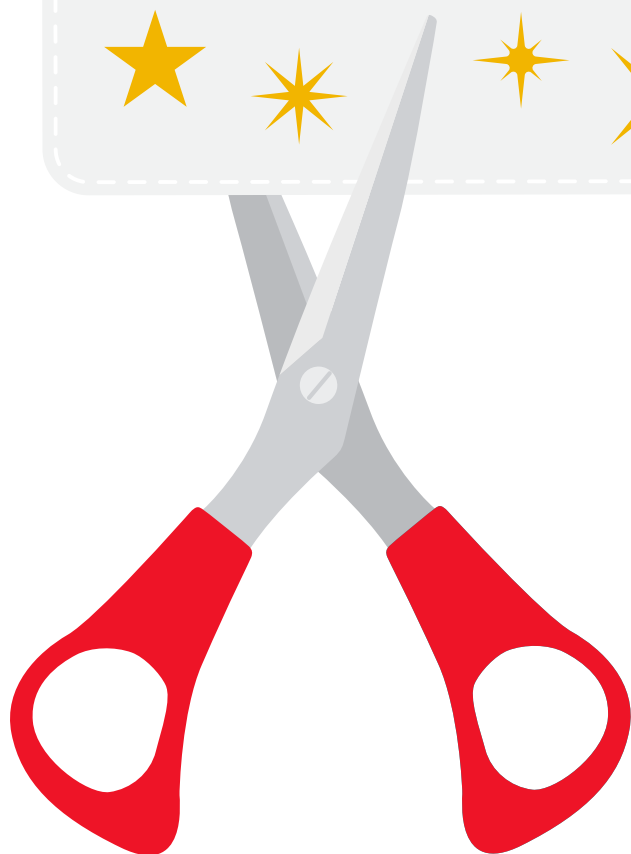


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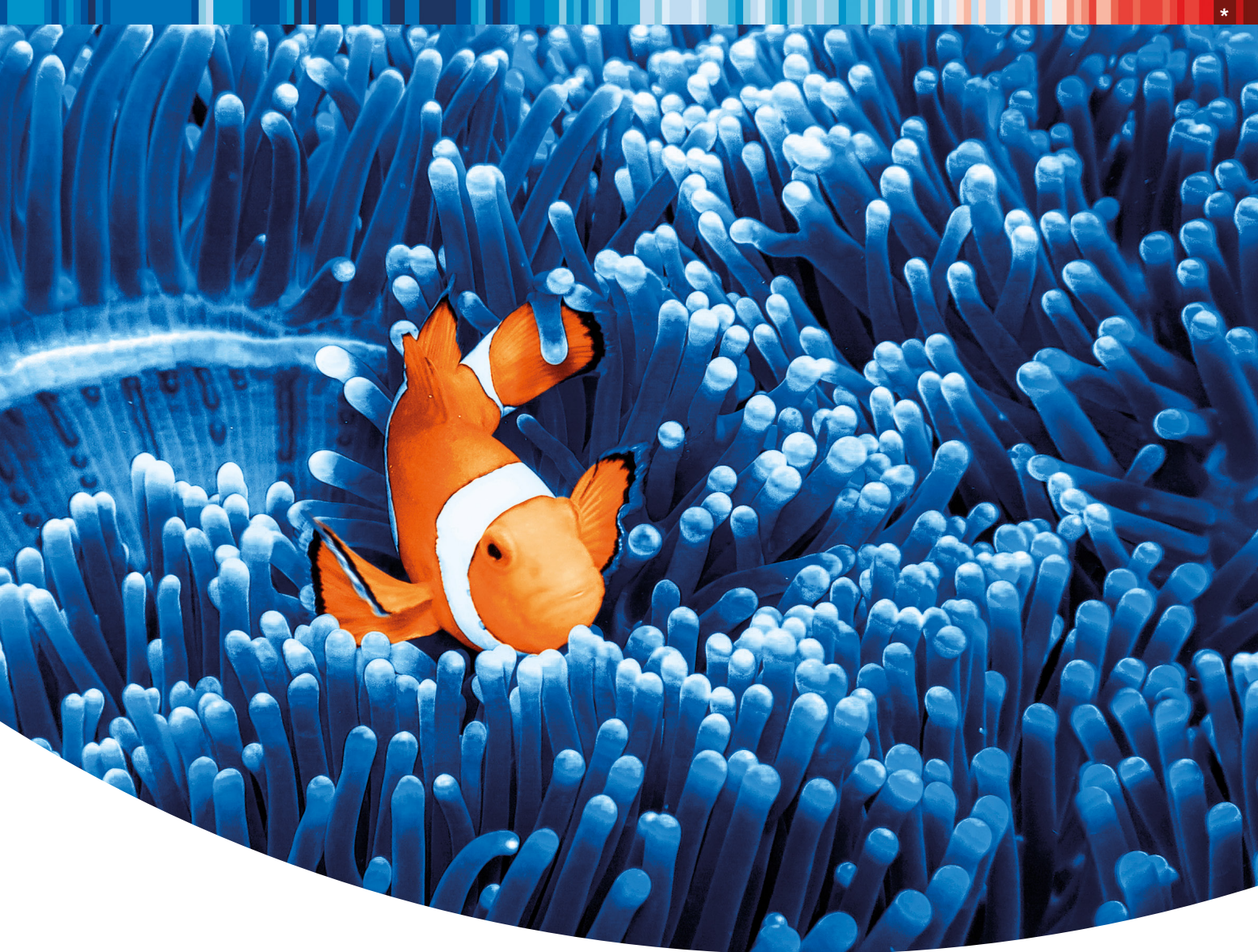


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**US retail rout:**  
why **Target** and  
**Walmart** crashed

The two **Buffett-**  
**influenced** funds  
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**formula**

**Coping** with the  
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# Valuable lessons to be drawn from the world's oldest fund

F&C Investment Trust has weathered countless conflicts and crises to come out the other side

**S**ometimes it is important to get a bit of perspective, particularly when the outlook is as gloomy as it is now.

Granted that's difficult when the governor of the Bank of England is using words like 'apocalyptic' and we're experiencing the most significant war in mainland Europe in most people's lifetimes.

Many of you will have lost money on your investments in 2022 and anyone who chased some of the more speculative investments higher last year could be sitting on some very painful losses indeed.

However, for evidence of how markets can endure through war, famine and pandemics look no further than the investment trust sector.

No fewer than 25 trusts have been around in some form or another for more than 100 years. This includes the daddy of them all, self-described as 'the world's oldest collective investment scheme', **F&C Investment Trust (FCIT)**.

Formerly known as Foreign & Colonial, the vehicle can trace its history back to 1868. The intervening 154 years have seen two world wars, two global pandemics, periods when UK inflation was more than 20%, interest rates above 15% and numerous financial crises.

And yet the trust has continued to plug away and generate returns for its shareholders through all of that and more, even increasing its dividend for 51 consecutive years.

It has become a highly diversified fund, with more than 450 stock holdings from across the world. In his latest commentary, F&C Investment Trust's manager Paul Niven said: 'We can expect markets to remain volatile in the short term, with the outcome of the war in Ukraine uncertain and central banks embarking on policy tightening cycles.'

'Nonetheless, F&C Investment Trust has a tremendous advantage through our corporate

## How F&C has performed in the last 25 years



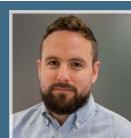
Chart: sharesmagazine.co.uk • Source: Refinitiv

structure, which makes us well placed to withstand further market volatility. We remain focused on the long-term opportunities for the benefit of our shareholders.'

What lessons can investors draw from F&C's approach at a time when things feel bleak? First, investment is a long-term exercise which rewards patience. No-one will have an investment horizon of 150 years-plus but at least a decade or more will be typical.

This means you can afford to ride out difficult periods and wait for the value of investments to recover. The second is to be diversified. Again, owning 450 individual shares isn't realistic but through funds you can ensure all your eggs aren't in one basket.

While 2022 has been a difficult year for markets, losses have not been evenly distributed. The previously high-flying Nasdaq index is down nearly 30% but the FTSE 100, bolstered by commodities stocks, attractive valuations and generous dividend yields is only modestly lower year-to-date.



By **Tom Sieber** Deputy Editor

# S&P 500 tips a toe into bear territory, but what should investors expect next?

History provides an imperfect guide to the future direction of markets

**U**nlike in sports nobody blows a whistle when stocks move from a bull market into a bear market. But one conventional definition says it is when a market drops 20% from the previous peak.

On 20 May the S&P 500 index briefly registered a 20% drop from its peak in January 2022.

The technology focused Nasdaq 100 has been in bear market territory for weeks and is down around 27% from its peak in November 2021.

## WHAT TYPE OF BEAR MARKET TO EXPECT

The last official bear market in March 2020 was very brief because of the US Federal Reserve's monetary stimulus actions which pulled markets out of the danger zone.

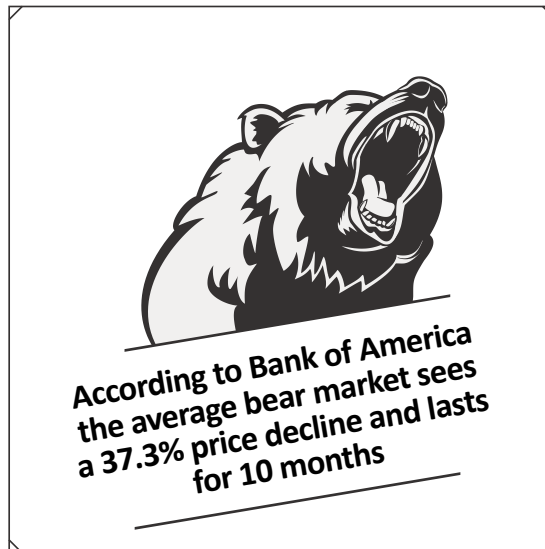
With the Fed busy fighting inflation and raising interest rates what should investors expect this time around?

The latest MLIV Pulse survey asked over 1,000 investors where they thought the S&P 500 would bottom and the median expectation was 3,600, implying a further 10% drop.

Chief investment strategist Michael Hartnett at Bank of America has identified 19 bear markets over the last 190 years.

The average price decline has been 37.3% from peak to trough and the decline lasted on average around 10 months.

The past is not a guide to the future, but if the current bear phase mirrors the historical average Hartnett calculates the S&P 500 will bottom on



19 October 2022 at 3,000 points. Such a level implies a further 23% drop.

The equivalent level for the Nasdaq 100 is 10,000, implying a further 16% drop. The good news for technology investors is that 58% of the Nasdaq 100 stocks are already down more than 37.3%.

The problem with this type of analysis is that the average hides a lot of historical variation.

One of the deepest bear markets happened during the great depression in the 1930s. The Dow Jones Industrials lost 89% over three years.

The turn-of-the-century bursting of the dot-com bubble saw the S&P fall 36.8% over 18 months.

It is clear those historical events had their own causes and circumstances which are different to today's.

## TWO TYPES OF BEAR

Chris Watling of Longview Economics has identified two types of bear market. The first category is shock-related and usually lasts around three-to-six months. The emerging market debt crisis in 1997-98 falls into this category.

The second type is more worrying and typically lasts several quarters. They tend to be driven by a global recession, monetary tightening or the unwinding of a bubble.

Equity strategists David Kostin at Goldman Sachs and JP Morgan's Marko Kolanovic believe recession fears are overplayed. Both see the potential for stocks to rebound later in the year. [MGam]



# Why US retail titans dragged down Wall Street

American retail giants were marked down heavily as updates reveal bloated inventories and cast doubt on US consumer strength

**US** retailers suffered their worst weekly performance since 1987's Wall Street Crash after investors were rattled by the impact inflation is having on high-profile players.

Major US outlets are struggling to pass soaring costs on to customers and low-income consumers are already struggling with soaring energy and food prices.

## Q1 RESULTS DISAPPOINT

Disappointing quarterly results and downbeat outlooks triggered sell-offs at **Walmart (WMT:NYSE)** and **Target (TGT:NYSE)**.

Walmart's weaker-than-expected earnings (17 May) reflected supply chain problems and rising costs.

'Bottom line results were unexpected and reflect the unusual environment. US inflation levels, particularly in food and fuel, created more pressure on margin mix and operating costs than we expected,' lamented CEO Doug McMillon as Walmart cut its full year profit forecast due to rising costs.

Target's first quarter earnings (18 May) disappointed due to 'unexpectedly high costs, driven by a number of factors, resulting in profitability that came in well below our expectations, and well below where we expect to operate over time', according to well-respected CEO Brian Cornell.

## BLOATED INVENTORIES

Alarming, the balance sheets of both retailers are showing inventory growth that is massively outstripping sales growth; Walmart's inventory rose by 32% in the quarter while Target's inventory ballooned by 43%.

As AJ Bell investment director Russ Mould explains: 'A surge in unsold goods would suggest



that either Walmart and Target have got carried away and over-ordered or consumers are starting to buy less stuff as they feel the squeeze from inflation, or perhaps somewhere in between.'

Mould warns: 'Inventory tends to build as demand slows down, so the retailers, their shareholders and investors in US equities more generally will be hoping that bulge in unsold goods starts to decline pretty quickly.'

Other US retailers whose shares slumped included discounter **Ross Stores (ROST:NYSE)**, which also missed first quarter forecasts. Given the squeeze on consumers, Barbara Rentler-bossed Ross said it would adopt 'a more prudent outlook for the remainder of the year', while department store **Kohl's (KSS:NYSE)** slashed its profit and sales outlook for the rest of the year.

But it wasn't all doom and gloom in US retail, as DIY store operator **Home Depot (HD:NYSE)** delivered the highest first quarter sales in its history and raised 2022 guidance, while shares in **TJX (TJX:NYSE)**, the owner of TK Maxx discount stores, jumped on strong first quarter earnings. [JC]

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

# A new government survey suggests hybrid working is firmly here to stay

Workers' responses mean office owners' optimism may be misplaced

**O**n Monday, the ONS (Office for National Statistics) released its latest labour market survey which asked if hybrid working was still a 'thing' now that all Covid restrictions have been lifted.

The survey confirms that hybrid working is in fact here to stay, and suggests companies and commercial landlords are going to have to make it more appealing if they want to attract workers back to the office.

The proportion of people working both at home and at their 'usual' place of work rose from 13% in February to 24% in May.

This was because more people *had* to go into work after travel restrictions were lifted, so the proportion of people working exclusively from home fell from 22% to 14% in the same period.

On that measure alone, the future of the office looks safe enough, but as always the devil is in the detail.

The most common hybrid working pattern in the UK today is working 'mostly' from home and 'sometimes' from the workplace, which accounts for 42% of responses against 30% a year ago.

Of those who work at home, 62% do so 'some or all' of the time, with 28% saying their employer asked them to and 27% saying they preferred it.

Significantly, the proportion of people who plan to split their time equally between work and home, or 'mostly' work and 'sometimes' home, has fallen.

More people are planning to spend 'more or most' of their time working from home, and less time in the office or their usual place of work.

Asked of the benefits of working from home, 78% cited an improved work/life balance while 47% cited improved wellbeing.

Most surprising, 53% of respondents said they experienced fewer distractions while 52% said



they found it quicker to complete work.

Almost a third of those surveyed (31%) said they found no disadvantages whatsoever to working from home.

Yet the narrative from the property companies couldn't be more different.

**Land Securities (LAND)** said recently it had enjoyed 'record leasing' in its London office portfolio and was investing £3 billion in new offices.

Rival **British Land (BLND)** said leasing volumes across its London 'campuses' were the highest in 10 years, although we note it has just sold 75% of the assets at Paddington Central to a Far Eastern sovereign wealth fund and 50% of its planned fourth campus in Canada Water to an Australian pension scheme.

Shares in both stocks are less than 5% below their year-end levels, which suggests investors buy into the idea offices are a decent place to invest. It may also reflect a big advantage for premium office space. We will watch how this story plays out with interest. [IC]



# Oh Snap! Share price plunge reflects an advertising slowdown



The social media platform owner has never been profitable at the operating level since listing on the stock market

**S**hares in the owner of social media platform Snapchat – **Snap (SNAP:NYSE)** – slumped by over 30% after the group revealed it will miss quarterly estimates. The group blamed a macroeconomic environment that had ‘deteriorated further and faster than anticipated’.

While a degree of the weakness in Snap’s reported numbers may be attributable to the platform losing appeal, it reinforces the idea that given the rapidly deteriorating economic environment advertising budgets are likely to slow.

The resurgence in inflation is putting household finances under pressure and will reduce people’s ability to spend on discretionary goods. This was reflected in a wider sell-off in the social media and internet advertising space.

Snap is particularly vulnerable to a slowing economy given that in its 20 quarters as a publicly-listed firm, it is yet to make a profit at the operating level and can point to just one quarterly net profit.

Since the second quarter of 2017, Snap may have generated \$10 billion in revenues, but it has turned that into an aggregate net loss of \$5 billion.

The tentative indications of an advertising slowdown were apparent in Google-owner **Alphabet’s (GOOG:NASDAQ)** recently reported first quarter sales figure of \$68 billion.

Google’s revenue growth slowed from 34% in the first quarter of 2021 to 23% in the most recent quarter.

The main factor behind the weakness was YouTube advertising sales. [MGar]

## Why Deere shares fell 14% despite lifting profit guidance

The tractor manufacturer recovers from a big sell-off after revenue missed expectations

DESPITE WHAT LOOKED like a decent set of quarterly figures, accompanied by a robust outlook, shares in agricultural equipment maker **Deere & Co (DE:NYSE)** fell sharply on the news (20 May).

Several factors accounted for share price reaction, one being the febrile market environment where investors are primed to react disproportionately to any hint of bad news.

This is backed up by a subsequent recovery for the share

price which, having fallen more than 14% at one point, is now down just 8% on its levels before the results were announced.

However, there were some more worrying details in the numbers. The company missed revenue forecasts for only the second time in the last 10 quarters – net sales were \$12.02 billion rather than the estimated \$13 billion.

Supply chain issues were the culprit. On the flipside, the company expects the situation to improve

through the course of 2022 and there is no questioning the [demand](#) side of the equation. Chief financial officer Ryan Campbell told analysts the industry would not be able to meet all the demand that exists in 2022 due to ‘strong fundamentals’ in agriculture.

The company lifted its profit forecast for the year from a range of \$6.7 billion to \$7.1 billion to between \$7 billion and \$7.4 billion. [TS]

# Future is an undervalued growth company with a unique business model

The 48% decline in the share price in 2022 to date has created an attractive entry point

**Y**ear-to-date shares in media group **Future (FUTR)** have nearly halved. This has resulted in the shares trading on a 2022 price to earnings multiple of 12.2 falling to 11.4 in 2023.

This represents an attractive entry point for a company which has a consistent record of delivering earnings growth.

Given the increasingly challenging macroeconomic environment we previously [said](#) we would wait until the publication of half-year results on 18 May before committing to a constructive view on the stock.

However the robust nature of the results has prompted a series of earnings upgrades and cemented our conviction that Future is substantially undervalued.

Despite difficult Covid-related comparatives reported revenue and operating profit were both ahead by 48%. Earnings per share increased by 27% to 15.7p. The Media division posted first half organic growth of 5% with digital advertising ahead by 10%.

The Magazine business demonstrated significant improvement with a 3% organic growth. Equally encouraging was the 5% organic subscription growth.

Subscriptions now represent

## WHAT IS FUTURE'S STRUCTURE?

Future is split into two divisions – Media and Magazine. The fast-growing Media division has three revenue streams: e-commerce, display advertising and events. Currently this mix is dominated by display ads but e-commerce is growing rapidly.

The Magazine division derives revenue from news trade, subscriptions and advertising.

48% of magazine sales, significantly improving the visibility, growth and margin outlook.

## HOW FUTURE MAKES MONEY

Future has a large portfolio of magazines and websites. It creates interesting content such as information about cycling, photography or music which compels the reader to click on links to buy related products.

The company has market leading positions in the UK and US in content about technology, and depth and strength in video gaming. However, it's still early days in terms of profiting from

## FUTURE



(FUTR) £19.80

Market cap: £2.39 billion

women's lifestyle interests, fashion and beauty, homes, health and wellness, and financial services.

There is a large opportunity for the group if it can grow and monetise the audience in these categories on both sides of the Atlantic.

Affiliate commerce has been a key driver of earnings growth. E-commerce revenue grew 36% to £216 million in 2021, making it the group's fastest growing source of revenue.

While a weakening consumer backdrop is a concern, Future's focus on specialist niches with loyal fans means spending should be more resilient and subscribers could show more loyalty. [MGar]

## Future



Chart: Shares • Source: Refinitiv



# Strong demand and limited supply are driving solid growth at Tritax Eurobox

Its shares are trading at a rare discount after Amazon spooked the market



Given how hot the logistics and warehousing sector is, it is surprising to find one of the leading European operators trading at a 20% discount to NAV (net asset value).

Yet that is the situation at **Tritax Eurobox (BOXE)**, which owns a €1.6 billion portfolio of assets giving it an NAV per share of €1.42 against a share price of just €1.14.

The catalyst for this discount can be traced back to a throwaway comment by the chief executive of **Amazon.com (AMZN:NASDAQ)** in the firm's first-quarter earnings report last month.

Having doubled the size of its fulfilment network during the pandemic, Amazon was 'no longer chasing physical or staffing capacity' said Andy Jassy.

His comment referred mainly to North America, which accounts for over 70% of retail revenues, but UK investors took it as a cue to dump shares across the warehouse sector.

As its name suggests, Tritax Eurobox only operates in Europe where e-commerce is way behind the UK and North America.

## E-COMMERCE GROWING FAST IN EUROPE

According to Statista, online sales account for around 20% of retail trade in Germany, less than 15% in France and just 10% in Spain, but all three markets are on a steep upward trend.

In the Netherlands, Italy, Poland and Sweden, the firm's other key markets, online penetration is even lower but is also rising fast.

On top of the growth in e-commerce, demand has been spurred by the need to reinforce and de-risk supply chains after the pandemic led to shortages of critical parts across a range of industries.

Companies are reviewing manufacturing locations and transport links, reshoring production and back-up facilities, and holding more stock closer to their customers and end users.

This is adding to the 'race for space' in a market where vacancy

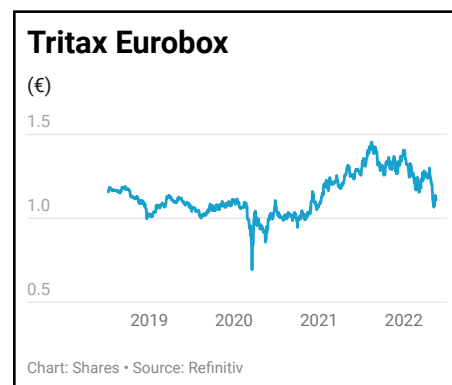
rates are already extremely low (just 3% in March according to consultants CBRE).

Given that rents are a small cost relative to the overheads of operating a large logistics hub, the firm is able to increase prices to new and existing customers when it comes to reletting its space.

At Hammersbach in Germany it secured a 24% increase in rent on reletting and at Bornem in Belgium it secured a 16% increase, for example.

The combination of tight supply, rising rents and higher asset values means double-digit annual total returns are on offer.

Trevor Green, head of UK institutional equities at Aviva Investors, the firm's largest shareholder, maintains the opportunities in Continental Europe are 'still firmly in place, with clear demand for their sites coming from numerous tenants as their target markets play catch-up with the UK'. [IC]





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## HOMESERVE

(HSV) £11.60

**Gain to date: 71.8%**

**Original entry point:**

**Buy at 675p, 24 March 2022**

HOME REPAIR SERVICES group **Homeserve (HSV)** has accepted a £12 offer from Brookfield Asset Management. With a slight chance of another institution making a counterbid for the group, we still think it is worth sitting tight and waiting for the situation to play out, with the shares trading a smidge below the Brookfield bid.

This represents a more than 70% uplift to the 675p level at which *Shares* recommended buying.

The deal makes sense for both parties involved. Homeserve is a non-cyclical business with recurring and reliable profit streams and cash flows; with high teens operating margins (17%) and returns (18%), and a significant ability to deploy capital into existing and future growth ventures.

For Brookfield there are material synergies on offer with the fund's utility assets, likely with in-house policy books which could be merged with HomeServe.

There are additional potential synergies with a Homeserve lookalike, Enercare, which Brookfield acquired for \$4.3 billion in 2018.

Tommy Breen, chairman of Homeserve, said: 'The offer from Brookfield recognises the quality of our business, our people and our future growth potential, and allows shareholders to realise their investment at an attractive valuation.'



**SHARES SAYS: ↗**

**This looks a done deal but worth waiting to find out. [MGar]**

## CENTRALNIC

(CNIC:AIM) 133.4p

**Loss to date: 6.7%**

**Original entry point:**

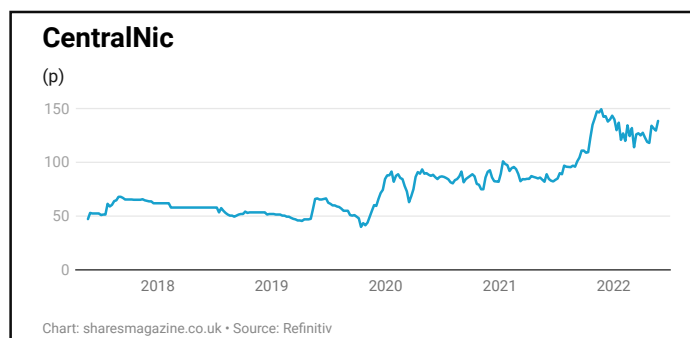
**Buy at 143p, 25 November 2021**

**CENTRALNIC (CNIC:AIM) CONTINUES** to shift from its core and historic domain name services to online advertising and marketing, with this part of the business delivering significant organic growth opportunities, margin uplift and attractive M&A prospects.

First-quarter results were driven by rampant growth on this side of the business, where organic revenues jumped 83% year-on-year \$71.6 million, making it almost twice the size of its longer-in-the-tooth domain names and website management arm at \$39.1 million, up 7% organically.

The online marketing division saw 54% growth in the number of user sessions to one billion as well as from a 105% increase in revenue per thousand sessions to \$98.20. This is an important number, analysts at Berenberg believe, acting as a proxy that indicates how valuable advertisers find the company's marketing solution, so a higher value implies advertisers are finding high conversion internet traffic using this solution.

That the share price has flatlined this year tells us more about the possible impact on its online marketing business if recession does bite. However, with M&A opportunities aplenty, and cost synergies extracted from each deal, a price to earnings of about 12 times 2022 forecast earnings looks too cheap.



**SHARES SAYS: ↗**

**We continue to believe CentralNic shares will reward investors willing to show patience. [SF]**

## SSE

(SSE) £17.29

**Gain to date: 11.8%****Original entry point:****Buy at £15.46, 3 June 2021**

ENERGY SECTOR SHARES came under pressure (24 May) after the *Financial Times* reported the UK chancellor Rishi Sunak had ordered plans to be drawn up to impose a windfall tax on up to £10 billion of excess profits earned by electricity generators including operators of wind farms.

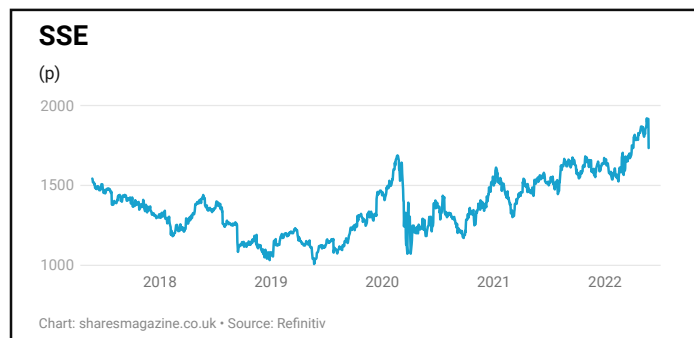
This notably goes further than speculation of a levy on oil and gas producers.

SSE shares tumbled 10%, **Drax (DRX)** fell 15% and **Centrica (CNA)** dropped 10%.

Numis says: 'We note that these are currently only press reports and the article makes clear that Downing Street and the Treasury has yet to make a decision with regard to any windfall tax, or how this may apply and to whom.'

Countries like France and Spain have taken a different approach and provided direct help to households by limiting the rise in energy bills.

From an investor perspective continued investment in renewables and power generation infrastructure is needed to meet the UK Government's net zero targets.

**SHARES SAYS: ↗**

**SSE has a major role to play in the UK's energy future and investors shouldn't get distracted by the short-term impact of a windfall tax. Remains a buy. [MGam]**

## EUROMONEY

(ERM) £10.18

**Loss to date: 8.4%****Original entry point:****Buy at £11.12, 7 October 2021**

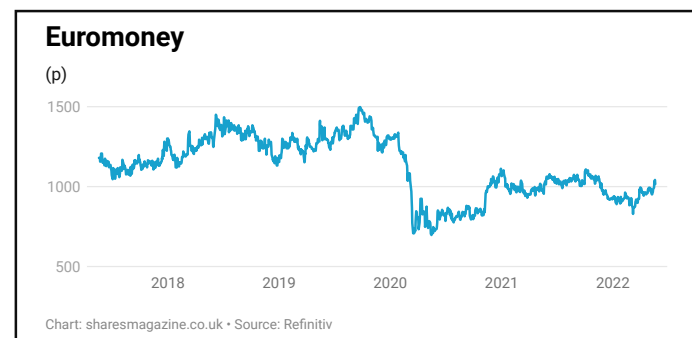
DESPITE NURSING AN 8.4% loss on our buy recommendation on **Euromoney (ERM)**, we continue to be constructive on the company following particularly strong first-half results (19 May).

The numbers were ahead of expectations from both a revenue and earnings perspective. Full-year trading is expected to be ahead of consensus expectations. The market had anticipated the robust nature of the results with the shares rising 6% over the last month.

Pre-tax profit was 16% higher at £38.6 million and adjusted diluted earnings per share rose 8% to 26.6p. The total dividend increased by 7% to 6.1p per share.

Three key factors drove this outperformance. Subscription growth increased by 8%, its FastMarkets price reporting business accelerated by 17%, and the events arm experienced a 59% rise in revenue as restrictions were lifted.

According to recently upgraded numbers from broker Numis, Euromoney is trading on a current 2022 price to earnings multiple of 18.5, falling to 15.3 in 2023. This looks inexpensive given its belief that earnings will increase from 55p in 2022 to 66.3p in 2023, representing 20.5% growth.

**SHARES SAYS: ↗**

**We remain positive on the stock which is heading back in the right direction. [MGar]**



# Hidden in full view



## FIDELITY JAPAN TRUST PLC

**This investment trust uses local know-how to spot Japan's untapped potential.**

Around 90% of Japanese small and mid-sized companies get little or no analyst coverage. As under-researched companies are more likely to be undervalued, that's an opportunity.

The trust looks to benefit from the more dynamic sectors of Japan's economy, focusing on fast growing but attractively valued stocks. With an acute understanding of this unique region and economy, combined with our hands-on local research, portfolio manager Nicholas Price and our team of analysts hone in on stocks often not picked out by others.

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.

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 and the securities are often less liquid.

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

### PAST PERFORMANCE

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

**Past performance is not a reliable indicator of future returns.**

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

**To find out more, scan the QR code, visit [fidelity.co.uk/japan](https://www.fidelity.co.uk/japan) or speak to your adviser.**

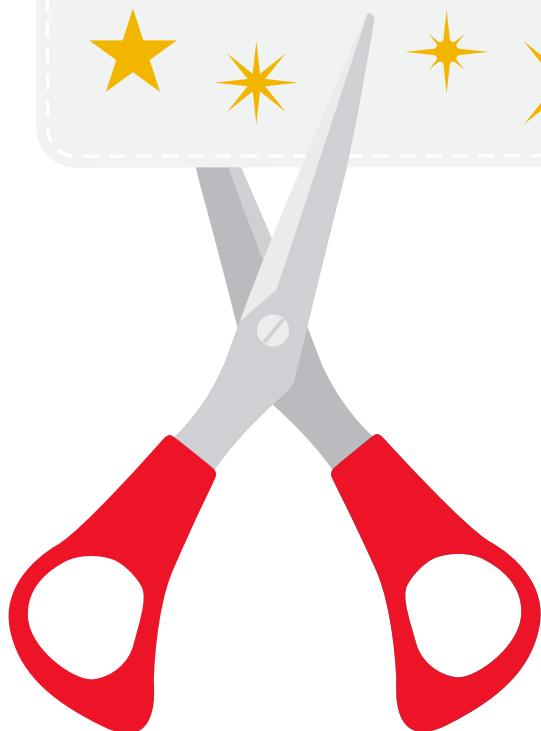


**Kepler**  
GROWTH  
RATING





# CUT-PRICE QUALITY:



**Get into these  
FTSE 350 stars at  
a cheaper level**

S&P 500 suffered their biggest one-day falls since 2020, and an estimated £40 billion was wiped-off the UK's biggest 350 companies, analysts are seeing a chance to take advantage of this weakness.

## TOO MUCH RISK MAY BE PRICED IN



By **Steven Frazer** News Editor

**A**s 2022 began many investment experts were whistling a similar tune; that conditions still look good but the rip-roaring rallies powered by the reopening are history. Growth will ease. Returns will moderate. Risks abound—but so do opportunities.

As we close in on the halfway stage of 2022 investors have the opportunity to reflect, and it's a good bet that with the benefit of 20/20 hindsight, most would have done things a bit differently. Since 31 December 2021, the S&P 500 is down nearly 19%, Nasdaq is off more than 28%, and even the MSCI World index has fallen sharply, 16.9% as of 19 May.

The FTSE 100 has got off lightly, for various reasons, tracking largely flat (down just 0.8%) over the same timeframe.

Following another brutal sell-off last week, when the Dow Jones Industrial Average and

JPMorgan's mathematical modelling expert Marko Kolanovic is one of these optimists. He believes the US stock market is pricing in too much recession risk, and that equities stand to recover in a big way if it doesn't materialise.

That seems like a real possibility given that first-quarter earnings continue to grow and seem healthy, according to the note.

'Equities stand to recover if a recession doesn't come through, given already substantial multiple de-rating, reduced positioning and downbeat sentiment,' Kolanovic said.

There are analysts that make a similar argument for the UK equities. 'It wouldn't surprise us if the growing Tory rebellion against Boris Johnson, forthcoming tax rises and the continued prospect of tougher Covid restrictions fade into the backdrop and markets fathom the reality of a weakened government increasing gridlock, falling uncertainty appears likely to generate tailwinds, in our view,' said analysts at Fisher Investments.

'Human nature often sees through the lens of *is this good or bad* but our research shows stocks

pre-price all widely known and expected events, sapping their power over returns even if they happen exactly as people fear.'

We believe now is the time for investors to start looking for stocks that may have fallen too far, and we have highlighted three to buy now. But it's possible, we believe, to find more companies where the market's dismal mood and extreme fear has put share prices at discounts that reflect worst case scenarios, and conversely, offers considerable upside risk to valuations if company revenues and profits outperform lowered expectations.



Take the high street's favourite baker **Greggs (GRG)**. Earlier this month it warned that 'market-wide cost pressures have been increasing and consumer incomes will clearly be under pressure in the second half of the year'.

This, the company said, could mean profitability being restricted as the company tries to mitigate the impact of these cost pressures while protecting its famous value credentials. Yet the company also revealed that sales growth, despite slowing, averaged 15.8% in the 10 weeks to 14 May. Greggs also said it had made a good start to 2022 and has a strong pipeline of new shop acquisitions ahead.

After falling 35% this year, Greggs' stock now trades on an enterprise value to earnings before interest, tax, depreciation and amortisation, or EV/EBITDA, of 8.5-times and a price to earnings multiple of 18.5, its lowest in years. If forecasts prove conservative, the PE would be even lower.

In January (13 Jan) *Shares* said 'Greggs is not a buy at this price despite overtaking McDonald's,' flagging some big challenges as a new boss prepared to take over. That was at £31.71, but now the shares trade at £21.58.



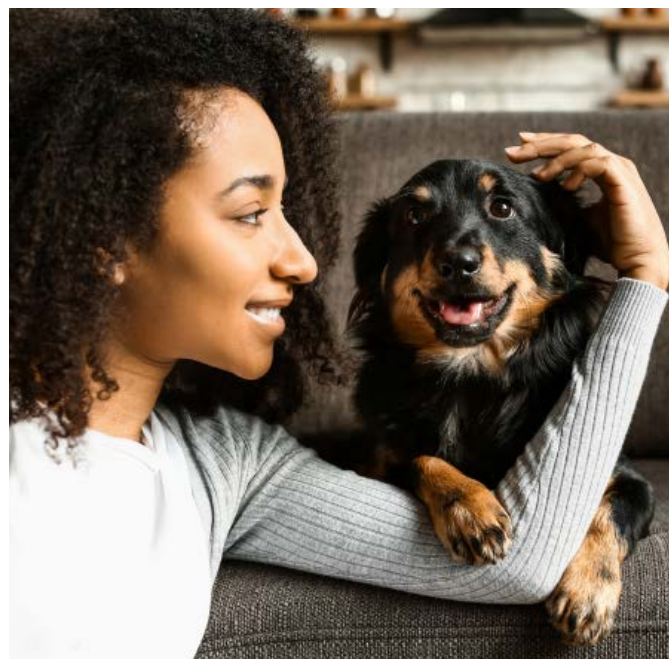
Magazines publisher **Future (FUTR)**, behind *Marie Claire*, *Ideal Home* and a number of popular gaming titles, sits in a similar position after a near-50% share price decline this year, as highlighted by us on 12 May.

We discuss why these shares are now attractive [in this article](#).

## TRYING NOT TO JUMP THE GUN

But not all heavy share price losers this year warrant investment and investors must tread carefully.

Companies including chemicals firm **Croda (CRDA)**, software company **Aveva (AVV)** and **Pets at Home (PETS)**, the pet care company, have seen their share prices fall sharply this year as risks to consumer spending, slowing heavy industry investment, stubborn supply chain problems and much else became apparent.



That doesn't make these bad businesses. Pets at Home is one of *Shares'* stock picks for 2022 and we'd expect pet food-to-veterinary services play's earnings to hold up well thanks to the pandemic-induced boom in pet ownership. But the ugly economic backcloth does make us wonder if things could get worse before they get noticeably better for other names.

The market's bleak mood also comes with its own risks. Investment manager **Liontrust Asset Management (LIO)** has more than halved from £23.50 last August to £10.32, and while we continue to admire this high-quality fund manager, outflows of £0.4 billion in the quarter to 31 March 2022 amid growing investor nervousness makes us wary.

Similarly, **Watches of Switzerland (WOSG)** reported a 40% surge in sales to a forecast-beating £1.24 billion on 18 May 2022 with bumper revenue growth of 48% in Q4, seemingly confirming that well-heeled and aspirational customers continue to spend on quality brands.

Yet the shares have fallen 40% this year to 919p, with investors apparently unwilling to extrapolate these strong trends into the future, for now anyway, despite considerable growth opportunities overseas.



Other companies are facing company specific issues alongside macro ones, such as engineering design software company Aveva, which is in the process of accelerating its shift from term licenses to a software-as-a-service subscriptions model and expansion beyond its key energy markets. This should be a plus in the long-run, creating more reliable 'sticky' revenues from a wider spread of industries, like renewables.



#### ASSTEAD – AN EXPERT VIEW

**Ashtead (AHT)** is a player in an attractive market. Its scale allows it to procure equipment at the best prices and its depot density reduces logistics costs and ensures very good availability. It has a very good digital proposition which the 'mom and pop' operators cannot compete with. So, if you want an excavator, you want to ensure the kit is there, it is clean and in good condition. Ashtead has that quality. The market is seeing secular growth as corporates really recognise the benefits of a shared economy. One of Ashtead's mini excavators at normal utilisation rates replaces the need for 10 owned assets. If you are a big company looking to reduce your carbon footprint, it's a no brainer.

Biden's infrastructure plan has got bogged down. Mortgage rates in the US have also done a moon shot and Ashtead is simplistically seen as related to housing. This is also a company whose share price has gone from left to right in almost a straight line and would have been affected by the market de-risking this year.

**James de Uphaugh – Edinburgh Investment Trust**



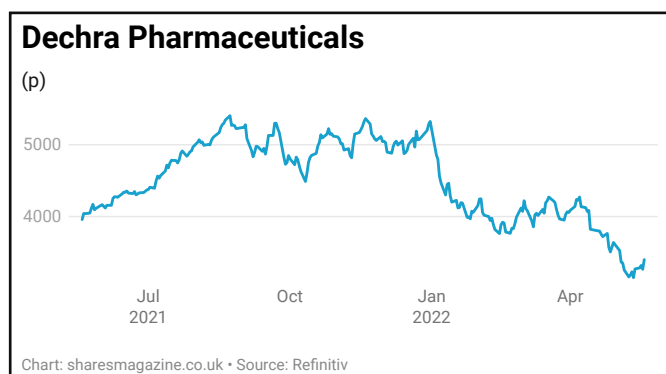
## THREE TO BUY NOW



### DECHRA PHARMACEUTICALS £35

**YEAR TO DATE -28%**

- **Portfolio of chronic illness treatments**
- **Robust growth track record**
- **History of forecast upgrades**



Global specialist veterinary pharmaceuticals company **Dechra Pharmaceuticals (DPH)** develops, manufactures and markets high quality products aimed at improving animal health and welfare. The shares have dropped around 40% since the highs in August 2021 which looks overdone and provides a buying opportunity for investors to get onboard a higher quality growth company. The fall has been driven by fears that the lockdown-induced pet boom is normalising.

#### Dechra's consistently strong returns

Return on capital employed	
2017	14.9%
2018	16.7%
2019	12.8%
2020	12.1%
2021	16.2%
<b>Average</b>	<b>14.5%</b>

Table: sharesmagazine.co.uk • Source: Stockopedia, Refinitiv

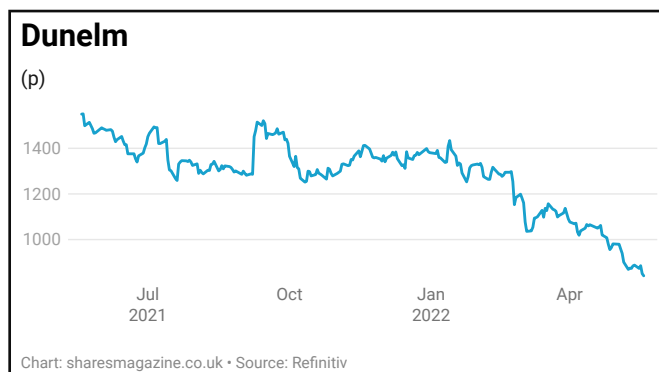
The general weakness in high quality growth shares in response to rising interest rates has also been a contributing factor. Investment bank Jefferies reckons Dechra is likely to be resilient from reversing Covid-19 trends. It notes that Dechra's portfolio contains many products for treating chronic illnesses which affect older animals. These products are unlikely to have benefited from the pet boom. Management have indicated its markets are supported by strong fundamentals which are returning to more normalised 'robust' levels of historical growth. Finally, analyst's earnings estimates have consistently been revised upwards over the last six months suggesting future positive earnings surprises. [MGam]



### DUNELM 840P

**YEAR TO DATE -39%**

- **Record low PE below 11**
- **Highly cash generative business model**
- **Flourishing digital operation**



Investors should buy homewares retailer **Dunelm (DNLM)** despite a tougher consumer environment that has seen the 12-month forecast rolling price to earnings ratio de-

rate to a grudging 10.8-times, according to Stockopedia. The cash-generative curtains, quilts and kitchenware seller is well-placed to navigate the cost of living squeeze while continuing to grow market share thanks to its broad product range, with low average item and basket values, as well as its focus on providing value at all price points.

### Dunelm's impressive growth

Year end 26 June	Revenue (£ million)	Operating profit (£ million)	Return on capital employed
2018	1,050	95.8	30.4%
2019	1,100	127.0	47.5%
2020	1,058	116.0	23.8%
2021	1,336	166.0	31.3%

Table: sharesmagazine.co.uk • Source: Stockopedia

Dunelm, which continues to develop its flourishing digital business, is also managing to sustain its robust margins despite rising raw material, freight costs and the extra inventory costs required to mitigate against supply chain disruption. Having a well-stocked business is a competitive advantage and reflects Dunelm's focus on ensuring good availability for customers. [JC]



**HALMA £21.65**

**YEAR TO DATE -31%**

- Impressive returns on equity and capital employed
- 40-plus years of consistent dividend growth
- Excellent cash generation

### Halma



The electronics engineer remains one of those stock market rarities – a company that never seems to put a foot wrong. Shareholders have benefitted from this reliability for years with total returns averaging 19.35% over the past decade, according to Morningstar data. That means for every £1,000 invested 10 years ago, an investor would now have £5,939. It has been another strong year of progress, with **Halma's (HLMA)** pre-close update (23 Mar) suggesting full year to 31 March 2022 will be another record year for revenue and profitability. The company made 13 acquisitions during the year for a total of £166 million, continuing a vital ingredient of its growth strategy, and the company has hinted that its future M&A pipeline is extremely strong. Order intake was ahead of both sales and the previous year's orders. Inflationary pressures, supply chain challenges and Covid issues, in China particularly, remain but the commentary from Halma suggests the business is managing these issues well, an impression shares by analysts at investment bank Berenberg following a visit to one of Halma's subsidiaries in April. We believe Halma will continue to reward investors for years to come. [SF]

### Halma's impressive returns on equity and capital employed

	Return on equity	Return on capital employed
2017	18.2%	13.4%
2018	19.2%	14.2%
2019	18.8%	16.3%
2020	17.4%	14.5%
2021	17.7%	16.1%

Table: sharesmagazine.co.uk • Source: Morningstar

# Fidelity European Trust PLC

## An AJ Bell Select List Investment Trust

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

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

### Holding a steady course throughout market cycles

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

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

The ebb and flow of investor sentiment can create opportunities. Great companies can see their share prices

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

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

To find out more visit [www.fidelity.co.uk/europe](http://www.fidelity.co.uk/europe)



### Past performance

	Apr 2017 - Apr 2018	Apr 2018 - Apr 2019	Apr 2019 - Apr 2020	Apr 2020 - Apr 2021	Apr 2021 - Apr 2022
Net Asset Value	10.3%	9.1%	-1.0%	30.3%	5.9%
Share Price	6.8%	12.5%	2.8%	29.2%	3.4%
FTSE World Europe ex-UK Total Return Index	7.4%	2.5%	-7.4%	34.7%	0.1%

*Past performance is not a reliable indicator of future returns*

Source: Morningstar as at 30.04.2022, bid-bid, net income reinvested. ©2022 Morningstar Inc. All rights reserved. The FTSE World Europe ex-UK Total Return Index is a comparative index of the investment trust.

### Important information

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

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# How Buffettology and Free Spirit funds can bounce back from underperformance

This Buffett-inspired pair of stablemates have had a tough time lately but remain committed to their investment process

**S**anford DeLand's **CFP SDL UK Buffettology (BFOLDZ3)** and **CFP SDL Free Spirit (BYYQC27)** funds have forged top-notch long-term performance records since respective launches in 2011 and 2017 thanks to the unwavering pursuit of 'Business Perspective Investing', a quality-focused approach championed by 'Sage of Omaha' Warren Buffett and Charlie Munger.

Unusually however, both portfolios managed by Sanford DeLand's chief investment officer Keith Ashworth-Lord have lagged in the IA UK All Companies sector of late. A first quartile performer over five years according to Trustnet, Buffettology is fourth quartile over three years, one year and the last six months, whereas Free Spirit, first quartile over three and five years, is now fourth quartile over the last one, three and six month periods.

Given this reversal of fortunes, *Shares* recently jumped at the opportunity to meet Sanford DeLand's chief analyst Eric Burns, who works alongside seasoned Business Perspective Investing practitioner Ashworth-Lord and leads the stock research process for both portfolios.

Burns recently returned with the rest of the



Sanford DeLand investment team from **Berkshire Hathaway's (BRK.B)** annual shareholder meeting (30 April) in Nebraska, where the main draw was the Q&A session with Buffett and Munger.

The first in-person AGM since 2019 allowed the Sanford DeLand team to imbibe Buffett's wisdom once again and reminded them why they shut out extraneous noise from their process and concentrate on the quality of the businesses they buy and the price they pay for them. They view

## CFP - SDL UK Buffettology General



Chart: sharesmagazine.co.uk • Source: Refinitiv

## CFP - SDL Free Spirit Acc GBP



Chart: sharesmagazine.co.uk • Source: Refinitiv

market volatility as the friend of the true long-term investor.

#### FOURTH QUARTILE DISAPPOINTMENT

Nevertheless, Burns was keen to explain the key reasons for the funds' lacklustre recent showing in a market that has fretted over everything from inflation and rising interest rates to war in Ukraine in 2022 so far. 'Everywhere you look there are reasons for people to feel downbeat,' said Burns.

Year-to-date, the performance of both funds has been fourth quartile, but he points out 'that's quite unusual for both funds because over the longer term, you'll see that they are very nearly top of the pile'.

#### WHAT'S GONE WRONG?

So why is Sanford DeLand's approach no longer working? 'The answer is it is still working,' stresses Burns. 'It's more about what we're not invested in in this market than what we are invested in.' Oil and gas, miners and banks have been driving the market, three sectors Sanford DeLand doesn't touch.

'We never have and never will do,' explains Burns. 'Everything we do conforms to Business Perspective Investing, and nothing in those sectors fits.' Oil and gas company earnings are dependent on the oil price over which they have no control, so there is no way to predict their returns.

Having no oil and gas or mining names is quite helpful from an ESG perspective, confirms Burns, but that's not the reason the funds avoid them. Rather, it 'that Business Perspective Investing overlay that restricts them'. In the case of banks, Burns and Ashworth-Lord look for a high return on equity (ROE) from their investments and 'when you strip out the leverage of the banks, how their balance sheets work, the returns are woeful', argues Burns.

#### COMPOUNDERS HAVE DE-RATED

The second performance headwind is that 'quality growth compounders have de-rated over the last six months. When you look at the sort of things in our portfolio, they tend to be quality, cash generative businesses that have been in the eye of the storm. Things that might have traded on PEs (price to earnings ratios) of 35-to-40 six months ago are now back to sort of 25 times and that's



### SANFORD DELAND EXPLAINS BUSINESS PERSPECTIVE INVESTING

Business Perspective Investors start from the premise that there is no philosophical distinction between part ownership (i.e. buying shares in a company) and outright ownership (i.e. buying the business in its entirety). All we are looking for is pieces of businesses to buy at the right price.

Among the selection criteria for investments are that:

- Their business model is easily comprehensible;
- They produce transparent financial statements;
- They demonstrate consistent operational performance with earnings being relatively predictable;
- They generate high returns on capital employed;
- They convert a high proportion of accounting earnings into free cash;
- Their balance sheet is strong without unduly high financial leverage;
- Their management is focused on delivering shareholder value and is candid with the owners of the business;
- Their growth strategy is more likely to rely on organic initiatives than frenetic acquisition activity.

Source: Sanford DeLand

done a lot of the damage to portfolio performance,’ laments Burns.

Yet with ‘literally a handful of exceptions’, he said companies in the two portfolios are continuing to deliver ‘really good results for us, either in line or slightly better’. Those that have fallen short and paid a price for it include Free Spirit-owned **Dotdigital (DOTD:AIM)**, the marketing platform which ‘downgraded an expectation, still to grow, but not as ambitious as expected and paid a massive price in terms of a de-rating’, as well as Buffettology-owned **RWS (RWS:AIM)**, the language services and technology company which issued a ‘slightly underwhelming’ update in April ahead of attracting private equity interest. ‘The key takeaway is our companies are continuing to deliver for us operationally and we could far rather it be that way round than the other way round’, adds Burns.



## SAFETY FIRST

With money ‘flowing out of equities generally’, Ashworth-Lord and Burns have been more defensive with the portfolios in the first quarter, ‘because the last thing you want to do is be a forced seller in this market. We have managed the cash positions quite well. Free Spirit at the end of the month was around 10%, its around 9% currently, so there is a bit of a safety-first element there’.

Intriguingly, Burns says the watchlist of companies the team would like to own is ‘swelling almost by the day’, but ‘we are not at the point yet where we are pulling the trigger on that because we’ve got to make sure we have the liquidity at the time we need it. We’re not calling the market, but Keith and I are of the view that this shakeout may have further to go before it definitively turns, so there’s a safety-first approach.’



## REDUCING THE OVERLAP

One criticism some investors have aimed at Sanford DeLand is the funds are too similar, so why bother holding both? Are they sufficiently different? ‘If you’d have asked me that question two years ago, I would have said probably not,’ explains Burns. ‘There was a lot of overlap. At the peak under (Free Spirit’s) previous manager, there was over 30% of net asset value overlap between the two, but we’ve worked quite hard over the last 12 months to reduce that overlap.’

One example is Free Spirit’s recent exit from **Craneware (CRW:AIM)**, the software firm held in Buffettology. Following this disposal, the funds have only three common holdings; information services group **RELX (REL)**, **London Stock Exchange (LSEG)** and fantasy miniatures maker **Games Workshop (GAW)**. The NAV overlap has reduced to ‘about 8% and you should expect that to further decrease over time. That’s a strategic aim.’

## INVEST IN THE BEST

Prospective investors should note both are concentrated portfolios, with 31 names in Buffettology and just 26 holdings in Free Spirit, the smaller of the two at £97.4 million versus just below £1.2 billion of assets for Buffettology, and able to invest further down the market cap spectrum as a result. Free Spirit has held up better of late by dint of having slightly higher cash levels. But the key point is both funds are skewed towards cash-generative, profitable, high-quality names able to withstand a downturn. Ashworth-Lord and Burns take the view businesses with strong balance sheets and proven business models are likely to emerge in an even better competitive position



at the other side of any downswing in economic fortunes. 'In short, the strong get stronger,' said Ashworth-Lord in his May 2022 Free Spirit factsheet commentary.

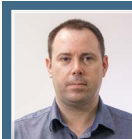
Besides Games Workshop, Buffettology owns names ranging from drinks giant **Diageo (DGE)** to video games developer **Team17 (TM17:AIM)** to overseas name Berkshire Hathaway and fund manager **Liontrust (LIO)** and has recently seen bids for home repair specialist **Homeserve (HSV)** and RWS.

Free Spirit offers exposure to Harry Potter publisher **Bloomsbury (BMY)** and natural extracts-to-ingredients supplier **Trealt (TET)** to high-flying **Calnex Solutions (CLX:AIM)**, a test and measurement solutions provider for the telecommunications sector, not to mention software reseller **Bytes Technology (BYIT)**.

Burns is a big fan of longstanding Buffettology constituent **Jet2 (JET2:AIM)**, the airline-to-packaged holidays play 'doing something a bit special, a bit different', which also has pricing power, crucial in an inflationary environment. Jet2's economic moat is that it operates 'from secondary and tertiary airports round the UK, so you'll never see it at Heathrow, but you will see it



at Leeds, Bradford or Newcastle, airports where the established carriers have had limited penetration'. Then there's the customer service – 'they have enhanced their brand power over the last years undoubtedly. There's a real brand loyalty thing with Jet2. And its not just with the holidaymaker, it is with the hotel owners as well,' says Burns.



By James Crux  
Funds and Investment Trusts Editor

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# Why Indivior shares have risen six-fold in two years

Indivior has a clear roadmap for achieving \$1 billion of revenues from Sublocade and \$300 million from Perseris

**I**n a rough start to 2022 for markets one stock which has bucked the general trend is pharmaceutical company **Indivior (INDV)**, whose shares are up 30% year-to-date.

In this article we uncover the reasons for recent share price strength and argue that strong earnings momentum can continue to drive the shares higher irrespective of general market weakness.

## A ROLLERCOASTER RIDE

Indivior is a global leader in medical assisted treatments for drug addiction and it listed on the UK market in 2014 after being spun-out from consumer goods giant **Reckitt Benckiser (RKT)**.

Drug misuse is a big problem and in the US alone afflicts more than 10 million patients.

Over the last two years the shares have risen six-fold to 303p driven by persistent earnings upgrades and fast sales growth from its opioid drug treatment Sublocade which launched in 2018.

This only tells half the story for Indivior, however. Prior to the recent strong run the shares lost 92% of their value between May 2018 and April 2020.

We will explain why the shares fell so precipitously shortly, but before doing so, it is worth reflecting on the mathematics of a steep fall in a share price.

The steeper the drop the bigger the gain needed to get back to parity. For Indivior shareholders this means a 1,186% gain is needed to recover the 92% prior drop in the shares.

Therefore, despite such a huge gain, the shares remain around 40% below their peak.

## WHY THE SHARES FELL

When the company listed its leading opioid product Suboxone had a few years of patent protection left and enjoyed high market share. The product achieved peak US revenues of \$1.7 billion.

To extend the protection Indivior moved patients



onto a new patented film version of the drug which it claimed was safer.

Ultimately, the patents were invalidated, and new generic versions entered the market in 2018. Several litigation actions followed.

A US Department of Justice (DOJ) probe into the company's marketing of Suboxone ended after former CEO Shaun Thaxter pleaded guilty to his role in the cover-up.

The company settled with the DOJ in July 2020 after agreeing to pay \$600 million in damages over the following seven years.

Former owner Reckitt Benckiser had previously shelled-out \$1.4 billion, one of the largest settlements in pharma history to end multiple federal probes, relating to issues arising before the demerger.

Current chief executive Mark Crossley has been with the company since 2012 and took over from Thaxter in 2020.

## PHOENIX RISES FROM THE ASHES

In 2018 Indivior launched a new opioid treatment Sublocade for moderate to severe opioid use disorder (OUD).

Sublocade is the only long-acting treatment for OUD which delivers a measured and controlled amount of the drug. This keeps patients on an even keel and prevents the 'highs' and 'lows' associated with drug abuse. Injections are made



## Indivior



Chart: sharesmagazine.co.uk • Source: Refinitiv

monthly and can only be delivered by certified healthcare professionals.

Sublocade generated \$12 million of sales when it launched in 2018 and in 2022 it is expected to achieve sales of \$385 million according to analysts at Numis. This represents just under 3% market share in the US.

In the first quarter of 2022 Sublocade's sales doubled year-on-year to \$85 million. Management's medium-term goal is to reach \$1 billion of revenues which would still only represent a small market share.

A combination of strong growth from Sublocade and resilient sales of Suboxone (which are not marketed) seems to have caught analysts off-guard.

In April 2021 they were forecasting net profit of \$55 million but the actual outturn was almost four times higher at \$205 million.

One of the challenges has been estimating declining legacy Suboxone sales which act as a drag on new sales growth from Sublocade. In 2022 sales of Sublocade are expected to overtake the slowing but resilient sales of Suboxone.

Numis is forecasting Suboxone sales to drop from \$328 million in 2021 to \$176 million in 2023.

### INCREASING DIVERSIFICATION

Indivior has developed a treatment for schizophrenia called Perseris which has been shown to reduce symptoms in adults.

Sales efforts are expected to ramp up in 2022 with the deployment of an extended national sales team.

Perseris generated sales of \$5 million in the first quarter, up 67% year-on-year.

Indivior is building a pipeline of drugs to address other stimulants with associated addiction issues such as cannabis and alcohol.

Markets outside the US are also sources of

growth opportunity for Indivior. Outside of the US Sublocade is marketed as Subutex and sales doubled in the first quarter to \$6 million.

### STRONG FINANCIALS

Indivior has a strong balance sheet with net cash of \$776 million and it recently announced a \$100 million share repurchase program.

The high cash balance more than covers known future liabilities. As part of the DOJ settlement the company must pay \$50 million a year until 2027 then a final payment of \$200 million, totalling \$500 million. The company already paid \$103 million in November 2020.

Management have indicated they may complement organic growth with acquisitions. Often shareholders can get carried away with a growth company's potential which means the shares run ahead of the fundamentals of revenue, earnings and cash flow.

That doesn't appear to be the case with Indivior because of its legal issues. In fact, the fundamentals of the business have more than kept pace with the rising share price.

In May 2020 the shares traded at 47p and based on forecast earnings at the time the price to earnings (PE) ratio was 25 times.

Today, the shares are 303p and the forward PE is 16.4 times.

We think that looks attractive, as long as you are prepared to live with the lingering litigation risk, given the sales momentum in Sublocade and Perseris, the high margins achieved (gross margins around 80%) and international expansion potential.



By **Martin Gamble** Education Editor

# What to do when one of your investments goes wrong

Losses are inevitable, it's how you handle them that matters

**T**he secret to creating lasting wealth, we are invariably told, is to let your winners run and not be tempted to sell them too early.

There must be thousands of people who invested in **Apple (AAPL:NASDAQ)** or **Amazon (AMZN:NASDAQ)** early on and were happy to cash in after doubling their money, whereas had they kept their original stake it would now be worth thousands of times the initial investment.

Yet there is very little advice on how to handle losses, which in fairness every investor no matter how experienced they are must expect to incur. Not even Warren Buffett gets every investment decision right, after all.

## STEP AWAY FROM THE KEYBOARD

Stocks fluctuate all the time, more so than usual this year, so if you check your portfolio every day you are bound to find something which is down compared with where you bought it.

The less frequently you look at your portfolio, the less likely you are to see a negative performance and therefore the less likely you are to 'tinker' with it to try to avoid losses.

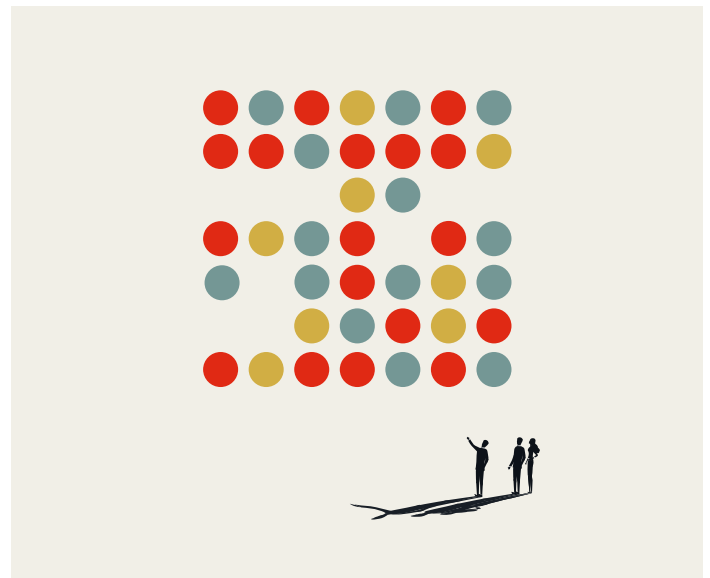
When you do check your performance, 'the reward circuit in your brain gets activated and provides you with a jolt of dopamine as you anticipate a positive return' says Joachim Klement, market strategist at Liberum and the author of *Seven Mistakes Every Investor Makes*.

'The first time you see a loss you might shrug it off. The second time you might get concerned, especially if you happened to have a loss in your portfolio the last time you looked', continues Klement.

'Finally, if you experience too many losses within a short time, or if your losses are very big, the parts of your brain responsible for feelings like fear and anger kick in,' he concludes.

We seem to be hard-wired to weigh losses more than we do gains of equivalent size.

As a result, when we do experience losses the



'pain' feels worse than the 'pleasure' we feel when we make gains, even if the gains are bigger.

A 2005 study by Camelia Kuhnen and Brian Knutson titled *The Neural Basis of Financial Risk Taking* shows that when we experience losses, the regions of the brain which control emotions of fear – like the amygdala – are activated.

## THE FIRST CUT IS THE CHEAPEST

No investor gets every decision right, indeed many successful fund managers only have around a 60% to 70% 'batting average'.

The reason they are successful is they right-size their winning bets and when they make a mistake they cut it quickly.

When Bill Ackman bought a stake in **Netflix (NFLX:NASDAQ)** in January following a sharp sell-off triggered by a profit warning, it was on the basis the valuation was attractive.

A couple of months later, however, the streaming firm warned again, sending its shares down even more, at which point Ackman sold his stake at a loss and moved on.

Investors may have questioned his original thesis for buying the shares, but they can't argue with his approach to risk management.

**“Selling at the bottom is a common fault, not surprisingly because the bottom in a share price is the moment of maximum fear”**

Deep value investor Richard Pzena says the biggest way to add value as an investor is in how you treat 25%-plus drawdowns in stocks.

‘Sometimes you should buy more, sometimes you should get out, and sometimes you should stay put. We probably hold tight 40% of the time and split 50/50 between buying more and getting out’.

## DON'T DO SOMETHING, JUST SIT THERE

In his largely autobiographical book on investing *Simple But Not Easy*, fund manager Richard Oldfield argues that doing nothing is sometimes just the right response.

In the opening chapter, entitled ‘Howlers’, Oldfield recounts investing in Russia just before the ruble crisis in August 1998 which caused the stock market to collapse by 90% in a matter of months.

After the market bottomed in October 1998 it doubled and doubled again, until by the end of 2005 in dollar terms it was worth 18 times more than at the end of 1998.

As Oldfield says, ‘it matters a great deal how investors react after a 90% fall. Something so devastating can lead to completely the wrong decision.

‘It is easy to say, when your \$1,000 has turned into \$100, “I can’t take any more of this, I would rather be sure of my \$100 than risk losing that too”.

‘Selling at the bottom is a common fault, not surprisingly because the bottom in a share price is the moment of maximum fear’.

The ideal solution, suggests Oldfield, would be if the investor slept through the sell-off and was spared the emotional pressure.

In fact, Oldfield added to his Russian holdings – not quite at the bottom, but well below the level of his initial investment – and turned what could have been a thumping loss into a considerable gain.

## DEER IN THE HEADLIGHTS

There are plenty of indications – and plenty of commentators willing to assert – that we may be in a bear market, in which case there is a danger of paralysis setting in.

James Montier, asset allocation specialist at US fund manager GMO and the author of *The Little Book of Behavioural Investing*, recalls that during the financial crisis, rather than running for the hills, many investors became paralysed in the face of continually falling prices.

‘In March 2009, the S&P 500 swooned to its lowest levels in a decade, down some 57% since its peak in late 2007. I watched as markets seemed to be near meltdown.

‘No scenario seemed to be pessimistic enough to be beyond belief among investors.’

Jeremy Grantham, Montier’s colleague at GMO, compared the same sell-off with a much earlier ‘crash’.

‘As this crisis climaxes, formerly reasonable people will start to predict the end of the world, armed with plenty of terrifying and accurate data that will serve to reinforce the wisdom of your caution.

‘Every decline will enhance the beauty of cash until, as some of us experienced in 1974, “terminal paralysis” sets in.’

Like the residents of Pompeii who watched Vesuvius erupt for days before reacting, investor paralysis results from a failure of imagination known as *normalcy bias*, argues Daniel Crosby, author of *The Behavioural Investor*.







“

*Not all investors are able to take such a long-term view, in which case stop-loss limits are a sensible precaution*

”



‘Simply put, normalcy bias is the belief that “all that has been is all that will ever be”. Pompeii had seen eruptions before and the citizens imagined this time would be like the last time, until it wasn’t’.

The fact is, bull and bear markets are normal. Every developed country in the world has suffered equity market losses of at least 75%, says Crosby.

According to a study by analysts at JP Morgan, reproduced in *The Behavioural Investor*, between 1980 and 2014 almost half of all US stocks suffered what they termed ‘catastrophic’ losses. What investors need is *a plan*.

### BUY OR SELL, DON’T HOLD

When investing you need to prepare for the unexpected so that if or more realistically when markets go into melt-down you have a ready-made plan of action.

Investors with an extremely long time frame, such as Richard Oldfield or the managers of say **Scottish Mortgage Investment Trust (SMT)**, are willing to endure what for other investors would be ‘catastrophic’ drawdowns in stocks they own because they have high conviction that the firms themselves are still capable of delivering a superior performance.

In its latest results, Scottish Mortgage reveals it has raised another £500 million in private debt in order to *increase* its stakes in ‘higher conviction holdings’.

Not all investors are able to take such a long-term view, in which case stop-loss limits are a sensible precaution.

‘Stop losses may be a useful form of pre-commitment that help alleviate the “disposition effect” in markets that witness momentum’, says Montier.

Investors typically sell more winners than losers, so when a company releases positive figures and the shares go up people sell, limiting the true upside, while if a company releases bad figures and the shares fall many investors will shy away from taking losses and hope the price will recover.

Stop losses can act as triggers ‘to prevent you sliding down the slippery slope of the disposition effect’, offers Montier.

Another way to envisage stop losses is to imagine you own a stock which has lost 30% in the last three months, which admittedly isn’t difficult in the current environment.

Then imagine you step away from your computer and your toddler inadvertently sells your entire position.

Would you buy the shares back? Almost certainly not. Thinking about stocks purely in terms of buy or sell is a good way to sharpen your skills. If you wouldn’t buy more of a stock when it is down 30%, why are you holding onto it?

**DISCLAIMER: The author (Ian Conway) owns shares in Scottish Mortgage Investment Trust**



By Ian Conway Companies Editor

# Why quality matters now more than ever



*With the clocks going forward and nights lengthening, we're far enough into 2022 to assess the year's current market conditions. And one thing is for sure - uncertainty seems to be the new normal. In this article, Jamie Ross, Portfolio Manager of **Henderson EuroTrust**, explores the factors behind the growth to value rotation and how they have impacted the Trust. Jamie also highlights why quality growing businesses are essential for navigating a volatile and uncertain market environment.*

## A PERFECT STORM?

In 2021, conditions were far from straightforward, yet equity markets still closed the year with double-digit returns, and investors were more optimistic about the year ahead. However, a few months into 2022, it's clear that this year will be much trickier to navigate.

Supply chain bottlenecks caused by the Covid-19 pandemic continue to prevail. With the collapse of world trade in April 2020, economic activity ground to a halt, but as lockdowns were lifted, a demand surge led to supply shortages, which

have been more intense and have lasted longer than initially expected. Consequently, the cost of living in Europe has risen on the back of soaring oil, gas, food, and electricity prices as businesses try to pass on rising input costs to consumers. These imbalances, which are particularly acute in Europe, have been further exacerbated by the war in Ukraine. With inflation at record highs in some parts of the world, central banks have begun raising interest rates, and some have already started reducing their quantitative easing measures.

Against this backdrop, investors have been rotating away from growth into value stocks. Year-to-date, MSCI Europe Value Index is up 1.14% compared with a -17.85% return for the MSCI Europe Growth Index.<sup>1</sup> Before the rotation, growth stocks - especially tech companies - had rallied strongly as global workforces transitioned to working from home and friends and family tried to stay in touch during lockdowns. Though structural and consumer trends are here to stay, some of these growth stocks have become victims of their own success. Moreover, with some investors chasing growth at any price, valuations

<sup>1</sup> Source: Bloomberg as at 23/05/2022

had become stretched, further denting sentiment towards these stocks.

With the "inflation is transitory," narrative now firmly put to bed and central banks raising interest rates, it is no surprise that growth stocks have struggled. Rising interest rates and inflation are bad news for growth stocks, at least initially, because they erode the future cash flows that growth stocks are heavily valued on. Value stocks, meanwhile, have found support from a strong economy and surging commodity prices. This has led many to question why investors should invest in growth stocks in such an environment.



## 10-year performance

<b>Henderson EuroTrust</b>	<b>232.6%</b>
FTSE World Europe ex UK Index (benchmark)	174.6%
MSCI Europe Growth Index	173.7%
MSCI Europe Value Index	121.3%

Share price total returns in GBP

Source: Bloomberg as at 23/05/2022

## IN QUALITY, WE TRUST

At **Henderson Eurotrust**, our objective is to provide our shareholders with a superior total return from a portfolio of high-quality European companies over the long term. While the last 6-months or so have been challenging, it's important to remember that we are long term investors and firmly believe that quality, growing businesses will outperform lower quality companies over time – our long-term outperformance is a testament to this approach.

While lower quality companies may have periods of resurgence - such as we are seeing now – these businesses are still facing significant challenges as the pace of disruption and innovation increases. For example, in transportation, cheaper and faster competitors are reshaping how we move people and goods, while in retail, online competition is driving prices down and challenging the pricing power for traditional bricks-and-mortar businesses – a point made clear during the pandemic. Within the energy space, companies are coming up with sustainable ways to produce and store clean energy as the world weans itself from fossil fuel,

posing a challenge to traditional energy producers.

We maintain our firm belief that, over the long term, companies with sustainable barriers to entry and thus able to generate high and sustainable return on invested capital, will outperform. We therefore believe some of these value recoveries to be transient, and we will not lose faith in our long-term strategy. In fact, we are using this difficult environment for quality growth as an opportunity to move further toward this style bias. Simply put, we are finding opportunities to buy what we see as high-quality long-term investments at reasonable valuations in this market environment.

The quality stocks we look for are those which have a competitive advantage within their industry. Companies with strong pricing power compared to their peers, that can deal with rising input costs while still generating growing earnings, no matter what the economic forecast. High-quality businesses capable of generating returns above their cost of capital that allocate excess capital appropriately are the perfect holdings for our portfolio in these uncertain times.



Another thing to point out is that the highest quality companies also place Environmental, Social and Governance (ESG) factors at the heart of their business. This is often derived from solid management teams who devise comprehensive strategies to deal with factors likely to affect their business in the future. Europe is at the forefront of sustainability - more companies across the continent are putting ESG at the heart of everything they do than anywhere else in the world. These businesses have not fared well in the market rotation, but we maintain a healthy, and growing, exposure to them. Not only are these companies doing the right thing for the environment and the society in which they operate, but they are also better equipped to achieve attractive long-term growth and returns.

#### **A LONG-TERM PERSPECTIVE**

With the short-term market outlook uncertain, it's essential to maintain a long-term perspective. Now, that's easier said than done because it means looking beyond the noise, the macro-economic indicators, and short-term earnings reports. Of course, periods of weakness are part and parcel of investing.

However, it's the conviction you have in your strategy and the underlying businesses that helps you through the tough times. That is why we will continue to focus on picking quality companies that can provide consistent and sustainable long-term returns for our shareholders. Quality matters now, more so than ever.

**For more insights, research and commentary on the range of Janus Henderson Investment Trusts, visit the [Insights Hub](#).**

#### **GLOSSARY TERMS**

##### **Growth investing**

Growth investors search for companies they believe have strong growth potential. Their earnings are expected to grow at an above-average rate compared to the rest of the market, and therefore there is an expectation that their share prices will increase in value.

##### **Value investing**

Value investors search for companies that they believe are undervalued by the market, and therefore expect their share price to increase. One of the favoured techniques is to buy companies with low price to earnings (P/E) ratios. See also growth investing.

#### **IMPORTANT INFORMATION**

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# How equity income funds have come back into fashion in tricky markets

Vehicles investing in dividend-paying stocks have held up better than most in 2022

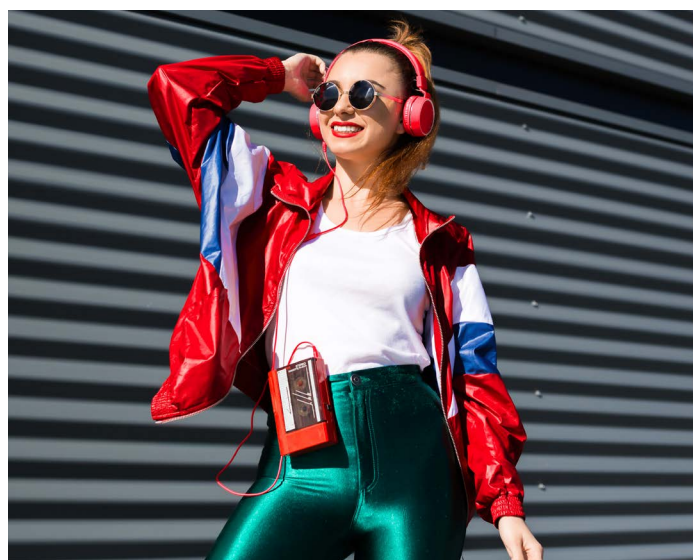
**T**he market is a pretty grisly place to be right now, as high inflation, rising interest rates, and economic pessimism have taken their toll on sentiment. One area that's been doing better than most though, is equity income funds, which invest predominantly in dividend-paying shares. As the performance table shows, in 2022 equity income funds have held up a lot better than other areas of the market.

## REVERSAL OF FORTUNES

This is a significant reversal of fortunes, especially for the UK Equity Income sector, which has been a real laggard until this year. Returns from the equity income sectors have still been negative this year, but in a falling market, some downside protection is not to be sniffed at, and shallower price falls means these stocks have less ground to make up when sentiment turns. There are also good reasons to believe that equity income funds could be set to come back into fashion, after a long period out in the cold.

Inflation and rising interest rates have made a bird in the hand look more attractive than two in the bush, which favours cash dividends over reinvestment for future growth. If we are entering a period of market falls, or stagnation, some equity income exposure could therefore provide some useful ballast for a portfolio. These funds are by no means exempt from downturns, but they may do better than other areas of the market.

Partly that's because the immediacy of a dividend provides a bit of a safety net when it comes to valuing a stock, as a cash payment will always set a floor as to what a share is worth. If the market knows a company is going to pay somewhere in the region of a 50p dividend per share, there's a level below which the stock is unlikely to fall, because that income stream simply becomes too attractive to resist.



## RISKS FACING INCOME FUNDS

Dividends can be cut too, and in the current environment where companies face higher debt interest payments, inflationary costs, and a weak economic outlook, dividends could come under pressure.

This is definitely a risk for equity income funds, particularly seeing as many of the big dividend payers are cyclical businesses like mining companies and banks. But the one thing we can say with some certainty about the global economy, is that if it falls backwards, it will recover. The same goes for company earnings, and dividends, which should rise over time.

By contrast, if the lofty valuations on some growth stocks are felled by rising interest rates, there's nothing to say they will climb back to the same heady heights again. Ultimately, stock valuations tell us what profits investors are willing to accept for investing in shares.

It seems logical to conclude that the reason investors have been willing to accept so much less bang for their buck in recent years is actually because the alternatives, cash and bonds, have

## How different sectors have performed – total return

Sector	Five years to 31 Dec 21 (%)	2022 to date (%)
IA Global Equity Income	51.1%	-3.8%
IA UK Equity Income	26.4%	-4.4%
IA North America	97.8%	-9.0%
IA Japan	41.8%	-10.3%
IA UK All Companies	36.4%	-10.5%
IA Global	77.8%	-11.7%
IA Global Emerging Markets	44.1%	-12.1%
IA Europe Excluding UK	58.3%	-14.3%
IA UK Smaller Companies	84.2%	-19.1%

Table: sharesmagazine.co.uk • Source: FE Fundinfo, total return in GBP to 9 May 2022

been yielding next to nothing. But that tectonic plate is now shifting quite rapidly, and as interest rates rise, the tide is seeping out on growth stock valuations. That tide may not regain its high water mark again, unless we see central banks moving back to near zero interest rates.

### PANDEMIC DECIMATED DIVIDENDS

We should also bear in mind that there was a widespread dividend cull when the pandemic hit, as companies sought to cut their cloth to more constrained economic circumstances. This put dividend payments on a more affordable footing. One measure of this is dividend cover, which shows the ratio of company earnings to dividends.

Dividend cover for the FTSE 100 is now at its highest level since 2012. In 2022, dividend cover is forecast by analysts to rise to 2.09 times, compared to an average of 1.5 times in the five years leading up to the pandemic. Clearly analysts can get their numbers wrong, and an economic slowdown means lower earnings, but even allowing for some downward revisions, that's still a reassuring buffer against swingeing dividend cuts.

Investors can build their own portfolios of dividend-paying stocks, or invest through equity income funds, which provide instant diversification. Investment trusts can be particularly useful for those looking to receive a regular income, as they can smooth dividend payments by building

reserves up in the good years to pay out in the bad years.

### ATTRACTIVE YIELDS

One of the attractive things about the UK stock market is the level of yield it provides, and there are plenty of domestic fund and trust options available to investors, such as **Threadneedle UK Equity Income (B8169Q1)** (historic yield 3.1%) or **City of London (CTY)** trust (yield 4.9%).

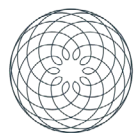
While other areas of the global market tend to be lower yielding, investors should consider using them to build some regional diversification into their equity income portfolio, through funds such as **Schroder Global Equity Income (BDD2CM9)** (yield 3.5%), **Blackrock Continental European Income (B3Y7MQ7)** (yield 3.2%), or for more adventurous investors, **Jupiter Asian Income (BZ2YMT7)** (yield 3.8%).

As ever, it's important not to over-expose your portfolio to one style of investing, but given the relatively lacklustre performance of equity income in recent years, combined with fund outflows from the sector, you might find yourself lacking much of an allocation to these dividend disciples.



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





## A hands-on approach

### ***Private equity trusts offer a solution for investors seeking a tightly controlled and monitored approach to ESG...***

More and more global corporations view a duty to society as part of their fiduciary duty to shareholders. Whether that is a commitment to better governance, community engagement, or better environmental practices that help protect the planet, the goal is to protect and grow both shareholder value and the value to society over time.

The growth over time of global Environmental, Social and Governance (ESG) assets support this. According to Bloomberg, global ESG assets may surpass \$41 trillion by the end of 2022 and are forecast to exceed \$50 trillion by 2025, representing a third of the total in projected total assets under management globally.

There is a growing awareness among investors that ESG considerations are integral to analysing risk and returns. Investors are increasingly evaluating investment managers on their level of ESG integration and processes within the context of their portfolios. For **NB Private Equity Partners (NBPE)**, the London-listed investment trust focused on direct investments through an approach called co-investing, ESG is a core part of the manager, Neuberger Berman's, investment process.

According to Jennifer Signori, who oversees ESG integration within the private markets team at Neuberger Berman, one of the reasons ESG and private equity work well together is a matter of natural synergy.

"Private equity managers tend to focus on sectors that are less resource intensive or asset heavy. These also tend to be sectors that are more efficient and experience less volatility, benefitting from secular tailwinds."

Another reason private equity and ESG can go hand-in-hand is due to private equity investors taking controlling ownership stakes of companies.

"As direct investors with controlling stakes, private equity managers can drive change and value through initiatives within the companies they own, something which is far more difficult to achieve as a minority shareholder in a listed company."

NBPE's screening process starts with considering ESG factors at the company level. Neuberger Berman then builds on this by evaluating the lead private

equity managers – and their level of ESG integration. The investment team believes this helps them to understand the effect that ESG factors may have on NBPE's investment performance. Where these factors are significantly negative, Neuberger Berman will simply decide not to make an investment.

"There is a deep level of due-diligence taking place which allows us to turn over every stone, including ESG," says Jennifer. "An approach like this is even more important in a highly volatile market like the one we are witnessing today where the focus is on mitigating risk."

Neuberger Berman incorporates three key ESG pillars into its investment process; it seeks to **avoid** sectors and companies which have significantly adverse social or environmental outcomes, to **assess** material ESG factors as a part of the evaluation of risks and opportunities, and to **amplify** exposure to companies with positive environmental or social characteristics.

GFL Environmental, one of the largest providers of environmental services in Canada, is a good example of this approach in action.

NBPE co-invested in the company alongside BC Partners in 2018. GFL is a provider of environmental services in a growing market focused on proper waste management.

The team supported the view that there was the opportunity to add value by improving overall company operations and, because it was operating in a fragmented market, to grow by acquisition and further solidify a leadership position.

Furthermore, under its private equity ownership, the company improved its employee safety systems and protocols and introduced less carbon intensive trucks in its fleet, transitioning away from diesel in certain cases.

The board of NBPE formalised its commitment to ESG in 2020 through its Sustainable and Responsible Investment policy. When we spoke to Neuberger Berman recently, they said that the vast majority of the trust's directly invested portfolio has 'neutral' sustainability potential, with mixed or unknown benefit to people or the environment. An example of a neutral company would be a consumer retailer or a business software company. There is also 22% of the portfolio that demonstrates positive sustainability potential – with the ability to have an overall positive benefit to people or the environment.

Click [here](#) to read our latest research on NB Private Equity Partners...

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# How does China's growth target for 2022 compare with the rest of the world?

The economy is below historic levels of GDP expansion but still ranks high globally

**D**espite mounting scepticism, if China can shake off its Covid restrictions and Beijing adopts helpful monetary and fiscal policies, the world's second largest economy may yet make its 5.5% GDP growth target for 2022.

If it pulls this off, how would it compare with other countries in the developed and developing world?

Based on recent history 5.5% growth is below the long-term trend. Between 1989 and now, China's annual GDP growth has averaged 9.2%.

Growth had already begun to slow as the economy matured before the pandemic, with 5.9% posted in 2019. China is transitioning from an economy dominated by exports to one which is driven more by domestic demand. The year Covid struck growth slowed to 2.2% before rebounding with an 8.1% surge in 2021.

While 5.5% might feel a bit disappointing in that context it would put China near the top of a global league table based on the latest forecasts from the IMF (International Monetary Fund).

If China only achieved the 4.4% rate expected by the IMF, this would still rank reasonably high and well above the 3.3%

average for advanced economies and even the 3.8% average for emerging market and developing economies. India stands out with growth of more than 8% pencilled in.

Even if growth is as low as 4%, as some observers are now predicting, it would still be an outcome which would be the envy of much of the globe.



## How China ranks globally for growth in 2022

Country/region	IMF 2022 GDP forecast	
India		8.2%
Middle East and Central Asia		4.6%
<b>China</b>		<b>4.4%</b>
Sub-Saharan Africa		3.8%
US		3.7%
UK		3.7%
Euro area		2.8%
Latin America and the Caribbean		2.5%
Japan		2.4%
Emerging and developing Europe	-2.9%	

Table: Shares • Source: International Monetary Fund, 19 April 2022



**FRANKLIN  
TEMPLETON**

This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit [here](#)

# Emerging markets: Views from the experts

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



**1.** The global growth scare amid the war in Ukraine and significantly higher US interest rates over the next 12 months, combined with the impact of rising input costs, imply slower future profit growth. Consensus expectations for the MSCI World Index is for **earnings growth** to decline to 8% in 2023, from a forecasted 13% in 2022. However, the risk is skewed toward further downward revisions to earnings in 2023. In contrast, emerging markets (as measured by the MSCI Emerging Markets Index) are expected to witness a recovery in earnings growth to 10% in 2023 from an expected -1% in 2022,<sup>2</sup> driven primarily by a recovery in the Central and Eastern Europe Middle East and Africa (CEEMEA) region as well as China and India. While there are risks to earnings in both these markets, decision makers in China are easing policy to offset risks to growth.

**2.** Global automakers are continuing to grapple with resource constraints and supply chain challenges, with automotive semiconductor chips remaining in short supply. Access to nickel for the production of lithium batteries is viewed as the next big challenge as automobile makers ramp up EV production and demand for lithium batteries increase. In Asia, the focus is on Indonesia, which has one of the world's biggest nickel deposits.

With an eye on creating an integrated nickel industry, as opposed to one focused solely on mining, Indonesia recently announced that it had secured a combined \$15 billion investment from a South Korean and Chinese battery manufacturer for an integrated EV battery project.

**3.** While the rest of the world continues to reopen post-Covid-19, **China's 'zero-Covid' policy** implies the country is stuck in a cycle of spiking cases and lockdowns. This is starting to create demand destruction as well as supply chain tightness and adding to global inflationary pressures. Covid-19 aside, Chinese policymakers have committed to further policy loosening to support a slowing economy. Regulators will likely also reduce the pace of reforms.

## TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

### Portfolio Managers



**Chetan Sehgal**  
Singapore



**Andrew Ness**  
Edinburgh

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





# Seeking high-quality income to help protect against inflation

For explanations of the terms used in this article, please visit [Glossary \(mandg.com\)](https://www.mandg.com/glossary)

## HOW CAN INCOME INVESTORS PROTECT AGAINST INFLATION WHEN INTEREST RATES ARE RISING?

A core part of many income investors' portfolios is the traditional bond fund, which normally comprises high-quality bonds (rated investment grade by credit rating agencies) issued by governments and companies. However, as anyone who has checked their bond portfolio recently will tell you, these investments do not usually cope well with rising interest rates and inflation.

Unfortunately, many assets that offer higher income can also increase portfolio risks. Dividend-paying company shares (equities), real estate and high yield (rated below investment grade) corporate bonds, for example, may present a combination of higher volatility and default risks.

But for specialist fixed income investors, there is a potential alternative: private debt. This involves investing in debt from companies that have not sought to borrow money via public bond markets, and have instead preferred to negotiate borrowing terms with a single lender or small group of investors.

## WHY INVEST IN PRIVATE DEBT?

A potential advantage of private debt – along with specialised areas of public debt – is that these assets could provide higher income than public bonds of the same credit quality. Importantly, this income is often linked to market interest rates. When cash interest rates rise, so too do the regular coupons investors receive, and vice-versa.

Constructing a diversified portfolio of this type is only possible for a limited number of investment managers that have the necessary scale, networks, experience and expertise to do so. These include M&G, which is one of the leading private debt investors in the UK and Europe, having invested in the asset class for more than two decades.

## M&G CREDIT INCOME INVESTMENT TRUST

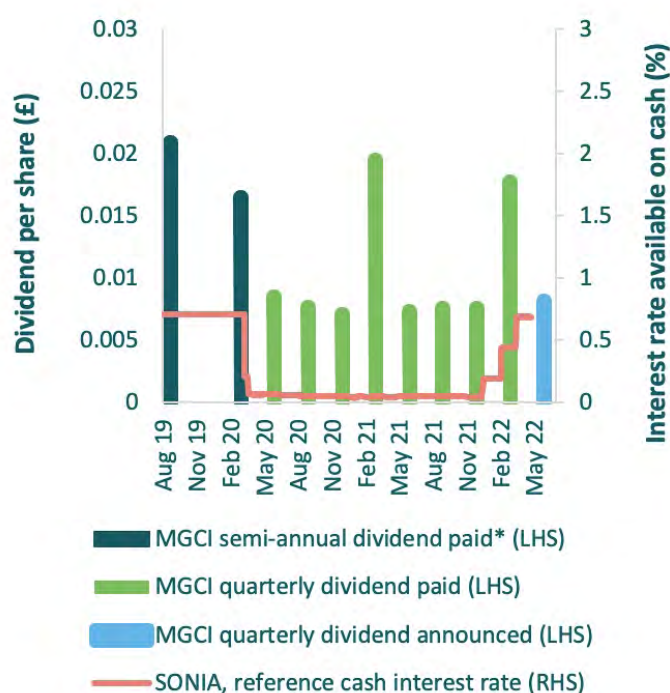
Historically, private debt has been the preserve of large institutions, but ordinary investors can now access these investments via the M&G Credit Income Investment Trust. The trust is designed for those who seek to increase their incomes to help protect against inflation using an investment grade-quality portfolio, without having to invest

in alternatives that are generally considered to be more volatile.

By using a closed-ended investment trust structure, we can hold private assets, which tend to be less liquid than public bonds, until their maturity dates without being forced to buy or sell underlying assets to match cash inflows or redemptions by investors, as would be the case with an open-ended fund.

At the same time, investors can retain access to their capital by buying and selling shares in the trust, which are listed on the London Stock Exchange, to suit their own circumstances, although we recommend a holding period of five years.

### Quarterly income above cash interest rates\*



Past performance is not a guide to future performance.

Source: M&G, Bank of England, as at 31 March 2022.

\* As set out at the Initial Public Offering (IPO), during the initial investment period to 31 December 2019, the trust operated a temporary, semi-annual dividend target of 2.5%pa above cash rates, with a long-term quarterly dividend target of 4%pa above cash rates thereafter.



Our dividend income target of 4%pa above cash interest rates is significantly higher than would be available from a portfolio based purely on UK investment grade core government and corporate bonds, and we intend to increase this in line with the Bank of England's SONIA interest rate\*. To date, the trust has been a reliable source of quarterly income with low asset value volatility. For investors who are looking to protect their incomes in real terms, we believe private debt and specialised public debt could prove an important source of diversification.

### RISKS ASSOCIATED WITH THIS STRATEGY:

The value of investments will fluctuate, which will cause share prices to fall as well as rise and you may not get back the original amount you invested. There is no guarantee that the Company's Investment Objective will be achieved.

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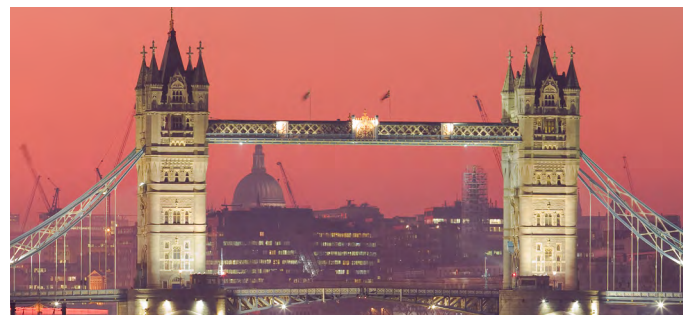
Changes in interest rates may adversely affect the market value of some of the Company's investments.

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A variety of factors, such as market conditions, liquidity concerns or Company performance may lead to a reduction in trading volume or shares trading at a discount to their net asset value. Shareholders may also be unable to realise their investment at quoted prices or at all.

Please note this is not an exhaustive list, please refer to the risk section in the Prospectus for further details

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This product does not include any protection from future market performance so you could lose some or all of your investment.

If the Company is not able to pay you what is owed, you could lose your entire investment.

### Performance since inception



\* Sterling Overnight Index Average (SONIA) is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

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# The best and worst US performers pre and post pandemic



What we can learn from the performance of the S&P 500 in the first part of 2019 and 2022 to date

**I**t is already been quite a year for the S&P 500, almost six months into 2022 it is now teetering on the edge of a bear market and this month delivered it its worst day since the pandemic sell off.

Investors have endured a bumpy ride, the days when making money seemed simple are gone, at least for the time being. Investors have been reassessing their portfolios, divesting companies where valuations have soared to untenable levels, rotating out of growth into more defensive positions and facing tough choices as inflation tears into margins.

## S&P 500 on the brink of a bear market



While markets are by their nature forward facing, looking back can provide investors with a valuable perspective. Which stocks have fallen out of favour and why and how do they differ from market movements before Covid struck.

## ENERGY BOUNCES BACK

It won't come as a surprise to anyone who has been keeping an eye on geopolitical events that

oil and gas companies occupy all the top five positions of S&P 500 upward movers of the last six months.

The soaring price of energy and rush to up production in the US, to provide security of supply to its allies and reap the benefits domestically, has switched investor opinion on these stocks. Between them they've racked up a 360% share price surge.

Three years ago, these businesses were falling out of favour as markets considered how meeting climate targets would impact future growth, a factor that does need taking into consideration long term.

## S&P 500 winners and losers from start of 2022

Top five risers		Performance same period 2019
Occidental Petroleum	120%	-14%
Valero Energy	66%	12%
Marathon Oil	63%	8%
Coterra Energy	61%	17%
Devon Energy	58%	36%
Top five fallers		Performance same period 2019
Under Armour	-56%	34%
Paypal Holdings	-57%	34%
Align Technology	-58%	54%
Etsy	-64%	32%
Netflix	-70%	32%

Table: sharesmagazine.co.uk • Source: Sharepad. From 31 Dec 2021 to close 19 May 2022

Future growth didn't seem to be a problem for **Netflix (NFLX:NASDAQ)** in 2019 but the streaming giant's facing an entirely different landscape in 2022. Battered by increased competition and cost of living pressures, subscriber numbers dropped



in the first quarter of the year for the first time in its history and its share price has tumbled in response, down a staggering 70%, surrendering the gains it amassed during streaming's moment in the sun through lockdown.

### PANIC HITS NETFLIX

The sell-off could be viewed through the lens of panic, investors jumping off the growth stock bandwagon. But Netflix has bigger problems than a one-off fall in subscriber numbers. The whole subscription model needs tweaking if these businesses are going to be long-term revenue generators.

Right now, streamers are ploughing vast sums of cash into content, a merry-go-round with no off switch. Back catalogues are fine, but they don't deliver an appointment to view and without the diversification enjoyed by its competition Netflix is vulnerable.

Another name ringing alarm bells from the bottom ranks of S&P 500 losers is **Under Armour (UAA:NYSE)**. The sportswear giant disappointed with its quarterly earnings report and news that its CEO Patrik Frisk is stepping down has rattled investors further.

The outgoing CEO was seen as a safe pair of hands who prodded the business into a more streamlined enterprise, hammering down debt levels, but under his management the business seemed to lack some of the 'Va Va Voom' which had set the brand apart from the competition.

Whoever takes over faced a tough job, China lockdowns have stalled momentum in the lucrative Asian market and inflationary concerns will make some people think twice about splurging on fancy work-out gear. That said, the post-pandemic trend for healthier lifestyles isn't going anywhere.

### OTHER NAMES ON THE LOSER LIST

The other companies enjoying the dubious pleasure of making the loser list perhaps present more intriguing opportunities for bargain hunters particularly the makers of orthodontic favourite 'Invisalign'.

There's no getting away from the fact that

consumer uncertainty will dampen demand for **Align Technologies (ALGN:NASDAQ)** dental tool.

However, the tech developed by the company can help kids find their smiles without the kind of intervention traditional braces require. The company has an unassailable position in a market ripe for mega-growth once the cost of living crisis works its way through.

### S&P 500 winners and losers from the first five months of 2019

Top five risers		Performance same period 2022
Ephase Energy	210%	-10.0%
Paycom Software	72%	-35.0%
Match Group	70%	-43.0%
Chipotle Mexican Grill	66%	-27.0%
Hess	62%	53.0%
Top five fallers		Performance same period 2022
Biogen Idec	-24%	-20%
Kraft Heinz	-24%	-7%
Viatris	-28%	-14%
Lumen Technology	-30%	-9%
Tesla	-37%	-33%

Table: sharesmagazine.co.uk • Source: Sharepad. From 31 Dec 2018 to close 19 May 2019

Looking at the first five months of 2019 Elon Musk's **Tesla (TSLA:NASDAQ)** was bottom of the pack, down almost 40%.

Between 19 May 2019 and the start of this year's tech meltdown the stock jumped an incredible 2,400%.

### KRAFT HEINZ BACK IN DEMAND

It's not had the best start to 2022 but that's arguably got more to do with its boss's **Twitter (TWTR:NYSE)** fetish than the electric car business itself. **Kraft Heinz (KHC:NASDAQ)** was also among those out of favour, though its pricing power is sought after right now whilst **Chipotle Mexican Grill (CMG:NYSE)** was racking up devotees two years ago before lockdowns and inflation were everyday talking points.



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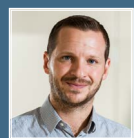
# My pension provider is dragging its feet over a transfer – what can I do?

Our resident expert explains how long you should have to wait and how you can raise a grievance

*I'm in the process of transferring my old workplace pension to a SIPP. So far it has taken two months with no obvious end in sight. Getting through to my existing provider is an absolute nightmare – several emails have gone unanswered and their phone lines leave me on hold for hours at a time.*

*Surely this cannot be acceptable in 2022? Is there anything I can do to speed things up?*

**Anonymous**



**Tom Selby, AJ Bell**  
Head of Retirement  
Policy says:

While pension transfer times have improved significantly in some parts of the market, in other parts things can still be painfully slow.

In most cases, a simple transfer from a defined contribution (DC) pension such as a SIPP to another DC pension should take a matter of weeks.

Transfers involving cash should usually take two-to-four weeks, while funds (four-to-six weeks) and shares (six-to-eight weeks) can take a little bit longer.

It is possible a transfer delay will be perfectly legitimate.

For example, if the person making the transfer fills out information incorrectly this will inevitably slow the process down.

Transfers from defined benefit (DB) schemes or pensions with guarantees also require the member to seek regulated advice first where the benefits are valued at £30,000 or more, which will also naturally hold things up.

In addition, regulations were introduced last year which mean transfers can be delayed when the scheme you are transferring from (sometimes referred to as the 'ceding' scheme) has legitimate suspicions the scheme you are transferring to (the 'receiving' scheme) might be a scam.

However, this should not affect legitimate transfers to established, regulated providers.

The reasons for many transfer delays are sadly due to failings at the ceding scheme. This can particularly be the case with older schemes or those operated by closed-book insurers, where systems may be antiquated.

Ultimately for any transfer to be enacted quickly and efficiently, it takes two to

tango – which clearly isn't the case where a ceding scheme doesn't respond to emails or phone calls.

If your scheme continues to be unresponsive you should make a formal complaint (if you haven't already).

As well as trying to contact via telephone and email you should raise your issue via the company's Twitter account (if they have one) – this can often be an effective way of getting attention as all financial services firms hate bad publicity.

If the scheme fails to respond within eight weeks of your complaint or you are not happy with their reply, you can take your case to the Pensions Ombudsman Service.

You can find details of how these complaints work [here](#).

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [asktom@sharesmagazine.co.uk](mailto: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*.

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## KEY ANNOUNCEMENTS OVER THE NEXT WEEK

### Full-year results:

**27 May:** Volvere, **30 May:** Speedy Hire, **31 May:** B&M European Value Retail, Pennon, **1 June:** Dr Martens.

### Half-year results:

**1 June:** Impax Asset Management.

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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.

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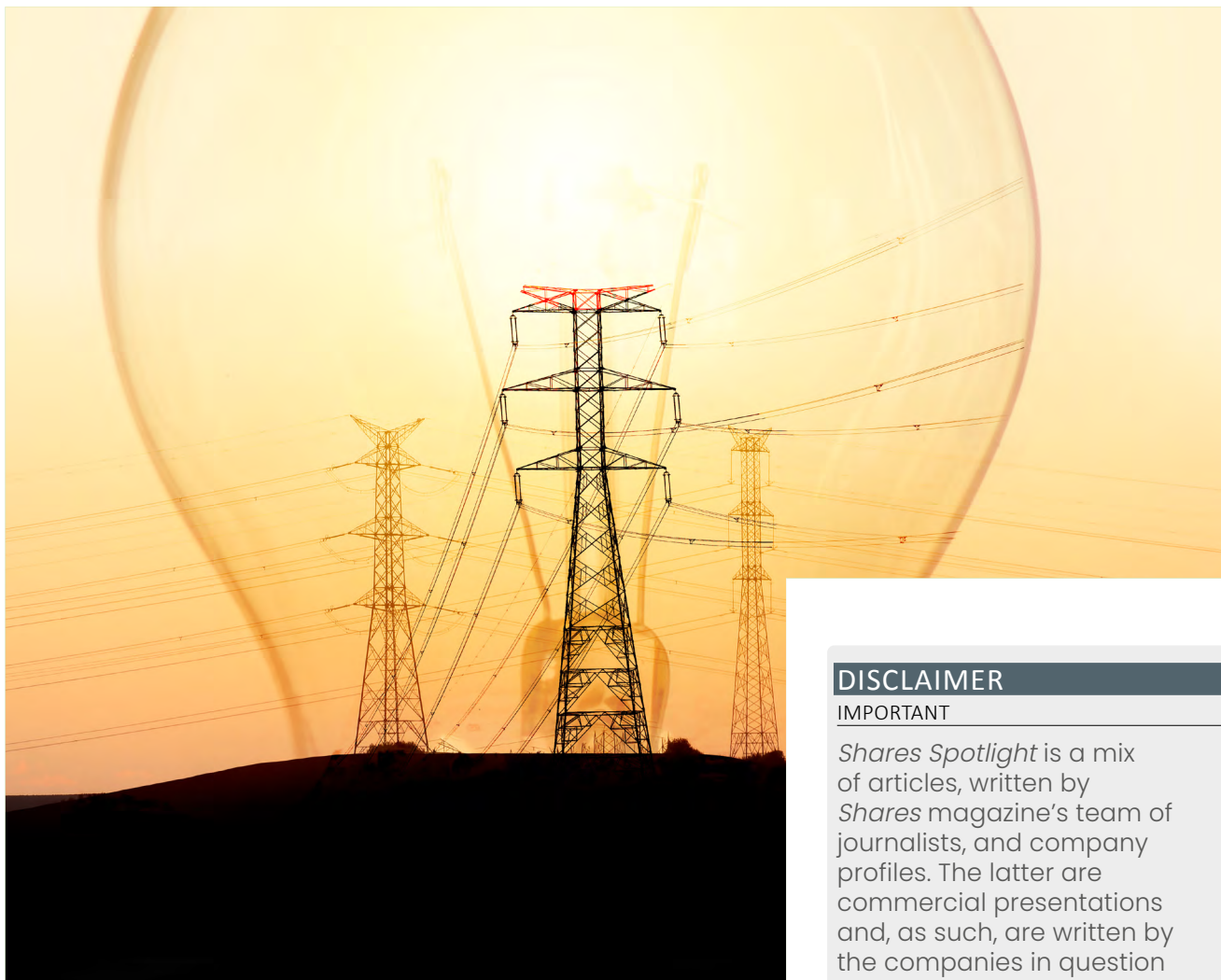
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The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

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Some of the firms profiled in *Spotlight* will appear at our investor webinars and in-person events where you get to hear from management first hand.

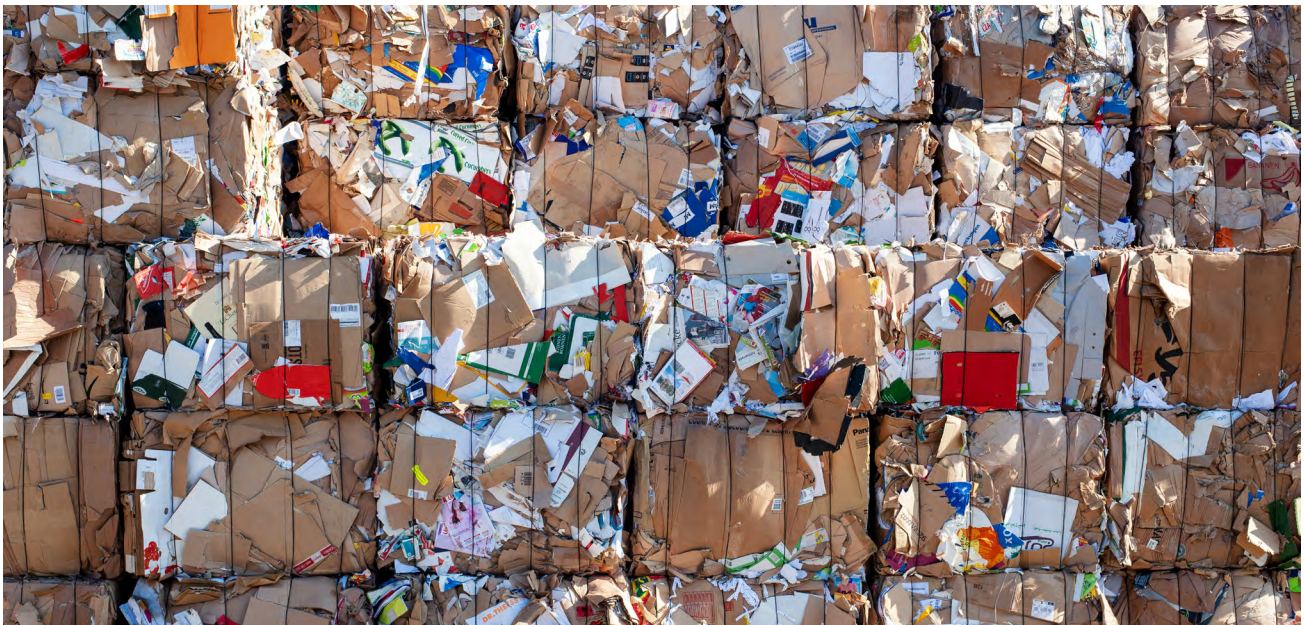
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# How circular economy business models work in the real world

A review of the different ways businesses are looking to tackle the challenges posed by human consumption



Human consumption is approaching twice what nature can regenerate each year, suggesting the current consumption model is unsustainable.

Addressing this imbalance requires greater efficiency in consumption and greater re-use/recycling from the current levels of sub-10%. These actions are driving a shift to the circular economy.

We look at five types of business model that are emerging to support and benefit from the move to a circular economy. These should not be seen as independent single models

but often co-exist and will sit alongside existing business models.

## **CIRCULAR INPUTS**

Circular inputs involve replacing existing linear materials and supplies with inputs that have been and can be recycled. This leads to a direct reduction in the need for virgin raw materials. Inputs include renewable power, bio-products such as compostable plastics or materials that are fully recycled and recyclable.

Renewable energy is clearly a key beneficiary from the drive to use circular inputs,

increasingly assisted by the corporate drive to reduce carbon footprints. Investment in clean energy is expected to reach \$753 billion (in 2019 dollar terms) in 2021 accounting for 40.7% of all energy investment, up from 34% in 2017 according to the International Energy Agency.

In the UK renewable electricity generation (43%) outperformed fossil fuels (38.5%) for the first time in 2020, according to the Department for Business, Energy and Industrial Strategy.

Products are made from a range of input materials. A key area of environmental

concern has been plastics, particularly in packaging, reflecting both its source from hydrocarbons but also the impact from disposal, particularly on the oceans.

The UK Government's recently introduced plastic recycling tax covers plastics with less than 30% recycled content. The EU is targeting 25% of plastics from recycled sources by 2025 and 30% by 2030. While regulation is important, it is worth noting the pledges being made by a range of international companies.

### PRODUCT LIFE EXTENSION

Extending a product lifecycle suggests a reduction in overall consumption, a key theme of the circular economy. However, there are potential secondary effects from life extension. These include continued use of a less energy-efficient product. According to the Environmental Protection Agency improved technology reduced emissions for a new car by 3.5% between 2014 and 2019.

This means there is a crossover point at which it is beneficial to scrap (and recycle) an older car and replace it with a new, more efficient model. Obviously, an electric car would push this tipping point towards the replacement end of



the scale. There are also secondary effects, such as the social impact on the manufacturers, retailers and repair sectors.

The traditional corporate business model is often built around maximising consumption. This leads to a view from corporates that obsolescence is good because it promotes re-purchasing and total consumption. Arguably, companies have consciously looked to build in obsolescence through the lifespan of components or non-retrospective technology upgrades.

Governments are starting to address this lifespan issue with legislation such as the recent 'right-to-repair' regulations introduced in the EU. This requires the manufacturers of dishwashers, washing

machines, fridges, televisions and other electronic displays to provide spare parts for up to 10 years. The UK has enacted similar legislation. Austria is going a step further, with government-funded repair bonuses being introduced in 2022 to promote the repair versus replace balance.

### RESOURCE RECOVERY

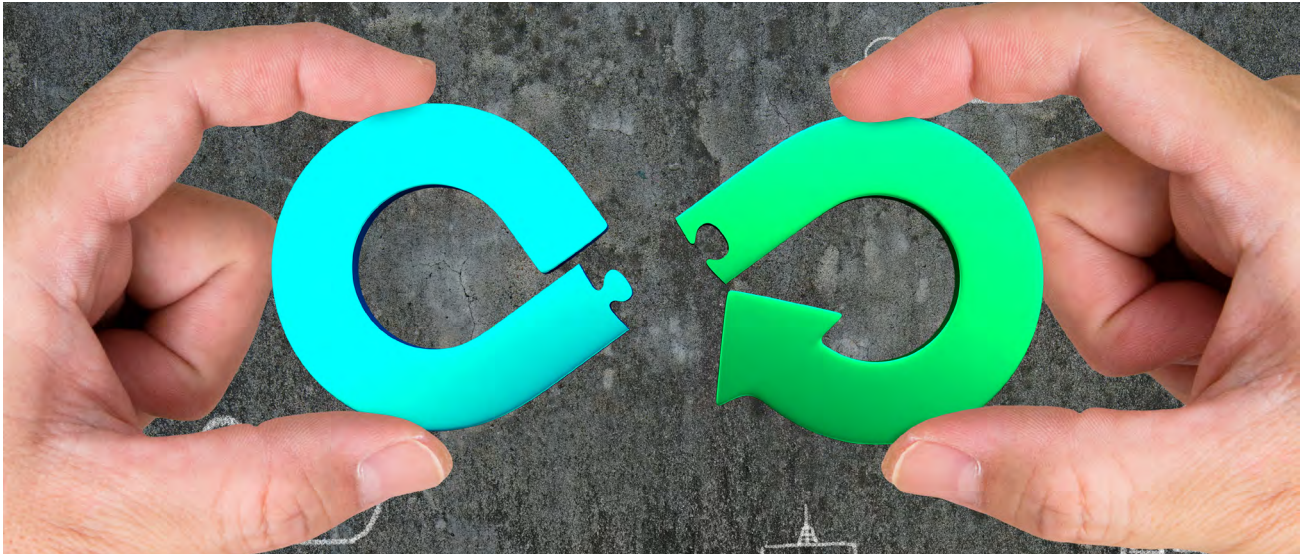
Resource recovery encompasses recycling or 'reverse logistics' from all elements of the product lifecycle with a financial incentive to retain the highest economic value from a hierarchy of waste perspective. The Ellen MacArthur Foundation estimates that only 5% of material value of goods produced is recovered, suggesting significant scope for improvement.

Governments are looking to reduce waste. In Europe, municipal waste (40% of all waste) recycling was 47% in 2019. The target is for 60% by 2025 and 65% by 2030 along with an aim to reduce landfill to below 10% by 2035 from 24% in 2019.

A key driver has been the use of extended producer responsibility (EPR) regulation where producers are responsible for the environmental impacts of their products when they become







waste. In Europe over 87% of cars were recycled in 2018 but less than 50% of electronic equipment (source: Eurostat).

Economics are also driving recycling. As commodity prices rise, so does the incentive to recycle. There is also the potential for recycled materials to become a premium priced product as legislation on content requirement and corporate targets demands more recycled input content.

### SHARING PLATFORMS

Ownership has often been seen as a prerequisite for consumption, a perception that has been promoted by the traditional corporate economic model. This leads to significant underutilisation of assets and hence over consumption of resources.

Economically sharing, or renting, enables the owner to earn an income from their asset, the renter acquires access to the asset without requiring significant capital outlay. Sustainably, increased utilisation reduces the level of resource required without affecting overall consumption.

The business model operates as an intermediary or broker between the owner and renter. This makes the model particularly capital light,

but technology heavy. Like many platform businesses, there are significant market-leader benefits along with traditional scale economics.

A commonly cited market thought to offer potential for platform business is car sharing. In the UK the average car is used just 4% of the time (source: RAC Foundation).

Depreciation and financing costs of a vehicle account for over 60% of operating costs in the first three years, far exceeding fuel costs or maintenance. To date, the large original equipment manufacturers and third parties have been developing car sharing schemes which are more aligned to product-as-a-service business model.

### PRODUCT AS A SERVICE

The traditional business model operates through the sale of a product. Companies have subsequently looked to extend this through aftermarket operations and the replacement cycle. The next stage is for the corporate to retain ownership of the product and sell the service that the product offers and the

customer is looking to acquire.

There are a range of sustainability benefits, including lower resource utilisation from higher utilisation rates, which reduces the overall requirement for the number of units produced. In addition, companies are financially incentivised to improve longevity, reliability and performance of products, which also reduces resource requirements.

Producers also retain control of the resources and have greater control over recycling than the current model, which tends to rely on legislation and schemes such as the EPR. Hence, recycling rates are promoted alongside the recycling hierarchy to maximise the value within the waste stream.

From a corporate viewpoint, this model offers the potential to deepen the relationship with the customer from a single point of purchase and provide a more consistent income stream. A key negative is the potential additional capital requirements.

*This article is based on a report produced by Edison Investment Research, other Edison Explains and thematic research is available [here](#).*





# Applied Graphene Materials is leading innovation in graphene technology

[appliedgraphenematerials.com](https://appliedgraphenematerials.com)

Graphene materials' technology has a well-documented history dating back to 2004 with the initial isolation of the 'pure' single atomic layer carbon material at the University of Manchester and, in 2010, the Nobel prize for its discovery.

Since then, many have joined the race to develop and commercialise what has been touted as the next great advanced material, with The UK Government, amongst others, having invested substantial funds into graphene as a future technology.

Graphene's remarkable attributes have the potential to benefit many applications. By selecting the correct form from the family of 'graphene nanoplatelets' and adding it to everyday materials, performance can be substantially enhanced for strength, endurance, permeability control, thermal and electrical conductivity.

However, it requires real know-how and solid technology for businesses to unlock the significant commercial potential from this 'wonder material'.



Adrian Potts, CEO, Applied Graphene Materials

**Applied Graphene Materials (AGM:AIM)** was born in the heat of the early graphene revolution and it has overcome the practical challenges for the commercialisation of the material.

Initially devising a method to manufacture graphene nanoplatelets using a synthesis approach at an industrial scale that is cost effective and offers value-adding performance advantages, it has, latterly, expanded that capability significantly to achieve a range of dispersions that

enables end-users to realise their goals for integrating graphene nanoplatelets in a safe, easy to handle and reproducible manner.

As with any new technology, there are challenges to overcome in making it fit for purpose. Graphene is no exception and AGM's focus is on achieving an excellent distribution of the material throughout the product it is being added to.

**This is where AGM is excelling.** It matches appropriate high quality nanoplatelet forms of

graphene to each specific application and, over the past few years, has also developed the capability to disperse, or add, the graphenes into a breadth of intermediate carriers. This creates a dispersion product range that gives excellent scope for the end-user to select and use a high-performance additive that best fits their formulation needs.

### WHAT'S SPECIAL ABOUT AGM?

AGM makes graphene nanoplatelets but the real value is in transforming them into optimised products for formulators through the use of its range of dispersions. This makes the customer engagement with graphene as challenge-free as possible to ensure the best opportunity for success.

AGM's initial business development focus has been in the world of industrial protective coatings and demonstrating the significant difference graphene can make to a correctly formulated coating system. In this context, applications can be as diverse as anti-corrosion paints for harsh offshore equipment, general purpose industrial anti-corrosion coatings and industrial products to

satisfy the needs of higher performance chemical resistance applications.

These could include products for pipeline protection, bulk chemical transportation and storage, and industrial flooring systems for factories, hospitals and warehouses.

The combination of graphene plus enabling dispersions plus compelling performance data sets AGM apart.

### STRATEGY AND BUSINESS MODEL

AGM's commercial focus is close collaboration with industry partners, developing dispersed graphene solutions that meet their real-world needs. AGM initially targeted its application development activity to enhance industrial coatings as the primary vehicle to demonstrate that graphene nanoplatelets can really make a difference – AGM's platform technology.

This has excellent read-across potential into other areas that employ similar formats of materials, such as high-performance composite materials, adhesives, inks and printables. Application chemists continue to apply AGM's materials to great effect – enhancing anti-corrosion



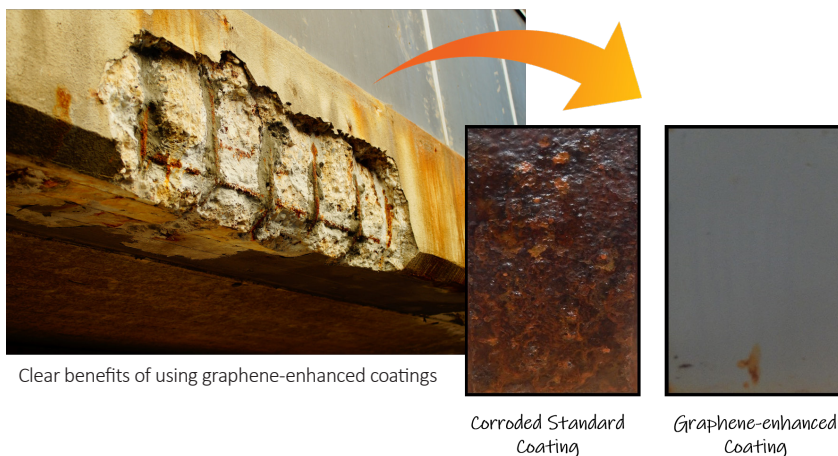
Graphene-enhanced composite pressure vessel  
(courtesy Infinite Composites Technology)

performance, extending the life of coatings, improving chemical resistance, toughening composite resins and increasing the thermal and electrical conductivity of materials.

AGM has a remarkable product platform that is already enabling end-users to benefit substantially from reliable, repeatable, stable graphene solutions that have good safety credentials and are easy to deploy in a production shop-floor setting at volume.

It is continuing to develop substantial test data to support the use of its products in a practical way and to back up its claims. This comprises practical guidance on application in complex formulating situations, as well as performance data demonstrating corrosion or chemical resistance in real coating formulations.

It has also launched a range of finished paint products to enable customers to fast-track their testing and determine if a graphene-enhanced paint is right for their protective coating application; one of AGM's partners doing exactly that is the England's Environment Agency, applying the graphene-enhanced primer to its coastal flood defences.



Clear benefits of using graphene-enhanced coatings

Corroded Standard  
Coating

Graphene-enhanced  
Coating



AGM's product range addresses industry's sustainability expectations. Not only do graphene-enabled coatings simply last longer and reduce ongoing maintenance, but AGM supplies water-based and bio-based dispersions with a much-reduced volatile organic compound footprint.

Having the right products in the right format is just one way to realise the full potential of graphene materials' technology. The company's strategy for successful commercialisation is to have a focused sales team to engage with industry.

Over the past two years, AGM has built a global network of distribution partners to facilitate sales development in the EU, India, North America and parts of Asia. They are making strong inroads in presenting the technology to their customers with over 100 customer-facing sales people, and this network continues to grow.

#### OUTLOOK

With a number of its graphene-enhanced dispersions already in

consumer products, and a strong pipeline of further customer development opportunities, AGM is at a turning point with its technology. It has designed a product platform that is relevant to its target end customers and AGM has built compelling data to support its adoption.

The strength and depth of AGM's current technology platform allows target and potential applications sectors to use its liquid dispersions in a range of chemistries.

AGM continues to focus on the development of its innovation platform into new areas – both adjacencies of its current activities and new novel applications, including for battery and hydrogen fuel which represent longer range developments and inevitably will take time to realize performance advantage optimization.

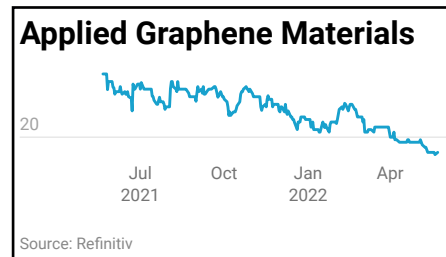
Currently, AGM is fully focused on developing further revenue opportunities. Although the testing cycle of such applications can be lengthy, AGM's pipeline of opportunities has the potential to support

future revenue growth, based on successful testing outcomes with its products to date.

#### WHY INVEST?

The UK-headquartered company is today an industry leader offering the potential to generate revenue from the successful, industrial deployment of graphenes through its dispersed product platform.

It has a solid pipeline of engaged customers testing its products, has proven technology, a network of distributors and a breadth of activity to de-risk these customer engagements. AGM is confident that graphene nanoplatelet use is coming of age and that its dispersion products are the key to unlocking the commercial potential of this innovative material.





# Diurnal commits to endocrinology vision as it targets \$3.5 billion opportunity

[diurnal.co.uk](https://diurnal.co.uk)



**Diurnal Group (DNL:AIM)** is committed to its vision of becoming a leading specialty commercial endocrinology company by addressing unmet patient needs worldwide and taking multiple products from concept to commercialisation.

Diurnal's vision is driven by the development of a strong commercial business in Europe, initially focused on the delivery of its lead products, Efmody (hydrocortisone modified-release hard capsules) and Alkindi (hydrocortisone granules in capsules for opening), for patients suffering from

orphan cortisol deficiency diseases; congenital adrenal hyperplasia (CAH) and adrenal insufficiency (AI). As part of its strategy, Diurnal is also seeking to maximise the value of its products across the globe, including the US and Japan, targeting a \$3.5 billion market opportunity in cortisol deficiency.

Diurnal's go-to-market strategy has been to focus its own commercialisation activities on the larger European markets whilst pursuing distribution agreements outside of these territories, to make Efmody and Alkindi available to as

many patients as possible.

The company's long-term strategy is underpinned by its commercialisation infrastructure as Diurnal has built one of the few dedicated endocrinology-focused commercial teams in Europe, focused on building awareness of its products within the concentrated prescribing community of endocrinologists. The company is also building momentum with its valuable pipeline of product opportunities in endocrinology diseases for long-term growth.

## ALKINDI: ESTABLISHING A GLOBAL PRESENCE

Alkindi is the first product specifically designed for young children suffering from paediatric AI, and the related condition CAH. Alkindi is licensed in Europe and in the US (as Alkindi Sprinkle) and has been proven to be effective in a formulation specifically designed for children.

In Europe, Alkindi has been launched in the UK, Germany, Italy and Austria, and by a partner, FrostPharma, in Sweden, Denmark, Norway and Iceland. At results in

February 2022, Diurnal delivered continued growth of Alkindi sales of 39% in its core markets despite the continued impact of Covid-19 on patients' ability to visit hospitals and consequently physicians' ability to switch patients to Alkindi. Alkindi growth in Europe is expected to accelerate as Covid-19 restrictions lift and additional launches are executed by its partners in the Netherlands, Switzerland and Bulgaria.

Over the last year, Diurnal further extended the reach of Alkindi through execution of distribution deals, with its products now commercialised in 20 countries across the EU, and beyond. In the US, Diurnal's partner Eton Pharmaceuticals entered into a co-promotion agreement with Tolmar Pharmaceuticals, significantly expanding the commercial effort behind Alkindi Sprinkle.

#### EFMODY: EXPANDING THE EUROPEAN FRANCHISE

Diurnal's second product, Efmody, provides a drug release profile that is designed to improve disease treatment for adults with CAH.

Efmody was approved by the EMA and the UK's MHRA during 2021. Diurnal is using the same go-to-market strategy as Alkindi, leveraging the established commercial infrastructure and supply chain. Efmody is now commercially available in Germany, the UK and Austria, and has been approved for reimbursement in Norway.

Pricing and reimbursement activities remain ongoing in other key markets, most notably in Italy and Spain, with these reviews expected to conclude during 2022. In addition, Diurnal's partner,



Consilient Health, has launched Efmody alongside Alkindi in the Netherlands during the second quarter of 2022.

#### DNL-0200: EXPANDING THE REACH OF MODIFIED HYDROCORTISONE

Outside Europe, Diurnal continues to progress plans for the development of DNL-0200 (commercialised as Efmody) in major markets. Following the agreement of a Special Protocol Assessment with the US FDA, Diurnal has now commenced the CONnect Phase 3 study, which will act as the registration study for patients suffering from CAH in the US. Following a positive dialogue with the Japanese PMDA, CONnect will also act as the registration study for Japan. Headline data from CONnect is expected in 2024.

In addition to expanding the global availability of DNL-0200, Diurnal is also seeking to expand its utility into AI, a market opportunity of approximately \$2.8bn across Europe and the US.

The company has commenced a Phase 2 study of DNL-0200 in Europe (CHAMPAIN), which Diurnal believes, along with the Phase 3 CAH study, will facilitate submission of a line extension to AI in Europe. Headline data from the CHAMPAIN

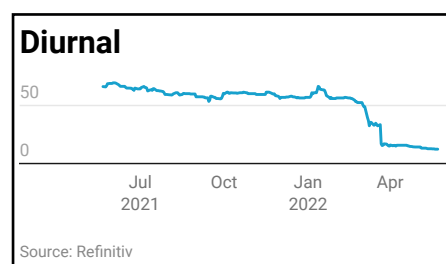
study is expected around the end of 2022.

#### OUTLOOK: BUILDING ON STRONG FOUNDATIONS

Diurnal believes its cortisol replacement therapy franchise will enable it to build a strong and profitable European business, through penetration of the combined addressable market for CAH and paediatric AI. In addition, the company continues to believe that there is a significant opportunity in adult AI and awaits data from the ongoing CHAMPAIN study.

Outside of these core diseases of cortisol deficiency, Diurnal also has an earlier stage pipeline including DNL-0300, a native oral testosterone therapy for the treatment of male hypogonadism, which represents a further valuable addition to the company's growing pipeline of novel endocrinology treatments.

Diurnal believes that it is well positioned to make significant steps towards becoming a strong, sustainable global endocrinology leader over the coming years.



# Hydrogen Future Industries is driving down the cost of green hydrogen

[hydrogenfutureindustries.com](https://hydrogenfutureindustries.com)



The solutions to climate change will come in many forms but few doubt that hydrogen will have a starring role. The clean-burning gas has the potential to fuel our cars, buses, ships, and airplanes but the biggest challenge to the hydrogen revolution is producing it cheaply enough from renewable sources to become a viable replacement for fossil fuels.

**Hydrogen Future Industries (HFI:AQSE)** listed in December 2021 to identify investment opportunities within the 'Hydrogen Economy'. Earlier this year, the business joined forces with motorsport and wind

turbine engineer Tim Blake to develop proprietary systems to produce green hydrogen – that is hydrogen made entirely from renewable energy.

'This is where we believe the opportunity exists to create enormous value,' explains Hydrogen Future Industries executive director David Ormerod following the company's formation of a wholly owned subsidiary led by Blake with a goal to develop systems which reduce the generation costs of green hydrogen.

'The system Blake is developing is the most exciting opportunity we've seen in this emerging sector,' says Ormerod, an energy

specialist who has been involved in dozens of onshore and offshore projects over the last 30 years. 'Existing green hydrogen systems just aren't moving the needle in terms of getting the cost of production down to where it needs to be for widespread adoption. We believe our system will,' says Ormerod.

## GAME-CHANGING

Blake's system aims to harness the power of wind combined with electrolyser technologies to generate hydrogen for under \$2 per kilogram – significantly lower than other green hydrogen production systems ranging from \$4 to \$6 per kilogram, and in line with



the global 2030 target.

‘Erase your vision of current open rotor wind turbines. Our system will be a smaller, quieter, safer and more efficient alternative,’ explains Blake. Hydrogen Future Industries’ system will use advanced aerodynamics and rotor blade design, and a smart hydraulic drive system, resulting in significant advantages over current wind turbines including reduced weight and cost, simplified installation and maintenance and standardised transportation, with components fitting inside shipping containers. ‘We will significantly increase the energy output from our turbines compared to an open rotor wind turbine of the same overall diameter allowing us to produce hydrogen efficiently,’ says Blake.

Blake intends to incorporate hydrogen compression and on-demand energy storage technology, allowing energy to be stored in the form of hydrogen at a fraction of the cost of lithium-ion battery storage, solving the challenges faced by current windfarms during periods of reduced energy demand.

The system being developed by Blake aims to generate hydrogen from a choice of feed stocks including waste or contaminated water, saline or fresh water, and remediation processes, meaning it can be operated in a variety of settings, including offshore and industrial.

It could also deliver constant electricity at costs up to 50 percent below current wind turbines, while nearly halving capital costs per megawatt of electricity generated. ‘The result will be a significant increase in hydrogen production over the capability

of existing wind turbine and electrolyser technologies. Our system could meet and surpass the target cost of hydrogen without the need for government subsidies,’ says Blake.

### POLICY DRIVING HYDROGEN INNOVATION

Hydrogen Future Industries is developing its systems in a fertile environment with the UK Government promising last month a ‘major acceleration of homegrown power in Britain’s plan for greater energy independence.’ The Department for Business, Energy & Industrial Strategy pledged to double its ambition to up to 10 gigawatts of low carbon hydrogen production capacity by 2030, with at least half coming from green hydrogen.

### COMMERCIALISATION

‘We aim to have our first small unit up and running during this summer, and a larger scale system in operation by the end of the year,’ says Blake who also has his sights on developing a floating platform for offshore settings that will push green hydrogen production far out of sight.

‘Initially we might look to partner with industrial companies to power their sites from electricity created from green hydrogen that has been generated from a combination of fresh water and wastewater.

‘Longer term we expect to have a range of commercial options such as licensing our technology or owning and operating our own hydrogen farms. We’re creating valuable intellectual property here,’ says Blake.

Few argue that hydrogen will not be pivotal in weaning

the transport sector off fossil fuels. ‘The question is no longer whether investors should have exposure to hydrogen opportunities in their portfolios but whether they can afford not to,’ says Blake.

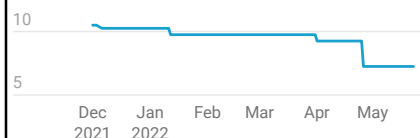
**Hydrogen Future Industries’ shares are listed on Aquis Stock Exchange Growth Market under the symbol HFI.**



### TIM BLAKE

UK-born Blake (54) has considerable experience in the development of efficient turbine systems, an area in which he has specialised for over a decade and written multiple patents. Prior to working on the development of turbine systems, Blake spent numerous years, and built a niche and highly regarded network, in the motorsport and transportation industries, working alongside companies including Lexus/Toyota, General Motors, and Airbus.

### Hydrogen Future Industries



Source: Refinitiv

# Mercia Asset Management is enjoying strong momentum

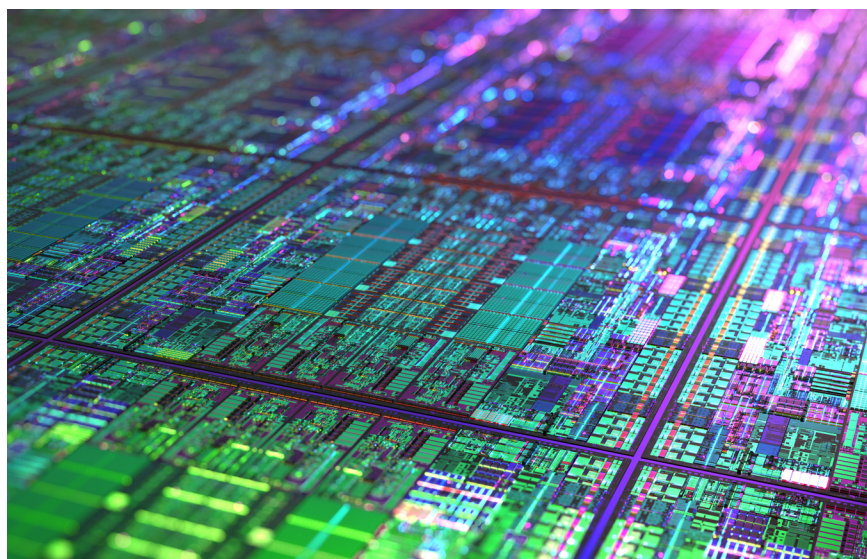
[mercia.co.uk](https://mercia.co.uk)

Mercia has come a long way since its initial public offering (IPO) in 2014. Mercia began as a small team, with only eight people, an office in the Midlands and an ambition to address the regional funding gap. Every year, Mercia continues to grow and make a positive difference for its investees, investors and employees.

Now, with over 120 employees, its talented team makes up the second most active venture capital manager in the UK outside of London (June 2021, Beauhurst). Its interim results in December 2021 were its best yet and continued to demonstrate its momentum of growth. Aside from performance fees, its revenue grew by 21% and after-tax profits grew by 35% to £11.2million.

## FOCUS ON TECH

Mercia utilises its assets under management (AuM) to invest in promising regional businesses at any stage in their growth journey, from seed to Series B. Its mission is to be the first choice for regional businesses seeking less than £10 million in



financing. Mercia has a particular interest in Deep and Enabling Tech businesses, as many of Mercia's executives and senior investment staff have life science and technology backgrounds.

There are promising small and medium-sized enterprises (SMEs) throughout the UK that could refine processes, positively benefit people and the planet and, ultimately, change the world for the better. But many of these companies struggle to access funding. Mercia's overlapping funds enable it to support such businesses as they grow

by providing the right capital at the right time.

Mercia supports businesses in its portfolio through third-party managed funds before selectively moving the most promising enterprises onto its balance sheet as a direct investment, which utilises its proprietary capital.

## FARADION SUCCESS

The successful exit of Faradion in January is a testament to the efficacy of this approach. Faradion started as a concept about a sustainable alternative to lithium-ion battery technology, but Mercia

supported it via its third-party managed funds for seven years until it had reached significant enough growth milestones to be brought onto the balance sheet in 2017.

Mercia helped drive value creation at Faradion in many ways, including the recruitment of experienced battery-technology professionals Chris Wright and Jerry Baker, which supported the commercialisation of this innovative research.

Mercia held a 16.4% fully-diluted share in Faradion and received initial unrestricted cash proceeds of £18.6million at the time of exit. The sale to Reliance New Energy Solar for £100 million will result in an additional investment of £25 million by its new owners, to support the commercial roll-out of Faradion's batteries. Its success with Faradion demonstrates the significant value that can be generated from and in the UK regions.

Along with its growing revenue and profit, Mercia has reported having c. £52million of unrestricted balance sheet cash and no debt. Mercia will use this to support the most promising businesses on its balance sheet, such as nDreams.

### **DREAMS POTENTIAL**

In 2014, Mercia initially invested in the game studio nDreams with its Enterprise Investment Scheme (EIS) funds to help it develop Virtual Reality (VR) technology. Subsequently, Mercia started supporting nDreams with balance sheet capital after it launched a series of successful games using VR technology. The studio's *Phantom: Covert Ops* was one of the most popular games on the Oculus



Rift platform in 2020, and the 2021 release of *Fracked* on the PlayStation VR platform was similarly well received.

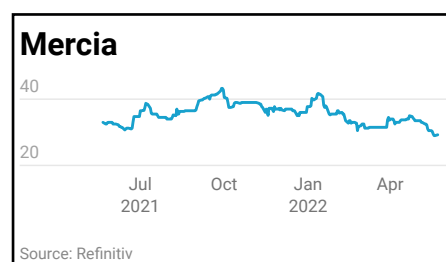
The commercial success of nDreams helped it attract significant scale-up capital from Stockholm-based video games investor Aonic in March 2022. Mercia's EIS funds exited the investment during the investment round for 7.9 times the initial investment cost and an internal rate of return of 31.8%. Now, Mercia holds a 33.2% fully diluted direct investment stake in nDreams that is valued at £25.8 million, an increase of £8 million from the prior funding round.

### **TOP PERFORMING MANAGED INVESTMENT VEHICLES**

Its managed investment vehicles, including its VCTs (venture capital trusts) and EIS funds, are among the highest performing in the UK. Mercia's

EIS funds are the fourth best performing and its VCTs are among the highest and most consistently performing from the perspective of net asset value increase.

Mercia has a portfolio of around 400 companies across its managed funds and around 20 on its balance sheet, which are all carefully nurtured by its experienced investment team members and its central resources. From a sector and business stage perspective, Mercia sees significant opportunity for its proprietary capital as it continues to grow as a firm.





## Trackwise has big plans for the EV, medical and aerospace industries

[trackwise.co.uk](https://trackwise.co.uk)



**Trackwise Designs (TWD:AIM)** is a UK manufacturer of specialist products using printed circuit technology. The company, founded in 1989, has developed an enviable track record in markets as diverse as automotive, medical and aviation, serving customers across four continents.

With UK-based, world-class production facilities, the company comprises of two divisions: Advanced PCBs, and Improved Harness Technology (IHT).

Trackwise's **Advanced PCBs division**, celebrating 50 years in business in June 2022,

operates from their Stevenage site and, with their reputation for high-quality products, has established profitable long-standing relationships.

The **IHT division** has emerged as the most exciting growth area for the business through its unique capability to manufacture length-unlimited, multi-layer FPCs. One of the key benefits of IHT over traditional wire harnesses is the reduction in weight – up to a 75% saving compared to traditional methods. This is particularly important in markets where carbon reduction is a strategic necessity such as EV

and Aerospace.

IHT is patented in China, Europe, UK, USA, Brazil and Canada.

Throughout 2021, Trackwise achieved considerable progress, including record IHT revenues. In 2022, it has moved into the next phase of development, through the first production orders from its UK EV customer and the upcoming opening of a third production facility in Stonehouse to significantly expand its capacity to meet IHT demand.

While Trackwise serves clients globally and is dependent upon supplies

from across the world, its manufacturing capabilities are UK-based, and its key suppliers for Stonehouse start of production are in the UK and EU. This means Trackwise is largely insulated from the wider geopolitical turmoil, lockdowns and supply chain impacts affecting manufacturers with sites or supply chains in areas such as Ukraine and China.

### EV OPPORTUNITIES

Electric vehicles represent the primary short-medium term scale-up opportunity for IHT. In 2020, Trackwise announced a milestone product manufacture and supply agreement with a high-profile UK EV manufacturer, covering the supply of its high and low voltage FPCs for use in the manufacturer's vehicle battery modules and battery packs. It was extended in June 2021, bringing a significant increase in expected volumes and potential value, and is now worth up to £54 million.

### EXPANDING IHT'S GLOBAL PRESENCE

With the demand from the company's EV customers, alongside the growing interest from other industries, Trackwise commenced its next expansion phase in Spring 2021 to increase capacity through the £2.8 million acquisition of a 77,000 sq. ft freehold property in Stonehouse, Gloucestershire.

The facility will be equipped with a semi-automated, roll-to-roll production line, designed for high-volume manufacturing to complement its IHT operations in Tewkesbury. The Stonehouse site greatly increases IHT production capacity and represents one of the largest 'greenfield'



investments in UK PCB manufacturing for many years. With the immense potential of electric vehicles in mind, Trackwise has already planned in capacity for the second phase at this facility, accommodating installation of a further production line.

The long-term pipeline of demand for EV battery pack components has become increasingly clear. In line with calls for greener technologies, many factories producing batteries for EV on a large scale will be established in the UK and Europe over the coming years.

Additionally, all major automotive manufacturers have responded through the electrification of their vehicles. This includes BMW which, in 2021, reportedly ordered \$24 billion of battery cells. All EV manufacturers will require every battery cell to be interconnected, paving the way for further IHT uptake, and Trackwise continues to grow its opportunities within EV across the UK and Europe.

### HEALTHY DEMAND FOR IHT BEYOND EV

In Medical devices, Trackwise

announced a seven-year supply agreement with Stockholm-based manufacturer CathPrint AB, which has developed a means of catheter production supporting a semi-automatic operation process for attaching wires, electrodes and contacts. Trackwise is also working with other catheter manufacturers; the market for this industry alone estimated to reach around \$20 billion by 2025.

Aerospace is another focus through the opportunity to improve system performance as well as an increase in product precision, reliability, and repeatability.

Trackwise has previously announced manufacturing agreements with GKN Aerospace for the industrialisation of its 8 Ice Protection System. While aerospace qualification is a lengthy process, the size of the potential end markets means the revenue potential for IHT in this field is substantial.

### EXCITING OPPORTUNITIES AHEAD

Through the onset of production at the Stonehouse facility, which is delivering volume manufacture of IHT products, Trackwise's operations are shortly to take a very significant step forward.

With a disruptive new technology, world-class facilities and a growing demand across its target markets, Trackwise's future is bright.

