bigger now, and even tech megacaps – **Alphabet (GOOG:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Apple (AAPL:NASDAQ)** and **Microsoft (MSFT:NASDAQ)** – are struggling to stem declines.

Nasdaq 100

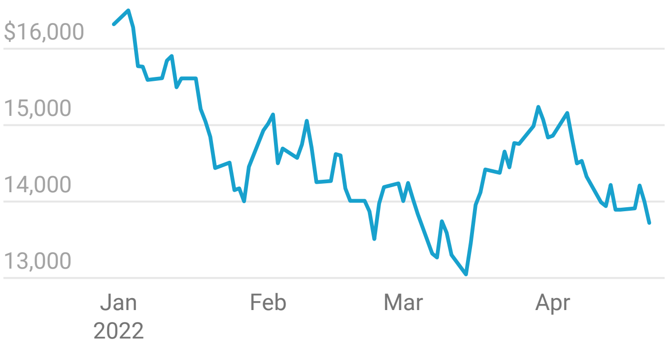


Chart: Shares Magazine • Source: Refinitiv

This shows that even many of the highest-quality tech stocks have been beaten down without the ugly headlines to blame. There are even a number of popular tech stocks which have seen share price declines despite earnings reports that have beaten forecasts and painted a positive outlook picture.

The point was succinctly made by Stephen Yiu in a *The Times* article on 16 April. The **Blue Whale Growth Fund (BD6PG78)** manager sees a new breed of 'consumer staple' company that offers unavoidable essentials in an increasingly digital world, naming Alphabet and Microsoft among them, yet as we have previously explained, they have fallen hard despite their defensive credentials.

In Yiu's view, the fundamental strengths of companies such as these haven't disappeared, and they may even have become stronger. But as the find manager says, the contagion of economic malaise, and the fact that low-quality tech businesses have had a deserved markdown in value, has tainted the tech sector as a whole.

'The resulting fall of high-quality tech companies' share prices now offers brave investors an opportunity,' he firmly believes. Yiu has previously said that Blue Whale Growth has been increasing its position in some names, such as **Nvidia (NVDA:NASDAQ)** **Lam Research (LRCX:NASDAQ)** and **Atlassian (TEAM:NASDAQ)**.

Megacap tech

	Year to date	Market cap (billion)
Apple	−6.3%	$2,716
Microsoft	−16.5%	$2,105
Alphabet	−13.8%	$1,651
Amazon	−11.0%	$1,508
Tesla	−4.5%	$1,043
Nvidia	−31.4%	$588

Table: Shares Magazine • Source: Sharepad, 22 April 2022

THREE SHARES WORTH BUYING

So where are the bargains? Looking beyond the megacaps, which companies have a genuine claim to be babies chucked out with the market bathwater?

Align Technology (ALGN:NASDAQ)

Price: $383.63

2022 perf: -40.8%

BUY

Orthodontics probably sounds like a boring field to invest in yet in today's modern world people are increasingly looking to technology for cosmetic enhancements, providing a structural driver for Align Technology. This is not about dental supplies, the core of Align's business is its Invisalign transparent teeth straightener, which helps people improve their smiles more fashionably and more comfortably than traditional straightening solutions, like braces.

Align Technology

Chart: Shares Magazine • Source: Refinitiv

Invisalign allows patients get their teeth imaged by the company's 3D scanner devices, which can be done from home, then the clinician moulds a transparent aligner body to the shape of their teeth, adjusted for the corrections that the person needs.

In 2021, it sold about 55% more of its Invisaligns than it did in 2020, generating nearly 60% more net revenue in the process. For 2021, its total income was $3.9 billion, while over the last five years Align's annual net income has grown by 234%, a growth trend showing little sign of slowing.

Lam Research (LRCX:NASDAQ)

Price: $464.63

2022 perf: -35.3%

BUY

Lam Research is a supplier of unique semiconductor manufacturing equipment focused on meeting the industry's escalating demands, especially given the increasing complexity of semiconductor devices. The Silicon Valley-based business designs specialist equipment that helps semiconductor manufacturers improve yields, lower costs, shrink processing time and reduce defects on microchips.

Lam Research

Chart: Shares Magazine • Source: Refinitiv

Traditionally big in memory chips, this is an area booming thanks to the rapid rise of cloud computing, big data, mobile devices and other connected world applications. Since data storage is the starting point of the digital economy, there is a huge demand for memory chips, particularly the more efficient variety. But technological advancements in areas like in-car electronics, 3D device architecture and advanced packaging technologies are also playing to Lam's strengths.

Since 2015, revenues have gone from $4.6 billion to more than $14.6 billion (to 30 June 2021), while net income has jumped well over 300% to $3.9 billion or $32.90 per share. Next year, to 30 June 2023, the company is forecast to put up net income of $38.60 per share on $19.4 billion revenues, according to data from analytics platform Koyfin.

Mercadolibre (MELI:NASDAQ)

Price: $1,014.01
2022 perf: -23.9%

BUY

Often called the 'Amazon of Latin America', it runs an online shopping platform with delivery and payments built-in for users. It is by far the dominant player in the region with an estimated 30% market share, and its marketplace receives roughly 668 million monthly visitors, nearly four times more than the next closest competitor.

Local management expertise is crucial given the tricky topography of the region, a key barrier to entry for rivals (including Amazon, which has tried in the past), while Latin America remains far behind the US, Europe and Asia when it comes to digital commerce.

In 2021, Latin American e-commerce sales totalled $131 billion, according to eMarketer, but less than 40% of the population currently shops online. As that figure rises in the years ahead, e-commerce sales and digital payments volume should follow, and as the market leader in both cases, MercadoLibre stands to benefit greatly.

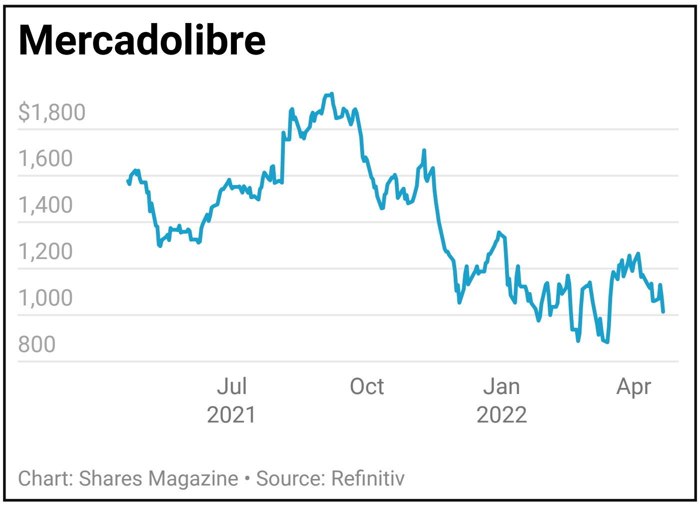


Chart: Shares Magazine • Source: Refinitiv

DISCLAIMER: The author (Steven Frazer) owns shares in Blue Whale Growth Fund referenced in this article.

By **Steven Frazer** News Editor

ADVERTISING PROMOTION

Fidelity China Special Situations PLC
An AJ Bell Select List Investment Trust

When 1.4 billion consumers buy local, that's a global opportunity

If you want to take full advantage of the incredible growth of China's middle classes and a seismic shift towards domestic consumption, you need real on-the-ground expertise.

Fidelity China Special Situations PLC, the UK's largest China investment trust, looks to capitalise on an extensive, locally based analyst team to make site visits and attend company meetings. This helps us find the opportunities that make the most of the immense shifts in local consumer demand.

China's growth story

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

Investing in China's most compelling growth drivers

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

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

Past performance

	Mar 2017 - Mar 2018	Mar 2018 - Mar 2019	Mar 2019 - Mar 2020	Mar 2020 - Mar 2021	Mar 2021 - Mar 2022
Net Asset Value	22.2%	−5.3%	−5.9%	81.9%	−34.9%
Share Price	23.6%	−0.3%	−6.5%	97.2%	−39.2%
MSCI China Index	23.8%	0.9%	−1.0%	29.1%	−29.3%

Past performance is not a reliable indicator of future returns

Source: Morningstar as at 31.03.2022, bid-bid, net income reinvested. ©2022 Morningstar Inc. All rights reserved. The MSCI China Index is a comparative index of the investment trust.

Important information

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

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Why Unilever has a 10.5% stake in this small cap drug developer

AIM-quoted Arecor Therapeutics has a track record of partnering up with big pharma firms

Just why does consumer goods giant **Unilever (ULVR)** have a 10.5% stake in small cap clinical stage drug developer **Arecor Therapeutics (AREC:AIM)**?

The company listed on AIM in June 2021 at 226p per share after raising £20 million of new capital.

The shares have since gained 73% driven by positive results from a first phase trial of its ultra-concentrated rapid acting insulin product AT278.

Arecor was created in 2007 as a spin-out of Insense, which was itself part of Unilever which retains the aforementioned stake in Arecor.

The company has developed a proprietary technology platform called Arestat which can be applied to a broad range of products.

It is used to develop novel formulations for existing drugs to provide them with enhanced properties and improved therapeutic profiles. These include longer shelf lives and greater patient convenience.

The company has a deep intellectual property portfolio comprising 36 patent families covering 50 patents in Europe and the US and a further 70-plus pending.

Arecor has a proven track record of partnering with big pharma companies. This approach lowers development and regulatory risk.

Partnership deals involve research fees, milestone payments and single to low-double digit percentage royalties.

In addition, under chief executive Sarah Howell the firm has created an inhouse research and development capability. The idea is to find niches where the company can use its intellectual property to add value to new products.

These are expected to be self-funded through to proof of concept and licensed out for initial and milestone payments as well as single to double-digit sales royalties.

Arecor has four licensed programmes including two specialty hospital products with generic pharma group **Hikma Pharmaceuticals (HIK)**.

It also has a technology partnership with an undisclosed global player in biosimilars (biological medicines which have lot in common with an existing treatment) and an early stage project with biotechnology company InHibrx.

DIABETES FRANCHISE

The bulk of the £20 million raised at the IPO (initial public offering) is targeted towards progressing the company's diabetes franchise.

The rapid-acting insulin market is worth around $6.5 billion according to estimates provided by healthcare research group Trinity Delta.

Arecor has developed a second-generation ultra-rapid formulation AT247, which absorbs materially faster than existing therapies.

This allows patients to effectively manage blood sugar levels akin to a normal healthy pancreas. The company expects results from a phase two trial in the second half of 2022.

The firm has also developed an ultra-concentrated rapid insulin product, AT278 which targets patients with type 2 diabetes, which requires higher doses of daily insulin.

The advantage of its novel formulation is that fewer injections and volumes are needed allowing wider access to modern insulin pumps.

Arecor is an interesting company backed by supportive institutional shareholders. However, investors should always be aware of the higher risks inherent in investing in early stage companies.

By **Martin Gamble** Education Editor

The majority of absolute return funds have lost investors money this year

These products are designed to deliver whatever the weather but plenty are not proving their worth

So far in 2022 investors have had to stomach significant market volatility thanks to worries over rampant inflation, rising interest rates and, more recently, the war in Ukraine.

Given the uncertainties ahead, including the impact of the Ukrainian conflict on the outlook for global growth as the world emerges from Covid, volatility looks certain to continue and so investors may well be looking at investment products which might be useful at protecting against its worst effects.

WHAT ARE ABSOLUTE RETURN FUNDS?

One category of funds that should in theory protect your capital better than traditional funds or investment trusts during market sell-offs are so-called absolute return funds, since they have the ability to 'short' the market, namely profit when share prices fall.

There are a few things investors need to consider before investing in these vehicles however. For instance, absolute return funds are not easy to compare; not only do they have different levels of risk but their underlying holdings can vary significantly, with each fund electing to focus on different strategies and asset classes. Some absolute return funds invest in equities, others in bonds or other assets, which makes it difficult to compare performance.

The one characteristic absolute returns funds usually share is a relatively cautious approach and an aim to deliver returns which outpace inflation and protect investors' money whatever the weather. And yet positive returns aren't guaranteed and the picture is complicated further by the fact many absolute return funds use different benchmarks to mainstream funds.

With such a variety of strategies and returns, it

is vital investors look carefully at what these funds actually invest in and what their aims are before adding one to their portfolio.

GETTING THE JOB DONE

Using FE Fundinfo, *Shares* has crunched the performance numbers from the retail funds available to UK investors within the Targeted Absolute Return sector in order to see which funds have done their job effectively in a tricky 2022 to date.

Targeted Absolute Return funds are managed with the aim of delivering positive returns in any market conditions, but returns are not guaranteed.

This screen reveals that 26 out of a universe of 59 funds (less than half) have beaten the FTSE All Share index between the start of 2022 and 20 April 2022, though 47 collectives managed to deliver a better total return than that of the MSCI World index.

Please note these are not perfect comparisons because some absolute return funds contain

Selected absolute return funds which have and haven't delivered in 2022

Fund	Year-to-date performance (%) Performance
VT Argonaut Absolute Return R Acc	20.9%
Orbis Global Cautious Standard	7.7%
TM Fulcrum Diversified Absolute Return B	7.4%
VT Clear Peak Capital UK Long/Short Equity A Acc	7.4%
LF Ruffer Diversified Return I Acc	5.5%
Omnis Diversified Returns A Inc	5.0%
T. Rowe Price Dynamic Global Bond C Acc	4.5%
VT Woodhill UK Equity Strategic Inc TR	4.5%
LF Ruffer Absolute Return H Acc	4.3%
Aviva Inv Multi Strategy Target Return 1	4.1%
Janus Henderson Multi-Asset Absolute Return E Acc	3.3%
Premier Miton Defensive Growth C Inc TR	3.0%
BlackRock UK Absolute Alpha D Acc	2.0%
Schroder UK Dynamic Absolute Return P1 Acc	1.6%
Thesis TM Tellworth UK Select A Acc	1.5%
FTSE All-Share	**−0.6%**
Schroder Multi-Asset Total Return Z Acc	−3.9%
MSCI World	**−4.3%**
JPM JPM Global Macro A Acc	−4.6%
BNY Mellon Real Return B Acc TR	−4.7%
Natixis H2O MultiReturns N/AG Gr Inc TR	−5.0%
MI Activus Opportunity A Acc	−5.4%
Invesco Global Targeted Returns (UK) No Trail Acc TR	−6.4%
Baillie Gifford Diversified Growth B2 Acc	−6.5%
Jupiter Flexible Macro J Acc	−6.8%
ASI Global Absolute Return Strategies Ret Acc	−6.8%
Baillie Gifford Multi Asset Growth B1 Acc	−7.0%
BNY Mellon Sustainable Real Return B Shares Acc	−7.4%
JPM Global Macro Opportunities A Acc	−7.5%
Invesco Global Targeted Income (UK) No Trail Acc	−8.2%

Table: Shares Magazine • Source: FE Analytics, 22 April 2022 bonds, many investors though will be looking to compare the performance of funds versus UK or global equity indices.

Judging by their remit these funds should be judged on their absolute rather than relative performance and while 22 absolute return funds in our screen have generated positive returns year to date, 35 are actually in negative total return territory.

From these retail vehicles, one of the best performers with a 20.9% haul is **VT Argonaut Absolute Return (B7FT1K7)** run by Barry Norris. A renowned contrarian with a formidable long-run performance record, Norris manages the fund utilising his 'earnings surprise' investment process.

With 52 long holdings and 50 short holdings at the last count, the fund seeks to provide positive absolute returns over a three year rolling period and regardless of market conditions and is not managed against any formal benchmark. According to the March 2022 factsheet commentary, the fund returned 1.43% over March, compared with the IA Targeted Absolute Return sector which returned 0.64 % and ahead of the Lipper Global Alternative Long/Short Equity Europe sector's 0.85% return.

Other funds that have rewarded investors with positive returns year to date include **Orbis Global Cautious Standard (BJ02KT7)**, which has delivered a 7.7% return through investments in a mix of assets including shares and corporate and government bonds with an exposure to gold. Managed by Orbis Investments, the fund aims to apply a cautious balance between investment returns, and risk of loss using a diversified global portfolio.

ALSO RIDING HIGH

Also riding high is the near-£800 million **TM Fulcrum Diversified Absolute Return (BRTNY84)**, which is up 7.4% year to date. The fund aims to achieve long-term absolute returns of inflation plus 3% to 5% per year in all market conditions over rolling five year annualised periods, with lower volatility than equity markets and in doing so, aims to achieve a positive return on a rolling three year basis.

LF Ruffer Diversified Return (BMWLQW8) is also firmly in positive territory with a 5.5% return year-to-date. This fund seeks to achieve positive returns in all market conditions over any 12 month period, after all costs and charges.

Underlying this objective is the fundamental capital preservation philosophy championed by manager Ruffer, with the canny Duncan MacInnes and Ian Rees steering this portfolio. As of end February 2022, the fund's was reassuringly diversified across assets ranging from index-linked gilts, cash, gold and short-dated bonds to shares in companies including **Shell (SHEL)**, **NatWest (NWG)** and **GlaxoSmithKline (GSK)** as well as **Volkswagen (ETR:VOW)** and **Vodafone (VOD)**.

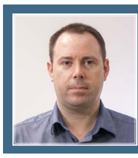
And in the face of a trying year to date for fixed income investors, the Arif Husain-managed **T. Rowe Price Dynamic Global Bond (BD0NLR3)** has eked out a 4.5% total return thanks to a winning mix of government bonds, cash and corporate bonds including high yield.

MUST DO BETTER

Though they can call upon the expertise of vast teams of analysts, among the absolute return vehicles in negative territory year-to-date are funds from the stables of some major asset management giants. They include **Invesco Global Targeted Income (BZB27J7)**, down 8.2% in 2022 so far, as well as **JPMorgan Global Macro Opportunities (B4WKYF8)**, which has shed 7.5%.

And joining them in losses year-to-date is **BNY Mellon Sustainable Real Return (BD6DRF7)**, which is off 7.4% in 2022. Also in the doghouse is **ASI Global Absolute Return Strategies (B7K3T22)**, down 6.8% in the opening four months of the year despite a stated objective to 'generate a positive absolute return over the medium to long term (three to five years or more) irrespective of market conditions, while reducing the risk of losses' and running a diversified book of 128 holdings at the last count.

Elsewhere in the losers' list, **Baillie Gifford Multi Asset Growth B1 (BY9C5Y3)** and **Baillie Gifford Diversified Growth B2 (BYQCYV6)**, funds which invest across everything from shares and property to high yield credit, commodities, structured finance, bonds and infrastructure, are down 7% and 6.5% respectively.



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

The best and worst first quarter performers in emerging markets

Taking stock of markets in the developing world in the first quarter of 2022

It has been a tough start to 2022 for emerging markets. The MSCI Emerging Markets index was down sharply in the first quarter, with Russia's invasion of Ukraine resulting in large falls for one of the bigger constituents of the index.

However, that doesn't tell the whole story and some emerging markets have done well, better in fact than their developed world counterparts.

The table shows some of the best and worst performers year-to-date and how this compares with the MSCI World index and the MSCI Emerging Markets index.

The real stand-out performer is Brazil's Bovespa index which was up nearly 15% in the first three months of 2022. As a major commodities producer, Brazil has been a beneficiary of surging prices.

Indian shares also held up, just about staying in positive territory for the quarter despite the impact of rising energy and food prices on the world's second most populous nation.

Emerging markets: first quarter performance

Index	Change (%)
Bovespa (Brazil)	14.5
S&P BSE 100 (India)	0.6
MSCI World	**-5.2**
Hang Seng (Hong Kong)	-6.0
MSCI Emerging Markets	**-7.0**
SSE Composite (China)	-10.6
CSI 300 (China)	-14.5
Russian Trading System (Russia)	-36.2

Table: Shares Magazine • Source: SharePad, MSCI. Data 1 Jan to 31 March 2022

Indices in China and Hong Kong have been affected by the renewed spread of Covid and accompanying restrictions. Though notably the Hang Seng has performed better than the likes of the Nasdaq in the US and Germany's DAX index.

There is little question about which country's stock market has done worse as the severe sanctions imposed by the West in response to Russia's invasion of Ukraine have had a huge impact.

Russian stocks recovered a little from their lows, having in the immediate aftermath of the invasion traded at less than half the level at which they started the year.

Emerging markets: Views from the experts

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

1. As the impact of sanctions start to weigh on Russia, contagion is being felt across global markets. One immediate outcome has been a spike in energy and commodity prices on interrupted supplies from Russia and Ukraine. Although global inflation was already elevated amid supply-side shortages, shipping disruptions and increasing commodity prices, we are seeing an acceleration following Russia's invasion of Ukraine. Although we believe inflation rates could moderate in the year ahead, risks— including the duration of the Russia-Ukraine conflict and how quickly oil and commodities supplies normalise—could make it difficult to rein in.

2. Developed market (DM) central banks, including the US Federal Reserve (Fed), raised interest rates in March, raising concerns for emerging market (EM) investors. However, we do not believe that rising US interest rates imply weaker EM equity markets. Of the five prior US rate-hiking cycles, the performance of EM equities has been positive, with an average gain of 8% in the 12 months post the first Fed rate hike. The historical evidence shows that EM equities performed better in the 12 months prior to the first US rate hike than in the 12 months after. Nevertheless, gains in the latter period remained positive.

3. Latin American equities have had a strong start in 2022, with the MSCI Latin America Index up 27.3% in US-dollar terms in the first quarter, outperforming both the MSCI Emerging Markets Index (-6.9%) and the MSCI World Index (-5.0%). We believe that Latin American markets remain relatively more insulated from the heightened geopolitical risk in Europe. The ongoing Russia-Ukraine war and subsequently imposed sanctions on Russia have led to higher prices for energy and other commodities, which should continue to benefit the resource-rich region. A search for alternative commodity producers, as countries look to diversify their base, could also boost demand for Latin American suppliers. Corporate earnings momentum has been improving with financial leverage at a multi-year low, while equity valuations remain favourable, in our view.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

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

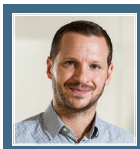
I'm retiring to the UK from overseas can I set up a SIPP?

A Canadian heading to these shores asks about opening a private pension

My wife and I will be retiring and moving to the UK from Canada this year (we hold dual citizenship due to our UK parents). We are in our early/mid 50s and will be receiving pension income.

Once residents of UK are we able to open a SIPP, contribute and obtain tax relief?

Russ



Tom Selby, AJ Bell Head of Retirement Policy says:

UK pensions benefit from generous upfront tax relief at your marginal rate. This means that contributions to a SIPP are given an automatic 25% uplift.

So, if you contribute £80 into a SIPP, it will automatically be boosted to £100 via basic-rate tax relief. A higher-rate taxpayer would be able to reclaim an extra £20 from HMRC, while an additional-rate taxpayer could reclaim an additional £25.

There are certain rules which govern who can pay into a UK pension and how much they can be contribute. You need to be under age 75 and a 'relevant UK individual' to receive pension tax relief on your contributions.

An individual is a 'relevant UK individual' if they:

- have 'relevant UK earnings' chargeable to income tax for that tax year,
- are resident in the United Kingdom at some time during that tax year,
- were resident in the UK at some time during the five tax years immediately before the tax year in question and they were also resident in the UK when they joined the pension scheme, or
- have for that tax year general earnings from overseas Crown employment subject to UK tax (as defined by section 28 of the Income Tax (Earnings and Pensions) Act 2003), or
- are the spouse or civil partner of an individual who has for the tax year general earnings from overseas Crown employment subject to UK tax (as defined by section 28 of the Income Tax (Earnings and Pensions) Act 2003).

An additional consideration for you is your dual citizenship. Many pension providers do not allow Canadian citizens to open accounts as, under Canadian law, they would have to register with the relevant province as an investment provider. If you were to give up your Canadian citizenship once you were UK resident then, as you and your partner are under 75 you should qualify for pension tax relief.

The amount you can contribute to a pension each year is limited by your 'relevant UK earnings'.

This includes things like taxable earnings and bonuses but not pension income, dividends or buy-to-let income.

If you only have pension income, then as a relevant UK individual with no relevant UK earnings you will still be able to make total pension contributions (inclusive of tax relief) of up to £3,600 in 2022/23.

There is also an overall annual allowance for contributions which for most people is £40,000. Any contributions above your annual limit will have the tax relief clawed back via an annual allowance charge.

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.

Here are some reasons to be more cheerful about your money

Times may be tough but several things have improved when it comes to managing your finances

Whether it's been tax hikes, the cost of living crisis, or the war in Ukraine, doom and gloom hasn't exactly been hard to find in April. The downbeat mood around household finances is palpable, and understandably so, with the price of essential items rising so rapidly.

At tough times like these, we find it natural to focus on the problem at hand, and batten down the hatches. But it might also help to cheer ourselves up a bit by remembering the positive developments we have seen in the personal finance arena in recent times.

STRONG STOCKS

Let's start with the stock market. It's been a decent period for investors, with £10,000 invested in the average global fund 10 years ago being worth £28,230 today. Even an investment in the spluttering UK stock market would have more than doubled your money, turning £10,000 into £20,360, if you had purchased a typical UK equity fund.

Right now, there are quite legitimate concerns around the valuation of the US tech sector, and the potentially damaging effect interest rate rises and inflation may have on global economic growth.

These issues raise the question of whether a stock market correction is waiting in the wings. This is actually always a possibility, and simply part and parcel of stock market investing. But the good news is that even if share prices take a big tumble, many investors would still be sitting on a healthy profit, thanks to the returns made by the global stock market over the last decade.

FALLING COSTS

The cost of investing has also fallen significantly over the years. 1% used to be a fairly competitive dealing commission for stockbrokers to charge twenty years ago. So on a £10,000 trade, you might pay £100 in dealing fees. Now you're more likely to pay a flat fee somewhere in the region of £10.

Indeed, some platforms don't charge any commission for share deals. Annual fund charges have come down significantly over the years too. It's now possible to invest in a plain vanilla index tracker fund for as little as 0.2% a year, including platform charges.

By way of contrast, consider that when the government introduced stakeholder pensions as a 'cheap' option for savers in 2001, the annual charges were capped at what was then a competitive 1% a year, and the funds on offer were largely passive.

PENSION FREEDOMS

Pensions themselves have also made great progress. The pension freedoms introduced in 2015 mean that savers have much more control over how they draw on their pensions, rather than being shunted into an annuity.

As interest rates have tracked lower, and taken annuity rates with them, the pension freedoms have undoubtedly helped many people avoid locking into a low income stream for life. It's also almost ten years since automatic enrolment was introduced, which requires employers to set up, and pay into a pension for their staff.

Since the reforms were introduced in 2012, the proportion of private sector workers saving in a workplace pension scheme has more than doubled from 32% to 75%.

Critics will say that the 8% total contribution rate doesn't go far enough to replace the final salary schemes of yesteryear. That may be so, but the cost of final salary schemes simply became unaffordable as life expectancy shot up. That was a good thing of course, but with financial consequences.

Detractors can also point to the fact that automatic enrolment doesn't do anything for the self-employed, who have to fend for themselves on the pensions front. Again, that's true, but the numbers show that automatic enrolment has still been a success story, and offers a good foundation from which it can be expanded.

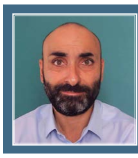
That's particularly the case when you consider that at the launch of the scheme, naysayers predicted automatic enrolment would simply flop, because workers would just opt out in their droves.

A MENTION FOR ISAS

The humble ISA is also worthy of an honourable mention. It's a tax shelter that can all too easily be taken for granted. The £20,000 allowance is now extremely generous, and is supplemented by a £9,000 allowance for Junior ISAs too.

That compares to an annual allowance of £7,000 when ISAs were introduced in 1999. We often expect tax allowances to be uprated in line with inflation. Well, if that had been the case for ISAs, the annual allowance would now be just £11,350.

None of this is to whitewash the genuine financial pain that is being felt by people up and down the country, but if you want to read about that you have plenty of options right now. Hopefully some of the positive developments listed above might make you feel a bit more upbeat about the current state of personal finances, if only for a while.



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

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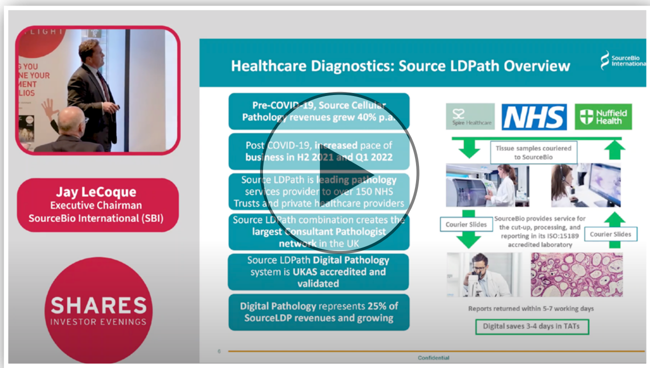

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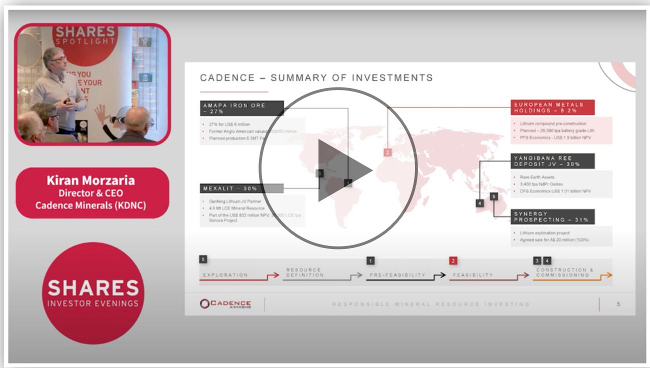

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How big property funds have performed and the different ways to invest

Vehicles investing in warehouses and self-storage have done pretty well despite the gloomy headlines

If you'd been keeping an eye on news from the UK commercial property market, you might be forgiven for thinking the sector was a complete basket case.

Bankrupt retailers have left gaping holes on the high street, while office occupancy has been decimated by the pandemic.

Meanwhile many open-ended commercial property funds suspended trading for over a year, with some ultimately shutting their doors permanently. There has undoubtedly been a great deal of upheaval in the commercial property market, and risks remain, but it certainly hasn't been a tale of woe across the board.

Like many other parts of the economy, commercial property has been deeply influenced by global trends that we are perhaps more accustomed to thinking about through the lens of the stock market. Technological changes have led to a more digitally enabled consumer, and in the commercial property space, that has meant hot demand for the logistical hubs that facilitate the UK's online delivery services.

The flip side of that coin is that traditional retail outlets have been hammered by the shift from bricks to clicks, which was of course exacerbated by the pandemic. Clearly there is also considerable uncertainty over the future of office space, as businesses shift to flexible working practices.

WINNERS AND LOSERS

It's no surprise, then, to see some pretty polarised performance from REITs (real estate investment trusts), which invest in commercial property. The REITs that performed best in the last five years have been those with minimal exposure to office space and retail. Both **Safestore (SAFE)** and **Big Yellow (BYG)** have performed well, offering secure self-storage facilities to individuals and businesses, no doubt helped along by small online businesses looking for somewhere accessible to stash their stock.

Meanwhile **Segro (SGRO)** and **Tritax Big Box (BBOX)** have also prospered, by providing industrial warehouse units that serve to fulfil online orders.

Things look considerably different at the other end of the performance table. **British Land (BLND)** and **Land Securities (LAND)**, two major players in London office and retail space, have both posted extremely disappointing returns. But it's the REITs with higher levels of retail exposure, **Shaftesbury (SHB)** and **Hammerson (HMSO)**, which sit at the bottom of the pile. The pandemic was simply devastating for the shops, restaurants and cafes these trusts hold in their portfolio.

Clearly a lot of expectation is now baked into the valuations of the victors, and a lot of pain is already in the price of the losers. This is reflected in the lower yields investors typically have to accept to invest in the areas that have structural tailwinds behind them.

Like in the stock market, investors are faced with paying up for growth, or seeking out value opportunities. In order to avoid getting caught short by either an elongation, or a reversal, of market trends, it therefore makes sense to maintain some balance in a commercial property portfolio, rather than going for broke on growth or value.

The disruptive rise of e-commerce is not the only risk commercial property investors need to consider though. The asset class is popular for the income it provides, and that appeal may wane somewhat as interest rates rise. In a world starved of yield for more than a decade by loose monetary policy, anything that provides income has proved attractive to investors. This does pose a threat to flows into the commercial property

Best and worst performing FTSE 350 REITs over five years

REIT	ICB sector	Five-year total return	2022 forecast dividend yield
Safestore	Specialty REITs	268.5%	2.1%
Segro	Industrial & Office REITs	217.5%	2.0%
Big Yellow	Specialty REITs	131.1%	2.7%
Tritax Big Box	Specialty REITs	116.0%	2.8%
LondonMetric	Diversified REITs	101.4%	3.3%
Workspace	Industrial & Office REITs	-5.5%	3.1%
British Land	Diversified REITs	-5.6%	3.9%
Land Securities	Industrial & Office REITs	-21.8%	4.7%
Shaftesbury	Retail REITs	-31.8%	1.5%
Hammerson	Retail REITs	-85.9%	3.3%

Table: Shares Magazine • Source: Refinitiv, Morningstar, return data to 19th April 2022, yields are mean analyst forecasts for each company's financial year ending in 2022 based on share prices on 20 April 2022.

sector, because investors might start looking at bonds more favourably, as yields are pushed up by central banks raising interest rates to deal with inflation.

INFLATION PROTECTION?

However, it seems unlikely that any flood of money out of income-producing assets like commercial property and into bonds would take place when interest rates look like they are still rising. Why buy a bond paying 2% interest today when you could buy one paying 3% tomorrow?

And as long as inflation is looking problematic, investors will also probably show a preference for real assets like commercial property, which can provide at least some protection from rising prices. Commercial property can do this through explicit annual uplifts in rental agreements, or through regular rent reviews for shorter leases.

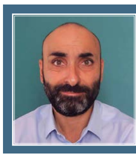
While commercial property does offer some protection from inflation, the wider economic picture is also a risk to consider, because investors ultimately rely on businesses to occupy premises, and pay rent. A more constrained consumer would dent their ability to do that, and wherever you look, economic forecasts for the UK next year are not looking pretty. Of course, the crystal ball gazers don't have an unerringly accurate view of the future, and plenty of investors will still look to commercial property to provide an income, and work as some diversification in a portfolio.

THE CHOICE IN FRONT OF INVESTORS

Investors have a choice of using closed-ended investment trusts, or open-ended funds to gain exposure to commercial property. Investment trusts are more volatile, but they do offer instant liquidity, though that may come at a price in times of market stress. By contrast, open-ended funds imposed lengthy trading suspensions after Brexit, and during the pandemic.

To try to forestall this, open-ended funds now hold cash balances as high as 20% of the portfolio to meet any investor withdrawals, which is a lot of money to be sat there not doing very much.

On balance, those who want to gain exposure to commercial property are probably best off doing so through investment trusts, and diversifying across industrial, office and retail opportunities.



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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
3 May: Card Factory, Intelligent Ultrasound.
4 May: Dianomi, Inspiration Healthcare.
6 May: CMO.

Half-year results
29 April: Up Global Sourcing. **6 May:** Numis.

Trading updates
29 April: AstraZeneca, Natwest, Rotork, Smurfit Kappa, Travis Perkins. **3 May:** BP. **4 May:** Direct Line, Flutter Entertainment. **5 May:** Derwent London, IMI, Helios Towers, Mondi, Next, Rathbone, Shell.
6 May: Beazley, Ted Baker.

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