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SHARES

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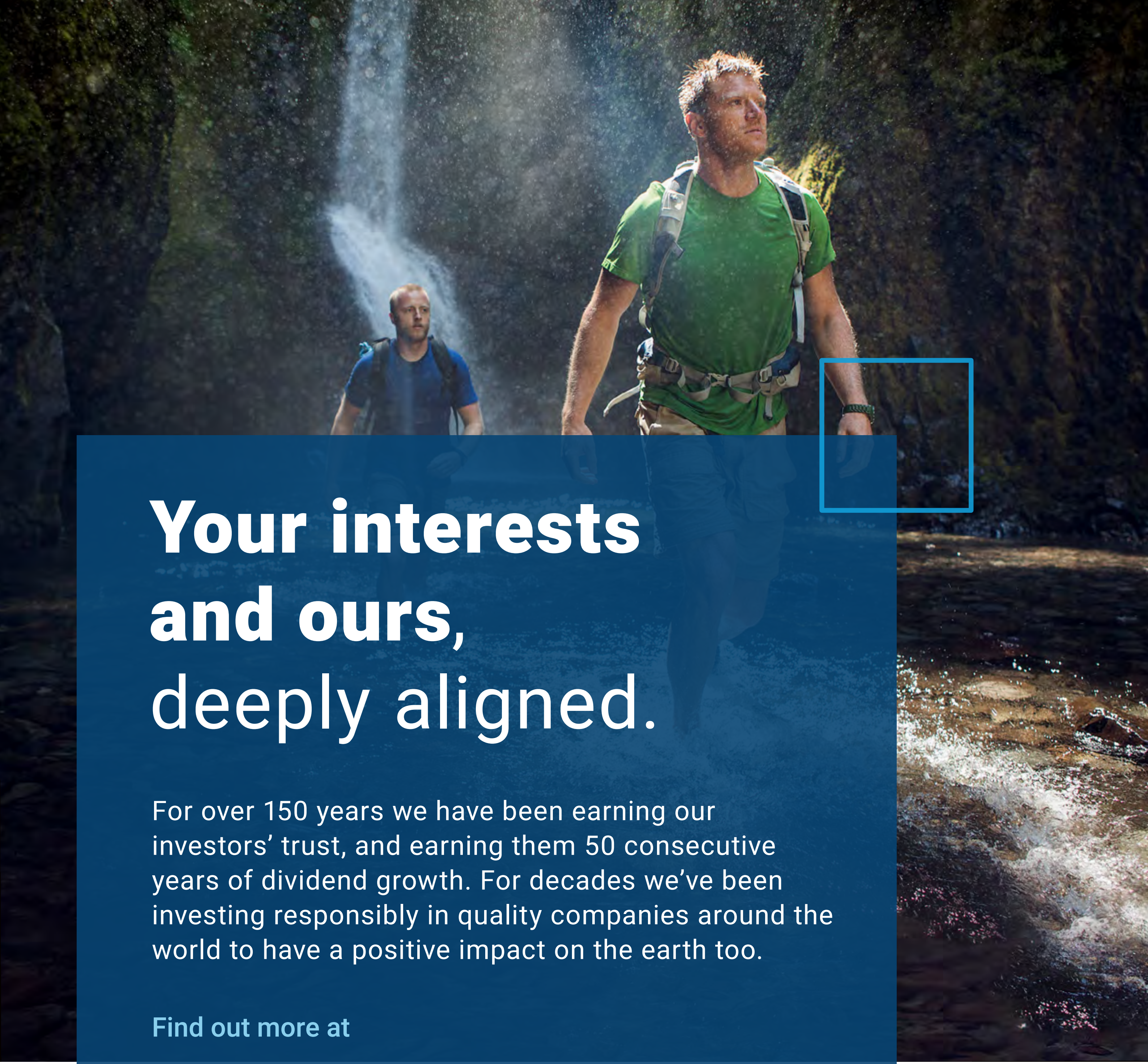
HOUSEBUILDERS: Are they on shaky foundations after the sell-off?



Contents

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PAST PERFORMANCE

	Nov 16 – Nov 17	Nov 17 – Nov 18	Nov 18 – Nov 19	Nov 19 – Nov 20	Nov 20 – Nov 21
Net Asset Value	25.3%	0.3%	16.7%	9.5%	21.5%
Share Price	34.2%	-1.9%	21.7%	10.5%	19.7%
FTSE World Europe ex-UK Total Return Index	25.0%	-4.6%	13.7%	7.3%	15.7%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 30.11.2021, bid-bid, net income reinvested.
©2021 Morningstar Inc. All rights reserved. The FTSE World Europe ex-UK Total Return Index is a comparative index of the investment trust.

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Why diversity in the boardroom really matters

Taylor Wimpey and Pets at Home have swelled the ranks of women CEOs in the FTSE 350

Female representation in British boardrooms became heathier this week as two women were appointed as chief executives at **Taylor Wimpey (TW.)** and **Pets at Home (PETS)**. They join Roisin Currie who was unveiled as the new boss at **Greggs (GRG)** in January and who will succeed the long-serving Roger Whiteside in May.

In one sense this is to be celebrated purely in the interests of equality and fairness. In an ideal world everyone would have the opportunity to go as far as their talent would take them regardless of their gender, background or colour of their skin.

This is not purely the responsibility of the business world – there are obviously societal factors which feed into this.

And should it matter to investors anyway? The two women in question, Jennie Daly at **Taylor Wimpey (TW.)** and Lyssa McGowan at **Pets at Home (PETS)**, deserve the respect of being judged on their own merits.

McGowan looks an excellent appointment for Pets after the departure of the well-regarded Peter Pritchard and we discuss why in more detail in this article.

Daly also looks a solid appointment given her three decades of experience in the housebuilding and land and planning industries. However, there is research which suggests the simple fact of having women represented in the boardroom is correlated with better financial and stock market returns.

To quote the executive summary of a report published by the Financial Reporting Council in 2021, covering the period from 2001 to 2019: 'Higher levels of gender diversity of FTSE 350 boards positively correlate with better future financial performance (as measured by earnings before interest, depreciation and amortisation margin), with the effect being the strongest after three to five years.

'Better-performing firms experience greater benefits in terms of financial performance from gender diversity. Specifically, based on average EBITDA margin, our analysis shows that the top 50% of the sample of companies that had at least one woman on the board experienced higher levels of EBITDA margin after three years.

'Likewise, FTSE 350 boards with well managed gender diversity contribute to higher stock returns and are less likely to experience shareholder dissent.'

There is logic behind this. While it would be easy to dismiss diversity targets as political correctness or a box-ticking exercise, by casting your net as widely as possible in the population you have the greatest chance of securing top talent.

A diverse leadership also means encompassing a broader variety of perspectives and experiences which can help businesses make more informed decisions and, particularly for consumer-facing companies, allow them to better understand the people purchasing their goods and services.

Real progress has been made in recent years in boosting the gender diversity in UK plc, even if there's still plenty to do.

Where things really start to fall down is when it comes to ethnic diversity. According to survey of FTSE 100 companies by the Parker Review committee and Department of Business, Energy & Industrial Strategy published in 2021 only five ethnic minority directors occupy a CEO position, all of whom are men.

A sobering thought for those who see the advantages of top executives being representative of the wider population.

By **Tom Sieber** Deputy Editor

Looming Amazon growth questions masked by stock surge

Online retail giant's Q4 results sparked biggest one-day gain since 2012 but it wasn't all good news

Online retail giant Amazon posted the biggest one-day gain since 2012 last week after blowing fourth quarter 2021 earnings estimates out of the water, despite missing on revenue growth. Yet the numbers were less impressive than they might have first appeared.

Amazon shares jumped from $2,776.91 to $3,152.79 on 3 February with investors rallying behind earnings of $27.75 per share, surging past consensus forecasts pitched at $3.71 thanks to a 17% price hike for Amazon Prime users in the US, soaring AWS cloud profits and emerging advertising revenue.

Analyst Benedict Evans noted that made Amazon's ad revenue similar in size to the entire global newspaper industry. Statista put global newspaper annual ad spending at $29.5 billion. YouTube posted $28.8 billion ad revenue for 2021 whole popular social networking platforms Pinterest and Snap posted Q4 ad revenue of $846.7 million $1.3 billion respectively.

Management had pitched expectations low alongside its third quarter results which, while a triumph for expectations management, means the numbers for the last three months of the year weren't quite as stellar as they might have seemed on the surface.

The beat relative to expectations was supported by $11.8 billion one-off gain linked to its stake in electric vehicle play Rivian which enjoyed a blockbuster IPO in November 2021. Having listed at $78 a share, Rivian roared above $170 but has since sagged to $60. Amazon's guidance for the first quarter of 2022 also failed to inspire.

Sales growth slipped to 9.4% year-on-year in Q4 and the mid-point of management's guidance for Q1 2022 revenues coming in between $112 billion and $117 billion implies a 5.5% year-on-year advance. This represent a significant slowing from the levels of growth which investors got used to during the pandemic.

Cash generation was weak, perhaps reflecting pressures around supply chain and staffing costs, the North American retail business made a loss for the first time since divisional numbers were broken out in 2015 and margins were at their lowest level since the third quarter of 2017.

Amazon has become a keenly watched stock by thousands of UK investors because of the huge influence it exerts on US and global stock markets.

A current $1.61 trillion market cap adds up to around 3.6% of the entire S&P 500 index, behind only Apple, Microsoft and Alphabet. That mean that it is owned by large numbers of active funds and most mainstream US tracker funds and ETFs.

Amazon, clearly still has levers to pull, as reflected by its hike in the cost of a Prime subscription in the US but its next quarterly earnings, expected in April, may not be given such an easy ride by the market. [SF]

Consumer giants rethink their strategies with a little help

Activists raise the heat at Unilever while Reckitt sounds out buyers for infant nutrition unit

The drum beat of calls for change from investors in food to household goods conglomerate **Unilever (ULVR)** seems to be growing louder by the week if not by the day.

The *Financial Times* reported over the weekend that after the firm's failed £50 billion bid for **GlaxoSmithKline's (GSK)** consumer health business, two major shareholders are demanding a shake-up.

German absolute return investor Flossbach von Storch, a top 10 shareholder in the Anglo Dutch concern which prides itself on 'investing robustly', has reportedly told Unilever management it should break the business up into three separate divisions, beauty, food and household products.

Meanwhile, an unnamed shareholder – believed to be amongst the top 20 investors in Unilever – has asked management to replace the current chairman Nils Anderson with someone from outside the board.

This follows the publication of a highly disparaging 'post-mortem' on the firm's attempt to buy the Glaxo healthcare unit by long-standing top 10 shareholder Fundsmith, and the news that US activist firm Trian Partners, co-founded by Nelson Peltz, had taken a sizeable stake in the company.

Having engineered corporate change at Heinz, Proctor & Gamble and Cadbury Schweppes, where Trian pushed for the break-up the business, a move which eventually led to Cadbury being bought by Mondelez, Peltz has serious pedigree and is expected to attempt a similar transformation at Unilever.

According to fellow activist Bill Ackman, manager of **Pershing Square (PSH)**, Peltz is 'a thoughtful investor with good operating chops'. Others praise his ability to understand businesses and engage with management to bring about change, primarily by increasing sales and lowering costs.

In January 2022, Unilever presented its own plan to make it a 'simpler, more category-focused business', resulting in a loss of up to 1,500 middle management roles.

The new, more streamlined company will be built around beauty and wellbeing, personal care, home care, nutrition and ice cream.

Notably, food and refreshment was *not* mentioned as a key business area, which suggests pressure to restructure the firm is already having an effect.

Meanwhile, consumer and household goods rival **Reckitt Benckiser (RKT)** is reported to be weighing up options for its infant nutrition unit according to *Bloomberg*.

Chief executive Laxman Narasimhan has apparently been sounding out buyers informally for the division, which turned over around £3.3 billion in the year to February 2021 but has seen a sharp decline in its Chinese business.

Investors would likely breathe a huge sigh of relief if the unit were sold as it would finally draw a line under the disastrous $18 billion acquisition of Mead Johnson Nutrition five years ago by previous boss Rakesh Kapoor. [IC]

PayPal hit by pressured consumer spending and competitive threats

Payments platform sees its share price crater after weak earnings report

Shares in digital payments giant PayPal fell nearly 25% after reporting disappointing fourth quarter results. Investors were also unsettled by the anaemic earnings guidance for 2022.

The group has been negatively impacted by cost of living pressures on consumer spending, particularly among those on lower incomes. Ongoing supply chain issues have also been a problem. The group reduced its profit guidance for the current quarter, and slashed forecasts for full-year revenue growth.

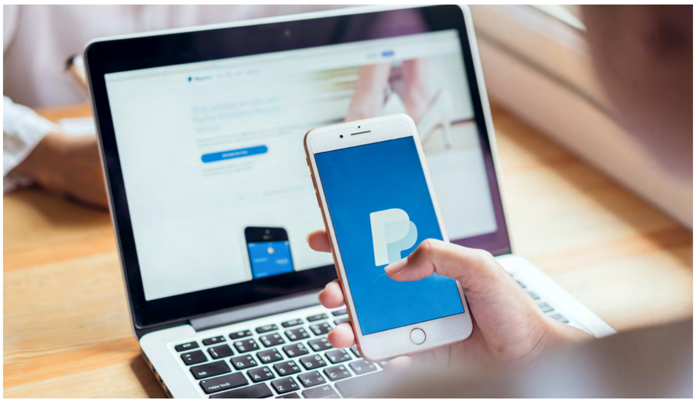
Investors may fear that, as well as a wider slowdown in consumer spending, the company is suffering the consequences of an accelerated shift to digital payments during the pandemic. This could result in slowing growth in the coming years, as all that extra revenue was effectively brought forward.

Pay Pal expects $0.87 per share in first quarter earnings, this is significantly below consensus estimates. New accounts, which grew at a rapid rate during the pandemic appear to be increasingly more difficult to find. In 2022, total accounts are expected to grow by only 15 million to 20 million, implying that PayPal will end the year with a total customer count of 441 million to 446 million.

PayPal's net revenue growth rate for the first quarter of 2022 is expected to be only 6%. The group also reported 4.5 million illegitimate accounts it had to remove from the numbers.

PayPal is losing business at a faster than-anticipated rate from its former owner eBay, which is moving to its own separate payments platform. However despite the short-term uncertainty, there are some indications of a more encouraging longer-term outlook.

During the past year, Pay Pal has evolved



rolling out new features including a Venmo credit card and cryptocurrency trading. There is also significant scope for the group to expand into new international markets, and the phenomenal growth of Venmo, (a digital wallet) is set to continue as Amazon customers in the US are now able to pay with Venmo for purchases on Amazon.com, and the mobile Amazon mobile shopping app.

Venmo (a mobile payments service founded in 2009 and owned by PayPal since 2012), is benefiting from its partnership with Amazon.

PayPal's CEO Dan Schulman said the partnership is 'just at the start of Venmo's commerce journey'. Given Amazon's massive scale (its US retail ecommerce sales are projected to hit $376.57 billion this year) the partnership is a huge opportunity for Venmo to expand the use of its checkout functionality and grow its payments volume.

In September 2021, PayPal acquired Japanese buy now pay later firm Paidy. PayPal is looking to leverage Paidy to increase its market share in the country and the region. Paidy's platform offers a monthly payment instalment service, which enables shoppers to make purchases online and then pay for them each month in a consolidated bill. [MGar]

Why Europe could be set to play catch up with UK and US on rates

The ECB's U-turn ushers in a period of policy tightening across Europe, the UK and the US

Eurozone inflation surprised to the upside for the seventh consecutive month in January, rising to a record 5.1%, far above the central bank's 2% target.

The unexpected data seems to have finally persuaded European Central Bank (ECB) president Christine Lagarde to ditch her 'transitory' inflation narrative which brings the bank into line with the Bank of England and US Federal Reserve.

Both the UK and US central banks have signaled their willingness to hike interest rates more aggressively to deal with stickier than expected inflation with the Bank of England pushing through back-to-back increases.

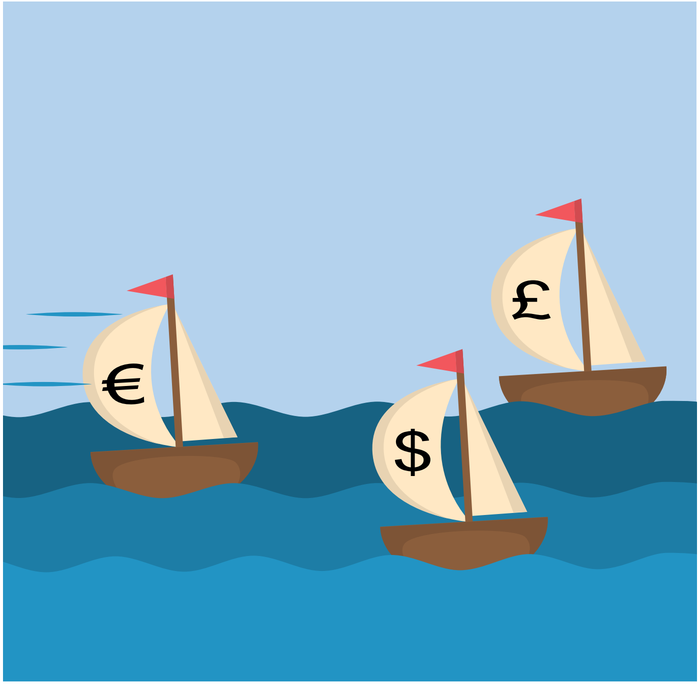
The direction of travel for UK rates seems clear given that four of the nine Bank committee members wanted to push through a 0.5% hike instead of 0.25%.

While Lagarde highlighted key differences between the eurozone and the economies of the UK and the US, which has seen a bigger jump in consumer demand, Lagarde didn't dismiss the idea of raising rates later this year and said the risks were tilted to the upside.

The U-turn opens the door to rate rises, possibly before the end of the year, with bond markets quickly pricing in the possibility by pushing bonds yields higher.

According to Bloomberg data, markets are pricing in a zero-deposit rate by the end of 2022 compared with the current rate of minus 0.5%.

In recent weeks the benchmark 10-year German bund yield has been nudging into positive territory for the first time since the start of the pandemic and today it stands at 0.25%. The hawkish tone gave a boost to the euro which has rallied by 1% against the US dollar.



The hawkish pivot by the ECB had an immediate and unwelcome impact on Europe's peripheral debt markets which saw increased selling. This has pushed up Italian 10-year government bond yields sharply in recent days from 1.45% to almost 1.84%.

The implied spread between German and Italian 10-year yields has widened to 1.6% for the first time since the Autumn of 2020 reflecting increased fear over the Europe's most indebted members. A year ago, the equivalent spread was 0.9%.

Italy is Europe's third largest economy and one of the most indebted with government debt equivalent to 155% of gross national product in 2020 up from 135% before the pandemic.

If the ECB does move on rate increases, they are expected to happen towards the end of 2022, some time after the central bank ends its asset purchase programme in June. [MGam]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This value-tilted global fund is now outperforming

Artemis SmartGARP Global Equity Fund has waited patiently for the value style to come back into favour

Global equity funds have been popular over the past decade, with returns driven by companies with the potential to deliver high levels of earnings growth in the future and investors happy to pay a premium price to own these stocks.

The market rotation away from high growth stocks this year has now left a lot of investors wondering what to do as many popular global equity funds have struggled of late.

These funds have been dragged down by fast growth stocks now trading on lower earnings multiples and the market saying future cash flows are worth less today when you factor in rising interest rates.

ADJUSTING PORTFOLIOS

Global equity funds are still relevant, and it makes sense for investors with at least a five or 10-year horizon to have exposure to companies around the world to obtain geographic and sector diversification.

Investors simply need to consider what's inside these funds' portfolios and take a view whether holdings are attractive or not in this new environment where central banks are withdrawing liquidity and interest rates are generally going up around the word.

This shift in the market will mean some investors will need to adjust their own portfolios. One solution is to increase exposure to the value investment style, namely companies which trade on cheaper valuations and generate profits today, albeit growth is expected to be solid rather than spectacular.

TICKS THE RIGHT BOXES

ARTEMIS SMARTGARP GLOBAL EQUITY FUND
BUY
(B2PLJP9) 171p

Fund size: £590 million

Artemis SmartGARP Global Equity Fund (B2PLJP9) ticks all the right boxes. The global equity fund taps into the value end of the market, looking for quality companies at a reasonable price. The fund has so far this year outperformed its benchmark during a rocky time for stocks and shares.

It has protected investors' money with a mere 0.8% dip in the year to 4 February 2022 versus a 4.6% decline for the MSCI All Countries World Index, a 6.7% slump for investor favourite **Fundsmith Equity Fund (B41YBW7)** and a 14% dive for another popular global growth fund, **Blue Whale Growth**

ARTEMIS SMARTGARP GLOBAL EQUITY FUND RETURNS

	6 months	1 year	Annualised 5 years	Annualised 10 years
Artemis SmartGARP Global Fund	5.0%	17.2%	9.4%	13.2%
MSCI All Country World index	1.9%	10.4%	10.8%	12.1%

Table: Shares Magazine • Source: FE Fundinfo, data to 4 Feb 2022. Total return in GBP • Created with Datawrapper

(BD6PG78), according to FE Fundinfo data.

Artemis SmartGARP Global Equity manager Peter Saacke puts the fund's resilient performance down to an investment process which analyses factors such as earnings growth, valuation, revisions to earnings estimates and ESG.

The process means the fund hasn't chased the highly rated stocks which were caught up in market hype in recent years, and so it hasn't suffered from the big sell-off in these types of shares this year.

LOOKING FOR TOP SCORERS

The SmartGARP process scores companies between zero (worst) and 100 (best). Saacke focuses on the top 10%, namely those scoring above 90. Top holdings include pharmaceutical group Pfizer, US semiconductor firm Qualcomm and banking group JPMorgan Chase.

The fund also has stakes in Microsoft, Alphabet and Apple – while these score in the mid-80s on the SmartGARP process, this is a classic case of a fund manager preferring to own key stocks that drive the market otherwise they run the risk of underperforming versus the benchmark without them.

Saacke says he is being pragmatic by including these three names as they do score well on relative terms. 'It makes sense to own these mega caps but wouldn't include any others that scored nowhere near the 90-level threshold, such as Tesla,' he adds.

TOP QUARTILE

On a five-year basis the Artemis fund has underperformed the market and the two popular global funds mentioned earlier in this article, Fundsmith Equity and Blue Whale. That's understandable given that its investment process shifted towards value names for much of this period, and this investment style has been out of favour. Its low exposure to technology stocks has also worked against the fund relative to the market.

With the market now rotating towards value, *Shares* believes the Artemis fund looks more attractive. In fact, it has scored in the top 25% of all global equity funds for performance over the past three, six and 12 months.

There is no guarantee it can keep up this performance, but Saacke believes the shift in the market mood caused by a different economic environment will favour value stocks for some time. 'I think we'll see a broad value outperformance with a few very sharp rallies of the prior winners, in a similar way to the TMT (technology, media and telecoms) boom and crash in 1999/2000,' he says.

GROWTH COULD BECOME CHEAPER

Saacke's quest for growth at a reasonable price has meant that since 2018 he's been fishing in value-style stocks which have been out of favour, such as the more pedestrian sectors like banks.

Following the market shake-up which can be traced back to November 2020, if faster growth companies see further contraction in the multiple of earnings at which their shares trade, then these stocks could eventually appear on 'growth at a reasonable price' screen. That's why Saacke believes his fund will be more balanced between value and growth-style investments in five years' time.

For now, Artemis SmartGARP is one of the cheapest global equity funds on a price to earnings basis. At the end of 2021, its portfolio traded on an average PE of 8.1 versus 17.6 from the benchmark MSCI All Country World index.

For this bargain valuation, investors get exposure to various Canadian banks which perhaps sum up what to expect from the fund. Saacke calls them 'boring' but adds that they trade at a discount to the market, pay good dividends and are 'churning out solid growth'.

He adds: 'I'm not talking super stellar technology growth, but solid growth which is now seen as more attractive to have.' Often boring is beautiful when it comes to investing and patience with this fund could be rewarded handsomely. [DC]

DISCLAIMER: The author has a personal investment in Fundsmith Equity

Artemis SmartGARP Global Equity Fund (B2PLJP9)

Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

Grab a great buying opportunity in Gamma Communications

Consensus forecasts likely to rise as we near 2021 results, promising a valuation rethink

We believe that communications kit designer **Gamma Communications (GAMA:AIM)** has substantial scope to bounce back as we near publication of 2021 full year results (to 31 December) on 22 March. The stock has been pulled sharply lower in recent months as investors rotated out of growth companies, particularly things even vaguely connected to the technology space.

Yet company commentary has been uniformly positive throughout and Gamma reaffirmed last month that it remains on track to meet expectations raised twice in 2021. That implies adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) of £90.5 million to £96 million on revenue in the £444.5 million to £455.6 million range. Adjusted earnings per share is pitched at 57.6p to 64p.

With a track record for under-promising and over-delivering, we see Gamma as a unique play on integrated IT and communications using cloud technology. Already a strong growth trend, the pandemic hastened most organisations in their shift to embrace cloud flexibility and cost efficiency, yet Gamma has a habit of out-competing both large and small rivals in what is increasingly known as the unified communications-as-a-service industry, or UCaaS for short.

Gamma already has significant scale with a strong track record for developing communications solutions, and we would expect the company to continue expanding its offering, creating an increasingly compelling value and service-based proposition.

Traditionally UK-only, Gamma has expanded into Europe over the past few years through sensibly priced acquisitions, accessing markets in Spain, Holland and Germany. Its £1.61 billion market value means it would go straight into the top half of the FTSE 250 index if it chose to depart AIM, and it may do so in time.

The stock is currently trading on a 2022 price to earnings multiple of 22.8, based on the 69.6p EPS consensus. Yet Numis believes this year's forecasts are underestimating Gamma's growth potential thanks to strong across the board demand, acceleration to next generation communication networks and tools, and national fibre rollouts.

GAMMA COMMUNICATIONS
BUY
(GAMA:AIM) £15.86

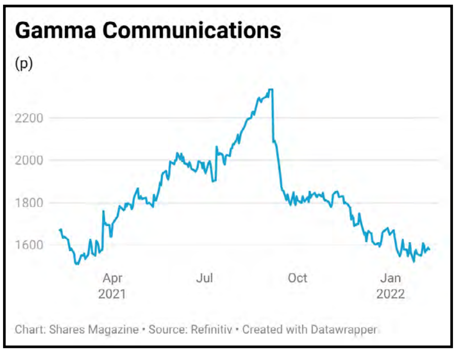
Market cap: £1.53 billion

Numis' own 2022 EPS estimates stand at 72.6p.

Numis calculates EBITDA of around £94.6 million will be reported in March, or roughly 15% year-on-year organic growth, which strips out everything to do with recent acquisitions and pandemic-related one-offs.

In September 2021, Gamma became one of only a few telecom service providers globally to be recommended by Microsoft Teams, offering further expansion opportunities. Numis confidently predicts compound growth in EBITDA and EPS in the mid-teens out to 2024.

Investors should strap in for this growth journey while the shares are trading at a discount to their typical rating. [SF]



ALPHABET (C CLASS)

$2,778.76

TOP STOCKS FOR 2021

Loss to date: 2.4%

Original entry point:

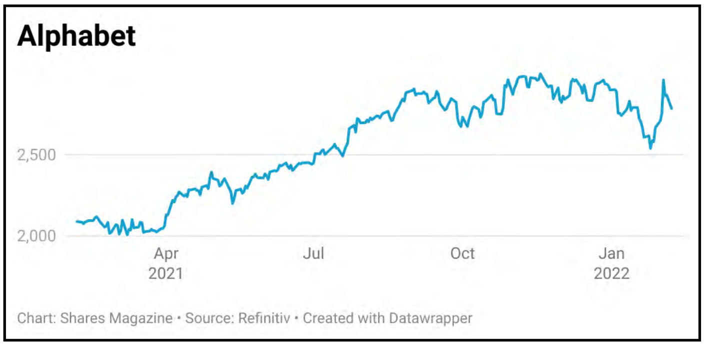
Buy at $2,848, 23 December 2021

FOR OUR 2022 pick to be only marginally under water speaks volumes for the online search and ads giant's strong end to 2021 considering how unloved the global tech space has been so far in 2022. Google parent Alphabet also unveiled a 20-for-1 stock split that should make investing easier for the masses.

It means that for each single share worth the current $2,778 (roughly), investors will instead own 20 at $138.90, a much more manageable chunk of cash for those investing out of their monthly salary, for example. If the stock split gets voted through, shareholders will get their new shares on 15 July.

As for the numbers. Alphabet reported better-than-expected fourth quarter earnings and revenue, the latter growing 32% in the three months to 31 December 2021, proving again that it was able to withstand the pressures from the pandemic and inflation.

It beat estimates on both the revenue and earnings lines, posting $30.69 earnings per share versus $27.34 expected, according to Refinitiv, while revenue came in at $75.33 billion, topping the $72.17 billion forecast. YouTube advertising revenue was $8.63 billion, a little shy of estimates, offset by a modest beat from Google Cloud's $5.54 billion.



SHARES SAYS: ↗

Alphabet's 20-for-1 stock split will make is easier for ordinary investors to buy. [SF]

VIRGIN WINES

(VINO:AIM) 153.5P

Loss to date: 31.5%

Original entry point:

Buy at 224p, 22 April 2021

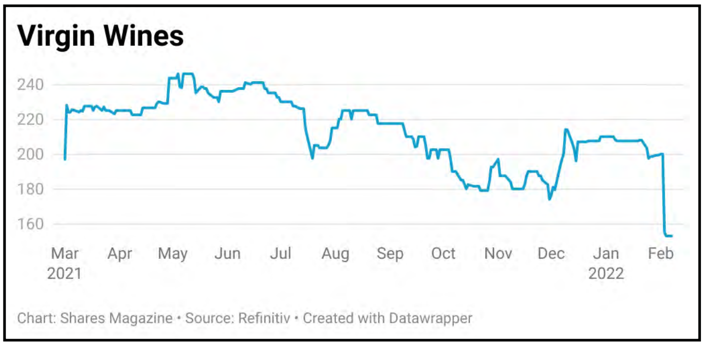
OUR BULLISH CALL on **Virgin Wines (VINO:AIM)** is 31.5% in the red following a mild profit warning (3 Feb) from the direct-to-consumer online wine seller which prompted what looks an overreaction by the market.

Sales and profit for the year to June 2022 are now expected to be 'slightly below' consensus estimates after Virgin Wines experienced sluggish new customer recruitment in November and December and suffered a Covid outbreak-induced distribution centre closure before Christmas.

During the half to December 2021, sales were flat at £40.5 million as the lockdown winner lapped a demanding comparator, although sales were an impressive 55% ahead on a two-year basis, demonstrating Virgin Wines' strong market share gains.

Liberum Capital noted that existing customers 'remain of high quality and customers acquired during the pandemic are also returning', as well as the fact that Virgin Wines' subscription schemes continue to deliver growth.

Even after the downgrade, Liberum still forecasts pre-tax profit improvement from £5.2 million to £6.1 million this year, ahead of £7.2 million and £8 million thereafter and notes net cash of £13.6 million means Virgin Wines can 'comfortably' fund acquisitions, international expansion and 'any other ancillary investment'.



SHARES SAYS: ↗

The share price fall looks overdone. Keep buying. [JC]

PETS AT HOME

(PETS) 407P

TOP STOCKS FOR 2021

Loss to date: 13%

Original entry point:

Buy at 467.6p, 22 December 20211

THE YEAR HAS got off to a good start for the team at the UK's leading pet equipment and veterinary services group **Pets At Home (PETS)** with an increase in earnings guidance and a new chief executive set to take the hot seat.

Yet the company's shares are now 13% below where we recommended them due to the general re-pricing of risk since mid-January, which means they look even better value than before.

Like-for-like revenues for the 12 weeks to the end of December rose a better than forecast 9% on the previous year and 28% on 2019 as pet-loving Brits continued to indulge their furry friends and the firm pushed through higher sales of premium products over the Christmas period.

As a result, pre-tax profit for the 12 months to the end of March isnow expected to be at least £140 million compared with £132 million previously, and consensus forecasts for 2023 and 2024 have also been raised.

Meanwhile, former Sky chief customer officer Lyssa McGowan is set to take over from founder and current chief executive Peter Pritchard in June.

This looks a great appointment, McGowan is highly regarded and brings a proven track record at Sky, having been responsible for more than 10 million customers and more than $10 billion of revenues.

Pets At Home

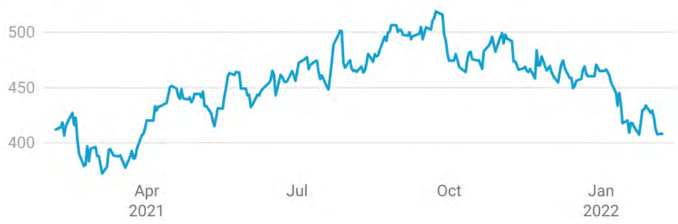


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

SHARES SAYS: ↗

We like the stock even more at current prices and would buy more. [IC]

SMITHSON

(SSON) £16.85

Loss to date: 12%

Original entry point:

Buy at £19.15, 2 September 2021

THE QUALITY-FOCUSED investing style behind **Smithson (SSON)** has gone out of fashion in recent months and left our positive call on the investment trust from the Terry Smith stable looking a bit sorry.

However, Smithson should be judged over a longer timeframe so we're not too alarmed by the recent weakness.

The trust itself has taken advantage of opportunities created by the recent market weakness, taking a stake in Italian luxury goods firm Moncler.

In his annual letter to shareholders manager Simon Barnard says 'patience is one of our competitive advantages' as he noted it would not be possible for the portfolio to outperform significantly every year and reiterated his commitment to the strategy underpinning the fund.

'We are confident that, as well as making constant progress, a high-quality company, if it trips during the storm, will rise again and keep going. Low quality, value companies on the other hand, may never get back up,' he added.

Smithson achieved an 18.9% total return at the net asset value level, and 18.1% at the share price level. That compared with a 17.8% return from the MSCI World SMID index.

DISCLAIMER: Editor Daniel Coatsworth owns shares in Smithson

Smithson

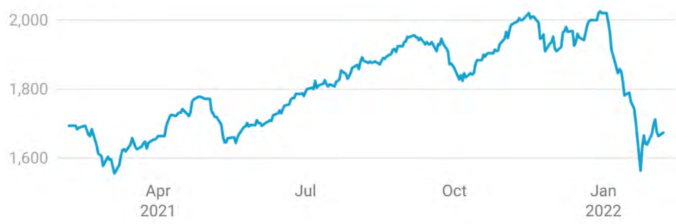


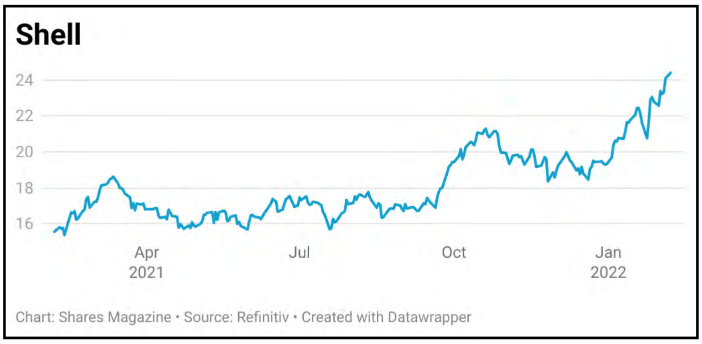
Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

SHARES SAYS: ↗

Use the share price weakness as an opportunity to buy more shares. [TS]

SHELL
(SHEL) £20.80

Gain to date: 18.3%
Original entry point:
Buy at £17.58



OUR POSITIVE STANCE on **Shell (SHEL)** has been quickly rewarded as a combination of its corporate reshuffle, strong energy prices and bumper results helped lift the share price.

Having dropped the Royal Dutch from its name and fully domiciled in the UK with a primary listing in London, the 'new' Shell got off to a great start with its full year and fourth quarter numbers (3 Feb).

For the fourth quarter, adjusted earnings jumped 55% to $6.39 billion from $393 million a year earlier, while adjusted earnings for the full year increased to $19.3 billion from $4.85 billion in 2020. Both were ahead of forecasts.

Shell raised its first quarter dividend by 4% and said it would buy back $8.5 billion worth of shares in the first half of 2022, encompassing $5.5 billion of proceeds from the sale of its assets in the Permian basin.

The main danger for the business in the short term is a potential windfall tax with its bumper numbers coinciding uncomfortably with a massive increase in the UK energy price cap. An investor event dedicated to its liquefied natural gas business on 21 February could act as a near-term catalyst for the shares.

SHARES SAYS:
A great start and we remain positive. [TS]

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

SIMPLE, LOW-COST INCOME:

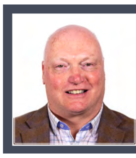
Sit back and let the cash roll in

The rapid growth of exchange traded funds over the last decade means investors now have plenty of choice when tracking major investment themes.

ETFs take the headache and risk out of trying to pick the best active managers while also offering lower costs and good liquidity. They can also provide diversification in certain assets which are harder for retail investors to access such as bonds, property and infrastructure.

In this feature we explain how to go about building a portfolio of ETFs designed to achieve a good income while also providing some growth. It is aimed at investors close to retirement looking to build and supplement their incomes.

The UK market offers one of the highest dividend yields among developed markets, so it might seem tempting just to purchase a FTSE 100 index tracker such as the **iShares Core FTSE 100 ETF (ISF)**, and pick up a yield upwards of 3%.



By **Martin Gamble** Senior Reporter

However, there is always the risk that dividends are cut, as happened brutally in 2020, particularly given economic uncertainty remains elevated as inflationary pressures rise and central banks start to remove economic stimulus.

Therefore, it makes sense to look beyond shares and reduce risk by investing for income across other asset classes.

Property and infrastructure funds provide some inflation protection and bonds provide more

A simple, low-cost income portfolio

	Ongoing charges (%)	Dividend yield (%)	Weighting in portfolio
SPDR S&P UK Dividend Aristocrats ETF	0.3%	3.6%	20%
Vanguard FTSE All-World High Dividend Yield ETF	0.29%	3.4%	20%
Invesco FTSE Emerging Markets High Dividend Low Volatility ETF	0.49%	6.1%	20%
L&G ESG GBP Corporate Bond ETF	0.09%	2.1%	20%
VanEck Vectors Global Real Estate ETF	0.25%	2.0%	10%
iShares Global Infrastructure ETF	0.65%	1.9%	10%
Weighted average	**0.32%**	**3.4%**	

Source: Shares, ETF factsheets • Created with Datawrapper

certain income than equities.

Expanding the source of income should increase the durability of the portfolio and provide stable income in different economic environments.

STABLE INCOME

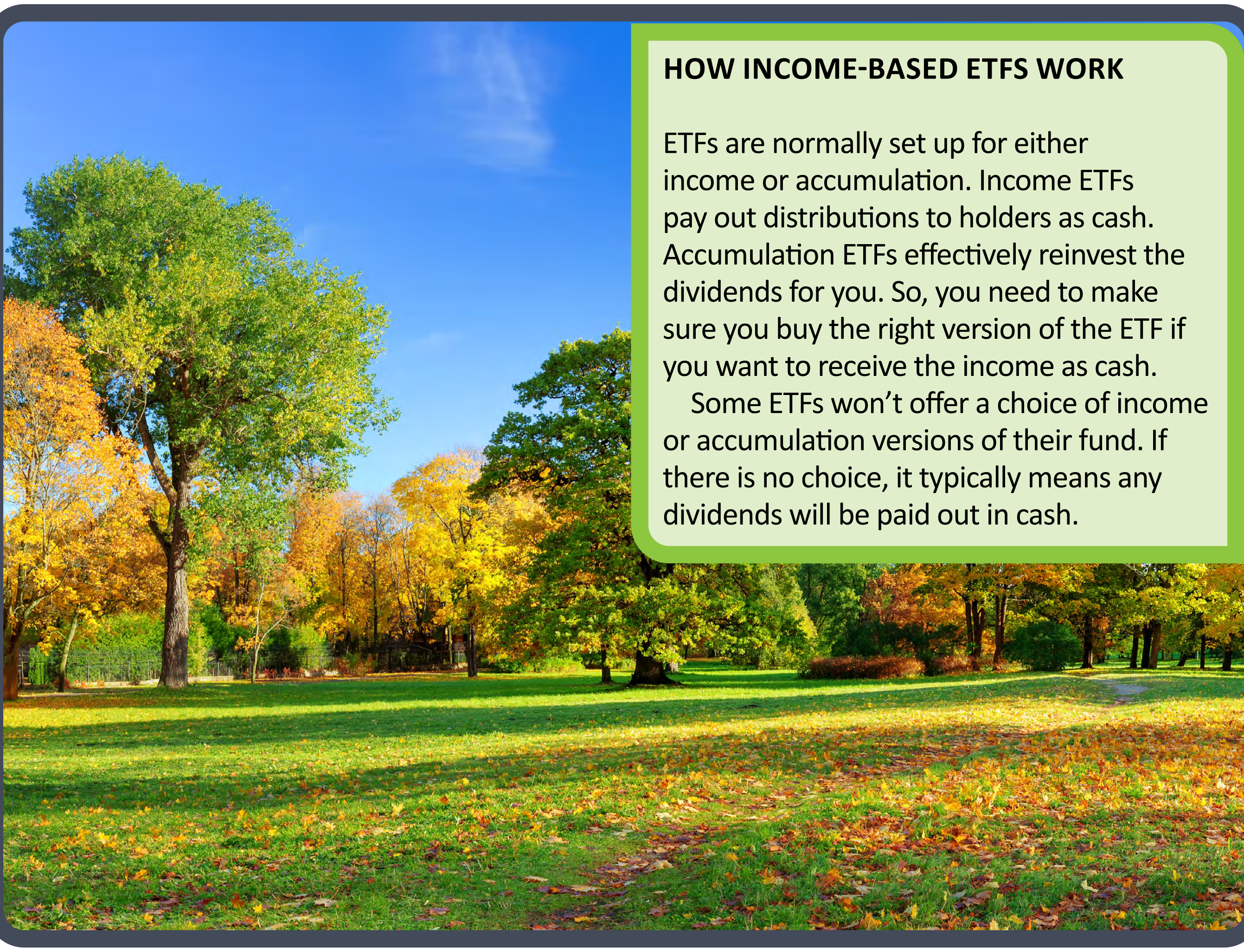
Bonds are a natural source of stable income because their returns are contractual. They have limited upside but are better protected on the downside. When companies issue debts, known as bonds, they are legally required to service those debts and pay back the loan.

This means bond investors get priority treatment over shareholders. A company is much more likely to cut or fail to pay a discretionary dividend than to skip the coupon payment on a bond. In a worst case scenario where a company fails to service its loans, bond holders can take control of a company and sell off its assets to recover what's owed to them.

Although retail investors can purchase individual bonds issued by companies on the London Stock Exchange, the minimum sizes can be prohibitive, and the skills and specific knowledge required to properly assess the risks can be daunting.

Therefore, investing through an ETF makes sense and there are plenty to choose from. However, remember to choose a distributing share class so that income is paid out and a sterling denominated class to remove exchange rate risk if the fund invests overseas.

We have focused on corporate bonds because they have higher yields rather than government bonds which pay next to nothing in interest in the current environment.



HOW INCOME-BASED ETFS WORK

ETFs are normally set up for either income or accumulation. Income ETFs pay out distributions to holders as cash. Accumulation ETFs effectively reinvest the dividends for you. So, you need to make sure you buy the right version of the ETF if you want to receive the income as cash.

Some ETFs won't offer a choice of income or accumulation versions of their fund. If there is no choice, it typically means any dividends will be paid out in cash.

GLOBAL EQUITIES

Share-based ETFs that track higher yielding stocks across various indices can be a good source of income. It is important not to simply focus on funds with the highest yields because the underlying dividends may not be as sustainable.

Therefore, when searching for high dividend share ETFs, check the rules used by the manager to select shares for the fund.

Products which use quality factors that consider balance sheet and cash flow characteristics are more likely to deliver a stable income. In other words, it is often better to give up some yield to increase durability. Another advantage is that quality shares are more likely to grow their dividends.

Adding global market exposure increases diversification. There is always one part of the world doing better which you will get exposure to through selecting a global product.

It is also possible to increase the overall portfolio yield by investing a small portion in emerging markets. Most investors probably would not even consider investing in individual companies listed in some far-off land. Investing via a well-diversified ETF reduces that risk, although remember the management fees are often higher.

INFLATION PROTECTION

Rather than betting the farm on a few property companies, global property ETFs allow investors to track the performance of entire property markets while picking up a decent dividend yield.

Property has tended to do well in periods of rising inflation and therefore offer the prospect of the income maintaining its real value over time.

The same argument can be made for infrastructure funds which often have inflation clauses written into the contract allowing them to pass on increased costs.

Investors get exposure to a broad range of industries with stable cash flows ranging from water and electricity companies to transportation and communications firms.

SIMPLE, LOW-COST INCOME PICKS

SPDR S&P UK Dividend Aristocrats (UKDV) £11.02

Yield: 3.6%

Our rationale for selecting **UK Dividend Aristocrats (UKDV)** is that this product not only offers a decent yield, with distributions paid out twice a year, it also invests in resilient, cash-generators with formidable dividend track records.

The ETF tracks the S&P UK High Yield Dividend Aristocrats index, which measures the performance of the UK's 40 highest dividend-yielding companies within the S&P Europe Broad Market Index (BMI) that have also raised or maintained the shareholder reward for at least the last seven consecutive years, lending the portfolio attractive inflation-beating credentials.

With 39 holdings at last count, UK Dividend Aristocrats offers exposure to sectors such as financials, industrials, consumer staples and healthcare, with the top 10 ranging from insurers **Phoenix (PHNX)** and **Legal & General (LGEN)** to pharmaceuticals giant **GlaxoSmithKline (GSK)**, cigarettes titan **British American Tobacco (BATS)** and defence outfit **BAE Systems (BA.)**. [JC]

SPDR S&P UK Dividend Aristocrats (UKDV)

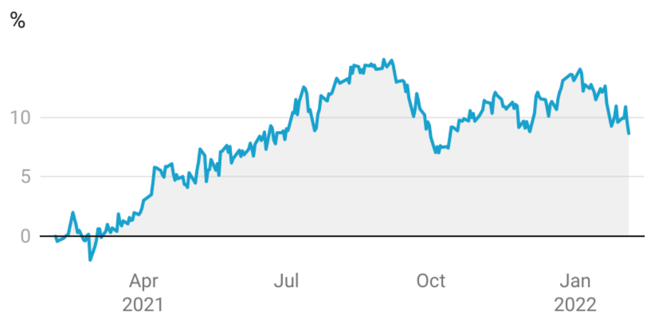


Chart: Shares Magazine • Source: FE Fundinfo, 7 Feb 2022. 1 year total return in GBP. • Created with Datawrapper

Vanguard High Dividend Yield ETF (VHYL) 48.15p

Yield: 3.4%

From the respected Vanguard stable, it's been a go-to fund for years for investors seeking inexpensive and diversified exposure to income-generating stocks from around the world. With £4.8 billion under management, investors get access to 1,782 global stocks, such as microchips firm TSMC, bank JPMorgan Chase, Johnson & Johnson, Home Depot and Proctor & Gamble, its current biggest five. About 45% of the fund is in US stocks, a bit more than a quarter in European, with the rest made up of mature and emerging markets. Paying dividends quarterly, the fund would have turned a £10,000 investment into £17,000 from inception in April 2013, including income, and ongoing charges are just 0.29%. [SF]

Vanguard High Dividend Yield ETF (VHYL)

Chart: Shares Magazine • Source: FE Fundinfo, 7 Feb 2022. 1 year total return in GBP. • Created with Datawrapper

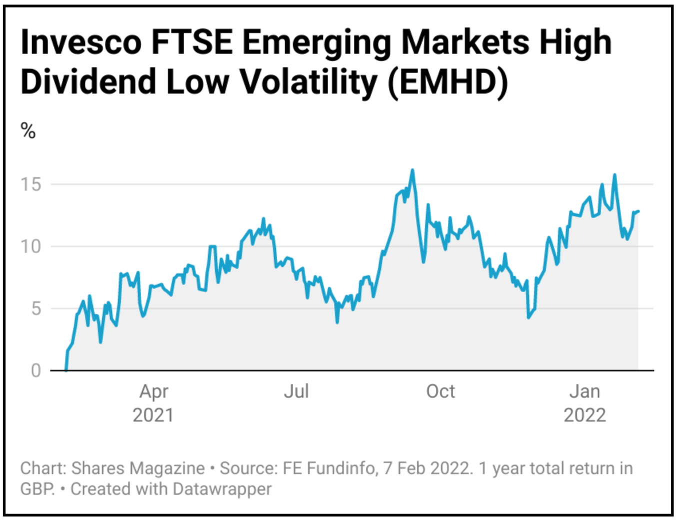
Invesco FTSE Emerging Markets High Dividend Low Volatility (EMHD) $29.93

Yield: 6.1%

The fund tracks the 100 least-volatile high dividend-yielding stocks in the FTSE Emerging Markets Index while at the same time meeting diversification, volatility and liquidity requirements.

Its aim is to generate an attractive yield – currently above 6% – by owning a broad spread of investments across various emerging markets which it can buy or sell without difficulty when required. Dividends are paid quarterly.

The fund is quoted in dollars, has roughly $106 million in assets and its biggest exposures are to China (48.5%) and Russia (12.8%), with smaller but significant exposure to Taiwan (8.5%) and Brazil (6.4%). [IC]



L&G ESG GBP Corporate Bond UCITS ETF (GBPC) 944.5p

Yield: 2.1%

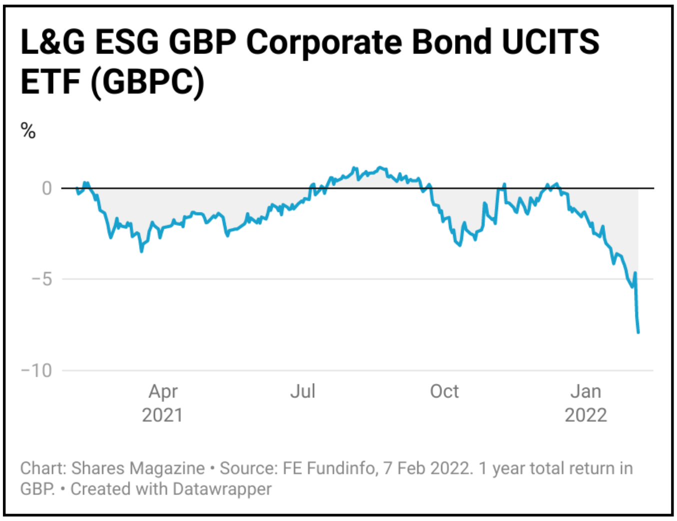
The fund adds diversification and pays a higher rate of interest than government bonds without taking too much risk.

The manager invests in sterling denominated investment grade bonds across developed and emerging markets. It tracks the JP Morgan GCI ESG Investment Grade GBP Custom Maturity Index.

The index applies an ESG (environmental, social and governance) scoring system to tilt towards higher ranked issuers.

The fund is mainly exposed to UK companies which comprise 55.6% of the fund and US companies which make up a further 20%.

The fund is very competitive on price with an ongoing charge of nine basis points a year. Income is paid annually. (MGam]



VanEck Vectors Global Real Estate (TREG) £37.35

Yield: 2%

This fund pays out quarterly distributions derived from a basket of property-related stocks. As a 'real' asset, property tends to offer some protection against inflation, which is a big consideration given a backdrop of rapidly rising prices.

More than half the portfolio is in the US, while Japan is second with a 13.5% weighting. The biggest individual holding is San Francisco warehouse investor Prologis. The yield on the fund is 2%, while the ongoing charges are low for a real estate focused ETF at just 0.25%. It has generated 7.2% annualised returns over the past three years. [TS]

VanEck Vectors Global Real Estate (TREG)

Chart: Shares Magazine • Source: FE Fundinfo, 7 Feb 2022. 1 year total return in GBP. • Created with Datawrapper

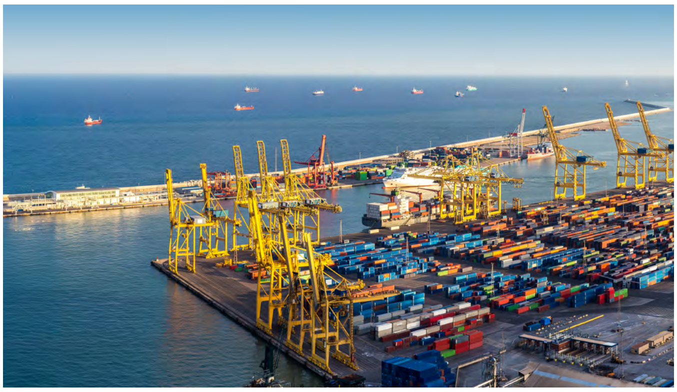
iShares Global Infrastructure (INFR) £24.46

Yield: 1.92%

The appeal of investing in infrastructure is clear. Assets such as ports, airports and toll roads are essential to the modern world and their revenue streams are long term in nature and less volatile with a link to inflation usually built in by regulation.

The ongoing charges for this fund, which invests in businesses with at least 65% of their revenue coming from infrastructure, are 0.65%. This is higher than you would find with mainstream equity ETF such as a FTSE 100 tracker because it reflects the greater complexities of investing in this space.

In relative terms it still offers inexpensive exposure to this asset class, with the average charge for infrastructure investment trusts running at more than 1% according to the Association of Investment Companies. Dividend distributions are made on a quarterly basis. [TS]



iShares Global Infrastructure (INFR)

Chart: Shares Magazine • Source: FE Fundinfo, 7 Feb 2022. 1 year total return in GBP. • Created with Datawrapper

Fundsmith late to Alphabet and Amazon but it is no S&P 500 tracker

Terry Smith's flagship fund retains 'buy quality, do nothing' ethos

Terry Smith might be Britain's favourite fund manager. Having built up an army of retail investor fans with his flagship **Fundsmith Equity (B41YBW7)** vehicle, he is often compared to Warren Buffett, such is his laser focus on a deceptively simple three-point investment strategy; buy good companies, don't overpay, do nothing.

But it's been a tough start to 2022 for Fundsmith, with two of its largest stakes – PayPal and Meta Platforms, better known as Facebook, plunging 24% and 26% respectively last week on lacklustre quarterly results and downbeat commentary. Meta's collapse slashed $230 billion off its market valuation, the biggest one-day loss for a US company by miles.

'PayPal's performance last year was a clear exception to the benefits of running winners,' said Smith in his January 2022 annual letter to shareholders.

'The shares performed poorly amid concerns that its ambitions to construct a "super app" to drive users to its payment systems might involve some value destruction, brought home by its apparent interest in acquiring social media operator Pinterest. We may be wrong but we would prefer if PayPal stuck to its knitting,' said Smith.

BIG TECH BETS

Fundsmith's big tech bets in recent months might draw some to conclude that it is increasingly aligning itself with the S&P 500's biggest companies, eroding its ability to maintain its benchmark beating performance.

Since inception in November 2010, returns have been spectacular, up 506.9% to 31 January 2022, or put another way, averaging 17.4% a year. The MSCI World index delivered equivalent 270.1% and 12.3% a year figures.

Little wonder Fundsmith Equity has pulled in

investors in their droves, with just shy of £26.2 billion under management as of 3 February 2022, according to Trustnet data, making it one of, if not the most popular UK actively managed open-ended fund.

Yet in its latest January 2022 factsheet, the manager announced that he had bought a stake in Google-parent Alphabet, the first time the fund has owned the stock, alongside hints of stakebuilding in two other unnamed companies.

The Alphabet bet came just a few months after Smith built up a position in ecommerce giant Amazon. That purchase caught many by surprise, as Smith had refused to own the stock for years and had only months previously attacked the company as being 'barely profitable' without its Amazon Web Services cloud business.

Addressing the attention attracted by its Amazon investment, Smith quoted the economist and successful fund manager John Maynard Keynes, who said 'When the facts change, I change my mind.' It could be explained by the simpler aphorism, said Smith – Better late than never – 'or at least it will be if our purchase delivers the performance we expect'.

Microsoft is the fund's largest single stake, and with Meta and now Amazon and Alphabet, that's four of the S&P 500's five biggest companies now in the portfolio.

ANALYST-BACKED APPROACH

But analysts dismiss any tracker talk. 'Terry Smith follows a simple, well-defined investment style that focuses on high-quality, free cash flow generative businesses,' said Daniel Haydon, Morningstar research analyst.

'That a new position in Alphabet has been completed simply shows that it now meets his strict investment criteria. The company now throws off more free cash flow than ever, thanks in large part to the curtailing of loss-making other bets made by the company.

'He tolerates the currently loss-making cloud computing operation due to secular growth trends in that area, and over the longer term expects it to become a useful source of returns,' Haydon said.

AJ Bell head of investment research Ryan Hughes says: 'The compounding power of these companies continues to be underappreciated by many investors and they are both in such dominant positions that their earnings power should remain phenomenal. Amazon putting through a 17% increase in the cost of Prime shows how they have the ability to push costs onto the customer and as their services have become embedded in every day life. This plays well to the Fundsmith ethos and therefore while they are late to the party, it could potentially be that the party is actually only really just getting going.'

Yet the timing of Smith's Amazon purchase, and its ongoing holdings in Meta and PayPal are at odds with the **Blue Whale Growth Fund (BD6PG78)**, often compared to Fundsmith because of their similar investment ethos.

Blue Whale, run by Stephen Yiu, ditched its Amazon stake in December 2021, prompted by concerns over rising competition affecting the retail business and the longer-term outlook for AWS.

Amazon had been a feature in the Blue Whale fund since it was set up in 2017.

'In addition to our Amazon exit in 2021, we've also sold out of PayPal and Facebook (Meta) before their "ugly" results, which were both held in the fund since inception in September 2017,' Yiu told *Shares* .

Differences of opinion about individual company prospects and valuations is what makes a market. Perhaps Fundsmith will be proven right on the above companies, maybe Blue Whale will, only time will tell. But what investor can be assured of

Fundsmith Equity: top 10 holdings

1	Microsoft
2	L'Oréal
3	Novo Nordisk
4	IDEXX
5	Estée Lauder
6	Paypal
7	Philip Morris
8	Meta Platforms
9	Intuit
10	McCormick

Table: Shares Magazine • Source: Fundsmith, as at 31 January 2022 • Created with Datawrapper

is that both will continued to hunt for high quality investment opportunities over the longer-run.

Fundsmith prospered during the pandemic because it invests in companies that are capable of enduring big events and changes. As Smith concluded in his annual letter, 'they will probably survive whatever comes next and so will we if we stick to our principles and we have every intention of doing so'.

DISCLAIMER: The author (Steven Frazer) has a personal investment in Fundsmith and Blue Whale referenced in this article. AJ Bell is the owner and publisher of Shares magazine. Steven Frazer and the editor of this article (Tom Sieber) own shares in AJ Bell.

By **Steven Frazer** News Editor

In safe hands

A decade long bull market and the seemingly unstoppable rise of tech stocks have made it easy to forget that good investing usually involves slow and steady gains...

Much of the media and market's focus during the pandemic has been on the wilder side of the stock market. High valuations, starry-eyed promises about future growth, and so-called 'meme stocks' have all captured headlines in what has been a strange couple of years for investors.

All of this makes it easy to forget that most regular investors aren't looking to risk their hard-earned savings on the next hot tech stock. Instead, many want something that can deliver steady capital growth over the long-term and, potentially, a source of income.

Sifting through London's listed funds today, you can find plenty of investment trusts purporting to do this. But **Brunner (BUT)** is arguably one of the standout performers in terms of consistency.

Managed by investment group Allianz Global Investors, the trust has been active since 1927 and is one of a small number of closed-ended funds to have increased its dividend payouts for almost 50 consecutive years. It has also delivered a more than three-and-half fold total return for shareholders over the past decade.

Valuation, not value

A strong past performance is obviously not a guarantee that the trust will manage to continue delivering in the future. Having said that, it would be unfair to ascribe Brunner's fortunes to luck. You don't stay in business for almost 100 years by taking potshots at the market.

The trust, which has been managed since mid-2020 by Matthew Tillett, invests in equities from across the globe and takes a three-pronged approach to the market, looking at the growth, quality, and valuation characteristics of any prospective investments.

Quality in this instance means looking at things like a company's balance sheet, competitive advantage, and management team. Growth factors might include examining new markets a company can expand into and the sustainability of its current expansion, with a view to avoiding firms that might be more subject to cyclical trends.

Perhaps the most interesting part of Brunner's investment process though, is that factoring in of value. Investors may take this to mean that the trust takes a standard value-oriented approach to the market but that's not the case.

The managers of the trust adopt a long-term approach to valuation, recognizing that a wide range of valuations may be justified for companies with varying growth prospects. They are careful to avoid value traps – cheap stocks but with deteriorating fundamentals – but also will not buy growth at any price.

A unique mix of companies

This approach means the trust has a mix of firms that you wouldn't typically find in a single portfolio, with higher valued US stocks, like Microsoft and Visa sitting alongside more lowly valued companies such as Rio Tinto and Munich Re.

Although the trust is predominantly invested into large cap stocks, it also holds a number of exciting mid cap stocks, such as the Baltic based online classifieds internet platform Baltic Classifieds, specialist recruiter SThree and the south eastern European discount retailer Jumbo. This creates a mix in the portfolio that investors are unlikely to find elsewhere.

Slow but steady wins the race

Investing in this way has led Brunner to deviate substantially from other trusts in the global equity sector, as well as common benchmark indices, like the MSCI World Index. Some investors may find this attractive if they're looking for a level of sectoral or stock diversification in their portfolio.

On the other hand, the trust is overweight to the UK and doesn't have the same level of exposure to technology stocks that's commonly found in the sector. Over the past five years, that may have left some investors feeling frustrated given the UK market's underwhelming performance and the tech sector's success.

This is to slightly miss the bigger picture though. The trust's UK holdings have a bias towards mid sized companies which have performed better than the large companies that account for the majority of the UK market.

Moreover, over the last decade, the trust has managed to outperform both its own custom benchmark, which it uses to reflect its weighting to the UK, and the MSCI World Index. Outperforming the latter was particularly impressive given the UK's relative underperformance in that time.

Most importantly, Brunner's goal has always been to provide that mix of income and capital growth to shareholders, while maintaining a more balanced risk-return profile. In that sense, the trust has consistently achieved what it sets out to do.

Click **here** to read our latest research on Brunner Investment Trust...

Funds which go global for income

There are wide world of dividend opportunities out there and these managers have done a great job of finding them

Despite the Bank of England's historic decision to make back to-back interest rate rises, interest rates could still lag inflation for the medium to long term.

This presents investors looking for income with a challenge. Returns were historically low even before the onset of the coronavirus. However the economic fall-out from Covid-19 has exacerbated the low yield environment.

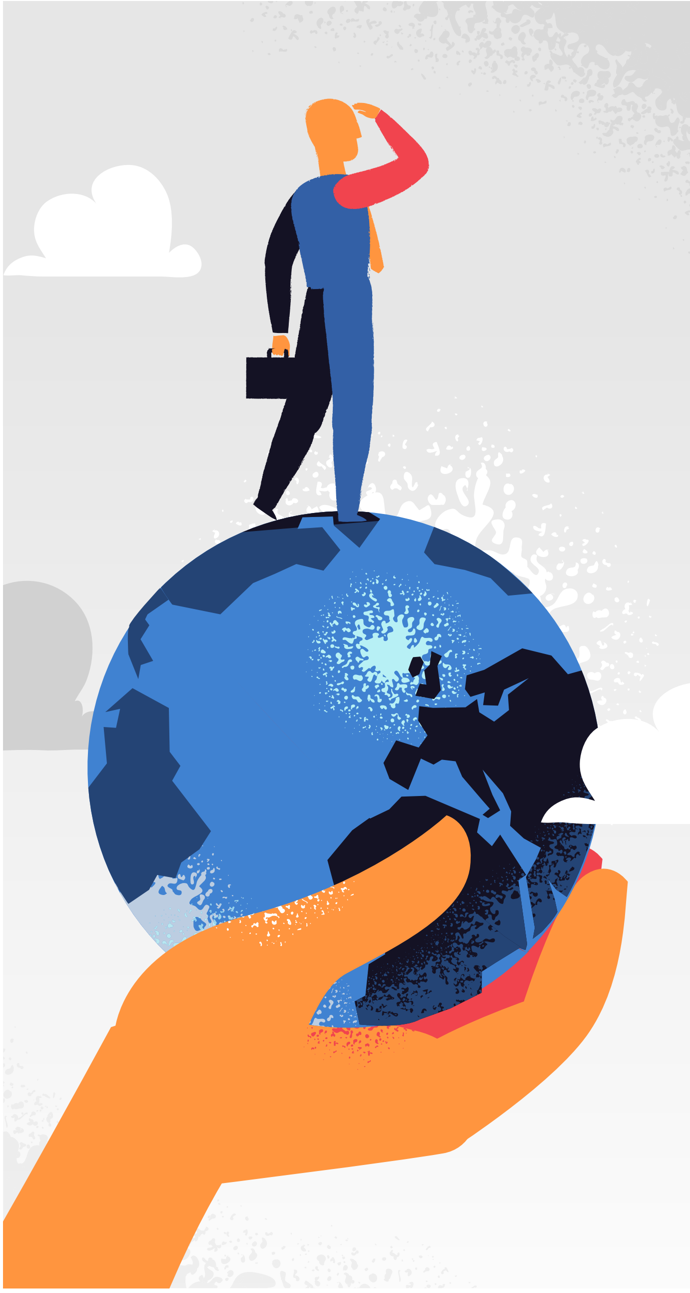
With this in mind, *Shares* has highlighted a selection of top performing global income funds and investment trusts that have consistently outperformed.

Liontrust Global Dividend Fund (B9225P6), and **Baillie Gifford Global Income Growth Fund (0577253)** both fulfill this remit. Moreover the **JP Morgan Global Growth and Investment Trust (JGGI)**, also boasts an impressive performance record.

The £390 million Liontrust Global Dividend fund is managed by Storm Uru and James Dowey. The fund has a formal objective of delivering a net target yield of at least the net yield of the MSCI World Index every year and the potential for long term (five years or more) capital growth.

The managers aim to invest in companies that are positively exposed to powerful trends, or have distinct and differentiated characteristics that will result in consistently above market returns over the long term.

The fund is overweight both information technology (23.9%) and financials (15.43%).



From a geographic perspective the United States is the largest country weighting (58%), followed by China (10.5%) and the UK (7%).

Top holdings in the fund include Constellation Software (3.6%), Safran (3.4%), Stryker (3.3%), and Tencent Holdings (3.3%).

The £844 million Baillie Gifford Global Income Growth Fund is run by James Dow and Toby Ross.

It looks to invest in companies which can deliver both a dependable income stream and real growth in income and capital.

Dow and Ross focus on long-term growth and income, rather than short-term yield, because they believe this will deliver better outcomes for our clients over time.

Best performing global equity income funds, ranked by five-year performance

Fund	1 year	3 years	5 years	10 years
Liontrust Global Dividend C Acc	14.7%	62.9%	83.2%	n/a
SJP Global Value L Acc	22.0%	63.2%	75.3%	n/a
Baillie Gifford Global Income Growth B Inc	13.9%	53.8%	74.4%	211.5%
JPM Global Equity Income A Acc	23.5%	56.6%	72.7%	209.5%
Aviva Inv Global Equity Income 1	19.9%	47.4%	65.7%	184.0%
Sarasin Global Dividend P Acc	13.3%	44.6%	64.8%	n/a
Fidelity Global Dividend W Inc	11.4%	37.5%	55.9%	n/a
Sarasin Global Higher Dividend P Acc GBP	16.3%	38.8%	54.9%	192.8%
Troy Asset Management Ltd Trojan Global Income O Acc	16.9%	35.9%	54.3%	n/a
BNY Mellon Global Income B Acc	17.8%	37.5%	53.7%	196.0%

Table: Shares Magazine • Source: FE Fundinfo. Total return in GB. Data as of 2 February 2022. • Created with Datawrapper

Dow argues 'Once an investor embraces the new paradigm for income, focusing on long-term dividend-growth by searching for companies like Microsoft rather than wasting their time on business models of yesterday like coal or big oil, a huge universe of opportunities opens before their eyes.'

Industrials (17.3%) and financials (17.1%), are the largest weightings in the fund, followed by technology (16.1%) and consumer staples (14.9%)

Key holdings include Microsoft, Novo Nordisk and Fastenal.

JP Morgan Global Growth and Income (JGGI) is the outstanding global income performer in the investment trust space.

The trust recently changed its dividend policy to allow it to pay its dividend from capital. This enables it to invest in better performing sectors. It targets a payout of 4% of its net asset value.

The manager is focused on building a high conviction portfolio of typically 50 to 90 stocks, drawing on an investment process underpinned by fundamental research.

JP Morgan is able to draw on its international research network and bring together global reach and local expertise.

The fund has a very diverse sector exposure with media and pharmaceuticals and medical technology being the most significant. However the trust is devoid of high concentration overweight positions in specific sectors.

The largest geographic weighting is towards the US (62.1%). The next largest is to Europe and Middle East (24.2%), with emerging markets representing 4.9%.

Key holdings include Amazon, Microsoft, Alphabet and McDonalds.

Best performing global investment trusts, ranked by five-year performance

Investment trust	1 year	3 years	5 years	10 years
JPMorgan Global Growth & Income	24.8%	71.3%	93.6%	269.9%
The Scottish American Investment Company	15.3%	52.1%	86.6%	233.3%
Troy Securities Trust Of Scotland	14.9%	47.8%	57.6%	165.7%
Invesco Global Equity Income	19.3%	42.5%	49.2%	229.8%
Henderson International Income Trust	14.5%	22.1%	37.6%	157.8%
Murray International Trust	13.5%	15.0%	30.1%	91.6%

Table: Shares Magazine • Source: FE Fundinfo. Total return in GB. Data as of 2 February 2022. • Created with Datawrapper

By **Mark Gardner** Senior Reporter

Don't be tempted to buy the housebuilders on weakness

Valuations may be attractive but risks outweigh the rewards for us

Investors for whom the housebuilders were a low-risk place to put their money up to and even after the pandemic have had a rude awakening in the last month or so.

While most firms had already put money aside for fire safety work, the government's warning they were liable for up to £4 billion of additional costs to remove cladding from high-rise buildings completely blind-sided them.

The fact that weeks after the initial sell-off their share prices are still going down suggests investors are leaving the sector in their droves, but are they right to walk away or is it time to be brave and look through the gloom?

The housing market is inextricably linked to consumer confidence, which has taken a hit both from the market sell-off and the rising cost of living.

Bumper cash returns, which were a major reason for owning the shares, may no longer be possible, and provisions for fire safety works look meagre in comparison with official estimates.

The Government made it very clear that if firms didn't agree to a 'financial contributions scheme' to fund its new plan by the end of March it would impose a solution in law. We would let the situation play out before thinking about getting back in.

NASTY SURPRISE

Having already brought in a 'cladding tax' in the autumn Budget of 4% on all profits above £25 million, in the second week of January the Government told the developers they had to find another £4 billion to fix 'the cladding crisis they caused'.

By the end of that week, the six biggest UK housebuilders – **Barratt Developments (BDEV)**, **Bellway (BWY)**, **Berkeley Group (BKY)**, **Persimmon (PSN)**, **Redrow (RDW)** and **Taylor Wimpey (TW.)** – had lost a combined £2.9 billion in market value.

Building materials group **Kingspan (KGP)**, some of whose products were used on the affected buildings, fared even worse losing almost €1.8bn in market cap over the course of the week.

Four weeks on from the announcement, the big six are showing a loss of more than £5 billion in value with Barratts and Persimmon each fielding losses of more than £1.25 billion, while Kingspan's loss has swelled to €3.4 billion.

COSTS VERSUS CASH RETURNS

Although the firms have already put money aside for remediation works on building 18 metres tall or more, the government has moved the goalposts by including high-rise buildings between 11 metres and 18 metres in height.

In its results for the year to last June, Barratt Developments reported it had incurred charges of £184.2 million for remedial work leaving it with outstanding provisions of £67.6 million.

The firm said the charges reflected its 'best estimate of the extent and future costs of work required' but admitted it could update its estimates 'if government legislation and regulation further evolves'.

For its part, Taylor Wimpey announced in its full year results last March it had taken total provisions of £165 million for fire safety work, and in its trading update last month it also said it believed the amount put aside was 'a reasonable estimate' of its liabilities.

Meanwhile, both firms have returned hundreds of millions of pounds of excess cash to investors. Taylor Wimpey said last month it was still 'committed to such returns', most likely by way of a share buyback, but added that the method of return would be decided 'in light of prevailing circumstances' when it reports its full year earnings next month.

Considering the official estimate of an extra £4 billion of costs, we have to ask whether cash returns are politically acceptable or even feasible given the current level of provisions across the sector.

VALUE VERSUS RISK

At the end of 2021 analysts were generally bullish on the housebuilders. The consensus view was that strong wage growth would trump cost of living expenses and higher mortgage rates, spurring demand for new houses. For the developers, price increases were expected to more than offset rising wage and material costs.

'The combination of a bright outlook and a lowly sector valuation should drive very good share price performance in 2022' was Liberum's verdict.

This was *before* the collapse in valuations last month, so in theory the housebuilders should look even more attractive after their share prices have fallen 12% on average.

Fast forward, however, and the 'cost of living crisis' is front and centre with the energy price cap being lifted in April and borrowers hit this month with the first back-to-back rise in interest rates since 2004.

Just as concerning, more than one Bank of England governor voted to raise rates by 0.5% or 0.75% rather than 0.25%, so traders now expect rates to hit 1% by May, much earlier than previously expected.

If rates rise faster and by more than expected at the same time that household bills are going through the roof there is a real risk of consumer confidence, which is pivotal to the housing market,

CHANGE IN MARKET VALUE FOR THE TOP SIX UK HOUSEBUILDERS PLUS KINGSPAN

COMPANY	Market Cap 7 Jan	Market Cap 14 Jan	Market Cap 4 Feb	4-Week Change
Persimmon	£8.91 billion	£8.13 billion	£7.53 billion	-£1.38 billion
Barratt Developments	£7.58 billion	£6.98 billion	£6.29 billion	-£1.29 billion
Taylor Wimpey	£6.29 billion	£5.60 billion	£5.42 billion	-£872 million
Berkeley Homes	£5.79 billion	£5.42 billion	£5.01 billion	-£781 million
Bellway	£4 billion	£3.72 billion	£3.44 billion	-£544 million
Redrow	£2.36 billion	£2.19 billion	£2.08 billion	-£282 million
Kingspan	€18.39 billion	€16.59 billion	€14.9 billion	-€3.49 billion

Source: Shares magazine • Created with Datawrapper

tanking. In other words, a call on the housebuilders is about more than valuation.

STILL A LACK OF SUPPLY

It's widely accepted that the driving factor in the residential market is a structural lack of housing, or more accurately a lack of affordable modern homes designed for the way we live.

The UK has a huge stock of small, old-fashioned, terraced houses, which were perfectly adequate for most of the 20th Century but don't suit the lives we lead – or would like to lead – today.

The government has an annual target of 300,000 new homes, but in the year to March 2020 completions fell to 220,000 and by June of the same year they had only risen to 250,000.

While supply remains short, the pandemic and the need to be able to work from home have fuelled an even greater desire for more flexible living and more space in general.

In addition, Help to Buy and the temporary stamp duty holiday have helped drive average prices for existing houses to record levels in many parts of the UK and allowed developers to increase the price of new homes by double digits each year.

A LESS BUOYANT MARKET?

According to a survey compiled by Liberum, the total number of housing transactions last year rose more than 40% to 1.47 million thanks to the combination of government incentives and the 'race for space'.

However, the same survey sees transaction volumes normalizing at 1.23 million this year and next year, slightly above 2019 levels but significantly below last year.

While we don't believe the housing market is in a 'bubble', last year's 10% rise in prices was clearly abnormal. Given the looming squeeze on consumer incomes, we doubt prices will rise anything like as fast this year.

Naturally enough the housebuilders plan to increase sales this year, but in a market with fewer transactions and fewer incentives, and against a backdrop of fragile consumer confidence, we wonder whether they might have to start thinking the unthinkable, in other words competing on price.

BUY OR BYE?

We can't rule out a tradeable rally in the housebuilding sector at some point, but equally we can't predict when it will happen or how long it will last. For those who enjoy the excitement of trying to make a quick 5%, 10% or 15% turn, we wish them luck.

For long-term investors, though, we feel the risks associated with owning shares in the developers outweigh the rewards for now.

By **Ian Conway** Companies Editor

Buy VCTs to help build back the economy and for profit potential

The current tax year is likely to set a new fundraising record for these popular tax-efficient funds

This year's new VCT (venture capital trust) offer season, where investors can apply for new shares and enjoy immediate tax benefits, is in full swing. Each year, VCTs seem to attract money faster than the previous year, meaning interested investors need to act fast once offers go live, although it is important to understand all the risks involved before making an investment decision.

Experts believe the current tax year is likely to set a new fundraising record for VCTs, which have supported cutting-edge UK businesses for over 25 years and continue to invest in early-stage companies that will help build back the economy from the ravages of the pandemic.

Some popular names have already closed after hitting subscription targets, among them **Amati AIM VCT (AMAT)**, Octopus AIM VCTs, **Hargreave Hale AIM VCT (HHV)** and the Gresham House-managed Mobeus VCTs, which achieved their latest £35 million fundraise target less than 24 hours after opening the offering.

FUELLING THE ECONOMY

Trevor Hope, chief investment officer, strategic equity at Gresham House, assured investors that the Mobeus VCTs will 'continue its well-developed investment strategy of providing truly patient capital to younger companies, fuelling the UK economy and creating rich intellectual property and employment.'

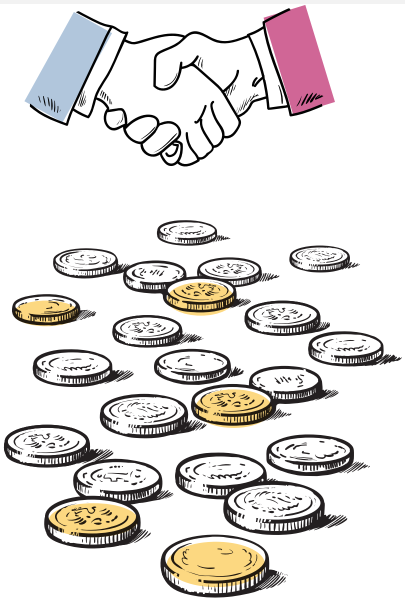
His Gresham House stablemate Bevan Duncan, manager of the Baronsmead VCTs, agreed that 'one of the key economic benefits of VCTs is job creation'. Within Baronsmead's unquoted portfolio alone, where holdings range from digital health patient triaging service eConsult to online personalised pet products purveyor Yappy, Duncan has seen 'a 41% rise in terms of jobs created and filled between December 2020 (1,273) and December 2021 (1,749).

'In 2021, the Baronsmead VCTs invested £41 million into both new and existing companies, one of the highest years of deployment over the VCTs' history. In addition to creating new jobs, this capital

WHAT ARE VCTS?

VCTs are closed-ended funds which invest in early stage companies in order to help them grow. When you as a private investor buy shares in a VCT, you get access to a portfolio of small companies. The government is keen for experienced investors to invest in this kind of company, because they create jobs and support economic growth. However, investing in small businesses is risky, so VCTs are not suitable for everyone; they are aimed at patient investors that have used up ISA and pension allowances and are paying tax at the higher and additional rates.

To help compensate for the risks, the government offers generous tax benefits. You can't get your money back for five years, but to compensate for that factor and the risk of investing in young businesses, you can claim up to 30% income tax relief on an investment of up to £200,000 a year. You will also have a capital gains exemption on disposal. If you do want your money back before the five years are up, you must pay back the tax relief.



By investing in VCTs, the idea is that you are helping Britain's exciting, entrepreneurial businesses to grow. There is also the bonus of tax-free dividends, often funded by the money made from exiting companies. But VCTs will usually look to hold companies for at least five years and can sometimes hold them for more than 15 years.

is being used to develop new technologies, launch new products and expand internationally.'

As we emerge into the post-pandemic world, Malcolm Ferguson, partner at Octopus Ventures, which manages **Octopus Titan VCT (OTV2)**, stresses there is 'a real opportunity to invest in early-stage businesses to help turbocharge our economic recovery.

'These businesses have the potential to create thousands of jobs and become some of the UK's most productive companies. Across our Titan VCT portfolio, over 880 jobs were created in 2020 alone.'

OPEN FOR SUBSCRIPTION

Offers currently open include generalist VCTs such as premium consumer brands investor **Pembroke (PEMB)**, whose portfolio includes the likes of United Fitness Brands, the Maven VCTs and Northern VCTs, and also the VCT industry's largest AIM-focused vehicle, **Unicorn AIM VCT (UAV)**, which recently launched a new £25 million share offer.

Investors can also support Octopus Ventures' first new VCT launch in over 10 years. Octopus Future Generations is looking to raise up to £100 million to support businesses that are 'helping to build a sustainable planet, empower people, or revitalise healthcare'.

FUNDING FRENZY

According to data from HMRC, VCTs issued shares to the value of £668 million in the 2020-21 tax year, 4% higher than in 2019-20, despite less schemes being launched against the backdrop of the pandemic. The surge in investment coming as more people sought to shield their wealth from the taxman.

And they could be about to break fundraising records in the 2021/2022 financial year, as limits on tax efficient savings vehicles such as private pensions bite and in a low yield environment, investors clamour for the relatively high tax-free dividends VCTs offer.

As Wealth Club's CEO Alex Davies told *Shares*: 'The unprecedented demand for VCTs this tax year isn't really surprising when you consider how investors are becoming increasingly squeezed by limits on pensions savings as well as increased taxes on dividends.'

Unicorn AIM VCT's lead manager Chris Hutchinson highlighted several reasons for the VCT market's increasing popularity. 'The first is the attractive tax breaks associated, and when you ally that to the fact pension changes have reduced peoples' lifetime allowances, annual contributions etc.. there are an awful lot of high income and high net worth individuals looking for sensible places to

Active and closed VCT offers

VCT offer	Sector	No of trusts	Closed or Open	Total raised
Foresight VCT	Generalist	1	OPEN	
Amati AIM VCT	AIM	1	CLOSED	£40,000,000
Puma VCT 13	Generalist	1	OPEN	
Downing 4 VCT	Hybrid	1	OPEN	
Octopus AIM VCTs	AIM	2	CLOSED	£40,000,000
Hargreave Hale AIM VCT	AIM	1	CLOSED	£40,000,000
Blackfinch Spring VCT	Generalist	1	OPEN	
Pembroke VCT	Generalist	1	OPEN	
Calculus VCT	Generalist	1	OPEN	
Triple Point VCT 11	Generalist	1	OPEN	
Maven VCTs	Generalist	2	OPEN	
British Smaller Companies	Generalist	2	CLOSED	£60,000,000
Octopus Apollo VCT	Generalist	1	CLOSED	£41,600,000
Octopus Titan VCT	Generalist	1	CLOSED	£200,000,000
Seneca Growth Capital VCT	Hybrid	1	OPEN	
Baronsmead VCTs	Hybrid	2	OPEN	
Puma Alpha VCT	Generalist	1	OPEN	
Draper Esprit VCT	Generalist	1	CLOSED	£30,000,000
Downing ONE VCT	Hybrid	1	OPEN	
Foresight Solar & Technology VCT	Generalist	1	OPEN	
Albion VCTs	Generalist	6	OPEN	
Northern VCTs	Generalist	3	OPEN	
ProVen VCTs	Generalist	2	OPEN	
Foresight Enterprise VCT	Generalist	1	OPEN	
Mobeus VCTs	Generalist	4	CLOSED	£35,000,000
Unicorn AIM VCT	AIM	1	OPEN	
Octopus Future Generations	Generalist	1	OPEN	

Table: Shares Magazine • Source: Wealth Club • Created with Datawrapper Data correct as at 1 Feb 2022.

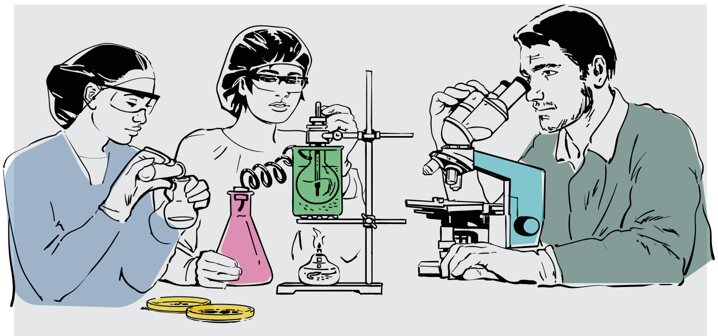
invest with sensible levels of risk, but where there are some good tax benefits to be had.'

Performance across the VCT sector is also attracting investors, insisted Hutchinson, who reckons this year's fundraising tally could be close to £1 billion. 'A lot of the generalists have been successful in achieving good exits from some of their underlying investments,' he explained. 'And over many years we've steadily built the platform by focusing on businesses with the potential to grow organically and deliver significant shareholder value. We've been delivering very good returns to our shareholder base without taking into account any of the tax reliefs.'

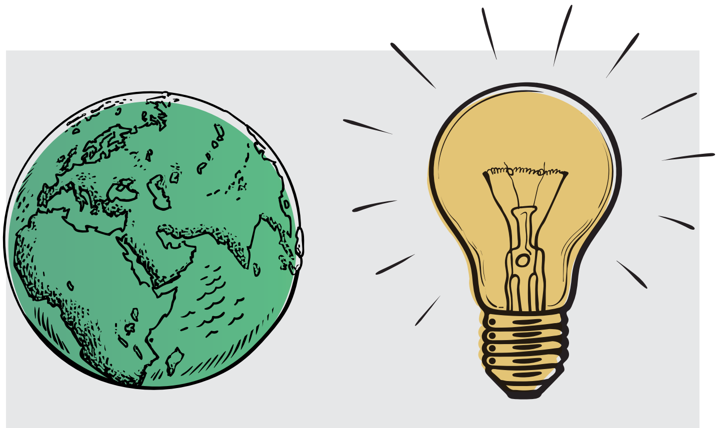
CHASING UNICORNS

Unicorn AIM VCT's net asset value (NAV) total return for the year to September 2021, after adding back dividends of 6.5p paid in the period, appreciated by an impressive 42.8% and the VCT has since shelled out (10 Feb 2022) a 3.5p final dividend for the year as well as a special interim dividend of 7p. The special was paid out of proceeds from the sale of waste management specialist Augean following a takeover by Ancala Partners and Fiera Infrastructure.

Privately-owned Interactive Investor is currently the VCT's biggest holding, but it is being acquired by **abrdn (ABDN)** and Unicorn AIM VCT is firmly focused on the AIM market, with holdings ranging from life science research tools leader **Abcam (ABC:AIM)** to transport analytics software company **Tracsis (TRCS:AIM)** and commercial cell-engineering company **Maxcyte (MXCT:AIM)**.



Seasoned AIM investor Hutchinson has 'never witnessed the AIM index itself looking more interesting or offering more potential for strong returns through a selective approach to investing'. His view is 'AIM has come of age' and is 'attracting a lot of really good businesses run by extremely



capable management teams', with business models 'increasingly focused on providing very specific solutions to very intractable but niche problems, whether that is in the environment, climate change, clean energy, life sciences or even just in basic manufacturing or software.'

Octopus Ventures manages the tech-focused **Octopus Titan VCT (OTV2)**, the largest VCT in the UK market today, which has previously backed the likes of property portal Zoopla, used car website Cazoo and luxury hotels-to-holidays provider Secret Escapes, erstwhile consumer brand hopefuls that morphed into major household names.

Highlights for the VCT space in 2021 included the New York Stock Exchange listing of Cazoo, the fastest British business to reach 'Unicorn' status in June 2020, and the lucrative disposals of WaveOptics, a designer of components for use in augmented reality glasses bought by Snap, and Depop, the used fashion marketplace acquired by Etsy for a bumper $1.63 billion.

Among the next generation of investments that Ferguson believes boast 'Unicorn' potential are Quit Genius, a digital clinic treating substance addiction, financial crime-to-financial risk analysis software concern Elliptic and Big Health, a digital medicine business which helps to treat insomnia and anxiety.

Ferguson is brimming with enthusiasm about new launch Octopus Future Generations too. 'It is our belief that the companies that generate the most returns in the next period will be companies that have a really positive impact on society', he explained.

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

How to use a SIPP alongside a workplace pension

This type of retirement savings account can offer a greater choice of investments

Most people now contribute to a workplace pension unless they have opted out, are under the age of 22, earn less than £10,000 or are self-employed. Putting a bit of your salary into this retirement fund each month alongside money from your employer and tax relief from the government is a great way to build up a pot for later life. However, there are typically limitations on where you can invest through workplace schemes.

Auto-enrolment workplace pension schemes run by companies such as Aviva and Standard Life have a cap on charges of 0.75% although most schemes charge less than this amount. The key difference is that they tend to have a small range of investments which may not suit someone who wants to put their money in certain sectors or themes.

One way around this issue is to open a SIPP (self-invested person pension) alongside your workplace pension. You should only do this once you have maxed out contributions that qualify for a match from your employer.

The minimum auto enrolment contribution to an employee's pension savings is 8% of qualifying earnings. Employers must pay at least 3% and the employee the remaining 5%. Some employers will offer higher contributions and sometimes these are on condition the individual also pays a higher amount.

You're allowed to pay into both a workplace pension and a SIPP at the same time, subject to certain rules we'll cover in a second, and the SIPP should give you access to a much wider variety of investments.

HOW MUCH CAN YOU PUT IN A PENSION?

Each year someone can make personal contributions up to 100% of their relevant earnings

into a pension to get tax relief. There is also an overall annual allowance of £40,000 which applies to most savers and covers employee and employer contributions as well as tax relief. This is the most someone can save in their pension pots in a tax year before having to pay tax.

Although the amount you can personally pay into a pension and get tax relief on is limited by your earnings, any UK resident under the age of 75 can put at least £3,600 into their pension each year including tax relief, whether they are working or not. It is also worth noting that if you are a very high earner or have already accessed your pension flexibly your annual allowance may be lower.

There is also a lifetime allowance of £1,073,100 to consider which applies to the assets accumulated in a pension, not just the contributions. This is the limit on how much you can build up in pension benefits over your lifetime and still enjoy the full tax benefits. If you exceed the allowance, you will generally pay a tax charge on the excess.

HOW TAX RELIEFS WORK

Contributing to a pension can be a good use of cash that isn't needed to repay expensive debts or pay bills. Thanks to the generous tax relief on offer, as an example £1,000 paid into a pension will automatically be topped up to £1,250 via 20% basic rate tax relief based on the total contribution.

Those who pay a higher rate of tax can claim an additional 20% through their self-assessment tax return or by contacting HMRC.

If your taxable income is over £150,000, you'll pay a tax rate of 45% on everything over this threshold. You can claim additional tax relief on that amount – an extra 5%, to give you 45% tax relief in total on all pension contributions from your income over this threshold. In Scotland slightly different tax rates apply.

PUTTING £10,000 TOWARDS YOUR RETIREMENT POT

Let's take a hypothetical person called Melody who has inherited £10,000. She has no other pressing uses for the cash so decides to open a SIPP and top up her retirement savings.

We assume Melody already pays into a workplace pension and has contributions invested in a diverse range of funds, such as ones investing in global shares and bonds.

Using a SIPP is one way to add 'satellite' investments to sit along the 'core' ones in your workplace pension scheme. You pick investments for a SIPP yourself, so it is important to understand the risks involved

If you got more comfortable with the idea of picking all of your own investments for your pension you could transfer any accumulated workplace pensions into a SIPP. You would lose auto-enrolment protections such as the charge cap, but you would have greater flexibility.

This might involve the inconvenience of regularly transferring over assets unless your employer was prepared to pay contributions directly into a SIPP, and not all employers are. Anyone who is unsure about pension issues should talk to a regulated financial adviser.

Core holdings are considered the backbone of a long-term portfolio. Satellite investments are considered non-core and can be higher risk and held for the shorter term or for tactical plays on certain parts of the market. You can perhaps think of 'core' as the serious part of a portfolio and 'satellite' as the fun bits around the edge, though as ever this will depend on your circumstances and appetite for risk.

As mentioned earlier, there are limits on the tax relief available on a pension. So, if Melody is planning to pay a £10,000 lump sum into a SIPP, she will need to ensure she has sufficient earnings to support it and it does not take her over her annual allowance for that tax year to get the full benefits.

Eligible investments for SIPPs include most UK funds and shares as well as overseas stocks, exchange-traded funds and commercial property.

Direct investments in property through a SIPP can be complex and expensive and are typically only an option with specialist platforms. An easier way to access this asset class via a SIPP is through property funds and investment trusts.

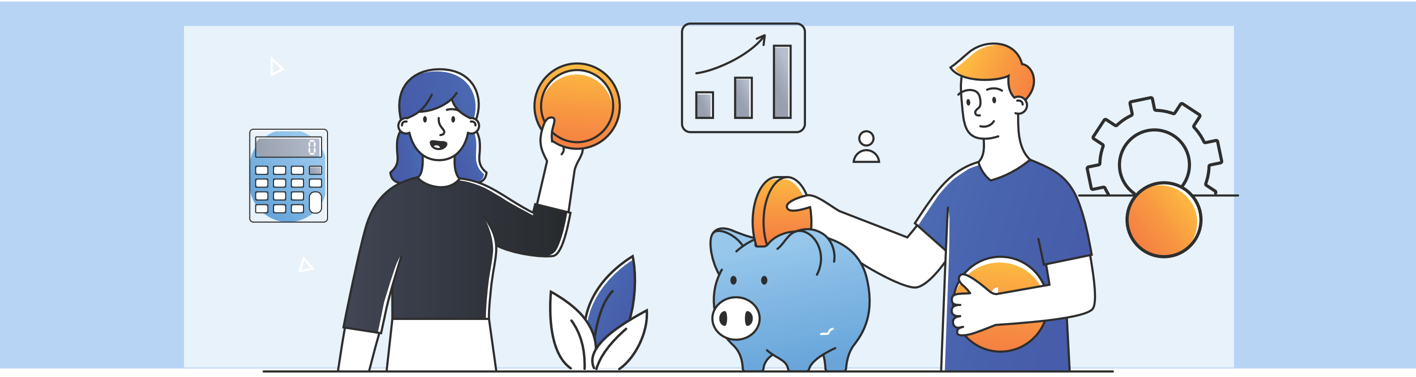
How to open a SIPP

Opening a SIPP should be a straightforward process and could take as little as 15 minutes online.

You'll need:

- Your National Insurance number
- Details of your employer
- Your debit card details (assuming you want to put cash in your SIPP)
- If you want to transfer in an existing pension, full details of it

Once you've completed your application you can make a lump sum contribution using your debit card or set up a regular monthly contribution. Your cash can sit in your SIPP while you consider where to invest it.



INVESTMENT OPTIONS

Having opened her SIPP, Melody needs to decide what to put in it. Contributions are already being made to her workplace pension, so the broad-based exposure to the markets is already in place.

There is a case for investing in funds which tap into specific niches and themes or look to employ savvy stock picking to beat the returns from the wider market.

One option for Melody, particularly as she has a higher appetite for risk and at least a five to 10-year time horizon, is **Stewart Investors Asia Pacific Leaders Sustainability Fund (3387476)**. This invests in shares of large and mid-sized companies either located, or doing business, in the Asia Pacific region excluding Japan. It seeks to back high-quality companies which are positioned to benefit from, and contribute to, the sustainable development of the countries in which they operate.

In essence, the fund offers exposure to fast-growing markets in Asia but with a sustainability twist. This is topical given an increased focus in these countries on addressing environmental issues.

Managed by David Gait since 2016, the fund has generating annualised returns over 10 years of 10.5%, according to data from Morningstar. The emphasis is on finding businesses with strong management teams, balance sheets and financial performance, alongside a clear ESG (environmental, social and governance) strategy.

Its top holding is Indian car maker Mahindra & Mahindra, closely followed by Australian biotech firm CSL. The fund has an ongoing charge of 0.84%.

SMALL CAP FUND

Funds investing in smaller companies are a typical satellite holding in a diversified portfolio. One option for Melody might be to use some of the £10,000 going into her SIPP to invest in **Liontrust UK Micro Cap Fund (BDFYHP1)**.

Managed by a four-person team made up of Anthony Cross, Julian Fosh, Victoria Stevens and Matt Tonge since its inception in 2016, on a five-year view it has delivered an annualised return of 19%.

The ongoing charge is 1.38% which is higher than you would typically find on a global fund, but perhaps explained by the team having to do a lot of work to sift through the small cap space which where there is typically a lot less research available on companies.

The focus is on buying UK firms with a market value of less than £175 million at time of purchase. Its biggest holding is payment solutions firm **Eckoh (ECK:AIM)**.

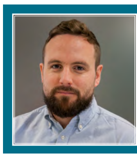
DISCLAIMER. This article is based on a fictional situation to provide an example of how someone might approach investing. It is not a personal recommendation.

It is important to do your research and understand the risks before investing.

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.

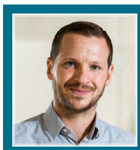


By **Tom Sieber** Deputy Editor

What impact will inflation have on retirement savers?

Our resident expert considers how rising prices might affect pensions

What impact will rising inflation have on people saving for retirement and those approaching retirement? There are a lot of worried people out there at the moment and it would be useful to understand what impact price rises could have.
Janet



Tom Selby, AJ Bell Head of Retirement Policy says:

The cost-of-living crisis, driven in large part by soaring gas prices, is squeezing people of all ages and incomes.

The latest CPI (consumer prices index) inflation measure stood at 5.4%, the highest level on record, with the pinch felt equally by retired and non-retired households, according to the ONS (Office for National Statistics).

For those in the earlier years of their retirement saving journey, one of the main challenges of inflation will be if it constrains your ability to save in a pension at all.

Sitting down and making a sensible budget is a good place to start as this will help you figure out what you can afford to save for the short, medium and long-term.

Given the various competing demands younger people are likely to have, this could be a combination of ISAs, Lifetime ISAs and pensions. When it comes to retirement saving, your workplace pension – which comes with a matched contribution – is the natural starting point.

You can then look to vehicles like Lifetime ISAs and SIPPs for savings beyond this. Which is the preferable option will depend on your personal circumstances – you can read an in-depth comparison here.

Younger people who have time horizon running over decades should consider taking at least some investment risk with their fund. If you hold a large proportion of your retirement pot in cash or cash-like investments, these investments will be eroded by inflation over time.

You should, of course, only take risks you are comfortable with, be sure to diversify your investments and understand that while more risk might increase your long-term returns prospects, the price of this will likely be volatility.

Keeping your costs and charges as low as possible is also incredibly important in a world of higher inflation levels.

If you are approaching retirement, you need to consider how you plan to take an income from your pension pot.

Those planning to buy an annuity or cash out their entire pension should consider reducing risk as they get close to their chosen retirement date. Inflation will eat away at the value of your fund as you do this, but this is unavoidable unfortunately.

If you are considering cashing out, make sure you have properly considered the tax implications (you will likely pay more income tax than is necessary) and how you plan to sustain yourself throughout retirement. If you are buying an annuity, you can choose to link it to inflation, although you will get lower rate in return.

If you are staying invested in retirement via drawdown you should review your investments and think about how you plan to generate an income from their fund.

Your investments will likely need to work harder to provide a sustainable income in a high inflation world, but you might be able to keep a reasonable amount of investment risk on the table – particularly if you are planning to drip-feed your income over decades.

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.

Where's the best place for £100,000 cash?

What to do with the proceeds from a property sale or other large sum

Many people after a property transaction will be left with a large amount of cash that they may need in the relatively short term but not immediately.

If we assume someone has banked proceeds of say £100,000, from a house sale or some other big transaction or windfall, where would be the most appropriate home for that cash for a 12-month period and how could you ensure it was protected?

Let's tackle this question in two parts: where the best place is for a large amount of cash and just how it is protected.

First it's worth examining the protection part. Ordinarily the Financial Services Compensation Scheme will protect any money you hold with UK-authorised banks, building societies and credit unions up to £85,000 per organisation. This increases to £170,000 per couple if you have a spouse to benefit from a higher limit.

However, the scheme also covers up to £1 million for six months in cases where you have a temporarily high balance. Among the reasons for that is the proceeds from selling a house, meaning you would qualify (other reasons include redundancy payments, inheritance and retirement payouts).

NO IMMEDIATE NEED TO WORRY

That means you don't need to immediately worry about your money not being protected, if it's currently just sitting in one account. But as you plan to keep it for at least 12 months you'll need to split it between two banks within six months. You can split it 50:50 or put the £85,000 limit with one organisation and £15,000 with another.

One thing to be aware of is that some banks operate under different brand names, but the protection is for the bank behind the brand, not for each brand name or subsidiary. An example is HSBC Bank and First Direct.

Now, let's tackle the first part of the equation: where is the best place for £100,000 in cash (bearing in mind you'll need to split it between two providers)? Ordinarily with interest rates so low at the moment and inflation high, investing your money is probably a better idea. But if you're on a time period of a year or a little bit more, cash is a more realistic option given the risks posed by market volatility.

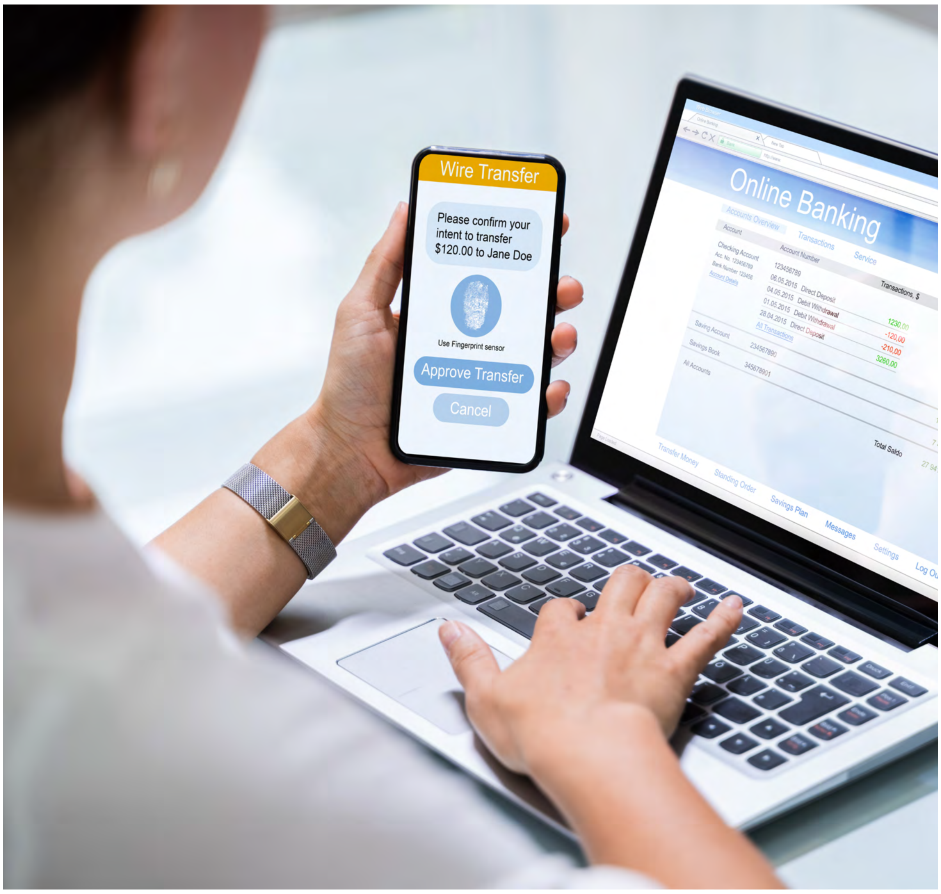
LOOKING FOR INSTANT ACCESS

If you wanted to have instant access to your money the highest rate you can get according to financial information site Moneyfacts (as of the 2 February) is from Investec, which pays 0.71%. You need to put in a minimum of £5,000, but that won't be an issue for you. The next best option (and where you'll need to put some of your money if you want all of it in an easy-access account) is Cynergy Bank, which pays 0.7%. If you put £85,000 with Investec and the remainder with Cynergy you'd make £708.50 interest over a year.

If you want to earn a bit more interest you could lock up some or all of the money. You mention not needing it for at least 12 months, so you could get a one-year fixed account. The top rate you can get on a one-year fixed rate account is 1.51%, which is offered by both Charter Savings Bank and Gatehouse Bank, both of which can be opened online. If you split the money between the two then you'd earn £1,510 in interest over a year – more than double with the easy-access accounts. Another option is to split the money between easy-access and fixed, giving you access to some of the money but getting the higher interest rate on the rest.

MINDFUL OF TAX

You need to be mindful of tax. If you're a basic-rate payer you can earn up to £1,000 from savings tax-free each year, but if you're a higher-rate payer this is cut to £500, while additional rate payers get nothing. Anything you earn above that allowance will be taxed at your normal income tax rate, and you'll need to take into account any other savings interest you earn.



If you think you're going to be hit with a tax bill you have a couple options: ISAs or National Savings & Investments.

Any money held with National Savings & Investments is tax free, so you could opt for Premium Bonds, they are Government-backed and so aren't subject to the £85,000 limit. However, you can only pay in up to £50,000, so you'll still have to split the money between two places. Premium Bonds don't offer an actual interest rate but instead the chance to win prizes each month, up to £1 million. The projected interest rate, based on the average chance of winning, is 1% - but you could win nothing, so it's a bit of a gamble.

A cash ISA is your other option, with any interest earned being tax free. However, you can only pay in up to £20,000 in each tax year, so it will take you a few years to shelter your money from tax. You could pay in £20,000 now and another £20,000 in the next tax year in April. The rates on cash ISAs are a bit lower too, so the top easy-access option is from Shawbrook Bank, paying 0.61%, while for a one-year fixed rate account the most you can earn is 1% from Coventry Building Society.

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

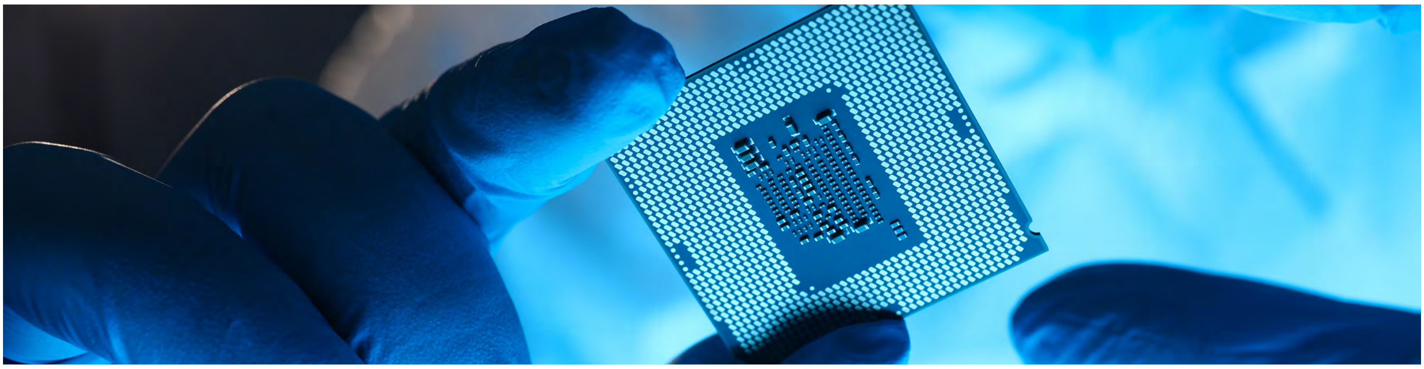
Insightful commentary on market issues

RUSS MOULD

AJ Bell Investment Director

Two key takeaways from the silicon chip market

Watching this space can give you handy pointers on the wider direction of stocks and shares



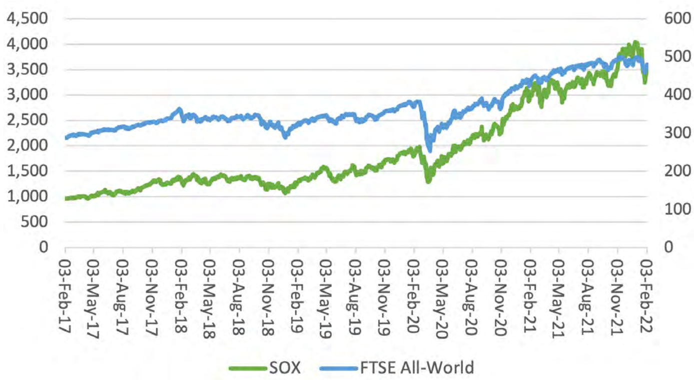
Regular readers of this column will know of its affinity for the Philadelphia Semiconductor Index, known as the SOX. The benchmark comprises 30 global – if primarily American – manufacturers of silicon chips and semiconductor production equipment. It can be followed for free on the internet, but it has two deeper and more abiding useful facets.

First, its 28-year history suggests it is a fair proxy for global risk appetite, since the FTSE All-World index seems to follow in its footsteps.

Second, silicon chips are a useful litmus test for the global economy, owing to their ubiquity. Semiconductors are vital to any electronic or electrical gadget of which you can think, from smartphones to smart meters, cars to telecom equipment and laptop computers to industrial robots. Shortages of chips are regularly cited by many firms right now as an example of supply chain dislocation and their inability to meet demand (cars is a particularly glaring example here).

In the context of each it is therefore intriguing to note how the SOX is trading 15% below its late-December all-time high after a sudden sharp reversal.

The SOX index has sagged of late after a storming run



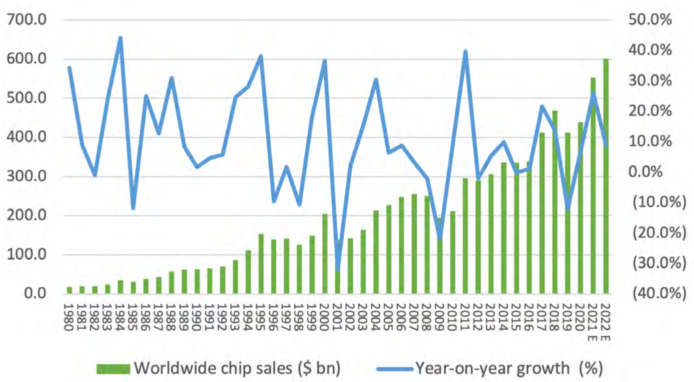
Source: Refinitiv

CHIPS WITH EVERYTHING

That sudden loss of momentum seems odd given the apparently rosy outlook for the industry. Industry bodies such as the WSTS and SIA believe global chip sales rose by more than a quarter in 2021 to reach a new all-time high of around $550 billion. They also expect a further increase of some 9% to $600 billion for 2022, still above the industry's long-term compound annual grow rate of 8% a year.

RUSS MOULD
AJ Bell Investment Director

Global silicon chip sales are expected to set another record high in 2022

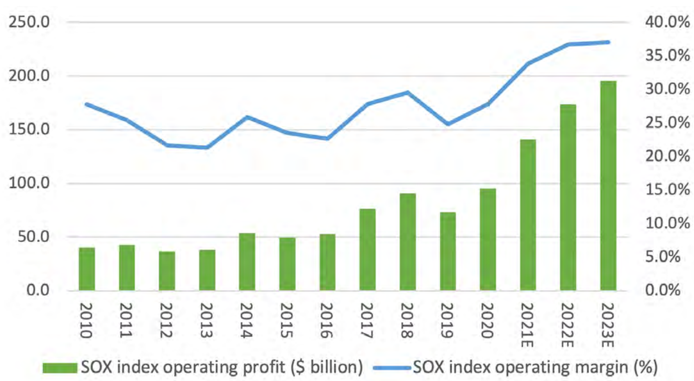


Source: WSTS, SIA, Gartner

Such optimism may explain why the SOX's 30 constituents command an aggregate market capitalisation of $3.3 trillion (even if certain key Korean and Japanese players do not feature). That figure represents nearly seven times the firms' forecast $472 billion in aggregate sales for 2022 and 24 times analysts' estimates for total net earnings of $135 billion.

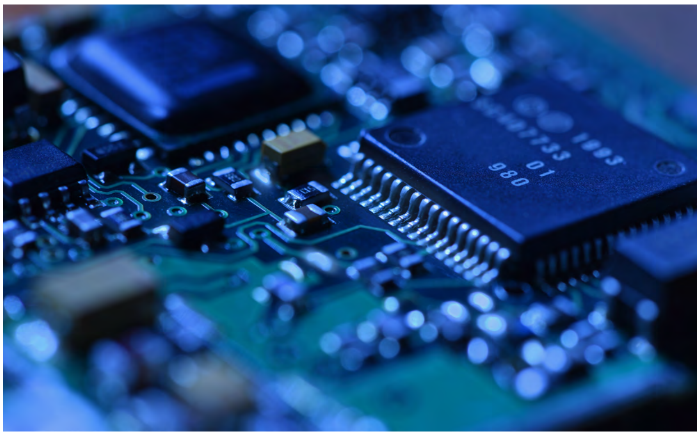
They are lofty multiples, whichever way you cut it. Bulls will argue they are justified by above-trend growth for the industry and expectations for increases in sales, operating profit, operating margins and net profit in 2022 and 2023, even if 2021 represented a new all-time high for those metrics.

SOX index members' operating profits and margins are expected to keep rising .... And rising



Source: Company accounts, Marketscreener, consensus analysts' forecasts, in aggregate for all 30 members of the SOX index

Bears will grunt that paying premium multiples when profits and margins are already at record highs is simply looking for trouble, especially as share price upside will relying on further increases in both and any disappointments could leave valuations looking cruelly exposed. This is, after all, a highly capital-intensive industry that is highly operationally geared, so minor changes in pricing or volumes lead to much bigger percentage changes in profits, up or down.



BOOM AND BUST

In short, boom and bust are rarely far apart as the chart showing industry revenues and year-on-year sales growth back to 1980 makes clear. The glory years of 1993-95, 1999-2000, 2003-07 and 2010-11 were swiftly followed by the fallow ones of 1996, 2001, 2008-09 and 2012.

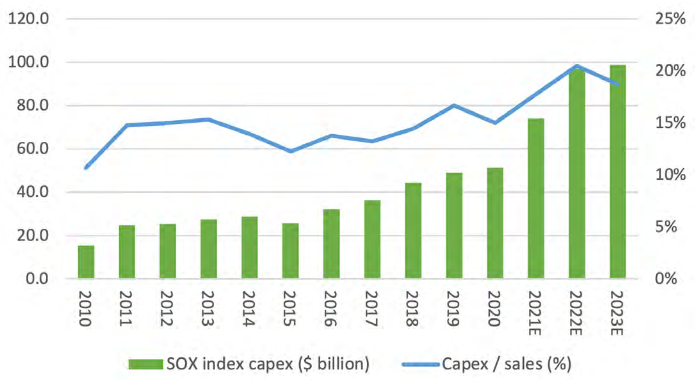
Spotting potential turning points is fiendishly hard but two datapoints may prove useful.

The first is capital investment. State-of-the-art silicon chip fabrication facilities ('fabs' for short) cost billions of dollars and have to run full tilt once they are up and running. Fine-tuning new supply is hard and the risk is eventually chipmakers overdo it. It may therefore concern some investors when they hear that capex is due to rise by a third in 2022, after a 44% leap in 2021, and reach a new peak of 20% of sales.

At some stage, supply is likely to catch up with demand and ease those bottlenecks, although given the long lead times involved in building a new fab that may not happen overnight.

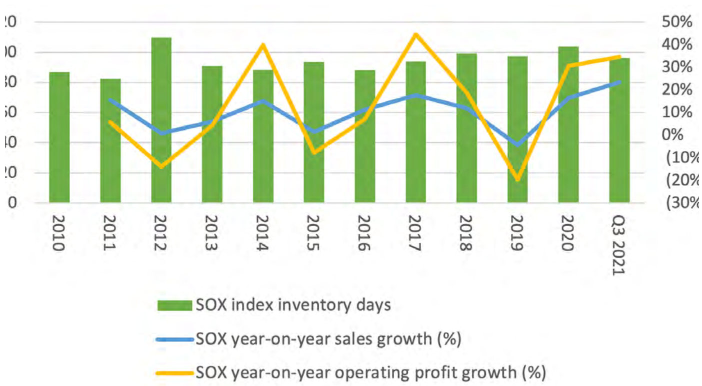
RUSS MOULD
AJ Bell Investment Director

Global chip industry capital investment is surging



Source: Company accounts, Marketscreener, consensus analysts' forecasts, in aggregate for all 30 members of the SOX index

Global chip inventories still look relatively normal



Source: Company accounts, in aggregate for all 30 members of the SOX index

The second possible clue comes from inventories. Inventory days across the 30 SOX members reached an eight-year high of 104 in 2020. Thankfully that figure had retreated to 96 by the end of Q3 2021 and it had done so without affecting profits (note how digesting lofty inventories hurt sales and industry earnings in 2012).

A sudden surge here would imply either demand is slowing, or supply is catching up, so this is a trend which needs careful attention. Investors in chip stocks won't be pleased to see it but central bankers might be, as it could mean an end to some of the supply chain disruption which continues to stoke inflation.

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
11 Feb: British American Tobacco. **15 Feb:** Glencore, Plus500, RM. **16 Feb:** Indivior, Primary Health Properties. **17 Feb:** HarbourVest Global Private Equity, Reckitt Benckiser, Standard Chartered. **18 Feb:** Natwest, Pod Point, SEGRO, The Renewables, TBC Bank Infrastructure Group.

Half-year results:
16 Feb: BHP. **18 Feb:** City of London Investment Trust.

Trading updates:
11 Feb: Tate & Lyle. **16 Feb:** Ocean Outdoor. **17 Feb:** Aveva, Safestore.

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