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# Listen to Terry Smith: don't sell your best shares as stock markets recover

Investors may seek to lock in profits where possible after recent market slump

**I**n reviewing the performance of the **Fundsmith Equity Fund (B41YBW7)** for 2021, fund manager Terry Smith said the fund 'makes money with old friends', referring to a group of stocks in his portfolio that regularly appear in the annual list of top contributors to performance.

'This tells you to run your winners,' says Smith. 'A bit like gardening, the general idea in fund management is to water the flowers and pull up the weeds, not the other way around which an awful lot of people do. They take profit on their winners and try and run their losers in the hope they will come right.'

It's an interesting and relevant point as we see shares start to recover from the recent global market sell-off.

Nervous individuals alarmed at the value of their hard-earned money eroded by falling stock markets may now look to cash out their investments at the first sign of a rebound. This might be the wrong thing to do.

Smith's comment that some investors are too quick to sell their best holdings and hang on to losers for too long is known as the disposition effect. It is relevant because investors are 26% more likely to realise gains in market downturns according to a new study by Sabine Bernard, Benjamin Loos and Martin Weber.

There is a saying that no-one lost money taking a profit, yet this misses this point that selling now could mean giving up even more gains down the line.

A rising share price is often a sign there is something good about the business so why sell unless you really need to spend that money?

On the flip side, investors should be more

ruthless when it comes to investments that haven't worked out. Too often we see investors hold on to laggards in the hope of their price going back up, but this doesn't always happen.

As of 23 March, CNN's Fear & Greed Index had gone from a reading of 19 a week earlier, classified as 'extreme fear', to sit at 44 which is still in 'fear' territory but getting close to neutral. Investor sentiment seems to be improving following recent market volatility.

The key question is whether this is just a bear market rally. These tend to start suddenly and do not last long.

There remain significant headwinds for consumers and businesses, and with oil prices trading above \$115 a barrel you can be sure that inflation pains will hurt for some time.

Investors might therefore be tempted to take profit in a holding which suddenly rebounds given the fragile backdrop.

'Investors are petrified in a bear market and try not to sell their losers. But when they see an exit sign in the form of an investment that has made a gain while the rest of the portfolio is down, they try to lock that gain in as fast as they can,' says Joachim Klement, investment strategist at Liberum.

'And as you might have guessed, that is again exactly the wrong thing to do, since in a bear market, the losers tend to lose even more than normal, so hanging on to them while selling your few winners is really a bad idea.'

**DISCLAIMER: Daniel Coatsworth (author) and Ian Conway (who edited this article) have personal investments in Fundsmith Equity Fund.**

# What a harsh EU clampdown means for Apple, Google and other big tech firms

Investors took news of Digital Markets Act in their stride implying scepticism about its impact

**T**he key questions facing investors as the EU looks to get tough with big tech on anti-competitive practices are two-fold: will the changes make any difference, and will the economic bloc's more aggressive approach be repeated elsewhere?

The landmark Digital Markets Act, announced by the EU in outline form but still to be approved by the EU Parliament and Council, is intended to curb the power of the so-called 'gatekeepers' like Amazon, Apple, Alphabet (Google), Microsoft and Meta Platforms (Facebook).

The criteria for inclusion in this club is a company with a minimum €75 billion market value with at least 45 million monthly users and operating a platform such as a social media site or search engine.

The introduction of the act represents a shift in emphasis from fining exceptionally well-resourced firms for past transgressions to trying to get ahead of anti-competitive practices and privacy violations before they occur.

It will seek to challenge the so-called 'walled gardens' where operators have total control over content applications and media, and restrict access for third parties. Instead under the auspices of the act these will have to be opened up to smaller competitors.

For example, someone making a transaction on Apple's App store will be able to use a third-party payment platform and not be forced to use Apple's own payment services.

There will also be tighter restrictions on using people's data for targeted online advertisements and platforms would be prevented from ranking their own products and services higher than those of others. While Apple and Google expressed



some concern over aspects of the legislation other gatekeepers kept their counsel.

The market reaction to the announcement was muted despite stringent fines of up to 10% of annual worldwide sales for violations and 20% for repeated infringements.

The scepticism expressed by some smaller technology outfits in Europe in response to the new rules may be justified. After all the big tech firms already have such dominant market positions, huge balance sheets and track records for innovation to allow them to stay ahead of the rule-makers.

What might make shareholders in these businesses really sit up and take notice is if the more aggressive approach adopted by the EU is repeated elsewhere, particularly in the US.

While there have been some signs of a tougher regulatory approach to the tech giants across the Atlantic, the fact these are all US companies may lead to reluctance in Washington to push too hard.

Once the rules have been finalised, they will put to MEPs and EU ministers for approval, with the accompanying Digital Services Act, which will look to clampdown on harmful and illegal user-generated content on online platforms, still to be finalised. [TS]

# Terry Smith uses Fundsmith investor meeting to criticise Unilever top brass

Manager in fighting spirits after narrowly undershooting the index last year

**T**his year's **Fundsmith Equity Fund (B41YBW7)** annual shareholder meeting had to convene over the internet, after group co-founder and chief investment officer Terry Smith contracted Covid.

However, it was well up to the usual standard with no shortage of blunt observations about markets and one or two eyebrow-raising comments including a salvo fired at the management team of long-term holding **Unilever (ULVR)**.

Overall, the fund lagged the MSCI World Index very slightly last year returning 22.1% against 22.9%, but considering its superior track record since inception and especially over the last few years investors certainly shouldn't be concerned.

As Smith explained the portfolio is made up of a balance of businesses, some of which did well during the pandemic and less well during the recovery phase and some of which did the opposite.

Taking a two-year view, the fact the fund beat the benchmark by around 5% was a 'pretty satisfactory outcome' in his assessment.

Reviewing the top five positive contributors, Smith referred to 'making money with old friends' given that four of the five have made multiple appearances in the list, reinforcing the message that investors should run their winners.

Regarding the top losers, Smith lamented the lack of focus at previous repeat winner Paypal, which let itself get distracted by M&A possibilities,



but he reserved his fiercest criticism for Marmite and Magnum maker Unilever for letting margins deteriorate.

'This should be a business which is capable of performing better than it has,' said Smith. 'To be blunt, we think it's easier to change the management than it is to change the business.'

'We hope they will try and get back to what they were producing, but I've got to say to date the odds look against that.'

Equally revealing was Smith's explanation of why he finally bought shares in Amazon after dismissing the tech behemoth for years.

'We always said we didn't like the returns, but the returns have started to come through an awful lot better. If you go back to 2014 the return on capital was negative, it's now in the teens,' he reasoned.

Besides the web services division, which he believes has decades of growth to come, another key reason to like Amazon is the increase in third-party e-commerce revenues, which translate into almost pure profit.

Third-party sales now account for over 50% of revenues, and Smith believes the investment community has yet to fully grasp its importance.

Investors can watch the online shareholder meeting in full by going to the company's [website](#).

**Disclaimer:** The author of this story (Ian Conway) and the editor (Dan Coatsworth) own shares in Fundsmith Equity Fund.



# US Treasury yields surge as Fed toughens stance on mounting inflation

After underestimating the threat of inflation US monetary policymakers are now responding at pace

**A**s we write March is shaping up to be the worst month for US government debt (Treasuries) since 2016. Downward pressure on prices recently pushed the 10-year Treasury yield as high as 2.5%.

This marks not far off a full percentage point increase since the beginning of 2022.

Bond prices and yields move in opposite directions, falling prices mean higher yields, while rising prices mean lower yields.

When the 10-year yield goes up, so do mortgage rates and other borrowing rates. It also impacts the rate at which companies can borrow.

This may reduce their ability to engage in projects that foster growth and innovation and maintain generous dividends to shareholders.

## WHY IS IT HAPPENING?

There are two inter-related reasons that explain the recent surge in Treasury yields. First, the Federal Reserve has recently acknowledged that it underestimated the threat of inflation.

Second, after remaining stubbornly dovish in 2021, or in other words relatively relaxed about keeping rates low, Federal Reserve chairman Jerome Powell has turned far more hawkish, or committed to tightening policy.

## SURGING US INFLATION

The Federal Reserve has been caught off guard by a cost-of-living crisis which has only been exacerbated by the war in Ukraine. For months senior Fed officials dismissed the surge in prices as transitory. They argued it was principally the result of the reopening of the US economy.

The Fed argued that disruptions and shortages would be transitory, and result

## US 10-year Treasury yield surges

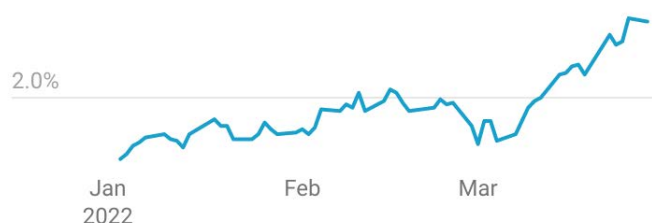


Chart: Shares Magazine • Source: US Department of the Treasury, 29 March 2022 • Created with Datawrapper

in a rapid reversal in inflationary pressures. However, price rises accelerated and became increasingly ubiquitous.

The US consumer price index rose by 7.9% through February, the fastest pace of inflation in 40 years. Rising food and rent costs contributed to the increase, as did a nascent surge in gas prices.

The Fed has recently estimated the rate of US inflation would average 4.3% in 2022. This is up from the bank's 2.6% estimate four months ago and just 1.9% a year earlier.

These seismic changes are decidedly out of character for a conservative central bank that rarely makes big changes to forecasts.

The 16 March outlook by the Federal Reserve for interest rate rises was far more hawkish than the market had anticipated.

The Fed has pencilled in a total of six more rate hikes, excluding the recent 25 basis point rise. It forecasts rates going to 2.8% in 2023 and staying at that level in 2024.

This represents a huge shift in its monetary policy outlook since December when the median view was for only three-quarter point hikes in 2022, and three more in 2023. The next policy announcement is on 4 May. [MGar]

# Why Pendragon might be the next auto retail takeover target

Auto retailer's largest shareholder Hedin is rumoured to be lining up a bid

**C**ould **Pendragon (PDG)** be the next quoted car retailer to be taken over, following on from **Marshall Motor (MMH:AIM)** and Cambria Automobiles?

Shares in the firm behind the CarStore, Evans Halshaw and Stratstone brands have revved up from 19.65p to 28p since 8 March, more than 40%, on rumours it recently spurned a £400 million takeover bid from Swedish car retailer and 26.1% shareholder Hedin.

The auto retail sector is seeing corporate activity aplenty at present. At the height of the pandemic, Pendragon held merger talks with rival player **Lookers (LOOK)**, while Marshall Motor has agreed to a takeover by Cinch-to-Webuyanycar owner Constellation Automotive, which has also taken a



19.9% stake in Lookers.

Cambria Automobiles was taken private by boss Mark Lavery in a management buyout last year.

Steered by CEO Bill Berman, Pendragon's 2021 full year results showed the auto dealership posting record underlying pre-tax profit of £83 million as vehicle supply disruption boosted car prices and the Nottingham-headquartered retailer benefited from the lifting of Covid restrictions.

However, Berman warned he expects 'existing supply chain constraints to continue in the current year' and is also 'mindful of the potential for further disruption to new vehicle supply chains as a result of the conflict in Ukraine.' [JC]

## Mark Barnett makes a comeback with new Tellworth equity income fund

Former Neil Woodford protégé to keep it simple with new investment product

**FORMER NEIL WOODFORD** protégé Mark Barnett has made a funds industry comeback with the launch of the **TM Tellworth UK Income and Growth** fund.

The new vehicle provides Barnett with the chance to rebuild a reputation tarred by a period of underperformance that resulted in his inglorious departure from Invesco by mutual agreement in 2020, before he resurfaced at UK equity boutique Tellworth in April 2021.

Seasoned investor Barnett will

run **TM Tellworth UK Income and Growth** alongside co-manager Johnnie Smith. The low turnover fund will consist of between 40 to 60 holdings and will focus on attractively valued firms delivering free cash flow that can translate into a growing stream of dividend income. The new UK equity income fund will invest across the market with a large and mid-cap bias and will pay monthly dividends.

In a video on the Tellworth website, Barnett said valuation is 'an important gatekeeper for inclusion

in the portfolio'.

With liquidity considerations front and centre, the fund will avoid unquoted companies. Barnett also stressed the fund will have 'pretty strict parameters' around the number of small companies he can hold in the portfolio.

Investors may have to wait a month or so before the initial portfolio is disclosed but historically Barnett has favoured sectors such as tobacco and insurance. [JC]

# ConvaTec has turned a corner and offers growth and re-rating potential

The company's operating margins have the potential to improve significantly over time

**T**he transformation of medical technology company **ConvaTec (CTEC)** has reached an inflection point which should drive market-beating sales growth and improve profitability.

The shares look attractive against good earnings potential while scope for the stock to trade on a higher multiple of earnings (known as a 're-rating') provides extra attractions. This could be driven by a modest improvement in operations.

ConvaTec trades on 18 times 2022 expected earnings per share which is less than half the rating of Danish competitor, Coloplast.

## WHY IS IT ATTRACTIVE?

ConvaTec operates in attractive markets which exhibit structural growth drivers.

Having previously struggled to fully capitalise on the opportunity, the company has now sharpened its commercial focus after many years of lagging rivals.

The pandemic slowed down expected operational benefits from the group's transformational programme. This now appears to be bearing fruit as the business pivots towards sustainable organic sales growth.

For example, ConvaTec registered 7.9% growth from its top 12 priority markets in 2021.



At group level it expects to deliver 2022 organic sales growth of between 4% and 5.5% while increasing operating margins to at least 18%.

Over the medium-term management is targeting a

mid-twenties operating margin.

## ACQUISITIONS ACCELERATE CHANGE

ConvaTec has targeted acquisitions to accelerate its turnaround plans with a focus on broadening its product offering in faster growing areas, expanding into other geographies, and increasing depth in existing areas of strength.

A good example of increasing exposure to faster growth is the proposed acquisition of Triad Life Sciences which enables the company to enter the attractive wound biologics segment.

The biologics market is worth around \$1.8 billion a year and involves wound healing treatments which can restore natural repair mechanisms using active agents.

Researchers are looking at integrating anti-microbial compounds into the wound

## ConvaTec divisional split of revenues (%)

Advanced Wound Care  
Continence and Critical Care  
Ostomy Care    Infusion Devices

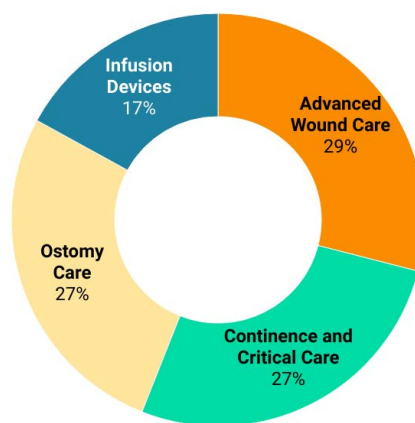


Chart: Shares magazine. • Source: Berenberg, company data, 16 March 2022 • Created with Datawrapper



## ConvaTec Financial Forecasts

	2021a	2022e	2023e
Revenues (\$m)	2038.0	2119.0	2201.0
Adjusted Operating Profit (\$m)	362.0	380.0	407.0
Adjusted EPS (c\$)	13.0	13.3	14.3

Table: Shares magazine. • Source: Berenberg, company data, 16 March 2022 • Created with Datawrapper

dressings itself.

In recent years ConvaTec struggled to capture growth in its markets and in 2019 new chief executive Karim Bitar came on board and set about simplifying the business.

Bitar was previously the chief executive of animal genetics company **Genus (GNS)**.

Non-core businesses were sold, and cost efficiencies were made while the company has increased spending on sales, marketing, and research and development.

### BUSINESS OVERVIEW

ConvaTec was founded in 1978 as a division of what is now US healthcare company Bristol Myers Squibb. It was sold to private equity in 2008 and listed on the London Stock Exchange in 2016.

The company operates four divisions: Advanced Wound Care, Ostomy Care, Continence and Critical Care, and Infusion Devices.

ConvaTec generates over 80% of its sales from the first three categories. These underlying markets are growing around 4% a year while the Infusion Devices market is growing around 7% a year.

Growth drivers include ageing

populations, rising obesity and increasing access to healthcare in emerging markets.

The competitive landscape is characterised by highly concentrated markets with a small number of large players dominating. This creates high barriers to entry.

Its main competitors are global medical technology companies such as **Smith & Nephew (SN.)**.

ConvaTec is the clear market leader in the disposable infusion market where its infusion sets have around an 80% share. The devices are used by patients with diabetes.

The sets are connected to an insulin pump for continuous infusion to deliver a controlled dose to users. They are delivered to the manufacturers of infusion pumps such as Medtronic.

### WHAT ELSE DOES IT DO?

Advanced Wound Care is about providing dressings and skincare products for the management of chronic wounds which are hard to heal.

These conditions are caused by diabetes, immobility and venous disease (a vascular disorder). Traumatic injury, burns and invasive surgery are also a contributory factor.

ConvaTec has a strong position within the antimicrobial segment where it commands a 30% market share. The launch of new foam products in 2022 is aimed at growing share in the faster growing segment of the market.

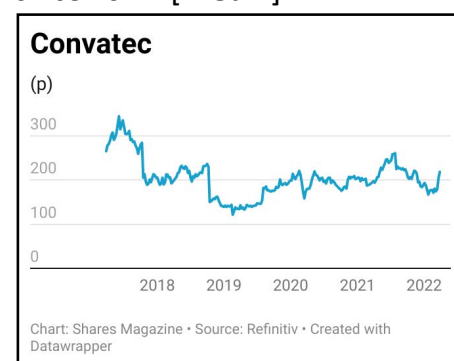
Ostomy Care involves the provision of devices and accessories which service patients with a stoma. This is a surgically created opening where bodily waste is discharged.

The main reasons to get ostomy surgery are related to colorectal cancer, inflammatory bowel disease and Crohn's disease. Patients over the age of 60 make up around 60% of the market.

The business has annuity-like features reflecting patients' long-term use of ostomy products for permanent stomas which have a life of between 13 and 20 years.

Within Continence and Critical Care ConvaTec makes products for patients suffering with continence issues related to spinal cord injuries, multiple sclerosis and spina bifida.

Most of the firm's sales come from its distribution businesses where it has built up home delivery distribution platforms. This division has been one of the stronger performers over the last few years with revenues growing around 9% a year since 2017. [MGam]



# Beat inflation with Diversified Energy's big dividends

The US gas producer yields 11% and has a good track record as an income stock

**A** Western world looking to wean itself off Russian energy is increasingly looking to the US and that is great news for FTSE 250 US natural gas producer **Diversified Energy (DEC)** as it should provide a strong driver for domestic energy prices.

Shares in the company trade at a mere six times 2022 consensus forecast earnings and offer an inflation-busting dividend yield of 11.2%.

Diversified Energy has grown the dividend, which investors should be aware is declared and paid in dollars, from a maiden annual payment of 5.44 cents in 2017 to 16.5 cents in 2021.

Its strategy is built on acquiring conventional natural gas assets, spanning from the Appalachian region to Louisiana, Texas, Oklahoma and Arkansas.

Diversified Energy aims

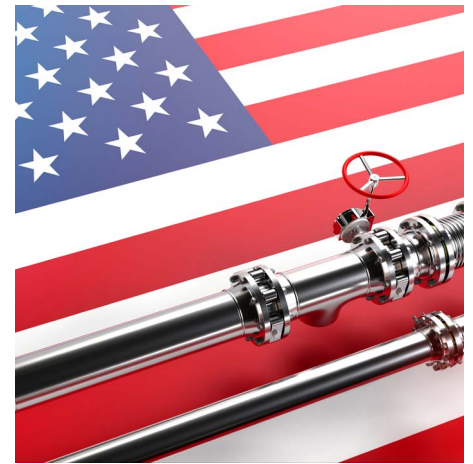
to buy fields with long lives where production is declining slowly. This helps to generate a predictable stream of cash flow which can underpin the dividend.

In 2021 the company produced a record 119,000 barrels of oil equivalent per day and kept operating costs low at \$6.73 per barrel of oil equivalent.

The company has been adept at using debt and other avenues for financing to fund its expansion and thereby avoid issuing new shares and diluting shareholders. However, this brings some complexity to the story which may explain the discounted equity valuation.

For example, the company uses securitisation – packaging up its assets and selling them as securities with a coupon payment. The company recently completed its latest such transaction, raising \$365 million, and CEO Rusty Hutson Jr explained to *Shares* that it represents a 'low cost of capital for us in a rising interest rate environment' at a coupon of less than 5%.

Net debt stood at a little more than \$1 billion as at the end of 2021, or around 2.1 times earnings. This is in line with the firm's targeted range and



## DIVERSIFIED ENERGY

**BUY**

(DEC) 118.8p

Market cap: : £1.01 billion

according to US broker Tennyson it has liquidity of up to \$400 million to put towards future acquisitions and is looking at options to boost this to as much as \$700 million.

Hutson Jr says he would be extremely disappointed not to match last year's deal flow of four acquisitions at a net cost of around \$700 million.

The company secured additional firepower for deals through a November 2020 agreement struck with specialist asset management firm Oaktree Capital which committed to a \$1 billion outlay to be matched by Diversified Energy and Hutson Jr says the 'model is sustainable for a long period of time'. [TS]

### Growing dividends at Diversified Energy

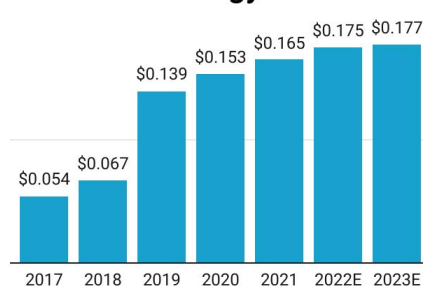


Chart: Shares Magazine • Source: Stockopedia • Created with Datawrapper

### Diversified Energy

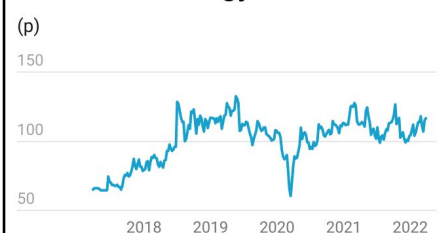


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# Never from concentrate

We don't think it's a good idea to squeeze all your income from just a few stocks.

So we launched the **FP Octopus UK Multi Cap Income Fund** on 10 December 2018 to blend small, medium and large UK companies.

The result? The best performing fund, in the IA UK Equity Income sector, over three years and since launch.

The value of your investment, and any income, can fall or rise. You may get back less than you invest. Smaller companies can fluctuate more in value and they may be harder to sell.

**octopus**investments  
A brighter way



12 months to 28 February (%)	2022	2021	2020	2019	2018	10/12/2018 28/02/2022
FP Octopus UK Multi Cap Income Fund S Acc	7.6	15.5	18.1	n/a	n/a	58.3
IA UK Equity Income Sector - Average Fund Total Return	13.4	3.3	-1.3	-0.5	4.3	22.2
FTSE All-Share Index Total Return	16.0	3.5	-1.4	1.7	4.4	26.4

## Past performance is not a guarantee of future returns.

Fees are deducted from capital which will increase the amount of income available for distribution. However, this will erode capital and may hinder capital growth. Before investing you should read the Prospectus, the Key Investor Information Document (KIID) and the Supplementary Information Document (SID) as they contain important information regarding the fund, including charges, tax and

fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available in English at [octopusinvestments.com](https://octopusinvestments.com). Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London, EC1N 2HT. Registered in England and Wales No. 03942880. CAM011924

Source: Lipper, 28/02/17 to 28/02/22. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling.



**HOMESERVE**

(HSV) 880p

**Gain to date: 30%****Original entry point:****Buy at 675p, 24 March 2022**

JUST AS SOON as we had recommended home repair services group **HomeServe (HSV)** as a buy on 24 March, its shares jumped sharply following news that Brookfield was considering a possible offer for the group.

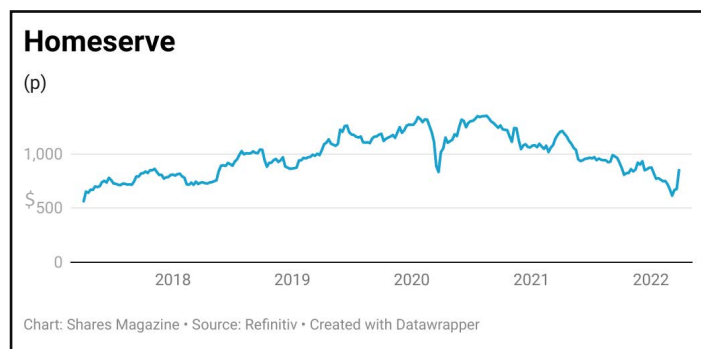
Brookfield Asset Management is one of the world's largest alternative investors with \$688 billion of assets under management.

There are a number of factors that make HomeServe a natural target for private equity ownership. These include its inflation-protected, annuity-like income streams. Specifically the defensive and recurring nature of its revenue enables it to support higher levels of debt.

A recent industry transaction, whereby American Water disposed of its US Homeowner Services Group, suggests there could be further upside in HomeServe's share price.

The sale in 2021 for \$1.27 billion, equated to enterprise value per customer of \$850, and an EV to EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) multiple of 15 times.

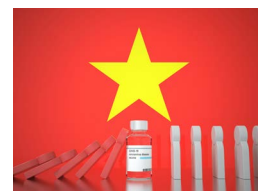
Using this same EV to EBITDA multiple it would imply a HomeServe share price of £10. Alternatively using the \$850 value per customer generates a value of £14.50.

**SHARES SAYS: ↗****Sit tight and see how the bid situation plays out. [MG]****VIETNAM OPPORTUNITIES FUND**

(VOF) 503p

**Gain to date: 9.3%****Original entry point:****Buy at 460p, 23 September 2021**

RESULTS FROM THE **Vietnam Opportunities Fund (VOF)** for the six months to December showed a slowdown from the exceptionally high rates of return in June but we were expecting as much.

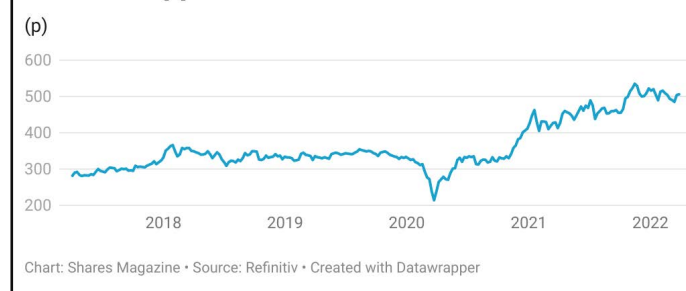


Between July and October, Vietnam experienced its most serious wave of Covid infections but the successful roll-out of vaccines and other measures has helped the economy get back on track.

The fund's net asset value total return per share was 6.9%, although this might be understated as the private and unlisted equity book – which made up 28% of the portfolio at 31 December – is only revalued once a year in June.

The firm maintains it can generate an internal rate of return well above 30% on its private investments, and today 80% of its public equity portfolio is made up of companies which started out as private holdings before coming to market.

The public equity portfolio has grown its earnings by more than 40% per year since 2018 and the managers expect it to significantly outperform the local index in terms of profit growth again this year.

**Vietnam Opportunities Fund****SHARES SAYS: ↗****Stick with this experienced team to deliver superior returns. [IC]**

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## SDI

(SDI:AIM) 176.3p

**Gain to date: 1%**

**Original entry point:**

**Buy at 174.5p, 27 May 2021**

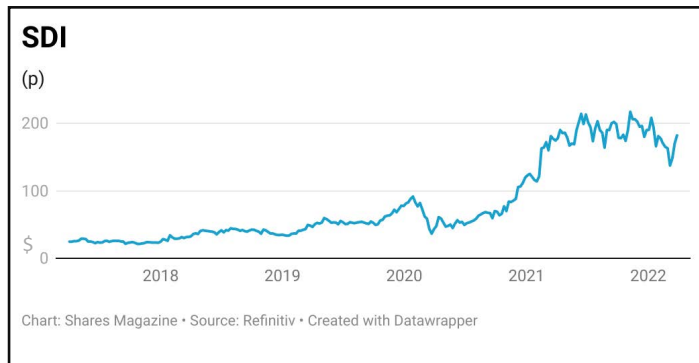


SCIENCE KIT MANUFACTURER **SDI (SDI:AIM)** may have retreated from the record share price highs reached in late 2021, but the company's latest update suggests this is more a reflection of the wider shift from growth to value than any lack of progress for the business itself.

The company has announced the £7.7 million acquisition of SafeLab Systems. The deal, funded from SDI's own cash resources and an existing debt facility, is expected by analysts to be immediately earnings enhancing. SDI is paying £5.5 million up front, of which £5.3 million is in cash and £200,000 in shares with a further £2.9 million payment to come shortly after completion.

Located in Weston-super-Mare, SafeLab makes high specification fume cupboards and similar cabinets for research laboratories and is focused on the education sector.

Progressive Equity Research's Tessa Starmer says the acquisition, coupled with the recent purchase of SVS, more than fills the gap for sales and profits in the financial year to April 2023 against the exceptional levels achieved in the 2022 financial year, which were heavily boosted by more than £8 million of Covid-related revenues at SDI's Atik division.



### SHARES SAYS: ↗

**A smart-looking deal, we remain fans of SDI's long-term potential. [TS]**

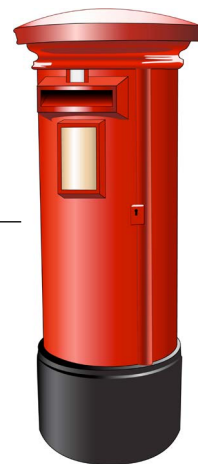
## TEMPLE BAR INVESTMENT TRUST

(TMPL) £11.64

**Loss to date: 1.9%**

**Original entry point:**

**Buy at £11.87, 13 January 2022**



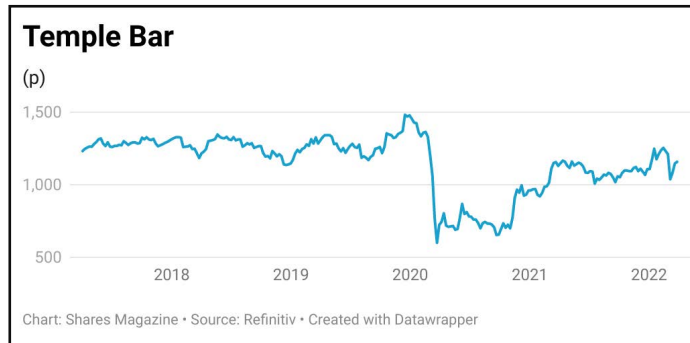
RECENT CHOPPY MARKET conditions have left our 'buy' call on **Temple Bar (TMPL)** 1.9% in the red, but we still believe the UK equity income trust is well-positioned in an environment of runaway inflation and rising interest rates given its focus on value stocks.

A five-for-one share split in May, which will result in a more modest price per individual share, should boost liquidity and help those who invest on a regular basis or reinvest their dividends.

With the UK market still cheap versus overseas counterparts, Temple Bar is a great way to benefit from the rotation into decent, cash generative firms with robust balance sheets trading on lowly valuations.

Investors have been eager for exposure to the value-style stocks in the portfolio ranging from **Royal Mail (RMG)** and **Marks & Spencer (MKS)** to **BP (BP.)** and **NatWest (NWG)**.

Results for 2021, which was Temple Bar's first full year under the management of Redwheel duo Ian Lance and Nick Purves, showed a pleasing net asset value return of 24.5% versus the FTSE All-Share's 18.3%.



### SHARES SAYS: ↗

**Keep buying. [JC]**



## HENRY BOOT

(BOOT) 312p

**Gain to date: 11%**

**Original entry point:**

**Buy at 281p, 30 September 2021**



CONSTRUCTION AND PROPERTY firm **Henry Boot (BOOT)** posted a forecast-beating performance for the year to December and said it was enjoying a strong start to the current year with high levels of secured sales.

The group is focused on three key markets, industrial and logistics, residential and urban development, all of which are benefiting from structural tailwinds.

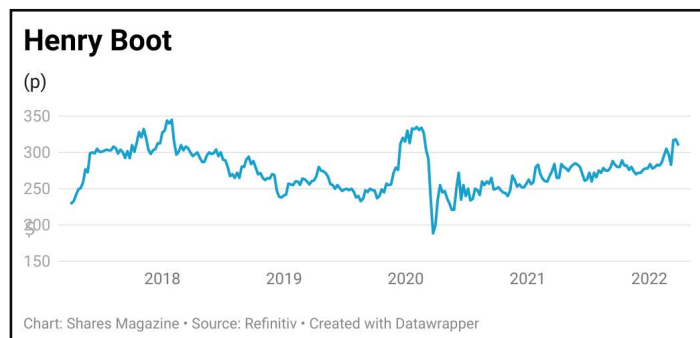
Although revenues only increased 3.7% last year, pre-tax profits were up 135% and return on capital employed recovered to 9.6% against 4.7% the previous year.

Net asset value per share increased 13.6%.

Such has been the strength of demand that the construction business has already secured over 100% of its 2022 budgeted order book, while the property development business has a £1.4 billion development pipeline.

Land promotion remained buoyant due to developers replenishing their land banks, allowing the firm to sell 50% more plots last year with an average 21% increase in selling prices.

It is committing more capital to the business to leverage returns and 2022 could be being a bumper year for valuations and earnings.



### SHARES SAYS: ↗

**We think the market is only just starting to appreciate the company's merits. [IC]**

## AG BARR

(BAG) 553p

**Gain to date: 10.7%**

**Original entry point:**

**Buy at 499.5p, 7 May 2020**



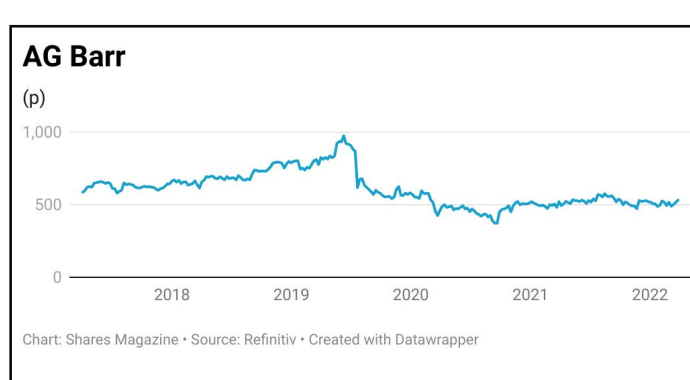
GIVEN THE TURBULENT backdrop of the last two years or more the share price performance of soft drinks maker **AG Barr (BAG)** has been pleasing.

The company behind the iconic Irn-Bru brand announced adjusted profit for the year to 31 January 2022 of £41.5 million, ahead of peak pre-Covid levels in 2019 despite the loss of the UK bottling contract for the Rockstar brand.

Dividends are making a big comeback, with a final dividend of 10p complementing a 2p first-half payment and 10p special payout doled out earlier in the year.

AG Barr also invested in further innovation in its brand portfolio, helping to support future growth in the business. The recent acquisition of a stake in plant-based foods company Moma demonstrates the company is responding to shifting consumer tastes and preferences.

Liberum analyst Wayne Brown commented: 'As a vertically integrated, 100% branded business, with more than 40% of the sales coming from the impulse channel giving the group total commercial oversight and pricing power flexibility, we remain confident that AG Barr remains well placed to deal with inflationary pressures and grow sales and profits again.'



### SHARES SAYS: ↗

**A high quality outfit still worth buying. [TS]**

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# MAKE THE MOST OF YOUR ISA ALLOWANCE:

## Three stocks to buy now

By Daniel Coatsworth, Mark Gardner,  
Ian Conway and James Crux



**I**t's your final chance to make the most of the £20,000 ISA allowance for the 2021/22 tax year and we've got three quality investment ideas for those seeking last minute inspiration.

The beauty of ISAs is you don't pay any tax on capital gains or income from investments inside the account.

Even if you aren't ready to put more money into the markets, simply adding any spare cash into the ISA before the end of the tax year on 5 April means that money will be ready to qualify for future tax-free gains.

Our three stock ideas in this article should appeal to someone wanting to buy a slice of a great business.

**Legal & General (LGEN)** will satisfy those seeking an attractive income stream, thanks to generous dividends.

Shares in **Impax Asset Management (IPX:AIM)** have fallen a lot in recent months, and we believe they've been oversold. Now's your chance to pick up stock in a high-quality operator with proven skill in ESG-related investments.

Finally, US-listed Dollar Tree should benefit

from the inflationary backdrop as we should see more people trade down to cheaper goods, which is its area of expertise.



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Junior ISA accounts are available for children under 18 and have a limit of £9,000 a year.

**BUY**

# LEGAL & GENERAL (LGEN) 272.1P

**BUY**

**Legal & General (LGEN)** is the sort of share you want to buy and forget about, enjoying an attractive income stream for years to come.

The performance statistics are very good. Over the past five years it has delivered more than twice the total return (share price gains and dividends) than the FTSE All-Share index of UK shares, at 52% versus 25% respectively, according to FE Analytics.

Over the past 10 years the outperformance is even greater, with Legal & General generating a 266% total return versus 96% from the FTSE All-Share.

The company is a key beneficiary of the robust structural trends that continue to drive change and growth in UK life insurance. Moreover, asset management inflows remain on a positive trajectory.

The recent market sell-off has taken its toll on the group's share price which year to date is down 9.7%. However, this presents an opportunity given the group's attractive dividend yield and low price to earnings ratio. The stock is trading on 7 times 2023 operating earnings per share, with a 7.9% prospective dividend yield.

In the UK, the combination of an ageing population and the ongoing shift of responsibility for retirement incomes from corporates and the state to the individual should continue to fuel growth in the long-term savings market for many years to come. Critically Legal & General will be a key beneficiary of this trend.

Since 2012, when Nigel Wilson took over as CEO of Legal & General, the group has been focused on cash generation as well as the growth opportunities in the UK market, and increasingly the US and Asia. It has also demonstrated how life insurers' balance sheets can be used to create alternative higher yielding assets, which better match the group's liabilities.

Legal & General has a five-year plan (2020-2024) to generate £8 billion to £9 billion of cash and capital. To date, it has delivered £3.2 billion of cash generation and £3.1 of capital generation, implying it is well on target to deliver as promised. This would also suggest the group's



## Legal & General

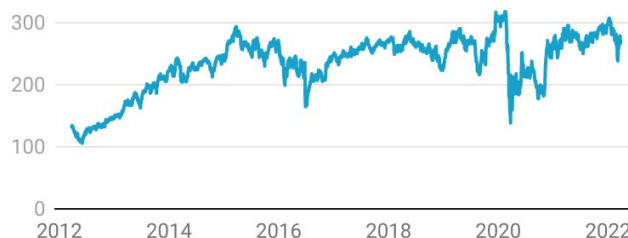


Chart: Shares Magazine • Source: FE Analytics • Created with Datawrapper

ambition to achieve 3% to 6% compound annual dividend growth up to 2024 is achievable.

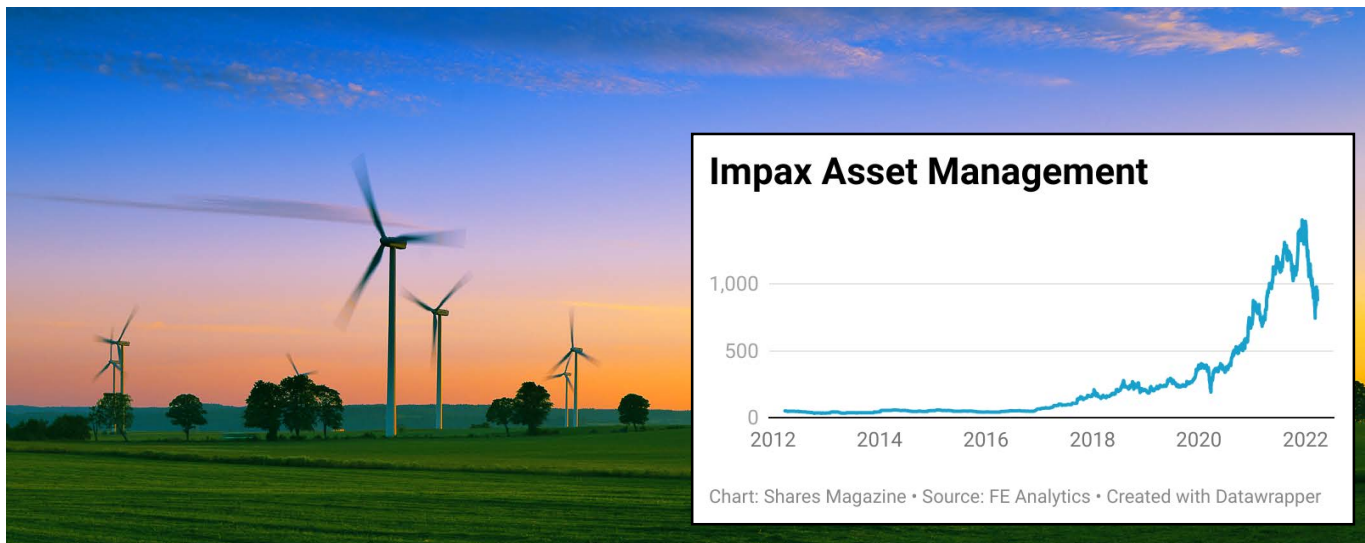
The company is the largest beneficiary among the UK life sector to any interest rate rises with respect to its solvency ratio. This is particularly relevant given the recent announcement that consumer prices in the UK rose by 6.2% in the year to February. This was up from 5.5% in January and marks the biggest inflation reading since March 1992.

'Unlike most sectors, life insurance companies are positively correlated to interest rate movements,' says CI Global Asset Management. 'One reason is that insurers often reinvest policyholder premiums into bond instruments, allowing them to profit when (government bond) yields increase.' [MGar]



BUY

# IMPAX ASSET MANAGEMENT (IPX:AIM) 906P



One of the most striking reactions to the invasion of Ukraine has been the speed with which big businesses, including oil firms, have distanced themselves from Russia.

In previous conflicts there was little prospect of companies shying away from or ceasing trading with aggressor nations.

Today, with social and governance issues ingrained among companies and their stakeholders, the need to be seen as a good corporate citizen has meant many companies have wasted no time in cutting ties with the Putin regime.

The conflict has also had ripple effects on energy and other commodity prices, reinforcing the long-standing call from environmentalists to invest more in alternative sources of energy and food if we are to avoid supply shocks as well as protect the planet.

In summary, ESG (environmental, social and governance) investing has never been more relevant than it is today and flows into fully accredited ESG funds are only going to increase.

Having launched in 1998, **Impax Asset Management (IPX:AIM)** was well ahead of the pack when it comes to sustainable and ESG investing.

Most of the money it runs is institutional, but in the last couple of years the company's shares and its retail investment funds have become increasingly popular with small investors.

In the 12 months to last September the company enjoyed net inflows of £10.6 billion for its funds.

At the same time, performance gains added £6.3 billion, meaning total assets for the year rose to £37.5 billion or 84% more than in the year to September 2020.

Impax's track record has also drawn the attention of other asset management firms, who have adopted the mantra of 'if you can't beat 'em, join 'em' and taken sizeable equity stakes in the business.

Together Aberdeen Standard Investments, BlackRock, Janus Henderson and **Liontrust (LIO)** own over a quarter of the firm, while original backer BNP Paribas still holds roughly a 14% stake.

Management also have significant 'skin in the game', with the employee trust owning 10.6% and co-founder and chief executive Iain Simm owning a 7% stake.

The shares, which hit an all-time high close to £15 at the end of last year, are now trading at just over 900p after having nearly halved in two months.

This is despite the firm posting an 11% increase in assets in the final quarter of 2021 to £41.4 billion as investors continued to flock to its industry-leading offering.

This is a golden opportunity to buy into a great ESG manager at a sizeable discount in a market which has many years of growth ahead of it. [IC]

**BUY**

# DOLLAR TREE

## \$154.25

**BUY**

One way to protect your portfolio from the rampant inflation taking hold around the globe and the risk of an international recession is to buy discount retailers that can capitalise as cash-strapped consumers tighten their belts and trade down to cheaper brands in tough times.

A savvy way to play the cost-of-living squeeze in North America is US-listed **Dollar Tree**, the Virginia-headquartered discount variety stores operator that has generated double digit earnings growth each year for the past decade.

This success is despite the poorly managed integration of general merchandise discounter Family Dollar, the rival operator with a slightly different pricing model acquired in 2015, and more recently, the impact of soaring freight cost inflation on the business.

Shares in Dollar Tree, with thousands of stores across the US and Canada selling everything from budget clothing and cleaning products to snacks, drinks, toys and pet food, are currently testing all-time highs.

Fourth quarter results revealed a 4.6% sales increase to almost \$7.1 billion.

A recent boardroom revamp following pressure from activist Mantle Ridge that saw Richard Dreiling, a former CEO of arch-rival Dollar General, drafted in as executive chairman, went down well with investors.

Share price strength has left the shares trading on a 12-month forecast rolling price to earnings ratio of 19.3 according to Stockopedia. Though

this appears rather rich for a retailer, a price to earnings growth ratio of 0.8 suggests the shares are good value relative to the growth expectations. A PEG ratio below 1 is considered very attractive.

*Shares* notes Dollar Tree is seeing positive earnings revisions for the financial years to January 2023 and 2024, based on Stockopedia data.

Whilst many consumers in the US boast strong balance sheets after accumulating savings during the pandemic, inflationary pressures including the rising cost of fuel are pressuring finances and should drive more shoppers to Dollar Tree in a bid to save money.

Focused on providing extreme value, Dollar Tree has effectively raised prices with a successful conversion to a \$1.25 price point across all its Dollar Tree outlets in the US, which should enhance its earnings.

Besides boosting an ability to expand its ranges, introduce new products and sizes, the new pricing strategy has enabled the retailer to reintroduce many customer favourites and footfall-driving products it had stopped selling due to the constraints of the previous \$1 price point.

Its Family Dollar chain, which sells many products for \$1 or less with most items priced below \$10, should benefit from store renovations in the current year. It is also set fair for market share gains in straitened times. [JC]

THIS IS A MARKETING COMMUNICATION. PLEASE REFER TO THE KEY INFORMATION DOCUMENT (KID) BEFORE MAKING ANY FINAL INVESTMENT DECISIONS.



# WE'LL FOCUS ON THE DIVIDENDS, YOU ENJOY THE COMMUTE



## The Merchants Trust PLC

The Merchants Trust aims to provide an above average level of income that rises over time. So whilst we focus on investing in large UK companies with the potential to pay attractive dividends, you can focus on travel, family, home, retirement – whatever really matters to you. Although past performance does not predict future returns, we've paid a rising dividend to our shareholders for 39 consecutive years, earning us the Association of Investment Companies' coveted Dividend Hero status. Beyond a focus on dividends, Merchants offers longevity too. Founded in 1889, we are one of the oldest investment trusts in the UK equity income sector. To see the current Merchants dividend yield, register for regular updates and insights, or just to find out more about us, please visit us online.

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**INVESTING INVOLVES RISK. THE VALUE OF AN INVESTMENT AND THE INCOME FROM IT MAY FALL AS WELL AS RISE AND INVESTORS MAY NOT GET BACK THE FULL AMOUNT INVESTED.**

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# RECESSION FEARS

## How to protect and grow your wealth if the economy weakens



By Martin Gamble, Education Editor

**R**ecession concerns have been seeping into the investment narrative in recent weeks. The war in Ukraine has exacerbated supply shortages and added unexpected fuel to the inflationary fire.

Inflation in basic non-discretionary goods crimps spending elsewhere and could put a big dent in the expected nascent global recovery.

While recession isn't the base case for most economists, investors may do well by heeding the sage advice of French chemist Louis Pasteur, who invented some of the earliest vaccines. Pasteur said, 'Fortune favours the prepared mind'.

In this article we look at the key factors which could tip the global economy from growth into recession and reveal four investments to weather the storm.

**DON'T PANIC AND STAY FOCUSED  
ON THE LONG TERM**

A recession is technically two consecutive quarters of negative growth in the economy. Recessions are a natural part of economic cycles



and occur at the end of economic expansions.

Depending on their severity they should not be feared and can even be beneficial for long term investors who are able to pick up stocks on the cheap.

In terms of preparing on a practical level, paying off expensive credit card debts or consolidating debts onto a cheaper rate, if possible, is a good idea.

Try to build up a cash reserve to cover any unexpected emergencies. This is not going to be easy with rising energy and household bills, although some people may still have cash which they saved during the Covid lockdowns from not going out.

One thing everyone can do is to take advantage of the only free lunch in finance, also known as diversification.

This means spreading risk. Check your portfolio has a broad exposure to different types of assets, sectors and geographies. Reducing exposure to economically sensitive shares and upping weightings to defensives and staples should reduce volatility and risk.



## WHAT ARE BOND MARKETS TELLING INVESTORS?

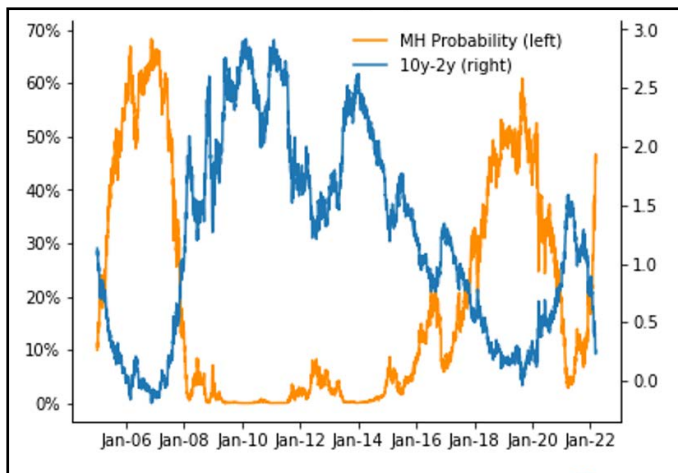
It might sound bonkers, but US bond markets were flashing warning signals of recession even before the US Federal Reserve raised interest rates (16 March) by a quarter of a percentage point to 0.5%.

Even more worryingly, Fed chairman Jerome Powell has indicated more increases, potentially one at every policy committee meeting this year. This implies a Fed funds rate at 1.95% by the end of 2022. So, what's going on?

Based on the yield curve (we'll explain this in a second), the bond market is telling us it thinks the Fed is making a policy mistake by aggressively raising interest rates.

Admittedly, the Fed is stuck between a rock and a hard place. It has an obligation by law to tackle current high inflation and it knows the war in Ukraine is pushing up energy prices, adding to inflationary pressures.

### Recession model based on US 2 year / 10 year Treasury bond yield spread



Source: Macro Hive, Macrobond

## WHAT IS THE YIELD CURVE?

Investors need to look at the yield curve which is the level of expected interest rates at different points in the future.

The shape of the yield curve provides predictive information about expectations for future growth.

In a healthy economy longer term interest rates are higher than short term rates. This means the slope of the curve is upward sloping from left to right when looking at a chart.

Bonds which mature further into the future



usually have higher yields because they are riskier. Investors demand a higher coupon (amount of interest) to compensate them for that risk.

A 10-year government bond paying a 2% coupon provides annual income of £2 for every £100 invested.

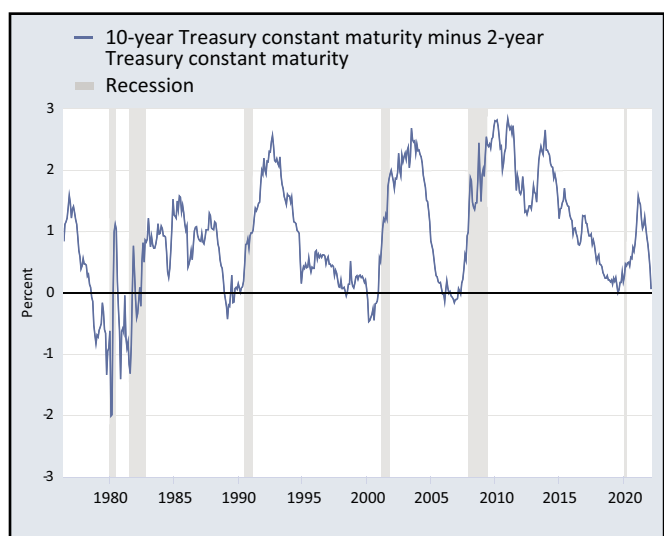
When short term interest rates are below longer term rates, the economy is expected to continue to expand. But when long term rates fall while short term rates increase, this causes the curve to flatten or even invert.

Historically, inversions have presaged recessions – and we briefly reached the inversion point on 29 March.

The most common rates to compare are two and 10-year rates. The reason is because two-year rates more readily capture expected Fed rate rises.

This spread has narrowed from 1.6% a year ago to 0.02%. Based on prior inversions, it is possible to calculate the likelihood of recession.

According to consultancy Macro Hive, the probability (chance) has increased from 18% at the start of 2022 to 45%, a big jump.



Source: Federal Reserve Bank of St. Louis

## WHAT ARE THE CHANCES OF A SOFT LANDING?

The Fed is attempting to engineer a soft landing. In other words, reduce demand in the economy to cool the jobs market sufficiently to slow growth without endangering the economic expansion.

The idea is to increase the cost of money to dampen demand in the interest rate sensitive parts of the economy and thereby reduce the imbalance between supply and demand for labour.

The Fed is implicitly assuming supply chain disruptions get fixed over time and, along with higher base effects, also reduce inflation.

Soft landings are an incredibly difficult thing to achieve if history is a good guide.

Alan Blinder was Fed vice-president under chairman Alan Greenspan during the 1990s. His work showed the Fed only achieved two out of 11 soft landings during tightening cycles between 1966 and 1994.

Economic research firm TS Lombard has looked at the episodes in more detail. It reveals successful soft landings were mainly achieved when inflation was relatively well behaved.

The problem occurs when inflation is already high and perceived to be a problem by the Fed. Sound familiar? It should do because Powell has categorically said the Fed needs to tackle inflation which at 8% is too hot to maintain long term price stability.

Without price stability the Fed believes it cannot deliver on the second part of its dual mandate to achieve maximum employment.

TS Lombard believes if inflation turns out not to be transitory and remains above what the Fed can tolerate, the chances of a soft landing are practically zero.

## EUROPE IS IN THE EYE OF THE STORM

While the US may escape a recession, the EU is in a more precarious position due to its proximity and economic ties to Ukraine and Russia.

The OECD (Organisation for Economic Co-operation and Development) estimates the conflict and rise in commodity prices could slow the EU economy by 1.4% in 2022.

Goldman Sachs estimates cutting off energy supplies to Europe might knock 2.2% off growth and push the region into recession.

Even more worrying, economists Lutz Kilian and Michael Plante at the Dallas Federal Reserve Bank have warned of global recession if oil prices remain elevated.

The burden of shoring up consumer confidence and mitigating inflation will fall on national governments. Ireland and France have said they will subsidise rising fuel prices and other countries will probably follow suit.

In his spring statement (23 March) UK chancellor Rishi Sunak temporarily lowered duty on petrol by 5p per litre and reduced VAT on energy saving devices to zero from 5%.

Despite government help, the outlook for the UK consumer looks pretty scary after the OBR (Office for Budget Responsibility) said it expects real disposable income to fall to the lowest level since records began in the 1950s.

It is not just rising energy costs hitting the consumer's pocket. There has been major disruption to fertiliser supplies because Russia and Belarus are two of the biggest exporters. Fertilisers are needed to maintain and improve crop yields.

Disruption to supplies has the potential to hinder crop production in many parts of the world when food prices are already high.

No one has a crystal ball with perfect foresight, but the evidence suggests taking precautionary action with your investments now could pay off later. Here are four suggestions for investments to own given what's potentially on the horizon.



## IMF Real GDP Growth forecasts (%)

	2022	2023
UK	4.1	2.8
Euro area	3.9	2.5
US	4.0	2.6
Japan	3.3	1.8
China	4.8	5.2

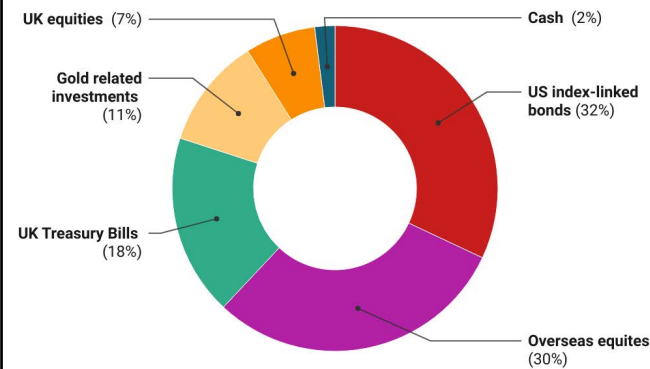
*Data as at January 2022*

Table: Shares Magazine • Source: IMF data • Created with Databrainer

**Personal Assets Trust (PNL)**  
**Price: £498.50**  
**Market Cap: £1.79 billion**

**BUY**

#### Personal Assets Trust: portfolio breakdown



Data as at 31 January 2022

Source: Personal Assets Trust • Created with Datawrapper

This trust is well positioned to provide downside protection in poor equity market conditions while also participating in upswings.

The trust's objective is to protect and grow shareholder value over the long-term. It can invest across different asset classes to find the best risk-to-reward opportunities.

Importantly returns have been delivered

#### Personal Assets Trust



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

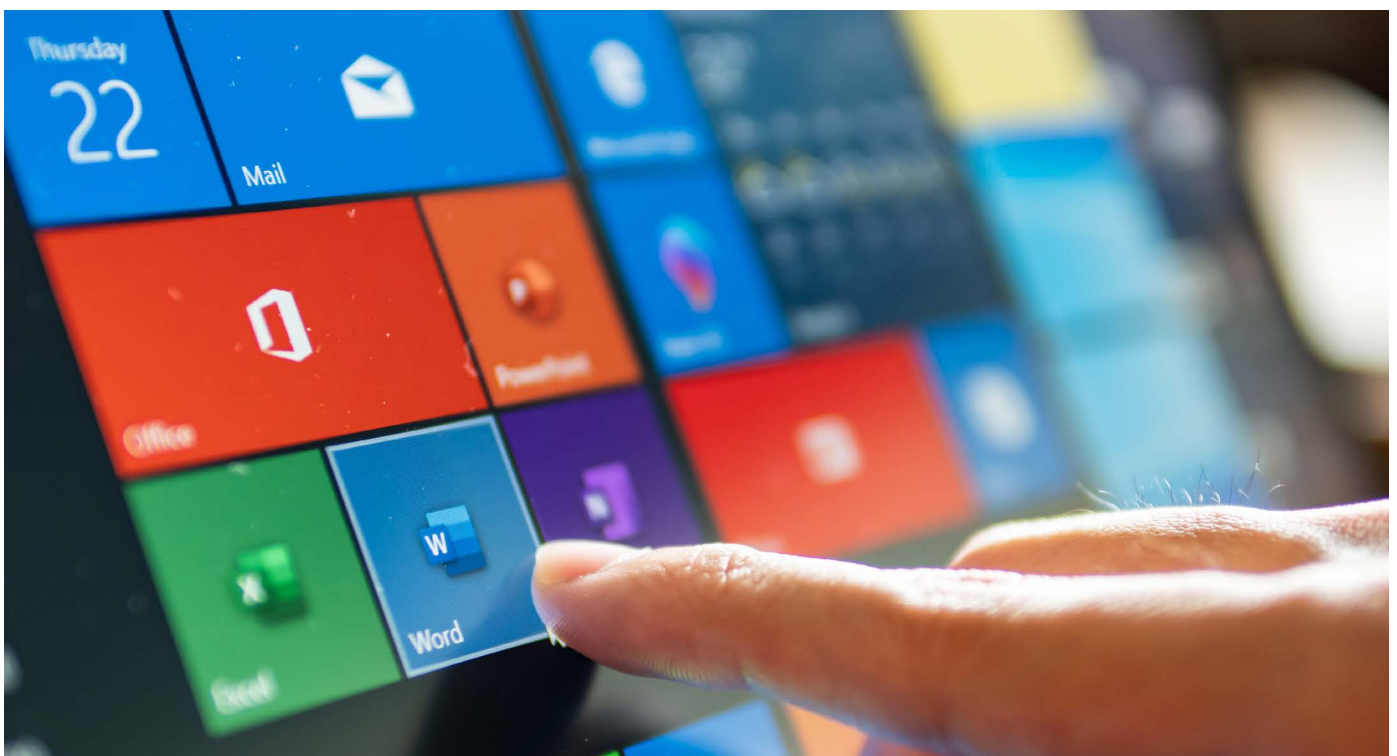
with less than half of the volatility (how much the price moves) of the index. Indeed, the trust has one of the lowest volatilities in the unconstrained sector.

The manager is concerned about the economic outlook and the high valuation of both bonds and equities. The priority is therefore to preserve capital.

Equity exposure is at the low end of the 15-year range (32%-72%) at 37%. The equity assets are concentrated in companies with quality characteristics, with **Microsoft (MSFT)** and **Alphabet (GOOG)** the two largest holdings.

US inflation-linked bonds represent 32% of the net asset value. The manager believes these will provide some protection against a backdrop of low real interest rates and rising inflation.

UK Treasury bills and cash represent 20% of the net asset value, while gold related exposure is 11%. The trust has an ongoing charge of 0.73% a year.





**Polar Capital Global Healthcare Trust (PCGH)**  
**Price: 288p**  
**Market Cap: £350 million**

**BUY**

Healthcare is considered non-discretionary expenditure which gives the sector defensive qualities during economic downturns.

In addition, spending on healthcare has more than kept pace with inflation, making it doubly attractive when inflation is high.

The £350 million **Polar Capital Global Healthcare Trust (PCGH)** trades at an 11% discount to net asset value which looks attractive given the improved performance over the last year.

The trust handsomely outperformed the MSCI Global Healthcare index, delivering a total return in NAV of 18.4% compared with the 14.7% return of the benchmark.

Over the three years performance is marginally ahead of the benchmark.

The trust's mandate was changed in June 2017 to focus more on capital growth, rather than the previous focus on income. The investment approach is high conviction and actively traded.

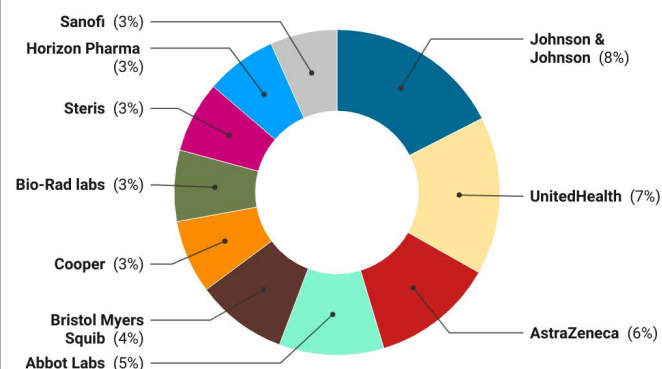
The managers can invest up to 20% of assets in small cap innovators that drive disruption leading to new drugs and surgical treatments.

A key characteristic of the portfolio is its underweighting of pharmaceutical companies

**Polar Capital Global Healthcare Trust**



**Top 10 Holdings**



Data as at 28 February 2022

Source: Polar Capital • Created with Datawrapper

which represent the largest component of the benchmark, around 38%.

Instead, the trust is overweight with healthcare equipment and facilities companies as well as biotechnology firms.

The trust's largest weightings are in Johnson & Johnson, UnitedHealth and **AstraZeneca (AZN)**. The annual ongoing charge is 1.09%, in line with sector peers.





**Vodafone (VOD)**  
Price: 125.8p  
Market cap: £35.3 billion

BUY

While investors have become obsessed with growth over the last few years, telecommunications companies have flown under the radar. However, we believe they are a good place to invest ahead of a downturn.

Their income is more reliable and less economically sensitive, giving them a defensive quality.

In addition, they tend to pass through inflation which means they are decent hedges against rising prices.

Because they are considered dull, their ratings tend to be modest in relation to the market.

**Vodafone (VOD)** has a 6.1% prospective dividend yield and trades on a modest 13 times price to earnings ratio.

This looks cheap compared with the 14% earnings growth that analysts expect over the next couple of years. Vodafone is making operational improvements with the intention of increasing returns on capital.

An additional potential upside for investors is increased interest in the sector from private equity buyers looking for bargains. Cevian Capital is rumoured to have built up an undisclosed stake in Vodafone.

While analysts at Numis Securities remain sceptical about the extent to which Cevian Capital may be able to force Vodafone's hand, they do believe the investor's interest could spark a re-evaluation of Vodafone's business model, strategy and scope for profits recovery.



**Assura (AGR)**  
Price: 65.9p  
Market Cap: £1.96 billion

BUY

Real estate investment trust **Assura (AGR)** owns and develops medical centres serving GP (general practitioner) practices.



The NHS wants to modernise legacy assets and increase community-based services. The government is supportive of private capital getting involved to support its goals.

Roughly 45% of UK primary care medical centres are owned by GPs, usually as part of their pension provision. But younger GPs are increasingly choosing not to participate in property ownership according to Shore Capital.

This means older GPs are looking for exits through disposals to specialist REITs like Assura, which has built up a rough 6% share of the UK market.

Assura's shares trade at a 2% discount to its net asset value compared with an 11% premium for rival **Primary Health Properties (PHP)**.

Shore Capital believes the discount is unwarranted given Assura's superior prospective dividend yield of 5% and better dividend growth profile emanating from its development pipeline.

Growth is expected to come from a pipeline of new medical centres estimated to be worth around £480 million, plus bolt-on acquisitions.

The shares offer defensive growth and an attractive yield while regular rent reviews provide some inflation protection.

The company minimises rent risk when developing new properties by pre-letting them before construction starts.

### Vodafone

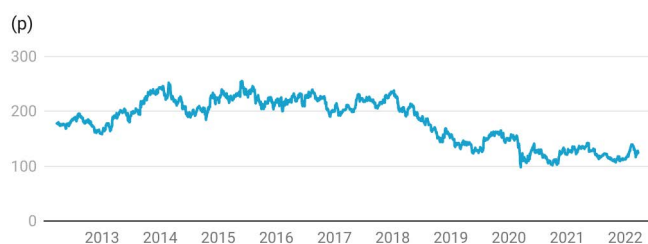


Chart: Shares Magazine • Source: Refinitiv • Created with Datawrapper

### Assura



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

# Fidelity European Trust PLC

## Investing in companies built to stand the test of time

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

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

### Holding a steady course throughout market cycles

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

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

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

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

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

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



	Feb 2017 - Feb 2018	Feb 2018 - Feb 2019	Feb 2019 - Feb 2020	Feb 2020 - Feb 2021	Feb 2021 - Feb 2022
<b>Past performance</b>	16.2%	2.4%	10.8%	11.3%	15.7%
Share Price	20.5%	2.8%	11.6%	13.9%	15.9%
FTSE World Europe ex-UK Total Return Index	12.7%	-3.3%	6.5%	14.4%	8.9%

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

Source: Morningstar as at 28.02.2022, bid-bid, net income reinvested. ©2022 Morningstar Inc. All rights reserved. The FTSE World Europe ex-UK Total Return Index is a comparative index of the investment trust. • Created with Datawrapper

### Important information

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

The latest annual reports, key information documents (KID) and factsheets can be obtained from our website at [www.fidelity.co.uk/its](http://www.fidelity.co.uk/its) or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. The Alternative Investment Fund Manager (AIFM) of Fidelity Investment Trusts is FIL Investment Services (UK) Limited. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0322/370478/ISSCSO00066/NA

# Investment trusts with more than 10% of their portfolio in private companies

There is increasing interest in unquoted markets as companies stay private for longer

**N**umerous investment trusts in recent years have asked shareholders permission to increase their exposure to companies which do not trade on a stock market, known as unquoted or unlisted.

Primarily, this is because companies are staying private for longer and this change in investment policy allows investment trusts to capture more of the rapid growth and value generated during the



## Equity investment trusts with more than 10% of their portfolio in privately-owned companies

Investment company	AIC sector	% of assets invested in private equity
Tetragon Financial Group	Flexible Investment	53.3%
Caledonia	Flexible Investment	53.0%
Lindsell Train	Global	46.8%
RIT Capital Partners	Flexible Investment	35.0%
Hansa Investment Company	Flexible Investment	23.9%
Miton Global Opportunities	Flexible Investment	23.6%
Baillie Gifford US Growth	North America	22.6%
UIL	Flexible Investment	22.1%
Scottish Mortgage	Global	21.4%
Downing Strategic Micro-Cap	UK Smaller Companies	13.9%
Edinburgh Worldwide	Global Smaller Companies	13.3%
Fidelity China Special Situations	China / Greater China	12.9%
Law Debenture Corporation	UK Equity Income	12.5%
Majedie	UK Equity Income	12.0%

Table: Shares Magazine • Source: AIC. Data as of 31 Dec 2021 apart from Miton Global Opportunities (30 Nov 2021) • Created with Datawrapper



earlier stage of a company's development.

Fourteen investment trusts now have more than 10% of their assets invested in private companies, excluding trusts which have a pure private equity focus. This is according to data from the Association of Investment Companies taken at the start of 2022.

**RIT Capital Partners (RCP)** and **Edinburgh Worldwide Investment Trust (EWI)** are among the trusts that invest both in companies on the stock market (known as quoted) and unquoted ones.

Edinburgh Worldwide Investment Trust recently gained approval to increase the limit on investment in private companies from 15% to 25% of total assets at initial investment.

**Pacific Horizon Investment Trust (PHI)** and **Fidelity Special Situations (FCSS)** have also obtained the green light from shareholders to be able to invest up to 15% of assets in private markets, previously 10%.

Perhaps the best-known investment trust to blend both quoted and unquoted investments is **Scottish Mortgage (SMT)** which has backed numerous well-known companies before they came to the stock market including Chinese internet group Alibaba and music streaming platform Spotify.

## INVESTMENT TRUST BENEFIT

Investment trusts have greater freedom to invest in illiquid unquoted investments, as they do not have to sell the underlying holdings when investors want their money back. This is in marked contrast to open ended investment vehicles.

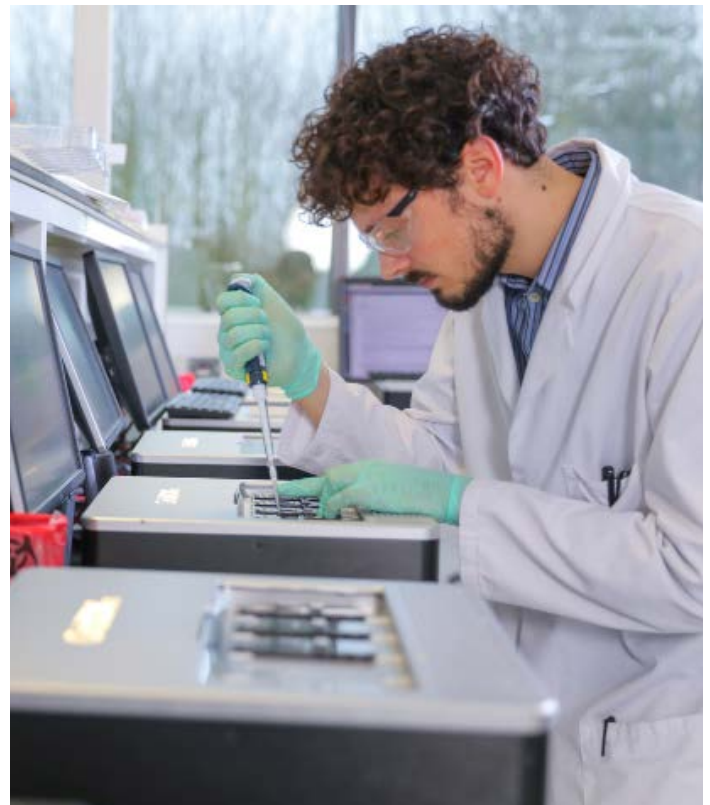
The flexibility of an investment trust structure provides an excellent vehicle for investors to gain exposure to sectors that are impossible to access directly or inappropriate with open-ended funds.

Indeed, Luke Ward, deputy manager at Edinburgh Worldwide Investment Trust, has highlighted certain sectors of the market that remain predominantly private including the space and quantum computing sectors.

## THE INFORMATION ADVANTAGE

In a recent AJ Bell Youinvest [webinar](#), Douglas Brodie, investment manager at Edinburgh Worldwide Investment Trust, emphasised the information advantage associated with investing in both private and public equity markets.

'For somebody who transcends both public and private markets, covering both means you are fundamentally a more informed investor. There is a danger if you only cover the listed market, you can be blindsided very aggressively by what is going on in the private sphere, with companies innovating, doing different things,' he remarked.



Oxford Nanopore is featured in Edinburgh Worldwide Investment Trust's portfolio

## EDINBURGH WORLDWIDE INVESTMENT TRUST

### Edinburgh Worldwide Investment Trust



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

Edinburgh Worldwide Investment Trust aims to generate capital growth from a portfolio of initially immature problem-solving businesses, offering long-term growth potential.

Although the trust invests predominantly in listed equities, it has a remit to invest up to 25% in



private companies.

Brodie believes that ‘the desire to find these high growth businesses runs deep in everything that we do, and if you think about this at its core, this extends very neatly into going down the market cap scale into earlier, younger and smaller businesses’.

The manager seeks to identify companies that can provide solutions to genuine problems in the world, as well as potentially creating new markets. In addition, he looks for management teams with a clear strategy for growth. He is attracted to business models with inherent scalability and an emerging competitive advantage.

At the end of October 2021, the trust had 11% of total assets invested in 12 unlisted companies. This represents an increase from 6% a year earlier, with six new private investments added to the portfolio.

The trust’s largest unquoted holding is Space Exploration Technologies, which designs, manufactures and launches rockets and spacecraft. It is perhaps best known because of its illustrious CEO, Elon Musk. The holding represents 4% of the trust’s total assets as of 28 February 2022.

Another key private holding is PSI Quantum, a developer of commercial quantum computing – something which promises to be a key transformative technology, with applications spanning energy, healthcare and technology.

**Oxford Nanopore (ONT)** and QuantumScape are examples of successful early stage private equity investments made by the trust which have subsequently listed on the public equity markets.

The former listed on the London market in September 2021. According to Numis, Oxford Nanopore has developed the cheapest and most scalable DNA sequencing technology allowing the real time analytics of genes, the building blocks of life.

QuantumScape listed on the American market in June 2020. It focuses on the development of solid-state lithium batteries for use in electric vehicles. The company claims these batteries will charge faster, go further, last longer and operate more safely than today’s electric vehicles.

Edinburgh Worldwide has outperformed the S&P Global Small Cap index over the last five years (97% versus 50% total return respectively). But performance has lagged on a one and three-year basis.



## RIT CAPITAL PARTNERS

### RIT Capital Partners



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

**RIT Capital Partners (RCP)** has the objective of long-term capital growth while preserving shareholders’ money through market cycles.

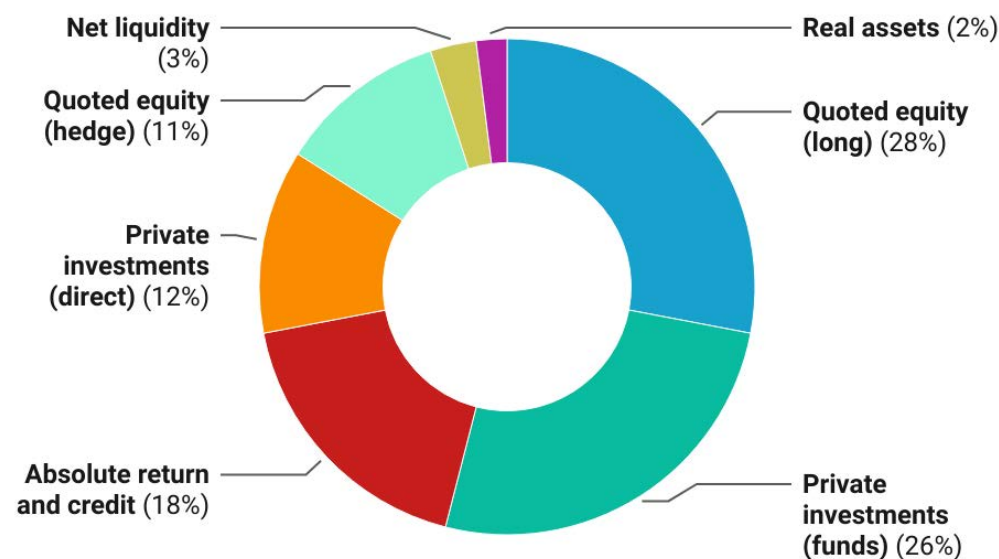
It invests in a diversified international portfolio across a range of asset classes, both unquoted and quoted. These include credit, macro strategies and real assets.

It aims to deliver long-term capital growth through the purchase of risk assets including equities and private companies, both directly and through funds.

Recent results announced at the beginning of March highlighted the trust’s ability to outperform its benchmark, and the significant contribution made by its private investments.

For the year to December 2021, the trust delivered a net asset value return of 23.6%. This exceeded the 20% delivered by the MSCI All Country World Index, as well as the fund’s absolute return target of RPI plus 3% which measured 10.5%.

## RIT Capital Partners: Portfolio breakdown



As at 31 December 2021

Source: RIT Capital Partners • Created with Datawrapper



### PRIVATE INVESTMENTS

The key driver of performance over the year was the private investments portfolio contribution (+22.4%) evenly split between fund and direct investments.

The stock market listing of e-commerce company Coupang, often referred to as the 'Amazon of South Korea', proved particularly helpful to RIT's performance.

The allocation to private investments grew significantly to 36.5% from 25.6% at the start of the year due to strong performance; 24.8% is invested in third-party funds, and 11.7% in direct holdings.

Since its inception in 1998, the trust has delivered an attractive return profile, participating in 74% of market upside, but only 38% of market declines.

Net asset value total return has compounded at 11.3% per year. This is significantly ahead of the global equities market; the MSCI All Countries World and FTSE All Share indices delivered annualised sterling returns of 7.8% and 7.1% respectively.

### THE MANAGERS' OUTLOOK

RIT executive committee members Ron Tabbouche and Francesco Goedhuis anticipate short-term volatility, particularly in high-growth sectors due to

shifting monetary policy and elevated valuations in certain areas. However, they do not expect a sustained equity market downturn.

Over the near term, they expect value to outperform. Reflecting this, the portfolio is defensively positioned with equity exposure of just 35%, which is at the low end of its historic range. Moreover, they have put in place hedges in expensive software stocks.

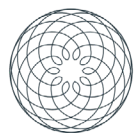
The managers highlight that 'Whatever the underlying cause, volatility can be uncomfortable, but the flip side is that if markets react indiscriminately, this can also provide opportunities.'

Recently the managers have been increasing exposure to European value and commodity sensitive positions.

Numis maintains the trust has an exceptional long term track record through an unconstrained investment approach seeking to deliver long term capital growth, while preserving shareholder capital. The latter is becoming increasingly important in volatile markets.



By Mark Gardner Senior Reporter



## A true all-rounder

### **IBT offers growth, income and diversification as well as a positive impact for society itself...**

When he wasn't defending the free world from the Nazis at the controls of a Mosquito night-fighter, Australian cricket legend Keith Miller found the time to complete 14,182 runs in first class cricket at an average of 48.9.

Miller is widely regarded as international cricket's first genuine 'all-rounder'; and these are few and far between.

From an investors' point of view a true all-rounder must deliver on a number of criteria; a strong track record of annualised growth, a solid yield, low correlation with other funds in a portfolio and, increasingly, a positive impact is considered a must-have.

In years past, UK equity income funds offered a partial solution; combining the potential for growth with a regular dividend.

But dividends from UK companies, already stumbling under the weight of the fallout from Brexit, crashed in 2020 when Coronavirus 'went viral', falling 44% according to Link's Dividend Monitor.

Data from the Investment Association's most recent Investment Management Survey shows that in each of the last four years, equity income funds have seen significant outflows.

Much of this money has found its way into fixed interest funds, but with more rate rises likely in the pipe, this type of fund offers little protection against inflation.

**International Biotechnology Trust (IBT)** may offer an interesting solution. The trust, managed by Ailsa Craig and Marek Poszepczynski, aims to deliver long term capital growth by investing in a global (though US dominated) portfolio of biotechnology and life-science companies.

IBT has delivered annualised total returns of 14.69% over the last ten years and is able to offer an income as well, paying a yield equivalent to 4% of NAV each year. It can do this because of a structural feature unique to investment trusts; the ability to convert some of the capital growth which is generated by the underlying portfolio into an income payable to shareholders.

While this does take away some of the potential for capital growth (because part of the capital deployed is

being taken away to support that income each year), the trust's strong long term growth profile means it should be able to afford to do this and still aim to generate worthwhile capital growth as well. With M&A being a structural part of the biotech ecosystem, the trust can supplement its dividend payments with cash inflows received when its portfolio companies become the subject of an M&A transaction.

Biotechnology is a high risk, high return area of the market – so investors should be aware of the volatility they may face; but one of the noticeable features of IBT's track record over the last five years is that it has achieved strong returns with considerably less volatility than its benchmark. This is a result of a conscious effort by the team to diversify risks and systematically reduce active exposure to stocks ahead of scheduled trial results.

Capital growth over the long term means a rising net asset value (NAV). The trust's yield commitment is to pay 4% of its NAV, and this should mean that the income it pays increases over time too, countering inflation.

IBT also acts as a diversifier - as a portfolio of highly specialist companies, and with another key differentiator; exposure to unquoted investments, which currently represent 9% of NAV (as at 28/02/2022). This part of the portfolio is under the stewardship of Kate Bingham, now a household name thanks to her leadership of the UK's COVID task force.

Kate's involvement in the trust is a fitting point at which to remind ourselves of our final criteria; a real positive impact from an ESG point of view.

On this measure, the impact that IBT has is obvious. Its purpose is to generate returns by backing the development of drugs and therapies that will over time save lives, prevent diseases, and improve conditions for perhaps millions suffering from severe illness.

Ailsa Craig puts it well: "We have seen drugs that we backed in their infancy go on and make a real difference to patient outcomes. Identifying the drugs in development that will become the game-changing treatments of the diseases of our age is what investing at the cutting edge of science is all about".

**A true all-rounder, indeed.**

Click [here](#) to read our latest research on International Biotechnology Trust...

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# Find out why these investment trusts are on sale now

Discounts to net asset value have widened in many parts of the trust space



**T**he year so far has seen significant volatility for global stock markets driven by concerns over red-hot inflation, the impact on share prices of rising interest rates and war in Ukraine.

Crunching the latest data from Winterflood Investment Trusts, *Shares* has spotted that discounts to net asset value have widened on a variety of trusts with interesting strategies and prospects.

## BANKERS ON SALE

For instance, in the Association of Investment Companies' Global sector, the NAV discount on **Bankers (BNKR)** has moved out from a 12-month average of 0.9% to 5.7%.

Steered by Janus Henderson Investors' Alex Crooke, Bankers looks to achieve long-term capital gains better than those of the FTSE World index as well as annual dividend growth which is ahead of inflation. The trust continued to post good returns during the financial year to October 2021, which also saw its 55th consecutive year of dividend increases.

However, it underperformed the benchmark due to a more defensive tilt than the broader market, which created a headwind during that period.

Caught up in the broader sell-off, Bankers' pullback from December's share price peaks likely reflects concerns over deteriorating

prospects for global growth due to inflation and the war in Ukraine, and perhaps weakness at tech names such as Microsoft, the biggest holding in the trust, Apple and Automatic Data Processing, as well as worries over the prospects for consumer-facing stocks including Estee Lauder.

Bankers is highly diversified, with assets spread across 170 holdings, and has demonstrated impressive dividend consistency underpinned by healthy revenue reserves which help to smooth out the impact of fluctuations in dividend payments from its holdings in individual years.

## BAILLIE GIFFORD TRUSTS FALL OUT OF FAVOUR

Elsewhere within the Global sector, trusts managed by Edinburgh-based Baillie Gifford have seen their discounts widen out significantly amid the savage rotation from quality growth to value.

Among them is **Monks (MNKS)**, where the NAV discount has moved out from a 12-month average of 0.6% to 6.2%, which may pique the interest of patient portfolio builders with long-term investment horizons.

Managed by Spencer Adair, diversified growth fund Monks has traded at a premium in periods past thanks to its excellent long-run record and levies a frugal ongoing charge of just 0.43%.

With the growth style out of favour, Baillie Gifford stablemate **Keystone Positive Change**

## Selected trusts trading at wider than average discounts

Trust	Discount to NAV (%)	12-month average discount to NAV (%)
Invesco Perpetual UK Smaller Companies	-13.4%	-10.4%
Keystone Positive Change	-11.3%	-3.8%
JPMorgan Global Core Real Assets	-10.8%	-3.1%
BlackRock Smaller Companies	-10.8%	-5.0%
JPMorgan UK Smaller Companies	-10.6%	-6.5%
Henderson Smaller Companies	-10.4%	-6.5%
Edinburgh Worldwide	-10.0%	-1.7%
Baillie Gifford UK Growth	-6.4%	-0.9%
Monks	-6.2%	-0.6%
Bankers	-5.7%	-0.9%
Baillie Gifford Japan	-4.3%	0.8%

Table: Shares Magazine • Source: Winterflood. Data as at 24 March 2022 • Created with Datawrapper

(KPC), the Kate Fox and Lee Qian-managed trust invested in the likes of Tesla, Moderna and Illumina, has seen its NAV discount widen from 3.8% to 11.3%.

A modest March rebound at Baillie Gifford's flagship trust **Scottish Mortgage (SMT)**, a big investor in technology stocks where profits are some way off, has actually seen its 0.7% 12-month average discount move to a 1.6% premium.

In the Global Smaller Companies sector, Baillie Gifford's **Edinburgh Worldwide (EWI)** has seen its

discount deepen from a 12-month average of 1.7% to 10%, while in the UK All Companies sector, **Baillie Gifford UK Growth (BGUK)** has seen its discount widen from 0.9% to 6.4% and **Baillie Gifford Japan (BGFD)** has drifted from a 0.8% premium to a 4.3% discount.

### JARA'S UNDER THE RADAR

In the Flexible Investment sector, the discount on **JPMorgan Global Core Real Assets (JARA)** has widened from 3.1% to 10.8%, which seems surprising given investors' demand for inflation protection for their portfolios.

A multi-asset fund invested in real estate, infrastructure and transportation assets, which all generate returns that are uncorrelated with equities and bonds, this trust's ability to weather current volatility and rising interest rates may be underappreciated. It's a good stock to buy now.

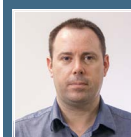
Over in the UK Equity Income sector, the market rotation out of technology-related stocks and into more value style investments has boosted **Temple Bar (TMPL)**.

With its value style back in favour the discount, in double digit territory at times last year, has come in from a 12-month average of 6.3% to 2.5% with investors eager for greater exposure to value-style stocks.

Temple Bar's results for the year to December 2021, the trust's first full year under the management of Redwheel's Ian Lance and Nick Purves, showed a NAV return of 24.5% versus 18.3% from the FTSE All-Share.

Winterflood's data also reveals that prevailing risk-off sentiment has thrown up potential opportunities in the UK Smaller Companies sector, where the weighted average discount has widened from 6.6% to 9.3%.

Well-managed trusts with impressive 10-year share price total return performances under their belts, such as **Henderson Smaller Companies (HSL)**, **JPMorgan UK Smaller Companies (JMI)**, **Blackrock Smaller Companies (BRSC)** and **Invesco Perpetual UK Smaller Companies (IPU)**, appear cheaper than they've been for some time.



By James Crux  
Funds and Investment Trusts Editor

# How important are commodities in the Brazilian economy and market?

While natural resources are important to the country, it lags with tech exposure

**T**he Brazilian market has been a rare bright spot in 2022 thanks to its commodities exposure as prices of food, metals and energy have surged across the world.

The country is a major commodities exporter and according to the most up to date breakdown available from the OECD (covering 2018) agriculture, forestry, fishing and industry (including energy) accounted for more than a fifth of Brazil's GDP.

The country's stock market is dominated by the resources space with 42.9% of the MSCI Brazil Index made up by the energy and materials sectors combined.

That doesn't mean the Brazilian population is immune to the world's current inflationary pressures with the country's central bank having recently lifted interest rates to their highest level since 2017, to more than 11.75%, amid a soaring cost of living.

How to modernise the



## MSCI Brazil – sector breakdown

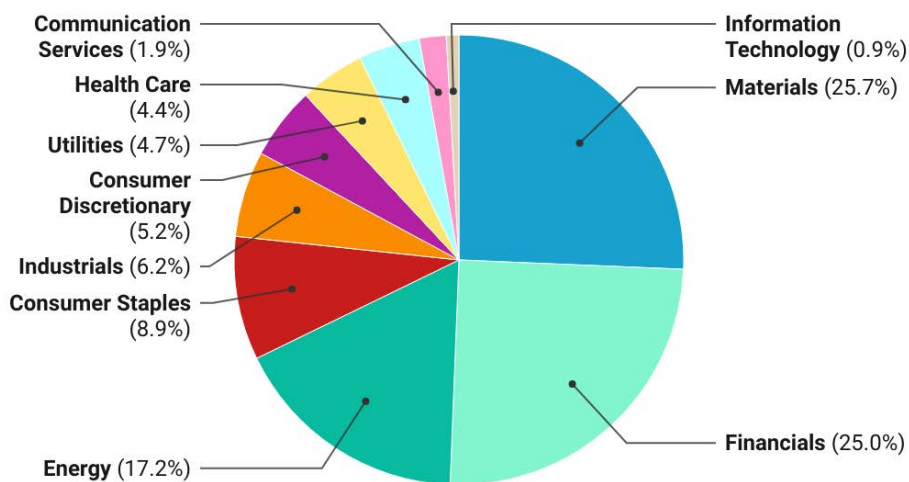


Chart: Shares Magazine • Source: MSCI • Created with Datawrapper

economy, with the technology sector accounting for less than 1% of the MSCI Brazil Index, could be a key part of the debate ahead of presidential elections in October 2022.

The country ranked 57th out of 132 overall in the

World Intellectual Property Organization's Global Innovation Index 2021, behind other big emerging economies including China, Vietnam and India.

Right-wing incumbent Jair Bolsonaro and his left-wing predecessor Luiz Inácio Lula da Silva are the main players in the election campaign, with Lula currently enjoying an advantage in the polls.



**FRANKLIN  
TEMPLETON**

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



# Emerging markets: Views from the experts

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

**1.** The **Russia-Ukraine** conflict dominated global headlines and rattled financial markets after Russia invaded Ukraine. Aside from the tragic humanitarian impact, a major consequence of the conflict has been a surge in commodity prices on expectations of weaker supplies, as both countries are major exporters of energy and agricultural commodities. The longer-term impact of the energy shortage could also result in an acceleration in the pace of decarbonisation, especially in Europe as it may work toward reducing its dependence on Russian gas. Markets are entering uncharted territory in terms of the implications of a war on Europe's borders.

**2.** We expect to see different outcomes for different regions and believe that markets in **Asia** and **Latin America** could be relatively more insulated from the heightened geopolitical risk in Europe. Oil producers in the Middle East are also beneficiaries of higher oil prices. As energy costs rise, we could also see a faster shift to renewables and electrification. Apart from China and to a lesser extent South Korea, emerging Asia has limited direct trade exposure to Russia and Ukraine. Higher commodity



prices could, however, impact the region which, except for Malaysia and Indonesia, is a net energy importer. In resource-rich Latin America, energy and mining companies stand to benefit from higher prices and supply shortages. With limited direct trade with Russia and Ukraine, the impact on corporate earnings generally across the region could also to be limited as these countries account for a marginal part of their revenues.

**3.** **Brazil** defied the global market rout in February to end the month

higher. The MSCI Brazil Index rose 18% in the first two months of the year, outperforming the MSCI Emerging Markets Index and the MSCI World Index. As the world's fourth-largest commodity exporter, the continuation of last year's commodity price surge amid global supply concerns from the Russia-Ukraine conflict has been good news for Brazil's commodity exports, economy and market. The country is the biggest exporter of soybeans and coffee, and the second-biggest exporter of corn and iron ore. Surging commodity prices are leading analysts to raise earnings forecasts in Brazil. The consensus estimate for 12-month forward earnings per share in Brazil is up 6% year-to-date. Despite the stock market's recent climb, valuations look appealing.

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# How bond fund managers analyse investments and assess risk

There are more similarities between bond and equity analysis than you think



**T**he total value of global bond markets was \$128.3 trillion in 2020 according to the ICMA (International Capital Markets Association), which makes them slightly bigger than global stock markets which are worth \$124 trillion.

Despite the size of the bond market, it's probably fair to say the fundamental company research conducted by bond fund managers is shrouded in mystery.

In this feature we shine some light on the main differences between how equity and bond managers go about analysing companies and assessing their attractiveness.

## DIFFERENT APPROACH

In a nutshell, bond investors are worried about what can go wrong, and equity investors are more interested in what can go right.

The differences stem from the risk and return characteristics of each asset class. Let's explore them before discussing the specific metrics used.

Companies (and governments) issue bonds as a way of raising cash. As a condition of borrowing the

### BOND MANAGERS FOCUS ON:

- ✓ Ability for a company to make timely interest payments and be able to repay the money borrowed via issuing bonds

### EQUITY MANAGERS FOCUS ON:

- ✓ Financial health and ability to service financial liabilities
- ✓ Profitability and growth potential of a business

money from third party investors, the bond issuer promises to make regular interest payments and to buy the bonds back, mostly at par value, after a specific time period.

When fund managers buy bonds issued by a company it is referred to as credit investing. Bond investors are primarily interested in the credit worthiness of a business and its ability to make those interest payments and repay the loan.

While equity investors are also interested in a company's ability to manage its finances prudently and generate enough cash flow to service its financial liabilities, the focus is also on profitability and growth potential of the business.

## BONDHOLDERS HIGHER UP THE PECKING ORDER

One important thing to understand is that bond interest payments and the repayment of the loan are based on contracts and often underpinned by collateral such as land and property.

In other words, the total return that bond investors receive is legally binding and relatively certain. They effectively have the first claim on any



## BOND INVESTORS ARE WORRIED ABOUT WHAT CAN GO WRONG, AND EQUITY INVESTORS ARE MORE INTERESTED IN WHAT CAN GO RIGHT



cash flows generated.

In contrast shareholder returns are uncertain and rely on capital gains and/or discretionary dividend payments. The former relies on uncertain future profits and the mood of the stock market while the latter are at the board's discretion.

A company is far more likely to skip a dividend if it needs the cash to service its debts.

In the event of a major failure such as bankruptcy shareholders can lose all their investment. That isn't the case for bond investors because even in the worst-case scenarios, there is often tangible residual value left over when a company's assets are liquidated.

That is why bond investors insist on collateral before lending out their capital. The best-case scenario for a bond investor is when every coupon (interest payment) is received on time and the capital is repaid at the end of the loan period.

The best-case scenario for shareholders is when earnings per share rise over time and the stock market recognises the improvement and pushes up the value of the shares.

In essence, equity investing is a riskier endeavour than investing in bonds. But the good news for shareholders is that potential capital gains and cash dividends can result in much higher rewards than those on offer to bond investors.

### WHAT TO LOOK FOR

The starting point for bond managers is the cash flow statement and balance sheet and it's all about getting comfortable with a company's ability to generate enough cash to make timely interest payments.

Rhys Davies, a bond fund manager at Invesco, prefers to see interest payments covered more

than two times by cash flows. Davies also spends time analysing the balance sheet and debt maturity profile.

A common metric used for measuring leverage is the net debt to EBITDA (earnings before interest, tax, depreciation, and amortisation) ratio. A number below three times is relatively safe and considered investment grade.

Investment grade companies have a lower default rate historically than high yield bonds. When the leverage ratio rises above five times, the risks get exponentially steeper, and companies need to offer higher coupons to attract investors.

Another important part of company analysis for bond investors is looking at banking covenants which banks put into place to protect their loans. They are typically based on the same type of analysis already mentioned such as leverage and interest cover limits.

It might appear odd, but Davies as a bond investor is also interested in conducting competitor analysis and the structure of the industry that a company operates in.

Davies wants to uncover whether a company operates in an industry in structural decline or if competition is becoming more intense, which could impact a company's ability to service its loans.

This type of analysis is also common for equity managers who are trying to figure out if future profits will come under pressure from factors outside the control of the company.



By **Martin Gamble**, Education Editor



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# Pubs and restaurants enjoy sales recovery but can it last?

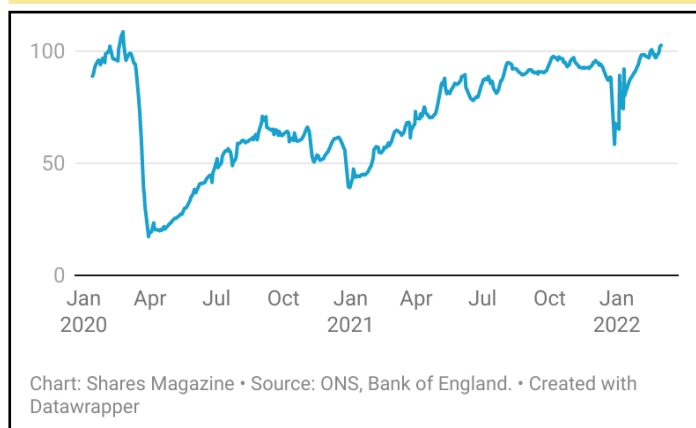


While the hospitality sector has bounced back there are reasons to be less optimistic

**I** left it ridiculously late to book a restaurant for a Mother's Day meal. Everywhere I tried couldn't fit me in – decent weather meant one of the industry's biggest money-making dates in the calendar should have been a good one for pubs and restaurants this year.

Despite the well-documented pressures beginning to exert themselves on consumer spending people were out in their droves. Looking at the latest credit card spend data it's clear that weekend wasn't an anomaly.

**The latest credit card data shows social spend in February and early March was the highest since pre-pandemic**



People now seem to have found the confidence to get out and socialise up a storm, making up for the time lost during the various Covid lockdowns.

There may have been more than a few postponed Christmas parties to bolster the numbers but the end of Covid restrictions has signalled a sea change and one the beleaguered hospitality sector will do its best to cling onto.

But it's got a whole load of headwinds to battle

against, not least of which is the cost-of-living crisis which has driven the share price of nearly all bar and restaurant operators significantly lower since the start of the year.

Investors are nervous, considering how inflationary pressures will impact the earnings of an industry trying to get back on its feet. Prices are already rising with pub chain **Marston's (MARS)** reported to have tacked 45p onto every pint and just a quick glance at any menu you pick up tells the same story.

Shackled with extra costs linked to wages, energy, raw materials and more, businesses are making necessary adjustments and hoping the hikes don't put people off.

## SO FAR CONSUMERS ARE PREPARED TO PAY THE EXTRA TO SOCIALISE

Currently consumers seem to be prepared to pay a premium to 'live' again. The opportunity to break bread with friends, family and co-workers at a place that isn't the kitchen table is a little intoxicating even without adding alcohol. While those drinks cost substantially more than they would if they'd been bought at the supermarket the added extras seem to be worth the extra pennies.

The latest retail sales figures produced by the Office for National Statistics showed a drop in in-store food and drink sales in February with speciality stores hardest hit as consumers made difficult choices about where to spend their cash.

But February can only hint at what's to come. With inflation now standing at 6.2% and warnings that this year will deliver the fastest drop in living standards households have experienced since the mid-1950s, discretionary spend is going to become





## Restaurant and bar operators: share price year to date

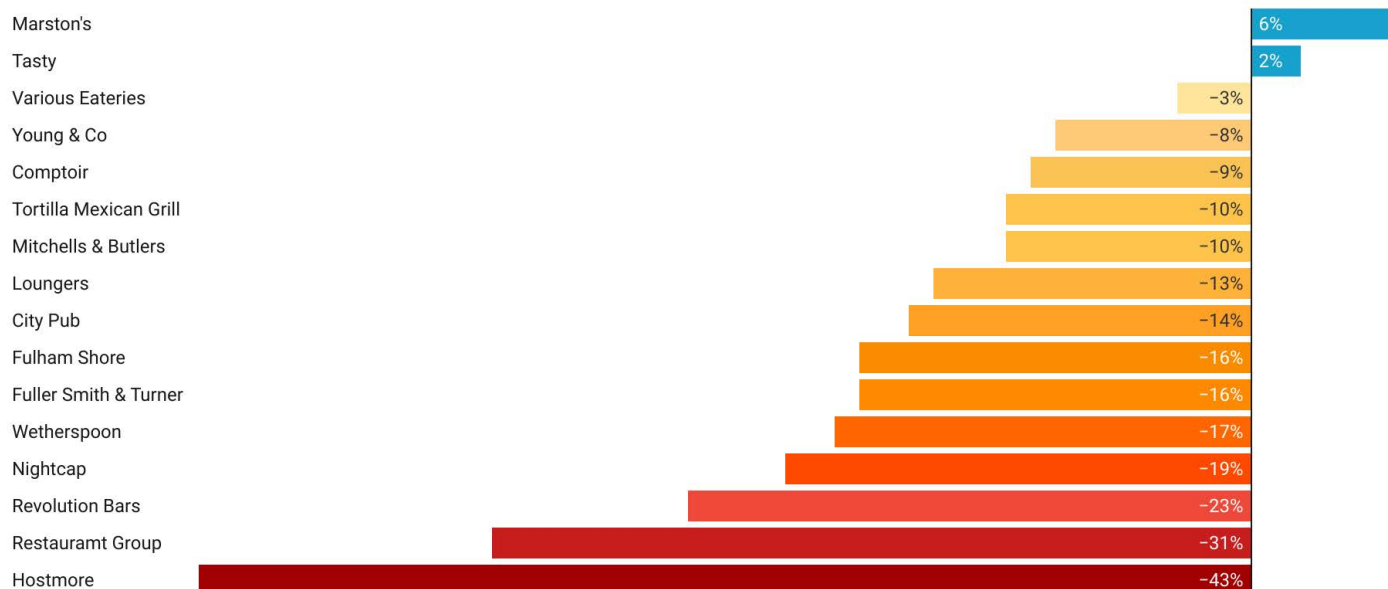


Chart: Shares Magazine • Source: SharePad, data to 28 March 2022 • Created with Datawrapper

a whole lot less discretionary.

April is expected to be a tipping point as the big jump in energy prices finally filters through to the retail market. That jump is a legacy issue, but it comes as the war in Ukraine is adding to cost pressures, and measures announced by the Chancellor to help households cope aren't expected to make much of an impact.

The hospitality sector is worried, particularly as the cut in tax at the pump precedes an increase in VAT at the bar.

Tim Martin, the irascible chairman of **JD Wetherspoon (JDW)**, might know how to work a good soundbite but his warning that the return of 20% VAT on hospitality spend is a form of discrimination has struck a chord with many in the industry. Consumers might have been able to pay more to go out in February, but will that be true by the end of April?

### WILL COST-OF-LIVING CRISIS ACT LIKE A 'SECOND PANDEMIC'?

While the retail sector has been able to cope effectively with lockdowns by shifting sales online, bars and restaurants weren't able to pivot so successfully, and losses have piled up.

The industry has now started the process of

digging itself out of the hole. **Restaurant Group (RTN)**-owned Wagamama saw a 21% increase in like-for-like sales for the eight weeks to the end of February, outperforming the market by 13%. However, there are already warnings from industry insiders the cost-of-living crisis could turn out to be a 'second pandemic' for the sector.

There are a couple of things for investors to consider before writing off the sector altogether for the time being.

First, people have been starved of much of the joy life has to offer over the past two years and socialising will remain high on people's list of priorities for some time to come.

Second, a meal out might become an 'affordable treat' especially if people shelve holiday plans or put off buying big ticket items.

And third, if the weather plays ball, especially over that lovely long Jubilee bank holiday weekend in June, there will be a significant boost for venues with outdoor spaces, and Covid certainly made the sector think hard about outdoor facilities.

People are likely to cut back, they're likely to go for one drink rather than two, a meal every other week rather than every week so the much hoped-for post-Covid boom is expected to be curtailed but not totally eroded.

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# What will the cut in income tax to 19% really mean for you?

It will impact money going into and coming out of pensions, among other things



**I**n his spring statement, chancellor Rishi Sunak unveiled a surprise cut in the income tax rate, to 19%, which will take place from 2024.

That will offer some relief from the frozen income tax thresholds he announced only last year, but a tax tsunami is still about to hit these shores, and it will only exacerbate the cost-of-living crunch that many households will feel this year.

Sunak's cut in the income tax rate to 19% is somewhat reminiscent of King Canute trying to hold back the tide, except the eleventh-century monarch didn't cause the waves to lap up on the shore in the first place, and at least he tried to do something about it right away, rather than waiting two years to exercise his powers.

## WHAT DOES THE TAX CUT REALLY MEAN?

The income tax cut from 2024 only partially offsets the effects of freezing the income tax allowance,

which the chancellor announced last year.

The effect of freezing those allowances, which are very positive for the chancellor at the expense of taxpayers, has been turbo-charged by inflationary pressures.

That's because if the income tax thresholds weren't frozen, we'd be expecting them to rise with inflation, though in reality the chancellor might well have baulked at increasing thresholds by 7% or 8%, even if he hadn't chosen to freeze allowances.

The hypothetical examples below show how the income tax changes introduced since the beginning of 2021 might affect people at three different income levels, over the next five years.

The recent spring statement has taken a little bit of the sting out of things by cutting the income tax rate to 19% from 2024. But across all three income levels, workers are going to pay significantly more income tax than before chancellor stood up at the despatch box last March.



## Income tax payable 2022 to 2027

Annual salary	A. Pre-budget March 2021	B. Pre Spring Statement March 2022	C. Post Spring Statement	Additional tax A to C
	Tax rate of 20% and inflation linked thresholds	Tax rate of 20% and frozen thresholds	Tax rate falling to 19% in 2024 and frozen thresholds	
£25,000	£13,214	£15,117	£14,642	£1,427
£50,000	£40,949	£47,860	£46,722	£5,773
£80,000	£104,912	£114,424	£113,286	£8,374

The examples assume earnings rise in line with average earnings forecasts from the OBR, and that in Scenario A, income tax thresholds would have risen in line with the OBR CPI inflation forecast.

Source: AJ Bell, ONS, OBR • Created with Datawrapper

As a result of frozen income tax allowances, millions of people are going to get dragged into the higher tax bands.

Based on OBR forecasts, the personal allowance would reach £15,300 in 2026/27 if uprated in line with CPI inflation but will only sit at £12,800 now it is frozen until 2025/26.

Likewise, if uprated in line with the OBR inflation forecasts, the higher rate threshold would reach £61,200 in 2026/27, but as it is, with thresholds frozen for four years, we can expect it to sit at just £51,200.

Those who are just below the thresholds currently are likely to feel the sharpest burn, because rising wages are now more likely to push them into a higher tax bracket, seeing as the tax thresholds are going to be standing still.

Based on OBR forecasts for average earnings, we estimate that anyone who is currently earning above £43,600 is now in danger of being dragged into the higher rate tax bracket by wage increases in the next five years.

A rudimentary estimate, based on characteristically out-of-date HMRC figures for the 2019/20 tax year, would put the number of people who now stand to pay some higher rate tax bracket in the next five years, at 2 million.

### IMPACT ON PENSIONS

The change in tax rate from 20% to 19% from 2024 is going to mean that the basic rate of tax relief on pension contributions will change too.

To get £100 in a pension, you will need to pay in £81 as a basic rate taxpayer, compared to

£80 now.

However, when you think about it, to get that £81 or £80 in your pocket in the first place, in both cases you will have to earn £100 of pre-tax income, because how much you lose to tax is changing, so not much has really changed on that front.

When you draw on your pension, you will also face the lower income tax rate of 19% from 2024, if you are a basic rate taxpayer in retirement. But you will also lose out because the frozen tax thresholds will mean more of your income is exposed to tax, albeit as a slightly lower rate.

Taken on its own, the spring statement was positive for taxpayers, but when combined with the measures announced last year, I'm afraid most of us are still going to find ourselves paying significantly more income tax in the coming years.

There are measures we can take to mitigate higher taxes, such as sensible tax planning and judicious use of tax shelters, so we're not quite as powerless as Canute when it comes to fighting back the tax tide.



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



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## KEY ANNOUNCEMENTS OVER THE NEXT WEEK

### Full-year results:

**4 Apr:** Belvoir, Elixirr International, Xpediator.

**5 Apr:** DP Eurasia, Next Fifteen Communications, Property Franchise Group, Quixant, Sourcebio International. **6 Apr:** Epwin, Hilton Food, Wentworth Resources. **7 Apr:** Attraqt.

### Half-year results:

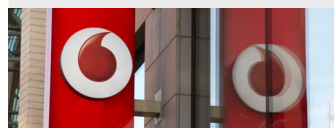
**6 Apr:** Applied Graphene Materials. **7 Apr:** Tracsis. Trading announcements. **1 Apr:** Pennon. **5 Apr:** Marlowe, Moonpig. **7 Apr:** Parity. **8 Apr:** CMC Markets.

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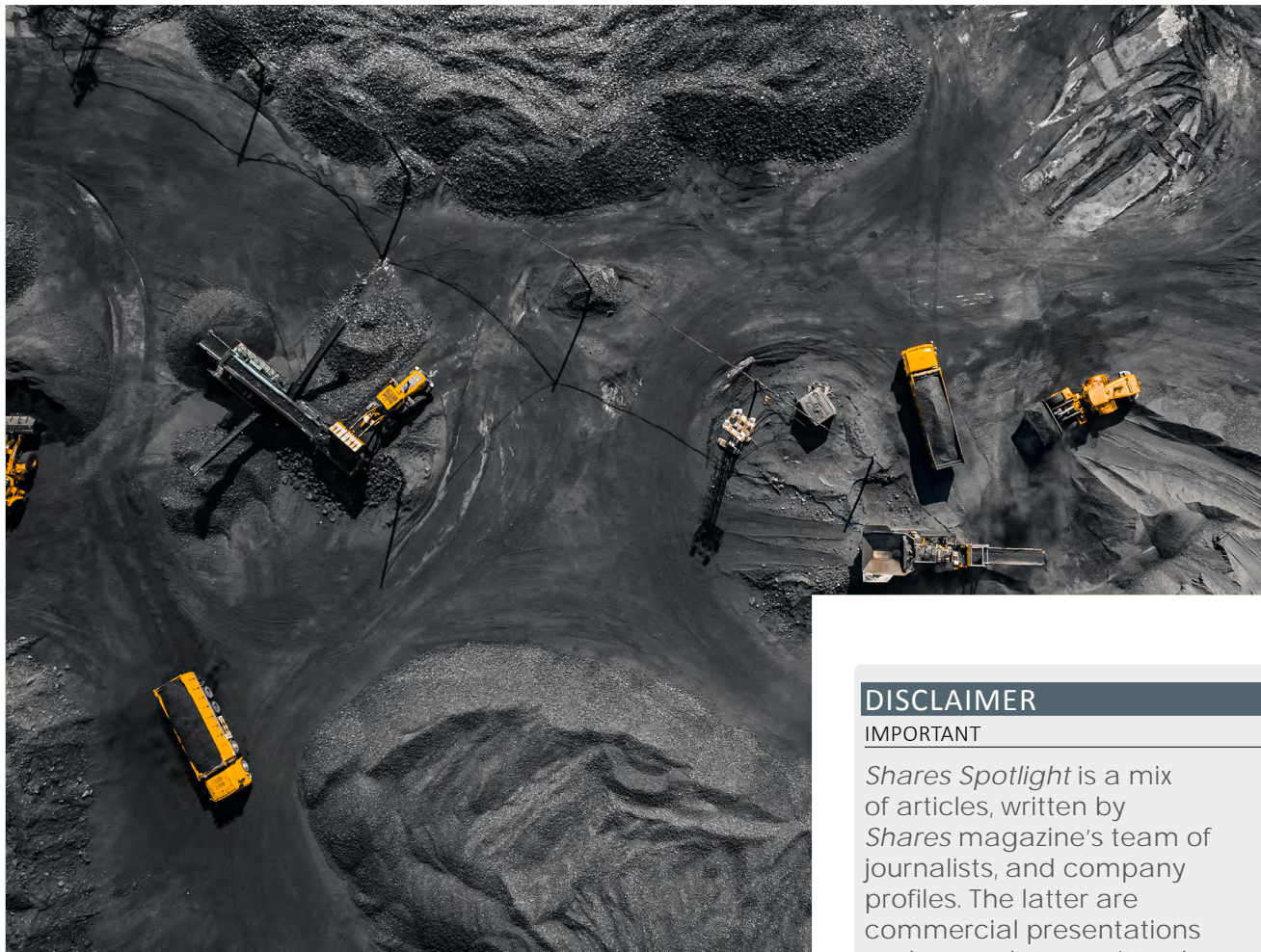
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# Producing hydrogen from oil reservoirs to support the energy transition

Utilising in-situ combustion to exclusively produce this important gas



Edison believes that hydrogen will play a key role in the decarbonisation of the energy system, with supply expected to be met with the production of a combination of green hydrogen (from electrolysis powered by electricity from renewable sources) and blue hydrogen (created from fossil fuels where the CO<sub>2</sub> is captured and stored).

Here we look at the adaptation of in-situ combustion in oil reservoirs to produce only hydrogen to surface.

## WHAT IS IN-SITU COMBUSTION

ISC (in-situ combustion) is one of the oldest methods

of thermal recovery from oil reservoirs, and has been successfully used for decades in the oil industry. Gas, containing oxygen, most commonly air, is injected into a reservoir, where it

**'IF SUCCESSFULLY DEMONSTRATED, IN-SITU COMBUSTION OFFERS A PATH TO GENERATING HYDROGEN THAT AVOIDS GREENHOUSE GAS EMISSIONS.'**

**ELAINE REYNOLDS, EDISON ENERGY ANALYST**

reacts with the crude oil to create a high-temperature combustion zone, generating combustion gases and creating a heated front that moves through the reservoir.

The technique has typically been used in heavy oil reservoirs that cannot be produced by conventional methods due to the high viscosity of the oil. The increase in temperature created near the combustion zone results in a reduction in the oil viscosity, allowing an increase in production.

## HOW CAN ISC BE ADAPTED TO PRODUCE HYDROGEN?

Hydrogen is a by-product



of the reactions occurring during the in-situ combustion process, so the goal would be to only recover the hydrogen from the reservoir.

If proven, this technique could deliver an alternative source of hydrogen without producing CO<sub>2</sub> to surface. The key processes are gasification and the water gas shift, which also occur in steam methane reforming, used to create blue hydrogen.

At temperatures above 500°C, the carbon dioxide produced during the combustion process reacts with steam to produce syngas, a mixture of carbon monoxide and hydrogen, and this is known as gasification.

In the water gas shift, the carbon monoxide then reacts with steam to produce carbon dioxide and more hydrogen. Any reservoir where oil and water are present is suitable, opening up a potential use for many mature, end of life fields.

#### WHAT ARE THE KEY CHALLENGES?

The two key challenges to successfully producing only hydrogen to surface using ISC are:

- Successfully separating the hydrogen from the other produced gases downhole.
- Achieving a high temperature in the reservoir.



Palladium-based membranes have been developed for hydrogen separation. These decompose hydrogen into individual atoms which diffuse through a metal lattice and recombine to hydrogen on the other side.

While used successfully at surface in steam reforming, palladium alloy membranes are known to be fragile, so their use underground, where control would be more difficult, is more challenging and would need to be successfully demonstrated.

To achieve high temperatures, injecting pure oxygen instead of air should make the downhole reactions hotter and more efficient.

#### WHERE IS THIS HAPPENING IN PRACTICE

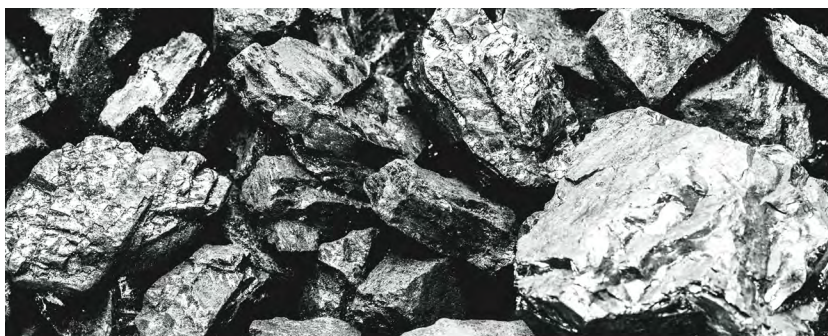
Since February 2020, private company Proton

Technologies has been trialling this technology in its Superb heavy oil field in Saskatchewan in Canada. The company is successfully producing hydrogen, although for now it is separating out the hydrogen at surface with the palladium membranes. In early tests, the membrane extracted a 99.9% stream of hydrogen. The next step will be to test the membranes deep in the wells.

In addition to producing its own hydrogen, the company has sold at least 15 licences to other companies, believed to be a mix of oil and gas operators and renewable energy companies.

One of these is Whitecap Resources, a company that currently produces c 116,000 barrels of oil equivalent per day from its operations in Western Canada and has been involved in CO<sub>2</sub> sequestration for over 20 years. In January 2021, Whitecap Resources secured a hydrogen production licence of up to 500 metric tons/day from Proton.

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



# Consistent Cadence – secrets of successful mineral resource investing

[cadenceminerals.com](http://cadenceminerals.com)

Say the words ‘mining investment company’ and more often than not you’ll be met with a glazed expression, and occasionally (rude) a yawn. However, if the company behind the investing is run by a management team fizzing with experience that gets the formula right and starts delivering consistent gains, you’ll have investors, both institutional and retail, sitting up, taking notice and running the slide rule over the numbers.

Cadence is of course a term generally associated today with cycling and the endurance required to maintain ‘good cadence’ – consistent performance over distance. For the directors of a mining investment firm this usually equates to taking a long term view; bringing early stage projects to fruition over a number of years, or in some cases, acquiring a commodity or project in an ‘uncool’ sector and waiting for the market to come of age.

AIM-quoted and aptly named **Cadence Minerals (KDNC:AIM)** certainly ticks all the requisite boxes, while the board, headed by CEO



and qualified geologist Kiran Morzaria have between them put together a diverse and no less impressive portfolio of early and later stage investment assets in iron ore, lithium and rare earth elements.

## FLAGSHIP ASSET

The company’s flagship asset is without doubt the Amapa Iron Ore project in North East Brazil. Amapa is a large-scale iron open pit ore mine with associated rail, port and beneficiation facilities which at its peak in 2012 grew production to 6.1 Mt of iron ore concentrate product.

Prior to its sale the same year, owner Anglo American valued its 70% stake at \$866 million (100% \$1.2 billion) (after impairment) \$462 million (100% \$660 million). Following protracted negotiations with the secured creditors, Cadence has recently completed the

second phase of a planned three stage investment to rehabilitate the mine and acquire 27% of the issued share capital for a staged equity investment of just \$6 million, plus a first right of refusal to acquire up to 49%.

The Cadence management team have worked day and night on the project since announcing the initial heads of terms in May 2019, which was then described as a potentially transformative asset for Cadence.

CEO Morzaria said at the time: ‘It is rare in our industry to be presented with an opportunity to put forward a relatively modest investment to participate in such a project. Given the nature of the asset the capital costs are estimated to be substantially lower than would be normally associated with developing a similar sized project from scratch.’

Cadence has already hit



numerous milestones at Amapa. In 2020 the Mineral Resource Estimate was upgraded by 21% to 185 million tonnes at 39% Fe from Anglo American's numbers in 2012 and the first shipment of 45,000 tonnes of iron ore sailed from Amapa's wholly owned Santana port– the first iron ore shipment from there since 2015.

The annual projections for Amapa production and EBITDA numbers, let alone the nascent project stand-alone value completely dwarf the current Cadence market capitalisation at around £28 million.

### OTHER INVESTMENTS

But surprisingly, even this revelation reckons without Cadence's other investments which have also delivered solid returns over the past few years.

Cadence holds 8.7% of the equity in AIM-quoted **European Metals (EMH:AIM)**, which, through its 49% owned subsidiary Geomet controls the mineral exploration licenses awarded by the Czech State over the Cinovec Lithium and Tin project. In January, the project's post-tax NPV increased by 75% to \$1.94 billion based upon a lithium hydroxide price of \$17,000 per tonne (significantly less than the current price). There is no doubt that Cinovec is poised to be a major lithium supply hub for Europe and the rest of the world.

Currently however, with EMH shares trading at 60p, Cadence Minerals' stake is worth circa £10 million, or 35% of its total market cap, attributing a value of just £18 million to the rest of Cadence's assets (including Amapa).

The Yangibana Rare Earth Project in the Gascoyne

region of Western Australia recently caught the headlines and a feature in the FT after the NPV (net present value) project value increased by 84% to A\$1.01 billion following a loan from the Australian Government. Here Cadence owns 30% of 3 Mining Leases and 6 Exploration Licences which form part of the Yangibana Rare Earth Deposit along with Yangibana owner operator (70%) Hastings Technology Metals.

Cadence owns a 31.5% shareholding in Australian companies Lithium Technologies and Lithium Supplies, which each own 50% of Synergy Prospecting Pty Ltd. Synergy in turn owns the Litchfield Lithium Project in Australia's Northern Territories, the Picasso Lithium Project in Western Australia and the Alcoota Lithium Project near to Alice Springs. Some exploratory work has taken place on these projects over the past year, while the Litchfield Lithium Project is contiguous to Core Lithium's Finniss Lithium Project which has JORC compliant ore reserves of 7.4Mt. Lithium Technologies and Lithium Supplies also hold applications for six lithium properties in San Luis Province, Central Argentina.

Finally, The Sonora Lithium project in Mexico has generated considerable amounts of investor interest over the years. While Cadence has no direct interest, it owns a 30% direct interest in Mexalit, which holds the El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions, through its joint venture with Bacanora Lithium, along with a 30% direct interest in The Megalit, Buenavista, and San Gabriel concessions, which are held



by Megalit S.A de C.V. How this will develop given the recent takeover of Bacanora Lithium by Ganfeng International Trading (Shanghai) Limited has yet to play out.

### STEADY GROWTH

During the past year Cadence shares have delivered steady growth, doubling in value from 15p to 30p highs, and despite returning to the 15p start point (along with its peer group) due to the impact of the Ukraine invasion on small cap mining companies, gains have been steady since the 3.3p low during the March 2020 Covid crash.

The consistency boxes have certainly been ticked by Cadence, and the company has certainly built a diverse portfolio of commodity assets which on many levels is coming of age. Regardless of the current impact of macro events on the share price, the potential individual values of each project the company are engaged in, (in particular Amapa), does indicate that shareholders could be sitting on an as of yet untapped store of value.

#### Cadence Minerals



Source: Refinitiv • Created with Datawrapper



# Pampa Metals seizes on shining Chilean copper opportunity

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

With each energy transition comes the new need for more materials. At the heart of the global shift to clean energy sources is copper — the metal that will help connect and deliver renewable energy to the world.

The key contributors to clean energy, such as solar, wind and battery technologies, are mineral intensive.

Copper, owing to its superior combination of conductivity, ductility, efficiency, and recyclability, is the standout metal used in most of these applications.

## COPPER ENTERING DEFICIT

Given that the electrification of vehicles is a major tenet of various climate goals, it is conceivable that the world's copper usage would ascend to unprecedented levels.

Consulting firm AlixPartners estimates that EVs, which at the moment only represent 2% of the total global vehicle sales, will make up 24% of total sales by 2030. Citibank recently warned of copper prices spiking to \$20,000 per tonne — the equivalent of \$9 per lb.

In 20 years, BloombergNEF predicts that global copper

production must double to meet the demand for a 30% penetration rate of electric vehicles — from the current 20 million tonnes a year to 40 million tonnes.

Diminishing supply from currently operating mines, combined with the projected increase in demand for copper concentrate over 2021-2030, would result in a 3.85Mt production shortfall in 2025, according to S&P Global data.

CRU Group forecasts an annual supply deficit of 4.7 million tonnes by 2030 as the clean power and transport sectors take off, with the copper industry needing to spend upwards of \$100 billion to close that gap.

Remember, at least 20Mt of copper supply must be developed in the next two decades, the equivalent of one large million-tonne mine (i.e. Escondida) every year from now on.

The solution, as simple as it sounds, is to have more copper projects that can be developed into producing mines.

## COPPER MINING IN CHILE

As the global race to secure EV minerals enters its crucial

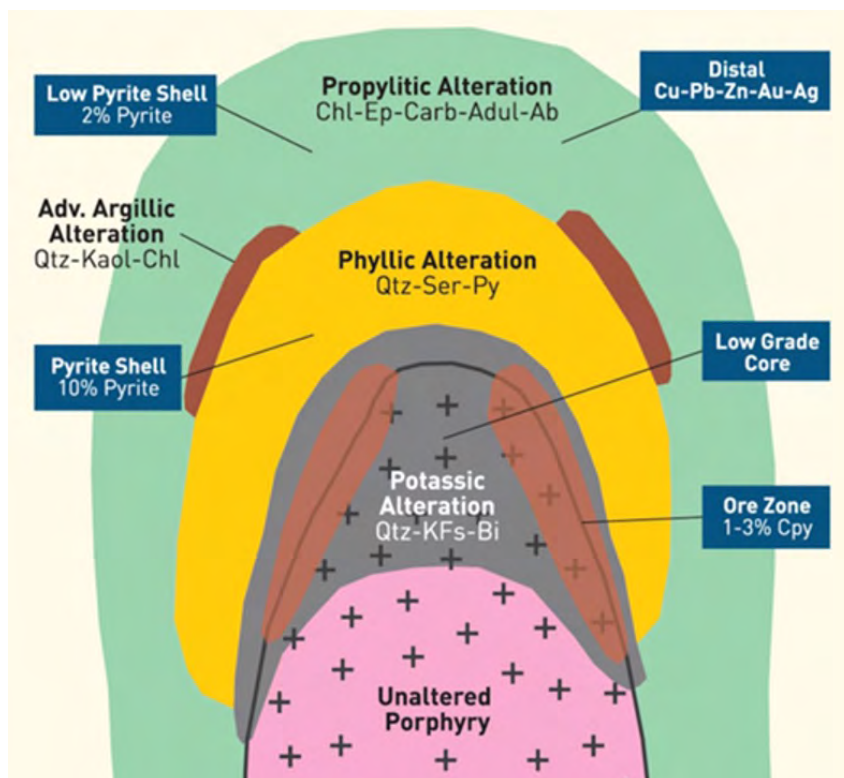


**Paul Gill**  
CEO and Director  
Pampa Metals

stages, increased attention will be directed towards Chile — the leading copper producer in the world. The Latin American nation has a long history of copper mining and continues to be a hotbed of exploration activity.

For years, Chile has been the ideal 'elephant' copper deposit hunting ground for the big-name mining companies. Boasting the biggest copper reserves worldwide, at 200 million tonnes, means Chile's dominance isn't waning anytime soon.

Around 80% of Chilean copper production comes from copper-gold porphyry deposits, with most situated



An example of a typical porphyry structure and associated mineralization

in the desert areas in the northern part of the country. These porphyries, which are also rich in molybdenum with silver byproducts, provide ore for some of the world's most prolific and highest-grade copper mines.

Northern Chile has some of the largest copper and gold deposits in the world and major copper miners, who have undertaken significant exploration and production, include BHP, Freeport McMoran, Rio Tinto and Antofagasta Minerals. The latter has four operating mines in Chile including its flagship Los Pelambres in the Coquimbo region.

Escondida, owned by BHP, Rio Tinto and a Japanese consortium headed by Mitsubishi, is the largest copper mine by capacity at 1.4Mtpa (and the largest producer of copper cathodes and concentrates). Collahuasi, another top Chilean copper

mine, is jointly owned by Anglo American, Glencore and Mitsui.

Still, many areas along the copper-rich mineral belts of northern Chile remain underexplored to this day, offering further growth opportunities to those holding competitive greenfield land positions in this premier copper-producing region.

#### PAMPA'S EXPLORATION OPPORTUNITY

In recent years, there has also been an influx of mid-tier and junior mining companies looking for the next big copper discovery in northern Chile.

One of the most promising landholders in the region is Pampa Metals, which controls 100% interest in eight exploration projects that are prospective for copper (and gold). These projects cover a total area of over 62,000 hectares, which is almost unrivalled by any other junior

miner in Chile.

The company's projects are all located along the proven mineral belts of the Atacama region, including the Central Paleocene and Domeyko belts, that have dominated the world's copper production.

As shown on the map above, five of these projects are situated along the mid-Tertiary porphyry copper belt of northern Chile — the Domeyko Cordillera — that is host to three of the world's top five copper mining districts: Collahuasi, Chuquibambilla and Escondida.

The remaining three are located in the heart of the Paleocene mineral belt, which hosts a series of important porphyry copper deposits and mines such as Cerro Colorado (BHP), Spence (BHP), Sierra Gorda (KGHM & Sumitomo) and Relincho (part of Nueva Union – Teck-Goldcorp).

The Chilean Atacama Desert is characterized by elevated ranges of mountains, separated by relatively flat, piedmont-gravel-filled "pampas" that conceal the underlying geology.

These areas remain underexplored because they contain a layer of gravel, 30-50m thick, that was deposited after the formation of the porphyries. A rough estimate suggests at least 50% of northern Chile is covered by pampas, meaning that half of the region's undiscovered mineral deposits may be concealed by a thick gravel cap.

Notwithstanding the important discoveries noted above, there are still very large areas of untested pampas in northern Chile that have the potential to conceal significant mineral deposits.

Outcrops in the pampas are rare, however if found, they can display similar characteristics, in terms of geology and

hydrological alteration, as copper porphyry deposits. Pampa Metals' game plan is to first conduct surveys to find the outcrops, and then sample and drill them.

### EXPLORATION PROGRESS

For Pampa Metals, this year's exploration focus is to advance four of the properties under its portfolio, with the company relying on third-party expenditure on two other projects.



The recent discovery of a potentially important zone of quartz veinlet stockworking at the Block 4 project brings further encouraging news along the company's copper exploration quest.

'We believe the company has delivered on an aggressive approach to exploring its greenfield property portfolio in some of the most geologically prospective mineral belts in the world,' Pampa Metals CEO A. Paul Gill, who was a founder of CEO at Norsemont Mining which discovered the Constancia deposit in Peru which is now an operating mine owned by HudBay Minerals.

### EXTENSIVE DRILLING PROGRAM PLANNED

For years, the mineral belts of northern Chile have been the top copper mining hub on the planet. Despite the long and rich mining history, it still



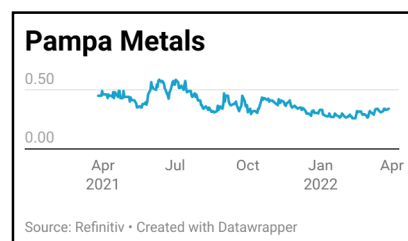
Pampa Metals' properties are all located in the heart of Chile's productive mineral belts

contains deeply concealed porphyry copper systems that have been largely unexplored to this day.

With one of the largest landholdings ever attained by a junior miner in the region, Pampa Metals stands to capitalize on some of the areas that major miners may have missed while conducting brownfield exploration on the peripheries of existing mines.

Drilling so far has already shown signs of a fertile

porphyry systems on four projects which need to be drill-tested, which will surely be followed up by more drilling and positive results. Drilling results are pending at the time of the article.



Source: Refinitiv • Created with Datawrapper



# Power Metal Resources leading the way in uranium with vast Athabasca exploration footprint

[powermetalresources.com](http://powermetalresources.com)

Rising global tensions have recently caused further squeezing of already tight supply-demand fundamentals for several commodities, leading to significant price increases. Within this group, one of the more significant movers has undoubtedly been uranium. Indeed, the radioactive element's value recently hit a 10-year high, passing through the \$60/lb mark.

But while global tensions have no doubt acted as a clear tailwind, the reality is that uranium has long been shaping up for a major bull run in the face of improving sentiment and restricted availability.

This is why, according to S&P Global Capital IQ data, miners have reversed a 10-year decline in their exploration budgets for the metal to launch into the search for new discoveries in stable, pro-mining jurisdictions.

And it's also why **Power Metal's (POW:AIM)** enormous package of uranium-prospective land in Canada's Athabasca Basin now represents a potentially company-making opportunity.

## PERFECT SUPPLY/DEMAND DYNAMICS

To recap, uranium—also known as 'yellow cake'—is the driving force behind nuclear

power, often considered the most efficient clean energy source on the market. In fact, according to the US Department of Energy, it typically takes just one nuclear reactor on one square mile of land to generate a gigawatt of electricity.

The problem, however, is that, while nuclear power could clearly help the drive for a sustainable future, it was long excluded from the clean energy debate entirely.

Among other things, this stemmed directly from the Fukushima disaster in Japan in 2011, which devastated the local area and all but destroyed demand for nuclear power. As a result, uranium collapsed lower and lower throughout the 2010s before eventually bottoming at less than \$20/lb—far below the price of economic production.

Fortunately, however, things have now started to change—and in a big way.

Indeed, with nations stockpiling, Covid-19 hitting output, and producers mothballing mines to buy directly from the market, uranium supply has tightened considerably as of late. Meanwhile, with uranium demand set to grow by almost 80% globally between 2021 and 2040, the gap between what is *needed* and what's *available*

## Generating 1 gigawatt of electricity requires



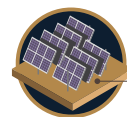
### NUCLEAR REACTOR

3 tonnes of carbon dioxide



### WIND ENERGY

4 tonnes of carbon dioxide



### SOLAR ENERGY

5 tonnes of carbon dioxide



### HYDROELECTRIC ENERGY

34 tonnes of carbon dioxide

only looks set to widen.

In other words, everything is pointing towards a major uranium bull market. So that's why, in mid-2021, a global investment manager called Sprott Inc. decided to accelerate things.

The company launched a trust to buy up millions of pounds of uranium that is available and hold onto it indefinitely, tightening supply even further. And in doing so, it was able to spark a uranium price run that continues to this day.

In response, the number of explorers staking out uranium-

prospective ground in stable jurisdictions like Saskatchewan, Canada, has soared in recent months.

But Power Metal Resources was early to see this coming.

By November last year, the company was able to secure a 100% position in an enormous 412 square kilometres of land across seven separate properties around Saskatchewan's Athabasca Basin. Immediately afterwards, a staking rush ensued, and the number of explorers entering the area with a view to mirroring its strategy rose remarkably.

### UNLOCKING VALUE

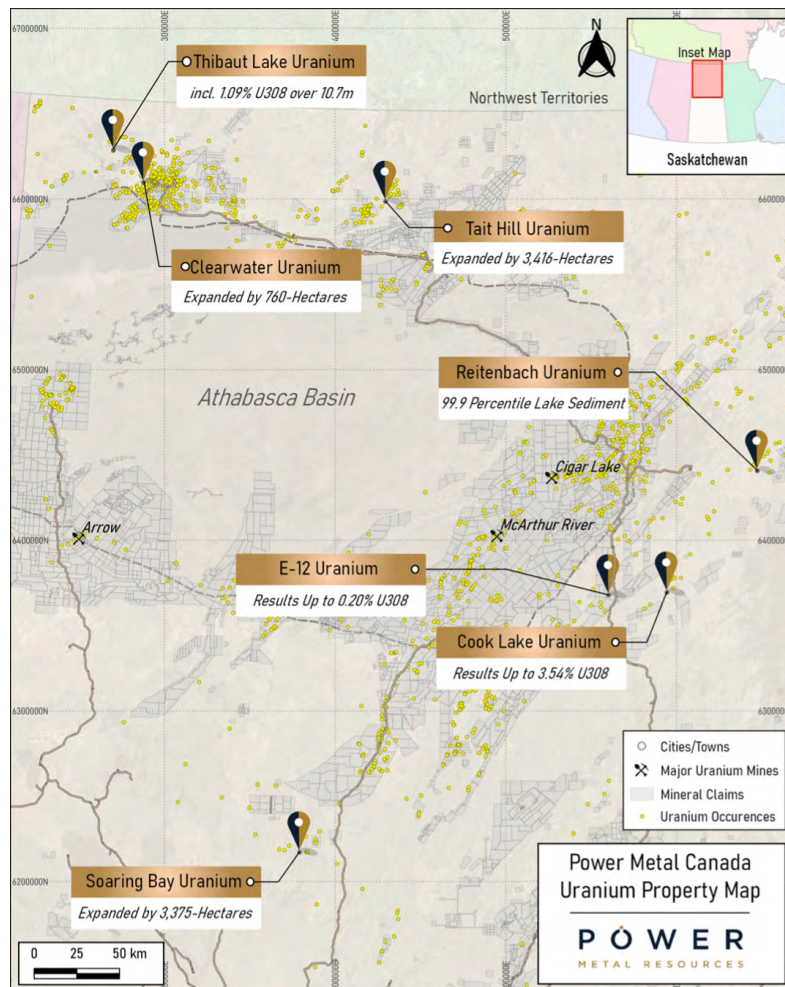
Fast forward to today, and Power Metal has a number of options available to it to create shareholder value in the Athabasca Basin.

One approach would be to sell some of its licences to other uranium explorers. After all, they all boast significant historical uranium occurrences, and many are now surrounded by Yellow Cake-hungry third-parties looking to maximise their footprint within the prolific basin.

Another would be for the company to hold on to its most prospective licences, exploring them further over the coming months and years to maximise their value.

Regardless, however, the first step is for Power Metal to establish just how prospective its land package is. And, encouragingly, this is an area where the firm has already made considerable progress.

Indeed, at the end of December, work on the Tait Hill, Thibault Lake, and Clearwater properties yielded highly encouraging results. Specifically, assay testing on a



range of rock samples returned high-grade uranium of up to 3.86% uranium oxide.

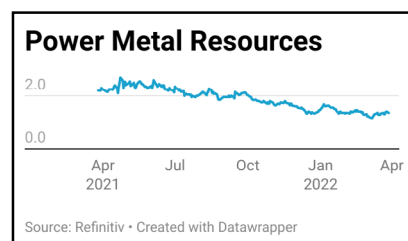
Then, in January, the company uncovered significant additional potential across its entire property when it completed an in-depth compilation of all historical exploration data. Meanwhile, most recently, in February, analysis of data from the exciting Reitenbach property highlighted strong prospectivity for multiple styles of uranium mineralisation.

Analysis of data compiled across Power Metal's entire uranium prospective land package continues and will ultimately be used to inform future exploration efforts and drilling. Meanwhile, the





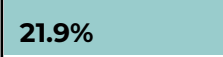

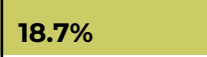


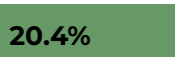
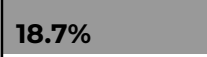

company is also preparing a range of "data rooms" for each of its licences to lay out their potential for any interested third parties in full.





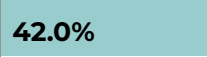







But for now, the bottom line here is clear: Thanks to its strong first-mover advantage, the ball is firmly in Power Metal's court across the Athabasca Basin.

To learn more, [download our free in-depth report](#) on the uranium market and Power Metal's exposure at [powermetalresources.com](https://powermetalresources.com).



# Databank – Commodity price performance 2019-2022

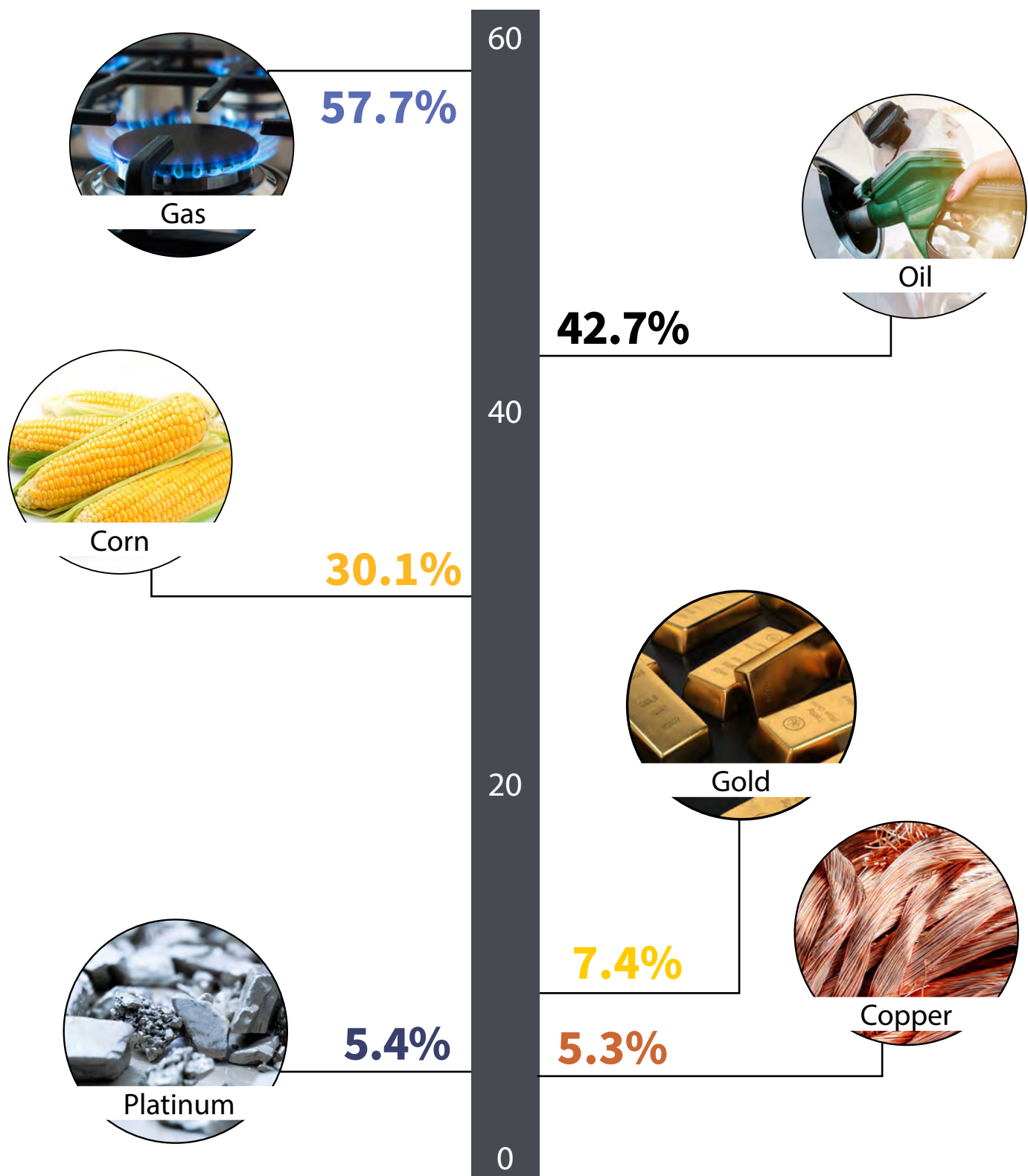
	2019	2020
Copper	 6.3%	 28.5%
Corn	 0.1%	 11.8%
Crude Oil	 21.9%	 -22.2%
Gold	 18.7%	 24.2%
Natural Gas	 -26.0%	 20.4%
Platinum	 18.7%	 6.9%

	2021	2022*
Copper	 23.1%	 5.3%
Corn	 22.0%	 30.1%
Crude Oil	 42.0%	 42.7%
Gold	 -5.0%	 7.4%
Natural Gas	 44.0%	 57.7%
Platinum	 -12.0%	 5.4%

Source: Refinitiv. \*Data to 28 March 2022.



# Databank – Gain / loss so far in 2022



Source: Refinitiv. Data to 28 March 2022.