STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS
VOL 24 / ISSUE 17 / 05 MAY 2022 / £4.49

SHARES

WE MAKE INVESTING EASIER

THE CEOs MAKING INVESTORS RICH

The FTSE 100 bosses behind the biggest returns

Tesla shareholders are the losers from Elon Musk's plan to buy Twitter

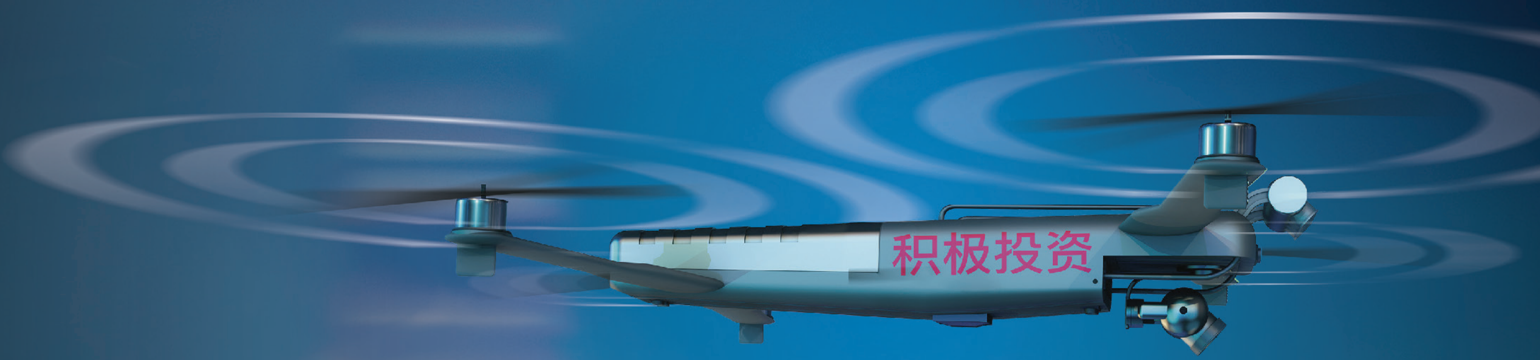
UK bank shares hit by concerns over the economy

Reasons why **Amazon is not a great investment** at the current price

Contents

CRUX
ASSET MANAGEMENT

Investing with you.



ACTIVE INVESTING WITH CRUX IN ASIA.

Asia is home to a rich, diverse opportunity set full of change and underappreciated growth, now more so than ever.

The CRUX Asia ex-Japan Fund seeks to capitalise on high-velocity, renewed, and persistent growth opportunities, generating outstanding investment performance through active management and high-conviction, long-term investing in Asian equities.

The Fund's world class investment team is led by Citywire AAA-rated manager Ewan Markson-Brown, who has built a 20-year track record of outperformance for investors in Asia and Emerging Markets equities.

By investing with you in CRUX funds, we align the aims of our investment managers with our global clients.

Anticipate change. Embrace uncertainty.
Invest in growth.

Contact us:
★ salessupport@cruxam.com ★ www.cruxam.com/asia

Important Information: CRUX Asia ex-Japan Fund. This financial promotion has been approved under Section 21 of the Financial Services and Markets Act 2000 by CRUX Asset Management Ltd. This financial promotion is issued by CRUX Asset Management Limited who are regulated by the Financial Conduct Authority (FRN: 623757) and is directed at persons residing in jurisdictions where the Company and its shares are authorised for distribution or where no such authorisation is required. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.
Past performance is not a reliable indicator of future results. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser. Please read all scheme documents prior to investing. The KIID and Fund Prospectus and other documentation related to the Scheme, are available from the CRUX website www.cruxam.com.

Daniel **Coatsworth**

Reasons why Amazon is not a great investment at the current price

At $2,609 the state of the business at present doesn't justify its share rating

For years many investors have viewed **Amazon (AMZN:NASDAQ)** as an undefeatable business that can do no wrong. Wherever it moved in the retail space, success swiftly followed. The rapid ascension of its cloud computing arm helped to drive big profits and the share price kept going up and up.

Having enjoyed a bumper period during the pandemic as households relied on the company for every product imaginable, it was natural to see the share price lose momentum as the world started to return to normality last summer.

Since November 2021 the shares have been on a downward trend, with a positive reaction to fourth quarter numbers in February one of the rare exceptions.

The reasons why the shares have trended lower include reduced appetite among investors for expensive growth stocks and, more recently, Amazon reporting its slowest growth for more than 20 years.

Someone who bought Amazon shares as a Christmas present for themselves last December (based on the last available price before the special day) would now be nursing a 23% loss. That leaves a sour taste.

If you're an investor in Amazon, it's only natural to ask if it is time to sell given the direction of the share price. Before answering that question, let's look at the key points troubling the market.

In its latest quarterly update, online sales fell 3%, shipping costs increased 14% and operating profits fell year-on-year for the third time in a row. Amazon was cash-flow negative for the sixth time in eight quarters and net debt including leases has gone from $14 billion two years ago to $47 billion.

Over the past two years it has nearly doubled the number of employees to 1.6 million. Shipping and fuel costs remain stubbornly high and combined with year-on-year increases in wage inflation, inflationary pressures have added approximately $2 billion of incremental costs compared to 2021.

It needs strong growth in retail sales to justify having this very large workforce, particularly at a time when everyone is asking for a bigger salary. Sadly, that strong growth is currently missing.

Amazon may have to revisit its strategy with Prime delivery. As it stands you can order something that costs £3 and have it delivered the next day at no extra cost other than your annual Prime subscription. Theoretically you could make that same order every day for a year, and the delivery cost to Amazon must surely outweigh the income.

Admittedly, minimum order quantities are being imposed for items that might cost less than £1, but that doesn't go far enough.

From a financial perspective, Amazon's cloud computing arm AWS continues to save the day. It is growing fast and is incredibly profitable although competition could be a problem in the future.

Amazon is a pioneering business but it's hard to justify paying 55 times forward earnings given the current state of the retail arm and the growing risk that consumer spending could tail off further in the coming months.

Yes, it's an innovative company and over the years has bounced back from weak patches. Yet for someone actively managing their portfolio, it would make sense to get out of Amazon now and look to buy back at a lower level once there are signs that cost pressures are easing and consumers are not watching every penny.

Tesla shareholders are the losers from Elon Musk's plan to buy Twitter

The electric vehicle company has suffered a sharp decline in value since its entrepreneurial boss laid eyes on the social media network

Investors are calculating the risks to **Tesla (TSLA:NASDAQ)** as Elon Musk tries to woo financial backers for his acquisition of social media network **Twitter (TWTR:NYSE)**. The omens are not encouraging for investors who own shares in the electric vehicle and renewable energy company.

Twitter officially accepted Musk's $44 billion buyout offer on 25 April, sending shares in the social media platform soaring more than 25%.

Shares in Tesla fell more than 12% in the following trading session, marking a decline of more than 23% since Elon Musk first revealed his initial 9% stake in Twitter in early April, wiping roughly $280 billion off the company's market value.

Among the list of concerns Tesla shareholders may have regarding Musk's attempt to take Twitter private is China. Some feel the billionaire's free speech campaign for the platform might not go down well in Beijing, where the nation's human rights record frequently comes under attack from critics, often via Twitter.

China remains a vital market for Tesla vehicle sales, launching the Model Y in the country last year. It jumped to the top of the high-end new energy SUV category with 169,853 units sold in 2021, according to the China Passenger Car Association, making it China's third most popular new energy passenger car.

Tesla's Model 3 was in fourth place, with 150,890 units sold in China last year, up nearly 10% from 2020, the data showed.

China's crackdown on its own tech industry, and censure of **Alibaba's (BABA:NYSE)** tech billionaire Jack Ma, demonstrates its willingness to lay down the law to companies operating in China who do not tow the line.

Tesla

Chart: Shares Magazine • Source: Refinitiv

Share sales by Musk is another reason for Tesla investors to worry. Regulatory filings show the chief executive and founder sold approximately $8.4 billion worth of Tesla stock last week.

Vague promises that he plans no further stock sales would leave him well short of the $21 billion equity component of the Twitter takeover deal, with the remaining $25.5 billion coming from debt financing supplied by various banks.

This has led some market commentators to speculate the whole Twitter deal is a smokescreen for Musk to offload large slugs of Tesla stock while minimising any backlash from investment markets. The acquisition includes a $1 billion break fee if Musk walks away from buying Twitter.

Nonetheless, there is some talk that Musk is in negotiations with various third-party investors including private equity for some of the $21 billion equity component. [SF]

BP's best underlying profit in a decade will only add to windfall tax calls

It will invest £18 billion over 10 years to boost UK energy security

Even $20.4 billion worth of write-offs linked to **BP's (BP)** exit from Russia couldn't obscure the strong first quarter enjoyed by the company.

The non-cash impairments principally linked to BP's investment in Russian oil producer Rosneft may have been hefty but the UK oil company's underlying net profit of $6.25 billion, up from $4.1 billion in the previous quarter, was its highest quarterly level in a decade. It was also considerably ahead of the $4.5 billion analyst consensus forecast.

The questions facing investors now are two-fold. How high are the risks of a windfall tax on BP's bumper profit and cash flow and what do recent events mean for the company's long-term transformation plan?

The answer to the first question is tricky as politicians can be unpredictable. What's certain is the increase in household energy bills is unlikely to let up in the short term.

As such the argument that BP should share the pain with hard-pressed families, given the big increase in its profitability and cash generation is linked to a surge in commodity prices resulting from the war in Ukraine, is likely to remain a powerful one.

The Labour Party is arguing for a 10% bump in corporation tax for North Sea producers. Chancellor Rishi Sunak has moved from arguing this would hurt investment by the oil and gas sector to accepting it as a possible policy tool if investment isn't forthcoming.

In this context it is no surprise to see BP chief executive Bernard Looney switch from his talk of the company being a 'cash machine' in 2021 to reveal it already expects to pay £1 billion in tax for 2022 North Sea profit and pledging to spend big to boost UK energy security.

Looney said his charge is 'Backing Britain' after outlining plans to invest £18 billion in the UK this decade on offshore wind, hydrogen, carbon capture and storage as well as electric vehicle charging infrastructure, retail outlets and North Sea oil and gas.

Where this sits with the company's 2050 net zero pledge is open to question. It also may not escape the attention of the company's critics that a further $2.5 billion was allocated to share buybacks.

The company's ability to indulge in such generosity is underpinned by a drastic improvement in its balance sheet with net debt falling from more than $50 billion two years ago to just $27.5 billion.

Writing down the value of the Russian interests to almost zero is a prudent step but there are some suggestions BP might realise rather more than that as it looks to offload these assets. The Indian government has reportedly asked its state-run energy firms to consider buying Russian oil assets, of which BP's 19.75% stake in Rosneft could be one. [TS]

UK bank shares hit by concerns over the economy

Worries over living costs and a deteriorating credit cycle have weighed on the sector

The key takeout from the UK banks' first quarter earnings season is that the market is more focused on a deteriorating credit cycle than the fact reported earnings exceeded forecasts.

This was reflected in languishing share prices for companies apart from emerging markets-focused **Standard Chartered (STAN)** where its stock price jumped 14% following its earnings release.

There are several reasons for the general muted response to a seemingly robust series of earnings numbers.

The market appears to be concerned with the cautionary comments made by various management teams relating to what might happen to the UK economy given the cost-of-living crisis.

For example, **Lloyds' (LLOY)** chief executive Charlie Nunn said: 'The outlook for the UK economy remains uncertain, particularly with regards to the persistency and impact of higher inflation.'

In a similar vein, **NatWest (NWG)** chief executive Alison Rose commented: 'We are also very aware of the challenges and concerns the cost-of-living crisis is causing for many of our customers up and down the country.'

Another disconcerting and ubiquitous feature of the UK banks' first quarter earnings was the

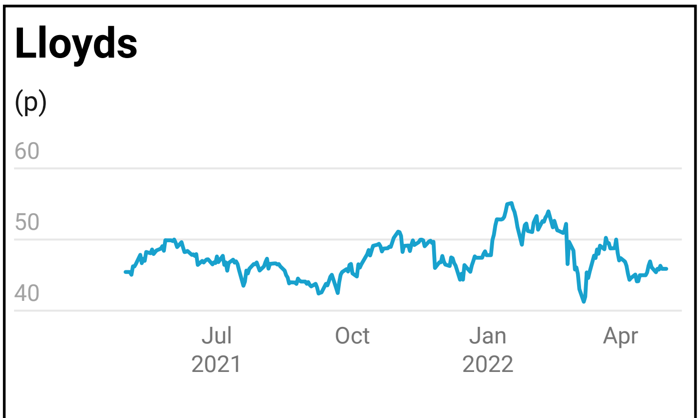


Chart: Shares Magazine • Source: Refinitiv

disappointing nature of core capital ratios which are a key measure of financial strength.

HSBC (HSBA) reported a tier 1 equity ratio down 1.7 percentage points at 14.1%, versus a consensus of 15%. As a result, no further share buybacks are expected from the group this year. **Barclays (BARC)** suspended its share buyback plan until talks with US regulators over a trading error have been resolved.

NatWest reported a tier 1 capital ratio of 15.2% that was below a consensus forecast of 15.6%.

This comes a time when banks feel it necessary to put aside millions of pounds in anticipation of a rise in defaults.

It is becoming increasingly apparent that impairments for bad loans will increase this year as consumers' finances come under pressure in the wake of higher inflation.

Lloyds has added a further £100 million for higher cost-of-living risks. This may prove to be insufficient if the economic situation deteriorates.

The first quarter earnings season has highlighted another quandary facing UK banks. A rising interest rate environment has traditionally been viewed as being positive for the sector. However, the UK consumer is in a more fragile financial predicament and is particularly sensitive to the costs associated with a rise in interest rates.

Investors and banks are acutely aware that borrowers unable to service their loan and mortgage costs will default. [MGar]

This is how to find a winning combination of cheap stocks and inflation protection

Momentum Multi-Asset Value Trust is just the ticket in the current environment

In an inflationary environment buying an investment trust which offers exposure to both cheap equities and alternative assets like infrastructure which have inflation protection looks a sensible approach.

Shares has identified just such a vehicle in the form of **Momentum Multi-Asset Value Trust (MAVT)**. The shares trade at a 1% discount to net asset value and offer a historic yield of 3.7% with dividends paid quarterly.

The near-£60 million trust has a stated aim of achieving at least the level of CPI (consumer price inflation) plus 6% a year (a potentially tall order in the current strong inflationary environment) by investing in UK and overseas shares as well as bonds and specialist assets like private equity, infrastructure and financial products.

MOMENTUM MULTI-ASSET VALUE TRUST

BUY

(MAVT) 181.5p

Market cap: £56.8 million

UNUSUAL APPROACH

The trust is unusual in that it combines a focus on value with a multi-asset strategy and we think this could be a winning combination in the current environment.

As of 31 January 2022, the portfolio was split approximately one third in UK shares, just over a fifth in overseas stocks, 7% in bonds, and another third in specialist assets like infrastructure, private equity, specialty finance (including areas like music royalties) and property.

The remainder is in cash and defensive assets like gold and government bonds. Interestingly the specialist assets accounted for nearly half of the income generated.

The four-man management team behind the trust pick the UK stocks and shares component themselves but use third party investment trusts and funds to access other asset classes and markets.

When it comes to identifying attractively valued UK stocks the managers use metrics like price to book, price to sales and CAPE (cyclically adjusted price to earnings). They will then take a deeper dive into how the earnings are generated and where they are coming from.

Recent additions to its

PREVIOUSLY CALLED SENECA GROWTH & INCOME TRUST

Established more than 25 years ago, the vehicle has gone through several iterations in the interim, most recently changing its name from Seneca Growth & Income Trust in February 2021 after Momentum Global Investment Management bought Seneca Investment Managers.

The latter was a Liverpool-based firm launched in 2002 focused on a multi-asset and value-focused approach. Day-to-day running of the portfolio did not change as a result of the deal.

Momentum Multi-Asset Value - portfolio breakdown by assets

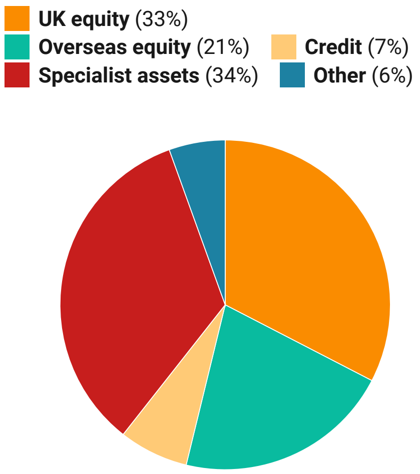


Chart: Shares Magazine • Source: Momentum Global Investment Management, 31 January 2022

portfolio from the UK market include fantasy miniatures firm **Games Workshop (GAW)** and the digital publisher behind *Ladbible*, **LBG Media (LBG:AIM)**. Lead manager Gary Moglione says: 'LBG has monetised Facebook really well and it's now participating in trials with Instagram and TikTok to try and monetise its videos there. Ladbible has a huge following on both those platforms but it's not being monetised.'

INVESTING THROUGH NICHE FUNDS

Moglione tells *Shares* the approach with the rest of the portfolio is to invest through so-called 'boutique' asset managers which might not be as familiar to investors. These are typically smaller and have a more specialised approach.

He adds: 'We have a strong belief that a small assets-under-management, family-owned business where the manager eats their own bucket has a different mentality to a manager who's on a fund that's a £20 billion cash cow, needs to stay close to the benchmark and just not underperform.'

He says the team's own analysis suggests there is a performance premium of just over 1% for boutique funds 'because the manager's mindset is all on performance in a boutique'.

Further summing up the approach behind the trust he explains: 'We don't have a house view. Attempting to predict the future has at best a hit rate of 50%. Instead, we focus on the strong correlation between valuations and the performance of asset classes over the long term. We just have to remain disciplined and patient.'

MANAGING THE RISKS

As Moglione acknowledges there are risks associated with investing in value. 'You'll never eliminate these entirely,' he says. 'It's about minimising your losses and maximising your gains.'

He says the fund has a robust process whereby any potential new addition to the portfolio must meet with the whole team's approval after heavy scrutiny and there is competition for capital whereby managers

Momentum Multi-Asset Value - portfolio breakdown by income generation

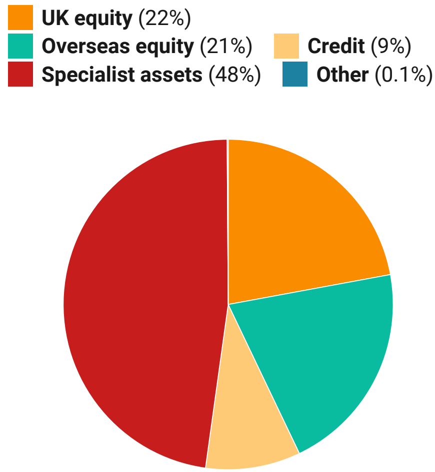


Chart: Shares Magazine • Source: Momentum Global Investment Management, 31 January 2022

can argue they have a potential investment which should replace an existing holding.

This has underpinned a decent level of performance over time. As of 31 January 2022, the trust had delivered a five-year return of 40.6%.

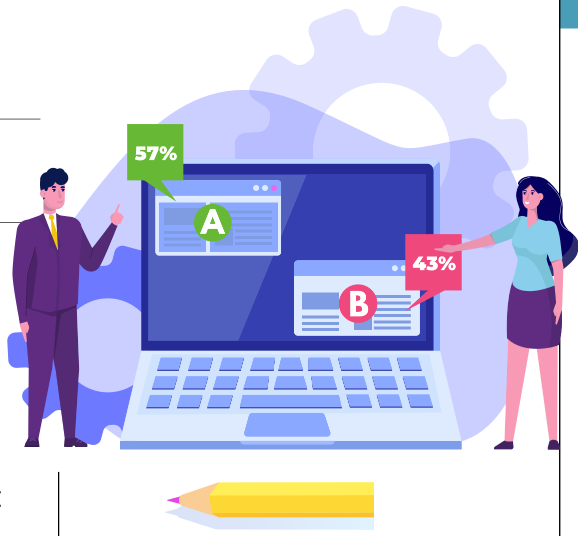
The trust uses gearing (borrowing to invest) to help boost returns, with a current gearing level of 11% of its net assets, and it can go as high as 25%. The ongoing charge at 1.63% is relatively high but reflects the complexity and range of investments included in the portfolio. [TS]

Momentum Multi-Asset Value Trust

Chart: Shares Magazine • Source: Refinitiv

Shares in comparison website owner Moneysupermarket are too cheap to ignore

With the stock at multi-year lows and yielding 7% we think it's time to buy



A new study by Which? has found nearly one in 10 people (8%) are taking out new credit cards to cope with the cost-of-living crisis. **Moneysupermarket (MONY)** is one of the first places people visit when looking for deals on financial products.

With the price of everything from food to fuel and mortgage payments expected to keep rising, it's no wonder consumers are turning once again to price comparison sites.

It's time investors did the same, especially with shares in Moneysupermarket trading at multi-year lows.

Right now, market sentiment towards comparison websites is firmly bearish given their inability to make money on energy switching with so few firms willing to offer a quote.

We appreciate this situation could last beyond the price cap going up again in October, in which case we might be early with our call on the stock, but when valuations are this attractive it can often pay to be early. Moneysupermarket trades on a mere 12.6 times forward earnings.

Comparison sites can help cash-strapped customers save money on insurance, broadband, loans and credit card deals.

While demand for motor insurance dropped sharply during lockdown, with the economy fully reopen traffic levels are recovering as more people use their cars.

Drivers can't do much about the price of fuel or road tax, but they can cut back on their running costs like insurance, MOT and servicing thanks to Moneysupermarket's 'Super Seven' offering.

So far this year, the travel and money divisions have been the company's two key drivers of earnings growth, the former thanks to the recovery in the number of people shopping for holidays and travel insurance.

Cashback has added to revenue growth following the acquisition of Quidco, while insurance revenues were flat due to a lower level of switching.

Analysts see the travel and money businesses remaining robust for the rest of the year, with the main risk being a further slowing of revenue growth in the insurance arm.

Gresham House head of public equity Ken Wotton believes, despite the temporary disruption from energy prices, consumers will continue to use firms such as Moneysupermarket, which is at its lowest price to earnings valuation for years

MONEYSUPERMARKET.COM
BUY
(MONY) 174p
Market cap: £924 million

with an inflation-rivalling 7% dividend yield.

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

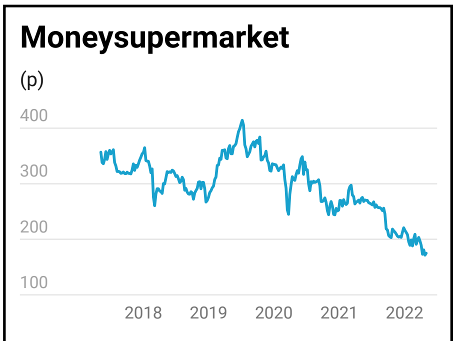


Chart: Shares Magazine • Source: Refinitiv

GLAXOSMITHKLINE
(GSK) £17.96

Gain to date: 36%
Original entry point:
Buy at £13.21, 5 November 2020

INVESTOR SENTIMENT TOWARDS **GlaxoSmithKline (GSK)** has continued to improve based upon a combination of self-help and agitation from activist investor Elliott Advisors.

Meanwhile a more challenging economic backdrop makes the defensive qualities of healthcare more attractive and so the shares have been in demand.

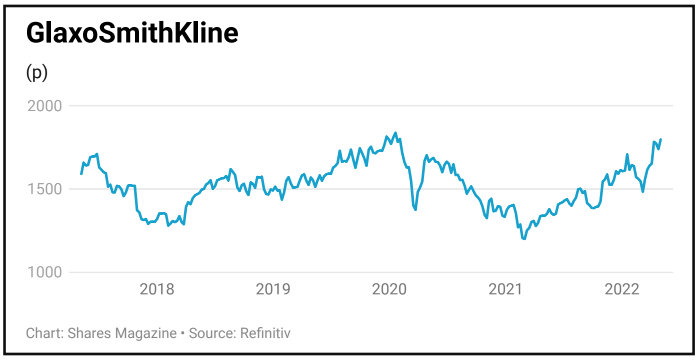
GlaxoSmithKline made a strong start to the 2022 financial year with first quarter revenue growing 34% while earnings per share was 43% ahead at 32.8p.

Its consumer healthcare division Haleon will be demerged from the group in July and floated on the UK stock market.

Over the medium term, Haleon is targeting organic sales growth of between 4% and 6% and a sustainable moderate expansion of operating margin from the 22.8% achieved in 2021.

Following the demerger GlaxoSmithKline will become a focused biopharmaceutical and vaccines business. It will soon change its name to GSK.

It hopes to deliver more than 5% annualised revenue growth and more than 10% annualised growth in adjusted operating profit over the next five years.



SHARES SAYS:
We remain positive on GlaxoSmithKline. [MGam]

FIDELITY SPECIAL VALUES
(FSV) 283.5p

Loss to date: 7.5%
Original entry point:
Buy at 306.6p, 11 November 2021

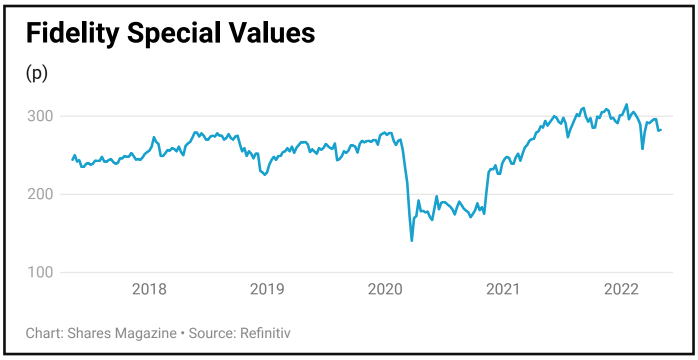
WE REMAIN POSITIVE on **Fidelity Special Values (FSV)** despite the 7.5% loss since highlighting its attractions last November.

First-half results showed net asset value total return down 4.5% versus a 2.4% rise for the FTSE All-Share index. However, Fidelity Special Values' net asset value and share price total returns remain ahead of the benchmark over one, three, five and 10 years.

Amid rising price pressures and supply chain constraints, the trust's industrials and consumer discretionary holdings proved a drag on returns while a long-standing underweight to metals and mining versus the index meant it missed out on strong gains in the commodities sector.

Contrarian manager Alex Wright believes UK shares remain 'significantly undervalued' compared to global peers and are reasonably valued in absolute terms.

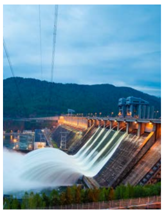
He argues inflation and interest rate pressures are likely to benefit Fidelity Special Values' portfolio, which is focused on attractively valued companies with improving fundamentals, given the market focuses on short-term earnings and valuations in these environments.



SHARES SAYS:
Stick with Fidelity Special Values despite the short-term performance blip given Wright's superb long-term track record. [JC]

DRAX

(DRX) 811p



Gain to date: 21.6%

Original entry point:

Buy at 667p, 10 March 2022

IT IS PLEASING to see the shares perform well, but arguably the gains are supported by continued improvement in the fundamentals of the business.

A strong first quarter prompted Longspur Research analyst Adam Forsyth to raise his 2022 earnings per share forecast by 16% to 70.9p and his 2023 forecast by 12% to 98.9p.

The shares trade on 8.2 times 2023 forecast earnings compared with 7.8 times two months ago, yet that rating continues to look cheap relative to the firm's long-term growth outlook.

Drax (DRX) said electricity prices remained high through the quarter.

With continued momentum also seen in ancillary services revenues, Drax raised its 2022 guidance and now anticipates earnings before interest, tax, depreciation and amortisation to be at the top end of analysts' forecasts.

According to company-compiled data, the range for 2022 EBITDA is between £540 million to £606 million with the consensus at £571 million.

The company is also making good progress on expanding its wood pellet production capacity and completed the commissioning of its 360,000-tonne plant at Demopolis, Alabama and its 40,000-tonne satellite plant in Leola, Arkansas.

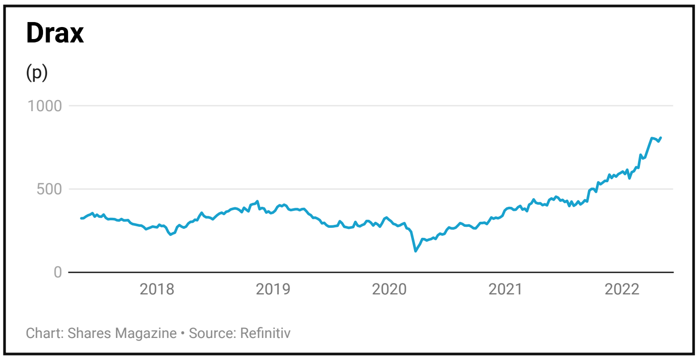


Chart: Shares Magazine • Source: Refinitiv

SHARES SAYS: ↗

The shares remain a 'buy'. [MGam]

WH SMITH

(SMWH) £14.45

Loss to date: 14.3%

Original entry point:

Buy at £16.86, 27 January 2022

While shares in **WH Smith (SMWH)** have struggled this year, we were pleased to see the books, stationery and snacks seller report a return to profit for the six months to 28 February.

The retailer posted £18 million pre-tax profit, marking an impressive year-on-year turnaround from losses of £38 million as total group revenue ticked up 45% to £608 million. The FTSE 250 firm also insisted its recovery from the pandemic is 'well underway', with travel sales surging past pre-pandemic levels in recent weeks.

WH Smith stressed it is managing the impact of inflationary pressures thanks to its low ticket-value categories and strong supplier relationships, but the shares reversed on results day (27 April) after it flagged the risks from some 'uncertainties in the broader global economy' and warned the Ukraine conflict may impact the business through rising shipping, sourcing and supply chain costs.

Despite near-term challenges, we remain convinced WH Smith is well positioned to benefit from new store opening opportunities in the global travel market and is a resilient business that generates excellent returns on capital.

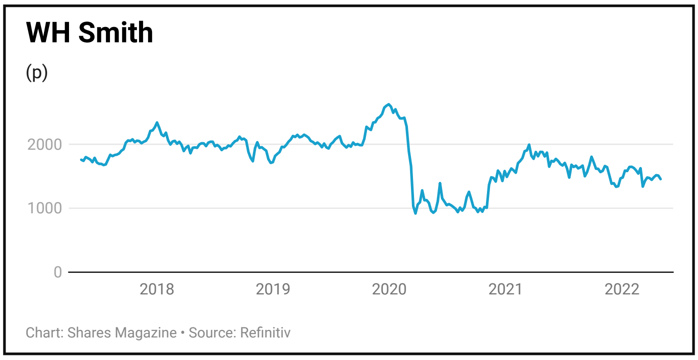


Chart: Shares Magazine • Source: Refinitiv

SHARES SAYS: ↗

WH Smith is a resilient retailer with exciting international recovery potential. Keep buying. [JC]

Big tech earnings: the lowdown on Alphabet, Amazon, Apple, Meta and Microsoft

The latest quarterly results season generally did not go down well with investors

Global investors had been hoping that big tech earnings would put the brakes on sliding stock markets, but it hasn't quite worked out that way.

Now we've heard from marquee companies such as **Alphabet (GOOG:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Apple (AAPL:NASDAQ)**, Facebook-owner **Meta Platforms (FB:NASDAQ)** and **Microsoft (MSFT:NASDAQ)**, it's clear that even stock market superstars are dealing with a pandemic hangover.

This has been compounded by inflationary pressures and difficulties in getting all the right parts and products to do business smoothly, among other factors.

It was a point made firmly by Apple chief executive Tim Cook who said, 'I want to acknowledge the challenges we are seeing from supply chain disruptions driven by both Covid and silicon shortages to the devastation from the war in Ukraine.' He told analysts and investors on 28 April: 'We are not immune to these challenges.'

SOFTENING GUIDANCE

The latest figures from Amazon, Apple, Microsoft and Google-parent Alphabet were poorly received by investors, even though some of them beat expectations on certain key metrics.

Big tech versus expectations: latest quarterly results - Revenue ($bn)

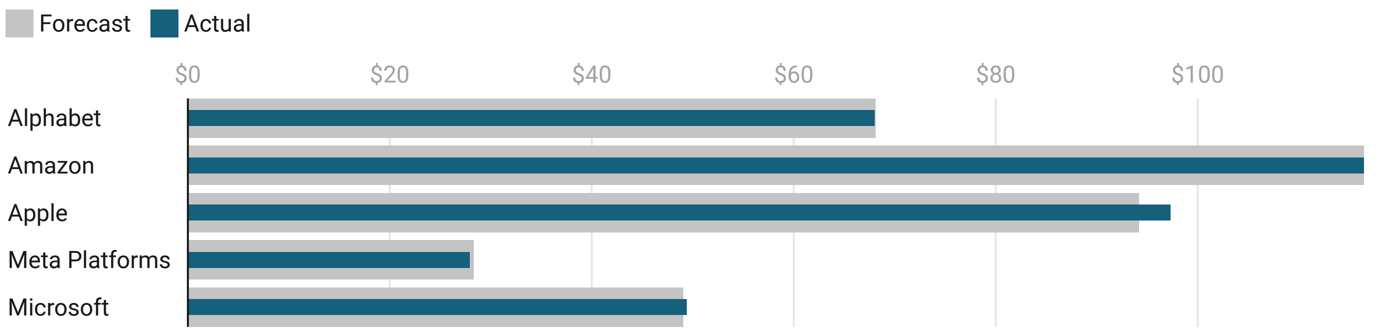


Chart: Shares Magazine • Source: Company reports, Investing.com

Earnings per share

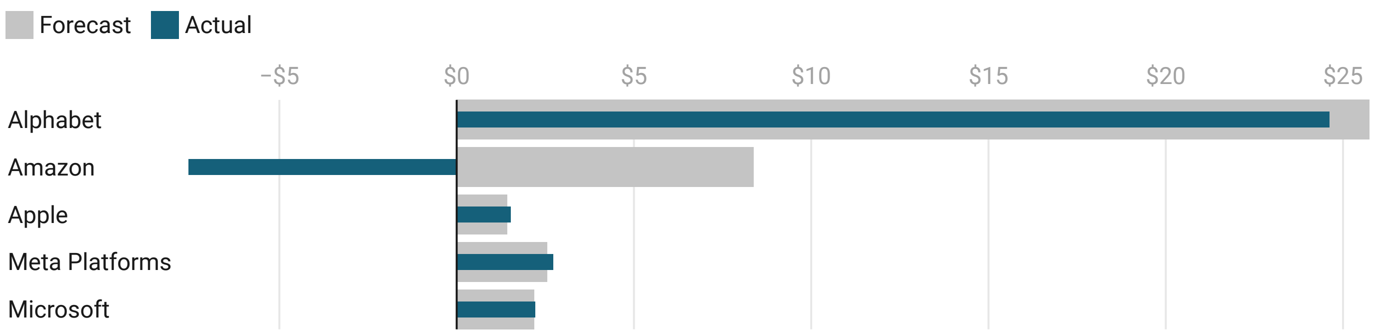
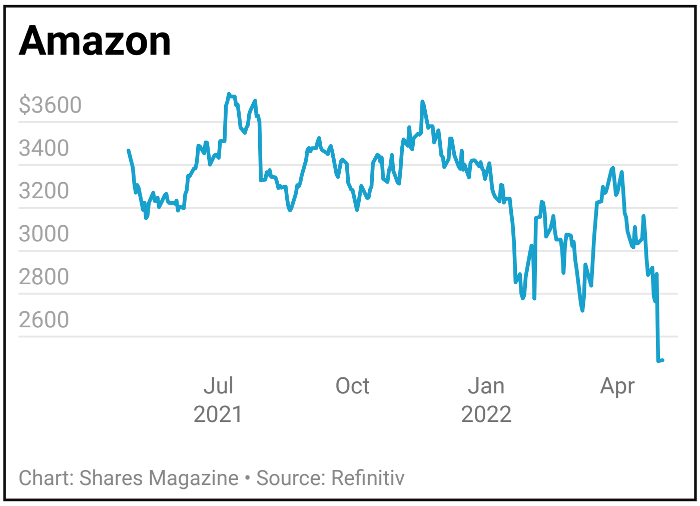


Chart: Shares Magazine • Source: Company reports, Investing.com

AMAZON



Amazon's shares fell by 12% on 29 April after the company posted its first quarterly loss since 2015.

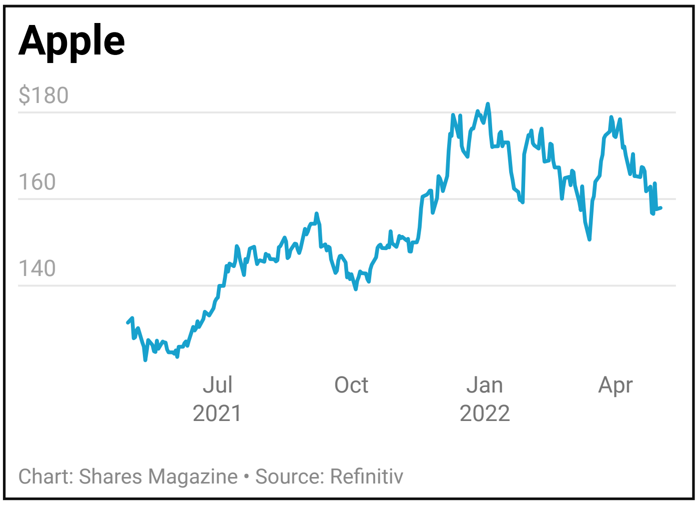
This was primarily caused by falling sales from its online retail business and a markdown in the value of its investment in electric truck maker **Rivian (RIVN:NASDAQ)** whose share price has fallen by 69% year-to-date.

Amazon's operating cash flow collapsed by more than 40% and its AWS cloud platform saw growth fall behind Google and Microsoft.

Sales at the online retail colossus were in line with analyst expectations but chief executive Andy Jassy warned of testing times in the months ahead, unsurprising given the pressure on consumer spending from a higher cost of living.

This was an unpleasant cocktail for investors to swallow, and Amazon saw $177 billion wiped off its market value in a single day.

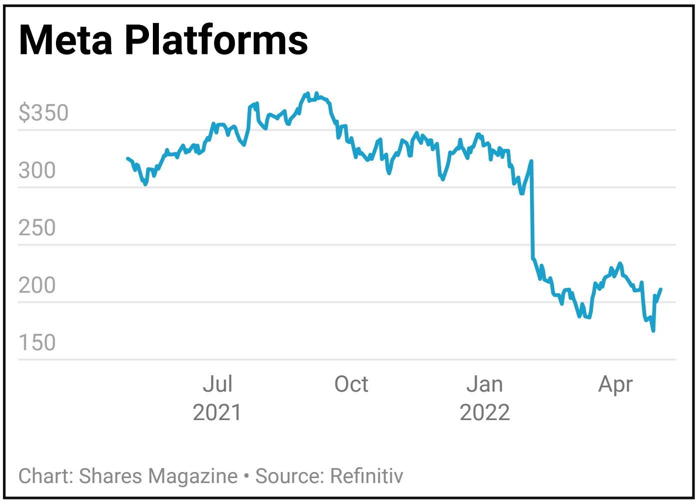
APPLE



On the same day, Apple's shares fell 1% after it warned of a possible $8 billion hit from supply issues. That's despite a positive past quarter where revenue rose 9% to $97.3 billion, delivering net profit of $14.4 billion.

Apple's services arm which includes music and TV streaming saw an 17% increase in revenue to $19.8 billion with margins of 72.6%. Revenue from core hardware products including iPhones, iPads and Mac laptops rose but $14.26 billion of the $14.4 billion net group profit came from the services arm.

META PLATFORMS



Meta Platforms bucked the trend with a positive market reaction to its latest numbers, helping to make up for recent disappointments.

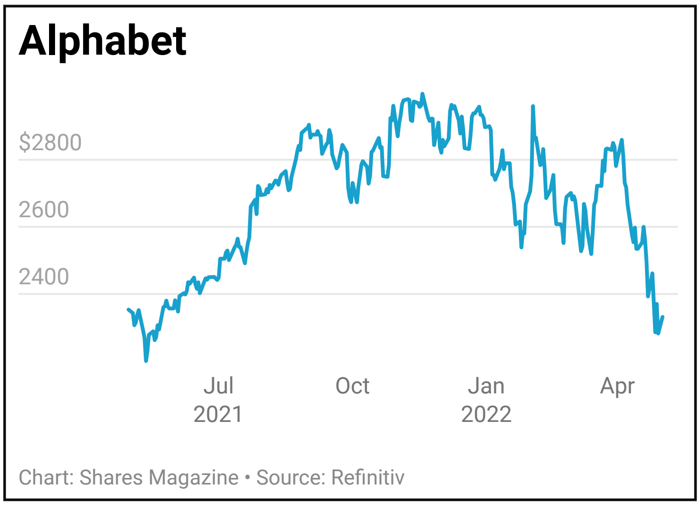
Three months ago, the Facebook parent reported its first sequential decline in daily active users and weaker-than-expected revenue guidance. That saw the share price fall 27% in a single day.

Active users rebounded slightly in the most recent quarter, yet expectations were so low that this was enough to convince investors that Facebook was not dead. Even though revenue missed expectations, the stock jumped 18%.

Meta has guided for $28 billion to $30 billion revenue in the second quarter. The low to middle points of that range would equate to a slight drop from the same period in 2021 when sales were $29.1 billion.

Total revenue for the first quarter was $27.9 billion, a 7% gain year-on-year which is the slowest pace of expansion in Meta's 10-year history as a public company.

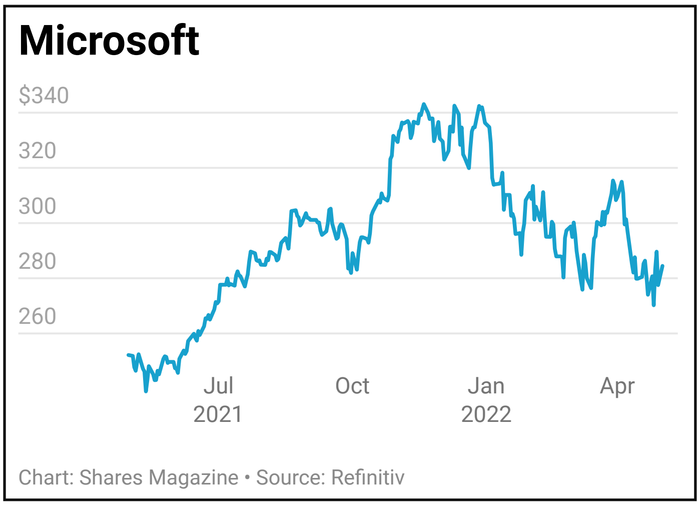
ALPHABET



Even Google's parent Alphabet could not beat all the key forecasts. There was a hit at the revenue level as YouTube advertising income faced stiffer competition from TikTok and others.

Management announced a $70 billion share buyback that clearly went a long way in calming investor nerves that might otherwise have frayed.

MICROSOFT



Microsoft's results were more encouraging. Its first quarter revenue and profit beat expectations, with earnings of $2.22 per share (forecast: $2.19) and revenue of $49.4 billion (forecast: $49.1 billion).

Chief executive Satya Nadella brushed aside macroeconomic concerns and said in an inflationary environment software is 'the only deflationary thing'.

Cloud growth remains key with total revenue growth at Azure and other cloud services up 46%.

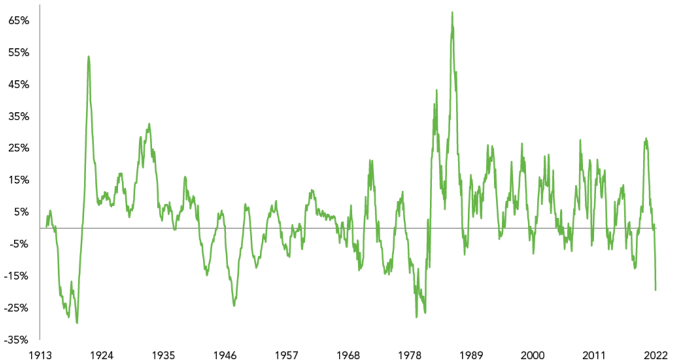
While Microsoft's shares initially dipped on the results, they've since jumped by 5% from the low on 26 April.

By **Steven Frazer** News Editor

The bond bedrock has broken – where to now?

What was the real return on the US 10 year bond over the past two years? Flat? Down a little? Wrong – down a lot. The bedrock of the balanced portfolio has delivered a real return of -20% over the past two years.[1] That's the worst inflation-adjusted performance since 1981.[2]

TOTAL RETURN ON TEN YEAR US TREASURIES, ADJUSTED FOR US CPI INFLATION, %



A NEW REGIME REQUIRES A NEW RULEBOOK

Traditional balanced portfolios rely on equities and bonds fulfilling their roles – equities for good times, bonds to cushion the bad. But after a torrid first quarter for markets, investors are being forced to tear up the rulebook.

One rule is that bonds diversify and protect portfolios. This chart shows the historical real returns generated by a 10 year US government bond. For their owners, these investments have delivered return-free risk, as opposed to the preferable vice versa they thought they were buying.

Unsurprisingly, investors are beginning to shun their bond allocation in favour of 'alternatives'. Often in the form of private equity, property and infrastructure. Are these the right replacements for increasingly fragile bond allocations?

REPLACEMENTS MAY BE RISKIER THAN THEY APPEAR

In recent decades these assets have delivered consistent, inflation protected cashflows, but that was when inflation was low and predictable. Can they continue to deliver when inflation is high and threatening a cost-of-living crisis?

'Alternative' assets are also often at risk from deteriorating economic conditions (more like equities than bonds). Add in rising interest rates, and the outlook is worse still.

As for equities, they remain expensive – and potentially vulnerable. History shows that stocks like low and stable inflation – so with inflation surpassing 8%[3] in the United States, the reality is anything but.

RUFFER'S ALTERNATIVE TO ALTERNATIVES

We look to inflation-linked bonds as a key defence in a world of deepening negative real yields – where inflation consistently exceeds interest rates. Powerful derivative strategies – in rates and credit markets – can provide convex payoffs in market falls.

Exposure to gold and other commodities could also be part of a diversified solution. Meanwhile we all need to rediscover the art of stock-picking, balancing bravery and caution to own equities which can capture opportunities in an increasingly volatile environment. The result is a portfolio which works as an alternative to alternatives – built first to survive and then to thrive.

[1] Bloomberg. [2] Bloomberg, Ruffer calculations. [3] US Bureau of Labor Statistics.

Why now is a great time to look at ultra-cheap shares

We turn our attention to stocks trading on single-digit PEs to identify those worth buying and those which are cheap for a very good reason

In this article we take a dive into the lowly valued part of the UK stock market to see if we can find some hidden gems. Specifically, we are looking for shares trading on less than eight times forecast earnings.

It is sometimes said 'one man's meat is another man's poison' or 'one man's rubbish is another man's treasure'.

Digging around the ultra-cheap end of the stock market may not be everyone's cup of tea, but it may yield some real bargains.

Another reason to take a closer look is that cheap shares have come back into fashion. Rising interest rates and rampant inflation have resulted in a savage underperformance of growth stocks trading on premium valuations.

WHY DO STOCKS TRADE ON DIFFERENT VALUATIONS?

Despite its reputation as a relatively blunt metric, the humble PE or price to earnings ratio is more useful than you might think.

An academic paper written by Marty Leibowitz and Stanley Kogelman in 1990 that appeared in the *Financial Journal of Finance* provided a better understanding of the factors that drive the PE ratio.

In 2004 Leibowitz put his ideas into a book, *Franchise Value: A Modern Approach to Security Analysis*.

One of the surprising results from the analysis is the extraordinary magnitude of growth required to raise the PE significantly.

For example, to justify a PE ratio twice that of the market, a company would need growth opportunities equivalent to five times its current earnings. That is a lot of growth.

The growth also needs to be profitable with return on equity above the market average. In other words, unprofitable growth doesn't add to shareholder value.

But the useful part is the Leibowitz model allows

investors to convert estimated earnings growth into a theoretical PE ratio. It can also be used to calculate the implied growth of companies trading on different PE ratios.

For example, **Microsoft (MSFT:NASDAQ)** trades on a forward PE ratio of 25.8 times and generates a return on equity of around 40%.

This PE implies the company can grow its earnings by around 12% a year for the next decade. If delivered, earnings per share in 10 years would be three times higher than the current level.

STRUCTURAL DISCOUNTS

It is worth highlighting that some sectors regularly trade at a discount to the market. The Leibowitz model suggests these companies are growing less than the market or are in structural decline.

A lower than market PE can also reflect extra investment risks such as high earnings fluctuation (uncertainty) and weak finances (higher than average debt).

Banking shares traditionally trade on a discount reflecting the cyclicality of their earnings, high leverage and low growth. Earnings progression is crimped by the regulator which determines the minimum amount of capital the banks require to support their business growth.

Resources firms often also trade at discounted valuations to reflect how their earnings are linked to volatile commodity prices.

The FTSE 100 index trades on a forward PE ratio of 14.3 times according to Stockopedia data and

Selected stocks on ultra-low PEs

Company	Forward price to earnings ratio
Polymetal International	1.6
Ferrexpo	2.7
Vertu Motors	**3.2**
N Brown	**4.1**
Glencore	4.6
Kier	4.7
Reach	4.7
Petra Diamonds	4.7
Capita	5.0
BP	5.3
ITV	5.4
Redrow	5.6
Saga	5.6
Royal Mail	5.7
Virgin Money	5.7
Barclays	5.7
Shell	5.8
Rio Tinto	**5.8**
Bellway	6.0
Vistry	6.0
Barratt Developments	6.1
Anglo American	6.3
Marks & Spencer	6.3
Secure Trust Bank	6.4
Taylor Wimpey	6.6
DFS Furniture	6.6
Halfords	6.7
Imperial Brands	6.7
Provident Financial	6.9
Pendragon	7.1
Lookers	7.3
Synthomer	**7.4**
Wickes	7.5

Table: Shares Magazine • Source: Stockopedia, 28 April 2022

earnings are expected to grow 8.5%. The FTSE All-Share trades on 13.7 times for similar growth.

Shares has used Stockopedia data to search for companies with a forecast PE below eight times – restricting our search to companies with a market cap of at least £100 million.

These shares are generally unloved and investors by implication believe they are structurally challenged from a growth perspective or likely to be unprofitable over the coming years.

Russian gold miner **Polymetal (POLY)** and Ukrainian iron ore outfit **Ferrexpo (FXPO)** both feature in the table because their valuations have been heavily impacted by external factors – namely Russia's invasion of Ukraine.

The trick is to spot companies where the problems can be easily fixed or where investors have failed to recognise the growth potential.

Even a modest growth outcome can be rewarding if it is accompanied by a re-rating of the shares (investors pay a higher PE). Let's look at an example to see how this works.

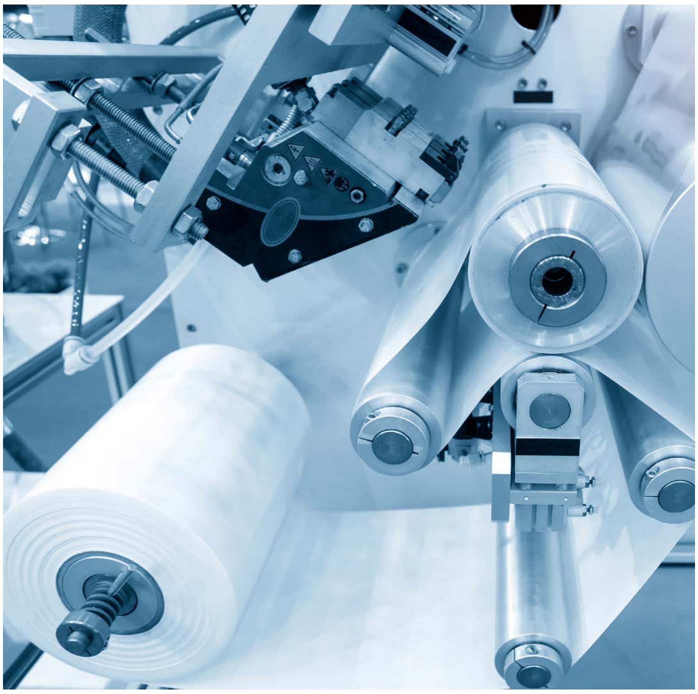
Business services company **Kier Group (KIER)** trades on an ultra-low PE of 4.7.

If we play devil's advocate and assume the company achieves modest growth of around 2% a year and delivers an return on equity of 9%, investors should be theoretically willing to pay a PE of around 14 times, equivalent to the market PE.

Under this theoretical scenario earnings over the next 10 years grow from 15.9p per share to 19.4p per share (because of compounding the total growth is slightly higher than 10 times 2%).

Applying a multiple of 14 times would result in a share price of 271.3p. That would equate to a shareholder return of 13.1% a year. [MGam]

THREE SINGLE-DIGIT PE STOCKS TO SNAP UP



Synthomer (SYNT) 299.5p
Forward PE: 7.4

Over the last six months shares in plastics manufacturer **Synthomer (SYNT)** have fallen by 40%. This de-rating has been due to margins in its NBR (nitrile-butadiene rubber) business normalising at a faster rate than management had anticipated after an exceptional 2021.

From a valuation perspective the shares now look attractive given the encouraging first quarter trading update.

NBR supplies nitrile latex for medical gloves. During the pandemic, Synthomer experienced continued sustained demand for these gloves, which are used extensively in hospitals and other segments of the medical sector, due to their high strength and superior puncture resistance.

However, when the Covid pandemic receded, demand slowed at a faster rate than had been anticipated. This resulted in a reduction in earnings forecasts.

The NBR part of the group is expected to return to growth in the second half of this year and Numis expects earnings per share as a whole to increase by 21% from 2022 to 2023.

The current forward PE looks too cheap relative to the anticipated resumption of growth. [MGar]

Rio Tinto (RIO) £56.44
Forward PE: 5.8

Mining giant **Rio Tinto (RIO)** faces several operational and cultural challenges plus the prospect of weaker metal prices in the short term.

However, we think its new boss Jacob Stausholm can tackle these issues head on and in that context the price does not reflect the scope for a turnaround in its fortunes.

Jefferies analyst Christopher LaFemina expects iron ore output to increase through the course of the year with aluminium and copper also benefiting from 'improved operational performance'.

We also think market sentiment should improve towards Rio as Stausholm shows he is addressing the toxic workplace culture revealed in a bombshell report released in February.

Given long-term demand for the metals extracted by Rio is likely to be underpinned by the transition to renewables and electric vehicles, a price to earnings ratio of less than six times looks far too low.

And while investors wait for this value to be unlocked they are being rewarded with generous dividends – Jefferies forecasts a payout worth more than $10 billion for 2022. [TS]

Vertu Motors (VTU:AIM) 51.2p
Forward PE: 3.2

While the outlook for spending on big ticket items such as cars is uncertain, a grudgingly low price to earnings ratio fails to reflect the value under the hood at **Vertu Motors (VTU:AIM)**, the UK's fifth largest automotive retailer trading as Bristol Street Motors, Vertu and Macklin Motors.

Steered by CEO Robert Forrester, the cash generative car retailer with strong property asset backing has returned to the dividend list after a Covid hiatus. It also continues to play its part in the consolidation of the fragmented UK automotive retail market, taking share through acquisitions supplemented by organic growth.

Vertu's recent upgrade cycle has been driven by sector tailwinds including severe vehicle supply constraints coming out of Covid, which has boosted new and used car prices, with acquisitions also adding some fuel.

Consumer confidence could come under pressure, but demand remains strong for now and we see established omni-channel operator Vertu as a future winner, having offered full online sales of used cars ahead of anyone else back in 2017. [JC]

CHEAP FOR A REASON: A LOW PE STOCK TO AVOID

N Brown (BWNG:AIM) 29.4p
Forward PE: 4.1

Online clothing and footwear retailer **N Brown (BWNG:AIM)** has been a perennial market underperformer.

Despite positive changes made to sharpen its focus and reduce debts, we believe an uncertain consumer backdrop is likely to stymie further progress.

The shares have looked cheap at face value for a long time, but the fundamentals of the businesses do not look strong enough to support a recovery in the near term.

Analysts have consistently revised down their earnings expectations over the last 18 months according to Stockopedia data.

More recently (3 Mar) the company warned soaring inflation and rising costs will crimp earnings in the year to February 2023, prompting further significant downgrades.

Although the company is taking mitigating actions the need to continue investing to grow key brands will put pressure on margins.

These actions are designed to boost growth in the firm's five strategic brands – Ambrose Wilson, Home Essentials, Jacamo, JD Williams and Simply Be – and offset declines in legacy brands. [MGam]

THE CEOs MAKING INVESTORS RICH

The FTSE 100 bosses behind the biggest returns

By **Ian Conway** Companies Editor

Every chief executive talks about creating shareholder value, but which ones walk the walk?

While the investment trust industry can count on 27 managers with at least 20 years under their belt at the same firm, there are very few FTSE 100 chief executives with that kind of track record.

The most obvious is Simon Wolfson (*pictured*), who has headed Leicestershire-based high street retailer **Next (NXT)** since May 2001.

To his enormous credit, Wolfson has masterminded the firm's transformation from niche fashion brand to one of the country's leading store-based and online operators.

In the process, the Next share price has risen from 975p when Wolfson became CEO to over £62 today, an increase of more than 500%.

At the same time, the firm has distributed £22.60 in dividends meaning the total return for investors over the last 21 years has been more than 700%.

Wolfson is an outlier, however, so in order to create a more level playing field we have taken the total returns – that is the gain in the share price plus dividends paid out – of all the FTSE 100 companies over the last 10 years and ranked them from best to worst.

FTSE 100 stocks with the highest 10-year total return

Company	10-year Total Return %	Market Cap £bn	Share price year to date (%)
Ashtead	2050%	21.6	-18.2%
JD Sports Fashion	1730%	7.6	-33.6%
Entain	1020%	9.2	-6.8%
London Stock Exchange Group	812%	41.9	17.7%
Ocado	800%	8.1	-35.5%
Dechra Pharmaceuticals	779%	4.1	-29.0%
3i Group	756%	13.3	-6.0%
Smurfit Kappa	681%	8.7	-17.5%
Howden Joinery	668%	4.6	-12.8%
Segro	662%	16.8	-3.0%
FTSE 100	97%		1.6%

Table: Shares Magazine • Source: Sharepad, Shares. Data from 5 May 2012 to 21 April 2022 inclusive.

A CLASS APART

Top of the table by a long way are two firms with completely different business models serving completely different markets.

Both suffered a setback due to Covid, for different reasons, yet both have emerged stronger than they were before the pandemic.

Top of the class is equipment hire firm **Ashtead (AHT)** which has generated total returns for shareholders of 2,050% over the past decade.

In other words, if you had bought £1,000 worth of stock in May 2012 your investment would now be worth £20,500 even though the share price is down 18% this year.

Ashtead 10-year total return

Chart: Shares Magazine • Source: Refinitiv

Chief executive Brendan Horgan can't take all the credit, having only taken over the top job in 2019, but he has been with Ashtead for almost his entire working life since joining its Sunbelt Rentals division in 1996 at 23 years of age.

Horgan's predecessor at the top was no-nonsense Yorkshireman Geoff Drabble, who spent 12 years at the helm growing the firm's presence across North America and generated a 10-fold rise in the share price from 150p to £15.50 during his tenure.

FEMALE CEOS ARE STILL RARE IN THE FTSE 100

The number of female chief executives has increased by one with the appointment of Jennie Daly as the head of housebuilder **Taylor Wimpey (TW.)**, but the FTSE is still very much male-dominated with almost nine out of 10 firms run by men.

Liv Garfield of **Severn Trent (SVT)** is the longest-serving female chief executive, having taken up the post in April 2014, while other well-known bosses include Amanda Blanc (*pictured*) at **Aviva (AV.)**, Emma Walmsley at **GlaxoSmithKline (GSK),** Carolyn McCall at **ITV (ITV)** and Alison Rose at **NatWest (NWG)**.

Chief executive tenure for FTSE 100 stocks with highest 10-year total return

Company	Chief Executive	Appointed
Ashtead	Brendan Horgan	2019
JD Sports Fashion	Peter Cowgill*	2004
Entain	Jette Nygaard-Andersen	2021
London Stock Exchange	David Schwimmer	2018
Ocado	Tim Steiner	2000
Dechra Pharmaceuticals	Ian Page	1997
3i Group	Simon Borrows	2012
Smurfit Kappa	Anthony Smurfit	2015
Howden Joinery	Andrew Livingston	2018
Segro	David Sleath	2011

**Executive chairman since 2004.*

Table: Shares Magazine • Source: Company reports, Shares

Drabble is now chairman of packaging firm **DS Smith (SMDS)** and a non-executive director of fitted kitchen maker **Howden Joinery (HWDN)**, another firm which has generated a stellar return for shareholders over the past 10 years.

Not far behind Ashtead is the self-styled 'king of trainers', **JD Sports Fashion (JD.)**, with a total return of 1,730% since May 2012.

The Lancashire-based firm sells branded sports and casual wear, combining global brands such as Nike, Adidas, Puma and The North Face, with own brand labels such as Pink Soda and Supply & Demand.

It also sells products for outdoor lifestyle fans from a range of brands including Blacks, Millets, Ultimate Outdoors, Tiso, Go Outdoors, Go Fishing and Naylors.

Executive chairman Peter Cowgill has held the reins since 2004, but he joined the firm to keep the books in the mid-1980s when it was little more than a few local sports shops.

Barry Bown was CEO between 2000 and 2014 but Cowgill has since adopted both the CEO and chairman role.

Cowgill is currently embroiled in a row with the UK's Competition and Markets Authority, which last year decided the 2019 acquisition of Footasylum could harm consumers through lack of choice and ordered JD Sports to sell the business.

FTSE 100 stocks with the lowest 10-year total return

Company	10-year Total Return %	Market Cap £bn	Share price year to date (%)
Imperial Brands	22.5%	15.9	3.3%
Sainsbury's	21.0%	5.7	−12.1%
Vodafone	16.8%	36.7	15.5%
NatWest	8.9%	23.9	0.2%
Barclays	2.0%	25.0	−20.0%
Pearson	−1.3%	6.0	29.3%
Tesco	−3.6%	20.1	−8.9%
Fresnillo	−35.9%	5.8	−11.9%
Standard Chartered	−45.7%	15.7	17.2%
Rolls-Royce	−54.9%	8.0	−21.8%
FTSE 100	97.1%		1.6%

Table: Shares Magazine • Source: Sharepad, Shares. Data from 5 May 2012 to 21 April 2022 inclusive.

Were it not for the shares having lost more than a third since the start of 2022, investors' 10-year total returns might well have even eclipsed those of Ashtead.

Yet they still dwarf the returns of Sports Direct owner **Frasers (FRAS)**, whose ebullient chief executive and majority owner Mike Ashley once pledged to 'destroy' JD Sports.

In the event, Ashley's 'pile it high, sell it cheap' strategy has proved no match for Cowgill's strategy of making JD stores a 'smart destination' for those who can't give up their obsession with must-have sports footwear.

TIME BEFORE THE MAST

Looking at the rest of the top 10 FTSE 100 stocks ranked by 10-year returns, time spent in senior management does seem to be a factor.

Longest-serving FTSE 100 chief executives

Company	Chief Executive	Appointed
Dechra Pharmaceuticals	Ian Page	1997
Ocado	Tim Steiner	2000
Next	Simon Wolfson	2001
JD Sports Fashion	Peter Cowgill*	2004
Halma	Andrew Williams	2005
AB Foods	George Weston	2005
Taylor Wimpey	Pete Redfern**	2006
Berkeley Group	Rob Perrins	2009
RELX	Erik Engstrom	2009
DS Smith	Miles Roberts	2010

**Peter Cowgill is executive chairman. **Pete Redfern stepped down on 26 April to be replaced by Jennie Daly.*

Table: Shares Magazine • Source: Company reports, Shares

Tim Steiner, chief executive of online grocery delivery firm **Ocado (OCDO),** has been in the role since 2000 and has made shareholders eight times their money over the past decade.

Given Ocado has never paid a dividend this is quite a feat, and as with JD Sports were it not for a thumping loss year-to-date the total return would be even higher.

Ian Page, chief executive of veterinary drug maker **Dechra Pharmaceuticals (DPH)**, has steered the company since 1997 and has also generated almost an eight-fold return for investors.

Again, had Dechra shares not lost nearly 30% this year that return would look even more impressive.

3i (III) chief Simon Borrows may only have been in the top job for a decade, but in that time, shareholders have enjoyed a return of more than 750%.

Meanwhile, although he might seem like a newbie having only been chief executive since 2015, Anthony Smurfit of Irish-based packaging firm **Smurfit Kappa (SKG)** has been a director of the firm since 1989 and quite clearly knows the ropes.

David Sleath, chief executive of property group **Segro (SGRO)**, has been in the top job since 2011 but prior to that he was finance director for five years, so he also knows his way around the business.

NOTABLE EXCEPTIONS

Only three of the top 10 highest-return companies in our table have chief executives who have been in the job just a few years.

Global sports betting and gaming company **Entain (ENT)** has generated a 10-fold return for shareholders over the last 10 years, but sadly new chief executive Jette Nygaard-Andersen can't claim any of the credit having only stepped into the role last year.

The hard work started in 2012 when a revamped GVC teamed up with William Hill to buy Sportingbet, triggering a decade of deal-making which saw it acquire Bwin, Coral and Ladbrokes before establishing a joint venture in the US with MGM Resorts to cash in on the deregulation of gaming and sports betting. In 2020 GVC changed its name to Entain.

In contrast, Andrew Livingston, who took the reins at Howden Joinery in 2018 having previously run Screwfix Direct for five years, can be credited with having made a good fist of growing the business and shareholder returns over the past four years.

Similarly, David Schwimmer deserves praise for dragging **London Stock Exchange (LSEG)** into the 21st century thanks to his foresight in taking over clearing house LCH, buying a strategic stake in European settlements system Euroclear and acquiring data provider Refinitiv all in under four years.

KEY PERSON RISK

What happens when a long-standing chief executive who has done so much for shareholders during their tenure decides to step down?

We got a glimpse of the future when variety goods retailer **B&M European Value (BME)** announced on 22 April CEO Simon Arora would retire in 12 months' time.

B&M's shares dropped 7% on the news, although if we're being generous the announcement did coincide with a downbeat

UK retail sales report from the Office for National Statistics.

Despite Arora having led the firm for 17 years, the fact it only floated in 2014 meant we couldn't include it or him in our FTSE 100 survey, but the market reaction to the news is instructive nonetheless.

It may be no coincidence that the seasoned chief executive of a popular retailer, moreover one which might be expected to benefit as shoppers trade down in order to save money, is stepping away from the business as the UK faces its toughest cost-of-living squeeze in several decades.

We can't help but wonder what the reaction will be when Next's Simon Wolfson decides to up sticks, although there's no indication whatsoever that is about to happen.

Even Wolfson admits, however, the retail sector is in uncharted waters with inflation tearing up and incomes going down due to the removal of the energy price cap and the hike in National Insurance contributions.

In an interview with *Business Live*, the Next boss conceded his growth forecasts for this year were based on intuition rather than historical precedent.

'We don't have the history to give us a guide,' he cautioned. 'We've never seen anything like this. We don't know how it's going to pan out.'

WHO'S NEW IN THE HOT SEAT OF FTSE 100 COMPANIES FOR 2022?

This year has been relatively busy in terms of boardroom changes with several firms waving goodbye to their chief executive or chief financial officer.

Mining group **Anglo American (AAL)** welcomed insider Duncan Wanblad (*pictured*) as its replacement for long-serving chief executive Mark Cutifani. The latter is undoubtedly a tough act to follow but with 30 years of mining experience and an in-depth knowledge of Anglo American itself Wanblad is a shrewd choice.

Paul Venables, who has held the role of group finance director at recruitment specialist **Hays (HAS)** since 2006 and helped steer the firm through several cycles, is to step down at the end of September.

His successor James Hilton has been at the firm since 2008 and worked closely with Venables meaning the transition should be smooth.

Mike Wells, chief executive of insurer **Prudential (PRU)**, stepped down in March and is replaced on a temporary basis by finance director Mark FitzPatrick while the board conducts a search for a new CEO.

There were several more changes in March, the most high-profile being the arrival of Italian fashion house Gianni Versace's former chief executive Jonathan Akeroyd to head up UK firm **Burberry (BRBY)** after the departure of Marco Gobbetti.

Earlier in his career, Akeroyd was chief executive of British fashion brand Alexander McQueen and is credited with stopping its slide into obscurity and then leading its global expansion.

Elsewhere, medical devices form **Smith & Nephew (SN.)** announced chief executive Roland Diggelmann was leaving, to be replaced by former Abbott Labs and Siemens Healthineers executive Deepak Nath.

Asset manager **M&G (MNG)** said in April its chief executive John Foley would retire. He's been the boss since 2015 and oversaw the merger of Prudential UK and M&G Investments in 2017 and the demerger of M&G from the broader Prudential group in 2019.

Recent research by recruitment firm Robert Half International found 68% of FTSE 100 chief executives were recruited internally compared with just 46% before the pandemic, suggesting firms are getting better at managing the issue of succession planning.

How to get to net zero in real estate investment

By Nick Montgomery, Schroder Real Estate Investment Trust and Jeff O'Dwyer, Schroder European Real Estate Investment Trust

We know a drastic fall in carbon emissions from the built environment is essential to save the planet. Even so, real solutions - let alone action - remain elusive. It's time to work out how it can be done.

Writing a tune is worth little if no one sings it. The Paris Agreement was met with great acclaim when signed in 2015. It set a target of a net carbon-neutral world by 2050, with a 45% cut in emissions by 2030 needed to limit global warming to 1.5C.

The harsh reality is that too little has changed in the intervening years, as the recent 26th Conference of Parties (COP) unfortunately confirmed. The Covid-19 pandemic – with its consequent shuttering of entire economies – put a dent in global carbon emissions that stoked optimism. Although it's good to see that the pandemic is turning endemic, sadly the reduction in emissions has faded.

Practical and coordinated steps towards improvement have been slow in coming. At a recent industry event we still heard the following quote from a significant market participant: "It is a balancing act. You want to stay harmonised with the market, you don't want to get ahead of the grid". This was in response to a question about investing in solutions and implementing measures to move to net zero. If the whole market continues to think this way, our industry, accounting for nearly 40% of carbon emissions, will not change – yet the environment around us will.

Putting the transition into perspective

Real estate needs to achieve both net zero operational carbon by 2030 and net zero embodied carbon by 2050.

To effectively transition according to the above standards, in time, the real estate industry has to meet some significant hurdles. 40% of buildings and 75% of infrastructure that are predicted to exist in 2050 have yet to be built. These new buildings will need to be net zero carbon across their lifecycle.

This includes embodied carbon – the emissions generated in creating building materials – which must be reduced by at least 40% by 2030 , with leading projects achieving at least 50% reductions. By 2030, 100% of new buildings must be net-zero carbon in operation. But it means much more. 80% of today's (European) building stock will still be here in 2050. As such, retrofitting every one of those assets to be energy efficient must either be complete or, at the very least, well underway by 2030 to be able to meet these targets.

Unity and practicality; how to get to net zero

2015's COP21 saw over 190 countries agree on climate action, but COP 26 concluded that the interpretation of the actual requirements

supporting this agreement has been widespread. As result, the varying government guidelines and industry standards put in place are not yet fully aligned, and worse, will not lead to a net zero outcome in time to keep the temperature rise below 1.5C. More coordinated and focused action is needed, also including emerging markets, home to 85% of the world's population, with forecasts of steep economic and population growth, and starkly different developmental states.

Perhaps the biggest finding was that in our industry, the focus has been more on data gathering and theoretical energy labels rather than on in-use emission reductions. Of course, reduction cannot be achieved without first measuring, but being awarded full marks or green stars for reporting only, could lull our industry into a false sense of security.

Actual emissions, including also those of the tenants – in use – can only be reduced through action targeting the total building, its operations and waste. This approach relies heavily on cooperation between the end investor, manager and tenant.

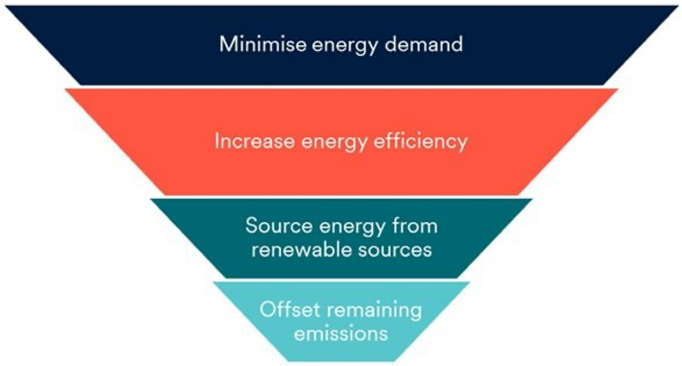
What does this involve?

Operational carbon emission can be reduced via energy efficiency measures with metering, installing LED lighting, optimisation of building management systems (BMS), upgrades to heating and ventilation systems and measuring output in close collaboration between tenant, property manager, owner and investor.

Embodied carbon reduction requires carbon analysis of the whole value chain of a building delivery from design, building materials, construction methods and delivery, through to the commissioned operational building. Such an approach should reward value and carbon engineering for the lifecycle of a building.

To achieve this, mindsets must adjust permanently, to "renovate, not replace" and buildings must be designed for the real world; for "in use", not "in theory".

The energy reduction pathway: a hierarchy of action



Source: Schroders, illustration only

Carbon needs to become a key factor in appraisals, alongside financial analysis. Profit needs to be considered after environmental impact, and using a clear carbon price as a proxy at least, can address this. Although the industry generally agrees that buying offsets is not the best way to achieve net zero for real estate portfolios, the reasons why this method is generally dismissed are not valid in our view.

It is argued that it is not economically viable to buy offsets to reduce to zero as it would hurt financial returns. However, this is missing the point: the costs of carbon emissions are effectively already there. That is to say, the time-discounted cost of forecast climate change disruption for our industry is enormous. One cannot assume that wider society or even the industry itself will accept the industry to "free ride" on these future costs indefinitely.

These implicit emission costs should be taken into account in the underwriting of assets now. This can ensure the right investment decisions can be taken and assets are readied for long-term future sustainable (financial) performance.

A decent proxy for these implicit costs related to carbon emission embedded in real estate portfolios, can be the price at which voluntary carbon offsets are trading on the market. Our research has concluded that capitalising the (implicit) carbon costs (at offset pricing) is a very good proxy for the capex that is required to be invested to actually reduce the carbon emissions (landlord controlled) by c.70%. We have included an example below.

Here's a real world example

Our sustainability strategy includes a net zero commitment made in 2019 and we are working with an ambitious focus on reductions in CO2 emissions. We have taken one of our mandates, situated in and exposed to German real estate (principally

office) with an income target of between 4.5-5% as an example.

In the "baseline" year, total operational carbon emissions were c.7,000 tonnes (t) per year. Green electricity contracts had not been achieved and this figure excludes specific tenant consumption to focus purely on the building output. Initial energy audits have been carried out for the majority of the assets, allowing us to set realistic targets and project costs.

- An initial reduction of 500t – in the short-term – is achievable through asset efficiency measurements
- The procurement of green electricity drops emissions by 3,800t
- From there, we can secure district heating, of which c. 40% can be renewable energy sourced
- Remaining emissions could further be addressed - by around 5-10% - by introducing on-site renewable energy, to leave a residual footprint of an estimated 2,000t.

The forecast investment (capex) to effect these reductions amount to c.€12m. Interestingly, we have established that this investment to reduce actual emissions in the portfolio - by more than 70% from 7,000t to 2,000t - is similar to the costs of buying carbon credits for 70% of the actual carbon emissions on the voluntary carbon market. Moreover, the energy costs of the building reduce ultimately benefitting the operational costs of the tenants and together with a better carbon footprint, constitutes material value that a tenant is willing to pay for.

The environment will charge us one way or another

The industry needs to move away from "let's not get ahead of the grid". We have an opportunity to self regulate to the right outcome for all stakeholders, incentivise our asset managers beyond short-term profits and in favour of long-term relevance and performance.

This little known investment trust has turned £5 million into £740 million

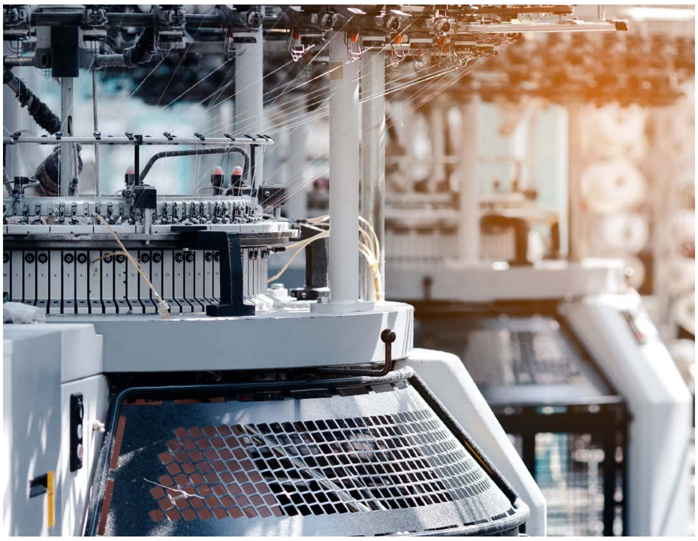
North Atlantic Smaller Companies shows you can profit from 'boring' businesses

Despite having generated more than three times the return of the FTSE All-Share index over the past 10 years (304% versus 100% respectively), **North Atlantic Smaller Companies Investment Trust (NAS)** remains under the radar of most investors.

Those already owning the shares are rarely willing sellers, says manager Christopher Mills. 'A lot of our shareholders have been with us forever. We started with less than £5 million and the trust's assets are now worth more than £740 million.' Launched in 1973, the trust has been run by Mills since 1982.

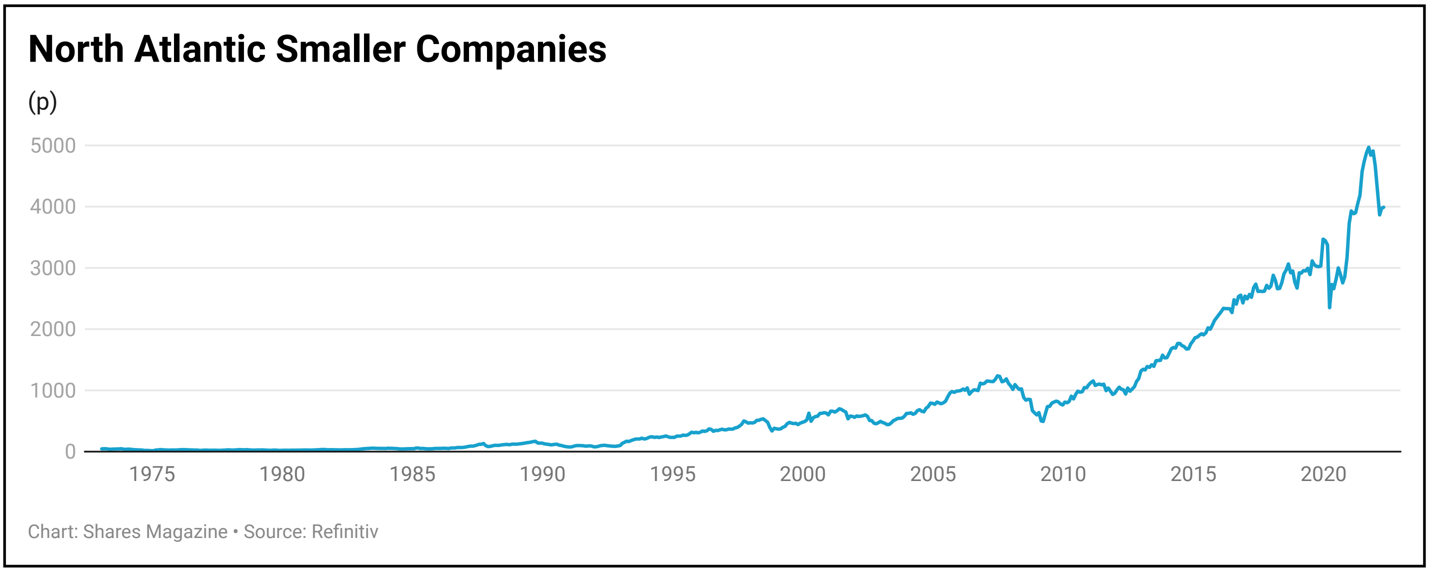
Mills has historically shied away from publicity, preferring to focus on the job in hand rather than regularly market the trust. A reversal of fortune for the share price since November 2021 appears to have prompted a change in strategy, with the manager and founder of Harwood Capital now eager to get the word out.

Given that Mills personally has £145 million invested in North Atlantic Smaller Companies based on his 27.57% stake, it's easy to see why he is taking the time to explain what the trust does and how it's been a success on a longer-term basis.



Shares in the trust have fallen by 23% since November 2021 for two reasons. First, small caps in general have suffered as inflationary pressures increased and concerns have grown over a potentially weaker economic outlook.

Second, investors have become worried about the prospects for several companies in North Atlantic Smaller Companies' portfolio in the belief



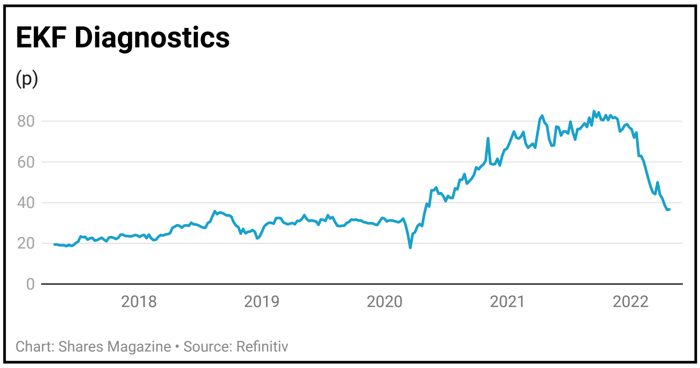
that Covid-related benefits will not be repeated. For example, shares in portfolio holding **EKF Diagnostics (EKF:AIM)** have more than halved in value over the past six months. The fact EKF continues to have exposure to Russia has also weighed on its share price.

'People have forgotten there is a real business in EKF,' says Mills. 'We'll do £16 million of EBITDA (earnings before interest, tax, depreciation and amortisation) this year and we expect to grow EBITDA – with no revenue from Covid – to £25 million within three years. It's crazy. Diagnostics businesses don't trade on six times EBITDA, they trade on 12 to 15-times.'

BUSINESS OWNER APPROACH

Mills talks about the companies in his portfolio as if he was an owner rather than simply an investor, hence the use of the pronoun 'we' rather than 'they' or 'it'. His passion about the companies in the portfolio reflects the investment trust's approach.

'You should think of us as an industrial holding company. We buy good businesses, invest in them and grow them. We don't put a lot of debt in our deals, so we have to buy them cheap to make it



NORTH ATLANTIC'S INVESTMENTS IN PRIVATELY-OWNED COMPANIES

Current unquoted investments in the trust's portfolio include WaterBox which sells water in paperboard cartons, tapping into demand from large corporations who want to stop using plastic bottles. While there is nothing revolutionary about its packaging, Mills says the real excitement lies in what's written on the side of the box.

'WaterBox is really a media company,' he explains. 'Its clients include Ferrari, Nike, Calvin Klein, airlines and hotel companies and they want their branding splashed on the side of the box. It's virtue signalling on a monumental scale.

'Anyone can produce a similar box but WaterBox stands apart from the crowd because it can do very short production runs. It did $10 million EBITDA on $18 million of sales last year and has no debt.' There is talk of WaterBox considering a listing on the London Stock Exchange.

Another unquoted investment is 3BL Media which is a digital marketing software subscription business helping large corporations to communicate their ESG initiatives to stakeholders. Clients include **Alibaba (BABA:NYSE)**, **Mondelez (MDLZ:NASDAQ)** and **Procter & Gamble (PG:NYSE)**.

'We bought 3BL for six times EBITDA and the business is growing at 25% a year,' says Mills. It secured the deal at a bargain price for an interesting reason. 'The man who owned it decided to go into politics in California. He was then found guilty of bribing people and is now serving seven years in prison.

'The management team said, "We can't be owned by a convicted criminal given we are in the ESG business", so they forced him to sell and that's how we got it.'

work. We then get a multiple uplift (the business is valued on a higher multiple of earnings) when we get it to a certain size,' explains the fund manager.

The portfolio contains three different types of investments. First, there are direct equity investments which are principally small cap companies on the UK stock market. Current holdings include asset manager **Polar Capital (POLR:AIM)** and housebuilder **MJ Gleeson (GLE)**.

Second, it has stakes in investment trusts **Oryx International (OIG)** and **Odyssean (OIT)**, both of which are managed by Mills' Harwood Capital group.

Finally, North Atlantic Smaller Companies is the way for retail investors to get exposure to Harwood Capital's private equity investments as the portfolio invests in three of its private equity funds.

While the trust's investment strategy is to look at companies on both sides of the Atlantic, the US investments currently in the portfolio are concentrated on unquoted companies rather than listed ones.

FINDING OPPORTUNITIES

Last September, Mills wrote in the trust's half-year results that it was becoming harder to find quoted equities which are 'fundamentally undervalued'. General stock market weakness so far in 2022 may now present some new opportunities for the trust.

Given it is sitting on a large sum of cash, according to the fund manager, there is certainly the ability to make new investments. That cash pile might grow even further thanks to expectations for selling various investments over the coming year, either because of takeovers or companies having delivered gains where it is worth the investor taking profits.

"We do really boring deals. We buy things at a discount to what we think is the real value of the business."

Christopher Mills

The downside of market weakness is that good news coming out of some existing investments has yet to translate into a significantly higher share price. This includes tenpin bowling operator **Ten Entertainment (TEG)** which is only up 1.4% year-

to-date despite reporting like-for-like sales growth ahead of pre-Covid levels and expectations to deliver a record year of profitability in 2022 and a result ahead of market forecasts at the time of the announcement on 29 March.

Shares in many consumer-facing companies are being depressed by market concerns about a slowdown in spending on discretionary items like clothing and leisure activities.

Mills was behind the team which changed the management on Ten Entertainment when it was previously called Essenden, then built up the company and took it private. 'We then built it up some more, took it public again and as the business was flying, we started to sell down. Covid hit and caused disruption but it's now unbelievably good. The stock is ludicrously cheap on five times EBITDA.'

FINE TUNING

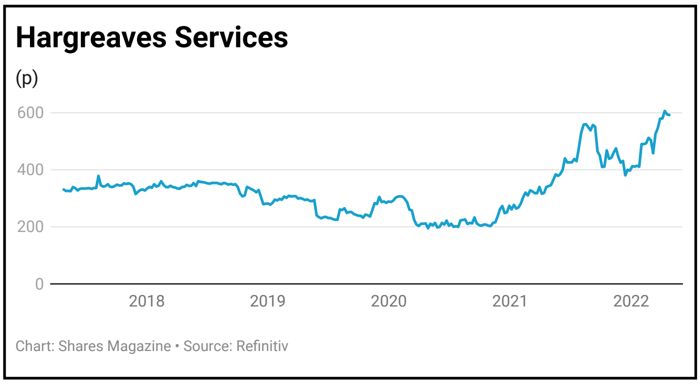
To the outside investor, North Atlantic Smaller Companies may seem to have a few challenges ahead, yet its investment style is akin to a car workshop and patience can yield rewards as illustrated by its superior long-term performance record.

It finds corporate vehicles which need fixing or fine tuning. During the maintenance stage there might be misfires or parts that need replacing but once things are running smoothly, the 'vehicle' or business can then accelerate, and this uplift is the end goal.

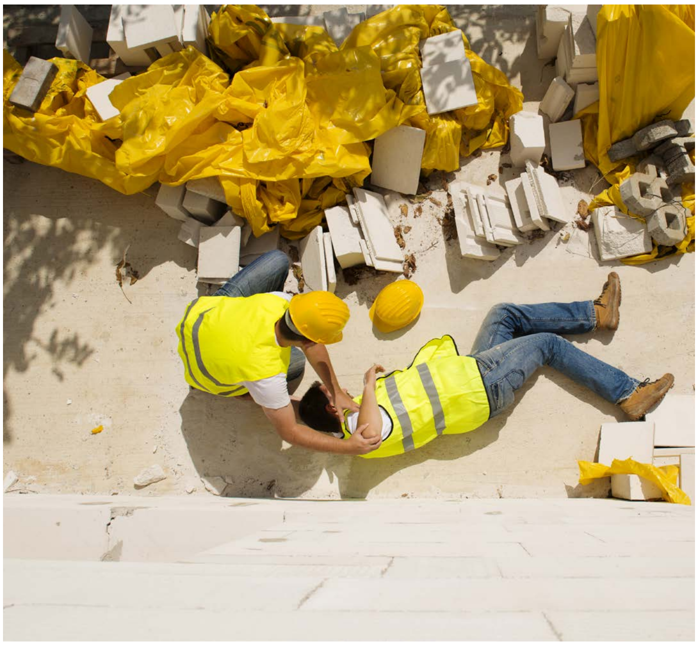
The investment trust recently hit the big time after helping to fix waste expert Augean which subsequently received a takeover offer.

Current investee company **Hargreaves Services (HSP:AIM)** also seems to have found a higher gear after suffering a few flat tyres over the years. Its share price is up 45% year to date.

Sometimes it can take years to complete the



repair work and that could be the case with **Frenkel Topping (FEN:AIM)** where Mills is helping to drive a grand plan to turn the independent financial adviser into a full-service business for personal injury and clinical negligence claims. The company is 18 months into a growth plan that could take another four or five years to complete, he comments.



Ultimately someone buying shares in North Atlantic Smaller Companies should not expect it to invest in high growth tech firms or 'story stocks' where their products or services are the latest craze.

'I'm a very conservative investor,' says Mills. 'We do really boring deals. We simply buy things at a discount to what we think is the real value of the business.'

Once an investment is made, Mills and his team are very hands-on, often taking a seat on the board of directors of investee companies so as to help drive strategic change.

Given the trust has a track record of making good money including more than 10 times its investment with Augean over a four-year period, you know Mills and his team are clever people. On this basis, it appears that patience with an array of less glamourous companies can pay off over time.

By **Daniel Coatsworth** Editor

ADVERTISING PROMOTION

Fidelity European Trust PLC
An AJ Bell Select List Investment Trust

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

Aiming to capture the diversity of Europe across a range of countries and sectors, this Trust looks beyond the noise of market sentiment and concentrates on the real-life progress of European businesses. It researches and selects stocks that can grow their dividends consistently, irrespective of the economic environment.

Holding a steady course throughout market cycles

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

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

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

This approach has stood us in good stead for three decades and remains the right approach for the long term.

To find out more visit www.fidelity.co.uk/europe

AJBell Awards 2021 EUROPEAN EQUITY - ACTIVE

Kepler GROWTH RATING

Past performance

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

Past performance is not a reliable indicator of future returns

Source: Morningstar as at 28.02.2022, bid-bid, net income reinvested. ©2022 Morningstar Inc. All rights reserved. The FTSE World Europe ex-UK Total Return Index is a comparative index of the investment trust. • Created with Datawrapper

Important information

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

The latest annual reports, key information documents (KID) and factsheets can be obtained from our website at www.fidelity.co.uk/its or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. The Alternative Investment Fund Manager (AIFM) of Fidelity Investment Trusts is FIL Investment Services (UK) Limited. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0322/370478/ISSCSO00066/NA

RUSS MOULD
AJ Bell Investment Director

Japan shock: Why the yen's plunge really matters

The currency has fallen to a 20-year low against the US dollar

In 2013, Kyle Bass, the Texas-based founder and manager of hedge fund Hayman Capital, gave an interview in which he tersely stated, 'I would buy gold in yen and go to sleep for 10 years.'

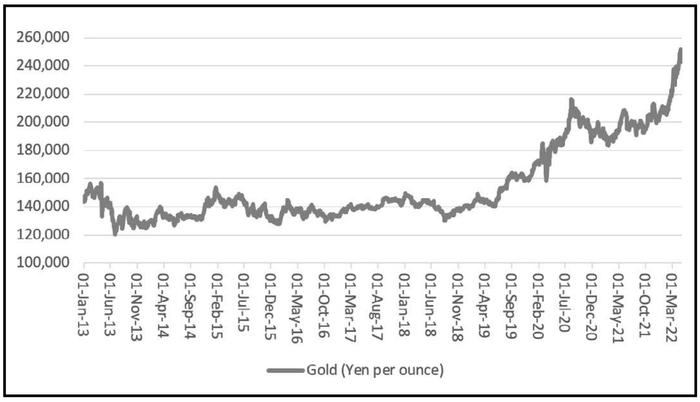
The case for short yen/long gold was based upon the tattered state of Japan's public finances, the country's weak demographics and how the Bank of Japan had got itself into a trap. Any attempt by the central bank to tighten monetary policy would only lead to an economic slowdown and – in turn – lower interest rates and more money creation via quantitative easing.

Bass also asserted it was too early to invest in Japan. That may not have worked out so well, since the Nikkei 225 index is up by around 150% since the start of 2013, although such returns still lag the headline US indices, in local currency terms.

More intriguingly still, the hedge fund manager's thesis on the yen and gold has started to play out quite spectacularly. Gold did nothing in yen terms for six years, but it advanced by 70% in the next three years (or, in other words, the yen lost 70% of its value relative to gold over that period).

The questions to ask now are 1) Why has the yen suddenly started to break down? and 2) Are there any lessons that investors can draw for Western markets?

The gold price is surging (in yen)



Source: Refinitiv data

LAND OF THE SINKING CURRENCY

It is possible the time it took the gold/yen trade to play out tested the patience of even the most committed portfolio builder. But Tokyo's main index has started to lose momentum as the Bank of Japan has debated tighter monetary policy and prime minister Fumio Kishida has moved away from the 'Abenomics' policy of his predecessor, Shinzo Abe.

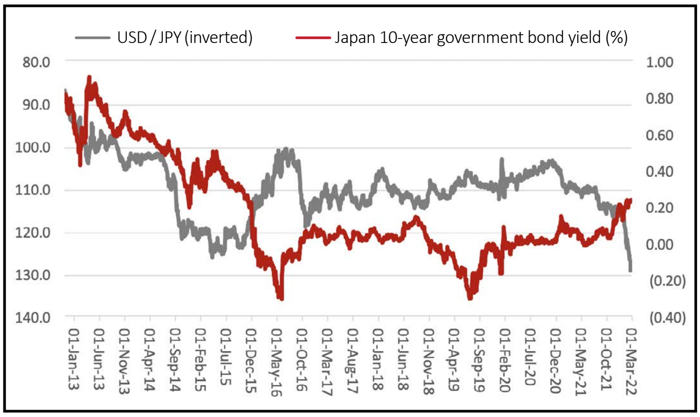
Moreover, Japan's currency has started to tank, even as Japanese government bond yields have started to rise. The yen has fallen to ¥128 to the dollar, a mark last seen in 2002.

That seems slightly counter-intuitive as normally higher yields would attract more capital. But Japanese government bond yields are rising more slowly than they are in the US, where the US Federal Reserve is talking a much tougher game. As a result, the dollar is attracting capital and the yen is plunging.

In Washington, Federal Reserve chair Jay Powell

RUSS MOULD
AJ Bell Investment Director

The yen is tanking against the dollar



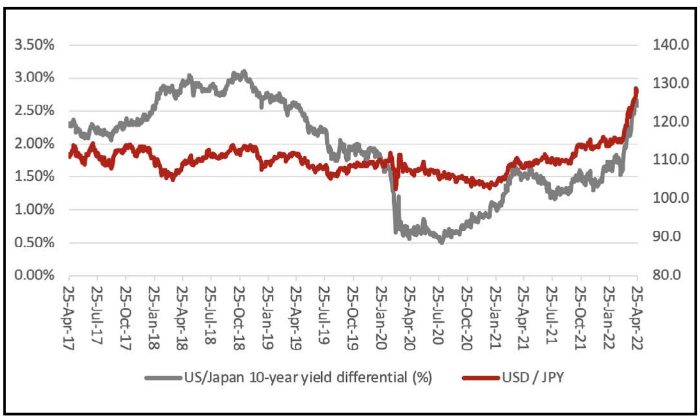
Source: Refinitiv data

is talking about inflation more than anything else right now. Markets are listening and pricing in an 80% chance of a 3% Fed Funds rate by the end of 2022. The prospect of a second American attempt at quantitative tightening and a withdrawal of quantitative easing is also upon us.

In Tokyo, inflation may stand at a 42-month high, but the headline rate is still only 1.2%, below both the Bank of Japan's 2% target and miles below the prevailing 8.5% headline rate in the US.

As a result, Bank of Japan governor Haruhiko Kuroda is still in no rush to raise the headline base rate from -0.1% and remains committed to a policy of qualitative and quantitative easing with yield curve control, whereby it will permit 10-year Japanese government bond yields to move up or down by 25 basis points (0.25%) from its 0% target.

US Treasury yields are rising faster than Japanese government bond yields



Source: Refinitiv data

COLLISION COURSE

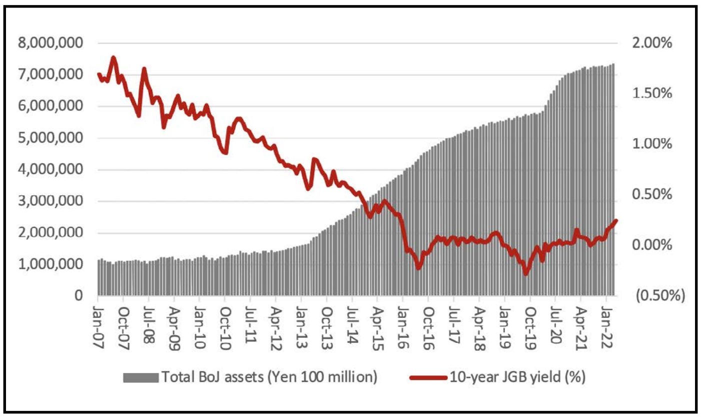
The result is the Bank of Japan has a balance sheet that exceeds 100% of GDP. But despite all that effort, inflation is stubbornly below target and, worse, the 10-year Japanese government bond yield is approaching 0.25%, to perhaps set the Bank of Japan and bond market vigilantes on a collision course.

This potential contest is one that all Western central banks will be watching. The Bank of Japan is yet to pull the trigger on rate rises or quantitative tightening and already the bond market is moving ahead of it, amid fears of inflation.

The currency market is perhaps taking the view any tightening of policy will not last long, in keeping with prior attempts in Japan and the US between 2017 and 2019, as the Japanese economy slows and financial markets wobble, to force a rapid backtracking on quantitative tightening and interest rates.

Meanwhile gold bugs lurk, awaiting their moment. The Bank of Japan and the yen may be test cases for the view that central banks are in a corner of their own making after more than a decade of experimental policy. Either tighten to tackle inflation and indebted economies and leveraged financial markets turn turtle or do nothing and see inflation do the damage instead.

Japan's balance sheet continues to grow

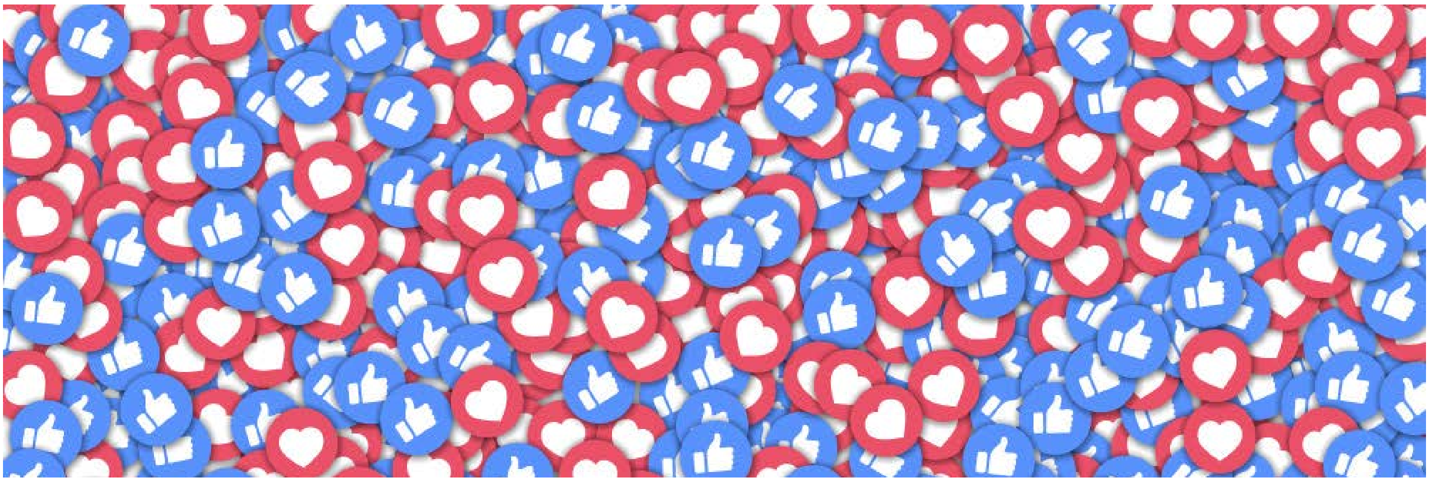


Source: Bank of Japan, FRED – St. Louis Federal Reserve database


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
Capital at risk.
Pension rules apply.
Recommended Provider Which? Investment Platforms May 2020
Recommended Provider Which? Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020

The challenges now facing the big digital advertising players Google and Facebook

A wider slowdown in marketing spend and questions over the effectiveness of online advertisements are material headwinds



Digital advertising experienced a meteoric rise during the Covid pandemic as consumers spent more time online.

Advertisers increasingly reallocated their finite resources away from print and television advertising towards digital.

This was partly because digital advertising appeared to be more financially appealing and also because it promised advertisers the ability to target the right audiences more effectively.

Google-owner **Alphabet (GOOG:NASDAQ)** and Facebook-owner **Meta Platforms (FB:NASDAQ)** are the two key beneficiaries of this expansion in digital advertising and both have become increasingly dependent on it as a source of revenue and profit.

Google and Facebook are expected to grab 29% and 21.4% respectively of the $600 billion global online advertising market in 2022.

More than 80% of Alphabet's revenue comes from Google advertising. No-one is forecasting this revenue will dry up significantly in the short-term. However, investors should be aware of risks which the company may have to overcome if it is to maintain its leading position in the global advertising ecosystem.

A CHALLENGING BACKDROP

First, given the rapidly deteriorating economic environment advertising budgets are likely to slow.

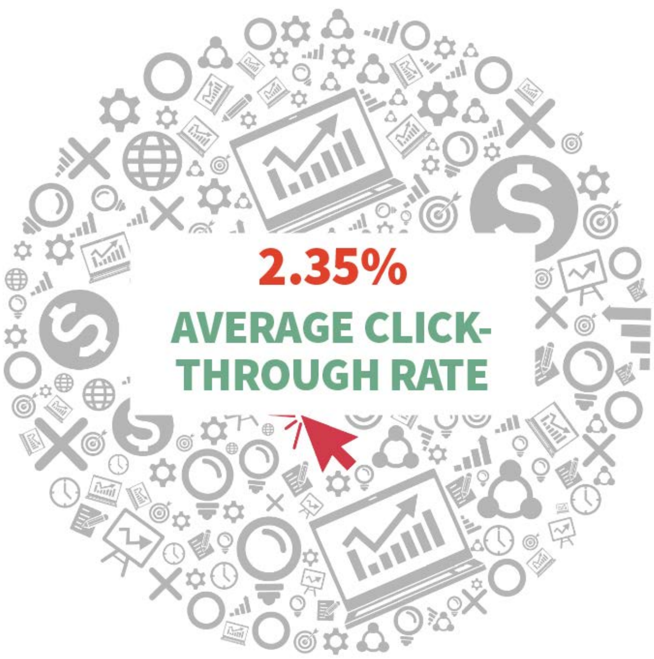
Second, the ability of display advertising to effectively target consumers has been drawn into question given the huge prevalence of fraud, including click farms and automated bots. In addition Google and Facebook will have to contend with new European regulations including the Digital Services Act, which limits how digital giants can target users with online advertisements.

The resurgence in inflation is putting household finances under pressure and will reduce people's ability to spend on discretionary goods.

The tentative indications of an advertising slowdown were apparent in Alphabet's recently reported first quarter sales figure of $68 billion.

This was (just) below the average estimate of $68.1 billion, and represented its first miss since the fourth quarter of 2019.

Google's revenue growth has slowed from 34% in the first quarter of 2021, when the company was reopening from the pandemic, to a current figure of 23%.



The main factor behind the weakness in the reported figures was YouTube advertising sales.

DOES DIGITAL ADVERTISING WORK?

According to marketing outfit WordStream's analysis of $3 billion in annual advertising expenditure, the average click-through rate (the number of clicks that your advertisement receives divided by the number of times your advertisement is shown) is 2.35%.

In his book entitled *Subprime Attention Crisis: Advertising and the Time Bomb at the Heart of the Internet,* Tim Hwang maintains that many of the promises about online advertising are flawed.

Hwang highlights the decline in the efficacy of the click-through rate in advertising. Originally in the mid-1990s when the first banner advertisements appeared online the click through rate was almost 50%, one in two people.

Now it is extremely unusual to see a banner advertisement that does better than 0.3% or 0.4%. This suggests there has been a 100-fold decline in the impact of display advertising over a few decades.

CLICK FARMS

A study by the World Federation of Advertising and The Advertising Fraud Council has highlighted the pervasive nature of fraud in digital advertising. The key finding of the report was that 88% of digital advertising clicks are fake.

This is partly due to click farms that are specifically designed to generate internet traffic, and are easily available for hire through resellers on the internet.

Research from click fraud prevention specialist ClickCease revealed the big paid-to-click industry paid out over $13 million to remote workers in 2020.

According to their findings, many of these workers are making approximately $10 a day from hundreds of clicks indicating that remote click farms generate a huge volume of fake clicks of paid advertisements.

Bots are another cause of fraud in digital advertising. These traffic bots are designed to simulate traffic from a live human to trick businesses into thinking their advertisements are getting impressions.

Quoted in a recent article on marketing cyber security platform CHEQ's website, independent advertising fraud investigator Augustine Fou said: 'Traffic vendors can sell you all kinds of traffic and you can even select the quality level. Higher quality means the bots work harder and fake more things (like mouse movements, page scrolling and clicks).' The implications for advertisers are clear.

In the same article Seif Khemaissia, group director at Innocean Worldwide Canada, observed: 'Somebody would have a huge surge on a day that we launched a campaign and everybody's patting themselves on the back, saying "Hey we did a really good campaign. We ran all of these leads".

'But when those leads come in and you find out that they are all fake, it disrupts the entire reporting system.'

Even advertisements that succeed in circumventing click farms and bots are not likely to be viewed by the people that advertisers are targeting.

A study by MIT professor Catherine Tucker revealed that targeting something as basic as gender was unsuccessful more than half the time. Moreover a Nielsen analysis of a household-income adjusted advertising campaign found that only 25% of its advertisements were reaching the targeted households.

A MORE AGGRESSIVE REGULATOR

On 23 April the European Parliament and EU member states agreed on new legislation limiting how companies like Google and Facebook can target users with online advertisements.

The Digital Services Act will effectively prohibit Google and Facebook from applying algorithms using data based on gender, race and religion to acquire new customers.

The legislation also incorporates new measures to ensure technology giants become more transparent about the nature of algorithms they use to recommend content to clients.

From a financial perspective the new legislation has teeth, and failure to comply with the rules can result in a fine of up to 6% of a company's global annual revenue.

To put this into perspective, Facebook's parent company could potentially face a penalty as high as $7 billion based on 2021 sales figures.

REASSESSING DIGITAL ADVERTISING

In a 2021 Forbes article entitled *When Big Brands Stopped Spending on Digital Ads, Nothing Happened. Why?* Augustine Fou revealed that when **Procter & Gamble (PG:NYSE)** turned off $200 million of its digital advertising expenditure, it didn't experience a downturn in sales.

Similarly, when retail bank Chase reduced its programmatic reach from 400,000 sites showing its advertisements to 5,000 there was no change in the level of business.

Ride hailing app **Uber (UBER:NYSE)** is another example. It cut $120 million from its digital advertising expenditure that was intended to drive more app installs. Yet it saw no change in the rate of installs.

It is far too early to talk about the demise of digital advertising. However, in an increasingly challenging economic environment advertisers may become more discerning about how they allocate their advertising budgets.

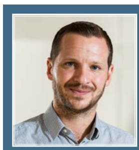
This could even play into the hands of the likes of Alphabet and Meta, assuming they can demonstrate they offer a higher quality and more reliable form of digital advertising than the competition.

By **Mark Gardner** Senior Reporter

Is my employer playing tricks with my pension?

A reader wants to know why the sums don't add up with retirement savings

I'm being automatically enrolled into a workplace pension scheme and was told this would be 8% of my salary. However, I've just done the sums and my contribution works out less than this – can this possibly be right? I also have a friend who hasn't been auto-enrolled at all. Are we being shafted by our employer?
Spencer



Tom Selby, AJ Bell Head of Retirement Policy says:

Under auto-enrolment rules, all employers, regardless of size, are required to enrol staff in a pension scheme and pay a minimum level of contributions.

The reason for the reforms was simple – millions of people weren't saving for retirement. While lots of organisations had a pension scheme, this wasn't a legal requirement. Even where there was a scheme, plenty of employees simply didn't join.

Auto-enrolment was first introduced in 2012 for the UK's largest employers, with medium and smaller employers brought in and contributions scaled up until 2019.

AM I BEING SHAFTED?

While I cannot rule out the possibility your employer isn't playing by the rules, the answer is likely a lot simpler.

Under auto-enrolment legislation, employees are required to contribute a minimum of 4% and employers 3%, with a further 1% coming via basic-rate tax relief – taking the total to 8%. Employees have the option to opt out of the scheme if they want to, although they miss out on the employer contribution if they do.

However, the minimum requirement is 8% of 'band earnings' rather than 8% of total earnings. For 2022/23, the earnings that qualify for minimum auto-enrolment contributions are those between £6,240 (the lower earnings limit for National Insurance contributions) and £50,270 (the upper earnings limit).

Take, for example, someone earning £20,000 a year. If their 8% contribution was based on their total earnings, they would expect £1,600 in total to go into their pension during the 2022/23 tax year.

But if the contribution is based on band earnings, then it will be 8% of (£20,000 - £6,240), which is £1,100.80.

WHAT ABOUT MY FRIEND?

There are various legitimate reasons your friend might not have been auto-enrolled.

If they are under 22 years old or over state pension age (66) then they will not qualify for auto-enrolment, although they have the option to opt-in.

If they have earnings below £10,000 (the auto-enrolment earnings 'trigger') they also will not qualify for auto-enrolment, although again they have the option to opt-in if they want to.

Furthermore, employers have the option of not auto-enrolling new joiners for the first three months of their employment.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

How different versions of the same fund get taxed

The accumulation and income classes of investment products are treated differently by HMRC

Many funds have two different versions and picking the right one can have a big impact on your investment returns but also on your tax situation. Here we'll explain everything you need to know about how tax works on 'Inc' and 'Acc' units.

WHAT'S THE DIFFERENCE BETWEEN INC AND ACC?

Funds that generate an income will usually have two versions. The fund name will be exactly the same but one version will be followed by Inc (standing for income) and the other by Acc (standing for accumulation).

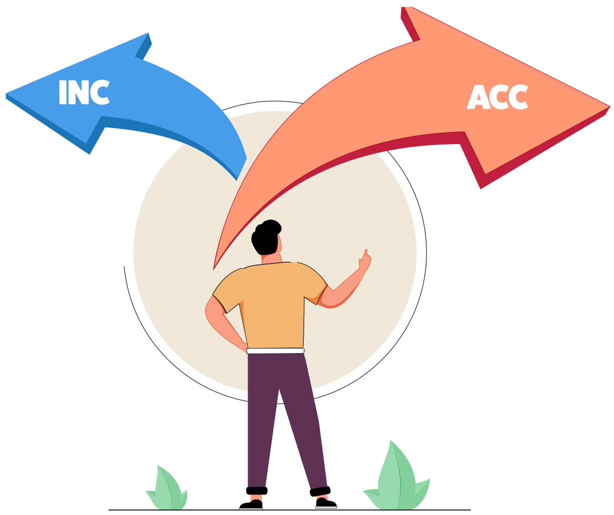
Put simply, the income version means that any income generated by the fund is paid out to the investor, while the accumulation version sees that income reinvested back into the fund. Typically you'd buy the income version if you wanted to live on the income generated by the fund, while you'd buy the accumulation version if you didn't need that income straight away.

HOW DOES THE TAX WORK ON THE INCOME UNITS?

If you own the fund through a pension or ISA then you don't need to worry about the tax implications for either unit, as any income will be tax free, as will any capital gains. However, if you own it through a general dealing account you won't get those tax benefits.

For the income unit you'll pay tax on the income that's paid out to you – which will either be paid as interest or dividend income depending on the fund you're investing in and the asset classes it invests in.

If it's counted as dividend income then it will go towards your £2,000 dividend tax free allowance, along with any other dividend income you earn. If



you exceed that allowance then you'll be subject to dividend tax, which is now 8.75% for a basic-rate taxpayer, 33.75% for higher-rate taxpayers and 39.35% for additional-rate taxpayers.

So, if you got a £3,000 dividend payout from a fund (and had no other dividend income that tax year) a basic-rate payer would face an £87.50 tax bill, a higher-rate payer would pay £337.50 and additional-rate payer would have a £393.50 tax bill.

However, if the income is counted as interest then the money will count towards your personal savings allowance. This is a tax break given to many taxpayers and includes any savings interest generated. Basic-rate taxpayers can earn £1,000 in interest a year before they have to pay tax, while higher-rate taxpayers can earn £500 a year. Additional-rate taxpayers have no allowance. If the interest paid out by your fund exceeds this allowance you'll have to pay your usual rate of income tax on the interest.

HOW DOES THE TAX WORK ON THE ACC UNITS?

Even though the income isn't physically paid out with an accumulation unit, it's treated in much the same way as with income units. The income that's rolled up into the fund is called a 'notional distribution' and is taxed in the same way as the income units.

Your platform will usually keep track of these notional distributions and will helpfully give you a summary of them at the end of the tax year, which you can then use on your tax return. You'll just need to do the same process as above, setting it against the relevant tax-free limit depending on whether it's paid out as income or interest.

WHAT ABOUT CAPITAL GAINS TAX ON BOTH OF THOSE UNITS?

Calculating the capital gains on the income unit is far simpler, because the income has been paid out. It means that you just need to deduct the amount you paid for the investment from the amount you're selling it for and then work out if capital gains tax is due. Everyone can make £12,300 of gains in the current tax year before they have to pay CGT, but after that basic-rate taxpayers will pay 10% and higher and additional-rate payers will pay 20%.

With accumulation units the calculation is a bit trickier. You can't simply subtract the amount you paid for the investment from the final value, as that would mean you're counting the 'notional distribution' that you may have already paid tax on.

Instead, you need to add up any notional distribution paid out over the years and subtract that from the final value, along with the purchase price, to get your total gain.

For example, if you buy a fund for £10,000 and received £2,000 of notional income during the time you owned it in the accumulation unit, and then sell it for £20,000 you'll only have a capital gain of £8,000 (the £20,000 sale price minus the £10,000 initial investment and the £2,000 income).

By **Laura Suter**
AJ Bell Head of Personal Finance

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
6 May: CMO. **10 May:** FD Technologies, Trellus Health. **11 May:** Airtel Africa, Anexo, Angling Direct, Mirriad Advertising, Vertu Motors. **12 May:** BT

Half-year results
6 May: Numis. **10 May:** Treatt. **11 May:** Brewin Dolphin, Compass, Ten Lifestyle. **12 May:** Grainger, Titon. **13 May:** Sage

Trading updates
6 May: Beazley, Ted Baker. **9 May:** Kosmos Energy. **11 May:** Condit, Renishaw, Spirax-Sarco Engineering. **12 May:** Balfour Beatty, Hargreaves Lansdown, Seraphim Space Investment Trust. **13 May:** Contour Global.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

EDUCATION EDITOR Martin Gamble @Chilligg

CONTRIBUTORS Danni Hewson, Laith Khalaf, Russ Mould, Tom Selby, Laura Suter

SENIOR REPORTER: Mark Gardner

COMPANIES EDITOR Ian Conway @SharesMagIan

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

Website: sharesmagazine.co.uk
Twitter: @sharesmag

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