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VOL 24 / ISSUE 19 / 19 MAY 2022 / £4.49

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The utilities **stocks and funds** to **buy now**

Different ways to **play the tech sector** via tracker funds

Why investors should still **avoid THG** after its **80% share price fall**

Contents

ADVERTISING PROMOTION

Fidelity International

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

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

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

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

China's growth story

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

Investing in China's most compelling growth drivers

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

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

Past performance

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

Past performance is not a reliable indicator of future returns

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

Important information

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

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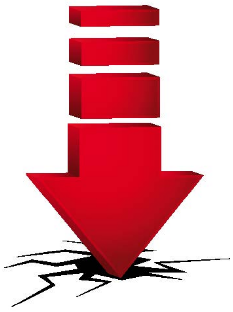
Extreme fear and capitulation: looking for signs of a market bottom



Investors are dumping US shares and cryptocurrencies while UK stocks hold up well

UK stocks continue to surpass all expectations by being one of the best performing regions for equities around the world.

A near-2% loss for the FTSE 100 index is much better in relative terms than the 28% decline seen for the US Nasdaq or a 15% fall for Hong Kong's Hang Seng year-to-date. Until recently, UK stocks had been the laggard for global equities for many years. Now a queue is forming to own them.

This year's slump in US stocks will have taken a lot of investors by surprise. Names like **Apple (AAPL:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Microsoft (MSFT:NASDAQ)** and **Tesla (TSLA:NASDAQ)** have for some time been the star stocks in investors' portfolios and many assumed they would retain this status indefinitely.

That's not the case this year. Telsa has slumped 39%, Amazon has fallen by 37%, Microsoft is trading 24% lower and Apple is down 22%.

'The UK has been relatively well-placed against the cremation of concept capital year-to-date,' says James de Uphaugh, manager of **Edinburgh Investment Trust (EDIN)**.

He is referring to the more speculative stocks offering what appears to be an exciting proposition today but no profits for years to come.

These types of stocks have fared even worse than the mega cap US names. For example, exercise bike group **Peloton (PTON:NASDAQ)** is down 61% year-to-date and electric vehicle specialist **Rivian (RIVN:NASDAQ)** has fallen by 76%.

In essence, investors were paying too much for US stocks and there has subsequently been a derating in the market. To make matters worse, many of the US mega-caps are saying their growth is slowing or there are challenges ahead, and investors are not happy.

In contrast, UK stocks have been cheap on a relative basis for the past six years because of all the uncertainties around Brexit and the idea that the FTSE 100 contained boring companies with none of the growth seen in the US.

There is now a realisation that UK stocks offer everything people want in the current environment – inflation and rising interest rate beneficiaries, and still relatively cheap valuations.

Even when markets calm down, there is a feeling that investors will pay more attention to valuation in the coming years than they have in the decade just gone. UK stocks could remain interesting even when global markets pick up.

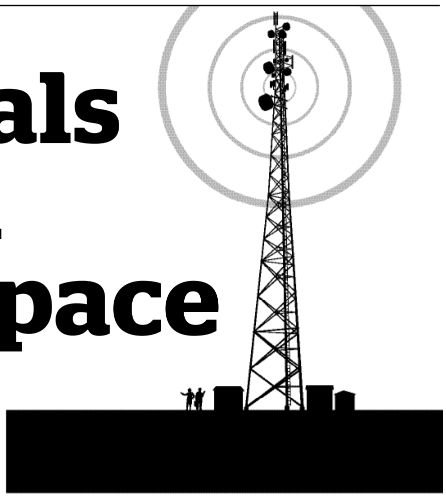
At the time of writing, the CNN Fear & Greed index stood at 'Extreme Fear' with investor sentiment poor. While it's impossible to say when the market will bottom out, it's worth watching for signs of panic and desperation.

Capitulation means many investors losing patience on falling stocks and selling out. In theory that means all those who wanted to sell would have done so, leaving only buyers who will then drive prices up. And what do you think has been happening in the past three months? Widespread selling.

'The definition of true capitulation is "investors selling what they love",' says Bank of America. 'Apple is the poster child for the quantitative easing bull market and that stock is now in a bear market.'

Cryptocurrencies have crashed in recent weeks, which is another sign investors who lack patience are cashing in anything they can. Capitulation is arguably happening right in front of our eyes.

BT and Vodafone deals add to excitement in once dull telecoms space



Lighter-touch regulation has led to a string of takeovers, mergers and strategic investments

The European telecoms sector has burst into life after years of restrictive regulations and poor investment returns.

Last year saw the merger of Spanish rivals Euskaltel and Masmovil, and more recently private equity firm KKR tried and failed to buy Telecom Italia. Now, **BT (BT.)** has confirmed a TV partnership for its sports content with Warner Bros Discovery, receiving an initial £93 million which increases to circa £540 million, subject to undisclosed conditions being met.

BT and Warner Bros Discovery will combine to create a new premium sport offering with broadcast rights, including the UEFA Champions League and Premier League football, Premiership Rugby and the Olympic Games, among others.

Meanwhile, **Vodafone (VOD)** is believed to be continuing to push hard for a buyout of UK mobile network Three and is scouring Europe for other M&A opportunities.

Furthermore, United Arab Emirates-based telecoms group e& has acquired a 9.8% stake in Vodafone for £3.3 billion. This comes hot on the heels of activist investor Cevian Capital taking a stake to try to force the FTSE 100 company to refocus, return more cash to shareholders and bring more telecoms experience onto the board.

Investors are hoping that mergers and takeovers might spice things up for Vodafone after it reported resilient but uninspiring 5% underlying EBITDA (earnings before interest, tax, depreciation and amortisation), excluding business leases, and 4% revenue expansion for the year to 31 March 2022.

'The bigger UK picture is M&A, with the company now linked to both Three UK (the only practicable UK mobile consolidation option in our view – which might help Vodafone UK's soggy margins) and TalkTalk,' says Megabuyte analyst Philip Carse.

So far, Vodafone's strategic rethink has included spinning off mobile masts business **Vantage Towers (VTWR:ETR)** as a standalone business, refocusing the portfolio through a range of disposals and mergers, and positioning the company for ever-greater consumption of data.

The infrastructure sector has become hot property in recent years as investors have realised its role in the provision of essential services and the long-term potential for strong cash generation as 5G services roll out. Reports in March suggested Vodafone had been approached by global infrastructure funds with offers of up to $16 billion for a majority stake in Vantage Towers.

Jefferies analyst Jerry Dellis remains sceptical that further reducing its current 81% stake in Vantage Towers would release substantial value for investors. 'Selling down to a non-controlling stake would reduce leverage and fund a buyback,' the analyst says, albeit saying it is less clear how this would create long-term value for shareholders. [SF]

Vodafone

Chart: Shares • Source: Refinitiv

Could new Greggs boss Roisin Currie be tempted to reset growth targets?

Cost pressures and consumer recession could trigger a reset of sales and expansion aspirations

Greggs' (GRG) former retail and property director Roisin Currie *(pictured)* has taken over from the retiring Roger Whiteside to become the budget food-on-the-go retailer's first female chief executive.

Currie has big shoes to fill, since Whiteside transformed Greggs for the better and steered the value sausage rolls-to-coffees seller through the Covid crisis with a strong recovery in 2021 despite various virus-related restrictions.

Greggs has reinstated the normal dividend and recently served up a special dividend to reflect a strong year-end cash position, though the shares are down 35% year-to-date. This share price performance reflects concerns over inflationary cost pressures and faltering consumer confidence.

Whiteside has left Currie with some testing targets under an ambitious five-year strategy outlined in October 2021 to double revenue to £2.4 billion by 2026 by growing the estate to at least 3,000 locations versus the current 2,224 stores, while also improving the size and quality of the locations and the service offered.

The other key growth drivers are to further develop digital channels to help Greggs compete better at all times of the day, extend trading hours with further menu enhancements, and make the Greggs brand relevant to more people with higher customer engagement.

These bold targets look increasingly demanding with sales momentum slowing and the UK potentially plunging into a deep consumer recession. There is a good chance Currie may look to reduce growth expectations and set a lower bar for success.

Shore Capital says it would rather Currie 'sets her own expectations for the group, ones that we believe are achievable' with the broker believing the retailer's current stated ambitions feel 'a bit of a millstone'.

On 16 May, Greggs said it faced significant cost pressures as it announced in-line trading. It reported like-for-like sales growth in the first 19 weeks of 2022 at 27.4% but this compared with a period a year ago which saw very stringent Covid restrictions so the comparative figures were easy to beat.

Sales growth slowed to an average of 15.8% in the 10 weeks to 14 May. Greggs expects this figure to moderate further as year-on-year comparative figures become harder to beat given a stronger trading period in the latter parts of 2021.

The retailer said it has made a good start to 2022 and has a strong pipeline of new shop acquisitions ahead, but it also warned 'market-wide cost pressures have been increasing and consumer incomes will clearly be under pressure in the second half of the year'. This means profitability will be restricted as the company tries to mitigate the impact of cost pressures while protecting its famous value credentials. [JC]

Grocery delivery platform Instacart files $24 billion IPO on the quiet

Business puts technology at its heart but industry is flooded with competitors

San Francisco-based **Instacart** has submitted draft plans to list its shares on Wall Street. While the company has not given an explicit timeline, some analysts believe it could happen before the end of 2022.

Instacart, which runs a grocery delivery platform, saw growth explode during the pandemic and optimists see the business becoming the **Amazon (AMZN:NASDAQ)** of the grocery deliveries market. Revenues have jumped from $735 million in 2019 to $1.88 billion in 2021, according to estimates.

The confidential filing with the US watchdog the Securities and Exchange Commission comes about six weeks after Instacart proactively slashed its own valuation by almost 40%, from around $39 billion to $24 billion in response to challenging market conditions.

Grocery delivery has gone the same way as carting takeaways to homes, with a deluge of new entrants emerging but very few able to turn a profit. In the UK, **Deliveroo (ROO)** and **Just Eat Takeaway (JET)** are turning their attention to groceries, as are start-ups like Getir, Gorillas, Stuart and many others.

Instacart hopes to differentiate itself through the use of technology. It uses gig workers to fetch products from third-party supermarkets and deliver them to the customer's door, while gathering data on shopping habits.

In 2021 Instacart acquired artificial intelligence start-up Caper AI to strengthen its ambitions to provide shopping technology to retailers. [SF]

Imperial Brands maintains the positive momentum behind the tobacco sector

The FTSE 100 member's shares hit a two-year high as it sells products for more

CIGARETTE MANUFACTURER **Imperial Brands' (IMB)** latest first-half results help explain why tobacco has been among the best performing sectors year-to-date.

While the company took a £225 million hit to profit associated with its exit from Russia, investors were more interested in heated tobacco and e-cigarettes growth and the positive reaction helped drive its share price to a two-year high.

Imperial Brands also demonstrated its pricing power, which is one of the reasons investors have been increasingly keen on tobacco stocks in an inflationary environment. The FTSE 100 company pushed through price increases of 3.8% in the second quarter.

As nicotine is addictive, the industry is typically able to lift the cost of a packet of cigarettes without unduly impacting demand.

Takeover activity has also helped give the sector a lift, with **Philip Morris (PM:NYSE)** recently agreeing a $16 billion deal to buy **Swedish Match (SWMA:STO)**. The latter's products are smoke-free, illustrating how tobacco firms are keen to diversify away from cigarettes.

This is a key plank of Imperial Brands' five-year strategy, along with a focus on its core geographic markets of the US, UK, Germany, Spain and Austria.

Imperial Brands' counterpart **British American Tobacco (BATS)** is set to update on first-half trading on 9 June. [TS]

Nick Train resists the temptation to change his style after weak period

Finsbury Growth & Income manager remains optimistic about the long-term

Investment styles don't work all the time and periods of underperformance should be expected. How fund managers navigate such periods can be very instructive and investors might learn a lot from their actions.

Style drift is not uncommon during difficult times as managers attempt to limit the damage to short-term performance. To his credit, Nick Train, manager of the popular **Finsbury Growth & Income Trust (FGT)**, has demonstrated a steadfast commitment to the same investment approach which has brought so much success. He certainly cannot be accused of style drift.

In the trust's half-year report, Train apologised for his failure to deliver 'acceptable' performance over 'what is now no trivial period'.

The period of poor performance now stretches back for 18 months with the trust's net asset value gaining 6.9% compared with 31.6% for the FTSE All-Share index.

This has resulted in the trust trading at the widest discount to net asset value in over a decade at 8%. The board has been buying shares to control the discount.

Train is resolute that his investment philosophy of running a concentrated, low turnover portfolio, comprising shares in outstanding companies held for the very long term remains the best way to deliver returns for shareholders.

He argues changing approach 'would be a disservice to shareholders', adding: 'It would dilute or even take away the opportunity for them to invest into a distinctive and disciplined investment strategy.'

Finsbury Growth & Income Trust has certainly proved its worth over long periods, delivering share price total returns of 192% over 10 years compared with 109% for the FTSE-All Share, according to FE Fundinfo.

Numis argues investors should look through recent underperformance which it says has been driven by 'significant market gyrations through the Covid-19 reopening, and now the impact of an inflationary/rising rate environment'. It adds: 'Given the unique investment process, we would expect performance to be different to the benchmark.'

One of the important financial characteristics for Train in identifying outstanding companies is their ability to sustain at least a low double-digit return on capital for long periods of time. This metric compares a firm's net income as a percentage to the capital it needs to run the business.

A good rule of thumb, explains Train, is that over very long periods, average shareholder returns should mirror the return on capital achieved by the companies in the portfolio.

Train has calculated the weighted average return on capital of all the holdings in the portfolio is north of 15%. He believes the Finsbury Growth & Income Trust portfolio offers 'attractive return on capital delivered by companies with long histories of stable, high returns and critically with good reason to think those returns will be maintained over time'. [MGam]

Finsbury Growth & Income Trust

Chart: Shares • Source: Refinitiv

This fund is ideal for a more cautious investor wanting a bit of income

The consumer staples and healthcare-dominated portfolio has much to offer

ISHARES MSCI WORLD QUALITY DIVIDEND ETF
BUY
(WQDS) 480.42p

Net assets: £600 million

Volatile conditions currently seen in global markets present an opportunity to get exposure to good companies at much cheaper prices.

In the long-term you may look back at periods like now and realise they were great times to invest, even though it didn't feel like it at the time.

We've found a happy middle ground for someone who is willing to take the risk of putting money into stocks and shares in pursuit of higher returns than cash in the bank. But equally, catering for someone who doesn't want to risk their investment eroding rapidly in value because they've backed highly speculative companies which are struggling to deliver.

The answer lies in exchange-traded fund **iShares MSCI World Quality Dividend ETF (WQDS)** which tracks the performance of a basket containing more than 300 companies with redeeming qualities.

ROBUST CONSTITUENTS

Nearly half of the companies in the ETF feature in the consumer staples and healthcare sectors. Demand in both areas should be relatively inelastic, regardless of whether a cost-of-living crisis leads to a full-blown recession.

After all, people will still get sick and need treating in all economic climates and essentials like groceries and household goods are likely to be the last area consumers stop spending on.

The healthcare space should also benefit from the end of the pandemic with many countries having significant treatment backlogs which they need to address.

You buy shares in the ETF in the same way you would invest in an individual company on the stock market. Ongoing charges of 0.38% look reasonable and the ETF pays out income twice a year. The dividend yield is 2.7% based on distributions over the past 12 months.

HOW COMPANIES ARE SELECTED FOR THE FUND

The companies inside the ETF's portfolio are drawn from the MSCI World index with specific criteria used to select the names. They must have higher than average dividend yields relative to the parent index, a track record for consistently paying dividends and the capacity to sustain dividend payments. The index is rebalanced twice a year.

As well as making this an ideal vehicle for income investors, the selection process means you are exposed to companies with relatively attractive valuations, enviable performance histories, strong balance sheets and decent cash generation. The fact they are paying out dividends has shown the companies to be shareholder friendly.

On a three-year view the pound-denominated version of the ETF, which can be held

MSCI World Quality Dividend – geographic breakdown

US (59.4%) **Switzerland** (8.5%)
UK (8.1%) **Japan** (7.5%)
Australia (3.1%) **Germany** (3.0%)
France (2.4%) **Canada** (2.2%)
Hong Kong (1.2%)
Cash and/or derivatives (0.3%)
Other (4.3%)

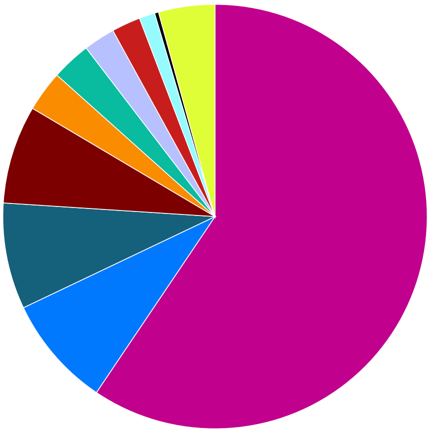


Chart: Shares • Source: iShares, 13 May 2022

in both ISAs and self-invested personal pensions, has delivered an annualised return of 8.8%.

It is up 4.5% year-to-date whereas the MSCI World index is down nearly 7.2% over the same period in UK currency terms.

TOP HOLDINGS

The US dominates with nearly 60% of the companies in the ETF's portfolio listed in this country. Switzerland and the UK are in second and third place in geographic terms with a little more than 8% each.

The top three holdings by weight are **Johnson & Johnson (JNJ:NYSE)**, **Procter & Gamble (PG:NYSE)** and **Nestle (NESN:SWX)**.

Consumer goods firm Procter & Gamble posted first quarter numbers ahead of expectations as the company behind Oral-B toothbrushes and Gillette razors demonstrated its power to put up prices in the face of mounting costs while at the same time boosting its revenue growth guidance.

It was a similar story for its Swiss counterpart Nestle, the KitKat maker which increased its own prices by 5% in the first three months of the year – which in turn helped sales to increase by more than analysts' forecasts.

Johnson & Johnson develops medical devices and pharmaceutical products alongside its consumer-facing business selling baby shampoo and Listerine mouthwash. It warned on full-year earnings and stopped giving guidance on its Covid vaccine thanks to a global surplus of supply and uncertain demand. However, the company still approved a 6.6% increase in its quarterly dividend.

Among the other key constituents of the ETF are pharmaceutical companies **Pfizer (PFE:NYSE)** and **Abbvie (ABBV:NYSE)**. Both delivered robust first quarters, with Abbvie notably less reliant on its flagship immunology drug Humira, which will next year lose its patent protection in the US.

Despite waning demand for vaccines, Pfizer reported revenue up 82% in the first three months of the year, with full-year guidance maintained. It followed this up with a $11.8 billion takeover offer for Biohaven Pharmaceutical, which has a leading migraine therapy.

COKE AND PEPSI HAVE FIZZ

Other big holdings in the ETF include **Coca-Cola (KO:NYSE)** and **PepsiCo (PEP:NASDAQ)**. Both reported first quarter numbers

MSCI World Quality Dividend – sector breakdown

Healthcare (23.8%)
Consumer staples (21.1%)
Financials (12.8%) **Industrials** (8.7%)
Information technology (7.3%)
Utilities (7.2%) **Materials** (6.2%)
Communication (5.6%)
Consumer discretionary (5.3%)
Energy (1.2%) **Real estate** (0.6%)
Cash and/or derivatives (0.3%)

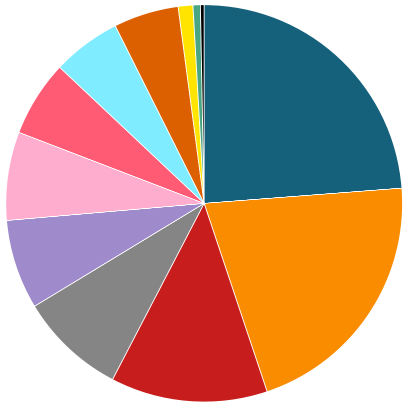


Chart: Shares • Source: iShares, 13 May 2022

ahead of expectations as they demonstrated their ability to pass costs on to their customers without demand suffering.

Repeat impulse purchases of soft drinks and snacks are unlikely to be significantly impacted by the current cost-of-living pressures and both companies benefit from owning leading brands including Coke and Costa coffee (Coca-Cola) and Pepsi and Walkers crisps (PepsiCo). [TS]

iShares MSCI World Quality Dividend ETF

Chart: Shares • Source: Refinitiv

Premier Inn owner looks good if more people choose a staycation

Whitbread is well placed as UK holidaymakers look to save money and not go abroad

While UK consumers grapple with the rising cost of living, the one thing we're betting they won't want to give up this year is their summer holiday, even if it means settling for a cheap staycation.

As the UK's largest hospitality business with over 90,000 rooms, and a rapidly expanding presence in Germany where it already has 14,000 rooms, Premier Inn owner **Whitbread (WTB)** is in a prime position to benefit from the desire to get away.

After an historic £1 billion loss last year, the 'most challenging' in its 279-year history, the firm swung back to a profit of £58 million in the year to 3 March as sales almost trebled.

That impressive recovery in revenues continued in March and April with UK accommodation sales now around 30% above pre-Covid levels thanks to occupancy rates of over 80% and a 10% hike in room rates.

Meanwhile, the 'value' pub and restaurant sector is still playing catch-up, but sales are improving rapidly with takings in March and April less than 5% below pre-Covid levels.

The picture in Germany is less rosy, with hotel occupancy still only just above 50% of pre-Covid levels due to lingering government restrictions, and the situation is unlikely to improve with Whitbread's German operations set to lose money for another year.

Another thorny issue is inflation, principally higher labour costs, although there are suggestions wage increases are slowing in the UK at least.

However, reflecting the significant improvement in trading last year and Whitbread's confidence in the coming year, the board agreed to resume the payment of dividends from July, albeit a nominal sum.

Reports from other UK leisure firms are positive, with holiday park operator Parkdean Resorts saying it expects a strong May half-term after bookings for its 66 parks 'sky-rocketed' by over 200% since the start of April.

We also find it significant that property investment company **LXI REIT (LXI)** has just announced the acquisition of rival **Secure Income REIT (SIR)**, whose biggest source of rental income is Merlin Entertainments, the owner of four big UK visitor attractions including Alton Towers and Thorpe Park.

Secure Income's third biggest source of income is a portfolio of 123 UK Travelodge hotels, followed by Manchester Arena, the nation's biggest indoor venue by capacity.

While we may not be able to rely on the weather, we still think 2022 could turn out to be a bumper summer for UK hospitality, which means now is a great time to buy shares in Whitbread as its services could be in strong demand. [IC]

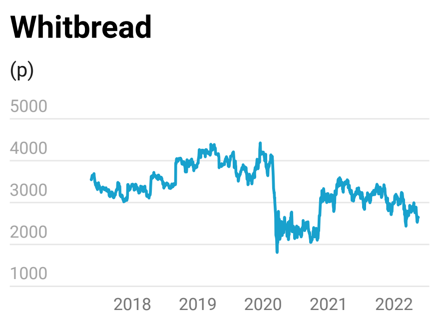


Chart: Shares • Source: Refinitiv

MARSHALLS
(MSLH) 530p

Loss to date: 17%

Original entry point:

Buy at 638.5p, 25 February 2021

IF WE OWNED a crystal ball and had foreseen the last month's sell-off we could have closed our trade on **Marshalls (MSLH)** and congratulated ourselves on a job well done.

As it is, the shares are now 17% below our starting price, yet the business is in a much stronger place than it was a year ago.

Group revenues for the first four months of the year were up 5% against record sales in March and April last year despite one less trading day.

Infrastructure and new build housing drove the increase, while sales to the RMI (repair, maintenance and improvement) market were lower solely due a lack of installers, many of whom were on holiday whereas last year the country was in lockdown.

End customer demand remains strong with just under 20 weeks' work of orders at the end of April, and the firm expects domestic sales to 'progressively normalise' during the remainder of the year.

Meanwhile, the integration of Marley is well underway with 'clear opportunities to leverage Marshalls' operational, manufacturing and sustainability expertise' across the business.

The firm is confident of meeting its full-year expectations, and we remain confident in its prospects.

Chart: Shares Magazine • Source: Refinitiv

SHARES SAYS: ↗
We're sticking with this great business. [IC]

AIRTEL AFRICA
(AAF) 140p

Loss to date: 4.6%

Original entry point:

Buy at 146.69p, 21 April 2022

GIVEN THE DRUBBING handed out to global stock markets since we said to buy FTSE 100 firm **Airtel Africa (AAF)**, we'll take a sub-5% loss on our opening price with grace.

The group's full-year results more than delivered on its sales and operating profit targets with revenues in constant currencies up more than 20% to $4.7 billion and a 49% margin on underlying EBITDA (earnings before interest, tax, depreciation and amortisation).

Voice revenues were up 15.4% but the two biggest drivers were data up 34.6% and mobile money up 34.9% during the year.

Net cash from operations was up 20.7% to over $2 billion, allowing the firm to repay over $1.4 billion of debt and end the year with leverage of just 1.3 times EBITDA.

The ability to offer mobile financial services in Nigeria, thanks to the approval of a payment service bank business last month, means mobile money revenues should accelerate this year.

At the same time, we are mindful that Nigeria is the biggest risk in terms of currency devaluation against the dollar, with a 1% devaluation having a negative impact of $18 million on revenues and $11 million on EBITDA.

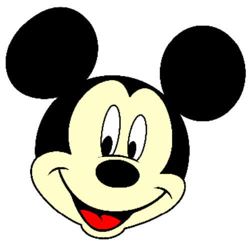
However, we are excited by the long-term growth opportunities and the firm's commitment to continue growing revenues and margins.

Chart: Shares Magazine • Source: Refinitiv

SHARES SAYS: ↗
Airtel Africa remains a buy. [IC]

WALT DISNEY

(DIS:NYSE) $105.18



Loss to date: 38.8%

Original entry point:

Buy at $171.82, 17 May 2022

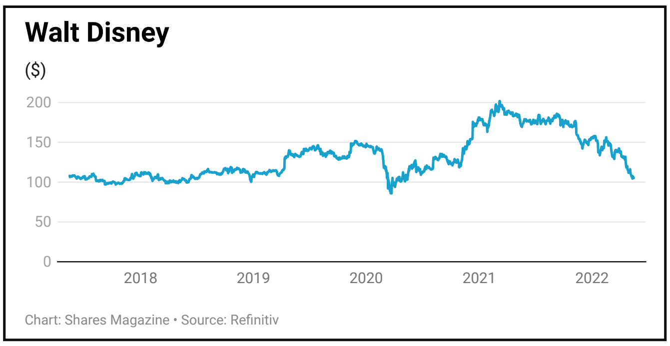
IT'S BEEN A tough start to the year for **Walt Disney (DIS:NYSE)** but the company's latest quarterly update (11 May) gave investors some cause for new hope.

The owner of the eponymous Disney franchise as well as Star Wars, Pixar and Marvel reported a better-than-expected 7.9 million sign-ups to its Disney+ platform. This compared with streaming rival Netflix which in April reported its first drop in subscriber numbers in a decade.

Granted the former is coming from a lower base, but it could suggest the depth, breadth and quality of Disney's content is giving it an edge as households become more selective with their streaming subscriptions.

Less positive was the news that subscriber growth is expected to slow in the second half and Disney missed expectations for both revenue – $19.2 billion compared with the $20.03 billion forecast – and earnings per share – $1.08 compared with the $1.19 pencilled in.

Despite the recent fall in the share price, we still think Disney is a one-of-a-kind business and remains a stock to hold for the long term.



SHARES SAYS: ↗

Recent weakness represents a buying opportunity. [TS]

DIVERSIFIED ENERGY COMPANY

(DEC) 123.9p

Gain to date: 4.3%

Original entry point:

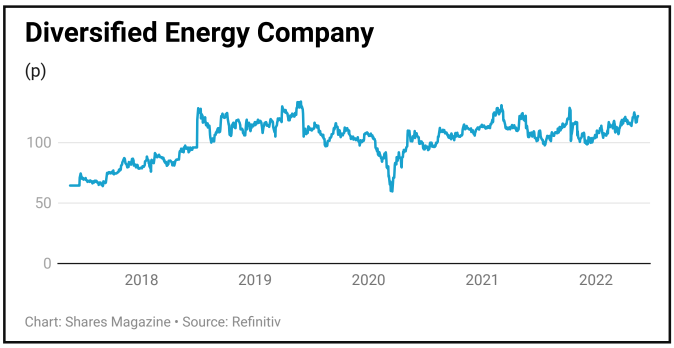
Buy at 118.8p, 31 March 2022

US NATURAL GAS producer **Diversified Energy Company (DEC)** has moved higher since we said to buy in March and its first quarter numbers reinforced our view that the stock is a good option for investors looking to beat inflation.

The company's quarterly dividend at 4.25 cents per share was up 6% year-on-year. If the company simply maintained its payout at this level for the rest of the year it implies a 2022 yield of 11%. Consensus forecasts suggest the actual payments may be slightly higher for a yield of 11.6%.

This generosity to shareholders is underpinned by resilient production levels which average 134,000 barrels of oil equivalent per day, and high domestic gas prices as countries look for alternatives to Russian imports thanks to the war in Ukraine.

Diversified Energy continues to target deals to add to its output. It uses financing methods including securitisation, where it packages up its assets and sells them as securities, to avoid issuing new shares and diluting existing shareholders.



SHARES SAYS: ↗

This still looks an attractive investment. Keep buying the shares. [TS]


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

TIME TO BUY BONDS

Reasons why they're not as boring as you think

By **Martin Gamble** Education Editor

We believe now is a good time to consider adding certain bonds to your portfolio. In this article we discuss the reasons why and reveal the best bond funds to buy.

Bond markets have been through one of their most challenging times ever after the US Federal Reserve's pivot towards raising rates caught investors off guard.

Year-to-date the Bloomberg Global Bond Aggregate index is down around 12% and has lost almost 15% from the peak in August 2021, one of the deepest drawdowns since the early 1980s. Don't let that put you off bonds as an investment.

WHAT'S GONE WRONG?

Bonds have been impacted by a toxic combination of rising inflation and higher interest rates. Inflation reduces the real value of interest payments and bond prices fall as interest rates rise.

The silver lining is that decent income is now appearing with US 10-year bonds paying more than 3% interest.

The US central bank is fighting inflation by

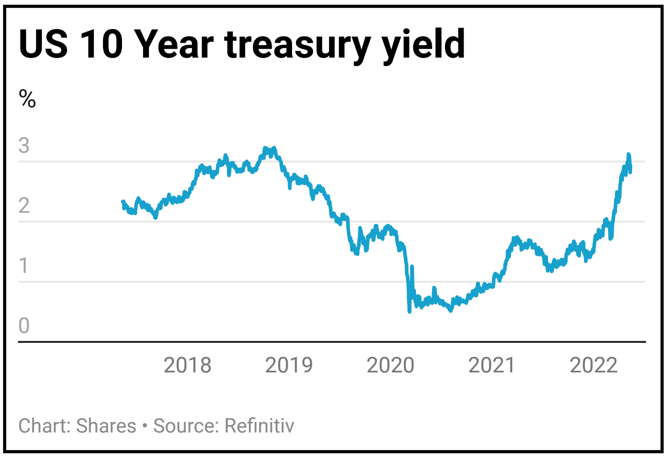


Chart: Shares • Source: Refinitiv

aggressively raising interest rates despite the fact some of the causes of 40-year high inflation are outside its control.

Guggenheim's chief investment officer Scott Minerd, who oversees over $300 billion of assets, believes the decades-long bull market in bonds is over.

Minerd has warned interest rates could trend higher for a generation which is bad news for bond investors.

That view is not shared by the Federal Reserve. The US central bank wants to move interest rates up to a 'neutral' level before deciding if the economy needs something more restrictive.

The bank hasn't divulged what neutral is, but most economists believe it is between 2.5% and 3%. In theory a neutral rate neither tightens nor stimulates the economy.

KEY RISKS TO CONSIDER

Analysts and forecasters are the most divided about what the future holds in more than a decade, which means it is dangerous to wed yourself to any one particular outcome.

We focus on the two most unappetising scenarios which worry investors; an economy which runs too hot and that leads to persistently high inflation or a full-blown recession.

As we go on to explain, both these scenarios support the argument for increasing exposure to government bonds and high-quality corporate bonds. One caveat is that If Minerd's view turns out to be correct (high interest rates for a long time), all bets are off.

BOND INVESTORS EXPECT INFLATION TO FALL BACK

The Fed's preferred measure of core inflation is PCE or the personal consumption expenditures gauge. This hit 40-year highs of 5.13% in February before falling slightly in March.

The forward inflation expectation rate, also referred to as the '5y5y' spread, suggests inflation will fall to 2.4% in five years' time.

This measure takes the difference in market interest rates in five years' time, typically the 10-year minus the five-year rate to calculate market implied inflation.

A second measure compares five-year inflation-protected bonds with conventional five-year government bonds.

According to the St. Louis Federal Reserve data, this measure suggests inflation will be around 3% in five years' time. This is only 1% above the Fed's medium-term policy target.

This might seem quite surprising given all the hype over the threat of runaway inflation.

The implication is that the market thinks the Fed is making a policy error. In other words, it is raising interest rates in the face of an already slowing economy.

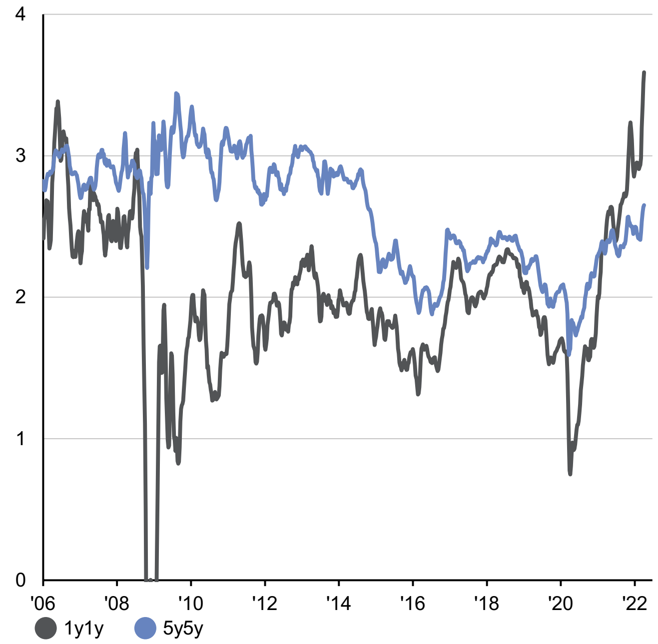
This could accelerate a slowdown or even a cause a recession. Inflationary pressures would then be expected to abate quickly.

Under this scenario interest rates would probably fall, pushing up bond prices, which means investors buying now could expect to see a capital gain in this scenario. Longer-dated bonds would be expected to rise more than shorter-dated bonds.

A contributing factor to the market's sanguine outlook is recent data which seems to suggest an easing of global supply chain disruptions.

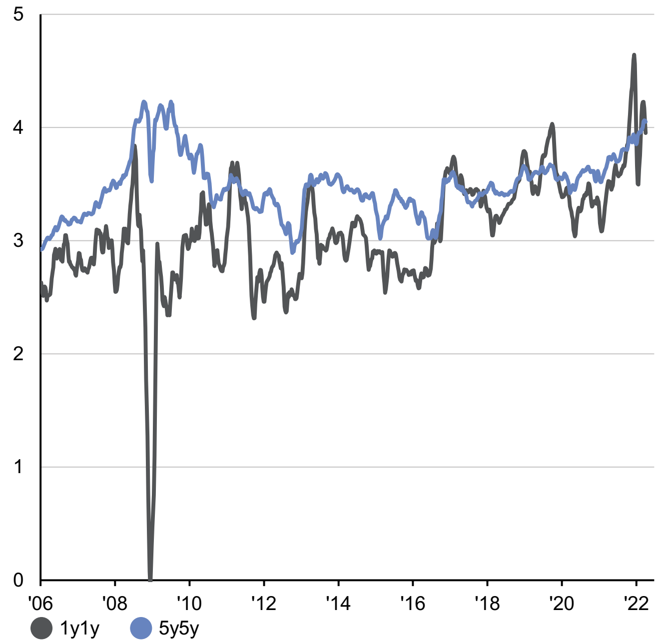
US inflation expectations

%, USD inflation swap rates



UK inflation expectations

%, GBP inflation swap rates



Source: (All charts) Bloomberg, J.P. Morgan Asset Management. The 1y1y inflation swap rate is a measure of average inflation expectations for one year, starting in one year's time. The 5y5y inflation swap rate is a measure of average inflation expectations for five years, starting in five years' time. Data shown are four-week rolling averages. UK inflation swaps use RPI rather than CPI as the reference point. Strong demand for index-linked Gilts from defined benefit UK pension funds is a factor that typically drives UK inflation expectations higher relative to other regions. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 March 2022.

These have been a major cause of producer price inflation.

In the past few weeks supplier delivery times have shortened considerably, according to Markit. This data is also supported by a peaking in global container freight rates based on information from Drewry.

WHAT IF THE BOND MARKET'S SANGUINE VIEW IS WRONG?

Hedge fund Verdad studied the returns of shares, bonds and commodities during periods of rising interest rates and stalling growth. Surprisingly bonds outperformed shares handsomely.

Looking at the period between 1970 and 1982 which for most investors represents the last period of high and persistent inflation, US 10-year government bonds delivered a positive 3% annualised return compared with a negative return of 6% for shares. Commodities did well with oil and gold posting 20% annualised returns.

However, the maximum drawdown for bonds was 19% compared with 43% for shares, 52% for gold and 28% for oil. A drawdown is the percentage fall from peak to trough.

As it turned out, bonds did a much better job of protecting investors against inflation in periods

> *"Bonds did a much better job of protecting investors against inflation in periods of rising interest rates than shares"*

WHY THE CHANCES OF CENTRAL BANK POLICY MISTAKE ARE HIGH

ONE THORNY PROBLEM facing central bankers is that normal measures of economic growth and monetary conditions have been heavily distorted over the last two years.

The pandemic caused the immediate closing of the global economy. The surprisingly quick discovery of effective vaccines subsequently led to a relatively fast reopening of economies.

The double-shock to the global economy created unforeseen supply chain disruptions and even labour shortages, pushing up inflation. The invasion of Ukraine has exacerbated these effects.

In short, no-one really knows if the growth in the global economy is being driven by genuine overheating or because of the lingering but temporary effects of normalisation after two massive shocks.

Fund manager James Harries at Troy Asset Management likens the enormous monetary and fiscal stimulus provided by the authorities in response to the pandemic to stimulus provided to counter Y2K issues in the late 1990s.

With the benefit of hindsight both crises turned out to be less debilitating to the economy than initially feared. The extra stimulus led to speculation and a misallocation of capital.

In the late 1990s this contributed to the final 'blow-off' which culminated in the bursting of the dotcom bubble.

Retail investor frenzy seen during lockdown and the emergence of meme stocks suggests something worryingly similar could be happening today.

of rising interest rates than shares.

Historically short-term US treasury bonds have behaved as a haven asset during market turmoil.

WHY INFLATION-PROTECTED BONDS ARE NOT PERFECT

Bonds with in-built inflation protection are called inflation-linked gilts or 'linkers' in the UK and treasury inflation-protected securities or 'TIPS' in the US. Gilts and treasuries are common terms for UK and US government bonds, respectively.

Inflation-linked bonds work by applying an adjustment to the interest payments and capital repayment based on accrued inflation.

It might seem like a good idea to buy bonds which promise to increase interest payments in line with future inflation. However, it isn't straightforward and there are advantages and disadvantages to weigh up.

The UK linkers market was created for insurance firms and pension funds to solve their needs to hedge liabilities, often a long way into the future. Linkers generally have a long maturity profile with an average duration of around 17 years.

Duration is the weighted average time left until a bond matures and the loan is repaid. It is also a measure of the sensitivity of a bond price to a move in interest rates.

For example, a bond with a 17-year duration can be expected to lose 16.6% of its capital value for every 1% move higher in interest rates. Exchange-traded fund **iShares Index Linked Gilts ETF (INXG)** is down 19% year-to-date and has a duration of around 21 years.

The high sensitivity of linkers to interest rates is a serious drawback when considering them as an inflation hedge.

There are ways to separate the duration element from the inflation element but that is beyond the scope of this article.

iShares Index Linked Gilts ETF

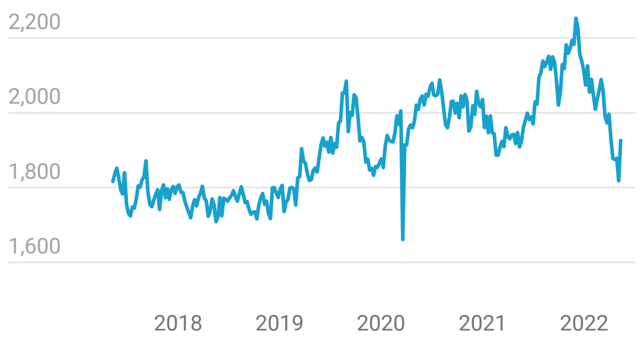


Chart: Shares • Source: Refinitiv

WHAT ABOUT CORPORATE BONDS?

Corporate bonds are debts issued by companies to raise money for various corporate purposes. They are risker than government bonds and behave more like shares, and they are sometimes referred to as credit products.

Until recently corporate bonds of low-quality companies had performed well compared with high-quality bonds.

It's important to look at the high-yield bond spread. This is the difference in the yield on high-yield bonds and a benchmark such as investment-grade corporate bonds. In general, the riskier the company, the higher the yield you would expect to find on its bonds.

The high-yield spread was until recently at historically low levels of around 3% according to St Louis Federal Reserve data.

Although the spread has widened out to 4.5% in recent weeks, the current economic backdrop is not favourable for companies with lots of debt and/or operational or strategic challenges, which you often find with those whose bonds come with high yields.

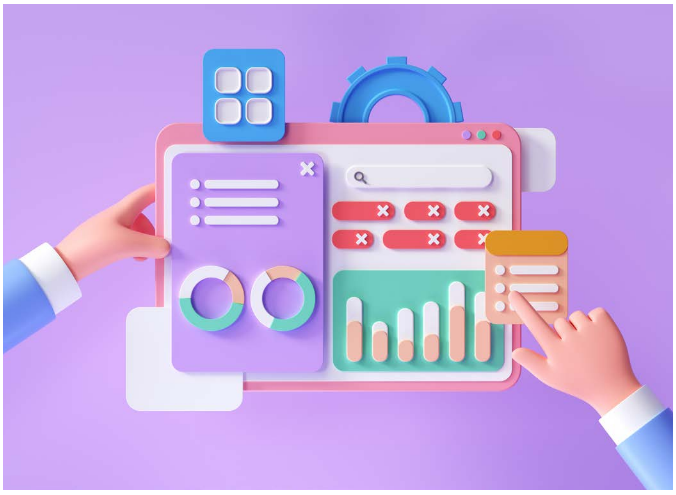
Therefore, we would steer clear of low-quality high-yield corporate bonds and only look at ones linked to higher-quality companies.

THREE BOND FUNDS TO BUY

Lyxor FTSE Actuaries UK Gilts ETF (GILS)

The £671 million exchange-traded fund's objective is to track the performance of the FTSE Actuaries UK Government Gilts All Stocks index. The ETF fully replicates the index in a cost-effective manner.

The ETF is down 9.5% year-to-date and has a trailing 12-month yield of 2.1%. Income is paid twice a year and the annual ongoing charge is 0.05%.



Roughly 44% of the portfolio has a maturity of under 10 years, giving a good balance between short and longer dated maturities.

Remember, we're taking the view that bond prices and yields are looking more attractive because of the recent market movement. So don't simply look at the recent performance and assume this ETF isn't worth buying because the returns have been negative.

M&G Global Macro Bond Fund (B78PH60)

Manager Jim Leaviss is one of the most experienced in his field and has managed the M&G fund for over 20 years.

He is assisted by Eva Sun-Wai and the pair also benefit from the breadth and depth of the wider M&G investment team.

The $1.74 billion fund aims to deliver a higher return than the IA Global Mixed Bond Sector over rolling five-year periods.

The fund has delivered five and 10-year annualised returns of 1.6% and 4.2% respectively, beating the benchmark.

Dividends are paid quarterly, and the trailing 12-month yield is 0.8%. The portfolio has a duration of around seven years and the fund has an ongoing charge of 0.63% a year.

The managers have a defensive positioning with very little exposure to corporate bonds, although exposure was increased as spreads widened in March.

The duration of the fund was also increased in March based on the managers' view that further aggressive monetary tightening could curtail economic growth in 2023.

iShares Core Global Aggregate Bond ETF GBP (SAGG)

The $5.62 billion fund is designed to give investors exposure to global bonds and tracks the performance of the Bloomberg Barclays Global Aggregate Bond index.

The fund is a flagship measure of investment-grade government and corporate bonds across 24 local currency markets. It provides broad diversified access to 9,400 bonds for a charge of 0.1% a year.

The currency exposures within the fund are not hedged which means returns to UK investors will include other countries' currency movements relative to sterling.

The portfolio pays out dividends twice a year and has a trailing 12-month yield of 1.4%.

In terms of geographical exposure, the fund has 43% invested in the US, 22.5% in developed Europe and 13.7% in Japan. The fund's exposure to the UK is around 5%.

Amid the volatility, assessing the real outlook for companies

Charles Luke, Investment Manager, Murray Income Trust PLC

- Companies with the strongest operational performance are likely to see the greatest long-term appreciation in their share price
- There are an increasing number of companies with a notable gap between the movement of share prices and the underlying performance of the company
- This creates opportunities for active investors in high quality companies

"In the short run, the market is a voting machine but in the long run it is a weighing machine" ***– Benjamin Graham, pioneer of value investing***

This is an unusual moment in markets. Investors are troubled by the impact of a potentially toxic combination of geopolitical tensions, rising energy and food costs and a weakening consumer. Economic data is unquestionably weaker. However, the corporate sector continues to defy gloomy expectations and, in many cases, any panic seems unfounded.

The philosophy of Murray Income Trust is that those companies that can grow their earnings and their dividends are likely to be long-term winners – and these companies are most likely to be high quality businesses. This is far more important than buying cheap companies, but if an investor can buy a company with strong operational performance that is also on a compelling valuation, they should give themselves the best chance for long-term capital growth.

With that in mind, we are always on the look-out for companies where there is a notable gap between the movement of share prices and the underlying performance of the company. This is often where the best opportunities arise for active managers. Today, we see plenty of companies reporting strong earnings figures, giving optimistic forward guidance, but where the share prices have been hit hard anyway.

One example where the forward guidance issued does not reflect the gloom implied by the falls in the share price might be **Dechra Pharmaceuticals**. This is a veterinary pharmaceutical business that saw its share price fall over 20% in the first quarter of the year. However, at the same time, its most recent update to the market showed expectations of future earnings have risen and the company has issued an upbeat outlook for the year ahead, in spite of the well-flagged headwinds to economic growth.

Other companies have reported a strong start to the year, but have seen their share prices hit hard: **Croda International**, for example, or car distributor **Inchcape**. In reality, the fortunes of these companies have relatively little to do with the UK economy and far more to do with structural growth factors. Croda International, for example, makes specialty chemical products and is supported by the resilience of its end-markets including pharmaceuticals, personal care and agriculture, while outsourcing by original equipment manufacturers is likely to underpin Inchcape's earnings. Even companies that look more vulnerable to a consumer slowdown, such as **Howden Joinery**, have reported good results and buoyant trade.

This is not unusual. Investors will often panic first and ask questions later. They are understandably nervous about the flagging economic recovery and the impact of inflation on consumer confidence. However, amid this wobble in confidence, they are misreading the likely impact on certain companies. As the climate becomes clearer, they are likely to become more discerning in their appraisal of the corporate landscape.

For the Murray Income portfolio, it means that we are not moving out of many of the companies in the portfolio. Their operational performance has been strong and we are willing to look through short-term share price movements. It also means that some of the high quality, long-term growth companies that we like have come down to more favourable valuations. We've recently bought **Experian**, for example, **Oxford Instruments** and the **London Stock Exchange**.

To be clear, this is not about buying companies simply because they are cheap. While there are plenty of companies that look cheap using a discounted cash flow model, these models tell an investor little about the sustainability of growth that can be expected into the future. There has been a rotation in markets away from higher quality stocks in preference for 'value' stocks. Certainly, a changing interest rate environment might favour cheaper stocks, but we don't want to base our long-term strategy on the direction of monetary policy or inflation.

At Murray Income, we are looking through this market turbulence. Experience tells us that over the long-term, companies that grow their earnings will see their share price rise. We are looking hard at what companies are telling us about their prospects and focusing on quality – this is our touchstone for generating attractive long-term returns.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

Important Information

Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:

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Different ways to get technology exposure via low-cost tracker funds

The Nasdaq is not the only way to play the sector

What if global stock markets are close to bottoming? What if economies around the world largely avoid recession, with inflation becalmed without excessive tightening of monetary policy by central banks? If so, tech could come roaring back.

A rose-tinted prospect perhaps, yet it is not inconceivable that rising benchmark bond yields, central bank's tightening of monetary policy and soaring inflation are priced in after the valuations adjustment this year. The S&P 500, for example, has reversed 18%, while the Nasdaq Composite is 30% off its November 2021 highs.

'In our view, the technology sector continues to benefit from strong tailwinds which, we believe, should continue to drive attractive long-term appreciation,' said Walter Price, manager of the **Allianz Technology Trust (ATT)**.

'We continue to believe the technology sector can provide some of the best absolute and relative return opportunities in the equity markets – especially for bottom-up stock pickers.'

'Despite the economic uncertainty, the secular tailwinds supporting most of our core themes remain strong, particularly in areas such as cybersecurity, clean tech/electric vehicles, 5G networks/devices, data centre capex and artificial intelligence/machine learning, with spend intentions in some of these areas potentially strengthened by events in Ukraine,' said Ben Rogoff of the **Polar Capital Technology Trust (PCT)** in his most recent commentary.

SOLVING THE WORLD'S GREAT PROBLEMS

We are relying on technology to solve many of the world's biggest problems; climate change, how we feed and power the world in the years to come, and medical breakthroughs that will allow future generations to live longer, happier lives.

'I did not think that climate change would happen in my lifetime, but it already is, and I believe with technology we can make advancements before it's too late,' says Shirish Nadkarni, an entrepreneur and author who started his career as a software engineer at **Microsoft (MSFT:NASDAQ)**.

David Bishop, a technology consultant and researcher who has worked with companies such as **AT&T (T:NYSE)**, **Delta Airlines (DAL:NYSE)** and **Toshiba (6502:TYO)**, believes that technology has the scope to eventually provide solutions to world hunger.

Xtrackers MSCI World Information Technology ETF

Chart: Shares Magazine • Source: Refinitiv.

Lyxor MSCI Disruptive Technology ESG Filtered ETF

Chart: Shares Magazine • Source: Refinitiv.

'Hunger, while it seems like a very simple thing off the cuff, has such a great impact long-term on communities.'

Investors willing to look beyond immediate market challenges and back these long-run technology themes can choose from many low-cost ETFs.

The **Invesco EQQQ NASDAQ-100 UCITS ETF (EQQQ)** tracks the performance of the 100 biggest companies of the tech-heavy Nasdaq Composite. Yet Nasdaq is not exclusively tech; you may not be aware that companies including **PepsiCo (PEP:NASDAQ)**, **Costco (COST:NASDAQ)** and **Starbucks (SBUX:NASDAQ)** are listed on Nasdaq, and these are hardly tech names.

Investors have far more granular options available to them, if they're willing to accept the increased risk, allowing them to gain exposure to a group of tech stocks or themes without buying individual stocks.

For example, **Xtrackers MSCI World Information Technology ETF (XDWT)** tracks a custom index tech stocks from developed markets, including **Apple (AAPL:NASDAQ)**, **Nvidia (NVDA:NASDAQ)** and

Examples of tech ETFs available to UK investors

	Fund size (£ million)	Ongoing charges
iShares S&P 500 Information Technology Sector ETF	2,433	0.15%
Xtrackers MSCI World Information Technology ETF	1,598	0.25%
iShares Healthcare Innovation ETF	1,003	0.40%
Xtrackers MSCI USA Information Technology ETF	617	0.12%
iShares Electric Vehicles and Driving Technology ETF	531	0.40%
Invesco Technology S&P US Select Sector ETF	410	0.14%
SPDR S&P US Technology Select Sector ETF	399	0.15%
SPDR MSCI World Technology ETF	301	0.30%
iShares MSCI Europe Information Technology Sector ETF	185	0.18%
Lyxor MSCI Disruptive Technology ESG Filtered ETF	141	0.49%
L&G Healthcare Breakthrough ETF	104	0.49%
Lyxor MSCI World Information Technology ETF	85	0.30%
Invesco KBW NASDAQ Fintech UCITS ETF	55	0.49%
SPDR MSCI Europe Technology ETF	49	0.18%
Invesco Global Clean Energy ETF Acc	42	0.60%
Xtrackers MSCI Europe Information Technology ESG Screened ETF	31	0.20%
Invesco MSCI China Technology All Shares Stock Connect UCITS ETF	27	0.49%
UBS Solactive China Technology ETF	19	0.47%
HAN-GINS Cloud Technology Equal Weight ETF	14	0.59%
Purpose Enterprise Software ESG-S ETF	2	0.59%
Global X AgTech & Food Innovation ETF	2	0.50%
KraneShares ICBCCS SSE Star Market 50 Index ETF	1	0.82%

Table: Shares • Source: JustETF

iShares Electric Vehicles and Driving Technology ETF - be aware this ETF includes stocks beyond the tech sector

Biggest tech holdings

Company
Nvidia
Samsung
Hexagon
Intel
Infineon Technologies
Delta Electronics
Universal Display
Synaptics
Innolux
Diodes

Table: Shares • Source: iShares website, data as of 12 May 2022.

Biggest non-tech holdings

Company	Activity
Tesla	Vehicle manufacturer
BYD	Vehicle manufacturer
Eaton	Power management
Maruti Suzuki India	Vehicle manufacturer
Paccar	Vehicle manufacturer
Toyota	Vehicle manufacturer
Kia	Vehicle manufacturer
Ford Motor	Vehicle manufacturer
Denso	Vehicle components supplier
Honda Motor	Vehicle manufacturer

Table: Shares • Source: iShares website, data as of 12 May 2022.

Mastercard (MA:NYSE). It has performed well, generating a 78.2% performance over three years from largely US-listed equities.

BEYOND MAINSTREAM US TECH

US tech is so dominant that tech from elsewhere is often overlooked. The **iShares MSCI Europe Information Technology Sector ETF (ESIT)** provides one solution to this bias by tracking an index of large and mid-sized European tech firms, such microchip kit supplier **ASML (ASML:AMS)**, German software giant **SAP (SAP:ETR)** and **Amadeus (BME:AMS)**, the Dutch travel booking software company.

The £27 million **Invesco MSCI China Technology All Shares Stock Connect ETF (MCTS)** does something similar with Chinese technology companies, albeit a pretty tough place to be an investor recently with many Chinese tech firms coming under ever greater regulatory scrutiny.

There are also several technology thematic ETFs, focusing on things like the future of food, cloud computing, cutting edge medical research, fintech and electric vehicles.

Investors do need to tread carefully, however. Many of these ETFs were born during the glut of new launches in recent years and have a limited track record. And the more concentrated the investment strategy, the more volatile an ETF is likely to be, so investors must be willing to accept the likelihood of frequent peaks and troughs.

Another issue is fund size. Of the 22 tech ETFs on our list, nine have less than £50 million of assets under management. That poses the risk of the ETFs being shut down unless they attract significantly more assets.

Disclaimer: The author owns shares in Allianz Technology Trust and Polar Capital Technology Trust

By **Steven Frazer** News Editor

Why investors should still avoid THG after its 80% share price fall

The stock feels like a binary bet with Ingenuity as the deciding factor and the risks just look too high in the current environment

Online retailer and logistics provider **THG (THG)** presents investors with a major conundrum at the moment.

The shares currently trade at 114p compared with their post-IPO highs of 800p, while valuations vary from 110p to 700p depending on which analyst's research you read.

Most brokers have a 'buy' or 'hold' recommendation, yet over the last six months they have all slashed their earnings forecasts for this year and next year.

Meanwhile, results for 2021 and the first quarter of 2022, which were published last month, seem to have done little to cheer investors, and the whole investment case now appears to hang on the potential future value of the Ingenuity platform.

GREAT EXPECTATIONS

THG's market debut in 2020 was quite an event. At £1.88 billion it was the most raised since the Worldpay initial public offering of 2015.

It valued the group at £5.4 billion, which based on 2019 EBITDA (earnings before interest, tax, depreciation and amortisation) of £111 million meant a multiple of nearly 49 times.

Yet the company now has a market cap of just £1.5 billion, meaning almost £4 billion of investors' money has gone up in smoke.

Results for 2021 looked reasonable, with revenues climbing 35% to £2.18 billion due to gains at its Beauty and Nutrition units.

The Beauty business combines eight owned brands across skincare, haircare and cosmetics, and provides a route to market for over 1,300 third-party beauty brands through its websites, including Lookfantastic, Cult Beauty and Mankind.

Sales last year rose 49% to £1.12 billion, or more than half of group revenues, although most of the increase was due to two big acquisitions in the US.

The Nutrition unit, which includes the world's largest online sports nutrition brand Myprotein and related brands such as Myvitamins and Myvegan, increased sales by 17% to £660 million or roughly 30% of group revenues.

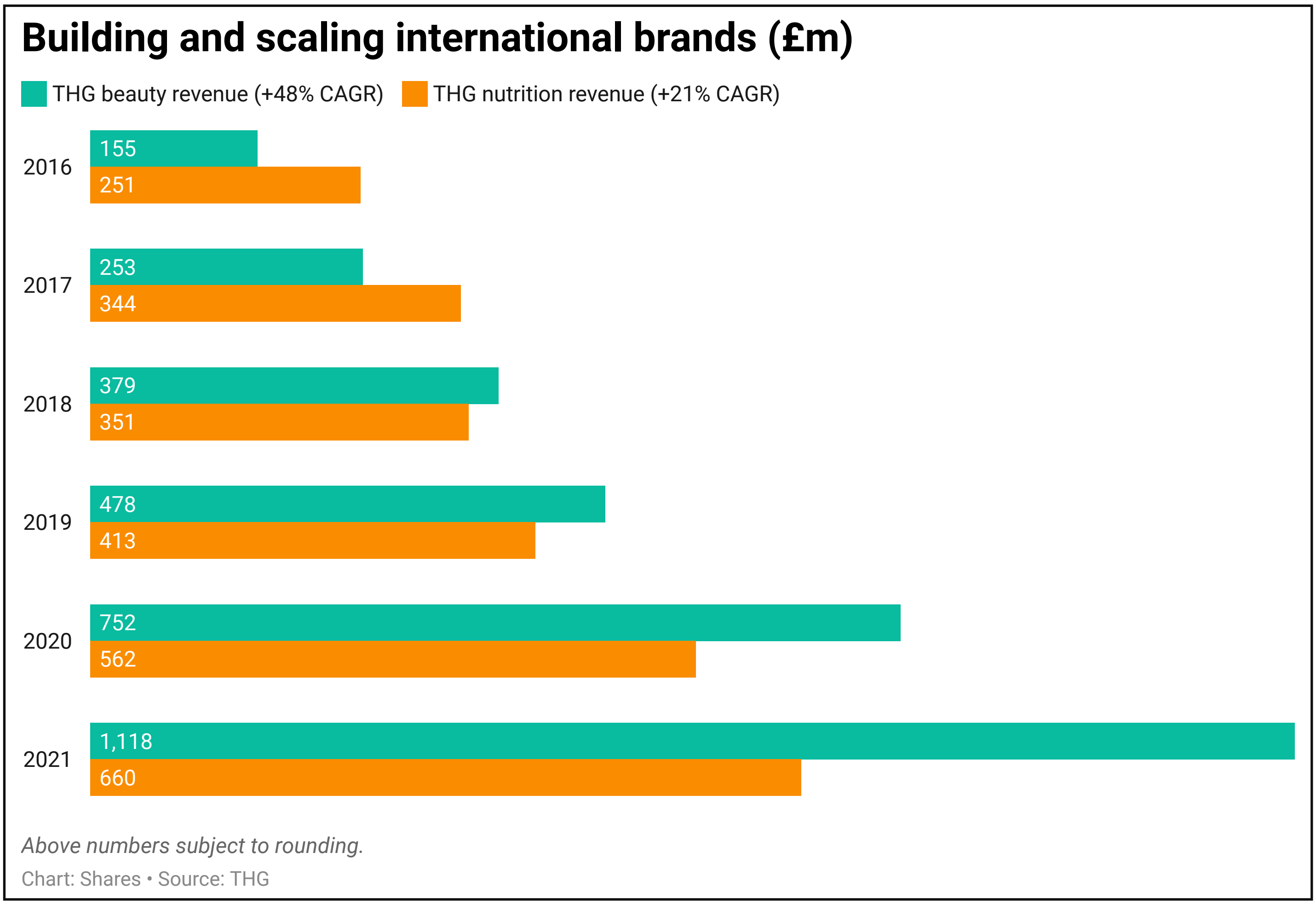
With a greater proportion of consumer spending having shifted online during the pandemic, the number of active Beauty customers rose by 2.3 million to 9.2 million last year while Nutrition saw a rise of just under one million to 7.2 million customers.

The third leg of the business is the Ingenuity division, within which Ingenuity Commerce provides an end-to-end direct-to-consumer e-commerce solution for major global consumer goods brands, or as THG calls it 'a business in a box'.

Revenue for Ingenuity jumped 41% to £194 million as the number of live customer websites doubled to 187 against 89 the previous year.

Disappointingly though, group EBITDA margins dropped to 7.4% against 9.3% in 2020 as the firm battled rising input costs – in particular whey, a key ingredient in its nutrition products – and soaring freight costs.

The firm also cut its 2022 EBITDA margin target



from 8% to 6%, as it opts to absorb some of the inflationary pressure rather than passing it all on and risk losing customers, 'with a weighting to the second half' which is code for 'the first half could look ugly'.

WEAK UNDERLYING GROWTH

There wasn't much to cheer in the first quarter update either, with group revenue growth slowing to 17% against a strong first quarter last year.

Beauty sales rose nearly 20%, while Nutrition growth slipped to 12.6% despite a raft of new product launches.

Stripping out the positive contribution from acquisitions analysts at Numis estimate underlying group sales were up just 2% during the quarter with Beauty sales actually falling 7% and Nutrition sales rising 7%.

For the firm to reach its full year target of 22% to 25% growth, like-for-like sales need to grow by double digits according to Numis, which looks like a tall order.

While the effect of not passing on the full impact of price rises at the risk of losing customers and damaging the 'brand equity' has yet to be seen, with the cost of living crisis really kicking in this quarter we suspect sales growth will have slowed further and tighter margins will result in an even lower first half EBITDA figure than the company has envisaged.

All of which means Ingenuity really needs to deliver. Yet, while the number of live client websites rose to 202, average recurring revenues and the average annual run-rate dropped quite considerably from the fourth quarter of last year meaning the division missed estimates.

HIDDEN POTENTIAL?

While it may not currently generate a huge amount of revenue or value for the group, THG insists Ingenuity can become a key standalone global logistics player for e-commerce retailers and global brands.

At first the market seemed to buy this argument, seeing THG's selling its internet retail expertise as a service as similar to **Ocado's (OCDO)** out-of-the-box solution for global supermarkets. In the interim however, scepticism has built.

Revenue by division

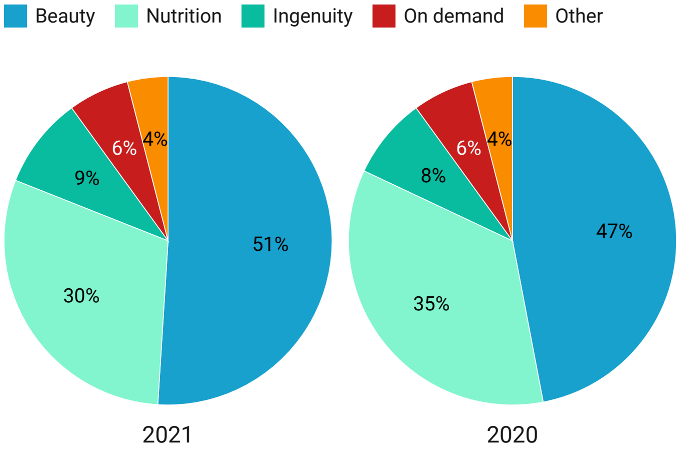


Chart: Shares • Source: THG

Revenue by territory

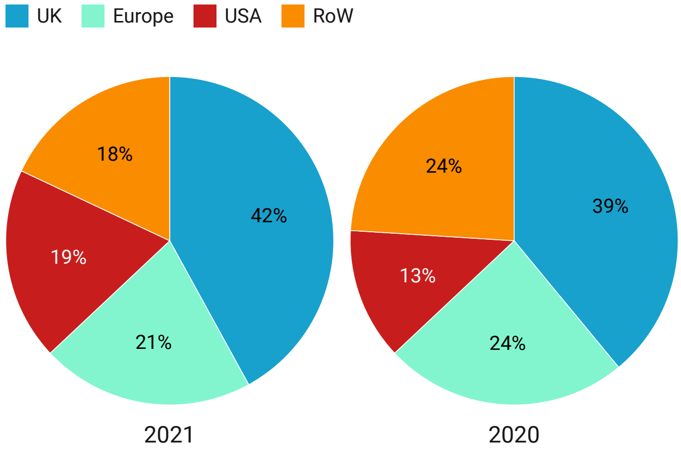


Chart: Shares • Source: THG

The firm manages over three million square feet of warehousing globally, has its own warehouse management software and connections to over 200 'final mile' delivery providers.

Yet for all its expertise, the market remains unconvinced of the potential for Ingenuity to become a pure e-commerce logistics solution.

An October 2021 capital markets event proved a spectacular flop, sending the shares tumbling, and reactions from analysts to the firm's latest strategy update suggest the jury is still out.

While the firm says it is doubling its capacity to handle £14 billion of gross merchandise value 'to facilitate Ingenuity growth in major markets', there are questions over where the increased volumes will come from compared with the current £2.5 billion run-rate.

Also, 'the margin structure and return on investment on the pure logistics proposition is somewhat opaque,' notes Numis, concluding that beyond the rhetoric the first quarter trading update contained 'little in content to meaningfully move the equity story'.

DO YOU FEEL LUCKY?

THG feels like a binary choice to us, which unless we had a gun to our head like Albert Popwell in the film *Dirty Harry* we wouldn't particularly choose to take right now given the uncertainty in global markets.

The core business faces slowing sales growth and a self-imposed margin squeeze, and the noises coming from the consumer discretionary sector so far – including pure online players – are not encouraging.

To quote Numis again: 'The core e-commerce assets look to be facing tough trading conditions, negative forecast momentum and a challenging competitive environment (as with many listed peers), and on comparable valuation wouldn't justify the current market cap.'

The key to the firm's current £1.5 billion valuation is Ingenuity, which if it *does* turn out to be a huge store of hidden value means we, and many other investors, will probably miss the boat.

There has been plenty of takeover speculation, with management confirming it has had 'indicative proposals from numerous parties', but the board has decided that 'each and every proposal has been unacceptable, failing to reflect the fair value of the group' and there is no live interest.

The shares have fallen a long way, and while it's tempting to assume it's the work of faceless, cold-blooded short-sellers that's not actually the case.

Only AHL Partners, which is part of **Man Group (EMG)**, is short THG, and then only 0.6% of the share capital alongside its similar-sized short bets in online fashion retailers **ASOS (ASC)** and **Boohoo.com (BOO:AIM)**.

It's important to say we don't think investors are in danger of being wiped out in THG as they were in McColl's, but the balance between risk and reward just doesn't appeal to us here.

By **Ian Conway** Companies Editor


RUSS MOULD
AJ Bell Investment Director

Why it's now looking like the usual stock market cycle is about to repeat

We look at the turning points which could signal the future direction of shares

Robert Rhea's outline of a bull market in his tome, *The Dow Theory*, which dates back to 1932, still seems relevant today. He said: 'There are three principal phases of a bull market: the first is represented by reviving confidence in the future of business; the second is the response of stock prices to the known improvement in corporate earnings, and the third is the period when speculation is rampant – a period where stocks are advanced on hope and expectations.'

Less well known may be the flipside, namely Rhea's analysis of the three classic phases of a downturn. 'There are three classic phases of a bear market: the first represents the abandonment of hope upon which stocks were purchased at inflated prices; the second reflects selling due to decreased business and earnings, and the third is caused by distress selling of sound securities, regardless of their value, by those who must find a cash market for at least a portion of their assets.'

Wild events in the cryptocurrency markets, and frightening talk, at least on social media, of people being ruined and even committing suicide evoke bad memories of the crashing bear market of the 1930s when even the famed Boy Plunger, Jesse Livermore, killed himself after one too many failed attempts to buy US equities on the dips.

Everyone will have an opinion on crypto and where we may be in Rhea's cycle, whether they are interested and have exposure or not.

BUBBLE, BUBBLE

Everyone will have an opinion on equities, too, and on where we are in the market cycle. This will shape, in turn, how they think about the exposures they have and the current balance between risk and reward in certain countries, sectors, themes or specific stocks.

You can argue that all market booms and busts follow Rhea's pattern. The really hard bit is working out how long the good times and bad times may last and what may prompt sentiment to turn, either up or down.

One simple rule is probably that bull and bear markets go on for a lot longer than you think likely, although the former genuinely last a lot longer than the latter. In addition, market tops are a process, often characterised by multiple peaks as bulls refuse to believe it is all over and keep trying to forge new highs, while bottoms are usually an event as capitulation takes over and sentiment is well and truly washed out.

A useful guide to turning points may be to look at where the market action has been hottest or, to be less kind, most speculative. Bull markets crack at the periphery first and trouble then filters through

Has a 'crypto winter' cooled ardour for bitcoin?

Chart: Shares • Source: Refinitiv.

RUSS MOULD
AJ Bell Investment Director

to core assets as confidence wanes. It could be argued that the cryptocurrency crumble is one early sign of trouble ahead that may force crypto holders to liquidate other assets to stay afloat.

TOIL AND TROUBLE

Other areas that have seen frantic action have also starting to look less healthy.

SPAC (special purpose acquisition company) deals are performing poorly and new transactions are getting a cool reception. Initial public offerings are doing badly, at least on average. The Reddit crowd's efforts to ramp hedge funds out of their short positions are petering out.

More speculative names with big market caps that deliver only losses (or profits that are tiny compared to their market caps) are being taken to the woodshed, as can be seen in the bear market that already characterises Nasdaq. And even purportedly 'safe', reliable names are under pressure, weighed down by the lofty expectations and even loftier price tags.

IPOs are struggling to sustain their offering prices

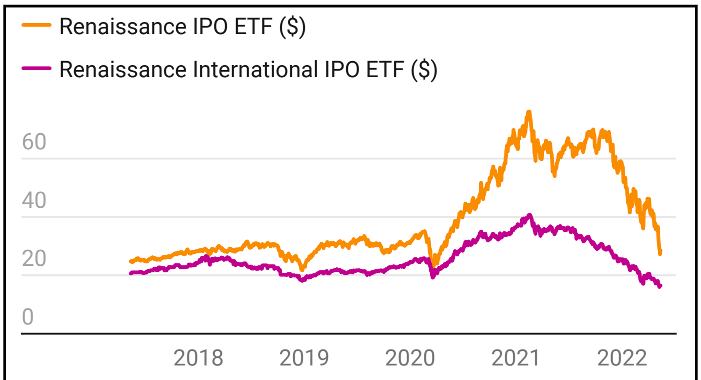
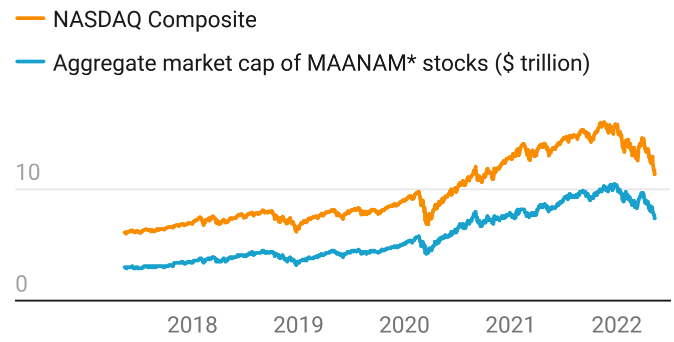


Chart: Shares • Source: Refinitiv.

None of this is to say the bull market is over. Central banks could yet try to breathe new life into the long upward run with more unorthodox policy. But right now, inflation is their biggest concern, not supporting markets. That could change at some stage, if recent history is any guide, but it might not be able to change quite soon enough to prevent further bouts of volatility, if nothing else.

Even the allegedly safest of names have been on the slide



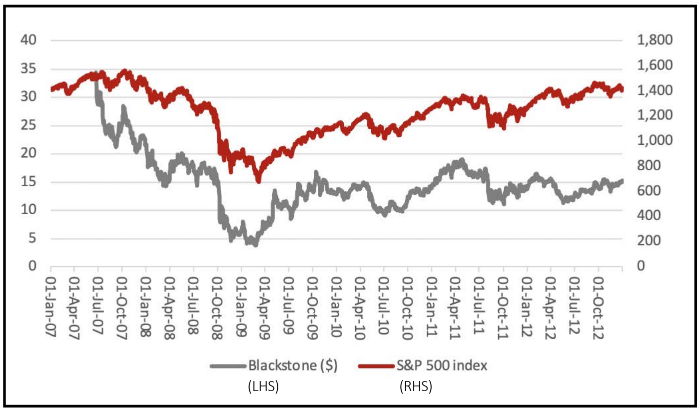
*MAANAM = Microsoft, Apple, Amazon, Netflix, Alphabet, Meta Platforms

Chart: Shares • Source: Refinitiv.

For markets to regain their momentum, the aforementioned areas need to stabilise and start to advance. Anyone looking for the next warning sign might perhaps look to another industry that has boomed but has turned a net seller, of itself, through stock market flotations – private equity.

Petershill (PHLL) and **Bridgepoint (BPT)** both floated in London in 2021. Neither share price has covered itself in glory. Those with long memories will recall how Blackstone's New York listing was neatly timed – for the sellers – in 2007, just ahead of the smash. It took almost seven years to get back to its $31 flotation price.

Will private equity stocks be a useful indicator this time around?



Source: Refinitiv data

Why the boring utilities sector is now exciting and where you should invest

Exposure to ESG themes, recent power price volatility and the need for energy security are shaking up the industry

The utilities sector has historically attracted investors for its defensive and reliable revenue streams which in turn funded a decent level of dividend income.

More recently, several connected factors have shaken up this industry. These include a transition away from fossil fuels into renewables in the face of a climate emergency, greater appetite for investments in ESG (environmental, social and governance) themes, the surge in energy prices and governments realising they need future energy security.

Utilities also offer a measure of protection against inflation, with regulated revenue linked to rising prices and demand for their essential services not as vulnerable to cost-of-living pressures.

Morgan Stanley sums up the sector's appeal by saying: 'We see a compelling argument for utilities to outperform the market given the confluence of policy and macro developments. The sector combines: 1) defensive qualities; 2) green growth; 3) earnings per share upgrades from higher power prices; and 4) reinforced policy tailwinds from energy security and climate considerations.'

REGULATED REVENUE

A key underpinning of utilities' historic defensiveness is the way they are regulated. Energy regulator Ofgem and its water counterpart Ofwat set how much operators can earn for a multi-year horizon as well as mandating how much they need to spend on infrastructure improvements.

Regulators are balancing three main objectives in determining these frameworks. They want to keep energy prices as low as possible for consumers, encourage spending on improvements to the UK's energy ecosystem (something which is even more crucial given the need to transition towards greener forms of power) and ensure utility providers offer the level of returns required to attract investors.

Because lenders to these firms have a high degree of confidence in their earnings, companies can borrow heavily to spend and have money left over to return to shareholders through dividends.

UTILITIES COMPANIES ON THE UK STOCK MARKET

If we leave aside telecommunications and waste management firms, there are eight utilities firms in the FTSE 350 index of UK stocks. Of these **ContourGlobal (GLO)** is a bit of an outlier as it invests in assets outside the UK.

National Grid

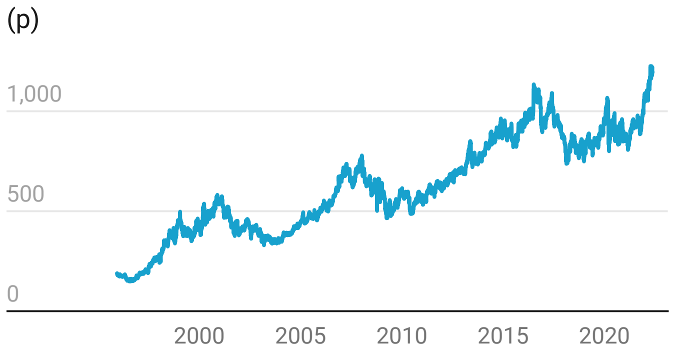


Chart: Shares Magazine • Source: Refinitiv.

From the remaining seven firms, **National Grid (NG.)** is focused on energy transmission infrastructure, **SSE (SSE)** on power transmission, distribution and generation, British Gas owner **Centrica (CNA)** on energy services and distribution, **Drax (DRX)** on power generation, while **Severn Trent (SVT)**, **Pennon (PNN)** and **United Utilities (UU.)** specialise in the supply and management of water and wastewater.

The company to which you pay your household bills will often just be a middleman, purchasing power in the wholesale markets, with the big energy and utility firms responsible for supply and managing the network.

The surge in gas and electricity prices over the last 12 months has seen many smaller, independent outfits go to the wall, arguably improving the competitive position of their larger counterparts.

While Centrica still has its consumer-facing arm, British Gas, SSE sold its consumer operations to OVO Energy for £500 million in 2020.

LIMITS ON EARNINGS VISIBILITY

While utilities may seem like straightforward investments, there can be unforeseen events. For example, National Grid and SSE had a shock in 2020 when Ofgem halved the proposed return on equity in the next pricing settlement to less than 4% before easing up slightly and allowing a 4.3% return. The aim was to tip the scales more in favour of consumers than shareholders.

While actions such as these by regulators can constrain companies on the dividend front, utilities can still deliver a generous level of income, with the prospective yield for the FTSE 350 constituents averaging 4.6%.

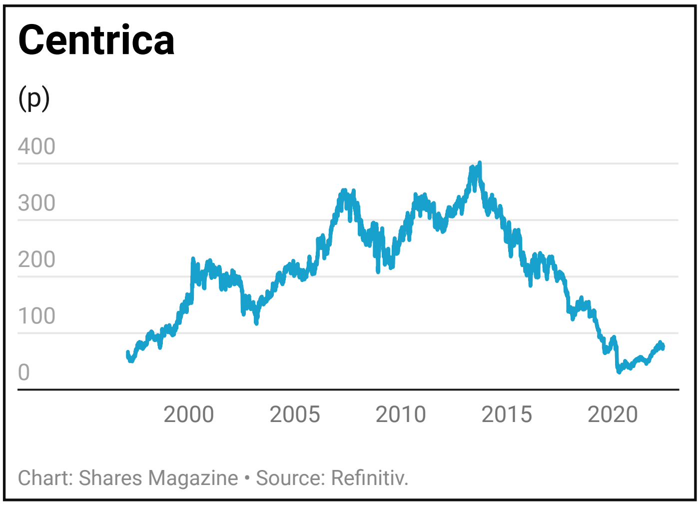
There is no question which constituent of the sector can lay claim to the wooden spoon. Centrica shareholders have had a miserable time over the last decade as the company has been beset by operational problems, exposed to volatile commodity prices thanks to its oil and gas assets, and its British Gas retail business has haemorrhaged customers.

Snapshot of the utilities sector

Company	Forward PE	Last reported net debt (cash)	Prospective dividend yield (%)	Five-year total return (%)
Drax	12	£1.17 billion	2.7%	162%
SSE	17	£8.88 billion	4.9%	56%
Severn Trent	25	£6.33 billion	3.6%	43%
National Grid	18	£41.1 billion	4.5%	34%
United Utilities	24	£7.81 billion	4.1%	28%
Pennon	23	£2.54 billion	3.8%	27%
ContourGlobal*	22	£3.84 billion	8.5%	−4%
Centrica	8	(£680 million)	5.0%	−46%

*Forecasts for current financial year. *Total return since IPO on 9 Nov 2017*

Table: Shares • Source: Stockopedia, SharePad, data to 11 May 2022



Utilities' exposure to the ESG theme is probably the biggest change over the course of Centrica's troubled decade. Investment bank Berenberg comments: 'Rich veins of ESG themes run through the utilities sector.

'The list includes renewables development, supporting network infrastructure, the use of hydrogen (as a substitute for gas and for transportation), electrification (including vehicle charging and heating), the circular economy, water and energy efficiency, pollution control and a general need to cope with the increased complexity that comes with more responsible production, delivery and consumption.'

PUSH TO CAPITALISE ON ESG OPPORTUNITIES

The appetite for sector constituents to more fully embrace ESG opportunities is reflected in the pressure from activist investor Elliott at SSE to break up the group. It argues the renewables arm would attract a higher valuation as a standalone business.

While SSE has said it will sell 25% of its grid business to fund a £12.5 billion investment in clean energy projects through to 2026, it is resisting calls for a more dramatic restructuring.

SSE's argument is that splitting up its businesses would result in a weaker credit position and a loss of shared skills and diversification benefits.

This argument was given some credence as profit for the six-month period to 30 September 2021 more than doubled after higher earnings at its distribution and transmission businesses offset a loss at its renewable energy unit.

The company has already raised forecasts twice in 2022 thanks to a strong performance from its thermal and hydro arms. SSE announces its full-year results on 25 May when you can expect its strategy to come under renewed scrutiny by Elliott.

As well as aiding the transition towards renewable energy, utilities firms will also be expected to play their part in keeping the lights on during a period when the UK and other countries are trying to wean themselves off Russian oil and gas.

Drax, the top performing FTSE 350 utility firm over the last five years as it has transitioned from fossil fuels to biomass and hydro power, was one of several producers asked by UK business secretary Kwasi Kwarteng to consider keeping its legacy coal-fired power plants in service beyond a planned shut down in September 2022.

Biomass train at Drax Power Station. ©Drax

WHERE TO INVEST

Our two favourite stocks in the utilities sector are SSE and Drax.

SSE's shares have already enjoyed an impressive run, but the company should be able to achieve a big expansion in its renewables business, partnering up with other large energy firms to share the capital costs, while still sustaining attractive returns to shareholders.

Drax has equally been a strong performer but its plans to be a global leader in sustainable biomass justify the momentum behind the share price while elevated power prices offer a near-term catalyst for earnings.

For broad-based exposure to the utilities sector, including in some of the larger continental European names, buy shares in exchange-traded fund **SPDR MSCI Utilities UCITS ETF (UTIL)** which has an ongoing charge of 0.18%. This ETF automatically reinvests dividends rather than paying them out in cash.

HOW ARE THE BIG PLAYERS PERFORMING?

CENTRICA

Owner of retail businesses British Gas and Bord Gáis serving the UK and Republic of Ireland respectively. It also offers energy solutions to businesses, trades energy markets, and holds oil and gas and nuclear assets.

Latest update (10 May): Strong operational performance in the first four months of 2022, full year adjusted earnings per share at the top of analyst expectations.

DRAX

Owns several power generation assets including coal-fired power stations and renewables. It also supplies renewable energy to businesses.

Latest update (27 April): 2022 earnings at top end of analyst expectations, debt to be significantly below two times earnings by the end of 2022.

NATIONAL GRID

Owns and operates the electricity and gas transmission network in the UK and similar networks in the US. Paid a regulated price by energy suppliers based on the size of its asset base as opposed to the volume of electricity used.

Latest update (14 April): Earnings per share for the year to 31 March 2022 to be moderately higher than previous guidance. The sale of a 60% stake in its UK gas transmission and metering business is expected to complete later in 2022.

PENNON

Provides water and wastewater services to customers through South West Water, Bournemouth Water and Bristol Water as well as water-related services through Pennon Water Services.

Latest update (12 April): Operational performance in line with management expectations, resilient financial performance in the year to 31 March 2022. Despite inflation-linked revenue, its cost base is expected to be impacted by index-linked debt and rising power costs.

SEVERN TRENT

Operates Severn Trent Water and Hafren Dyfrdwy which are regulated water and waste businesses operating in the Midlands and Wales. It is also developing non-regulated businesses in green power and property development.

Latest update (2 February): Trading in line with expectations, strong operational performance reflected in positive recognition from the regulator.

SSE

Builds and operates onshore and offshore windfarms and has a large energy transmission and distribution business.

Latest update (29 March): Adjusted earnings per share for the year to 31 March 2022 expected in a range of 92p to 97p (previous guidance of at least 90p). It has received £1.29 billion from the disposal of investments in Scotia Gas Networks.

UNITED UTILITIES

Provider of water and wastewater services for household and business customers across the north-west of England. Maintains and operates thousands of kilometres of pipes and hundreds of treatment-works.

Latest update (25 March): Trading in line with expectations for the year to 31 March 2022. Group revenue up 3% year-on-year, reflecting increased usage by commercial customers.

How investment trust boards can add value for shareholders

Boards can add value by changing the manager, lowering fees or instigating mergers

A unique advantage of investment trusts versus other types of funds are their independent boards of directors which offer additional oversight for investors and have a legal responsibility to protect shareholders' interests. The role of the board is both vital and varied.

It ranges from scrutinising the performance of the fund manager and negotiating charges to proposing mergers between trusts and firing underperforming investment managers.

Basically, investment trust boards are tasked with fighting for the interests of shareholders and, in recent years, they have been very active in negotiating lower fees for investors while leading the way on governance.

COMPLEMENTARY SKILLSETS

Investment trusts are listed companies, so they must comply with stock exchange rules and appoint a board of directors who are independent of the investment manager and legally responsible for protecting the interests of the trust's shareholders, which ultimately means replacing the manager or closing down the trust if performance is poor.

The board's role is a multi-faceted one, so an effective board should comprise individuals with specific skillsets and strengths that complement those of fellow directors. Robert Jeens (*pictured*), chairman of **Allianz Technology Trust (ATT)**, informs *Shares* that boards help get the best deal for shareholders. He says they are 'typically ordinary people investing for their retirement and you are their voice.' Jeens adds: 'Boards have to

think of themselves in that way.'

In terms of board composition, the experienced Jeens believes trusts need to assemble 'a group of people that's not too big, because that would cost too much money, and not too small because you would not have enough skills'.

Most large trusts have a board of five or six people, yet Jeens relays that on the smaller trusts he has been on, 'we've managed very satisfactorily with three or four, but you've got to be conscious of the size of your company and what's affordable and sensible'.

Annabel Brodie-Smith (*pictured*), communications director of the Association of Investment Companies, says that traditionally investment trust boards have had a mix of skills in areas like asset management, accountancy and legal skills but notes increasing demand for people with marketing and distribution experience.

Elisabeth Scott (*pictured*) chairs the AIC and **India Capital Growth Fund (IGC)**. She is also a non-executive director of Allianz Technology Trust and has just joined the board of **JPMorgan Global Emerging Markets Income (JEMI)**.

Scott argues independence from the management company is what differentiates the board of an investment trust from an open-ended fund.

Her fellow AIC board member Gay Collins (*pictured*) is also **JP Morgan Global Growth & Income's (JGGI)** senior independent non-executive director and a non-executive of **Dunedin Income Growth (DIG)**. Collins says a board needs a mixture of input. 'You need one that has been an investment manager and someone who understands about accountancy, because the board needs someone to chair the audit committee.'

Scott believes the board needs to have a diverse range of experience but it is 'not just the very obvious diversity such as gender and ethnicity, at least as important is diversity of thought'.

MERGERS & MANAGEMENT CHANGES

One of the board's most important roles is scrutinising the portfolio performance of the trust for which they are responsible. 'At times performance isn't going to be good,' concedes Scott, 'and the board's role is to constructively challenge the manager and detect if there is any mission creep or sliding away from the style the manager has adopted.

'If you set out your stall as a value manager and value is doing badly, what the board doesn't want to see is suddenly the value manager becoming a growth manager.'

Gay Collins says the boards she sits on grill the fund management team on what their stock selection has been like, changes they have made and where the outperformance has come from.

'We don't make decisions on gearing (borrowing to invest) on either of the trusts I'm on, but we discuss what the managers' thoughts are on gearing.'

Scott regards mergers, which have been racking up in the investment trust universe, as 'a classic example of boards thinking about how can we get better value for our shareholders'. The board might consider their trust to be sub-scale, so it would be better to merge it with another one, or performance isn't up to scratch, so somebody else could do better.

'That's always going to be driven by the board and the selection of a new manager is always going to be something for the board to decide upon,' says Scott.

In 2020 the chairman of **Temple Bar (TMPL)** Arthur Copple led the process of changing the investment manager from Ninety One to RWC Asset Management after poor performance and the departure of a key member of the team due to ill health.

Explaining the process Copple noted that having decided to stick with a value approach, he and the board received 19 proposals, which were whittled down to six, then finally down to two.

'Then after that we had to replace our AIFM (alternative investment fund manager), our company secretary and our fund administrator and again that is an arduous selection process. It is a question of devoting the time and resources and we had external help, without which the whole process would have been impossible,' said Copple.

Building trust and a good relationship with the investment manager is a role highlighted by Jeens. 'These people have lots of other funds to run as well and you want them to think about you more than the other guys,' he says. 'And you do that by essentially combinations of charm and dare I say, making sure they get a reasonable fee for the job as well.'

Setting fees is a key role for boards, which should aim to strike a fair balance between minimising shareholders' costs and ensuring the investment manager is appropriately incentivised. In 2021, boards were active in negotiating fee reductions on shareholders' behalf with a total of 31 investment companies making fee changes.

Jeens says: 'When I joined the board of Allianz Technology Trust, there wasn't a tiered fee structure. Allianz Technology Trust has now put in place tiers so that for the market value of the trust over £1 billion, the management fee is 50 basis points, a very good rate for a specialist fund such as this. And it is working into those lower fee tier structures that brings the fees down.

'The overall TER (total expense ratio – also known as ongoing charges) of the trust has come down from 80 basis points in 2020 to 69 basis points in 2021 and we have also worked on the performance fee, which has come down.'

MANAGING THE DISCOUNT

Boards also have the ability to smooth the payment of dividend income by putting aside surplus revenue as reserves, and should monitor closely the discount/premium to net asset value at which their trust's shares trade. Elisabeth Scott says Allianz Technology Trust's board has been very involved on this front.

Not long ago, before the recent technology sell-off triggered by inflation and rising interest rates, Allianz Technology Trust traded at a premium and was issuing shares, but now, 'we are trading at a discount and buying back shares', points out Scott. 'The board is very involved in that discussion and setting the parameters around those policies, even talking to the brokers and the management company to make sure those policies are being carried through.'

Scott also recounts how people were 'really concerned about India' at the start of the Covid crisis which was reflected in a large discount on India Capital Growth Fund.

The discount had widened to about 40%. It also had a continuation vote coming up. The board needed to do something about it – winding up the trust at the share price as it was then was not in the interests of anybody, she recalls.

But the board met 'an awful lot' with the manager, lawyers and brokers before introducing a redemption facility that 'first kicked in at the end of 2021, allowing any shareholder to redeem their shares at a certain discount to net asset value. 'The discount narrowed considerably and when we had the redemption facility at the end of 2021, we saw less than 15% of the shares being redeemed, which we felt was a very good outcome.'

Gay Collins cites the transformation of JPMorgan Global Growth & Income as a good example of a board driving through positive change. Until 2016, this was a growth trust called JPMorgan Overseas offering miniscule income and trading at 'about a 16% discount' when Collins joined the board in 2012.

The wide discount was cause for concern and the board 'recognised everyone wants income and we weren't giving much income', says Collins. 'We wanted to grow the trust, and when you are trading at a discount you can't grow. You are constantly buying back shares, not issuing shares, so we as a board decided to change from being a growth trust to a growth and income trust.'

The board decided not to change the fund management team and not to change their process, but it did elect to boost the income through dipping into its significant revenue reserves.

In 2016, the trust was renamed JPMorgan Global Growth & Income and 'we spent a lot of time thinking about the messaging', explains Collins. Within six months of the relaunch, JPMorgan Global Growth & Income was trading at a premium and was starting to issue shares, recalls Collins. Today, 'we are in the process of merging with The Scottish Investment Trust, our performance has been amazing and the whole outlook for the trust is totally different'.

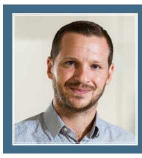
Shareholders are happy as a trust that was going nowhere has since outperformed its benchmark and peers while delivering rising dividends; the impending merger with The Scottish will almost double its assets under management to £1.3 billion and reduce ongoing charges.

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

My bills are rising. Should I pay less into my pension to free up money?

It's a question many people are asking as the cost of living keeps going up

Given the cost-of-living crisis is increasing bills for everyone, is it still better to prioritise pension saving if you don't need to access the money? And once you start taking an income, does it make sense to go ISA first? Or should it be ISA and pension together to get as much tax-free as possible?
Helen



Tom Selby, AJ Bell Head of Retirement Policy says:

The cost-of-living crisis is causing households across the country to review their budgets, including how and where people save for the future.

Anyone considering reducing their savings or cutting back on pension contributions should think about the impact it will have on their longer-term aspirations. See if you can make cutbacks elsewhere.

For most people a balanced approach combining easy access cash accounts, medium-term ISA or Lifetime ISA savings (where the latter is used towards a first home purchase), and longer-term pension or Lifetime ISA savings will likely be appropriate.

How much you commit to each will depend on your personal circumstances, priorities and goals. For example, some will prioritise saving for a first home, while others might be more focused on retirement.

The starting point of a solid savings plan should be paying off any high-cost debts and building up a rainy-day fund for emergencies. You can then start to think about pensions and ISAs.

If you're employed, then contributing to your workplace pension should be a priority as it benefits from both employer contributions and tax relief.

Beyond this, ISAs, Lifetime ISAs or SIPPs – or a combination of all three – could be the right option depending on your income tax bracket, age and long-term goals.

It can make sense for your pension to be the last asset you touch, particularly if you're prioritising passing money onto loved ones after you die.

Pensions are extremely tax efficient on death as inheritance tax usually doesn't apply, and leftover funds can be inherited tax-free if you die before age 75. If you die after age 75, the funds will be taxed in the same way as income when your beneficiary comes to make a withdrawal. ISAs will count towards your estate on death.

Another priority for lots of people will be minimising the amount of income tax they pay. This could be achieved by combining pension and ISA withdrawals.

For example, a 60-year-old who has already taken their 25% pension tax-free cash who needs £15,000 of income in 2022 could withdraw £12,570 from their SIPP – the personal allowance – and take the remaining £2,430 from their ISA. This would mean, assuming they had no other sources of income, that they would pay no income tax for the year.

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.

Cost-of-living crisis: how to create a budget and stick to it

A simple bit of organisation could help you avoid being stressed about money

Nine in 10 people have seen an increase in their cost of living in the past month, with a quarter of people saying it was hard to pay their essential bills, according to Bank of England research.

Inflation has hit 7% and is now expected to reach double digits later this year. A lot of this is driven by rising energy costs, which are hitting people's household bills and the cost of filling up their car. But people are also seeing an increase in their food bills, travel costs and almost every other area of their spending.

Now is a good time for anyone worried about their finances to put together a budget, analyse how they spend and set limits, so they are not spending more than their income. Even if you still have plenty of breathing space between your income and outgoings, it's a good idea to periodically look at where you are spending money and how you can save some cash.

So here is a plan of how to set a budget and (crucially) stick to it.

STEP 1: LOOK AT WHERE YOUR MONEY GOES

Before you can set a target, you need to know what you're spending your money on. This involves downloading the last couple of months of bank statements for any credit cards or bank accounts and categorising where your money goes.

You can be as specific as you like, but broad buckets of food spending, energy bills, other bills, entertainment, travel, rent/mortgage, loan or debt repayments, and miscellaneous will probably be sufficient for most people.

You then need to set this against your household income. If you are spending more than you earn, then you need to make changes. Slipping into your overdraft every month or not paying off your credit card in full might not seem like a big deal, but if you continually spend more than you earn, you'll just get further into debt with no way to pay it off.

STEP 2: CUT THE COST OF YOUR ESSENTIALS

Some things you just can't eliminate, such as car insurance, energy bills or phone bills. But you can look at whether you're paying over the odds and if you can cut the cost of the bills.

For many of your essential bills if you haven't switched provider in the past year or two you could probably get a cheaper price.

For example, lots of people let their mobile phone contract roll over at the end of the term, but they could get a far cheaper deal by getting a new SIM-only contract and keeping their handset.

Alternatively, if you haven't moved car insurance provider recently, you could likely get a cheaper deal by shopping around. Comparison websites have made this process much easier.

One big area where people often overpay is their TV and broadband package, which will often increase dramatically in price each year but go unnoticed by many.

Call up and haggle for a better deal or switch to a new provider. Lots of people think it's a lot of hassle to switch providers, but various switching services streamline the process.

STEP 3: WORK OUT WHAT ELSE TO CUT

Listing out all your spending can be an eye-opening experience, as lots of people will be spending far more on certain areas than they realise. Looking at the amount you spend on different areas will also highlight specific places where you're overpaying.

If you still have a shortfall between your income and outgoings you need to work out where to make that saving. This will be a personal preference as everyone has different priorities. One person might be happy having fewer nights out or trips to the pubs, while someone else might want to keep hold of them but shop in a more budget supermarket or cut a streaming service.

STEP 4: CLAIM ANY FREE MONEY

Lots of Government help and benefits go unclaimed, and people could bolster their income by claiming the support to which they're entitled.

For example, any parents should check whether they are eligible for child benefit or for tax-free childcare, if they have childcare costs.

Couples where there is one basic-rate taxpayer and the other a low earner or non-earner should see if they are eligible for the Marriage Allowance (and backdate their claim). Lots of people are also eligible for council tax discounts, either due to their low income or because they live alone or with children.

For lower-income families there might be a whole host of other benefits they could claim that could have a big impact on their budget. There are

free benefit checker tools online that will give you an idea (never pay for these services) or you can go to a charity like Citizens Advice who will help you work out what you're owed.

STEP 5: SET A NEW BUDGET

Now you've cut the price of some of your bills, potentially bolstered your income and worked out where you can make other cost savings, you can set budgets for each area of spending in your life.

This will help you to keep on track and avoid accidentally overspending in certain areas each month. It's important to set realistic targets, as if you set unrealistic goals and then continually overspend, you'll likely throw the whole budget out the window.

You also need to factor in occasional or one-off payments into your monthly budget, so these situations don't throw you off course.

For example, factor in Christmas costs, holidays or birthday presents. If you have kids think about school uniforms or buying new clothes a few times a year, and if you have pets think about any vet bills.

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

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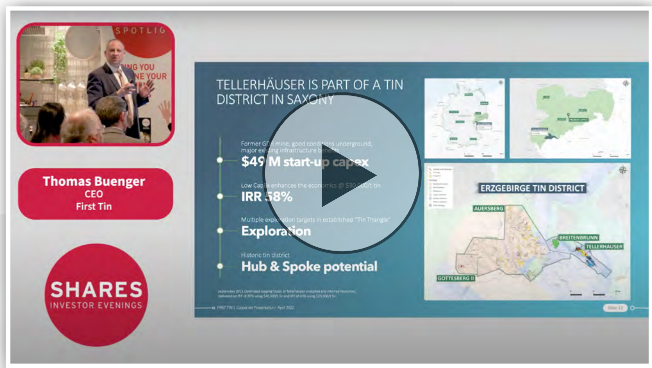
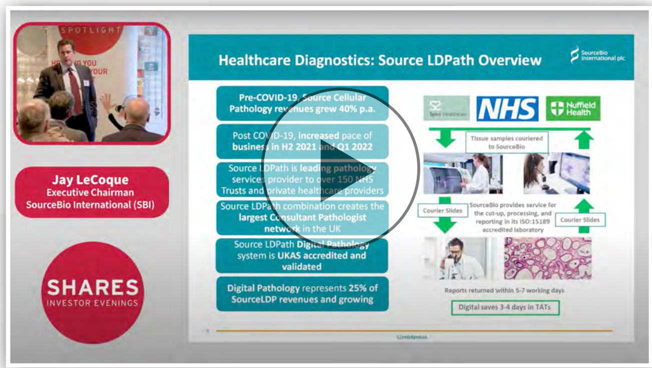


First Tin
Thomas Buenger, CEO

Tin is a critical metal – vital in any plan to decarbonise and electrify the world, yet Europe has very little supply. First Tin's goal is to use best-in-class environmental standards to bring two tin mines into production in three years, providing provenance of supply to support the current global clean energy and technological revolutions.

Cadence Minerals
Kiran Morzaria, Director & CEO

Cadence Minerals is dedicated to smart investments for a greener world. The planet needs rechargeable batteries on a global scale – upcoming supersized passenger vehicles, lorries and buses – require lithium and other technology minerals to power their cells. Cadence is helping find these minerals in new places and extracting them in new ways, which will meet the demand of this burgeoning market.



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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
20 May: Wincanton. **23 May:** Big Yellow, Kainos. **24 May:** Bytes Technology, Cordiant Digital Infrastructure, Cranswick, Helical, Homeserve, Lords, Speedy Hire. **25 May:** Braemar Shipping Services, De La Rue, HICL Infrastructure, Likewise, Mediclinic, Pennant, Pets at Home, Marks & Spencer, Severn Trent, SSE. **26 May:** Auto Trader, Caledonia Investments, Intermediate Capital, Johnson Matthey, LondonMetric Property, United Utilities. **27 May:** Volvere

Half-year results:
24 May: Avon Protection, Greencore, Hyve, On The Beach, Shaftesbury, Topps Tiles. **25 May:** Hollywood Bowl. **26 May:** AJ Bell, IntegraFin.

Trading updates:
20 May: Close Brothers. **23 May:** Centralnic. **25 May:** Intertek, Regional REIT. **26 May:** Kingfisher.

DISCLAIMER: Financial services company AJ Bell owns Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell.

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