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Good economic news still struggles to drive up markets

The response to US jobs numbers suggest stocks are being heavily guided by Fed speculation

On 3 June when many British investors would have been taking a break to toast the Queen's Platinum Jubilee the US reported a strong set of employment numbers.

American firms added more jobs than expected in May at 390,000 compared with the anticipated 325,000 but this wasn't a cause for celebration on the markets.

Instead, Wall Street took fright for one key reason – the figures were perceived as making it less likely the US Federal Reserve might hit the pause button on interest rate hikes.

Investors had previously warmed to this theme since the middle of May, and this had helped to arrest a long losing streak for US stocks.

If you dig a bit deeper into the latest jobs numbers you can see the inflationary pressure of higher wages remains, even if it is easing a touch, and the obvious conclusion is there is little scope for the Fed to be more relaxed towards rate increases.

The robust numbers told a different story from that portrayed by the corporate world, with an internal memo suggesting **Tesla (TSLA:NASDAQ)** could cut 10% of its workforce worldwide and other big employers suggesting they overdid it on hiring earlier this year.

Nonetheless it is undoubtedly the case that, over the last decade or more, we have frequently existed in a looking glass world. Bad news is taken as good news as it might encourage central banks to pursue policies which are more supportive to the markets and where the opposite is also true, signs of a strong economy might cause the likes of the Bank of England, the Federal Reserve and the European Central Bank to tighten the purse strings.

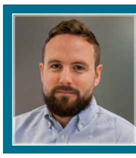
Senior market analyst at forex platform OANDA Jeffery Halley commented that the release 'sparked yet another tail-chasing reversal across asset classes as US markets continue to desperately

search for "peak-hiking" from the Fed and return to their buy-everything happy space, an illness caused by endless rounds of quantitative easing and ultra-low rates by the world's central banks over the past 15 years, as they themselves tried to rewrite the laws of nature'.

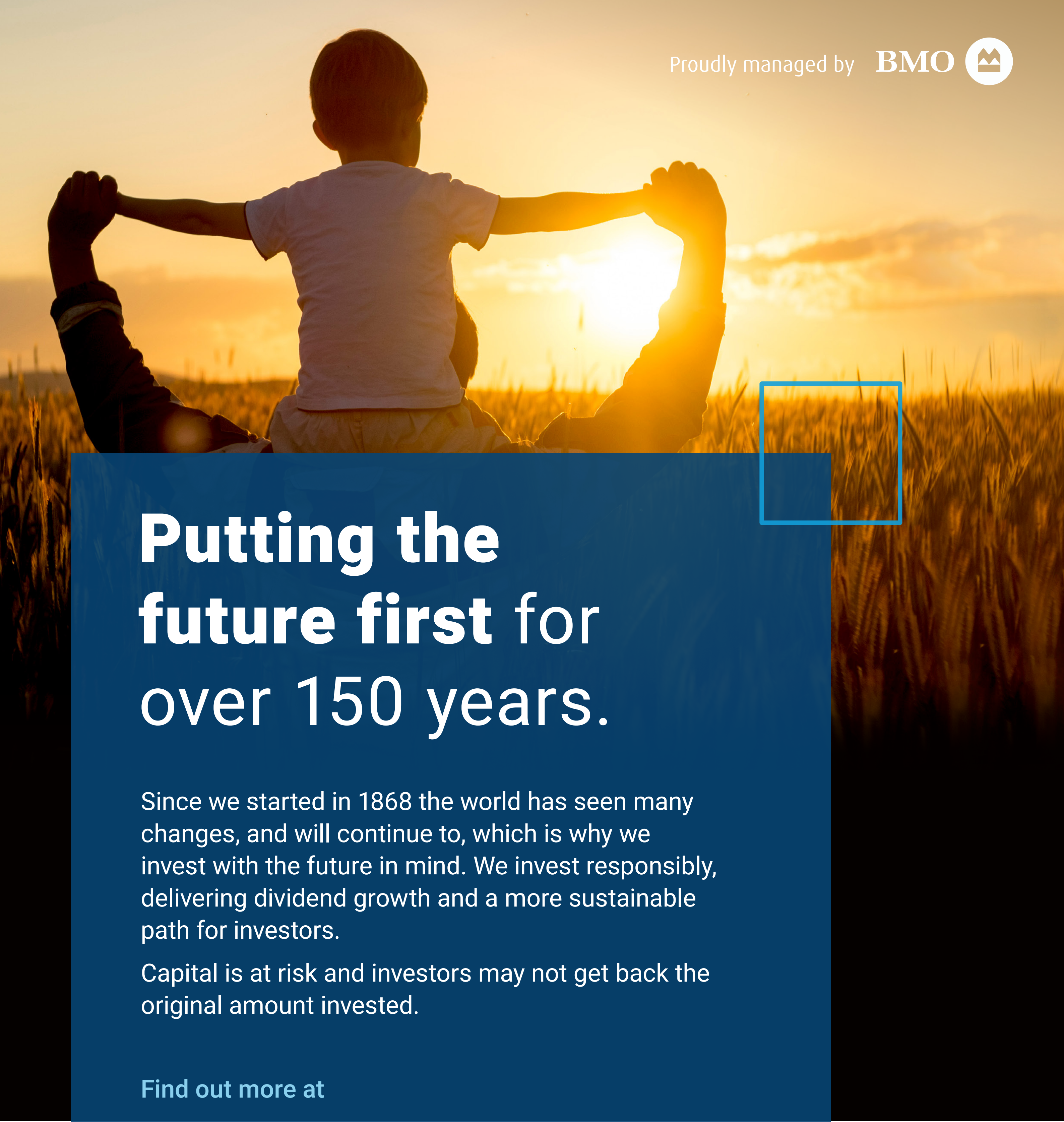
This might be a severe reading of the situation but it's not that healthy when investors are looking for news to be negative to give stocks and other higher risk assets a lift.

It also speaks to the fragile sentiment which currently exists in the market, with the recent recovery facing its biggest test in the near term when the Fed delivers its next decision on rates on 15 June.

A key sign we're through the worst of the current crisis, and central banks have successfully seized back control of the narrative, would be a positive piece of economic news getting an unequivocal thumbs up from investors.



By **Tom Sieber** Deputy Editor



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Is it finally time to take a proper look at the Chinese market?

The lifting of restrictions and tariffs could see shares in China find favour again

After a fall of nearly 55% in the MSCI China Index between its peak in February 2021 and the middle of March this year, there are signs investors are starting to take an interest in the market again.

While the short-term outlook for earnings growth is still fairly poor, 'we believe the structural long-term trends underpinning China's growth story are still intact' says Fidelity's investment director for Asia Pacific ex-Japan Catherine Yeung.

Beijing's zero-tolerance approach to Covid has led to sudden lockdowns in major cities like Shanghai which, while they have reduced the number of cases, have added to global supply chain disruptions.

However, these restrictions are now starting to ease just as the central bank is also easing monetary policy, albeit later than expected, which means economic momentum should pick up this year.

Meanwhile, infrastructure investment has remained strong and fears of a meltdown in the property sector seem to have passed.

While growth may not be that dynamic, there is plenty of valuation support for large parts of the market including industrial, basic material and financial stocks says Yeung.

There are two further factors which could sway investors to take another look at the markets in coming months.

First, the government appears to be rowing back on its crackdown on technology stocks in the run-up to the Party Congress in October so as not to rock the boat with consumers.

News this week that Chinese investigators were close to wrapping up their investigation into Didi Global sparked a huge rally in the ride-hailing firm's shares.

Second, it appears US president Biden's team is considering rolling back the previous administration's tariff hikes on some $300 billion of Chinese imports.

As well as being positive for the Chinese economy, scaling back some of the duties would likely help limit US inflation in products ranging from steel, aluminium and chemicals through clothing and footware to aircraft parts and semiconductors. [IC]

How China-related investment trusts have performed

Investment Trusts	Performance year-to-date (%)	Performance over five years (%)
Abrdn China	-22.6	12.7
Baillie Gifford China Growth	-24.7	-0.4
Fidelity China Special Sits	-20.5	34.3
JPMorgan China Growth & Income	-32.3	74.5
MSCI China Index	-17.2	-5.4

Table: sharesmagazine.co.uk • Source: The Association of Investment Companies, MSCI. Data as at 3 June 2022.

Why the timing of Sandberg's exit from Meta is terrible given severe challenges

Chief operating officer and 'first real adult in the room at Facebook' departs social media giant

On 1 June Sheryl Sandberg, **Meta Platform's (FB:NASDAQ)** chief operating officer, trusted lieutenant and 'the first real adult in the room at Facebook', announced her departure from the business.

Sandberg's exit comes at a time when Facebook-owner Meta's growth has slowed to single digits and risks destabilising a group that faces a series of structural problems.

The severity of the obstacles facing the firm is reflected in the 40% decline in the share price over the last six months.

It is worth putting Sandberg's tenure into context to illustrate how her exit could affect the company's ability to address the issues it faces.

Having joined in 2008, Sandberg had a key role in turning the company from a fast-growing but loss-making leader in the nascent world of social media, valued at between $3.75 billion and $5 billion according to contemporaneous reports in *BusinessWeek,* to a global advertising giant with quarterly net income of nearly $7.5 billion, and a market valuation of more than $500 billion notwithstanding the recent collapse in the shares.

In its existing business Meta faces increased competition from TikTok and **Snap (SNAP:NYSE)**, and **Apple (APPLE:NASDAQ)**. And Apple's new anti-tracking software is estimated to have cost the group around $10 billion in ad revenue in 2022.

And there are a number of reasons Mark Zuckerberg's vision to create a first mover advantage in the metaverse (a series of interconnected worlds that enable participants to interact with their digital objects and avatars) could be knocked off course.

Meta is investing billions of dollars to develop its vision of the metaverse. In 2021 the group spent

$10.2 billion, equivalent to 8.6% of its total annual revenue on its Reality Labs business. This division is responsible for developing augmented and virtual reality headsets and software.

However there is no guarantee that Zuckerberg's vision of the metaverse will become profitable.

The short-term success of this play on augmented and virtual reality or VR is contingent upon the widespread adoption of a new high-end VR headset named Project Cambria, which features cameras that pass high resolution full-colour video to the headset's screen. This innovation is accompanied by big technical challenges.

Zuckerberg also faces competition from other extremely well resourced technology companies. **Microsoft (MSFT:NASDAQ)** is investing in its own version of the metaverse, with the aim of improving remote meetings.

Online game platform and game creation system company **Roblox Corporation (RBLX:NYSE)** already has its own well-developed metaverse which allows gamers to create and host their own game worlds.

And **Nvidia (NDVA:NASDAQ)**, which designs graphic processing units for the gaming and professional markets, is investing in its own Omniverse. This is an open platform built for virtual collaboration and real time physically accurate simulations. [MGar]

How boot brand Dr. Martens is walking tall by delivering growth

Iconic footwear retailer's direct to consumer focus is paying off as margins improve

Forecast-beating annual results (1 June) from iconic footwear brand **Dr. Martens (DOCS)** were delivered despite Covid-related supply issues and drove a rally in the stock as investors applauded progress in its higher margin direct to consumer business.

Dr. Martens also pleased investors by upgrading guidance for sales and profit for the year to March 2023. The boot seller now expects to generate high-teens revenue growth this year, factoring in the Autumn/Winter 2022 price rise which will also help the retailer to offset sector-wide inflationary headwinds.

Director at research house Edison, Russell Pointon notes: 'The group's action to diversify its supply chains is wise in the face of global shortages, and it has already benefited from strategic decisions like entering the 2022 financial year with higher levels of continuity products.

'This successful navigation of unforeseen macroeconomic challenges will be reassuring to investors, particularly given Dr. Martens position as a very newly listed company. However, the pressures are set to rise, and a close eye will be kept on whether consumers continue to indulge in Dr. Martens in the face of increased living.'

Dr. Martens has also announced a step-up in new own store openings guidance for the 2023 financial year from 20 to 25 previously to 25 to 35 stores, with the bulk of the guidance increase due to its accelerated store rollout in the US. [JC]

Tesla and Microsoft give investors fresh reasons to fret

Elon Musk backtracks on 10% job cuts claim, while dollar strength hits Microsoft earnings

ELON MUSK HAS again thrust **Tesla (TSLA:NASDAQ)** into the headlines after knocking back earlier suggestions that the world's leading electric car maker would be cutting staff numbers by 10%.

Adding to growth investor jitters was a cut to fourth-quarter guidance by mega-cap software firm **Microsoft (MSFT:NASDAQ)** on a strong dollar.

Microsoft is just the latest US firm to warn on the impact of a stronger dollar which could make products and services more expensive outside the US and impact the relative value of earnings derived from overseas.

Tesla investors have become used to share price sensitivity to Musk's frequent use of **Twitter (TWTR:NYSE)**, the platform he now appears to be trying to wriggle out of buying.

'Total headcount will increase, but salaried should be fairly flat,' Musk tweeted on 4 June, in response to an unverified Twitter account that made a 'prediction' that Tesla's headcount would increase over the next 12 months.

The exchange followed an email that reportedly circulated through Tesla last week that stated Musk had a 'super bad feeling' about the US economy and needed to cut jobs by about 10%.

That revelation sent Tesla stock sharply lower, falling more than 9% from $775 on 3 June. The share price has so far struggled to recoup those losses despite Musk's apparent attempts to quell concerns, trading at $714.84.

Microsoft trimmed fourth quarter earnings to between $2.24 and $2.32 per share from a previous expectations of between $2.28 and $2.35 per share. [SF]

What the latest FTSE reshuffle means for the UK's leading shares

Soaring energy prices and subdued online trading have helped shape latest changes

British Gas owner **Centrica (CNA)** and student property company **Unite (UTG)** look set to be promoted into the FTSE 100 index following the latest quarterly reshuffle of the blue-chip index. The changes become effective on 20 June 2022.

Firms only get promoted when their size places them inside the top 90 companies by market capitalisation and likewise the demoted stocks need to be below the 110th largest company.

The quarterly reshuffle is closely watched by investors because passive investing has become a bigger influence on markets in recent years.

Passively managed funds which target the FTSE 100 are required to purchase shares in the promoted stocks and sell shares in those demoted.

It has been a whirlwind couple of years for Centrica which dropped out of the FTSE 100 in June 2020 during the early days of the pandemic when the company also scrapped its dividend.

The shares have gained 259% from their pandemic lows but remain far below the 400p highs of 11 years ago.

The company has benefited from soaring energy prices and in a recent trading update (10 May) said strong trading in the first four months of the year meant it expected to deliver full year adjusted earnings at the top end of analysts' forecasts.

However, it isn't all plain sailing for Centrica shareholders as the government ponders a windfall tax on electricity generators.

Lockdown winner **Royal Mail (RMG)** has seen its shares nearly halve over the last year as the strong trend in online ordering has abated since Covid-19 restrictions were removed.

The company has also struggled with rising costs and warned it would raise prices to counter inflationary pressures after reporting an 9% drop in pre-tax profit for the last financial year ended 27 March. [MGam]

FTSE reshuffle: who's in line for promotion and relegation

Entering FTSE 100
Centrica
Unite
Exiting FTSE 100
ITV
Royal Mail
Entering FTSE 250
ASOS
Bank of Georgia
ITV
Merchants Trust
Royal Mail
Supermarket Income REIT
Target Healthcare REIT
Exiting FTSE 250
Baillie Gifford US Growth Trust
Centrica
Oxford Biomedica
PureTech Health
Rank
Trustpilot
Unite

Table: sharesmagazine.co.uk • Source: FTSE Russell, changes to take effect on 20 June 2022

Buy budget footwear seller Shoe Zone which is on the front foot

The cheap shoes seller is back in the black, paying dividends again and primed to appeal to hard-pressed shoppers

Most retailers have sold off heavily in 2022 as investors discount the impact of the cost of living crisis and rampant inflation on earnings, yet one UK-listed name whose shares are actually up 50% year-to-date is value footwear seller **Shoe Zone (SHOE:AIM)**.

Shares believes the rally has further to run since this seller of cheap footwear for all the family appears well-placed to deliver a step-up in profit as cash-strapped consumers trade down in the months ahead.

The £77.5 million cap's unwavering focus on value should enable Shoe Zone to gain market share as hard-pressed families opt for summer staycations over expensive forays abroad and the chain benefits from a strong back to school season.

SHOE ZONE

BUY

(SHOE:AIM) 160p

Market cap: £77.5 million

BACK ON THE FRONT FOOT

Guided by CEO Anthony Smith, his brother and chairman Charles Smith and aptly-named finance director Terry Boot, Leicester-based Shoe Zone sells cut-price shoes, boots, slippers and trainers from 388 stores at last count. It also has a website offering free delivery and free returns to store and sells its affordable product range on **Amazon (AMZN:NASDAQ)**.

Shoe Zone is able to achieve low prices due to the high volumes it orders direct from factories and sells a wide range of well-known brands including Skechers, Kickers, Lilley & Skinner and Heavenly Feet.

The small cap retailer is emerging from the pandemic in decent shape, having returned to profitability and become debt free again in the last financial year, and is executing against a compelling strategy outlined in October 2021.

Results (17 May) for the half to 2 April 2022 showed a business firmly on the front foot, with Shoe Zone swinging from losses of £2.6 million to pre-tax profits of £3.1 million on sales up 73% to £69.9 million as its stores traded over a full 26-week period with less disruption to trade.

Digital growth fell back as expected, with sales easing from £17.6 million to £11.8 million year-on-year after the retailer re-opened all its physical stores. Impressively however, digital sales were still 114.5% ahead on a two-year view.

STEPPING UP THE PACE

While investing in its online capabilities, Shoe Zone is also stepping up the pace of store

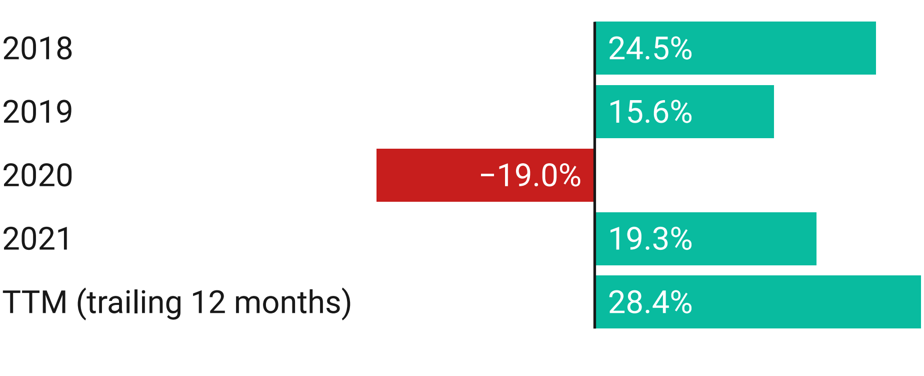


Chart: sharesmagazine.co.uk • Source: Stockopedia

Shoe Zone consensus forecasts

Year to 2 Oct	Net profit (£m)	EPS (p)	Dividend (p)	PE	Yield
2020	-11.9	-11.2	n/a	n/a	n/a
2021	7.0	22.7	n/a	7.0	n/a
2022 (F)	5.2	10.4	5.5	14.8	3.4%
2023 (F)	5.5	11.0	5.5	14.5	3.4%

Table: sharesmagazine.co.uk • Source: Stockopedia, consensus estimates, ratios based on 160p share price

relocations and refits and seeing 'very positive' results from the conversion of more 'Original' Shoe Zone stores to either a larger 'Big Box' format, which sells a wider product range than smaller stores, or a 'Hybrid' format.

Part of the success of Shoe Zone's digital business in a fiercely competitive market is a very efficient returns process which is complemented by its nationwide store network. As the retailer explained in its results update: 'We have a returns rate of 10.9% and the vast majority of these are returned to store, hence why our physical store network is critical to our future success.'

Another advantage Shoe Zone has is its average lease length of just 1.8 years. This gives the retailer the flexibility to respond to changes in any retail location at short notice. Shoe Zone continues to generate lease renewal savings which drop through to the bottom line and is in a strong position to improve its store portfolio coming out of Covid as the supply of property continues to outstrip demand.

Like other retailers, Shoe Zone is having to absorb inflation in shipping and wage costs and product gross margins fell modestly from 61.5% to 60.8% year-on-year in the siz months to 2 April.

The good news is Shoe Zone's energy prices are fixed until September 2023, which means the retailer is not exposed to the market price increases currently being experienced by rivals. 'All of our electricity consumption is from 100% renewable sources, we have started to monitor energy consumption and we have a programme to insulate ceilings and to install more energy efficient lighting in a number of stores,' explains the retailer.

SLIP ON FOR GROWTH AND INCOME

With £13.9 million net cash in the coffers and having paid off its government Covid loan in full, Shoe Zone has become eligible to restart dividend payments and duly declared a 2.5p interim payment. Management says the company might also return capital to shareholders through special dividends and/or share buybacks, with details to be announced 'in due course'.

According to consensus estimates compiled by Stockopedia, Shoe Zone is forecast to generate net profit of £5.2 million for the year to 2 October 2022, which translates into earnings of 10.4p, ahead of profits of £5.5 million and 11p of earnings in the 2023 financial year.

Taking next year's earnings estimate and the 5.5p dividends forecast for 2022 and 2023, Shoe Zone currently trades on a prospective price to earnings (PE) ratio of 14.5 times with a 3.4% yield.

Given that Shoe Zone is rebuilding profitability, that earnings multiple looks attractive, particularly for a cash generative business generating a high return on capital employed (ROCE) of 28.4% on a trailing twelve month basis, according to Stockopedia.

Shares is also reassured by the fact Charles and Anthony Smith hold sway over more than half of the shares, meaning their interests are aligned with those of other shareholders. [JC]

Chart: sharesmagazine.co.uk • Source: Refinitiv

New-look Edinburgh Investment Trust is a great way to play UK stocks

Attractive and progressive dividends should bolster performance of rehabilitated fund

A lot of water has passed under the bridge since one-time star fund manager Mark Barnett was replaced at the helm of **Edinburgh Investment Trust (EDIN)** – a global pandemic, a stock market collapse and widespread overhaul of the portfolio.

Now almost three years on, the results speak for themselves and *Shares* believes investors can expect more of the same in the years ahead. Since Majedie Asset Management's James de Uphaugh took the reins in March 2020, the net asset value total return is 47.8% versus its benchmark FTSE All Share's 39.5%.

Moving quickly to rebalance the portfolio during lockdown has stood the trust in good stead, adding the likes **Ashtead (AHT)** and **Dunelm**, decent-sized long-run growth stories to bolster cyclical stalwarts such as **Anglo American (AAL)**, **BAE Systems (BA.)**, Morrisons (now private) and **Tesco (TSCO)**, all good contributors in 2021.

Final results to 31 March 2022 showed NAV and shareholder total returns (share price plus dividends) of 14.1% and 10.6%. The FTSE All Share had a total return of 13%, reflecting a widening in the discount throughout the year,

EDINBURGH INVESTMENT TRUST

BUY

(EDIN) 642.4p

Market cap: £1.1 billion

to a current 7%, according to Morningstar data.

That's narrowed from year end's 7.7% but is way up on last year's 4.5%, prompting the trust to swing into share buyback mode since the start of 2022, a sensible way to support returns.

AN 'ALL-WEATHER' PORTFOLIO

Despite the changes of recent years, Edinburgh Investment Trust remains true to its original UK-focused knitting, investing in a mixture of value, growth and recovery stocks. Aside from the names already mentioned, **Shell (SHEL)**, **AstraZeneca (AZN)** and **NatWest (NWG)** are sizeable stakes in the portfolio.

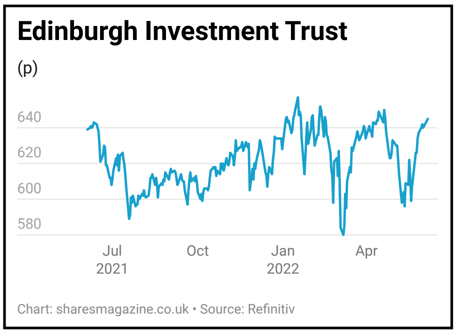
Investec analyst Alan Brierley says: 'The manager has constructed a diversified portfolio with all-weather potential, and a balance of growth, value and recovery stocks, and they believe that these quality companies will have pricing power in the current regime.'

The portfolio also provides investors with a stable base of well-funded large-caps that throw off oodles of cash, feeding dividends that yield almost 4% according to Morningstar data. Last year's dividend was 24.8p per share, having previously been rebased with the aim of delivering superior long-term dividend growth in future.

The trust also boasts a relatively modest 0.52% ongoing charge (for an actively-managed fund).

As Investec's Brierley notes 'Uphaugh and his team see UK equities in the foothills of a multi-year rehabilitation, with low valuations a function of factors that are firmly in the past'.

We believe the new-look Edinbugh Investment Trust is a good all-rounder for investors keen to benefit from improving sentiment to UK stocks. [SF]



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Ian Cowie
The Sunday Times, 3 October 2021

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Ecofin Global Utilities and Infrastructure Trust won the Infrastructure category at Investment Week's 2021 Investment Company of the Year Awards.***

(all total returns in £)	1 year %	3 years %	5 years %	Since admission %*	Since admission % return per annum**
EGL Share Price	**23.6**	**84.4**	**128.3**	**153.5**	**18.1**
EGL Net Asset Value	**21.0**	**61.1**	**96.7**	**96.0**	**12.8**
S&P Global Infrastructure Index	19.4	22.1	35.9	42.0	6.5
MSCI World Utilities Index	14.0	30.1	53.4	56.1	8.3

*26 September, 2016. **For the period 26 September 2016 to 30 April 2022. The compound annual growth rate (% return per annum since inception) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

Source: Bloomberg. Total return includes dividends paid and reinvested immediately. Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investments in the portfolio and income from it. Investors may not get back the amount they invested.

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LONDON STOCK EXCHANGE

(LSEG) £74.38

Loss to date: 4.7%

Original entry point:

Buy at £78.12, 12 August 2021

ALTHOUGH **LONDON Stock Exchange Group (LSEG)** is trading nearly 5% below the level at which *Shares* recommended buying the stock, we remain confident in the investment case.

First quarter results (27 April), saw management confirm they were on track to deliver targets of 4% to 6% revenue growth in its data division and 7% at the group level.

Net debt to earnings of 2.5 times provides it with the scope to participate in either value-adding bolt-on acquisitions or share buybacks.

Earnings per share are forecast to rise from 334.4p in 2022 to 381.6p in 2023, a 14% increase.

This places the stock on a 2022 price to earnings ratio of 22.2 times, falling to 19.4 times in 2023.

The valuation represents a discount to the wider exchange sector, which in Berenberg's view is unjustified given its superior growth and lesser reliance on revenue linked to trading volumes.

First quarter results saw data and analytics revenue of £1.15 billion, marginally ahead of a consensus forecast of £1.14 billion year-on-year at constant currency.

Critically, annual subscription revenue (ASR), accelerated from 4.6% at the end of 2021 to 4.9%. This implies good momentum for the rest of the year and highlights the growing prominence of higher-quality recurring revenue for the group.

The trading and banking arm delivered revenue of £378 million, also slightly above a forecast of £374 million.

Encouragingly the division's revenue continues to accelerate towards the target of low single digits over the medium term reflecting the benefits of recent investments in the business.

At the end of the first quarter, £25 million of revenue synergies associated with its acquisition of information provider Refinitiv had been achieved out of a full year target of £40 million to £60 million.

Three recently announced acquisitions Quantile (post-trade risk management solutions), TORA (US cloud-based technology provider), and GDC (global identification provider), are on track to close this year, and will enhance the scale and scope of the company's offering.

London Stock Exchange is also a beneficiary of rising interest rates. 60% of TradeWeb's (electronic bond and interest rate swaps) trading revenue is driven by rate activity and a steepening in UK rates will improve the group's net interest income.

SHARES SAYS:

Despite a recent wobble in the share price we see no reason to change our view and remain buyers. [MGar]

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Visa versus Mastercard: which could make you the most money

They dominate the credit and debit card industry but what are the relative differences between the two

Buy something in-store or online these days and it's a fair bet you'll use a credit or debit card powered by **Visa (V:NYSE)** or **Mastercard (MC:NYSE)**. The use of digital wallets (PayPal, Google Pay, Apple Pay etc) may be growing rapidly, but Visa and Mastercard remain the giants in the electronic payments pool, dominating transactions globally.

Between them, the duopoly processes about 340 billion annual transactions with a value of around $18 trillion. Both S&P 500 constituents, these are mature, stable companies at the sharp end of the hugely profitable payment processing business.

Both Visa and Mastercard trade on relatively high valuations, but they're expected to continue to post brisk earnings growth. So which of these two stocks should you have in your ISA or SIPP? Should you own both, or neither?

We believe investors should have exposure to both Visa and Mastercard in a well-balanced portfolio. This means that you will gain exposure to whichever performs better over time, while still hopefully getting reliably better than the market returns from the other.

We lean slightly towards the greater scale of Visa, but that is a marginal call.

HOW DO THEY DIFFER

Given the relative parity that exists among the pair, you might be forgiven for thinking that any differences separating the businesses would be paper thin. The pair match up closely on many major barometers of success. For instance, both companies are growing their annual revenue at around 25% apiece, while the gross profit margin runs at close to 100% for both, giving them plenty of control over their own costs, an important factor in an inflationary environment.

In this year's helter-skelter stock market, both share prices have held up reasonably well, Mastercard drifting around 3.5% lower since the end of December 2021; Visa down about 4.2%. For comparison, the S&P 500 has lost nearly 14% this year.

Both companies have been exceptional wealth creators for investors over the years. According to Morningstar data, Mastercard and Visa have produced annualised total returns (share price plus dividend income) of 24.6% and 22.6% respectively, over the past decade.

That difference might look marginal at first glance, but the power of compounding makes a big difference. For every £1,000 invested, Mastercard investors would today have £9,041.20 versus £7,640.70 for Visa investors.

However, to suggest that the two companies are merely financial doppelgangers of one another would be to misrepresent reality.

Visa vs Mastercard scale

	Market cap ($ million)*	Q1 2022 Revenue ($ million)
Mastercard	348,100	5,167
Visa	441,990	7,189

Table: sharesmagazine.co.uk • Source: Company announcements
*Google Finance, 1 Jun

To put their market caps into perspective, Visa is the 11th-largest company in the S&P 500 index, while Mastercard is 16th.

Let's take a closer look at the investment metrics that might help us form a conclusion about both stocks.

REVENUE GROWTH AND PROFITS

Here's a comparison of numbers for the first quarter versus the previous year.

Growth, profit margins and ROE

	Net revenue growth	Operating margin 2022 vs five-year average	Return on equity 2022 vs five-year average
Mastercard	25.0%	57.1% vs 53.2%	142% vs 114%
Visa	25.5%	66.8% vs 64.9%	40% vs 34.4%

Table: sharesmagazine.co.uk • Source: Company announcements, Investing.com

Visa's operating margins (earnings before interest and tax divided by net revenue) were better for both periods. But while Visa is currently more profitable than Mastercard, the earnings growth of Mastercard is almost twice as high, 58.6% to 29.7%.

Visa and MasterCard each have high ROE, or return on equity ratios. Visa's ROE of 40% is considered very good, but Mastercard truly excels with a ROE of 142%.

Another way to measure operating performance is ROIC, or return on invested capital, which is operating profit after tax divided by the sum of debt and equity. For Visa, the ROIC over the past 12 months was 21.1%, according to Investing,com data, compared to a five-year average of 17.3%.

Mastercard recorded 39.3% ROIC over the past year versus its rough 41% five-year average, so substantially higher on both counts, suggesting it has been getting much greater bang for its buck when it spends money.

Mastercard is the smaller of the two entities and so should have greater room to grow in the industry, which it seems to be doing.

EARNINGS ESTIMATES

There is certainly promising past data for both companies, but the market is forward looking and investors want to know if these growth and return metrics are sustainable into the future. Overleaf are consensus EPS (earnings per share) estimates drawn from analysts polled by Koyfin for the current year and following 12 months – that's to 30 September for Visa and the 31 December for Mastercard – plus implied growth.

Those estimates imply that Mastercard will continue to grow earnings more than Visa in the near future. In both cases, however, it underlines the point that Visa and Mastercard trade on relatively high valuations when compared to the S&P 500.

Here we can see that Mastercard's faster growth is reflected by its higher PE compared to Visa, but that both trade at premiums to the S&P 500. Yet that is no reason not to own Visa or Mastercard since both tend to trade on valuations above the market average because of their dominant industry positions and long track record of superior investment returns.

The five and 10-year return figures show that the longer investors hold shares in Visa

Analyst forecasts and implied growth

	Estimated current year EPS	Estimated next year EPS	Expected growth 2022	Expected growth 2023
Mastercard	$10.49	$12.67	24.9%	20.8%
Visa	$7.15	$8.38	21.0%	17.2%

Table: sharesmagazine.co.uk • Source: Company announcements, Koyfin

Valuation and returns vs S&P 500

	Price	12-month PE	Three-year annualised (%)	Five-year annualised (%)	10-year annualised (%)
Mastercard	$361.83	31.2	13.0	24.3	24.6
Visa	$212.31	26.6	10.2	18.0	22.6
S&P 500	$4,157.00	17.5	15.7	13.5	14.4

Table: sharesmagazine.co.uk • Source: Google Finance, Factset, Koyfin, Morningstar, Shares

and Mastercard, the greater the likelihood of outperformance versus the market.

LOOKING TO THE FUTURE

Mastercard has positioned itself as a data leader with its Mastercard Spending Pulse reports, and it has expanded into the cryptocurrency space through its Mastercard Start Path Crypto program, focused on start-up companies using blockchain technology. It also recently bought CipherTrace, a cryptocurrency intelligence company offering digital asset security and fraud solutions to banks, exchanges and other financial institutions.

Other recent acquisitions include personalisation platform and decision engine Dynamic Yield, Latin American real-time payments application firm Arcus Fi, and Aiia, a European open banking technology provider that offers single access and secure API (application programming interface) access to banks and financial institutions.

Not unlike Mastercard, Visa also presents itself as a financial data champion through its US Spending Momentum Index. It is also moving deeper into the cryptos space, and in December 2021 launched its Global Crypto Advisory Practice, designed to help clients on their own crypto journeys.

Visa's own acquisitions were limited to the purchase of Currencycloud, a London-based platform that enables banks and fintechs to provide foreign exchange solutions for cross-border payments, and Tink. It is another open banking platform that enables financial institutions, fintechs and merchants to build tailored financial management tools, products and services for European consumers and businesses based on their financial data.

Both companies are dominant players in the credit and debit card industry, are expanding into new growth areas and offer reliable returns in the long run. Comparatively, innovation and future growth measures will dictate which company does better, relative to the other, but both look strongly placed to outperform the wider market for years to come.

By **Steven Frazer** News Editor


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Broker ratings – how do they work and where do you find them?

Analyst recommendations, earnings forecasts and price targets provide a framework for stock market valuations

We all wish we had a crystal ball to aid our investing. After all, knowing what the future holds in the markets would enable us to very quickly rack up the kind of returns which would allow us to retire to our own Caribbean island.

So, it's no surprise people are drawn to analyst forecasts. These are estimates calculated by professionals working at stockbrokers and investment banks. They are seeking to determine what will happen to a company's share price so investors can place trades and hopefully generate a positive return in the coming months and years.

Analysts are human beings, and these projections are inevitably imperfect. However, they can offer a useful guide and aid to research as well as providing the context for how the rest of the market perceives a company.

BUY, SELL OR HOLD

Generally, a piece of investment research on a stock will offer three things. A recommendation on the shares, a price target as well as forecasts for earnings and other items like dividends and cash flow.

Dealing with each of them in turn, the recommendation, while the most prominent piece of information, is probably the least important.

A note will instruct clients to 'buy, sell or hold'. The accompanying price targets, signalling the level an analyst thinks the shares will hit within the next 12 months, will help determine the share price recommendation.

A buy tends to be when a broker believes the share price will rise by more than 10% from the current price over the next 12 months.

A hold is when they believe the share price will either rise by less than 10%, or fall by less than 10%, versus the current price. Sell is when they think the shares will fall by more than 10%.

The rules are subjective and vary from broker to broker in terms of the exact percentages used. You might also see 'neutral' – which is essentially the same as 'hold'.

An alternative method is to rate a stock using 'overweight, equal weight and underweight'. This is comparing the predicted share price performance of a company relative to its sector.

For example, a hypothetical software company called TechX might have an 'overweight' rating if the broker thinks it will materially outperform the broader software sector.

WHERE IS THE RECOMMENDATION COMING FROM?

Analysts produce research to provide investment ideas to their clients but are often, in effect, bidding for the business of the company which is the subject of the research.

Some research is issued by institutions which are already providing stockbroking or investment banking services to the firm in question – in these circumstances they would often be termed the 'house broker'.

They are unlikely to do anything to upset the apple cart. As such sell or, in the case of a house broker, hold recommendations are probably the most interesting.

It could just be the case that an analyst thinks the shares are overvalued but if there is a specific failing or risk associated with a company which they think the market may have missed that warrants further attention.

Some house brokers take the view that it would be inappropriate for them to have a 'buy, sell or hold' rating on a company which is also paying them for broking services and employ a 'corporate' rating instead.

BUILDING THE FORECASTS

Underpinning the headline recommendation and price target are the forecasts for earnings per share and other metrics.

Analysts build financial models that forecast a company's growth and profitability. They look at sales rates, costs, opportunities, threats and more to get a sense of underlying growth trends.

The market uses these earnings forecasts to measure the appropriate value for a stock. Investors look at a company's expected earnings power and work out how much they are prepared to pay to own its shares.

In the short term analysts often rely on guidance from businesses themselves to build forecasts but longer-term estimates and the way they value the shares will often involve building assumptions on future cash flows into a spreadsheet.

Tweaking their forecasts for future oil prices, in the case of an oil and gas producer, or factoring in the potential for acquisitions can have a huge impact on where analysts get to with their valuations.

COMING UP WITH A PRICE TARGET

The slightest change to a figure in a spreadsheet means price targets can be wildly at odds with those of other analysts and often with the share price of the company.

For example, Liberum recently started covering online reviews platform **Trustpilot (TRST)** and assigned it a 210p target. This is more than double the current market price after a big slump in the value of the business.

Analyst Ciaran Donnelly reckons the market is missing the revenue opportunity to convert non-paying users of Trustpilot's platform to its subscription services.

How Liberum's Trustpilot target is calculated

Forecast 2022 sales	$162 million
Target enterprise value/sales	6x
Implied enterprise value	$970 million
Number of shares	422m
Implied share price	$2.30
Discounted cash flow valuation per share	$3.15
Blended price target	$2.73
GBP/USD rate	$1.3
Price target	**210p**

Table: sharesmagazine.co.uk • Source: Liberum, 25 May 2022

WHERE TO GET THE RESEARCH

Broker research is typically not freely available to the public, but snippets do regularly appear in the financial press, including in *Shares*.

A good selection of research notes for smaller companies can be found on ResearchTree's platform for a fee. You can also find consensus earnings forecasts on paid-for services like SharePad and Stockopedia.

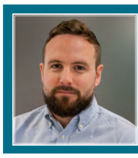
A legislative framework called Mifid 2 has made it even harder for retail investors to get hold of analyst notes as there are tighter restrictions on who can read them.

That has led to a proliferation of research notes that are commissioned by companies themselves and links are often available via regulatory news service providers or directly from the companies being analysed. The non-independent nature clearly impacts the impartiality of the research, but they can still be a source of helpful information.

The table shows how Liberum calculated its price target. As Trustpilot is not yet profitable, it incorporated what multiple of its sales the company ought to be trading on, by comparing it to similar businesses. Liberum also employed what's called a discounted cash flow calculation – determining what the business is worth based on expected future cash flows.

Naturally there is a risk analysts become overly optimistic and slow to recognise when something has gone wrong. Equally they can also be overly pessimistic and blind to signs of improvement with companies that have experienced a lot of problems.

However, in the absence of alternatives the analyst community does at least provide a framework for how stocks can be valued by the market.



By **Tom Sieber** Deputy Editor

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Why market leader Pets at Home will have patient investors purring

Resilient pet food-to-vet services specialist is gaining market share while navigating retail sector headwinds

PETS AT HOME
BUY
(PETS) 342.2p
Market cap: £1.7 billion

One of *Shares*' stock picks for 2022, pet care business **Pets at Home (PETS)** proved a Covid winner as the retailer profited from the pandemic-induced pet ownership boom.

But the shares have fallen sharply in 2022 on fears, as yet unfounded, that the Covid tailwind will abate and with Pets at Home tarred by the broader sector brush as investors fret over the impact of a consumer downturn on retail earnings.

Though the market is worried about the impact of a consumer downturn on retail spending, *Shares* believes Pets at Home is among the sector's most resilient operators. We continue to see the shares as worth buying and holding for the long term and see year-to-date weakness as an opportunity to add to positions.

CHANGE AT THE TOP

A CEO handover from the well-regarded Peter Pritchard to former Sky chief customer officer Lyssa McGowan has added a little uncertainty into the mix. However, the data savvy McGowan brings a proven track record at Sky and data skills to the business, where experienced retail executive Mike Iddon brings stability in his role as finance director.

Full year results (25 May) from outgoing boss Pritchard triggered a relief rally in the stock as Pets at Home bounded in with record sales, profits and cash flow. The specialist retailer delivered a better than expected 65.3% surge in underlying pre-tax profit to £144.7 million which confirmed pet lovers remain happy to splash the cash on their beloved tabby, poodle, rabbit or reptile.

In fact, total revenue grew by 15.3% to almost £1.32 billion in the year to March 2022 amid continued momentum across the business; the FTSE 250 constituent generated like-for-like growth in the retail and vet divisions of 15.8% and 17.1% respectively.

Drawing confidence from a debt-free balance sheet with £66 million net cash, the pet equipment-to-veterinary services seller raised the final dividend by 36% to 7.5p, giving a total dividend of 11.8p, up 48% year-on-year.

And in a sign of confidence in future cash flows, Pets at Home launched a buyback of up to £50 million over the next 12 months, a sensible move given the cash on the balance sheet and year-to-date sell-off which should support the share price in the months ahead.

WHY PETS AT HOME IS A WINNER

Many readers will already be familiar with Pets at Home, either as pet-owning customers or stock market watchers familiar with its growing strengths, but here's a quick recap.

Pets at Home's stated mission is 'to make sure pets and their owners get the very best advice, products and care'. The company sells pet products ranging from food, toys and bedding, both online and from its 457 brick and mortar stores, many of which also have vet practices and grooming salons.

The £1.7 billion cap company also operates a UK leading small animal veterinary business, with 443 First Opinion practices located both in its stores and in standalone locations.

As broker Peel Hunt recently noted, cash-generative Pets at Home is a retailer 'oozing confidence when others are not', and for good reason. The leading UK pet care business is winning share in a resilient, structurally growing market, underpinned by the trends of premiumisation and humanisation.

Pet care spend has a long track record of defensive characteristics and while trading up to higher margin, premium products may slow as pet owners feel the pinch, in an inflationary environment Pets at Home should still be able to grow like-for-like sales at a healthy rates.

On results day, Iddon informed *Shares* that Pets at Home has many self-help levers to pull to navigate current inflationary pressures and the numbers man also highlighted the retailer's ability to leverage intelligent data to acquire and keep customers and grow its 'lifetime value opportunity', essentially growing the spend of existing shoppers and grabbing a greater share of their wallets over the lifetime of their pets.

Increasing the amount existing members of its VIP loyalty scheme spend in store alone represents a significant growth opportunity, even before Pets a Home acquires any new customers.

Admittedly, Pets at Home faces competition from players ranging from major supermarkets and cheap online rivals to the likes of **CVS (CVSG:AIM)** in the veterinary space, yet the retailer has vowed to keep prices competitive in the face of industry-wide cost pressures to help customers feeling the squeeze of the cost-of-living crisis.

Peel Hunt also stressed that the Wainwright's dog and cat food, fish tanks and live reptile food purveyor's CRM (customer relationship management) skills represent a 'clear competitive advantage'. According to the broker this has been demonstrated by the delivery of impressive numbers in terms of customer retention and increasing share of shoppers' spend. McGowan 'will hopefully bring some more magic to this team and to data management in general', added the broker.

ANIMAL MAGIC

Though the market is worried about the impact of a consumer downturn on retail spending, *Shares* believes Pets at Home is among the sector's most

Pets at Home - forecasts and ratios

Year to March	Adjusted pre-tax profit (£ million)	EPS (p)	DPS (p)	PE	Yield (%)
2021 (A)	87.5	14.0	8.0	24.4	2
2022 (A)	126.4	19.8	12.3	17.3	4
2023 (F)	130.0	20.4	14.0	16.8	4
2024 (F)	145.0	21.6	15.8	15.8	5

Table: sharesmagazine.co.uk • Source: Company accounts, Peel Hunt estimates. Based on 342.2p share price, taken 30 May 2022

Pets at Home market positioning in numbers

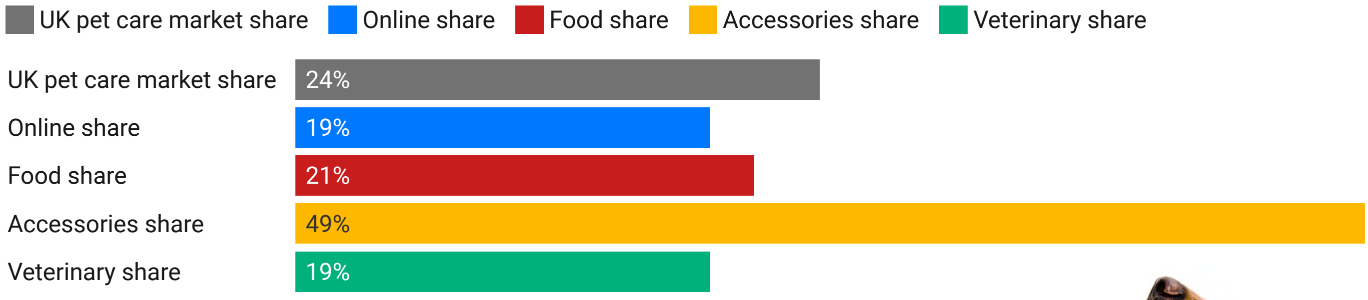
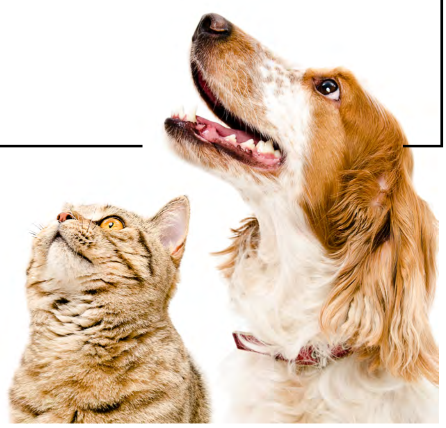


Chart: sharesmagazine.co.uk • Source: Pets at Home results presentation



resilient operators.

At the results, Pets at Home expressed confidence that full year 2023 pre-tax profits will be in line with the analyst consensus at that time, of £151 million with a range of £146 million to £157 million. Including the impact of an accounting policy change, Pets at Home said it expects 2023 underlying pre-tax profit will be £131 million, up from last year's £126.4 million.

In terms of current trading, Pets at Home said the pet care market remains 'robust and in growth', with registrations into its Puppy & Kitten club 'continuing well ahead of pre-pandemic levels and growth in customer spend maintained across all categories and channels'.

Traffic is up both in stores and online and while vet sign-ups have slowed from their peak, they remain robust. Pets at Home is also confident the recruitment of a record number of new customers will accelerate future growth in market share. Pets at Home is also investing behind its capabilities with the aim of driving growth in like-for-like sales through share of wallet increases, as opposed to the new customer driven growth it profited from during the pandemic.

The company also looks resilient to a consumer downturn, as the pet population has grown significantly during the pandemic and Pets at Home has recruited many of them into its VIP club. Peel Hunt cited recent surveys showing that 90% of pet owners would find other things to cut back on rather than their pet's expenditure.

WHAT ANALYSTS THINK

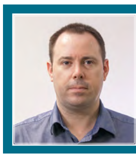
Shares concedes the outlook for retailers is uncertain and risks to weigh include the possibility that the cost of living crisis weighs on trading up to higher margin premium products. HSBC has also flagged the risk Pets at Home might need to provide greater funding and support to vet partners as a potential concern.

That said, HSBC also highlights the retailer's structural growth, market leadership, high free cash flow yields and net cash. 'We think it is wrong that Pets at Home has been caught up in the retail sell-off, it is just a very different demand profile to discretionary peers, more akin to staples, but with structural growth underpinning demand', commented the bank.

Peel Hunt forecasts covering the financial years to March 2023 and 2024 are for adjusted pre-tax profit to rise from £126.4 million to £130 million and £145 million respectively, translating into earnings per share of 20.4p and 21.6p.

Based on these estimates, Pets at Home trades on a forward price-to-earnings multiple of 16.8 falling to 15.8, a significant discount to 2021's PE ratio high of 39.4 implied by Stockopedia data.

In addition, the high-quality retailer offers an attractive dividend yield of between 4.1% to 4.6% based on the ordinary dividends of 14p and 15.8p the broker has pencilled in for the next two years.



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

ADVERTISING PROMOTION

TR Property Investment Trust

Location, Location, Location

TR Property Investment Trust

As central banks shift into tightening mode we think property might be part of the answer for those concerned about the impact on their investments, especially when it comes to income.

Securing 'real' income with real estate

TR Property Investment Trust invests in both listed real estate companies and physical buildings. Much of a physical property's return is derived from rental income from underlying tenants. In Europe (and increasingly in the UK) these rents are usually index-linked, thus protect earnings from inflation. This is a reassuring buffer, with earnings essentially maintaining their real value.

Location matters – looking for rental growth

The supply of land is fixed so properties in locations with the right supply/demand dynamics can enjoy rental growth – a trend that can drive attractive real yields as well as scope for capital appreciation. As economies continue their recoveries, these dynamics become more pertinent, and whether investing in real estate securities or physical property, we're fully focused on orientating our exposure to the right sub-sectors and locations.

Experienced management operating in attractive sub-sectors

Europe's listed real estate sector provides a wide range of companies to choose from. We work to target quality businesses run by proven management teams operating in supply constrained areas. Currently, for example, we're overweight industrials/logistics property through names like Warehouses De Pauw, Segro and Tritax Big Box REIT, and favour sectors like German residential and supermarkets.

Our take on bricks & mortar

Similar principles apply to physical property. Avoid areas like traditional high street retail and tap into structural real estate trends. Industrial and logistics assets form the bulk of our exposure – premises located near good transport links and where supply constraints exist. Active management matters and it's important to build strong relationships with tenants. If we understand their businesses and needs, we can better retain (and grow) our rental income, both at lease expiry and when break options arise.

Final thoughts

Inflation looks set to remain a feature throughout this year and into next – a factor that makes protecting returns from its eroding impact an important consideration. We believe that real estate provides an option for those seeking a yield that's attractive in real terms as well as offering capital growth potential. The importance of selectivity and active management shouldn't be underestimated, however, as not all sectors, property businesses, individual properties or indeed property funds are created equal.

Risk Disclaimer

Views and opinions expressed by individual authors do not necessarily represent those of BMO Global Asset Management.

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The value of directly-held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

Three ways to boost your retirement savings

What to think about if you want to make additional contributions

Increasing life expectancy means we are living for longer than ever before. According to Office for National Statistics data, people aged 65 in 2020 on average can expect to live for another 20 years or more, and for those in very good health, it's statistically quite possible that many will hit 100 years of age.

We will need financial support when we stop working and the state pension is unlikely to provide enough income for most of us. While spending might fall in your 70s, there are still large care and health costs to consider. Some people will also want to weigh up their options for passing money onto children and grandchildren.

You need at least 10 years' worth of National Insurance contributions to get any state pension and to get the full £185.15 a week you need at least 35 years of National Insurance contributions.

Currently you need to be aged 66 to receive the state pension but there is gradual rise to 67 for those born on or after April 1960; and a further gradual rise to 68 is planned between 2044 and 2046 (subject to review) for those born on or after April 1977. Many of us are aiming to work less or not at all before reaching that age range.

It's important to monitor your finances. It is worth looking to see if you can pay more into your personal retirement savings now as getting into good habits could make a big difference in later life.

THREE ROUTES TO CONSIDER

Thinking about how to improve your retirement savings needn't be complicated. Here are three routes to consider:

- **Option 1 –** pay more into your workplace pension

- **Option 2 –** pay additional contributions into a personal pension

- **Option 3 –** pay additional payments into a Lifetime ISA if you qualify for this type of account

We'll look at each of these in more detail later but the first step to take is a little financial housekeeping.

GETTING YOUR FINANCES TIDY

You should initially think about paying off expensive debts, such as credit cards or personal loans, whose interest rate charges can eat savagely into your savings.

According to personal finance website NimbleFins, the average interest rate on UK credit cards was 21.5% as of January 2022. Paying off these debts makes a lot of sense.

You also need to consider an adequate emergency fund for those bills that hit you out of the blue. Six months of your monthly spending is an appropriate amount to target.

Things like repairs to your home or needing to fix the car can incur hefty bills so it is best to have a pot of cash set aside to help with these sudden costs.

Once you've addressed these points, the next step is to consider if any extra savings you desire are exclusively for retirement or if you might want access to the money earlier in life, perhaps for projects like extending the house or paying university fees for your children.

If this is the case, an investment-focused ISA might be more appropriate place for any extra savings as there are no restrictions on withdrawals which you find with a pension or Lifetime ISA.

However, payments into an investment-focused ISA such as a Stocks and Shares ISA do not qualify for tax relief or government bonus which you find with pensions and Lifetime ISAs respectively – we explain these bits in more detail later on.

HOW MUCH MONEY DO YOU NEED IN RETIREMENT?

For those happy and able to contribute more to their retirement savings, how much do you need in later life? This may seem a difficult question to answer, especially if retirement is years away.

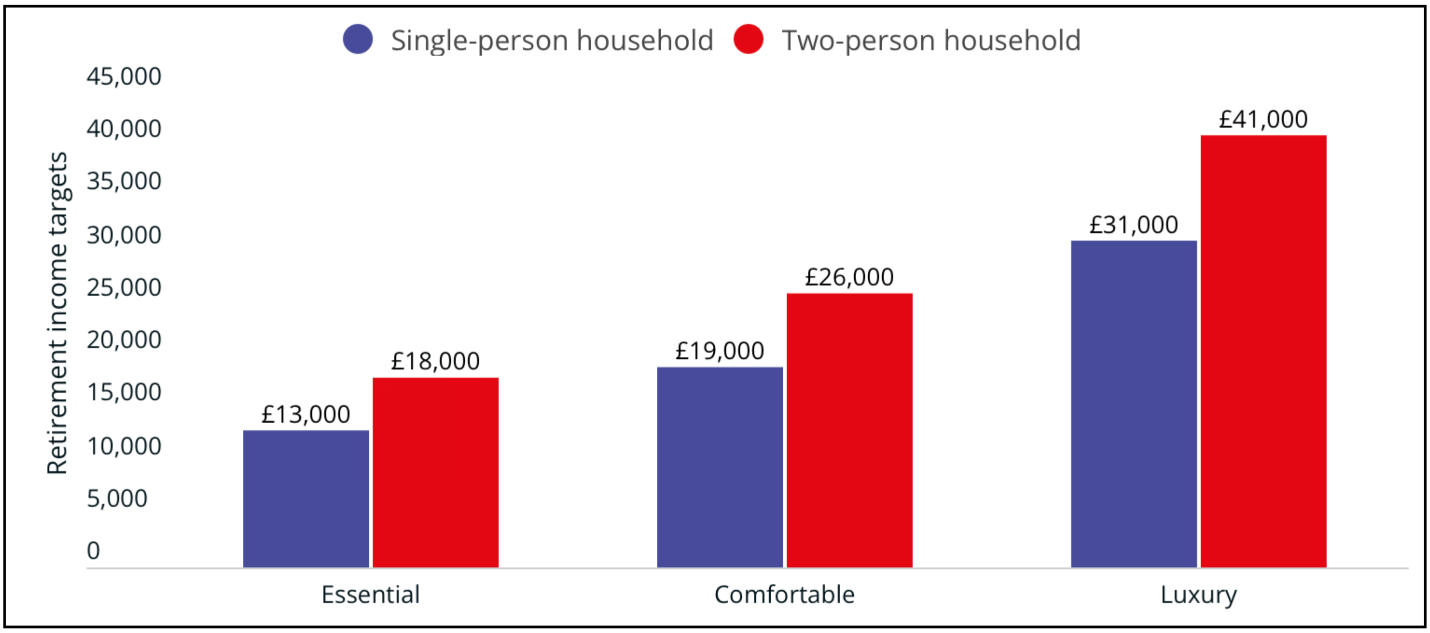
A common perception is that you'll need between half and two-thirds of the final salary you had when you were working, after tax, to maintain your lifestyle once you retire. This is because you will have likely paid off the mortgage, will no longer be bringing up children and won't face the cost of commuting once you stop working.

According to a Which? survey of more than 6,800 retirees conducted in 2021, the average two-person household spent around £26,000 a year, or a little less than £2,170 a month on a reasonably comfortable lifestyle. This covers all the basic day-to-day costs of living, such as utility bills, groceries and council tax, with a few luxuries too, such as holidays, hobbies and eating out.

Couples after a more extravagant retirement lifestyle spent around £41,000 a year or £3,420 a month if you include luxuries such as more exotic holidays and a new car every five years.

The equivalent spend for single individuals in the comfortable category was £19,000 a year, or £31,000 for a more luxurious lifestyle. Some people

How much to fund a comfortable retirement?



Source: Which? research, February 2021

might be comfortable with a more frugal lifestyle than these illustrations and others might have circumstances that require greater funding, but the data does provide a useful rule of thumb.

SELECTING A TAX WRAPPER

– OPTION 1 –

Join your employer's workplace pension. Given the government also tops up your contributions through tax relief, a workplace pension is one of the most important ways to build up wealth for later in life.

Under the government's auto-enrolment scheme introduced in 2012, if you're at least 22 years old and earn more than £10,000 a year then your employer will have to automatically enrol you in a pension scheme into which you and they must contribute.

You can opt out but doing so means you won't benefit from your employer's contributions, missing out on what is effectively free money. If you don't have access to an employer's pension scheme, perhaps because you're self-employed, you can still contribute to a personal pension and benefit from tax relief on your contributions.

Workplace pension schemes offer a choice of funds to invest in and you may get to choose how much of your contribution goes into each fund. However, the rules and range of fund options may differ depending on your company scheme, so you'll need to check the options available to you.

For example, the Standard Life Managed Pension Fund aims to provide long-term growth by investing in a diversified portfolio of assets including shares, bonds, property and cash.

The share component of the fund is selected both in the UK and from overseas markets and currently includes well-known companies like **Microsoft (MSFT:NASDAQ)**, **AstraZeneca (AZN)** and **Apple (AAPL:NASDAQ)**. For the five years to 31 December 2021, the fund returned 35.5%, according to FE Fundinfo.

– OPTION 2 –

A SIPP, also known as a self-invested personal pension, can be run alongside your workplace pension or on its own if that is not an option. With a SIPP, you are responsible for picking your own investments.

UK residents can pay in 100% of their earnings up to a maximum of £40,000 each year into a pension and receive tax relief. Unused allowances from the previous three years can be carried forward but a maximum of 100% of earnings can be paid in any one tax year.

You'll receive tax relief at the basic rate of 20% on personal contributions made to pensions. So, for every £80 you pay in, the taxman will top it up to £100. If you're a higher or additional rate taxpayer, you can claim back up to an additional 20% or 25% respectively through your self-assessment tax return.

There is no tax payable on any growth or income related to your pension. But usually you will be taxed on 75% of withdrawals when you come to take money out of the pot.

A SIPP can be useful if you already have a broadly-based selection of investments through a workplace pension but want to add a little more spice or security to your portfolio. It will enable you to access a far larger selection of investments than workplace schemes which typically have a limited number of funds.

With a SIPP, you can choose from a range of low-cost exchange-traded funds that track an index, so you get wide exposure to a market or investment theme.

Vanguard and iShares, for example, offer a large range of ETFs, such as the **Vanguard FTSE All-World UCITS ETF (VWRP)** which tracks a basket of larger companies from around the world, or the **iShares FTSE 100 ETF (CUKX)** which focuses on matching the returns of the FTSE 100, an index of the largest companies on the UK stock market.

SIPPs also give you the opportunity of investing in a broad range of funds and investment trusts, as well as thousands of individual companies.

There are downsides. The choice can be mind-boggling and picking your own investments may be a bigger responsibility than you are ready to take on.

– OPTION 3 –

You might want to consider using a Lifetime ISA to make additional payments to retirement savings.

A Lifetime ISA is a tax wrapper open to anyone aged between 18 and 39, although once an account is live you can contribute each year until age 49.

You can pay in up to £4,000 per tax year to a Lifetime ISA and the government will add a 25% bonus on top of the money you save. So, a payment of £4,000 from yourself would quality for a £1,000 bonus from the government. Any growth or income within the Lifetime ISA will be free from income tax and capital gains tax.

The £4,000 contribution counts towards your overall annual ISA allowance of £20,000.

Although you don't pay any tax on any withdrawals from a Lifetime ISA, you may pay a penalty if you withdraw in certain circumstances.

Whereas pensions can be accessed from age 55 (or 57 from 6 April 2028), to withdraw money from a Lifetime ISA without penalty means waiting until age 60 unless the money is used towards your first home or you are terminally ill.

Anyone who withdraws money from a Lifetime ISA for any other reason before reaching age 60 will be charged a 25% penalty fee.

– OPTION 4 –

Earlier in this article we said there were three key routes for saving extra money for retirement. There is a fourth which involves saving into a Stocks and Shares ISA.

On a positive note, you can put £20,000 of money a year into this type of ISA a year versus £4,000 for a Lifetime ISA. You can withdraw the money at any time and without penalty which is positive – although this also raises the temptation of dipping into the pot before you hit retirement.

WHICH TYPE OF INVESTOR AM I?

If you put a group of people in a room, there would most likely be a range of different attitudes towards the type of stocks or funds individuals would be willing to choose.

Some people would be happy taking high risks in the quest to get higher returns; others are less adventurous and don't want to see their money lose value if markets go through a bad patch.

There's no right or wrong, it's down to the individual to decide what kind of investments they want to make, what kind of risk they are happy to accept, and which tax wrapper would suit them best. This is essential when working out an investment strategy.

In simple terms, investors often fit into one of the following categories:

- **Cautious –** A desire to put money into investments that won't experience wild price swings up and down
- **Balanced –** Investors who want steady growth and are less concerned about short term market movements
- **Adventurous –** investors who want to put money into higher risks stocks or funds to achieve higher returns

Let's look at two examples that help to illustrate certain types of hypothetical investor:

THE BALANCED INVESTOR

Julie is 28 and lives in rented accommodation in Leicester. She is a qualified audiologist and is in full-time employment.

She wants to buy a house worth £270,000 and needs £27,000 for a deposit. She already has £25,000 in a Cash ISA which is combination of gifts and inheritance from family members.

Julie has just opened a Lifetime ISA and can afford to save £150 a month into it. After 11 months she will have contributed £1,650 into the account which qualifies for an extra £412.50 from the government, totalling £2,062.50. Julie needs to have the Lifetime ISA funded for 12 months before she can use it to purchase a property.

Given it will take just under a year to hit her goal of having enough money for the property deposit, Julie is already thinking about building on this savings habit. She plans to continue investing money into her Lifetime ISA once the property is bought and to use these contributions for retirement.

Julie believes it is too risky to invest the money for the property deposit in the stock market given the short timeframe and so those savings are kept in cash. However, for the retirement savings she is happy to take the risk of having money invested.

She already has exposure to a mixture of larger companies and bonds through her workplace pension and would like to use her Lifetime ISA to add exposure to infrastructure and smaller companies. In doing so, she would add a blend of lower and high-risk investments respectively.

Infrastructure funds typically put money into assets crucial to a country's development such as roads, energy and water treatment facilities.

One way of getting broad exposure to this space is via exchange-traded fund **iShares Global Infrastructure ETF (INFR)** which tracks an index of infrastructure companies from developed and emerging market countries.

Smaller companies can grow faster than larger companies, giving a potential boost to an investment portfolio which has exposure to this part of the market. There are higher risks because smaller companies often need additional funding to achieve their growth goals and many are loss-making while they try to gain scale. But historically they've often outperformed larger companies when looking at a long period such as 10 years.

For example, the Numis Smaller Companies index (including AIM but excluding investment companies) generated a 127% total return for the 10 years to 22 April 2022 versus 91% from the FTSE 100 index, according to Fe Fundinfo. Total return accounts for share price gains/losses and dividends.

One option for Julie is to look at exchange-traded fund **SPDR MSCI World Small Cap UCITS ETF (WOSC)**. This tracks an index of smaller companies in developed equity markets globally.

THE ADVENTUROUS INVESTOR

32-year-old Adam is a chemical engineer in Whitby Bay and puts aside £200 to £400 a month into a bank-based savings account.

Adam has a well-paid job, 20 years left on his mortgage and over the years he's dabbled in the stock market buying technology stocks and in cryptocurrencies. He knows his cash in the bank is not earning much interest and now is the time to start seriously thinking about putting the money to work for the longer term.

His workplace pension is spread across various assets and geographies, so Adam is comfortable there is a solid backbone to his retirement saving plan.

He decides to do two things: first, he increases the contribution to his workplace pension; second,

he decides to open a self-invested personal pension to hold individual stocks.

By having a SIPP, Adam can continue to use his knowledge of the tech sector to buy and sell individual stocks and not have to pay any capital gains or income tax on these investments.

He accepts that buying individual shares is risky and so he adds a few tech-themed investment trusts and exchange-traded funds to his SIPP to provide more diversification.

One option for Adam is to look at an investment trust where a fund manager is actively looking for opportunities in the tech space. For example. **Allianz Technology Trust (ATT)** has stakes in some of the big names in the sector including Apple and Microsoft as well as lesser-known companies such as monitoring platform **Datadog (DDOG:NASDAQ)** and data storage group **Seagate (STX:NASDAQ)**.

By **Steven Frazer** News Editor

DISCLAIMER: The author (Steven Frazer) owns shares in Allianz Technology Trust. The editor (Daniel Coatsworth) owns shares in iShares Global Infrastructure ETF.

*** This article contains various fictional situations to provide an example of how someone might approach investing. It is not a personal recommendation. It is important to do your research and understand the risks before investing.**

The best ways to maximise your holiday spending money

How to make your funds go further on a trip abroad

Anyone setting off on holiday this summer will want to make their money go the furthest – and one easy way to do that is being savvy about how you spend money while abroad.

The difference between using the wrong card and one with low fees, or getting your cash at the airport compared to a more competitive rate could add hundreds of pounds in costs to your trip away.

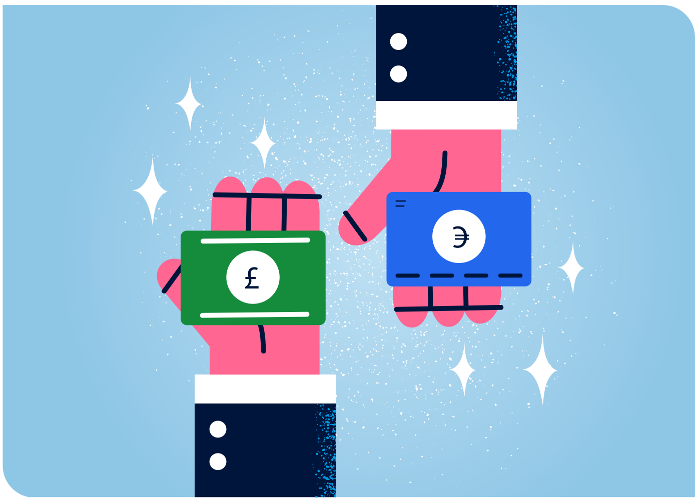
Here we look at the different options to make your holiday money go further.

CASHING IN

If you're a cash fan when you're on holiday then you'll probably want to change money before you go. One of the worst things you could do is wait until you get to the airport (either on home soil or at your destination) and just switch up cash there. You'll get a worse rate than if you get it elsewhere and you might get charged card fees.

One good option is to check out Money Saving Expert's TravelMoneyMax, which will find the best exchange rates depending on the currency you want, how much you are changing and where you live.

If you've left it really last minute you can also order ahead for money at the airport and get a better rate than you would get on the day.



Something to look out for is a buy-back guarantee, which means the exchange will buy back your unused travel money if you have some left over at the end of your trip.

Just make sure you don't use a credit card to buy your travel money, as this is often viewed as a cash withdrawal on the card and you'll face higher charges. Stick to a debit card or cash.

USE A DEBIT CARD

If you've got a little bit of time before you head off it could be worth getting a debit or credit card that's specifically targeted at travelling abroad. While you can use any card abroad, some will charge very high fees or give you a poor exchange rate.

Your best options are Starling Bank's debit card or the debit card from the new Chase account. Both have no fees for spending and no charges for taking cash out of an ATM abroad.

What's more, you'll get Mastercard's exchange rate that day, which is usually pretty good. With Chase you'll also get 1% cashback on any spending you do on it. You don't need to switch your main account to them, you can just use them as a secondary account.

PUT IT ON CREDIT

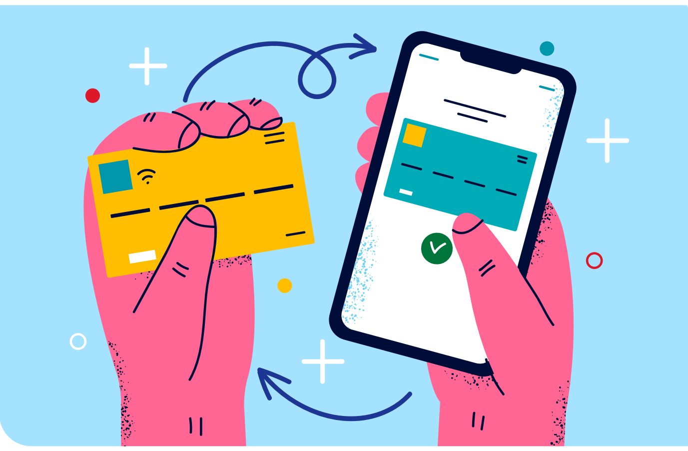
Some people prefer to spend on a credit card abroad, as it gives a little extra protection for purchases or if you lose your card. The Halifax Clarity Mastercard has long been a good option for spending abroad.

Like the debit cards above, you don't get charged fees on spending or on ATM withdrawals. While you won't be charged a fee on cash withdrawals you will be charged interest from the day you make the withdrawal, so it's best to pay it off straight away or use one of the cards above for cash withdrawals.

If you opt for a credit card just make sure you pay it off when the bill comes in, before you get charged interest.

PRE-PAY BEFORE YOU GO AWAY

Another option is a pre-paid card. This is a good idea if you're on a budget as you load it up with cash before you go and (hopefully) only spend that while you're away. You can load them up with pounds and either lock-in a rate before you go away and effectively convert the money to your holiday currency or you can keep it in pounds and get the exchange rate on the day you spend it.



Options to look at include Revolut, Wise and EasyFX. Check out the fees and restrictions of each to work out which is best for you.

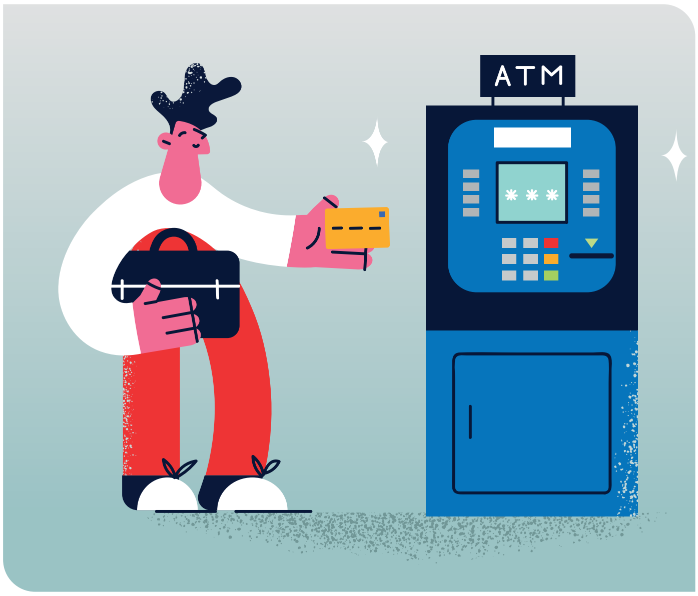
AVOID THE PAYING IN POUNDS SCAM

When paying by card or taking cash out of the machine often the machine will ask if you want to pay in pounds or the currency of your destination. The wording can be pretty bamboozling and often make it seem like you're getting a better deal if you pay in pounds – but don't fall into that trap.

You'll almost always be better off if you pay in the local currency, particularly if you've picked one of the ideal-for-travel cards above.

CHECK FOR ATM FEES

Some ATMs will charge a fee just for withdrawing your money – this is a charge from the ATM, which is different to ATM fees charged by your card provider. Try to avoid paying these if you can, either by finding a free-to-use ATM or by getting your cash in advance.



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

We're long-term value investors, known for the depth of our research

Aurora Investment Trust plc is a closed-end fund that invests in mainly UK equities and trades daily on the London Stock Exchange. Since January 2016 the portfolio has been managed by the specialist investment boutique, Phoenix Asset Management Partners. Phoenix have a unique approach to stock picking.

What makes us different?

We are focused.

We typically hold 15 to 20 stocks in the portfolio because we believe in backing our best ideas. This gives us sufficient diversification and allows us to concentrate our efforts on what we own.

We stick to what we know.

We have developed a deep expertise in some areas and don't operate beyond that.

We buy to hold.

Although we are buying shares, we consider ourselves as buying a whole business. Ideally, we look for a company whose prospects are so good we could hold them forever.

The ride can be bumpy.

Buying a focused portfolio of stocks that are out of favour can result in some volatility. Unlike most of the financial services industry, we don't consider volatility to be risk. Volatile markets provide investment opportunity.

Phoenix was founded by Gary Channon in 1998. He was inspired to create a fund management business using the "value investing" principles of great US investors such as Warren Buffett and Phillip Fisher. Over the last 24 years the Phoenix style has evolved, now applying value principles to buying a small number of high quality businesses, temporarily cheap due to short term bad news.

Aurora has a fee structure which aligns Phoenix's interests with those of investors. There is no management fee. Instead, each year, Phoenix earns one third of the outperformance above the FTSE All Share. Investors are protected from subsequent underperformance by a "clawback" mechanism.

www.aurorainvestmenttrust.com

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Aurora
INVESTMENT TRUST

This trust sees big gains ahead assuming it can repair and revive famous UK companies

Castelnau has stakes in Hornby, Dignity and other troubled firms which could be reborn

The idea of owning a portfolio of companies that have gone off track may not appeal to every investor. There are high risks because the underlying companies need to be fixed before they can grow. Yet the rewards could be equally high if this repair and revive strategy works, and that's where **Castelnau (CGL)** sits in the investment trust universe.

It's more of a corporation than a traditional investment trust, argues manager Gary Channon, who is also the chief investment officer of Phoenix Asset Management and one of the brains behind **Aurora Investment Trust (ARR)**.

Castelnau holds large stakes in six companies including model trains and toys expert **Hornby (HRN:AIM)** and funeral services group **Dignity (DTY)**. It has a hands-on role with driving strategy at each business.

Two portfolio holdings called Rawnet and Ocula specialise in marketing and technology and their services are used to support the other companies backed by Castelnau. Channon and his team take winning ideas from each investee company, and they apply them to other companies in the portfolio if appropriate, effectively cross-fertilising best practice.

This is very different to the approach of a general investment trust investing in stocks and shares which is to take small stakes in companies on the stock market and sit back and hope these businesses generate value.

THE BUFFETT WAY

Channon is heavily influenced by the practices of legendary investor Warren Buffett who uses his **Berkshire Hathaway (BRK.B:NYSE)** investment vehicle to typically buy controlling stakes in companies, making it more of a conglomerate than a passive investor.

Channon co-founded Phoenix Asset Management in 1998 with the intention of having a long-term, value-based focus, taking stakes in companies at attractive prices. Since then, he has also bought businesses with his own money to learn about the process of growing them.

In 2002 he invested in wedding gift list company TWS and sold it in 2013. 'TWS was sold to someone who did a very bad job, and it went bust after 15 months. I bought it back, so no-one's wedding was ruined,' explains Channon.

'Warren Buffett said "I'm a better investor for being a businessman and I'm a better businessman for being an investor". I thought why don't we apply all the things we've learned to a company with £1.2 million turnover and 19 people? Now it is a £50 million turnover business with 160 people under the name of Cambium and is more popular than John Lewis for wedding gift lists.'

MORE WEDDINGS AND A FUNERAL

Castlenau now owns 19.2% of Cambium's parent company, WLS, and may float it on the UK stock market next year, albeit retaining a large stake as its strategy is to own its investee businesses forever.

'Previously, a customer had to go to its showroom rather than use a website to build a wedding gift list. We've taken it into the modern era and business has exploded,' says Channon.

If Cambium is Castelnau's most advanced holding in terms of strategic repositioning, then Dignity is at the other end of the spectrum. The company saw its share price collapse in 2018 after announcing a dramatic change to its funeral pricing to deal with competitive pressures.

Channon ended up temporarily becoming chief executive as an extreme measure after finding considerable problems in the business and the board being 'deaf' to offers of help.

'I'm undoing 10 years' worth of mis-management and under-investment,' he says, in preparation for passing the CEO baton to a new appointee in early June.

'On average, per branch volume had halved at Dignity. By raising prices so high each year, it would accept a market share loss because it was getting extra money from customers who didn't pay attention to price or they were so loyal, but the business was basically dying on its feet.

'Dignity topped up its loss of share each year through acquisitions. By the end it was having to find 2,500 extra funerals a year and the acquisition quality just went down and down and down. The market share stayed the same for a decade, but only because it spent over £200 million on acquisitions.'

Channon is now trying to drive cultural change within Dignity, something he says is fundamental to the Castelnau investment process. It starts with building principals and applying them. In Dignity's case, it involves lowering prices to become more competitive and making investment in staff.

'Its profits will go down to begin with, but market share should grow. Dignity's market share hasn't grown in 15 years but proof the new strategy is working will be watching market share improve,' he says. 'When you get volume growth off the back of a highly operationally-levered business then the unit cost comes down. As volumes increase Dignity's costs won't grow so the profitability will go back up.'

The Castelnau boss has great respect for Tim Martin from **JD Wetherspoon (JDW)** and Mike Ashley from **Frasers (FRAS)**, saying one can learn a lot from the way they do business.

Tim Martin's greatest attribute is having his ear to the ground, implies Channon. He is plugged into customer needs because he listens to his staff. Both Martin and Ashley are big believers in experimentation, trying out ideas and eventually they stumble upon ones that work which can then be rolled out across the business.

'All the problems with Dignity we learned by talking to staff in branches. The head office didn't know what was going on. Across all the Castelnau investee companies, we need a willingness to try things and study the data.'

TOY FANATICS

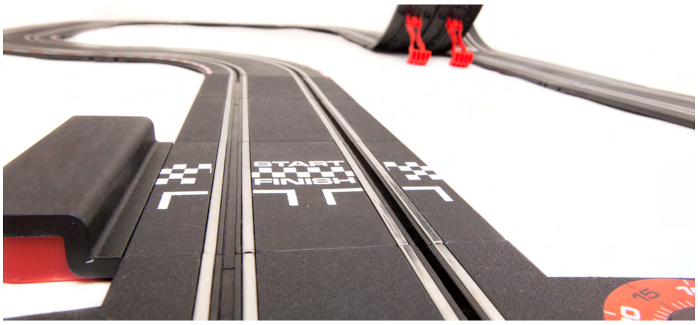
Castelnau owns 49.7% of Hornby but Channon's involvement with the business via Phoenix Asset Management goes back a decade. He's gone from being a passive to an active investor.

It's fair to say Hornby has failed to listen to its customers over the years. Every January it announces forthcoming product launches, and these are determined by head office, not in response to what customers want. This might change, implies the fund manager, recognising it's better to have a good relationship with the customer and to engage with them more.

DEALING RESTRICTIONS

Castelnau is listed on the specialist fund segment of the London Stock Exchange which has restrictions on who is permitted to trade the shares.

This part of the market is aimed at more sophisticated investors and anyone seeking to buy the shares may have to fill out a questionnaire with their investment platform provider before being allowed to trade. They must prove their suitability and understand there may be limited liquidity in the underlying investments in the trust's portfolio.



Hornby has strong brands including Scalextric and Airfix yet lacks scale as a business. Plans are afoot to make changes.

Manufacturing is mainly done in China but bringing it closer to home might enable the company to turn new ideas into products quicker. A retail outlet is being planned, which would see Hornby showcase its products to the public inside of a third-party retailer's store in a city outside of London. If that drives sales, further outlets might be rolled out.

'We see this showcase as an experience, enabling people to play Scalextric and trains and do model making. If we think about the market that Lego fulfils when it goes beyond children, some of the things we have in Airfix tap into that. We also want to update products such as putting cameras inside trains and Scalextric cars, bringing these hobbies into the modern era.

'We also want to learn through social media, not selling things but building a hobby base. We have a big fanbase who want to be engaged with, talking about products they want. People don't all want Second World War British planes, so we need to get the right product line.

'Our vision is to use modern tools and techniques to build up a greater base of customers. We see a long and glorious future for Hornby.'

CORPORATE TRANSFORMATION

The core premise of Castlenau is to take positions in companies which could be worth a lot more in the future once problems have been fixed and growth accelerates. Just over a year ago, three of its investee companies were loss-making, now none of them are in this situation. While that's promising, investors should not expect a quick fix and a rapid uptick in value.

The real rewards from Castelnau could be years in the making. That hasn't stopped fans of Phoenix Asset Management's style from bidding up the investment trust's shares so they trade at an 8% premium to the value of the underlying assets.

'Castelnau is only about businesses we think we can transform and own forever. With cultural transformation you get the real payback in five to 10 years, not in the early years,' says Channon.

He says investing in Castelnau is not about making two or three times your money. It could be a lot more if the strategy is successful. 'For example, we estimate Dignity is worth more than 20 times the current share price. It's not about quick wins, the highest value will come from running it right.'

BRINGING STANLEY GIBBONS INTO THE MODERN WORLD

Castelnau owns 31% of Phoenix SG whose principal asset is a 58.1% stake in stamp collector **Stanley Gibbons (SGI:AIM)**, a business well versed in profit warnings over the years. The investment trust also owns the company's debt, some receivables from a subsidiary and some rare and collectible stamps directly.

'The business went through a scandalous period where it let a lot of customers down by selling investment contracts which it could not honour. It also lost sight of the single most important part of any business – the customer,' says Castelnau.

The trust has helped Stanley Gibbons to rebuild its store in London and the business is now 'washing its face'. The opportunity for growth lies in using modern marketing and technology to generate more interest and widen the customer base.

By **Daniel Coatsworth** Editor

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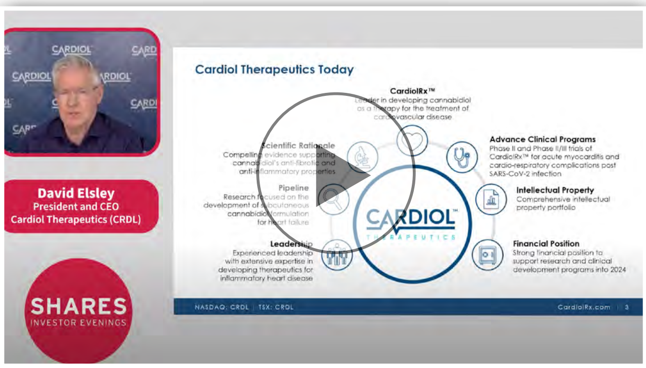
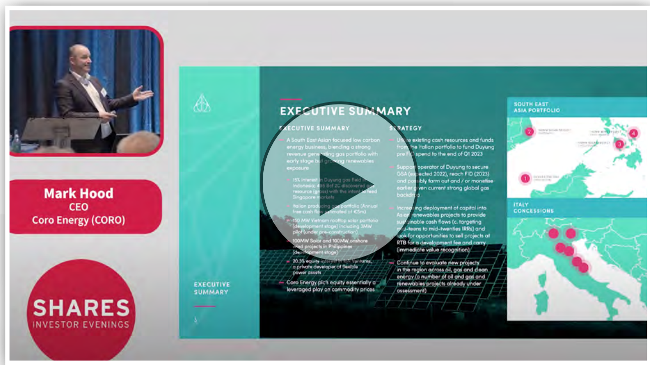


Cardiol Therapeutics

David Elsley, President and CEO

Cardiol Therapeutics is a clinical-stage life sciences company focused on the research and clinical development of cannabidiol as an anti-fibrotic and anti-inflammatory therapy for the treatment of cardiovascular disease. The Company's lead product candidate, CardiolRx™, is a pharmaceutically produced oral cannabidiol formulation that is being clinically developed for use in cardiovascular medicine.



Coro Energy

Mark Hood, CEO

Coro Energy is a South East Asian focused energy company with a regional strategy of investing in low carbon energy assets including renewables and energy storage, supported by an existing platform of gas assets.

Diurnal

Richard Bungay, Interim CEO and CFO

Diurnal Group is a specialty pharmaceutical company developing hormone therapeutics to aid lifelong treatment for rare and chronic endocrine conditions, including Congenital Adrenal Hyperplasia, Adrenal Insufficiency, Hypogonadism and Hypothyroidism.

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Insightful commentary on market issues

DANNI HEWSON
AJ Bell Financial Analyst

Why retail's squeezed middle could really struggle in the months to come

As ordinary consumers trade down and the wealthy keep spending, mid-market firms look vulnerable

The announcement that every household is to receive £400 off their energy bills in the autumn coupled with a comprehensive package of support for pensioners and those on benefits immediately resonated with investors and shares in retailers shot up.

But the resurgence was short-lived, the consensus being there are just too many challenges facing the sector, with consumers on both sides of the Atlantic simply too constrained by budgetary pressures.

The latest Opinions and Lifestyle survey conducted for the Office for National Statistics found that 56% of people were spending less on non-essential purchases.

Business after business has hit the profit alarm from US mega-store **Target (TGT:NYSE)** to UK high street stalwart **Marks & Spencer (MKS)**. Sales have been robust, even rosy, through the first part of the year as pandemic restrictions finally fell away but inflation has sent jitters through boardrooms.

Next (NXT), Primark-owner **Associated British Foods (ABF)**, and online fast fashion business **Boohoo (BOO:AIM)** have all warned prices will have to rise – a particular anathema to businesses chasing value-driven shoppers.

Brands that had already been struggling like **Ted Baker (TED)** and Missguided have either had to hoist the for-sale sign or appoint administrators. And with a number of high-profile bosses heading out various doors – from **B&M European Value Retail (BME)** to **Pets at Home (PETS)** – it adds an extra frisson of uncertainty.

A TALE OF TWO CUSTOMERS

But not all retailers are the same and, in this case, investors might want to consider the customer rather than business model.

Upbeat profit forecasts from luxury retailers have highlighted the disparity between more and less affluent consumers. The deep pockets of the customer base shared by London-listed **Burberry (BRBY)** and its US compatriots **Nordstrom (JWN:NYSE)** and **Ralph Lauren (RL:NYSE)** deliver a designer cushion against price pressures.

While decades-high inflation is forcing most consumers to cut back, those with higher incomes are, at least for the moment, proving more resilient. All have commented that, so far, they've been able to hike prices without seeing any kind of major push back from customers.

That pricing power is enabling high-end brands to avoid the discounting spiral that other retailers

DANNI HEWSON
AJ Bell Financial Analyst

Earnings growth and year-to-date performance for different categories of UK and US retailer

Company	Forecast earnings growth (%)*	Year-to-date share price performance (%)
UK		
Burberry	20.3%	-6.3%
Next	-6.4%	-21.0%
B&M European Value Retail	-4.1%	-38.0%
US		
Ralph Lauren	2.0%	-17.0%
Nordstrom	186.0%	18.0%
Target	-22.5%	-28.0%

Table: sharesmagazine.co.uk • Source: Stockopedia, SharePad *current financial year. Data as at 31 May 2022

have fallen into headlong as they try and clear out stock gathering dust on backroom shelves.

Up until now lockdowns in the lucrative Chinese market may have given investors pause, but as restrictions are lifted it seems many are taking a long look at the distinctions between retailers.

However, even in the case of high-end US department store Nordstrom, which has rallied considerably over the last month, its valuation is still subdued compared to its pre-pandemic levels.

Retailers, particularly bricks and mortar stores, have had it tough over the last couple of years, something that makes the predicament faced by more mainstream businesses even more difficult to deal with.

There may have been some expectation that value names like Target and B&M might also have benefited from the inflationary environment as customers looked to trade down in search of cheaper deals.

COMPETITION IN THE SUPERMARKET SECTOR

Certainly, that's the way it is going in the UK's competitive supermarket sector with discounters pulling market share from middle of the road stores, in particular Morrisons. But when margins are wafer-thin and supply chains are still sluggish, profit becomes harder and harder to generate.

This inflationary spike is unprecedented, and the shifting sands of geopolitical instability make it harder than ever for investors to get a grip on what's coming down the tracks. If high end retail is expected to cruise through the inflationary storm and value to be buffeted by both head and tailwinds, what of those middle of the road, multi-channel operators like Next?

Often seen as a bellwether for the retail space it was one of the first to sound a cautionary note. Will it end up adrift or will its mix of products, brands and prices coupled with its credit option make a difference and provide a way through increasingly choppy waters?

Latest figures from the Bank of England suggest shoppers have been hammering their credit and store cards and retail sales figures last month saw a surprising uptick in clothing purchases as people prepared for a summer of delayed celebrations and sunshine holidays. But every month seems to bring another bill hike and by the time Christmas comes around the worst of those energy price increases will haven taken hold.

What's true in the first six months of the year is unlikely to change significantly over the next six months. Those for whom money isn't really an issue will continue to spend and the retailers that enjoy their patronage could continue to outperform.

I need help with my workplace pension and how to avoid a lifetime allowance hit

Our resident expert responds to a complex question from someone planning to retire abroad

I am an additional-rate (45%) taxpayer and work for a big public healthcare company.

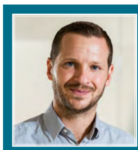
I moved out of the employer pension in 2015 and my pensions now sit outside the country in a QROPS scheme as I plan to retire elsewhere. I also have a SIPP to which I contribute £40,000 per year.

I was auto-enrolled into the employer scheme three years ago but opted out. I have again been re-enrolled and I am considering opting out again.

Would my lifetime allowance kick in if I rejoin the employer pension? How can I keep tabs on both my UK and overseas pension so that I do not hit the lifetime allowance and incur a tax bill?

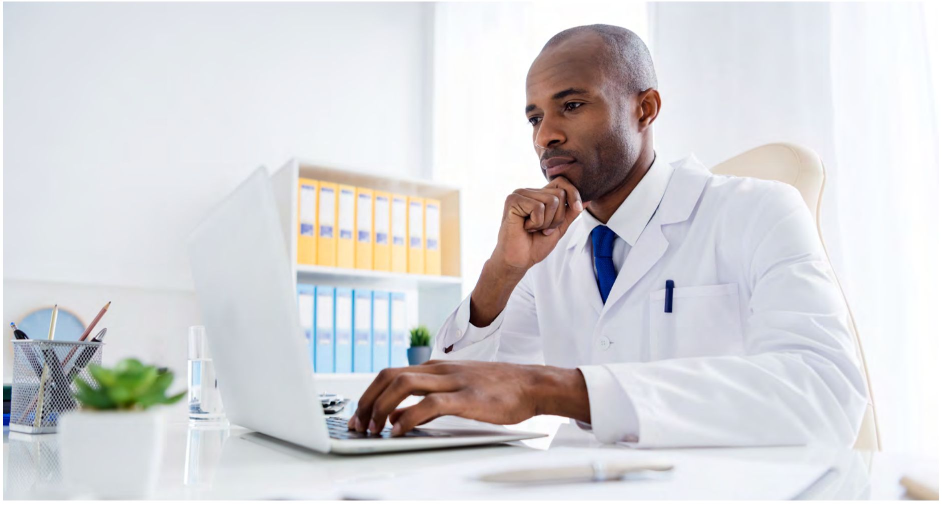
Is it better to for me to be out of my workplace pension to keep the matter less complicated?

Deepak



Tom Selby, AJ Bell Head of Retirement Policy says:

While clearly it isn't ideal that breaching the UK lifetime allowance incurs a tax charge, there is a danger in trying to avoid it you end up doing more harm than good. This



is particularly the case when considering opting out of your workplace pension scheme.

The standard lifetime allowance stands at £1,073,100 in 2022/23 and will be frozen at this level until 2025/26. Each time a 'benefit crystallisation event' occurs a 'test' will be carried out to determine how much of your lifetime allowance has been used up.

WHEN YOUR ALLOWANCE IS TESTED

Benefit crystallisation events include taking your tax-free cash, choosing a retirement income route (such as drawdown or buying an annuity), dying (if you die before age 75) or your 75th birthday.

Transferring to a QROPS, a type of overseas pension scheme, will also trigger a lifetime allowance test. Once transferred, these funds are outside the UK pensions system and will not be tested against the lifetime allowance again.

Contributing to a pension will not result in a lifetime allowance test, although you could lose lifetime allowance 'protection' if you have previously applied for it.

If you breach the lifetime allowance, you will pay a lifetime allowance charge of either:

- 25% if you take the excess as income (with income tax payable then on the withdrawals);
- 55% if you take the excess as a lump sum (with no income tax payable).

You can read more about the mechanics of the lifetime allowance [here](#).

Your yearly total pension contributions for tax relief are capped at £40,000 by the 'annual allowance', while personal contributions cannot exceed 100% of your earnings.

Very high earners are also affected by the annual allowance taper, which can reduce their annual allowance from £40,000 to as low as £4,000.

As you are an additional-rate taxpayer it's worth double checking you aren't caught by this – if you are you may have to pay an annual allowance charge on your £40,000 SIPP contribution.

You can read more about how the annual allowance taper works [here](#).

Usually, it makes sense to stay in your workplace pension scheme because you benefit from employer contributions as well as upfront tax relief. Even if you breach your lifetime allowance, the value of these employer contributions mean it can be worth taking the charge.

GENEROUS EMPLOYER CONTRIBUTIONS

Under auto-enrolment there are minimums you and your employer have to pay in, but many employers are more generous.

Take, for example, someone who is already over the lifetime allowance and contributes £800 to their workplace pension scheme.

It is boosted to £1,000 in their pension by upfront tax relief, but thanks to their generous employer also qualifies for a 100% match.

So, their £800 contribution has, through the employer match and tax relief, been turned into £2,000 in their pension scheme.

Even if that £2,000 is hit with a lifetime allowance charge, they will still have £900 if they withdraw it as a lump sum and pay a 55% charge, or £1,500 if it is left in the pension and they pay a 25% charge. Either way, it is financially beneficial to go over the lifetime allowance in these circumstances.

Similarly, if your investments grow and you breach the lifetime allowance, you would still be better off versus holding all your pension in cash earning 0% interest and not breaching the lifetime allowance.

Once you have maxed out your workplace contributions that qualify for an employer match, more flexible options like SIPPs can be attractive for additional retirement savings.

WORTH SEEKING ADVICE

If your fund value is above your lifetime allowance you should consider other tax incentivised vehicles like ISAs for savings over and above those that qualify for a matched employer contribution.

In terms of keeping tabs on your pensions, your schemes should be able to provide you with up-to-date valuations.

One final (and perhaps obvious) point – the lifetime allowance, annual allowance and overseas pensions can be really complicated. I'd strongly recommend seeking specialist regulated advice about your personal circumstances before making any decisions.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

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Event details
Presentations to start at 18:00 GMT

Contact
Lisa Frankel
media.events@ajbell.co.uk

Register for free now
www.sharesmagazine.co.uk/events

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

10 June: Mind Gym. **13 June:** BP Marsh, Molten Venture, Sirius Real Estate. **14 June:** Discoverie, CML Microsystems, Iomart, OnTheMarket, Oxford Instruments, Palace Capital, Vianet. **15 June:** Allied Minds, AO World, Castings, Severfield, Tatton Asset Management. **16 June:** Best of the Best, Biffa, Halma, Jlen Environmental Assets, Syncona.

Half-year results:

14 June: Crest Nicholson, Foresight Sustainable Forestry, Paragon Banking. **15 June:** IDOX.

Trading Announcements

14 June: Bellway, Ferguson. **15 June:** Ashtead, Origin Enterprises, Whitbread, WH Smith. **16 June:** Boohoo. **17 June:** Tesco.

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