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The Sleep at night portfolio

5 investment trusts to put your worries to rest

BANKING CRISIS The funds and investment trusts exposed to the sector

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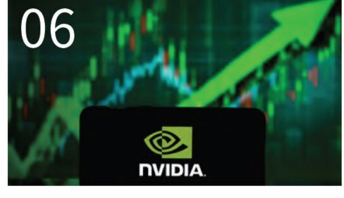


Three important things in this week's magazine

1

Which funds and investment trusts are most exposed to banks and financial stocks?

2

Why big tech has seen a handsome recovery which may have legs

3

The Sleep at night portfolio

Many funds and investment trusts are heavily exposed to the banking sector

Read our analysis of popular names with money in this space and what they've done to adjust portfolios

Large cap tech stocks have soared this year

Last year's headwinds are this year's tailwinds as expectations change for interest rates and companies scramble to cut costs

A solid portfolio is one that offers diversified access to steady growth, capital protection and income

We've found five investment trusts that fit the bill in this week's main feature

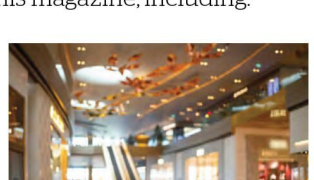
Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

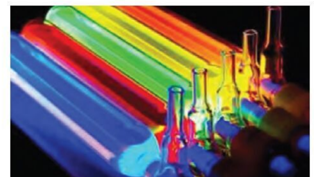
Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

Ocado shares slide despite increasing customers and backing full-year view

Debra Crew to succeed Ivan Menezes as CEO of Johnnie Walker maker Diageo

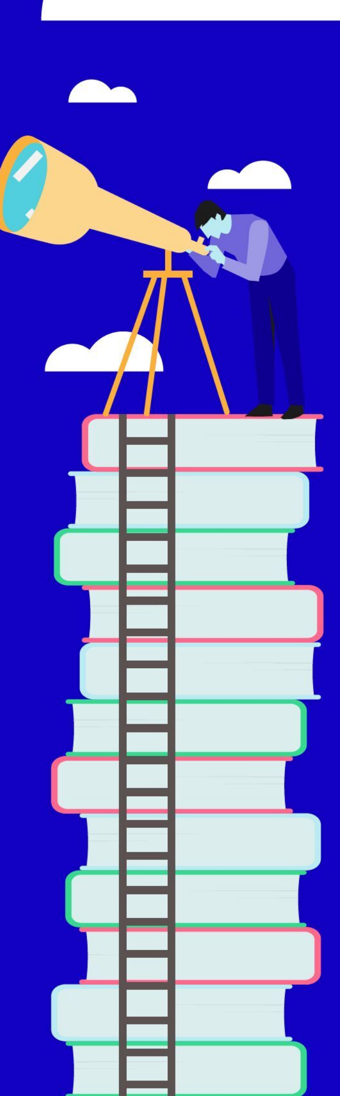


Buyers step in after positive trading update from Land Securities



Technology group Nanoco comes under fire from unhappy 'activist' investors

Discover the power of Collective Wisdom.



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Discrete Performance*	Q4 2017 Q4 2018	Q4 2018 Q4 2019	Q4 2019 Q4 2020	Q4 2020 Q4 2021	Q4 2021 Q4 2022
Share price	-8.1%	22.1%	2.7%	11.9%	-9.8%
Net Asset Value**	-8.4%	21.3%	4.2%	15.8%	-10.2%
Benchmark#	-6.6%	20.1%	9.5%	19.9%	-6.2%

This financial promotion was approved by Witan Investment Services Ltd FRN: 446227 on 13 February 2023. Please note that past performance is not a guide to future performance. Witan Investment Trust is an equity investment. The value of an investment and the income from it can fall as well as rise as a result of currency and market fluctuation and you may not get back the amount originally invested.

*Source: Morningstar/Witan. Total return includes the national investment of dividends. ** The Net Asset Value figures value debt at fair value. # Witan's benchmark is a composite of 85% Global (MSCI All Country World Index) and 15% UK (MSCI UK IMI Index). From 01.01.2017 to 31.12.2019 the benchmark was 30% UK, 25% North America, 20% Asia Pacific, 20% Europe (ex UK), 5% Emerging Markets.

Why big tech has seen a handsome recovery which may have legs

A peak in US interest rates would be less supportive of the US dollar and a positive for big tech

The turnaround in fortunes for many US large cap stocks has been rapid and, in some ways, surprising given it has occurred at the same time as a banking crisis and increased market volatility.

Since the start of the year the Nasdaq 100 index, comprised of the largest technology names by market cap, is up around 18% led by computer chip maker **Nvidia (NVDA:NASDAQ)** which has surged 76% over the last three months.

The Nasdaq 100 peaked in the autumn of 2021 after a deceleration in earnings momentum driven by a drop in online spending post-lockdowns. Many firms such as online giant **Amazon (AMZN:NASDAQ)** had overexpanded during the pandemic resulting in bloated costs.

Another negative factor was the rapid rise in interest rates beginning in the spring of 2022 which created a headwind for the valuation of big tech's earnings. Lastly, an increase in the value of the US dollar lowered overseas earnings when translated back into US dollars.

These headwinds have recently eased and turned into tailwinds while big tech's strong balance sheets look more attractive against a backdrop of financial market stress.

Aggressive cost cutting has been applauded by the markets. For example, Facebook owner **Meta Platforms (META:NASDAQ)** said it would cut 13% of its workforce and refocus on profitability and efficiency.

In total, **Microsoft (MSFT:NASDAQ)**, Amazon, Meta and **Alphabet (GOOG:NASDAQ)** have made over 60,000 redundancies in the last few months as well as cutting back on corporate spending.

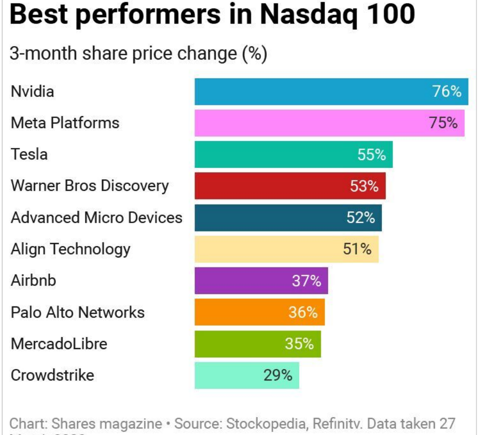
This hasn't gone unnoticed by the market with analysts making big upward revisions to their current year earnings estimates. For example, Meta's consensus earnings estimates have increased 25% over the last two months.

The outlook for interest rates has changed significantly since the US Federal Reserve's last interest rate policy meeting on 22 March. Chairman Jerome Powell acknowledged the banking crisis could lead to a slowdown in bank lending and tighten financial conditions.

The Fed consequently changed its statement on the rates outlook from 'ongoing' rate increases to 'some additional firming may be appropriate'.

The CME's FedWatch tool based on interest rate futures is pricing in a 57% chance of a rate cut by July and an 85% chance of a cut by October 2023. The Fed's summary of economic projections does not envisage any rate cuts until 2024.

There is a growing consensus that the rate hiking cycle is now close to its peak which would have positive implications for the rating of big tech and removing a key driver of last year's underperformance. [MG]



Latest retail sales figures show slide in non-essential spending

Some high-street chains could still surprise to the upside, however

The most recent retail sales figures from the Office for National Statistics make for illuminating if not uplifting reading. Sales in February were over 1% higher than January in volume terms suggesting consumers were feeling positive. Moreover, that gain took sales volumes back to where they were in February 2020 before the pandemic.

Total non-food sales – that is department stores, clothing, household and other non-food items – increased by 2.4% between January and February driven by a 5.5% rise in department stores and a 2.9% rise in clothing.

Unfortunately, when compared with February last year on a seasonally-adjusted basis – which we would argue is a more accurate reflection – sales by volume were actually down 3.3% despite the boost from department stores.

In value terms, spending was up 6.3% on a seasonally adjusted basis but this was entirely due to rising prices in most categories.

In food, volume sales were down 2.3% as consumers tightened their belts but in value terms sales were up more than 11% as prices rose by 18% last month, the highest level on record.

Sales of household goods in volume terms dropped 8.7% in February compared with annual declines of 8.4% and 11.8% in January and December as shoppers eschewed non-essential spending.

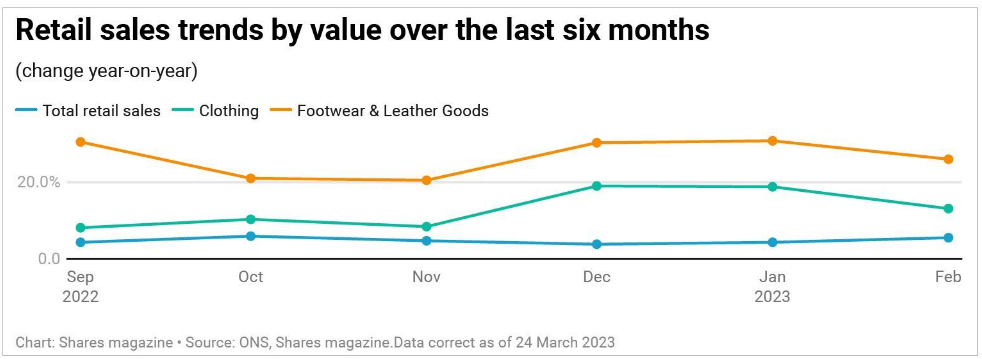
According to the GfK consumer confidence survey, while overall confidence may have improved slightly in February after several months of record low readings, the major purchase index – which reveals consumers' willingness to spend on big-ticket items like sofas, washing machines or cars – is almost at rock bottom.

There is some light in the gloom, though, as spending on clothing and footwear rose last month in volume terms as well as value terms.

'Despite the ongoing cost of living squeeze, customers were ready to spend on what they needed, with higher sales for categories including clothing and cosmetics,' observed Helen Dickinson, chief executive of the British Retail Consortium.

The end of the Energy Bill Support Scheme in April means there remain challenges to consumer spending in the coming months, according to Dickinson, but it seems shoppers consider clothing and footwear to be 'essentials'.

That could bode well for earnings from stalwarts such as **Next (NXT)**, **Marks & Spencer (MKS)** and **Shoe Zone (SHOE:AIM)**, who still have a strong high-street presence, while online retailers may fare less well as the post-pandemic surge in e-commerce seems to be rolling back as consumers return to shopping in person. [IC]



UK small cap trusts: upgrade for Mercantile and changes afoot for Abrdn Smaller Companies

Stifel thinks UK small and mid cap stocks could do well as the market looks towards declining rates

Weak sentiment towards UK small and medium-sized companies has seen investment trusts focused on this space languish at big discounts and driven consolidation as products with dwindling assets are combined.

Stifel believes the 15% discount to net asset value at **Mercantile Investment Trust (MRC)** means the shares are 'worth a look for those wanting exposure to the UK mid and small cap space' as the broker upgrades its rating on the trust to 'positive'.

Mercantile's approach is to identify tomorrow's UK market leaders by focusing on stocks outside the FTSE 100 which have scope for growth. Big holdings in the fund include luxury watches retailer **Watches of Switzerland (WOSG)**, engineer **Weir (WEIR)** and utilities provider **Telecom Plus (TEP)**.

While the trust has a domestic focus, around 50% of its constituents' revenue is derived from overseas.

Stifel notes the investment trust has achieved growth of 13% in its net asset value versus a 5.5% return for the FTSE 250 over the six-month period to 23 March 2023 thanks to caution on areas exposed to higher interest rates like real estate.

Steered by Guy Anderson and Anthony Lynch for the last decade, Stifel says the Mercantile pair are 'well experienced in difficult markets, with a combined 35 years investing in mid/small caps'.

It adds: 'We believe UK interest rates are now at, or near the peak, following last week's rise, and expect small and mid-caps to do well once the market looks forward to declining interest rates.'

The broker also notes that over the last three years, including during the pandemic lows in 2020, a discount of around 16% has tended to act as a floor for Mercantile's share price.

Mercantile remains a large trust with a market value of more than £1.5 billion, with this scale enabling it to offer a competitive ongoing charge of 0.45%, but other small cap trusts are withering on the vine.

For example, **Abrdn Smaller Companies Income Trust (ASCI)** is valued by the market at less than £60 million and having launched a strategic review in February, has now received proposals from several investment companies and investment management groups about combining forces.

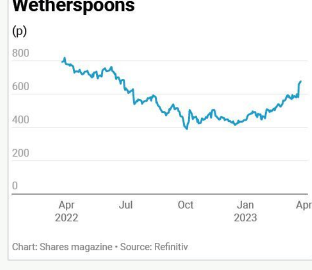
Chair Dagmar Kent Kershaw acknowledges the trust's small size coupled with a persistent and material discount to net asset value 'has created challenges in liquidity and has prevented the company from growing'.

The intention is shareholders will be able to either roll over some or all of their investment into a 'successor vehicle' or receive cash for some or all of their shareholding.

The lack of scale is reflected in a relatively onerous ongoing charge of 1.2% and investors might hope for a reduction in costs as part of any merger. [TS]

Discover why Wetherspoons shares are up 50% since the start of 2023

The pubs group is seeing improving sales trends as it returns to profit in its first-half period



PUBS GROUP **JD Wetherspoon (JDW)** had a tough time both during the pandemic and as the UK emerged from Covid. A longstanding strategy of focusing on volumes rather than margins, in a bid to offer customers good value, left its profit heavily exposed to the rising cost of staff, energy, alcohol and food. At the same time, the exposure of its estate to increasingly sparse town and city centres hit sales.

However, Wetherspoons has recently regained some momentum in both share price and operational terms, gaining more than 50% on the market since the start of 2023.

First-half results (23 March) showed sales up 3% on pre-pandemic levels as the company swung from a loss to a pre-tax profit of £4.6 million, still a long way short of the £50.3 million posted in 2019.

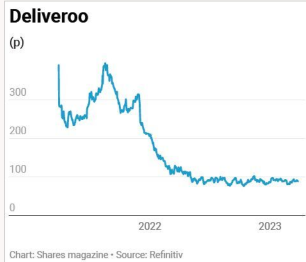
Encouragingly, the trading momentum has continued into the second half of its financial year (running to the end of July) with like-for-like sales up 9% on 2019 levels in the first seven weeks and up 15% on the corresponding period in 2022.

Moving HIGHER

Longer term Wetherspoons will hope to gain market share as less-durable rivals fall by the wayside. [TS]

Deliveroo stuck in the mud despite efficiency push

Shares in the takeaway platform have been going nowhere for the past year



At 86.96p, **Deliveroo's (ROO)** share price is 78% below the level at which it joined the stock market in 2021. Competition has been fierce and the company is still not making a profit.

The boom in ordering food online seen during the pandemic has started to fade away thanks to the cost-of-living crisis.

DOWN in the dumps

Deliveroo realises it needs to do something and is now prioritising cost and operational efficiencies over the previous land grab just to increase its market share.

Normally this would be music to the ears of investors as it could accelerate the path to sustained profitability. However, the share price just won't break out of its current depressed trend.

The only way Deliveroo is going to win over the market is to start generating positive cash flow and sustained profit growth. That could be helped by ramping up its advertising from fast moving consumer goods companies which could become an important source of revenue in time. [SG]

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1. Alliance Trust conducted a survey via Opinium Research, January 2022.
2. The Profit from Patience Report, Alliance Trust, September 2022 alliancetrust.co.uk/patience

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UK UPDATES OVER THE NEXT 7 DAYS

HALF-YEAR RESULTS
31 March: James Halstead

FULL-YEAR RESULTS
31 March: MP Evans, Dignity, Computacenter
3 April: Elixirr International, Saga, Accesso Technology
4 April: Hilton Food, EnQuest, Lookers

TRADING UPDATES
31 March: Pennon
3 April: Tracsis
4 April: Anexo
5 April: RS Group
6 April: Robert Walters

Saga investors have to hope earnings are on course

The share price has been unusually volatile since the interim results

Rather like its cruise-ship customers, shareholders in over-50s financial services and leisure group **Saga (SAGA)** will be hoping everything is plain sailing when the firm reports full year earnings on 4 April.

The last six months have been anything but quiet, with the shares touching all-time lows of 72p after the firm's half-year earnings update disappointed in September, sending the stock price plunging.

That was followed by a breakneck rally to 188p as investors chased 'value' stocks, and another reversal this month to 128p as financial shares hit the rocks.

The firm has already cut its pre-tax earnings guidance to between £20 million and £30 million, so at the six-month stage the focus will be on claims frequency and cost inflation in the insurance business. [IC]

All eyes on the impact of the windfall tax on Enquest's earnings

Versatile retailer is winning market share as high street and online pure-play competitors struggle

When **Enquest's (ENQ)** North Sea oil and gas peer **Harbour Energy (HBR)** reported its 2022 results the energy profits levy nearly wiped out its entire pre-tax earnings.

This was essentially an accounting decision, with Harbour still generating $2.1 billion worth of cash flow, but it will be interesting to see if Enquest follows suit with its own full-year results (5 April) as operators look to pressure the UK Government to ease up on the sector. [TS]

EUROPEAN UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS
5 April: Sodexo

Can drinkers continue to swallow price rises from Constellation Brands?

The alcoholic drinks producer is having to raise beer prices to offset inflationary pressures

American beer, wine and spirits producer **Constellation Brands (STZ:NYSE)** serves up results for the full year and fourth quarter ended 28 February on 6 April and investors will be thirsty for updates on beer market share gains and the supply chain cost pressures facing the drinks group.

Shares in the company behind Corona beer, Casa Noble tequila and wine brand Meiomi fell in early January on the news higher raw material, packing and logistics costs had offset beer sales growth in the third quarter to 30 November, driven by its Modelo Especial and Modelo Chelada brands.

The Bill Newlands-led company behind Svedka vodka also warned it planned to continue raising beer product prices to offset higher supply chain costs. [JC]

Levi Strauss needs to avoid too much discounting

Margins in focus as denim brand cuts prices to clear inventory

Iconic denim brand **Levi Strauss (LEVI:NYSE)** posts first quarter earnings on 6 April. The company saw some momentum in the final three months of 2022 – with earnings per share of $0.34 ahead of the forecast $0.29.

However, discounting is eating into margins, with the company looking to clear a backlog of inventory. If discounting goes too far it could undermine the integrity of the brand and affect the company's ability to pass on higher costs in the future. [TS]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

3 April: Yum! Brands, Targa Resources, Science Applications
4 April: Freedom, MSC Industrial Direct, Acuity Brands
5 April: Simply Good Foods, Novagold
6 April: Constellation Brands, Levi Strauss

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How to invest in quality financial stocks without taking big risks

Companies like Alpha have strong long-term growth prospects

ALPHA (ALPH:AIM)
BUY
Price: £18.99
Market cap: £805 million

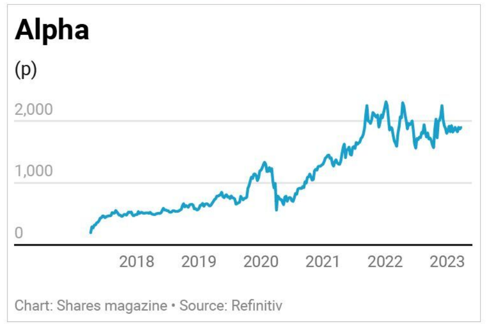


Chart: Shares magazine • Source: Refinitiv

As the penny finally drops with investors that banks aren't quite the one-way-bet they thought they were when borrowing rates started to rise, interest is growing in non-bank financial stocks.

Fortunately, the UK market is blessed with a number of established, well-run, well-capitalised and profitable fintech firms like foreign exchange and banking services provider **Alpha (ALPH:AIM)**.

It has two businesses, risk management and alternative banking solutions, with two completely different customer bases.

In risk management, Alpha provides strategies and technology to corporate and institutional customers who need to buy and sell currency for commercial purposes, such as buying or selling goods or services overseas, or from the underlying value of an asset or liability.

These customers are regularly affected by swings in exchange rates, which can create material risk but can also provide opportunities for profit if managed properly.

In 2022, Alpha's risk management revenues increased 22% to almost £70 million, but the firm estimates the global opportunity could be as much as $170 billion meaning it is barely scratching the surface.

The alternative banking solutions business serves alternative investment managers and the corporate service providers and fund administrators who support them and is much more complex.

Investment managers typically need local accounts in key investment jurisdictions for their private equity, private debt, venture capital, infrastructure and real estate funds, for example.

In addition, the firm is seeing growing interest from the fund administrators and service administrators who look after these assets and need Alpha to open and manage accounts, send payments and deal in foreign currencies, with accounts ranging from 2,000 to 30,000 entities, each of which needs its own local account.

In 2022, revenues from this business grew 41% to £28.8 million but again the firm has an absolutely enormous opportunity in front of it.

Alpha isn't waiting for business to come to it – it has brought forward investment plans to accelerate growth from this year.

> "Alpha isn't waiting for business to come to it – it has brought forward investment plans to accelerate growth from this year"

Trading since the start of this year has been positive with the added bonus of accrued interest on client balances thanks to higher interest rates compared to last year.

The firm's operations have been unaffected by the banking turmoil as Alpha safeguards 100% of its clients' cash in segregated accounts with four global counterparties – **Barclays (BARC)**, **Citigroup (C:NYSE)**, **Goldman Sachs (GS:NYSE)** and **Lloyds (LLOY)**.

And while no-one is celebrating Silicon Valley Bank's misfortune, Alpha could stand to benefit if clients of the former look for a new provider. [IC]

Why unloved auto dealer Pendragon could appeal to deep value seekers

The car retailer is showing resilience and the shares could bounce back as positive strategic progress continues

PENDRAGON
BUY (PDG)
Price: 16.2p
Market cap: £228 million

Risk-tolerant investors seeking a stock with potential to rally should look at **Pendragon (PDG)**, the unloved automotive retailer whose positive momentum has carried over into 2023.

While the business faces near-term economic headwinds, this downbeat outlook is more than priced in with Pendragon trading on a single digit multiple of forecast earnings. That is too low for a market leader that has recently drawn takeover interest, while Berenberg's 35p price target implies the share price could more than double over the next 12 months.

Pendragon sells new and used vehicles in the UK through brands including Evans Halshaw, Stratstone and Car Store, a digitally led used car sales and servicing business. A key point of differentiation from peers is Pinewood Technologies, the group's software division whose main product is a cloud-based comprehensive dealer management system which it sells to retailers across the globe.

Results for 2022 revealed 6.7% like-for-like revenue growth and a better-than-feared 31% drop in adjusted pre-tax profit to £57.6 million, delivered despite higher operating costs and a rising interest bill.

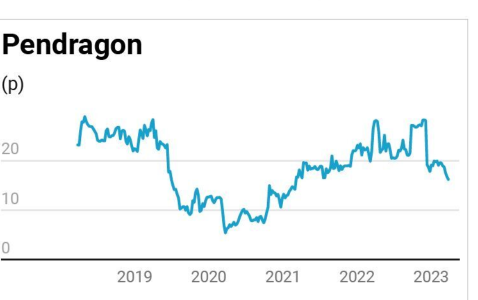


Chart: Shares magazine • Source: Refinitiv

Underlying earnings before interest and tax in the first two months of 2023 was ahead of 2022, while the important plate-change month of March also started with good momentum. It has a 2025 pre-tax profit target of £85 million to £90 million.

Pendragon's shares plunged in December after largest shareholder Hedin withdrew a takeover offer and more recently, activist investor Palliser has called for a shake-up of the company, although strategic progress continues apace with CEO Bill Berman behind the wheel.

The company will work with Chinese electric vehicle group **BYD (1211:HKG)** as a UK launch partner in 2023, the first new car maker with which Pendragon has worked in decades.

> **"Risks include competition in the UK car retail market and a possible automotive sector slowdown"**

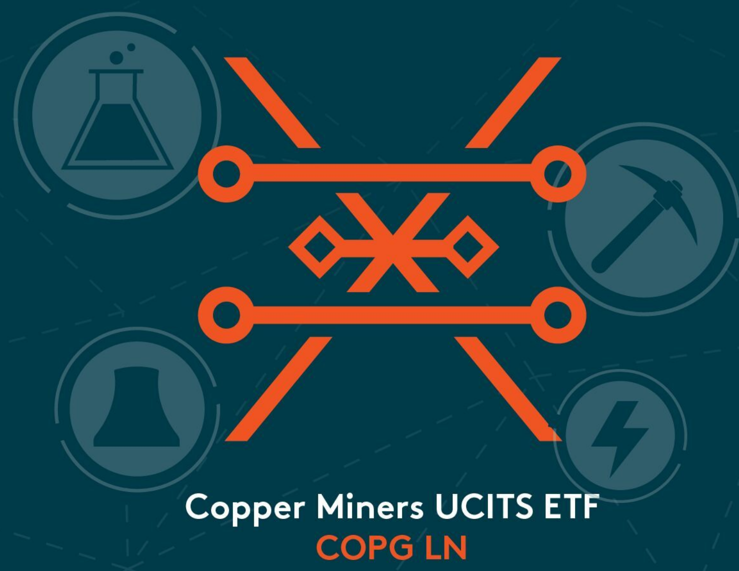
Investors need to understand the risks before buying the shares. They include competition in the UK car retail market and a possible automotive sector slowdown that would create significant operational challenges for Pendragon. There is also a court case involving a reseller of its Pinewood technology.

Pendragon has deep value appeal, trading on just 6.3 times Berenberg's 2.6p earnings per share estimate for 2023, falling to 5.2 times based on 2024's 3.1p forecast, while net debt continues to fall and stands at just £23.3 million excluding leases, for a leverage ratio of 0.1 times.

Given impressive debt reduction, Pendragon is reviewing its capital allocation priorities including the potential for a return of capital to shareholders through dividends or share buybacks. An investor day this summer could help the market better understand the opportunities within the Pinewood division. [JC]

Missing an Element in Your Portfolio?

Precious metals and rare earth minerals could be vital to many next-generation technologies, infrastructure and energy alternatives.



Copper Miners UCITS ETF
COPG LN

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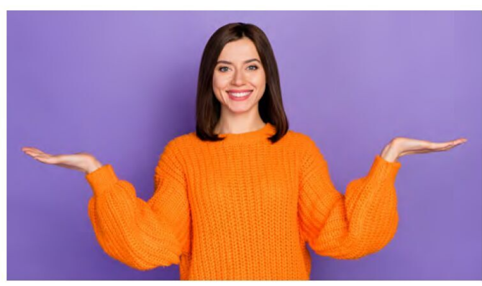
The return of energy switching gives a further boost to Moneysupermaket

It could lead to further earnings upgrades from analysts and another leg up for the share price



Moneysupermarket (MONY) 246p

Gain to Date: 41%

Website comparison company **Moneysupermarket (MONY)** received a potential boost this week after energy group OVO launched a 12-month fixed deal for customers, set 9% below the government's energy price cap. This effectively kick-starts the return of the energy switching market.

It follows a two-thirds decline in gas prices since the peak last summer and introduces the prospect of increased competition in the energy market and additional revenues for Moneysupermarket.

At the full-year results (16 February) management said it didn't expect switching in the energy market to make a return in 2023 so the latest development represents a positive surprise and should support the shares.

Consumer money saving expert Martin Lewis cautioned against jumping into fixed deals, without considering the chances prices will continue to fall. 'It's likely the price cap will drop, and on current predictions that means you'll start paying 20% lower rates than now,' Lewis told the *BBC*.

Shares in Moneysupermarket.com were trading at multi-year lows when we said to buy last May. Today they are trading at new 12-month highs driven by renewed interest from consumers looking for the best deals to cope with the cost-of-living crisis.

Chart: Shares magazine • Source: Refinitiv

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Double-digit food inflation and the rising cost of mortgages due to higher interest rates provides a fertile ground for consumers to remain active in price comparison.

Rising interest rates have resulted in more product choice for consumers to earn a decent return which is reflected in a 37% increase in revenues from Moneysupermarket's money channel over the year. Likewise, a continued recovery in travel saw channel revenues jump 265% year-on-year.

WHAT SHOULD INVESTORS DO NOW?

The potential return of energy switching provides a positive boost to the business which was already back to profitable growth in 2022.

Analysts currently forecast 6% growth in revenues to £411 million and 17% growth in earnings per share to 14.9p, according to Refinitv data.

With the shares trading on a 4.9% dividend yield and the prospect of earnings upgrades, we maintain a positive view. [MG]

History doesn't repeat but it often rhymes

This is the second in a short series of articles about the Scottish Oriental Smaller companies Trust plc, having briefly covered the history of the company we turn our attention to what investors can expect from an investment in the company's shares.

The investment objective of The Scottish Oriental Smaller Companies Trust plc is "*to achieve long-term capital growth by investing mainly in smaller Asian quoted companies*".

Behind this, admittedly rather dry, objective is a distinct and well defined investment philosophy and process which has evolved since the formation of our team in 1988.

A central aspect of our investment philosophy is the focus on risk management. Scottish Oriental's long-term returns are predicated upon preserving capital during downturns, not on chasing upside during periods of euphoria. As the calendar year returns below show, the Trust did not keep pace with the market's returns during the dot-com bubble in 1999, the years before the global financial crisis or the recent period before Covid-19. In each of these periods, we found market participants becoming fascinated with the shiny objects of the time – whether this was the technology companies in the late 1990s, highly leveraged real estate and infrastructure developers in 2007 or loss-making businesses touting an eventual "*path to profitability*" in recent years. The Portfolio Manager's Review at the global financial crisis in 2007 highlighted this challenge.

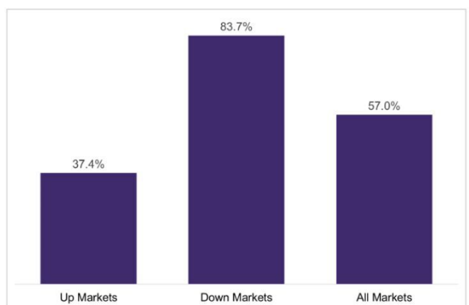
"In its pursuit of capital preservation as well as growth, the Trust's Board and its Investment Manager have always accepted that it is sometimes necessary to forego short term gains. In the past such an approach has led to long term outperformance of the benchmark and, more important, exceptional capital returns."

The following chart demonstrates than in the 27 years that the trust has existed it has only fallen further than the market over two calendar years. It is this combination of steady returns and capital preservation which has compounded to outperforming the market in the longer term.

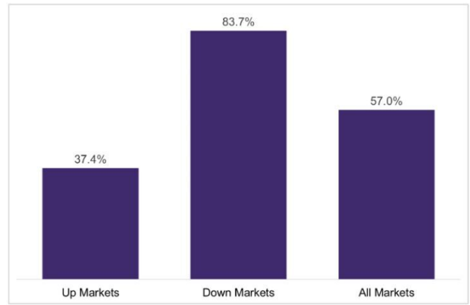
Data shown in GBP. Since inception calculated from 29 March 1995. These figures refer to the past. Past performance is not a reliable indicator of future results. The benchmark shown is the MSCI AC Asia (ex Japan) Index on an income reinvested gross of tax basis.
Sources: i) Trust Administrator for Trust performance; ii) Lipper for index performance

To borrow a quote from the economist JK Galbraith, it is sometime said that stock market forecasters only really exist to lend credibility to astrologers. Our belief is that we do not possess any particular ability to predict the future better than our peers. We are however keen students of history, and with over 30 years of experience of meeting company management teams. This experience helps us to understand how management might be expected to act under periods of operational stress, whether they are skilled at capital allocation and will act as prudent stewards of our clients' capital. A clear understanding of management teams' history of execution, particularly in the challenging conditions, often presented by emerging markets, gives us the confidence to back executives of our favourite companies to preserve capital when markets fall.

The portfolio's conservative positioning helped to preserve capital in the ine¬vitable downturns as well as the periods of recovery following them. Since inception, the Trust's performance exceeded that of the index in 78% of down market periods compared to 43% of up market periods. We have also observed a consistently similar result during the last five years. In the most recent financial year, Scottish Oriental's net asset value increased by 10% compared with a decline of 0.9% for the MSCI AC Asia ex Japan Small Cap Index, and a decline of 7.1% for the MSCI Asia ex Japan Index. These outcomes reflect the consistency in the Trust's investment philosophy and process over the years.



Data shown in GBP to 31 December 2022. These figures refer to the past. Past performance is not a reliable indicator of future results. Sources: First Sentier Investors. Months outperformance (gross TR) vs MSCI AC Asia ex Japan Index. Since inception calculated from 29 March 1995.


Periods of outperformance since inception
83.7%
57.0%
37.4%
Up Markets
Down Markets
All Markets

On the ground, our companies are witnessing strong demand as Asian economies emerge from the disruptive period of the last three years. Their strong pricing power allows them to protect their profitability through inflationary periods, whilst their weaker peers struggle. On this basis we hope that, ourportfolio companies, the market leaders in their respective categories, are likely to emerge with higher market shares in the coming years. The following table illustrates that the portfolio has become more concentrated among its highest conviction holdings in recent years. Its Return on Equity and earnings per share growth have also improved. Yet, its valuations are more attractive than they have been in recent years. We are excited about the prospects for the Company's portfolio.

As of December 31st	2017	2018	2019	2020	2021	2022
Weight of top 10 holdings %	27.5%	31.1%	30.8%	29.1%	34.2%	**39.3%**
Weight of top 20 holdings %	46.8%	51.7%	52.7%	50.2%	56.1%	**62.3%**
Median current year return on equity	15.1%	13.3%	17.0%	15.9%	16.5%	**15.2%**
Median 2-year forecast annualized earnings per share growth	10.6%	10.7%	8.6%	12.6%	18.5%	**14.7%**
Median forward price to earnings ratio	21.0x	16.4x	16.8x	21.3x	20.6x	**18.4x**

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than USD, the return may increase or decrease as a result of currency fluctuations.

Disclaimer

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How consumer health leader Haleon is moving on from Zantac troubles and debt headaches

The GSK spin-out owns popular brands such as Sensodyne and Advil

One of the FTSE 100's newest members, consumer health company **Haleon (HLN)** was spun out from drugs giant **GSK (GSK)** and listed on the London and New York stock exchanges in summer 2022.

The demerger, unusual in that it followed a failed £50 billion takeover bid from **Unilever (ULVR**) for what was then a GSK unit, created the first listed company 100% focused on consumer health and one with heavyweight backing in the form of shareholders GSK and **Pfizer (PFE:NYSE)**.

LITIGATION RISKS MAKE FOR DIFFICULT START

After a difficult start, in part thanks to concerns about its exposure to US litigation alleging links between the Zantac heartburn drug and cancer, Haleon has increasingly found its feet.

Having traded below 250p last autumn the shares are now much closer to their 330p starting point, supported first by the dismissal of thousands of cases by a Florida court in December 2022 and by news Haleon has now settled most Zantac-related personal injury claims pending against the company. Strong operational performance has also helped.

Haleon fans like the exposure to the resilient revenue streams and cash flows generated by a strong portfolio of products spanning headache tablet and toothpaste brands such as Panadol, Sensodyne and Advil. However, this stock market newcomer must prove to investors that price hikes to offset inflationary pressures won't lead hard-pressed shoppers to turn to cheaper unbranded products.

Brentford-based Haleon's maiden full year results (2 March) as a standalone entity were encouraging. The £30.4 billion cap delivered healthy 13.8% sales growth to £10.9 billion for the year to December 2022, although pre-tax profits fell 1.1% to £1.62 billion after a rise in finance costs for a company demerged with a significant debt load during an era of rising interest rates.

Haleon paid a full year dividend of 2.4p, which represented roughly 30% of adjusted earnings for the period post-demerger and forecast organic sales growth of 4% to 6% for 2023.

HOW DOES HALEON MAKE MONEY?

Guided by CEO Brian McNamara with respected former **Tesco (TSCO)** boss Dave Lewis in the chair, Haleon's stated purpose is 'to deliver better

everyday health with humanity' through a science-backed brand portfolio which confers pricing power on the business and supports high cash generation.

One of the globe's largest providers of specialist oral health through trusted products such as Sensodyne, Parodontax and Polident, which help to make peoples' mouths healthier, Haleon also makes respiratory products to help people breathe more easily, including cold and flu relief Theraflu and nasal decongestant tablet Contac. Its pain relief products include Panadol, Voltaren and Advil and the company also makes vitamins, minerals and supplements such as Centrum and Emergen-C and brands including nicotine replacement therapy Nicorette, heartburn treatment TUMS and ChapStick, America's favourite lip balm.

Prospective investors are buying into a major player in the £160 billion-plus global consumer healthcare market, one of the fastest growing and resilient segments of the wider consumer staples sector. Haleon looks well-placed to capitalise on a growing global focus on health and wellness coming out of the pandemic as well as the ageing global population, the burgeoning emerging markets middle classes and sizeable unmet consumer needs as public health authorities face increasing pressures.

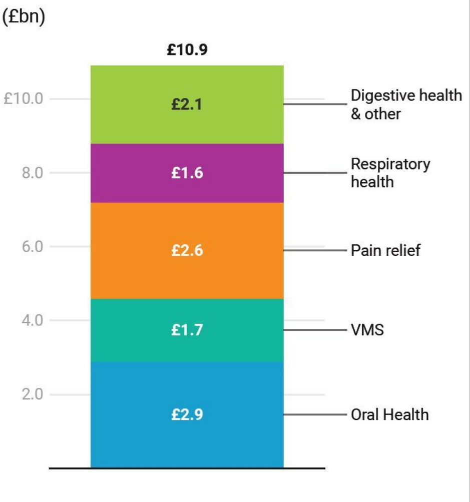

Chart: Shares magazine • Source: Haleon annual report 2022

LONG TRAJECTORY OF GROWTH AHEAD

Haleon has an opportunity for further growth by tapping into trends including premiumisation, where consumers switch to premium alternatives, as well as increasing consumer interest in personalised products and emerging technologies that allow consumers to manage their own health more directly.

And while the US is the largest consumer healthcare market, making up roughly 27% of the total, emerging markets (notably China and India) present attractive opportunities for the company to sell more of its products to billions of consumers.

Haleon is a holding in the James de Uphaugh-managed **Edinburgh Investment Trust (EDIN)**, and as de Uphaugh recently wrote: 'The international markets that many such firms now operate and trade in, in particular "emerging markets" such as India, offer significant potential for growth.'

He added: 'Haleon's brands have science-based claims that are endorsed by health practitioners and backed up by consistent marketing. Its geographic footprint is properly global with strong incumbent positions in the likes of Europe and America but also in India where per capita consumption is a mere pinprick compared to the US. There is a long trajectory of growth ahead.'

Admittedly, Haleon operates in an ultra-competitive market where muscular rivals include **Johnson & Johnson (JNJ:NYSE)**, the healthcare juggernaut planning to spin out its own consumer arm, known for the Tylenol, Listerine and Band-Aid brands, as a new company called Kenvue towards the end of 2023. Haleon also competes with companies such as **Reckitt (RKT)**, **Procter & Gamble (PG:NYSE)**, **Sanofi (EPA:SAN)** and even **Nestle (NESN:SWX)**, as well as numerous private label players.

But the market is also fragmented and ripe for consolidation by companies such as Haleon with differentiated brands, while management sees significant opportunities to drive greater growth across its product categories by reaching more consumers and fulfilling their unmet needs.

HOW IS HALEON TRADING?

Haleon delivered forecast-beating organic growth

of 9% for 2022, up from 3.8% in 2021 and balanced between price increases of 4.3% and robust volume growth of 4.7%, with sales of Panadol, Advil and Theraflu boosted by a prolonged cold and flu season.

Sales surged 40% higher in respiratory health, Haleon's only category typically driven by seasonal demand, which has been impacted by Covid, but the company also delivered double-digit sales growth in its vitamins, minerals and supplements and pain relief businesses.

As finance director Tobias Hestler, who has identified more than £300 million of cost savings over the next three years, pointed out in the annual report, Haleon is 'structurally advantaged given that commodity and commodity-related costs make up less than 10% of revenue, meaning that we can be thoughtful about how we price our products. Given inflationary pressures, we took increasing incremental pricing over the course of the year and were able to deliver volume growth and market share gains.'

As for CEO Brain McNamara, he said Haleon's 'strong free cash flow generation of £1.6 billion enabled us to de-lever and provides us with increased confidence in reducing debt faster than originally expected.' Post-demerger, Haleon had net debt of £10.7 billion representing a net debt to adjusted EBITDA ratio of around 4-times, but it finished 2022 with reduced leverage of 3.6-times and expects less than 3-times in 2024.

IS HALEON GOOD VALUE?

Consensus calls for 2023 earnings per share of 18.4p and a 5.8p dividend, rising to 19.9p and 6.6p respectively in 2024.

Based on these estimates, Haleon trades on a price to earnings ratio of 17.9 for this year, falling to a multiple of 16.5 next year's earnings. This is a higher rating than that commanded by Sanofi and Johnson & Johnson, which trade on 11.1 and 14.4 times forward earnings respectively, it is broadly in line with Reckitt and represents a discount to both Nestle and P&G on 21.6 and 24.7 times forward earnings respectively.

Given Haleon's enviably strong brand portfolio and attractive end markets, the shares have healthy appeal, particularly as the company's strong cash flows are enabling it to pay down debt more rapidly than expected.

Global consumer health (retail value share) - 2021

Company	Share
Haleon	6%
Johnson & Johnson	4%
Bayer	3%
Sanofi	3%
Reckitt	2%
Procter & Gamble	2%
Amway	2%
Nestle	1%
By-health	1%
Herbalife	1%
Private label	6%
Others	69%

Table: Shares magazine • Source: Haleon annual report 2022

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

BING! BING! BONG!

That's the sweet sound of taking control of your investments with AJ Bell.

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Feel good, investing.

Capital at risk.

Greggs classified as a retailer? It's in the wrong sector and this needs to change

This is a quick service restaurant through and through

Have you ever come across a company whose shares are classified as being in one sector, but in reality, should sit in a different one? It matters from a valuation perspective.

For years, catering group **Compass (CPG)** was in the travel and leisure sector, sitting alongside travel agents, airlines and gambling groups. This seemed bizarre as running a canteen in a hospital or school is more of a service operation, yet investors often compared its fortunes to planes and pub operators which sat in the travel and leisure sector.

As part of their analysis, investors would compare Compass' price to earnings ratio with its sector even though it stuck out like a sore thumb and was not an apples for apples comparison. Compass has subsequently been reclassified to the more appropriate consumer services sector where it sits alone in the FTSE 350 index.

Liberum analysts believe **Greggs (GRG)** should be the next company to move sectors. They argue it should be classified as a quick service restaurant rather than a food retailer, in reflection of how the business has changed over the years.

Analysts will often suggest a different sector classification as a means by which to justify a higher valuation. A cynic might say that some research notes are overly bullish because the author wants to make the company look good and win its business as corporate broker. If the current rating looks rich compared to peers, make a good argument for why it should move to a sector where higher valuations are the norm.

In Liberum's case, I see a valid reason why it is saying Greggs should be reclassified. Just think about the definition of a retailer – it's a business that sells products off a shelf in a shop or online via a website.

Greggs started out by selling loaves of bread from its bakery counter. Today, it serves fast food cuisine with the option of eat-in or takeaway. That helps differentiate Greggs from a convenience store or supermarket where you might buy a loaf of bread and a pint of milk as ingredients for preparing meals or drinks at home.

Admittedly, Greggs looks expensive compared to most other retailers, trading on 21.4 times forward earnings versus a 14-times average. Quick service restaurants command a higher valuation, with a median 17.5-times for the European constituents and 26.8-times for those listed in the US. The median valuation for owners of Domino's Pizza master franchises is 24.2 times 2023 forecast earnings.

Within this peer group, Greggs' 2023 price to earnings ratio is on a par with **Wendy's (WEN:NASDAQ)** and **Restaurant Brands International (QSR:NYSE)** which owns Burger King, Tim Hortons, Popeyes and Firehouse Subs. These rival companies have considerably greater scale in terms of restaurant numbers and brands that are known in multiple countries. However, Greggs offers the prospect of positive earnings growth in 2022, whereas the other two companies are forecast to see a decline. That's certainly a reason for investors to take a deeper look.

Starting the debate about how Greggs stacks up against quick service restaurant peers is an important one, and long overdue. It could be the catalyst to get a lot of investors to give Greggs another look and see it in a new light.

ADVERTISING PROMOTION

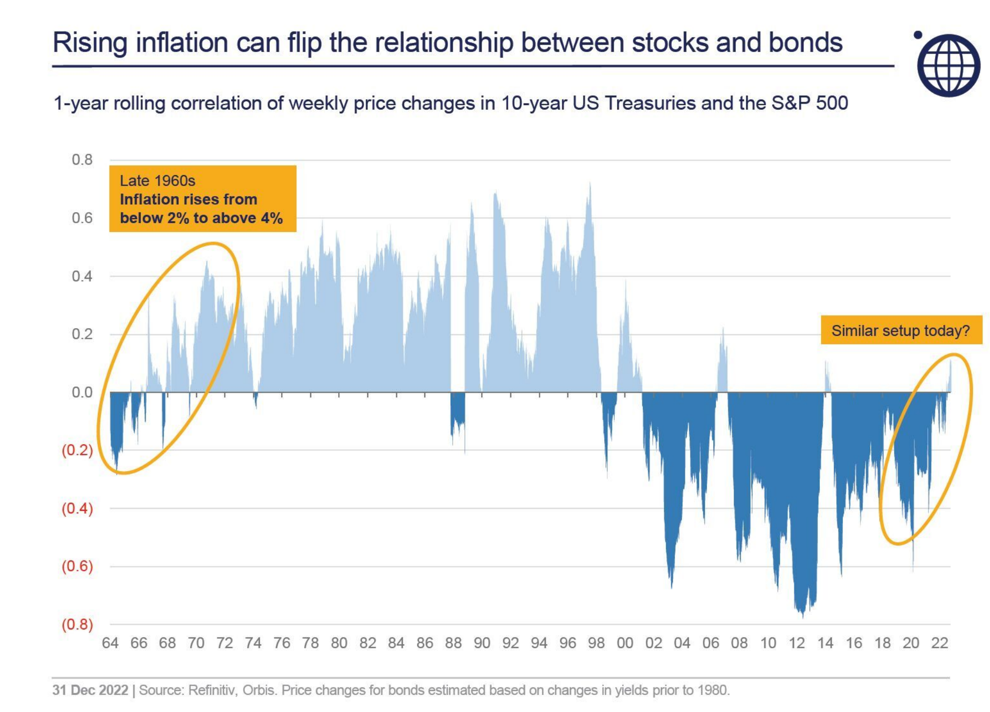
Orbis
Invest Differently

Diversification: time to take a different approach

Last year was rough for investors, especially those who realised their portfolios were not as diversified as they thought. Spreading your risk sounds simple but can be tricky – here we explain why taking a different view can help you better position your portfolio for an uncertain environment.

In 2022 many investors were hit by a double whammy of both equities and bonds suffering similar levels of decline at the same time. The perceived wisdom is that this is not supposed to happen—bonds and equities are meant to be uncorrelated, so that when one struggles the other is doing well.

The reality is that bonds and equities fall at the same time more often than you might think. In fact, if you look over history the period where equities and bonds were completely uncorrelated is more of an anomaly, particularly in periods of rising inflation. This means the traditional diversification strategy of 60:40—where you hold 60% in equities and 40% in bonds—is not the silver bullet some may still think it is.



DIVERSIFICATION MATTERS...

Now this doesn't mean you should rip up your investment approach and do something completely different. But it would be foolhardy not to try and learn from recent experience and be more open-minded in your view of what diversification means. It's not just about different asset classes, although that obviously helps, it's also about broadening your horizons for different styles, different regions and even combining active and passive strategies.

For many, the active versus passive debate can be divisive—you're either one or the other. But both approaches have their strengths and weaknesses, which suggests that perhaps the answer is to create a blended approach.

For example, 2018-2021 was a tough period for value-oriented managers, but 2022 showed the ugly side of a purely passive portfolio. Everyone agrees that timing markets is a fools' errand. **But what if you leave a passive 'core' in place and supplement it with a valuation-focused active manager?** This can help offset the Achilles heel of a purely passive approach—being fully exposed to the whole market as it becomes over-priced.

You can add as many managers as you like to your portfolio, active or passive, value or growth or something more contrarian. But—and here's the important point—it's no use 'diversifying' across 10, 20 or 30 managers if they are all doing the same thing, with the same focus and holding the same stocks in their portfolios.

The key is to choose managers that have a compass that they stick to—staying true to their investment philosophy and process no matter what the market cycle throws at them. It may be painful at times, but you'll know what you're getting over the long-term, and each one can act as a diversifier for your overall portfolio because they're each doing something different.

...BUT SO DOES VALUATION

In the latest "Everything Bubble" growth stocks have been the 'darling' of markets, helped along by the money being pumped into the system by central banks in the wake of the global financial crisis and the Covid-19 pandemic.

But now it appears that bubble is starting to burst, and more people are beginning to recognise what we've been saying all along—valuations matter.

We've recently been highlighting that focusing on the broad market cycle misses something crucial—the cycle in valuation gaps, which can have just as big an impact on investor returns. Not all assets go up by the same amount during a bubble, and the same is true when that bubble bursts. This can lead to different experiences depending on what type of investment you're in—the market 'darlings', or the unloved 'boring' businesses.

From a diversification point of view, this means it can be beneficial to build a portfolio from the bottom-up, focusing on fundamentals, rather than starting from a high-level top-down macro viewpoint. At Orbis, asset classes such as equities, bonds, commodities, and hedged equity all compete equally for space in our portfolios.

By applying a focused valuation lens and adopting a bottom-up approach we aim to select investments across asset classes to find those that will combine to offer the most attractive balance of risk and reward. By doing this, we end up with a portfolio that can be very different to the benchmark both on the equity and the bond side.

As contrarian investors we recognise that not everyone has the courage to stand above the parapet and potentially look foolish in the short-term, even when they know the long-term thinking suggests that they should. But as a diversification tool, it can be incredibly powerful to have alternate viewpoints in a portfolio.

While it is something of a cliché, the old adage "don't put all your eggs in one basket" does still hold true when it comes to investing. You just need to make sure that when you're constructing your portfolio those baskets truly are different, and robust enough to deliver a good balance of investment approaches that can weather any environment.

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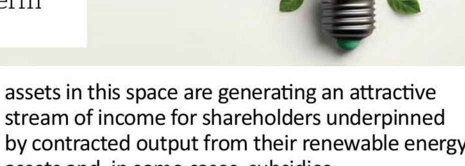
Past performance is not a reliable indicator of future results. When investing your capital is at risk.

A big opportunity to buy renewable energy trusts at an attractive discount

We explore the sector, its short and long-term prospects and its attractive yields



Despite recent record power prices, renewable energy-focused investment trusts are now largely trading at material discounts to net asset value. That's created some good buying opportunities in this space, particularly as many of the trusts have historically traded at a premium.

Over the long term there is a clear catalyst for growth in renewable energy given global governments have set ambitious targets for reducing their carbon emissions and for improving energy security by building out domestic supply.

While investors wait for this long-term opportunity to play out, investment trusts with assets in this space are generating an attractive stream of income for shareholders underpinned by contracted output from their renewable energy assets and, in some cases, subsidies.

Not only do renewables trusts offer attractive yields, but dividends are also growing with most trusts' income having at least some linkage to inflation. A recent addition to our *Great Ideas* portfolio, **Greencoat UK Wind (UKW)** has paid an RPI-linked dividend since its inception in 2013 and has confirmed a target to increase dividends by 13.4% in 2023.

Electricity is typically sold under short, medium and long-term contracts and while power prices have already moderated from the elevated levels prompted by Russia's invasion of Ukraine in 2022, David Bird from **Octopus Renewables Infrastructure Trust (ORIT)** believes 'power prices will be high versus the old normal for most of the rest of the decade'.

Beyond this, one risk for investors to consider is that a big expansion in renewables could, over the long run, lead to significantly lower power prices and affect returns.

Renewables trusts trading at a discount

Trust	Discount to NAV	Historic yield
Octopus Renewables Infrastructure	−14.5%	6.2%
NextEnergy Solar	−13.7%	7.2%
Foresight Solar	−13.0%	6.9%
Renewables Infrastructure Group	−6.0%	5.7%
Greencoat UK Wind	−5.4%	5.6%
JLEN Environmental Assets	−3.7%	6.0%
Bluefield Solar Income	−2.6%	6.1%
Greencoat Renewables	−2.4%	5.9%

Table: Shares magazine • Source: AIC. Data on NAV discount and yield to 22 March 2023

MAKING A POSITIVE IMPACT

For anyone who is prioritising doing good with their money, the trusts with a significant emphasis on developing and constructing their own renewables assets are making a genuine environmental impact by bringing on capacity to replace more polluting sources of energy.

While development risks are a factor for investors to consider, they also offer the scope for more significant returns and help trusts mitigate competition for the purchase of operational assets.

This needs to be balanced with the need to sustain dividends. Octopus Renewables' Chris

Graydon explains: 'We don't technically have policy limit (on developments) but in reality, there is a 30% limit on a gross value basis if we're at that level to still be able to pay out a well-covered dividend.'

Numis recently summarised the sector's appeal: 'While regulatory interference and real asset repricing is a headwind, we believe the investment case remains intact with some high-quality businesses paying attractive yields.'

WHY HIGHER DISCOUNT RATES HURT THE SECTOR

There are two reasons why these attractions are not reflected in current valuations. One is the regulatory risk and concern about windfall taxes and the other is an increase in discount rates used to calculate the present value of future cash flows.

The sector has already been hit by the EGL (Electricity Generator Levy) of 45% on the extraordinary revenue of low carbon electricity generators, effective from 1 January 2023 to 31 March 2028. It will apply above a benchmark price of £75 per MWh (megawatt hour). Prices topped out just above £620 in September 2022 and are currently around the £100 mark.

Rising interest rates have led to higher discount rates on long duration assets like renewable energy infrastructure. Two key elements make up the discount rate – the risk-free rate which is typically taken as the yield on government bonds and the risk premium which reflects the risk associated with investing your money. The risk-free rate has moved materially higher.

We take the view that higher discount rates have now largely been factored into the valuations and assumptions of renewables trusts.

WHAT ARE THE REGULATORY RISKS?

On the regulatory front, the push by the US and Europe to attract investment in renewables should, in theory, lead the UK to follow suit. In the US the Inflation Reduction Act, signed into law in August 2022, is expected by consultant Wood Mackenzie to increase annual investment in renewables from $64 billion in 2022 to $114 billion by 2031.

Allianz observes that in Europe the short-term reaction to the US IRA – entitled the 'Green Deal Industrial Plan' by the EU Commission – builds predominantly on allowing more national support, including tax benefits, by relaxing state aid rules further.

Yet for those investment trusts with most of their assets in the UK, the recent Budget offered precious little encouragement – with the focus on carbon capture and nuclear which has been designated as 'environmentally sustainable' in green taxonomy to give it the same access to investment incentives as renewable energy.

Foresight Solar's (FSFL) Ross Driver told *Shares*

Renewables trusts - diversification by geography and technology

Trust	UK exposure by capacity	Area(s) of focus
Bluefield Solar Income	88%	Solar, wind, battery
Foresight Solar	73%	Solar, battery
Greencoat Renewables	0%	Wind
Greencoat UK Wind	100%	Wind
JLEN Environmental Assets	95%	Wind, solar, hydro, biomass and more
NextEnergy Solar	85%	Solar, battery
Octopus Renewables Infrastructure	37%	Wind, solar, battery
Renewables Infrastructure Group	56%	Wind, solar, battery

Table: Shares magazine • Source: Trust reports

chancellor Jeremy Hunt missed a bit of a trick by neglecting the renewables space and made an unfavourable comparison between the investment allowances afforded oil and gas companies and what is on offer for owners of renewables assets.

DIVERSIFIED OR SPECIALIST?

Many renewable energy trusts are already diversifying across different geographies to mitigate the risk. Foresight Solar has a pipeline of assets in Spain which, if fully developed, would represent 37% of its total capacity.

Some trusts have limited or no exposure to the UK; **Greencoat Renewables' (GRP)** assets are exclusively in Europe, for example.

Bluefield Solar's (BSIF) James Armstrong tells *Shares* this is a 'real challenge for the UK', adding that 'money is fungible' and could easily move to more attractive jurisdictions if the UK fails to keep up.

As well as being diversified by geography, trusts are increasingly diversified by technology too. The renewables trust universe is a mix of generalist and specialist funds but even those which previously focused on one area are branching out. For example, Bluefield Solar moved into wind in 2021 and several trusts have started investing in battery assets.

Some battery assets are 'co-located' meaning they are on site at a wind or solar farm but most are just connected to the wider electricity network to support **National Grid (NG.)** in balancing supply and demand.

Foresight Solar may have moved into what Ross Driver terms the 'complementary' battery space but for now he says the trust is steering clear of wind assets. 'The beauty of solar is it's very reliable technology,' Driver explains. 'You may not always get super strong days of sun but it will still be working and delivering. Day tends to follow night. Whereas you can have prolonged periods of low wind.'

Because wind assets are less predictable and have greater complexity than solar, investors typically require a higher level of return in exchange.

By **Tom Sieber** Deputy Editor

TWO TRUSTS TO BUY AT BIG DISCOUNTS

Octopus Renewables Infrastructure Trust (ORIT) 93.5p

Discount to NAV: 14.5%

Yield: 6.2%

Ongoing charges: 1.15%

This trust offers diversification both in terms of technology and geography with a mix of wind, solar and battery assets.

It trades at a significant discount to net asset value and recently committed to increasing dividends in line with CPI for a second consecutive year. The trust has a large team of asset managers from its parent group and its links with the retail-facing Octopus Energy are beneficial as the latter is, according to David Bird, 'a hugely influential voice in the sector with an inside track on government and opposition policy'.

Foresight Solar (FSFL) 110p

Discount to NAV: 13%

Yield: 6.9%

Ongoing charges: 1.14%

Foresight Solar has 61 solar projects and battery storage assets with a total capacity of 1,095 MW. Jefferies notes that Foresight Solar 'has reiterated strong guidance on dividend cover over the next few years, even net of the EGL'. 'This strength on the income side could also be matched with capital growth opportunities given the potential for development pipeline acquisitions,' it adds.

The trust recently secured access to a pipeline of six development-stage assets in Spain with a total potential capacity of 467 MW.

The discount to net asset value could make financing these development assets a challenge but manager Ross Driver notes the initial outlay is small, with a 'modest' down payment made to vendors at close and further consideration conditional on grid connection milestones.

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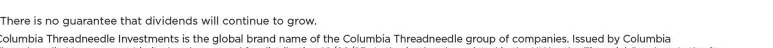

*There is no guarantee that dividends will continue to grow.

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THIS IS AN ADVERTISING PROMOTION

The Sleep at night portfolio

More than half the battle in investing is sticking to the course through good and bad times

Every sensible portfolio should ideally consist of a bedrock of investments which provide diversified access to steady growth, capital protection and income.

This is relevant not just during challenging periods but most of the time. Just as solid foundations are essential for a safe building, they are also needed for an investment portfolio alongside patience.

This article highlights five investment trusts which individually possess different attributes and approaches but collectively provide broad access to growth, protection and income.

Before we discuss each trust, it's worth considering two rules of investing often cited by highly respected investor Warren Buffett. First, don't lose money and second, don't forget rule number one.

Capital protection has an important role to play in a balanced portfolio and keeps investors in the game so they can prosper during the boom times.

Protecting capital through the hard times provides a significant head start during the upswings. For example, let's take two investors called John and Alice.

Stock markets go through a rough time and the value of John's portfolio falls by a third. He holds onto everything in the portfolio but now he needs the overall value to increase by 50% to get back to where he started before the stock market wobble.

Compare that with Alice whose portfolio only loses a tenth of its value during the same bear market thanks to her more defensive positioning. Alice needs her portfolio to gain only 11% to get back to the point before the bear market conditions happened.

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Capital at risk.

[1]There is no guarantee that dividends will continue to increase.
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CAPITAL GEARING TRUST (CGT) £47.23

Market cap: £1.2 billion

Dividend yield: 1%

Discount to net asset value: 2%

This trust has been managed by Peter Spiller since 1982 with co-managers Alastair Lang joining in 2011 and Chris Clothier joining in 2015.

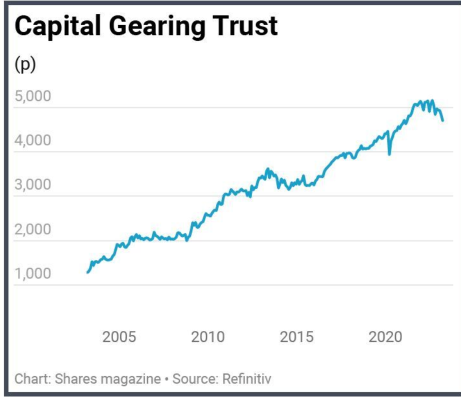
The trust holds a broad range of traditional assets and aims to preserve capital and to grow shareholders' real wealth over time. It has a good track record of preserving capital through bad times and has beaten inflation over the medium to longer term.

In 1982 the trust's share price was 21.25p which means anyone lucky enough or far sighted enough to have invested £10,000 back then would now be sitting on an investment today worth £2.3 million. This is equivalent to a compound annual growth rate of 15% a year.

The early years of the trust were characterised by high gearing which boosted returns and is the reason behind the name of the trust.

From the turn of the century the strategy has migrated towards a defensive approach with a focus on capital preservation and consistency of returns.

Since 2000 the maximum drawdown (peak to trough percentage drop) has been 9% compared with 41% for the MSCI UK index, demonstrating lower variability.



The trust does not use derivatives and it invests in liquid instruments across traditional equities, bonds, cash, property and gold.

The portfolio is currently defensively positioned with two thirds of assets in fixed income. Index linked government bonds are 44% of assets with another 10% on conventional government bonds.

Corporate bonds and preference shares (hybrid equity with limited voting rights that rank ahead of ordinary shareholders) represent 13% of assets. Funds and equities make up 30% of assets with cash at 2% and gold 1%.

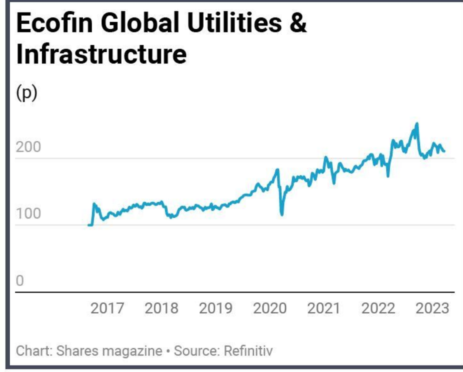
The trust has an ongoing charge of 0.9% a year, slightly lower than other capital preservation trusts.

ECOFIN GLOBAL UTILITIES AND INFRASTRUCTURE (EGL) 202.5p

Market Cap: £232 million

Dividend yield: 3.9%

Discount to net asset value: 1.8%



Keeping pace with inflation to protect the real value of wealth and savings is not easy in the current environment but one asset class which has historically done well during such times is infrastructure.

Ecofin Global Utilities and Infrastructure invests in utilities and infrastructure companies in developed markets and provides investors with access to a mix of regulated and growth-oriented opportunities.

The manager of the trust was founded in 1991 with the objective to deliver strong risk-adjusted returns as a specialist in global infrastructure and sustainability. The firm has $2 billion in assets under management.

Ecofin's investment trust aims to provide a high, secure dividend yield and to realise long-term capital growth while preserving capital. It has a yield of 3.9%.

Key characteristics of the portfolio include predictable cash flows based on long-term contracts, inflation protection and secure earnings.

Over the last five years the trust has delivered a share price total return of 138% and increased net asset value by 95.4%, outperforming the 41.8% return of the S&P Infrastructure index and the 58.1% return of the MSCI Utilities index.

Since inception in 2016 the shares have a compound annualised return of 15.5% a year while net asset value has increased by 10.8% a year.

Ecofin highlights research from Goldman Sachs which shows real assets have consistently outperformed in periods of elevated inflation over the past century.

The manager believes listed infrastructure trades at a deep discount to privately funded assets. A key catalyst to narrow the discount resides in the record levels of private equity money which is increasingly finding its way into public markets.

For example, in the past 18 months there have been three takeover bids for listed infrastructure assets in Australia: Sydney Airport, power networks owners Spark Infrastructure and energy services group AusNet.

Top holdings for the Ecofin trust include US infrastructure capital provider **NextEra Energy (NEE:NYSE)**, UK energy company **SSE (SEE)** and German energy company **RWE (RWE:XETRA)**. It has an ongoing charge of 1.35% a year.

F&C INVESTMENT TRUST (FCIT) 899p
Market Cap: £4.7 billion
Dividend yield: 1.5%
Discount to net asset value: 2.4%

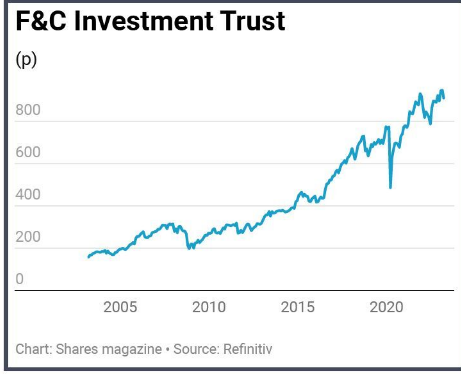
F&C Investment Trust (FCIT) is the oldest investment trust in the world, founded in 1868 at the same time helium was discovered.

The trust aims to generate long-term capital growth and income by investing primarily in listed global shares and funds. It also invests in well-managed, high-performing private equity funds. The portfolio is diversified across over 300 holdings.

F&C has an unbroken record of increasing the dividend for the last 52 years. The trust has been a bastion of stability in terms of stewardship with 11 managers over the last 150 years and only three since 1969.

It has outperformed the FTSE All-World total return index over the last three and five years, delivering growth in net asset value of 36.4% and 53.2% respectively, compared with 30.5% and 50.8% for the index.

The portfolio is defensively positioned following a rejig in early 2022 with a reduced exposure to US growth shares in favour of income and value investments. Gearing was also reduced to a conservative 3.6%.



On a look-through basis including private equity holdings the fund is weighted 55.5% to the US, 11.6% to Europe, 7.8% to emerging markets, 6.9% to Japan, 9.8% to the UK, 2.6% to developed Pacific, and 5.8% cash and equivalents.

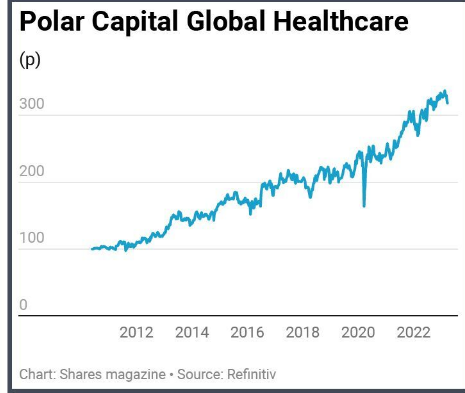
In terms of sectors, technology is the largest representing 19.6% of assets with financials at 16.2% and healthcare at 14.9%, collectively making up half of the portfolio.

Top individual share holdings include **Microsoft (MSFT:NASDAQ)**, **Apple (APPL:NASDAQ)**, **UnitedHealth (UNH:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and **Amazon (AMZN:NASDAQ)** which collectively represent 8.5% of assets.

The trust has an ongoing charge of 0.54% a year and a dividend yield of 1.5%.

POLAR CAPITAL GLOBAL HEALTHCARE TRUST (PCGH) 314p

Market cap: £381 million
Dividend yield: 0.7%
Discount to net asset value: 6.7%



Healthcare is another long-term secular growth theme with sustainable drivers. Historically, spending on healthcare has increased above the rate of inflation, demonstrating good pricing power and defensiveness.

Polar Capital Global Healthcare provides diversified access to healthcare themes. Over the last one, three and five years its shares have outperformed the Morningstar Equity Healthcare sector, delivering compound annualised returns of 16.6%, 16.3% and 12.2% respectively.

Although the portfolio is comprised of a single pool of investments, operationally the managers maintain a growth portfolio and an innovation portfolio.

Innovation companies are defined by the manager as smaller and mid-cap stocks driving disruptive change and transforming the management and delivery of healthcare. The innovation portfolio may consist of unquoted stocks, but exposure is limited to 5% of gross assets. Once an innovation company's market value moves north of $5 billion it sits under the growth portfolio segment.

The healthcare sector has seen a rotation towards large-cap names as the market shifted away from smaller companies and speculative parts of the market. Manager James Douglas believes large-cap names will continue to be beneficiaries in a stagflation environment.

The portfolio consists of 43 holdings dominated by larger companies such as **Johnson & Johnson (JNJ:NYSE)**, **Abbvie (ABBV:NASDAQ)**, **Eli Lilly (LLY:NASDAQ)** and **AstraZeneca (AZN)**. The trust has an ongoing charge of 0.92% a year.

SCOTTISH AMERICAN INVESTMENT TRUST (SAIN) 498p

Market Cap: £880 million

Dividend yield: 2.8%

Discount to net asset value: 3.4%

Income is important for many investors and in today's high inflation environment focusing on sustainable dividends which can grow at least in line with inflation is more important than ever.

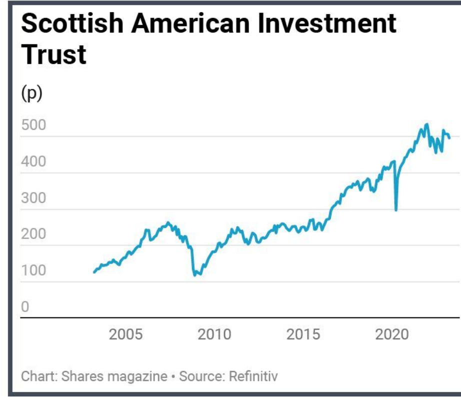
Scottish American Investment Trust (also known as 'SAINTS') was founded in 1873 to seek higher income outside the UK and has grown its dividend for the past 48 consecutive years. The last time the dividend was cut was 1938, before the Second World War.

Part of the Baillie Gifford stable of trusts, manager James Dow says the trust's aim is to 'provide our investors with peace of mind'.

The strategy is to focus on companies which are best positioned to deliver consistent and growing dividends rather than those with the highest yields.

The trust aims to be a core holding for investors looking for income and has an objective to grow the dividend at a faster rate than inflation over rolling five-year holding periods, which it has comfortably achieved.

Since 2014 the trust has grown its dividend by 2.9% ahead of UK consumer price inflation, more than maintaining investors' purchasing power. The current dividend yield is 2.8%.



The trust has grown its net asset value by 68% and 195% over the last five and 10 years respectively, comfortably outperforming the FTSE All-World index.

Top holdings include Danish diabetes specialist **Novo Nordisk (NVO:NYSE)**, US air conditioning, heating and refrigeration distributor **Watsco (WSO:NYSE)** and wholesale industrial and construction supplies distributor **Fastenal (FAST:NASDAQ)**.

Around 45% of assets are invested in the Americas, 36% in Greater Europe and 19% in Greater Asia. The trust has an ongoing charge of 0.59%.

By **Martin Gamble** Education Editor

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Which funds and investment trusts are most exposed to banks and financial stocks?

It isn't just the obvious ones which have a large exposure to the sector

With banks still very much the focus of the market's attention, should investors rethink not just their direct exposure to the sector through individual stocks but also their indirect exposure through funds and investment trusts with large weightings in the sector?

Shares has examined some of the funds and trusts with the largest reported exposure to financial firms as a proportion of total assets and asked if or how they have changed their investment allocation following the recent upheaval in the banking sector.

SETTING THE BACKGROUND

It's important to put the failure of firms like Signature and Silicon Valley Bank, and the bailout of Credit Suisse, in their proper context before we talk about banks in general.

Both US banks were specialist lenders, with Signature serving the cryptocurrency market and SVB providing capital to start-up companies and alternative banking services to the fund industry.

SVB fell prey to a series of missteps by management, most obviously the decision to invest heavily in long-duration, low-yielding US government bonds just ahead of a rate tightening cycle, but there were also serious questions over aspects of its corporate governance.

Concern has spread to US regional banks, as they make up the bulk of the loans to small- and medium-sized companies and to the property sector.

According to figures from Goldman Sachs, US banks with under $250 billion of assets are responsible for 50% of commercial and industrial lending in America, 60% of residential real estate lending and 80% of commercial real estate lending.

Concerns over Credit Suisse on the other hand seem mainly to revolve around the Swiss regulator's treatment of bondholders.

WHAT DO THE SPECIALISTS HAVE TO SAY?

Top of the list in terms of exposure to financial stocks are the specialist fund **Polar Capital Financial Opportunities (BCRYMF7)** and investment trust **Polar Capital Global Financials (PCFT)**, which invest across the sector globally.

Between them, managers George Barrow, John Yakas and Nick Brind have decades of experience in analysing financial stocks and take an active approach to running the fund and the trust.

In the case of the investment trust, as of 28 February 93% of assets were invested in large-cap stocks with a 41% weighting in the US market.

Top 10 stocks included blue-chip names such as **Bank of America (BAC:NYSE)**, **Berkshire Hathaway (BRK.B:NYSE)**, **HSBC (HSBA)**, **JPMorgan (JPM:NYSE)**, **Toronto Dominion (TD:TSE)** and **Wells Fargo (WFC:NYSE)**.

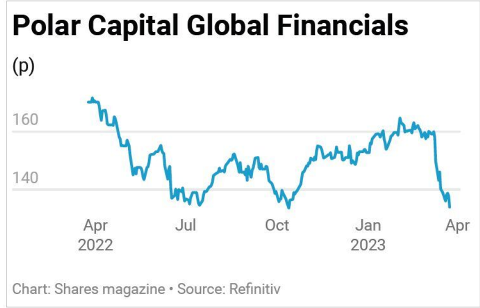


Chart: Shares magazine • Source: Refinitiv

Popular funds and trusts with the biggest exposure to financial stocks

Fund or Trust	Code	Exposure	Perf YTD
Polar Capital Global Financials	PCFT	93%	-14.1%
TwentyFour Select Monthly Income	BJVDZ94	45%	-2.5%
Shires Income	SHRS	40%	-7.7%
Lowland Investment Company	LWI	38%	0.8%
Abrdn Equity Income	AEI	34%	-9.8%
Vietnam Holding	VNH	34%	-0.4%
JPMorgan Indian	JII	34%	-0.5%
Henderson Far East Income	HFEL	34%	-6.0%
Fidelity Special Values	FSV	33%	-5.0%
Henderson High Income	HHI	31%	0.8%
FTSE 100 index		**18%**	**-0.9%**

Note: Exposure expressed a a % of total portfolio

Table: Shares magazine • Source: AIC, FE Analytics, Shares magazine, Holdings data: latest reported position as of 20 March 2023, Share price data taken 28 March 2023

Shares in the trust have understandably had a rough ride this month, dropping from 157.7p on 9 March to 136p on 20 March, but the managers have been quick to address market concerns.

In assessing the fallout in US banks, the Polar Capital team focused on the capital strength and balance sheet liquidity of holdings, what percentage of their assets are in US government bonds and mortgage-backed securities, and exposure to commercial lending.

As a result, holdings in small and mid-cap US banks have been reduced to almost nil in the fund and the trust, while fintech (financial technology) exposure is low at 14.5% in the fund and just 5.5% in the trust and is focused on mature, profitable businesses like **Mastercard (MA:NYSE)**, **Paypal (PYPL:NASDAQ)** and **Visa (V:NYSE)**.

'As with the banking sector, this crisis will reinforce the competitive position of the larger fintech players that are not reliant on external financing and will benefit from a flight to quality,' say the managers.

WHAT ABOUT BOND MANAGERS?

Monthly dividend-paying fund **TwentyFour Select Income (BJVDZ94)** has a diversified portfolio of less-liquid fixed-income investments including corporate bonds, asset-backed securities, bank capital (including AT1 securities) and leveraged loans, which earn it a premium in terms of returns.

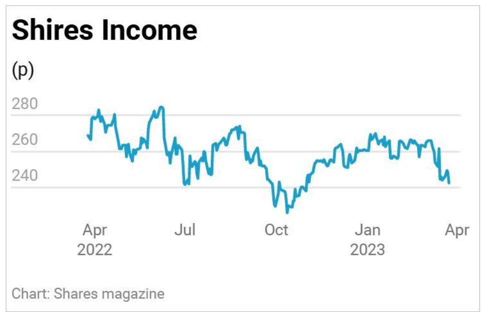
At the end of February, around 36% of its assets were in bank securities, 35% were in asset-backed securities, 12% were in insurance assets and 10% in European high-yield bonds.

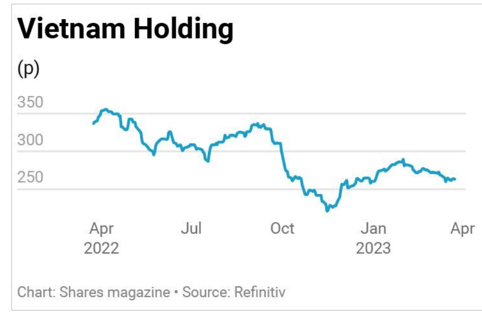
The fund doesn't own any AT1 bonds issued by Credit Suisse but AT1 bonds do make up 25% of its portfolio.

The managers argue 'the rationale for holding European and UK subordinated debt is sound', and that European regulators have been quick to distance themselves from FINMA, the Swiss bank regulator, confirming that bondholders will be put above equity holders in terms of seniority in the event of a default.

That may not be much comfort to some investors, but sub-investment grade debt (rated below BBB or Baa by the agencies) carries more risk than investment grade which is why it carries a higher interest rate.

Shires Income (SHRS), which is managed by Iain





Pyle of Abrdn, has a 40% weighting in financials through a mixture of holdings in stocks and bonds.

All the trust's fixed-income holdings are financial and include high-yield bonds issued by banks **Santander (SAN:BME)** and **Standard Chartered (STAN)** as well as insurers General Accident and RSA.

Like the other managers, Pyle sees limited risk of another Silicon Valley Bank or Credit Suisse scenario playing out in UK or European banks thanks to tighter liquidity regulation and stronger asset bases, although both events have implications for investors.

'(The failure of SVB) has already caused expectations for rate rises to decline and for equity risk premia to increase, while the bank sector has sold off materially. Carry trades across the asset spectrum are likely to come under pressure.

'The defensive positioning of the trust and investment in banks with strong capital positions provides good protection in this situation and we would be inclined to add on weakness, but without doubt there will be further consequences to come.'

WHAT ABOUT EMERGING MARKETS?

Interestingly, many emerging market-focused investment trusts tend to have a large exposure to financial stocks, including **Henderson Far East Income (HFEL)**, **JPMorgan Indian Investment Trust (JII)** and **Vietnam Holding (VNH)**.

Mike Kerley, manager of Henderson Far East Income, argues Asian economic growth will be a lot higher than the global average this year thanks to China's reopening combined with the government's domestic policy agenda.

Meanwhile, emerging market inflation risk and by extension interest rate risks are less acute than in the US or Europe which is supportive for financial stocks.

Finally, the dividend outlook for the region looks bright as earnings growth is set to accelerate compared with last year which will translate into higher levels of cash flow and distributions.

JPMorgan Indian has a 34% weighting in financials, with banks making up five of its top 10 holdings as of 28 February.

Hugh Gimber, JPMorgan's global market strategist, believes the most likely impact of the recent financial sector stress will be a slowdown in bank lending. 'We expect tighter credit conditions to drag on economic activity over time, therefore reducing inflationary pressures. The challenge for both investors and the central banks is that they don't yet know by how much bank lending will slow.'

Vietnam Holding also focuses purely on local companies, in particular those which benefit from increased consumption due to the country's rising per-capita income, the trend towards urbanisation and industrialisation.

It has a 34% weighting in financials, almost all of which is in banks, which given concerns around the future of several large property developers goes some way to explaining why the market and the trust have struggled this year.

Disclaimer: The author owns shares in Henderson Far East Income and TwentyFour Select Monthly Income

By **Ian Conway** Companies Editor

UK Equity Income investing traditions should be broken:

The VT Tyndall Real Income Fund takes a fresh approach to UK equity income investing

	Simon Murphy has managed the fund since 31/01/2020	Feb 2022 - Feb 2023	Feb 2021 - Feb 2022	Feb 2020 - Feb 2021	Feb 2019 - Feb 2020	Feb 2018 - Feb 2019
VT Tyndall Real Income A Acc	23.98%	12.36%	3.31%	20.33%	-6.36%	-0.49%
Quartile	1	1	4	1	4	3
IA UK Equity Income	13.36%	7.20%	13.27%	3.41%	-1.20%	-0.53%

Capital at risk –The value of investments can fall as well as rise and you may not get back the amount you invested. Past performance is not a reliable indicator of future results

Traditionally, UK equity income investors have flocked to a small group of the largest businesses that dominate the UK stock market.

Fund Manager Simon Murphy, who has managed the Fund since 31/01/2020, believes that there is a better way to build a great UK equity income portfolio by breaking with tradition and focusing on mid-sized companies offering greater diversity of capital growth potential and sources of income.

- **Discounted AMC of 0.35%***

This consistent and disciplined active management approach has worked well and we expect the **VT Tyndall Real Income Fund** to pay a record distribution this year. The Fund has significantly outperformed the IA UK Equity Income sector since Simon took over in January 2020.

Tradition has its place, but we believe investors can be better served by those who are willing to challenge it.

VISIT FUND PAGE

*The discounted Annual Management Charge (AMC) of 0.35% is available if you invest before the fund's assets reach £50m.

Source: FE Analytics, 31/01/2020 to 28/02/2023. Total Return, Bid-Bid, net income reinvested.

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Will the cost-of-living crisis hinder a travel sector comeback?

Prices are going up across the sector which could scupper travel plans for many

There have been no shortage of polls looking into Brits' travel intentions at a time the cost-of-living crisis is eating into budgets and forcing households to make really tricky decisions.

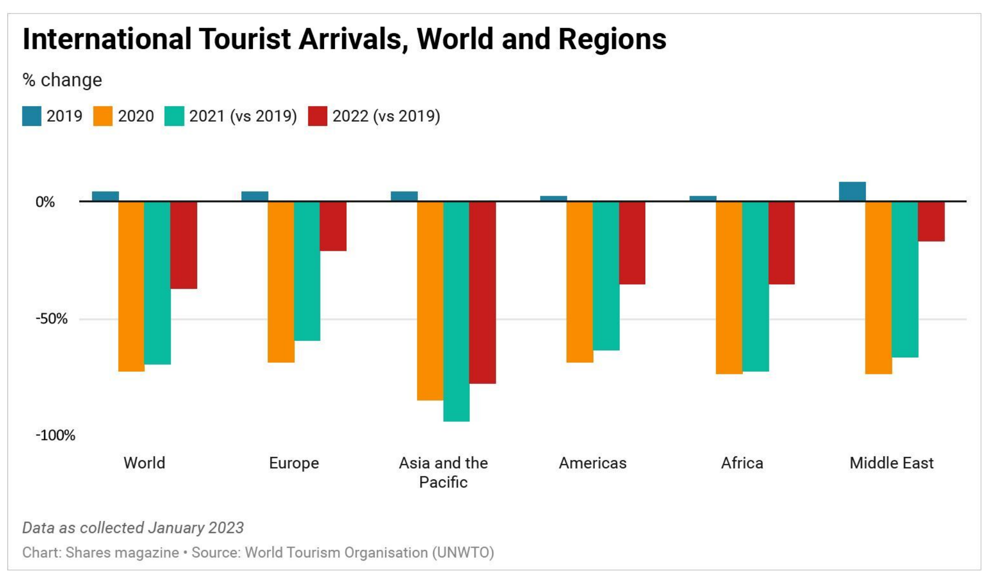
The consensus seems to be that bookings will hold up but spend will fall as people hunt out bargains.

A summer holiday is seen by many people in the UK as a necessity; a chance to recharge batteries, make memories and crucially provide an affordable and sunny bright spot amidst the humdrum of day-to-day life.

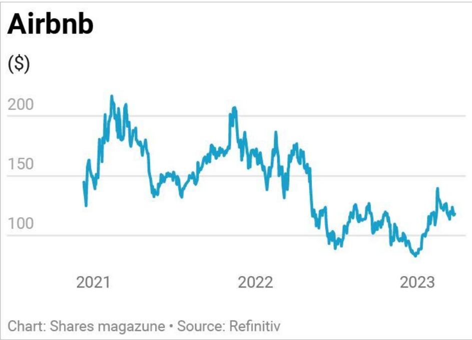
But with warnings from airlines and travel operators that prices are set to be higher this summer there are big questions about how that might impact travel trends. Which companies might end up the year's big winners and which might be disappointed with their post summer scorecard?

Post lockdown the landscape has changed, you cannot expect to close down a global industry and there not to be casualties. Capacity in some of the most popular tourist hotspots is likely to be under pressure and where there's demand there's inflation.

It is no surprise Europe is one of the areas that has seen travel rebound strongly though the Middle East, with its affordable winter sun, has recovered fastest according to figures from the UN's World Tourism Organisation.



In the wake of pandemic cancellations and post-lockdown uncertainty people flocked to the security of the protected package deal with **TUI (TUI)**, **Jet2 (JET2:AIM)** and **EasyJet (EZJ)** big beneficiaries. But will that still be the case this summer or will higher prices push people back into DIY breaks?



Airbnb (ABNB:NASDAQ) fell out of favour with investors in 2022 but the share price has rebounded strongly since the start of 2023 after the company lifted revenue guidance. Travel is returning to post-pandemic norms and that means it is not just about a beach and bar especially for holidaymakers wanting to get more bang for their buck.

With confidence growing that global restrictions are fading into memory, wanderlust is returning. Getting off the beaten track does not just mean impressive holiday photos it can also mean more space for families fed up with the limitations of sharing a single room.

What is interesting is how Airbnb has evolved over the years. It is not just the famous free sofa that kicked off the idea for the company's founder, hosts are becoming more professional, turning their side hustle into a serious business which is upping services but could also create price creep.

BEATING PRICE CREEP

Price creep is one of the reasons that all-inclusive breaks could deliver the biggest opportunity for operators this year. The initial spend is higher, but it does give holidaymakers the peace of mind that every ice cream cone and pool bar cocktail has already been covered by the bill.

Consumers are getting savvier with every passing year and search engines and apps are making their job easier. They are not just looking for the cheapest flights to their destination of choice and thinking that's job done anymore. They are factoring in accommodation costs, exchange rates, meals and activities as well.

The British tabloids are full of money saving tips, from the best day to book, to under the radar destinations where the price of a cold beer is way below that charged in popular hotspots.

Getting as many bums on seats on flights to those popular hotspots is the way budget airlines make a good chunk of their money but with warnings about price rises to all destinations it will be interesting to see how the consumer responds and how their decision-making impacts profits.

WILL THE "STAYCATION" GET A MONEY SAVING BOOST?

There is one other factor to stir into the pot and that is the potential some people may ditch the foreign holiday altogether this year either because of price or because disruptions like strikes make long distance hauls seem too much trouble.

Britain has a booming holiday sector which Brits turned to in their droves during the pandemic. It avoids airports, long-stay parking costs and you can also take your dog with you, which can save a fortune in boarding costs.

But you cannot guarantee the weather and parents know full well that a beach on a sunny day is about the cheapest entertainment you can find and that being stuck in a caravan or holiday let in the rain is tantamount to torture.

There is a whole host of companies from Premier Inn owner **Whitbread (WTB)** to pub chain **Wetherspoons (JDW)** that will be hoping this summer will not deliver the worst scenario of all – when the lion's share of holidaymakers flock to sunnier climbs and no one has cash left over for a cheeky short break.

There is the prospect of a May filled with bank holidays thanks to an extra-long weekend for the King's coronation but with prices still heading up and a whole load of people facing increased mortgage costs this year disposable income is likely to be in short supply.

The middle ground is not middle of the road in biotechnology

While the sell-off in tech has driven generalist investors into larger-cap biotechnology names, the managers of IBT have been focusing their attention on mid-caps...

Biotechnology is an unabashedly growth-oriented sector. And with this in mind, it is often excessively punished in market downturns, usually following a period of basking in the sun.

The market was especially overheated in mid-2021, when the pernicious low-growth environment and the post-COVID lockdown bounce both contributed to a boom time for companies that can be reliant on financing. Since then, it hit lows in May and June 2022.

This is a cycle that the managers of **International Biotechnology Trust (IBT)**, Ailsa Craig and Marek Poszepczynski are well aware of. With over 35 years' experience in the sector between them, they have each worked and invested through several of these cycles. With that in mind, they approach biotechnology investing with a more skeptical eye than is sometimes applied by the broader market.

In practice, this meant they steered clear of buying innovative assets for the sake of it as the market soared into 2021, when certain companies with products that had not yet even been trialed on humans (and therefore were well shy of being approved and on the market) were attracting valuations in excess of billions in market cap.

On the other hand, they understand the fundamental value available within biotechnology and have been taking advantage of the sell-off since those toppy valuations tumbled, because, as with all sell-offs, biotechnology's 2022 was relatively indiscriminate as often is the case for the sector.

It is true that the biotechnology market can contain exploratory, early stage names dependent on financing for testing and bringing product to market. It is also true that it contains large-cap names, that can rely on finance-fueled acquisitions to grow. But, Ailsa and Marek point out, there is a middle-ground of companies, with sound financials and a compelling go-to-market proposition that has been tarred by a similar brush to these industry peers.

Over the past two-and-a-half years, they have increasingly focused their attentions on the mid-cap segment, focusing on businesses with assets that are considered 'derisked'. This means that these companies' drugs are approved, have strong growth but are still yet to achieve their full revenue earning potential which in many instances is in the multi-billion dollar range. Crucially, the established niches in which these drugs are already selling means that these companies have cash flows to invest in future growth, rather than relying on external funding to grow.

A secondary compelling aspect of the mid-cap investment proposition is the potential for M&A. There is a big intellectual property (IP) expiry cliff looming over the next few years, when the patents restricting competition to many larger companies' flagship drugs no longer apply. The market saw a similar such fall-off in 2012, which fuelled an M&A frenzy as big companies sought to replace the revenues lost from patent expiry. Indeed, Biohaven, Horizon Therapeutics and Seagen were three significant holdings for the trust that have been acquired in the last year.

This acquisitive lens is a factor in the team's investment decisions. They say that while they are by no means value investors, they are valuation-sensitive, and that if a company is trading at a level that a big pharma company wouldn't accept, they don't either.

One example of Ailsa and Marek exercising this discipline was in the case of Biohaven. The company had a migraine drug, a compelling end market, and they liked its story. However, they sold it as they believed its valuation was overwrought. When the company made a licensing deal with Pfizer for European distribution, there was a significant sell-off in its stock as the market interpretation was a no M&A deal scenario, but Ailsa and Marek didn't see the deal as being as detrimental as the market response suggested. As a result, they rebought the stock and subsequently benefitted from the acquisition by Pfizer which occurred six months after the original licensing deal was announced.

Biotechnology is undoubtedly a risky sector, with high beta and volatility at its heart. However, a diversified allocation to the sector can dampen these risks to some degree. In amongst the noise, there is growth to be found in an increasingly health-conscious world.

Click **here** to read our latest research on International Biotechnology Trust...

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Being young and still at university hasn't stopped me from investing money

Chelsea started investing two years ago and she's already got a plan in action

Chelsea is in her mid-20s and started investing during the pandemic. She is currently studying a PhD in quantum physics at the University of Exeter and previously spent two years working as a quantitative analyst.

Her investment journey began in February 2021 when she wanted to invest a lump sum. She opened a stocks and shares ISA and has never looked back.

'At that time interest rates were poor on savings accounts. I heard quite a few people had got into investing and they were able to make better returns. So, I came across a stocks and savings ISA, and I thought I'd give it a go. I put all my savings in that account, and that is where I deal from now.'

Chelsea says she has always been a saver rather than a spender. This habit was forged despite not being taught about finance or investing at school. 'I don't think a lot of young people are aware of financial products like a stocks and shares ISA or the fact that you don't need a huge amount of money or technical knowledge to invest.'

STAYING INFORMED

The student is aiming to create a diversified portfolio in terms of asset class, geography and investment style, and she sticks to funds and ETFs.

'I read *Shares* magazine to get investment ideas. It's easy to read with lots of beginner articles on investing, as well as giving a general overview of how the financial markets are doing and explaining financial jargon. The magazine highlights different sectors – what's doing well, what's not doing well now and what has potential to do well in the future. It is a useful resource. I try to look at things from a long-term perspective.'

Chelsea follows a few people who discuss investing on social media and has found some of their videos to be useful. She plans to find out if her university has an investing club or if there is a society in the local area which she can join.

WHAT IS IN CHELSEA'S PORTFOLIO?

'What grabbed my attention initially was one of the Vanguard LifeStrategy funds. It was heavily diversified and simple to understand. The **Vanguard Life Strategy 80% Equity Fund (B4PQW15)** – 80% equity, 20% bonds – was the very first fund I invested in through my ISA.

'I have exposure to other asset classes such as commodities through **WisdomTree Enhanced Commodity UCITS ETF (WCOM)**. I also have exposure to companies focused on environmental,

social and governance factors through **Baillie Gifford Positive Change Fund (BYVGKV5)**.'

To play the theme of property, Chelsea has money in **iShares Environment & Low Carbon Tilt Real Estate Index Fund (B5BFJG7)**. Over the past five years this fund has returned 19.1% according to FE Fundinfo. Its portfolio is made up of stakes in real estate investment trusts which own a variety of properties including ones for retail, residential, office and leisure use.

Chelsea's portfolio

Baillie Gifford Positive Change
iShares Environmental & Low Carbon Tilt
JP Morgan US Equity Income
Vanguard LifeStrategy 80% Equity
WisdomTree Enhanced Commodity UCITS ETF

Table: Shares magazine • Source: Investor's own records

Finally, Chelsea has money in **JPMorgan US Equity Income Fund (B3FJQ59)** which invests in large US companies that offer the prospect of a growing stream of dividends. US stocks often trade on higher valuations to UK stocks, yet JPMorgan says its US income fund targets more 'attractively valued' companies.

Chelsea says she has exposure to the US, UK and Europe across her portfolio but nothing in emerging markets. The student says this is deliberate. She avoids funds investing in emerging markets like China, India, Russia and Brazil in the belief they have too much market volatility and that there is economic instability involved with investing in those countries.

A 'QUANTUM LEAP' FOR INVESTING

When it comes to investing, Chelsea is philosophical in her approach after initially losing some money when she first tried investing. 'It was an unusual time to begin investing with the pandemic, followed by a spike in interest rates and the Ukraine crisis, so I'm very much looking to investing now with a long-term view in mind.'

There are some aspects of investing that Chelsea still finds scary, such as the amount of choice on offer for an investor. 'There are so many funds and investment trusts to navigate through, which is particularly challenging, and finding which are best for my personal use, profile and portfolio. Timing the market is also hard.

'If I had one investment wish, it would be to make things simpler for me, so I could pick which funds and investment trusts to invest in. I find it difficult to differentiate which ones to choose. I spend a lot of time comparing different funds.'

EYE ON THE FUTURE

When Chelsea is not investing in the financial markets, she likes rowing and spending time with her family. 'My five-year medium-term goal is buying a home, after establishing my career, close to friends and family in the south-west.'

With regards to investing, Chelsea wants to find a way to invest in quantum computing. 'I read an article in the *Financial Times* recently about how the UK Government is going to invest in this area and I would like to do the same. I haven't been put off investing after my shaky start; I've learned from my mistakes and I will continue to invest for my future.'

DISCLAIMER: Please note, we do not provide financial advice in case study articles, and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term. Tax treatment depends on your individual circumstances and rules may change. ISA and pension rules apply.

By **Sabuhi Gard** Investment Writer

BlackRock.

HAS THE WORLD FUNDAMENTALLY CHANGED?

As inflation and interest rates rise, investors will need to adjust to a new normal, but certain types of company can thrive in all conditions.

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

The Global Financial Crisis ushered in an era of low interest rates, which brought about real strength in asset prices. However, the easy money era came to an abrupt halt in 2022 as higher inflation forced central banks to raise rates quickly. This has proved a tough backdrop for financial markets. As investors make their ISA choices for the year ahead, they will need to ask: is the world a different place today?

The past decade has been defined as 'the great moderation', a period of low interest rates, low inflation and rising asset prices. Central banks and governments have supported growth, and money has been almost 'free' enabling businesses and consumers to borrow at extremely low cost.

However, this period is at an end. Supply chain disruption caused by the pandemic started to push up inflation in late 2021.[1] Mounting geopolitical tensions and in particular, the war in Ukraine, have driven commodity prices higher,[2] creating more inflationary pressure. Prices have been rising at 8-10% across much of the developed world for the past six months.[3]

Central banks have been forced to take action, raising rates across the board. This has put an end to the 'free money' era. The question for investors is what happens when this current crisis is over and there is a return to a more normalised inflationary environment.

A DIFFERENT ERA

Central banks predict that inflation will start to moderate over the next six months[4] as supply chain pressures resolve and the worst effects of commodity price rises come out of the figures. However, the Bank of England believes that inflation will average at above 5% for 2023 and will remain structurally higher, with a similar picture in the US and Europe.[5]

This means that there is unlikely to be a reversion to the ultra-low interest rate environment for the foreseeable future. It is possible that the Federal Reserve and other central banks will keep rates higher even when inflation appears to have peaked to prevent any resurgence. While rate rises may be curbed by weakening economic growth, a return to zero interest rates looks implausible. This affects the type of assets that do well.

GEOPOLITICAL TENSIONS

A new geopolitical world order is coming more clearly into view. COVID-19 and Russia's invasion of Ukraine have accelerated fragmentation and the emergence of competing geopolitical blocs. Relations between China and the US were already worsening and the Ukraine crisis has deepened the fissure. The BlackRock Geopolitical Risk Indicator is above its historic average, meaning investors remain attentive to geopolitical risks.[6]

This creates a different type of environment, one where countries no longer trade freely and there is increasing nationalism on areas such as technology or green energy expertise. The CHIPS and Science Act, passed in the US in August 2022, aims to improve US semiconductor research and manufacturing.[7]

Outside of this Act, the US will simultaneously focus on cutting off support for Chinese chip manufacturers and designers.[8] It is symptomatic of a broader fracturing of China/US trading relationships and an end to any sharing of intellectual property.

[1] www.imf.org/en/Blogs/Articles/2022/02/17/blog-supply-disruptions-add-to-inflation-undermine-recovery-in-europe IMF, 17 February 2022.
[2] www2.deloitte.com/uk/en/insights/economy/russia-ukraine-war-inflation-impact.html Deloitte, 18 July 2022.
[3] Inflation Rate - Countries - List | World (tradingeconomics.com) Trading economics, 28 December 2022.
[4] www.ft.com/content/457f5404-54c7-456e-b388-88e170d14b07 FT, 3 November 2022.
[5] www.britishchambers.org.uk/news/2022/12/bcc-economic-forecast-long-road-to-recovery-after-over-a-year-of-recession#:~:text=Inflation%20likely%20to%20have%20peaked%20at%2011%25&text=0%25%2C%20thanks%20in%20part%20to,to%201.5%25%20in%20Q4%202024 British Chambers, 8 December 2022.
[6] BlackRock Geopolitical Risk Dashboard: https://www.blackrock.com/corporate/insights/blackrock-investment-institute/interactive-charts/geopolitical-risk-dashboard - 28 December 2022
[7] www.mckinsey.com/industries/public-and-social-sector/our-insights/the-chips-and-science-act-heres-whats-in-it McKinsey - 4 October 2022
[8] www.reuters.com/technology/us-aims-hobble-chinas-chip-industry-with-sweeping-new-export-rules-2022-10-07/ Reuters – 10 October 2022

BlackRock.

SUSTAINABLE INVESTMENT

The climate has become an emergency – from global warming, to biodiversity loss, to water scarcity. There are now real world effects for companies that do not manage environmental risks effectively. At the same time, there are significant opportunities for companies that appear to have the solutions to these crises. Incorporating sustainability analysis into investment decision-making is therefore becoming more important.

Increasingly, companies that score badly on ESG (environmental, social and governance) metrics are likely to face growing regulatory problems and greater barriers to doing business. Around 90% of the world's GDP is generated by countries whose governments have set a net zero targets. Policymakers around the world are enacting legislation to encourage progress.[9]

ESG: The environmental, social, and governance ('ESG') considerations discussed herein may affect an investment team's decision to invest in certain investment opportunities from time to time. Results may differ from portfolios that do not apply similar ESG considerations to their investment process.

INVESTMENT CONSIDERATIONS

This is a new era and ISA investors will need to adjust. The end of free money makes it a more difficult environment for fast-growing companies that require a lot of capital, or companies with high levels of debt. It tends to favour cash generative companies or those paying a dividend. This may alter the balance in stock markets after a period when technology stocks have done very well.

However, there are certain universal truths on investing that won't change: good companies with strong balance sheets, run by capable management teams with a focus on sustainable growth will thrive in the longer-term. This is the type of company the BlackRock investment trust managers are seeking out, with the aim of delivering capital growth and income for ISA investors in the year ahead. **For more information on BlackRock's range of investment trusts, please visit www.blackrock.com/its**

TO INVEST IN THIS TRUST CLICK HERE

[9] www.gov.uk/government/speeches/net-zero-economic-opportunities#:~:text=Today%2C%20over%2090%25%20of%20global,took%20on%20the%20COP%20Presidency. Gov UK – 23 September 2022

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Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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Do limits on tax-free cash mean scrapping the lifetime allowance is meaningless?

There are plenty of reasons to keep paying into a pension scheme beyond the outgoing lifetime allowance limit

I've heard a lot of people suggesting the lifetime allowance being scrapped is a big giveaway to the wealthy, but why would anyone pay in above £1,073,100 if they can't build up any more tax-free cash? What am I missing?
Meredith, Somerset

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

I recently covered the main changes brought about for pensions as a result of chancellor Jeremy Hunt's Budget.

The biggest and most surprising announcement was the decision to remove the lifetime allowance tax charge from 6 April this year. In 2024/25, the intention is to abolish the lifetime allowance altogether.

As part of that announcement, Hunt confirmed the maximum tax-free cash someone can build up will be limited to £268,275 – a quarter of the current £1,073,100 lifetime allowance.

Anyone who applied for a form of lifetime allowance 'protection' before 15 March 2023 which entitles them to more tax-free cash than this amount will be able to keep that entitlement and continue contributing to their retirement pot.

But even where your contributions do not generate additional tax-free cash entitlement, there are plenty of reasons why you would want to keep paying into a pension.

The upfront boost of pension tax relief on your contributions will still be paid, and with the

removal of the lifetime allowance tax charge you'll be able to keep more of your money than before. Income tax will still be due when you withdraw money from your pension, but this will be less than you would have paid with the lifetime allowance tax charge in place.

Furthermore, if you are employed then you should be automatically enrolled into a workplace pension scheme and receive matched contributions from your employer. Under automatic enrolment rules, you must contribute a minimum of 4% of earnings between £6,240 and £50,270, with your employer contributing an additional 3% and a further 1% is added on through pension tax relief. Many employers offer even more generous pension contributions.

Even with a lifetime allowance charge it could make sense to contribute above your lifetime allowance if you benefit from an employer match.

You can also use your pension pot to pass money onto loved ones tax efficiently. In fact, if you die before age 75, your pension can be inherited completely free of any tax, while if you die after 75, it will be taxed in the same way as income when your beneficiary makes a withdrawal.

These rules make pensions one of the most tax-efficient savings vehicles available for inheritance tax purposes. The removal of the lifetime allowance tax charge makes pensions even more attractive for those prioritising death benefits planning.

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.

ADVERTISING PROMOTION

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

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

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

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

Investing in China's most compelling growth drivers
Dale believes a vast and still expanding middle class is increasingly driving stock market returns in China.

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

Past performance

	Feb 2018 - Feb 2019	Feb 2019 - Feb 2020	Feb 2020 - Feb 2021	Feb 2021 - Feb 2022	Feb 2022 - Feb 2023
Net Asset Value	−11.2%	5.2%	74.2%	−31.7%	−3.5%
Share Price	−8.3%	3.1%	97.2%	−36.5%	−5.3%
MSCI China Index	−8.3%	7.6%	30.8%	−28.4%	−7.1%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 28.02.2023, bid-bid, net income reinvested. ©2023 Morningstar Inc. All rights reserved.
The MSCI China Index is a comparative index of the investment trust.

Important information
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Profiling the big Chinese electric vehicle rivals to Tesla

Looking at BYD, Nio, Li Auto, Xpeng and their sales in 2022

In January 2023 **Tesla (TSLA:NASDAQ)** had an 8% share of the Chinese new energy vehicles market according to figures from the China Passenger Car Association. However, the world leader in electric vehicles faces significant domestic competition in China.

Who are the main players? **BYD (1211:HKG)** is Tesla's biggest rival and outsells the US company in China. In 2022 the company sold 1.86 million cars (including plug-in hybrid vehicles) and expects that to translate to a net profit of $2.37 billion to $2.52 billion.

Alongside its electric vehicle businesses BYD also operates in areas like solar panels and rechargeable batteries. It was founded in the 1990s. and is listed on the Hong Kong and Shenzen stock exchanges.

Smaller challengers include **Li Auto (LI:NASDAQ)**, **Nio (NIO:NYSE)** and **Xpeng (XPEV:NYSE)**.

Li Auto was founded in 2015 and listed on Nasdaq in 2020. It is focused primarily on premium electric sports utility vehicles for the Chinese market. It has currently announced four models, Li One, Li Auto L9, Li Auto L8, Li Auto L7. Total deliveries were up 47.2% in 2022 to 133,246.

Shanghai-headquartered Nio has been listed on the New York Stock Exchange since September 2018, four years after its inception. The company has targeted a doubling of sales year-on-year to 250,000 electric vehicles in 2023.

Also listed in New York, Xpeng aims to differentiate itself with a 'smart' operating system, assisted driving features and extended range. It delivered 120,757 vehicles in 2022.

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

Rebased to 100

Chart: Shares magazine • Source: Refinitiv

Emerging markets look to stoke growth as electric vehicles sales hit the skids

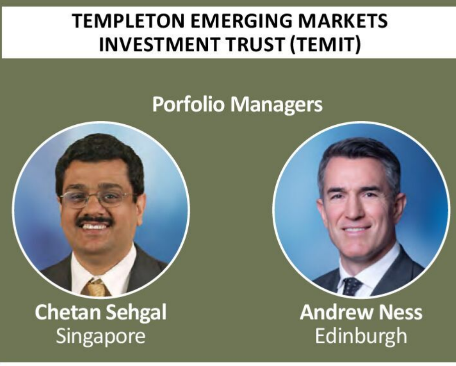
Three things the Franklin Templeton team are focused on this month

1. Pro-growth policies. In the coming months, we believe the roll out of pro-growth policies in emerging markets could be a significant tailwind to domestic demand in selected markets. Across continents, local governments have introduced measures to cushion the impact of inflation and/or to spur consumption, and in turn, economic growth. In Latin America, Brazil will extend social welfare payments while Mexico and Colombia will raise the minimum wage, alongside Hungary and Poland in Europe. Some Asian governments are implementing tax cuts—the Philippines will extend lower tariff rates on eligible food items and Thailand will extend an excise tax cut on diesel. India will likely continue to prioritise capital expenditure to improve infrastructure, and has plans to venture into green tourism, where up to 50 new tourism destinations will be opened.

2. Renewed focus on governance. Selected companies in India and Hong Kong which are perceived to have below average corporate governance have come under attack from so called 'short sellers'. Aggressive accounting practices related to debt and depreciation policies are among the factors that short sellers highlight in justification of their negative views on these companies. We believe that investing in companies with good corporate governance, which includes factors such as conservative accounting practices, engagement with all stakeholders, and timely publication of annual accounts is the best way to avoid exposure to companies that are at risk from a short-selling attack. We also acknowledge that the perfect company rarely exists.

3. Slowdown in electric vehicles (EV) sales. Chinese EV and hybrid vehicle sales declined 6.3% in January. Chinese manufacturers have started to cut EV prices as sales soften, and in preparation for new product launches in the coming months. Balancing this negative factor is the weakness in lithium prices, a key input material for EV batteries, which have declined almost 30% from November 2022. Lithium prices have declined on weaker-than-expected demand and rising supply. Lower lithium prices is good news for EV manufacturers, where batteries can account for 45% of the manufacturing cost.

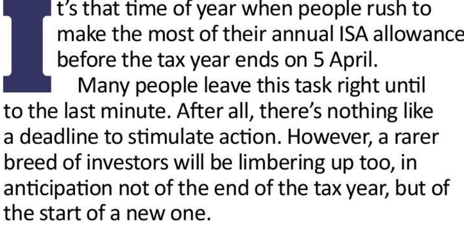
TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

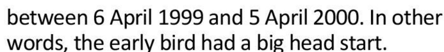


TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

Why it can pay to invest in an ISA as early as possible each tax year

We look at the difference in returns for someone who invested at the start or end of each tax year





It's that time of year when people rush to make the most of their annual ISA allowance before the tax year ends on 5 April.

Many people leave this task right until to the last minute. After all, there's nothing like a deadline to stimulate action. However, a rarer breed of investors will be limbering up too, in anticipation not of the end of the tax year, but of the start of a new one.

Some investors unflinchingly invest their ISA allowance as soon as it's available every year, on 6 April. Clearly this means your money is protected from tax from the outset, but it also means you stand to have a bigger ISA pot in the final analysis, because your money is at work in the market for longer.

The table in this article compares the fortunes of early bird ISA investors, who invest on the first day of each tax year, with those of last-minute ISA investors, who invest on the last day of the same tax year.

In each case the early bird and the last-minute ISA investor invest the same amount in total, it's simply the timing of their investment which differs. The difference it makes is quite startling, and in each case it's the early bird ISA investor who comes out on top.

A £3,000 annual ISA contribution invested in a global equity fund on the first day of each tax year since 1999 would now be worth £200,373. By contrast that same £3,000 invested on the last day of each tax year would now be worth £191,102, over £9,000 less.

You might think that this is just the luck of the draw, because of the 1999 dotcom boom. It's true that the early bird's returns were boosted by a 29% rise in the value of the typical global equity fund between 6 April 1999 and 5 April 2000. In other words, the early bird had a big head start.

But that's only part of the picture. The global financial crisis was a much less auspicious time to be making an ISA investment. Early bird ISA investors would have put their money in the market on 6 April 2008 and had to watch it fall by 23% by 5 April 2009, when the last-minute ISA investor swoops in with their contribution, buying shares at much lower prices.

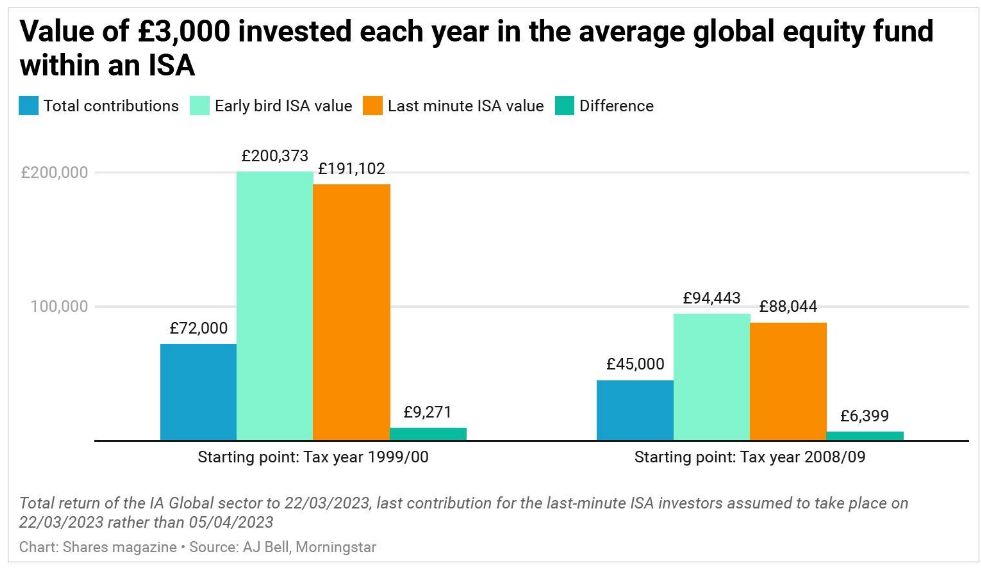
Yet the early bird ISA investor still comes up smelling of roses, with a final ISA value of £94,443 compared to £88,044 in the ISA of the last-minute investor. That's because it's not just performance in that first year that matters in the long run.

That early contribution will also be compounded in each year after that, and even if the early bird ISA investor suffers a bad first year, the market recovers in time and that early contribution eventually breaks even, and then makes it into profit.

WATCH OUT FOR DIVIDEND AND CGT ALLOWANCE CHANGES

So, if you're rushing about to make a last-minute ISA contribution right now, you might also consider contributing money in the new tax year too. With the dividend allowance being cut from £2,000 to £1,000 from 6 April, and the capital gains tax allowance being cut from £12,300 to £6,000 too, it also makes sense to wrap investments in a tax shelter sooner rather than later.

You may not have the capital available to make two contributions at once. A halfway house might be to set up a regular ISA saving plan for next year, which automatically takes cash from your bank account each month by direct debit and invests it



according to your instructions. That way at least some of your money gets into the market sooner, and the regular nature of your investment also makes for a smoother ride.

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5 STOCKS GOING CHEAP

Out on 06 April

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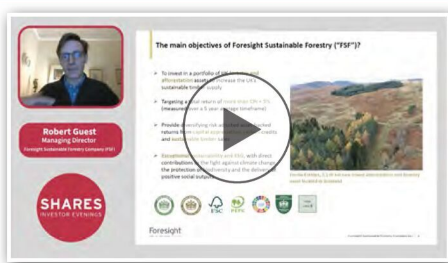

Foresight Sustainable Forestry Company (FSF)

Robert Guest, Richard Kelly, Managing Directors

Foresight Sustainable Forestry Company (FSF) offers investors direct and liquid access to the attractive investment characteristics of UK forestry and afforestation projects.

Mercia Asset Management (MERC)

Dr. Mark Payton, CEO & Martin Glanfield, CFO

Mercia Asset Management (MERC) is a proactive, specialist asset manager focused on supporting regional SMEs to achieve their growth aspirations. Mercia provides capital across its four asset classes of balance sheet, venture, private equity and debt capital; the Group's 'Complete Capital Solution'.

Lowland Investment Company (LWI)

James Henderson, Fund Manager

Lowland Investment Company (LWI) The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long-term, by investing in a broad spread of predominantly UK Companies. The Company measures its performance against the FTSE All-Share Index Total Return.

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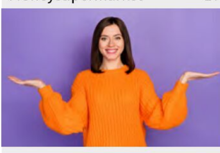

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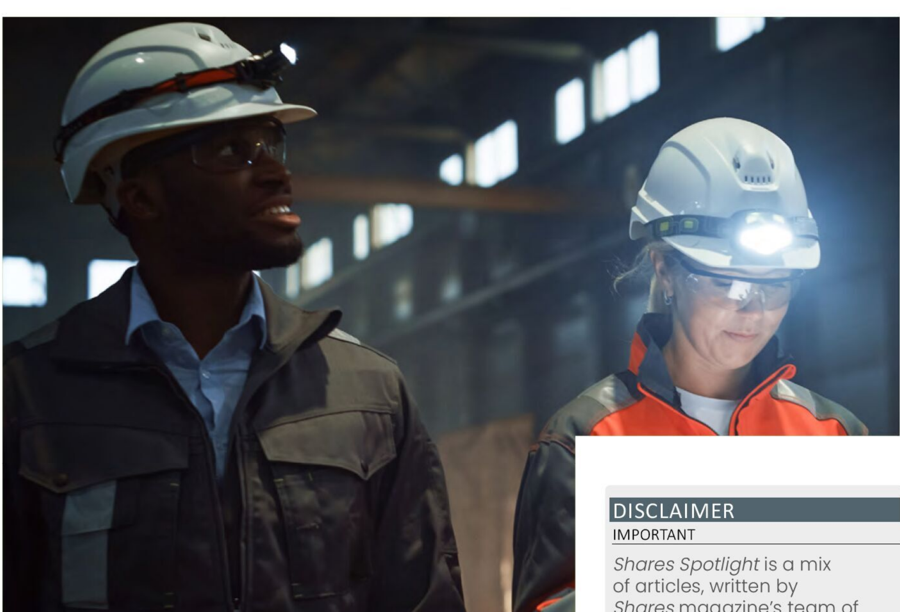

Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

This edition is dedicated to businesses powering the global economy, whether that be in mining, oil and gas, the renewables space, infrastructure or energy provision.

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

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

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

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

Click here for details of upcoming events and how to register for free tickets.

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What are the long-term and short-term prospects for Lithium

More than $50 billion worth of investment required to boost production of the element

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

The short-term cycle in lithium is, and will continue to be, volatile, but the longer-term challenge is to build an industry of fundamentally different scale than its current form that should underpin long-term lithium prices. We estimate that over $50 billion of investment will be needed to boost supply to four or five times current levels by 2030.

We are raising our near-term lithium prices to reflect the current supply/demand cycle and raising our long-run (post 2031) price forecasts (from $17,000 per tonne (/t) to $22,500/t LCE) to reflect lithium's high demand growth and highly concentrated supply fundamentals.

STRONG LONG-TERM DEMAND FUNDAMENTALS

Lithium is a solid long-term structural growth story, reflecting its use in electric vehicle (EV) batteries and other energy storage applications linked to grid decarbonization. We see demand growing at a 20.3% CAGR from 2022 to 2030, which is exceptionally high in commodity and chemical markets. Our estimates point to lithium demand in 2030 of approximately three million tonnes (Mt), broadly in line with industry and International Energy Agency (IEA) projections and four to five times current levels. At a typical capital intensity of $25,000/t (according to our review of public project plans), we estimate that the 2.1 million tonnes per year of additional capacity by 2030 will require $52.5 billion of investment. This is both a financing and a technical challenge in this timeframe. Supply chain security and the decarbonization of critical minerals supply chains mean a wide variety of new entrants will be needed.

SUPPLY CONSTRAINTS TO SUPPORT PRICES

We (like much of consensus) see a potential acceleration in supply over the next three years as both greenfield and brownfield expansions come online. But delays also need to be factored in (commissioning delays, general disruption and pre-qualification of product). Our cyclical supply/demand forecast indicates a significant supply shortfall based on committed expansions opening up in the late 2020s (0.5 Mt in 2027), which is a relatively short runway for uncommitted projects to be funded, approved and built. We include a detailed review of the latest published capital expenditure and operating expenditure projections for a wide range of potential projects in this review.

RAISING OUR PRICE FORECASTS

We raise our long-term price lithium carbonate price from $17,000/t to $22,500/t to reflect wider industry inflation and our view of persistent deficits. This is well below current spot prices (c $70,000/t) but we do not see prices falling to this level in the 2020s and only allow for long-term pricing in the 2030s onwards. Even then, we question if conventional long-term price methodology works well in markets that are high growth and highly consolidated, as persistent deficits will leave prices closer to substitution levels for periods of time.

Lithium equities have performed strongly over the past two to three years, mirroring lithium prices. We like both existing producers with cash flows and emerging producers with high-quality projects. Lithium fits two of our current global themes, namely energy transition and critical materials, and we see continued government support for new entrants along the value chain.

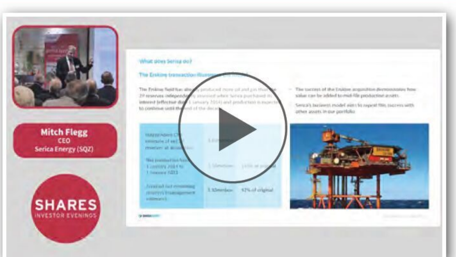
NO SHORTAGE OF PROJECTS

Our analysis suggests that there is no shortage of lithium projects globally, but there is clearly a limited number of projects that are either in development or at the financial investment decision (FID) stage and could therefore be brought into production in the short term (a typical project development timeline from resource definition to commercial production is up to seven years and could be longer for battery-grade lithium due to the strict quality and testing requirements). The main reason for the relatively 'slow' supply-side response is the unprecedented speed of the EV market transformation, driven by government policies, and the protracted period of low lithium prices that discouraged investments in new supply. In Exhibit 1 we provide a list of selected advanced lithium projects where some level of detail is public (capital/operating costs, scale and timing).

THE MAIN PRODUCERS

The main lithium producing regions are Latin America, Australia and China. Latin America is the biggest source of lithium produced from brines, while Australia is a major supplier of primary concentrates that are subsequently converted into higher value-add products such as hydroxide or carbonate. Chile has traditionally been one of the largest producers of lithium (coming solely from Salar de Atacama), and although both SQM and Albemarle are significantly expanding capacity, due to its strict permitting regulations as well as the uncertain political environment, the country appears to be gradually losing its position in the greenfield lithium space to Argentina.

WATCH RECENT PRESENTATIONS



Serica Energy (SQZ) Mitch Flegg, CEO

Serica Energy (SQZ) is a British independent upstream oil and gas company with operations focused on the UK North Sea, where our assets span the full cycle of exploration, development and production. Our main aim is to build a portfolio of assets which enables the company to utilise its technical and commercial experience to add value to existing producing assets, as well as to explore and develop new reserves.

First Tin (1SN) Thomas Buenger, CEO

First Tin (1SN) is led by a team of renowned specialists, First Tin is focused on becoming an ethical, reliable, and sustainable tin supplier in conflict-free, low political risk jurisdictions through the rapid development of high value, low capex tin assets in Germany and Australia. Tin is a critical metal, vital in any plan to decarbonise and electrify the world.

Scirocco Energy (SCIR)
Tom Reynolds, CEO

Scirocco Energy (SCIR) is an AIM investing company targeting attractive production and development opportunities within the European transition energy market.

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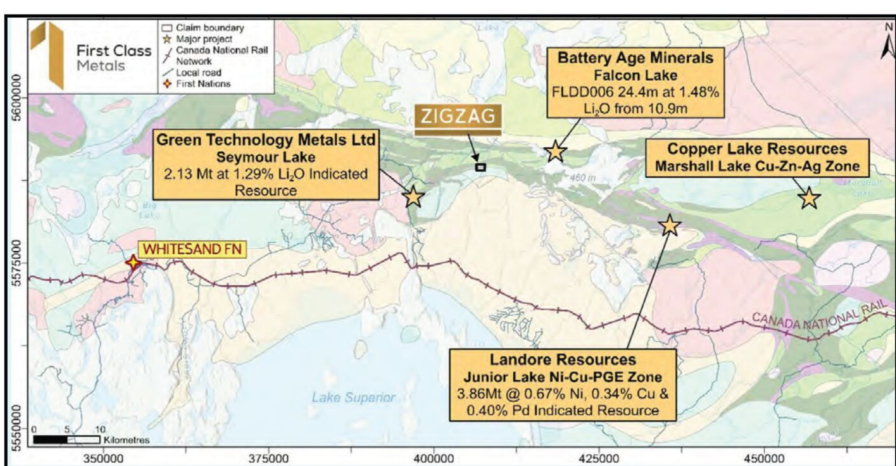
How First Class is seizing the lithium opportunity with its Zigzag deal



The outlook for lithium is bullish right now. In fact, ReportLinker expects the market's value to increase from $7 billion to $22.6 billion over the next seven years. That's a compound annual growth rate of nearly 16%. It's presenting exploration companies with a clear opportunity. Any lithium discoveries they make could command a premium valuation as demand soars and supplies fall short.

Following its recent earn-in to the Zigzag project in Ontario, First Class Metals is now exposed to an asset with the right potential, geology, and location to take full advantage.

A GREEN OPPORTUNITY

As with many metals, the anticipated structural bull market in lithium is rooted in the green revolution. Specifically, the metal is a key component in lithium-ion batteries.

The use of these batteries in devices like smartphones alone underpins a strong demand outlook for lithium as global population and wealth growth continue. But it's their application in electric vehicles that's really expected to supercharge demand over the coming years.

Thanks to growing government support, improved performance, and increasing consumer awareness, the IEA expects the number of EVs globally to hit 230 million by end-decade.

In response, McKinsey expects lithium-ion batteries to account for 95% of total lithium demand by 2030, from less than 30% under a decade ago. Meanwhile, it expects to see a large push in overall demand to 3.8 million metric tonnes of lithium carbon equivalent.

This is where the opportunity arises for explorers like **First Class Metals (FCM)**.

Due to reduced supply chain investment over the past decade in the face of a long-term bear market, lithium reserves are expected to fall well short of heightened demand. In fact, according to

S&P, even if all lithium projects expected to be online by 2030 are perfectly executed, there will *still* be a 220,000Mt (million tonne) deficit by that year.

It's prompted an urgent rush to secure new supplies. And in response, lithium prices are rising, countries are adding the metal to their 'critical mineral' lists, and exploration budgets are growing by as much as 25% a year.

POTENTIAL, GEOLOGY AND LOCATION

It's due to this urgent need for new supplies that Zigzag stands to add considerable value for First Class Metals and its shareholders. First, Zigzag has an encouraging amount of lithium *potential*.

Of course, work is at its early stages and limited in scope. But as it stands, historic grades of up to 1.68% have been found at surface over 7.9 metres within a pegmatite reported to be more than 800 metres in length and 20 metres thick at surface. Likewise, sampling by Nuinsco–from whom First Class has acquired Zigzag–returned strongly anomalous lithium peaking at 3.55%.

Second, Zigzag presents an optimal *geological setting*. In layman's terms, there are two types of lithium used in EVs: lithium carbonate and lithium hydroxide.

There are also two dominant sources of lithium production. The first is a salty brine that is pumped out of the ground. The second, which is the one present at Zigzag, is spodumene. This is a mineral contained in hard rocks that is mined from the ground.

The key difference is that, while brines can only produce lithium carbonate, spodumene can produce both lithium carbonate and lithium hydroxide. It is because of this flexibility that interest in the lithium industry is increasingly moving away from brine production and towards potential hard rock mining assets like Zigzag.

Third and finally, Zigzag is also based in an ideal *location*. Specifically, it is situated in a district already proven to be prospective for hard rock, pegmatite hosted lithium discoveries

For example, it is just 10.5 kilometres away from Green Technology Metals' Seymour project, which hosts a 9.9Mt Li_2O resource at 1.04% that remains open along strike and down dip. Likewise, it is also close to current and future key infrastructure including a spodumene processing plant.

Beyond this, Zigzag's base within wider Ontario is also very beneficial. Like all of First Class's assets, it will be bolstered by the region's pro-mining legislation and established mining industry. But more specifically, Zigzag stands to benefit from Ontario's emerging reputation as a lithium hotbed as countries worldwide seek to reduce their reliance on Chinese imports.

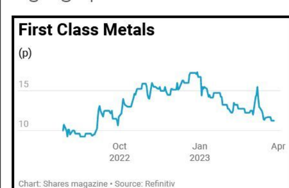
Aside from Green Technology Metals, companies active in Ontario include Battery Age Minerals, Copper Lake Resources, Landore Resources, Lithium One Metals, Frontier Lithium, High Tide Resources, Rock Tech Lithium, and Imagine Lithium.

Likewise, Volkswagen is planning to build a local battery cell plant while Magna International has invested $470 million in an Ontario factory to help Ford keep up with surging demand for F-150 Lightning electric pickup trucks.

BOOTS ON THE GROUND

All this creates a significant opportunity for First Class. Not only is lithium heading towards a long-term structural bull market, but Zigzag's prospectivity, geology, and location all stand to maximise the value of any discovery made.

With an exploration permit already in place, First Class now has an opportunity to begin work on the ground and start unearthing the true scale of Zigzag's potential.



www.greenlithium.co.uk

Green Lithium targeting UK's first big lithium refinery

As *Shares* highlighted in a February 2023 issue, the mineral lithium is critical in the production of batteries for electric vehicles (EVs). UK-based lithium refinery project **Green Lithium** is one way for private investors to gain exposure to the fast-growing battery metals market. HMRC's Enterprise Investment Scheme (EIS) can cover over 60% of the value of an investment.

Green Lithium has, to date, raised £5.8 million through a combination of private capital and UK Government investment via the Automotive Transformation Fund (ATF). Cumulatively the private capital rounds raised three times the target amount, demonstrating the appetite for high-quality, well-managed projects in the sector.

Green Lithium is led by delivery-focused CEO, Sean Sargent, who has vast programme leadership experience and a track record of delivering multi-billion-pound infrastructure projects and Dominic Kieran, an exceptional chair who is currently CEO of Babcock Nuclear and has extensive senior executive experience in the chemicals and energy sectors.

The wider Green Lithium team draws upon with a broad range of relevant experience and will put that to use to manage, oversee and deliver the project, commission the refinery and, ultimately, deliver exceptional shareholder returns.

Sean Sargent. Chief Executive Officer

AN UNSERVED MARKET, EXPOSED TO CHINA

Currently, 89% of the globe's lithium is produced in China, with domestic demand expected to outstrip its production output by 2030. As such, the UK's and EU's reliance on international sources for their refined lithium chemical imports is creating uncertainty over security of supply, price and volume. These factors underline the reasons why the UK Government made lithium a key part of its *Critical Minerals Strategy* in 2022.

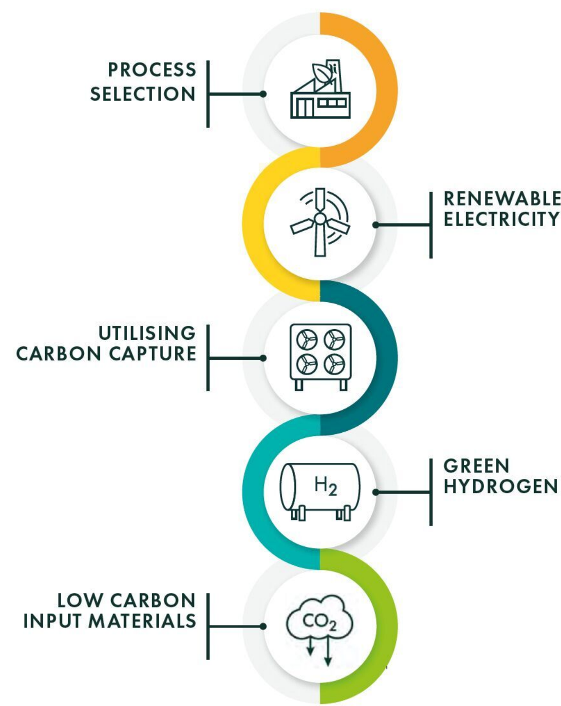
Onshore lithium refining is therefore urgently required to meet the forecast c.800,000 tonnes per annum European 2030 demand. Ultimately, without localised supply

Europe's lithium-ion battery, home energy storage, grid stabilisation and electric EV sectors will fail or be permanently vulnerable to unpredictable global markets.

SECURING EUROPEAN SUPPLY

Green Lithium plans to meet this challenge by building the UK's first large-scale lithium refinery, creating a supply of low-carbon, battery-grade lithium chemicals to sell into these supply chains. The refinery will produce c.50,000 tonnes per annum of low-carbon, battery-grade lithium chemicals.

That production represents 6% of Europe's total 2030 downstream demand and will help address this fast-growing continent-wide demand. Green Lithium's annual production will enable the production of roughly one million EVs each year. The European market is anticipated to have a fleet of 40 million by 2030, with demand set to continue growing.



VALUE PROPOSITION FOCUSED ON FLEXIBILITY, SUSTAINBILITY & DELIVERY EXPERTISE

Since inception, the Green Lithium management team has focused on developing the following areas of core value proposition:

- Creating flexibility as a merchant refinery capable of processing various lithium ore feedstock sources to produce battery-grade lithium chemical products that meet dynamic end-market needs;
- Refining sustainably to produce lithium with no negative environmental impact. Green Lithium's 'base' plan will result in a 50% reduction in carbon dioxide (CO2) compared to operational Chinese refineries; while its 'decarbonised' plan would result in over a 75% reduction and full elimination of Scope 1 and 2 emissions;
- Creating circular economies in battery recycling whilst eliminating process waste through sustainable re-use of by-products;
- Delivering the project with an execution-focused team that has extensive experience in successfully completing multi-billion-pound, internationally-strategic infrastructure programmes.

TARGETING MAJOR CO2 REDUCTIONS THROUGH ADOPTING & INTEGRATING LEADING TECHNOLOGIES

The strategic and economic need for more local supply chains and the increasing consumer and regulatory demands for carbon efficient production are mutually reinforcing. Currently operating Chinese lithium refineries are both environmentally degrading and large emitters of CO2, typically emitting 16.2kg

CO_2 for every kg of lithium chemicals produced.

In contrast, Green Lithium will create a secure supply of non-environmentally-harmful lithium, and, under its 'decarbonised' case, emit just 3.3kg CO_2 per kg lithium – so under 25% of the emission levels typically seen in Chinese refineries.

This all achievable through locating in North East England – with its access to critical clean-energy infrastructure – and by adopting and incorporating the latest clean-energy technology, e.g. hydrogen gas fuel, carbon capture, utilisation, and storage (CCUS) and waste-heat recycling.

SUPPORTING THE UK ECONOMY, DRIVING LEVELLING UP

Construction of the refinery in Teesside will help drive the UK's levelling up agenda as well as support local and regional development. Development of the facility will drive significant growth and investment into the local area, creating over 1,000 jobs during the construction phase and 250 full-time, green, local and highly-skilled jobs once in operation.

Tees Valley Mayor Ben Houchen is supportive of the project's regional presence majorly owing to the wider benefits Tees Valley would derive from the project.

BACKED & CHAMPIONED BY THE UK GOVERNMENT

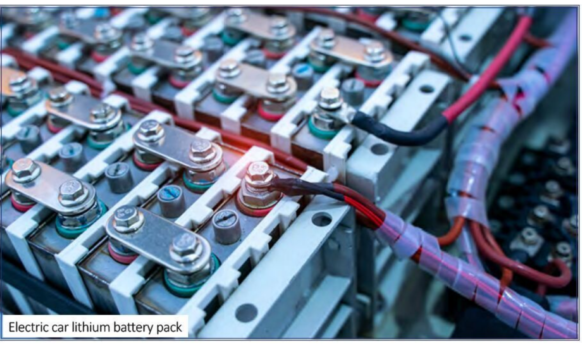
Green Lithium has been backed financially by the UK Government and it continues to work towards unlocking further support, for example through further ATF funding schemes.

At recent *Davos World Economic Forum Meeting 2023*, the UK's Secretary of State for the Department for Energy Security and Net Zero the Rt Hon Grant Shapps MP, emphasised UK Government support for Green Lithium's Teesside refinery project, not least for its clear alignments to critical national objectives.

BUILDING ON RECENT FUNDRAISING AND PROJECT SUCCESS

So far the company has used its funds to deliver on key programme milestones, including:

- building out a high-quality, delivery-focused team of in-house experts and specialist outsourced partners;
- agreeing terms to partner with global commodities trader Trafigura on a strategic supply chain relationship focused on securing raw material spodumene concentrate;
- completing its detailed preliminary engineering study, and laboratory-scale and continuous pilot-scale test works alongside engineering consultant Metso:Outotec;
- appointing key delivery partners including Worley Group and WSP;
- commissioning an independent carbon LCA, which confirmed material CO_2 footprint reductions versus current market participants;
- receiving independent assurance of its capex programme to AACE standard;
- agreeing exclusivity over an optimal deep-water, port-side plot on Tees Dock on the estuary of the River Tees in the heart of a low-carbon industrial cluster and
- progressing the planning application towards submission in April 2023, with full planning approval targeted for June 2023, to enable start of construction in early 2024 and first production of lithium chemicals in 2026.

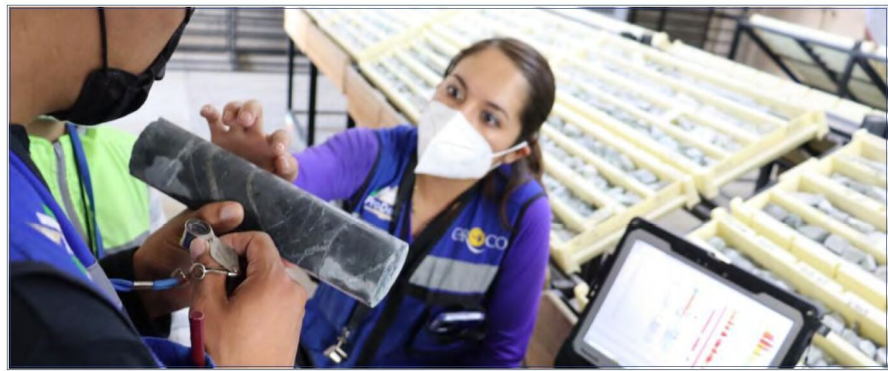

Electric car lithium battery pack

The current retail funding round launched during March 2023, for more information email **invest@greenlithium.co.uk.**

Shares Spotlight
Oroco Resource Corp.

www.orocoresourcecorp.com

Why Oroco's Santo Tomás could be an emerging copper giant



Oroco Resource (OCO:TSX.V) is a Canadian junior mining company rapidly advancing a significant copper resource at its Santo Tomás project and is well positioned to benefit from surging copper demand as the world transitions to copper-intensive, low-carbon energy sources.

Oroco has recently completed over 49,000 metres (>30 miles) of exploration drilling in 76 drill holes at Santo Tomás.

Past exploration drilling at Santo Tomás led to the delineation of a multi-million-tonne historical resource containing c.7.4 billion pounds of copper and gold and silver equivalent.

At today's copper price, the gross metal value of that historical resource is circa $30 billion.

The current drill programme has been corroborative of historical results. In addition to drilling the area of past exploration, the current programme has drilled and successfully delineated mineralisation at depths up to twice that historically defined, and to a much greater lateral and longitudinal extent.

Data from the current exploration drill program at Santo Tomás is being used by Oroco to complete an updated mineral resource estimate that is compliant with modern reporting standards.

WHY IS COPPER IN DEMAND?

Copper is an indispensable part of the modern economy. Its unique properties put it at the core of infrastructure, electronics, heating and cooling, transportation, and energy generation and transmission. Consumption of the 'red metal' has risen more than 50-fold in the last century, and annual trade is currently in excess of $250 billion, among the highest value of all traded commodities.

Furthermore, copper is essential to the generation and transmission of all types of 'green' energy, and it is vital to global efforts to move away from a reliance upon fossil fuels and towards a 'net-zero' future. Its unique conductive qualities make it the one commodity essential to all the low carbon energy technologies being developed and deployed.

So important is copper in the push towards renewable energy and electrification that it has been described by Goldman Sachs as 'indispensable to the energy

transition'and dubbed the 'new oil'.

WHY MIGHT COPPER PRICES KEEP RISING?

The future rate of growth in copper consumption is expected to greatly outpace past growth and it is forecast that more copper will be required in the coming 25 years than during all industrial history to date.

However, ageing mines with declining production and a plummeting rate of discovery of new copper resources, combined with increasing difficulties in permitting new copper mines and a decade of under-investment by miners has left the world unprepared to meet rising demand.

The consequence will be large deficits between future supply and demand for copper, suggesting significantly higher prices for the metal. These market deficits are starting to emerge and copper prices hit record levels in 2022 before backing off with recession fears.

Copper prices recently resumed the climb, rising nearly 25% from the lows. Forecasters predict that by the end of this decade, deficits will be double the level of those experienced during China's copper-intensive growth surge earlier this century when copper prices rose five-fold.

Existing copper mines and emerging resources, like Oroco's copper project, will benefit from this growth in demand and price.

WHAT MAKES SANTO TOMÁS STAND OUT?

In addition to the potentially significant size of its copper resource, the Santo Tomás project enjoys many characteristics and

advantages favorable to the successful development of mining operations.

Mineralisation outcrops (i.e., exposed on surface) and will therefore likely be amenable to low-cost open pit mining methods.

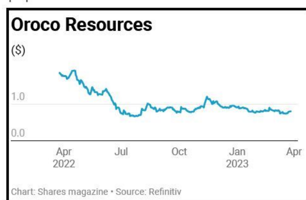
Metallurgical tests suggest the ore at Santo Tomás responds well to standard processing methods for the recovery of metal; and the project's location in coastal northwest Mexico, within the 'La Entrada al Pacifico' multi-modal trade and transportation corridor, with outstanding local infrastructure, will likely provide capex and opex advantages.

Additionally, the project enjoys the strong support of local communities, and Mexico's robust pro-mining legislation, constitutional support for the industry, and its membership in a powerful North American trade block provide robust safeguards to tenure and the right to operate. Mexico is considered a tier one mining jurisdiction and is among the largest recipients of foreign direct investment in the mining sector.

With experienced management and approximately CAD$60 million raised in past three years, Oroco is well positioned for completion of the current technical program and beyond.

In a time of rising copper demand and dramatically reduced levels of discoveries and other supply challenges, and with the forecast rise in copper prices and investors focused on opportunities to participate in the energy transition, Oroco's management is confident the time for the company is right.

The upcoming mineral resource estimate and preliminary economic assessment are well timed to attract investor interest as well as that of large mining companies who are on the hunt for new copper assets to feed their diminished project pipelines.



THIS IS AN ADVERTISING PROMOTION

Growing offshore oil and gas outfit Serica has North Sea focus but international horizons

At a time when there has never been a greater focus on the security of energy supply to the UK, AIM-listed exploration and production company **Serica Energy (SQZ:AIM)** has demonstrated its ongoing commitment to investment in the region through its acquisition of private business Tailwind Energy.

The deal, which completed in March, establishes Serica as a top ten oil and gas producer on the United Kingdom Continental Shelf (UKCS), with output anticipated in the range of 40,000-47,000 barrels of oil equivalent per day (boepd) in 2023.

TAILWIND DEAL PROVIDES BALANCE

The purchase of Tailwind brings greater balance to

Mitch Flegg. Chief Executive Officer

Serica's portfolio, which prior to the transaction had been predominantly gas focused. With the acquisition of Tailwind's mainly oil assets, the combined portfolio will now see a roughly 50/50 gas/oil split, spreading Serica's commodity price risk more evenly at a time of continuing volatile gas prices.

Operationally, the deal also provides Serica with another production hub at the Triton area, through the addition of the Bittern, Evelyn, Gannet East, and Guillemot W/NW producing assets. The recent successful completion of drilling on the Gannet GE-04 well at the Gannet field, with initial production rates of over 10,000 boepd being achieved, reinforces the exciting potential of the portfolio. 2023 and 2024 will see further activity on the newly combined asset base to add additional production to the business.

With the purchase of Tailwind, Serica continues its growth trajectory, which was kick-started by its acquisition of the Bruce, Keith, and Rhum

THIS IS AN ADVERTISING PROMOTION

assets in 2017. These fields provided the platform for Serica's rapid expansion as a significant UK producer, responsible for over 5 per cent of the UK's current domestic gas production. The company has been very successful in extending the lifespan of these mature assets, and they have continued to produce highly profitable volumes during the recent volatile commodity price environment.

CLEAR FOCUS ON VALUE CREATION

As the company has grown, Serica has established a clear focus on delivering value to its shareholders with a progressive and material dividend policy returning over £45 million to investors in 2022.

The acquisition of Tailwind will further underpin this approach, increasing expected production by over 50% from 2022 levels and helping to support the company's commitment to returning capital to shareholders. At the completion of the transaction, even allowing for Serica assuming Tailwind's modest existing debt, Serica will maintain a significant net cash position.

Although disappointed with the imposition of the Energy Profits Levy (EPL) by the UK Government in May, and its subsequent hike later last year, Serica's longstanding and continuing programme of significant investment in its assets means it is able to offset some of the impact of the new tax regime through the Investment Allowance implemented as part of the EPL. The new opportunities that the Tailwind acquisition bring to the expanded portfolio create further investment potential. Serica continues to review the data from its North Eigg well, drilled in late 2022, and is determining the steps that might be taken to determine its commerciality.

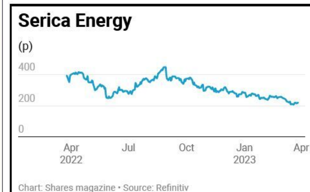
As a result of the EPL and continuing fiscal instability in the UK, the company is also reviewing opportunities outside of the UKCS. With a 25% shareholding in Serica, the consideration of overseas investments will be enhanced

by major shareholder Mercuria's extensive networks and insights which span the many territories in which it operates internationally.

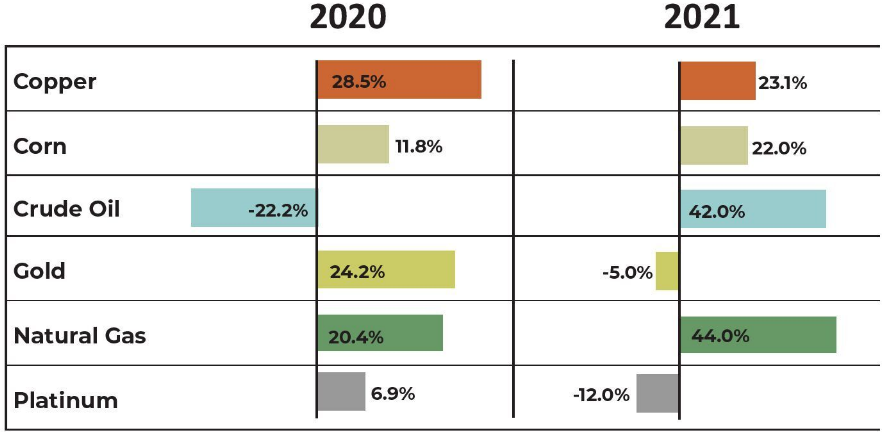
RAPIDLY GROWING OFFSHORE OPERATOR

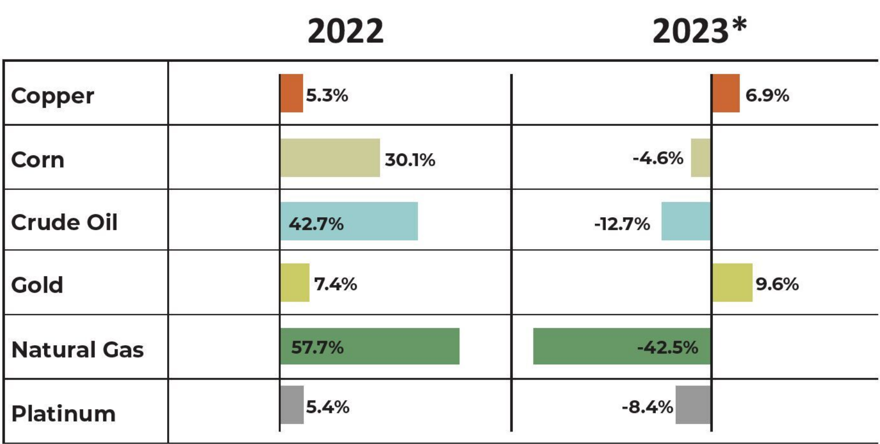
Serica is now established as one of the most interesting and rapidly growing businesses in the UK offshore environment. Its strong and hard-won ESG credentials also mean it is regarded as a responsible and low carbon intensity producer at a time when oil and gas companies must demonstrate their commitment to delivering production within the net zero context. Post-transaction, Serica expects its carbon intensity to continue to reduce over the coming years.

These are exciting times for Serica as it looks to build further on the platform created by its acquisition of Tailwind.



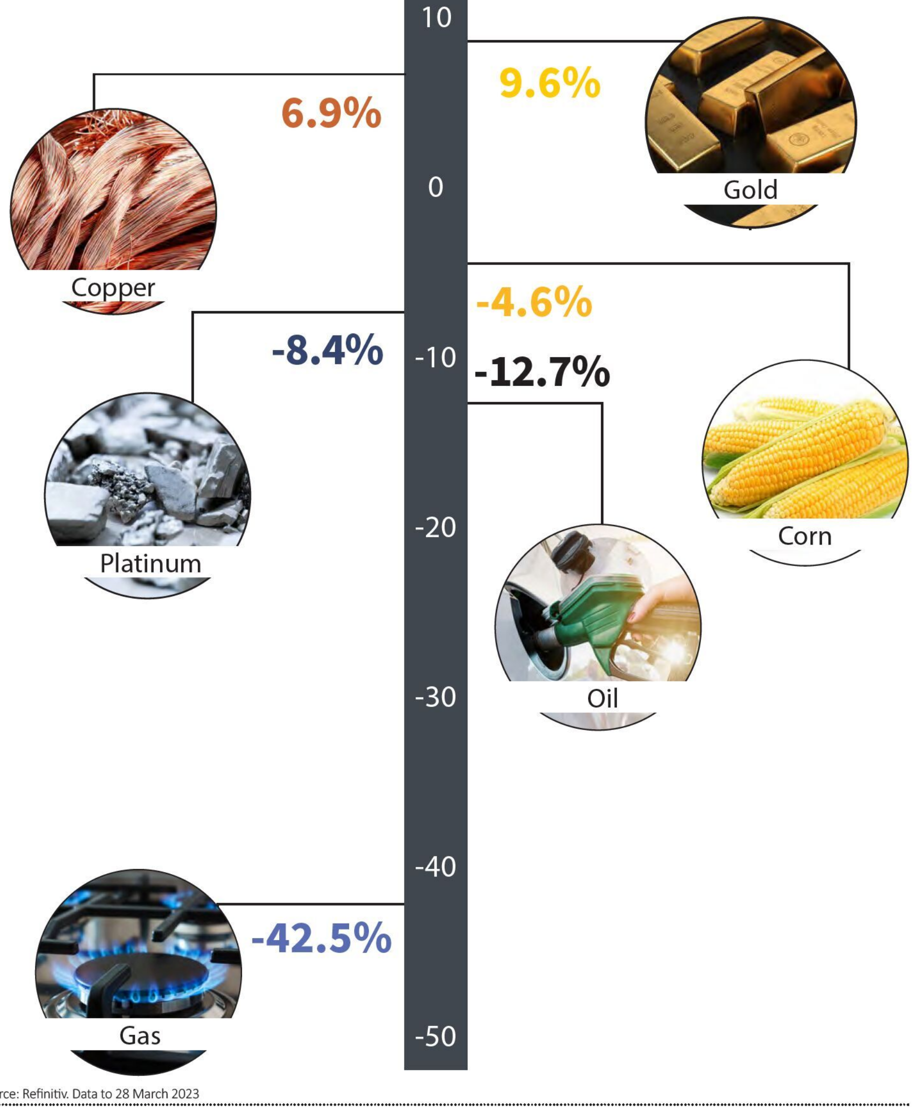
Databank – Commodity price performance 2020-2023





Source: Refinitiv. *Data to 28 March 2023.

Databank – Gain / loss so far in 2023



Source: Refinitiv. Data to 28 March 2023