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Contents

AJOT
AVI Japan Opportunity Trust

Finding Compelling Opportunities in Japan

Asset Value Investors (AVI) has been finding compelling opportunities in Japan for over two decades. In 2018, AVI launched the c. £159m* AVI Japan Opportunity Trust (AJOT). Key to the strategy is to build relationships with company management actively working together to improve shareholder value. The depth of the investment team allows for ample resources to undertake deep and targeted engagements in a concentrated portfolio of 20-25 stocks.

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The companies we invest in have cash on their balance sheets and sound business models with either stable earnings or structural growth trends to ensure the corporate value is growing year-on-year. They include a variety of sectors, with strong exposure to the domestic Japanese economy.

AVI will propose shareholder resolutions when required but aims to find mutually beneficial solutions behind closed doors with the company management team. The strategy's first three years bears witness to the success of this approach with a strong NAV total return. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies – for the benefit of all.

Discover AJOT at www.ajot.co.uk

*Net assets as at 31 March 2022

AVI
Asset Value Investors

Daniel **Coatsworth**

EDITOR'S VIEW

Choices, choices. The pool of shares on lower valuations is getting bigger by the day

Higher growth shares are trading on cheaper prices but is it still too early to buy?

It may not feel like the right environment to go shopping for stocks given market sentiment remains poor. Yet anyone prepared to look beyond the near term might find some great companies at more attractive prices than at any other point in the past two years.

This year has seen investors flock to value stocks where they could access profitable businesses on cheap valuations. Looking at classic value areas of the FTSE 350 year-to-date, the tobacco sector is up 24% and oil has risen by 23%. It might be time to turn your attention elsewhere and that leads to two obvious choices.

One is to look at higher growth stocks which have fallen out of favour. The other is to research lower growth stocks which may be even cheaper than before. Fund managers are certainly fishing around both areas with a view to picking up stocks that could generate good returns over the longer term.

'It's unusual as there are now opportunities in every kind of bucket,' says Stuart Widdowson, fund manager of **Odyssean Investment Trust (OIT)**. 'We felt 12 to 18 months ago it was more interesting to look at self-help, recovery, lowly-rated stocks. But we've made a couple of investments over the past eight weeks or so in companies that are fantastic long-term compounders that have been thrown out with the general malaise that's impacted equities.'

Widdowson is referring to new positions in camera equipment specialist **Videndum (VID)** which was formerly called Vitec, and gas springs maker **Stabilus (STM:ETR)**. 'Both are market leaders in their particular niche,' he says.

Many investors have filled their portfolios with high growth stocks in recent years and this part of the market has been hit hardest in 2022. The question now is whether the derating we've seen in these stocks has resulted in some bargains.

Widdowson thinks there is another 10% to 15% derating, or more, to come before such growth stocks trade at more compelling valuations.

Simon Adler, manager of the **Schroder Global Recovery Fund (BYRJXL9)**, says he's recently looked at growth names like **Alibaba (BABA:NYSE)** and **Meta Platforms (META:NASDAQ)** and feels they are still too expensive when weighing up the potential risks and rewards.

He says many growth stocks are still 'materially overvalued', adding: 'The vast majority of stocks that have fallen this year have gone from "mega loved" to just "loved" valuations. We like to buy things when they are hated.'

So, does that mean former market winners in the growth category will remain in the doldrums for months to come? Don't bank on it. James Henderson, co-manager of **Henderson Opportunities Trust (HOT)**, believes private equity could be looking hard at the sell-off in growth companies with quality characteristics.

He says private equity is flush with cash and may pounce on the recent depressed valuations in this space. Henderson believes quality stocks are more plausible takeover targets when markets remain choppy because private equity firms will want the reassurance of sound balance sheets and earnings growth today, not years down the line.

It takes guts to start buying shares when market conditions are so poor, yet history suggests this is precisely the time to strike it rich. Good luck in picking the right stocks.

The earnings downgrade cycle has only just begun, suggesting more pain ahead

Economic slowdown is yet to be fully reflected in lower company earnings estimates

Up until last week's (ended 24 June) gain the US benchmark S&P 500 index had dropped in 10 of the prior 11 weeks and entered bear market territory which is a 20% drop from the prior peak.

While share prices have dropped, earnings forecasts from analysts have barely moved. This means the forward price to earnings ratio has shrunk from around 21 times to 16.5 times which perhaps suggests the 'bottom' may not be far away.

However, before investors get too carried away it is worth remembering that the market's PE ratio has only shrunk in line with the rise in long-term interest rates.

In other words, the fall in the PE can be explained by the rise in 30-year interest rates from 2% in January to 3.3% today which theoretically lowers the price that investors are willing to pay for company earnings.

A similar pattern has emerged in Europe where the PE has dropped by around 30% from its peak, according to Morgan Stanley equity strategist Graham Secker.

MSCI European stocks have performed better in relative terms than their US counterparts as they are only 17% below the peak. A lower starting PE may explain some of the outperformance.

Secker points out the drop seen in the MSCI Europe's forward PE ratio has only been succeeded by the 2008 financial crisis and the bursting of the dotcom bubble in the early 2000s.

However, Secker notes that 'while we may be in the later stages of the valuation derating this does not necessarily imply that we are near a market bottom'.

Morgan Stanley's line of argument is that historically stocks tend to trough two or three weeks before earnings revisions bottom out.

The problem is earnings revisions have only recently started to roll over, leaving plenty of scope for further downgrades to come.

The lack of downgrades seems surprising given that central banks are aggressively raising interest rates and trying to slow demand.

Adding further fuel to the argument, the 17% drop seen in European stocks so far looks modest compared with an average 29% drop since 1990 from peak to trough.

Morgan Stanley expects to see a deterioration in corporate news flow over the next few months which should put pressure on earnings forecasts.

In terms of magnitude, the 20%-plus fall in earnings revisions seen in prior economic slowdowns suggests the current 3% drop has further to fall.

Over the past week the only European sectors to have registered more than a 5% fall in revisions are food retail, construction and consumer durables. In contrast, banks have seen double-digit increases. [MGam]

Apple aims to arrest sagging share price as new product launch rumours swirl

Warren Buffett's biggest investment is hoping to regain the market's favour

Apple (AAPL:NASDAQ) is thought to be preparing a flurry of new product launches as the tech giant attempts to reverse a slump in its share price.

This year, Apple shares have fallen more than 22% as investors rejected growth stocks in the face of rising interest rates aimed at curbing high inflation, worse than the performance of the S&P 500 (-19%).

Apple is now trading on its lowest price to earnings multiple since the Covid outbreak in early 2020, at around 21.7 times 2023 earnings estimates.

The company is hoping that earnings could be boosted by one of the most ambitious periods of new products in its history.

The 'deluge' of product launches, according to *Bloomberg*, will come over the next nine to 12 months, including four iPhone 14 models, three Apple Watch variations, several Macs powered by updated M2 and M3 microchips, the company's first mixed-reality headset, low-end and high-end iPads, updated AirPod Pro earbuds, a fresh HomePod speaker and an upgraded Apple TV.

Apple typically launches new flagship iPhone models in the autumn season towards the end of its fiscal fourth quarter. New iPhone launches help bolster year-end revenues, although it has had mixed success in recent years, with 2020's iPhone 12 admired by most analysts but last year's iPhone 13 largely failing to impress.

Chief executive Tim Cook wants to drive Apple into the financial services industry, an area he believes could be a key driver for the iPhone maker over the long term.

One of its early steps has been to launch into the fast-growing buy now, pay later market, where it can use its enormous balance sheet strength

to help buyers of new iPhones and other Apple gadgets during the current cost of living crisis. Apple currently has net cash of around $73 billion.

Apple is also thought to have agreed a contract to use the one-click payments technology provided by UK business **Bango (BGO:AIM)** across its app store. Bango already provides direct carrier billing for the app stores of **Alphabet (GOOG:NASDAQ)**, **Amazon (AMZN:NASDAQ)** and Facebook-owner **Meta Platforms (META:NASDAQ)**.

Recession worries continue to dog the mood of financial markets, and investors are becoming increasingly concerned that millions of consumers could delay high-end purchases like new iPhones.

But analysts remain mixed over the threat of recession in the US and elsewhere. Citibank sees a 50% probability of a recession, while JPMorgan sees stocks recouping some of their first-half losses in the second part of 2022.

Apple is **Berkshire Hathaway's (BRK.B:NYSE)** largest holding and Warren Buffett added an extra $600 million worth of stock earlier this year, taking the conglomerate's stake in the tech giant to around $160 billion. [SF]

Copper has entered a bear market and history tells us it's not a good sign

A 20% drop in price has previously preceded a sharp fall in demand

Friday 24 June marked a gloomy milestone in the metals market as the copper price officially entered 'bear' territory, having tumbled more than 20% from its March peak to $8,255 per tonne.

In the past three months, traders seem to have given up hope of a 'soft landing' for the US economy as the Federal Reserve continues to ratchet up interest rates to rein in rampant inflation.

Having recently raised rates by three quarters of a percentage point in one fell swoop, Fed chair Jerome Powell didn't rule out hiking by a full percentage point in the future even though he admitted recession was a possible outcome.

For their part, economists on Wall Street believe the odds of a US recession – defined as two consecutive quarters of negative GDP growth – are increasing week by week as the rising cost of food, fuel and housing impacts on consumer spending.

At the same time, China's repeated attempts to control the spread of Covid with a 'zero tolerance' strategy of regional lockdowns is hurting demand in the world's number one commodity-consuming region.

If history is any guide, the omens aren't good. In each of the last four recessions dating back to 1990, copper entered a bear market before demand fell, while in 1979/80 it held up as interest rates rose before ultimately collapsing once the global economy contracted. [IC]

Why stock markets are taking Russia's debt default in their stride

Second-order effects may be more significant than the default itself

THIS WEEK MARKED a landmark in international bond markets after Russia defaulted on its foreign debt for the first time in a century.

Despite having a month's grace, Moscow missed interest payments on $100 million of euro-denominated sovereign bonds on 27 June.

Russia has struggled to keep up with payments on $40 billion of outstanding bonds since it invaded Ukraine in late February.

President Putin accused western governments of forcing Russia into an artificial default, claiming it had the money but was unable to pay bondholders due to its foreign currency assets being frozen.

Investors seemed sanguine about the non-payment, with global stock markets making further gains after a strong finish last week.

Analysts played down the potential impact of the default on bonds and shares and ruled out a repeat of the 'Long-Term Capital Management' crisis of 1998, which led the US government to step in after Russia defaulted on its rouble-denominated debt.

They noted, however, it was possible that in retaliation for its humiliation on global financial markets Russia could decide to withhold gas supplies into Europe, and in particular Germany, heading into winter.

A shortage of gas has already seen prices explode higher and led to 'demand destruction' in Germany as companies have reduced output and laid off workers. [IC]

Investment trusts prove to be key sources of dividends

Payouts from alternative investment trusts are nine times bigger than in 2010

Investment trusts paid record dividends of £5.5 billion in the 12 months to the end of March 2022, up 15.4% year-on-year according to research by Link Group.

Dividends from investment trusts have proved much steadier through the pandemic than those from individual companies listed on stock markets thanks to their ability to invest almost anywhere in the world.

The advantages of the investment trust structure, which allows these companies to use their revenue reserves to at least maintain dividends in tougher times, also came to the fore.

Trusts drew on their reserves through the pandemic, but they also took advantage of special rules that permit them to distribute some of their capital gains as dividends. While this revenue reserve fell by 6.8% in 2021, Link says it is likely to start building again as company dividends recover from the pandemic.

Overall, trusts that invest in listed equities held payouts flat at £1.85 billion, though Link expects their dividends to rise by 4% to £1.92 billion by the end of March 2023.

In the first quarter of 2022, dividends from trusts invested in equities in the UK and around the world were 4% higher than the first quarter of 2021 when they reached their nadir of £437 million.

Payouts from trusts investing in alternative assets jumped 25.1% to £3.65 billion during the year to March.

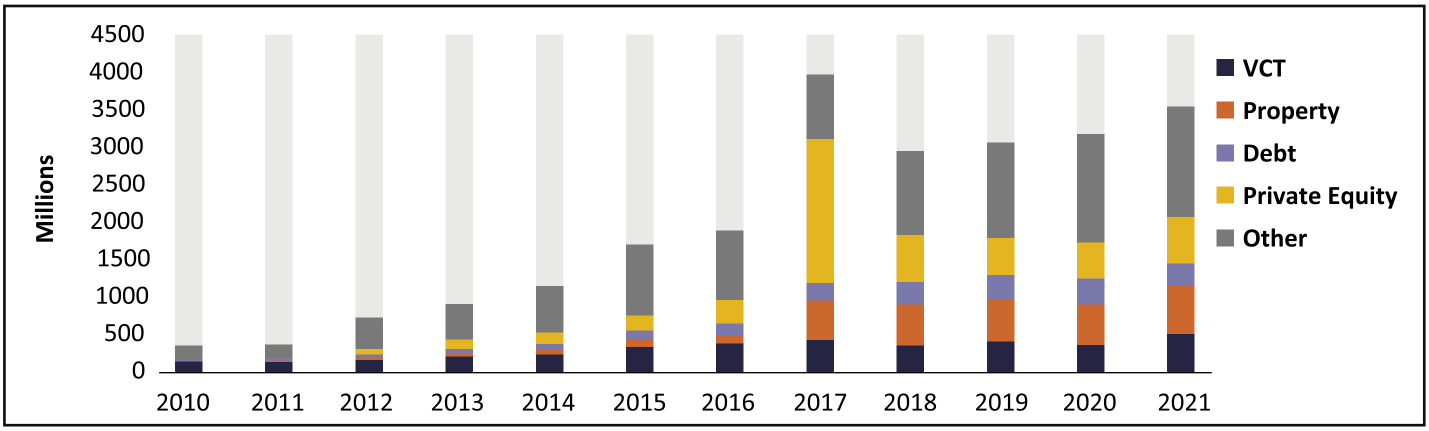
The biggest increase came from venture capital trusts, which handed out £556 million between April 2021 and March 2022, up 65.7% year-on-year, while renewable energy infrastructure funds paid their shareholders £583 million, up 38.3%.

Along with property, the largest dividend-paying alternatives sector, these categories accounted for four fifths of the overall increase in dividends from all kinds of investment trusts in the year to March 2022. Two thirds of investment trust dividends are now paid by trusts focused on alternative assets.

According to data from the Association of Investment Companies, top yielding alternative trusts include property plays such as **Regional REIT (RGL)**, **Real Estate Credit Investments (RECI)** and **Civitas Social Housing (CSH)** on yields of 8.7%, 8.1% and 6.9% respectively.

Other big dividend payers include **NextEnergy Solar (NESF)**, **Gore Street Energy Storage (GSF)** and **JLEN Environmental Assets (JLEN)** from the renewable energy infrastructure sector, offering yields of 6.9%, 6.6% and 6% repectively. [JC]

Alternatives - Investment trust dividends £m



Source: Link Group

Buy AVI Global for a new spin on value investing

The investment trust finds unusual ways of buying assets at a discount

AVI GLOBAL TRUST
BUY
(AGT) 179.8p

Market value: £901 million

There has been a clear shift in the market away from growth companies towards value and the rising interest rate environment makes it likely that trend will continue.

However, with some of the more obvious value opportunities already being seized on by investors there is merit in seeking out less obvious bargains and **AVI Global Trust (AGT)** looks an excellent vehicle for doing so.

The investment trust, which itself trades at 9.3% below the value of its underlying assets including cash and debt, looks to invest in a concentrated portfolio of what it perceives as quality investments which, because they are held through unconventional structures, trade at discount.

AVI Global invests in family-controlled holding companies, closed-end funds, most of which are listed in London, and what it calls 'asset-backed special situations'. The latter are exclusively Japanese stocks which have the potential to benefit from improved corporate governance.

Enhancing the way its investments are run is a key part of the process for the trust. A recent example of a successful intervention came at listed hedge fund **Third Point Investors (TPOU)** where AVI's pressure to put an independent director on the board was acceded to in February 2021, resulting in a narrowing of the discount to net asset value.

Investing via funds also allows AVI Global to gain exposure to names like luxury goods firm **LVMH (MC:EPA)**, **Universal Music (UMG:AMS)** and **Ferrari (RACE:BIT)** more cheaply than if invested directly.

Top holding Christian Dior, for example, is the vehicle through which French businessman Bernard Arnault controls LVMH.

In Japan the trust holds **Nintendo (7974:TYO)** and **Sony (SONY:NYSE)** to benefit from the growth in digital entertainment while also focusing on companies with strong balance sheets as a buffer against further market volatility.

Ultimately, AVI Global offers exposure to many areas which would be difficult for ordinary investors to access themselves and the somewhat idiosyncratic strategy has underpinned strong performance over the long term.

It has delivered an annualised return of 6.4% on a five-year view and 10.3% across a 10-year timeframe.

The focus is on capital gains rather than delivering income, though the trust does pay a dividend twice a year and is on a trailing dividend yield of 1.9%.

For a trust which invests in relatively complex assets an ongoing charge of 0.85% seems reasonable. [TS]

AVI Global portfolio breakdown

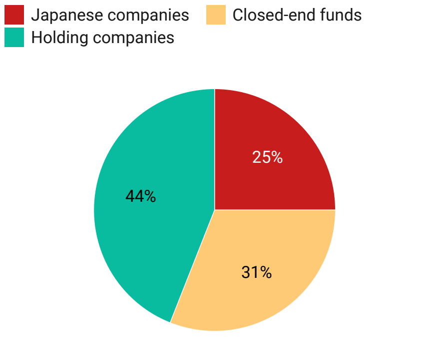


Chart: Sharesmagazine.co.uk • Source: Asset Value Investors, 31 May 2022

AVI Global Trust

Chart: Sharesmagazine.co.uk • Source: Refinitiv

This currency expert could see profits soar if its growth plan works

Record may be under the radar for most investors but the numbers look good

Increased revenue guidance at currency and derivatives specialist **Record (REC)** presents investors with an opportunity to acquire shares in a company that is going places and at an undemanding valuation.

Record has $83.1 billion (£67.8 billion) in assets under management equivalent for institutional clients, fund managers and corporate entities worldwide. As a currency expert, it manages the impact of foreign exchange and not the underlying assets.

Passive currency hedging accounts for the bulk of assets under management (74.9%), followed by dynamic currency hedging (12.2%).

It reported £35.1 million revenue in the year to 31 March 2022 and is targeting approximately £60 million in three years' time.

If achieved, it would mean current analyst forecasts are far too low. According to broker Panmure Gordon the revenue goal would imply at least £21 million pre-tax profit tax in the year to March 2025. That's about 50% above its current forecast (£13.6 million) for that year.

Assuming there was no change to the company's dividend policy and the revenue goal is hit, total payments to shareholders could

RECORD

BUY

(REC) 72.45p

Market value: £144 million

be as much as 20p per share over the next three years combined, according to Panmure Gordon. That's equivalent to 28% of the current share price.

Record believes earnings growth will be aided by new product offerings and partnerships. For example, since debuting in June 2021 via a partnership with UBS Global Wealth Management, the Record EM Sustainable Finance Fund has increased from $750 million to $1.2 billion in size.

The company is in the process of launching a municipal loan fund focused on the German institutional market. This will be in partnership with Universal-Investment and will include a yield-enhancing component provided by one of Record's existing currency management clients.

These products illustrate how Record is using its currency skills and expertise to manage other assets and, in the process, earn higher fees.

The shares are currently trading on 14.5 times earnings forecasts for the year to March 2023, falling to 13.4 in 2024 and 13.1 in 2025. However, those ratios would be much lower if forecasts were upgraded in line with Record's 2025 goal.

We sense that brokers are being cautious with their estimates and not simply hiking them because the company has bold ambitions. That's positive for investors as it means that expectations aren't set too high, and the share price could react positively each time good news is reported.

We wouldn't be surprised if the earnings estimates are slowly nudged up each time Record updates on trading, assuming its growth plan is working. [MGar]

Record

Chart: Sharesmagazine.co.uk • Source: Refinitiv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Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
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Pension rules apply.

Find out why it's a marathon not a sprint for our JD Sports call

The retailer has interviewed high calibre candidates to be its new CEO

JD SPORTS FASHION

(JD.) 120.6p

Gain to date: 0.8%

We said to buy **JD Sports Fashion (JD.)** at 119.7p on 1 June 2022, on the basis that its share price decline was overdone. We thought the price offered bargain hunters with an opportunity to invest in a high-class retailer at a low valuation not seen for years.

While JD Sports faces inflationary pressures and a consumer spending squeeze, the trainers-to-tracksuits seller has pedigree in navigating sector headwinds.

We also felt the derating in the shares, with investors latterly spooked by the departure of executive chairman Peter Cowgill, discounted JD Sports' international growth opportunity.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

A week after our positive article, the shares weakened after JD confessed to cartel activity in fixing the price of Rangers Football Club-branded replica kits. It now faces a fine from the Competition and Markets Authority.

But JD Sports' shares then rallied off the back of record full-year results. The FTSE 100 retailer delivered record profit before tax and one-off items of £947 million, more than double the prior year's £421 million haul.

Revenue sprinted 39% higher year-on-year to the best part of £8.6 billion amid positive momentum in the sports fashion retail business and with the outdoor division having returned to profitability.

Though the results were impressive, JD Sports' financial year ended before the Ukraine crisis unfolded and inflation surged higher. Given stiffening consumer spending headwinds, the retailer is guiding towards zero profit growth for the year to January 2023.

WHAT SHOULD INVESTORS DO NEXT?

Investors should stick with JD Sports, which trades on just 10.3 times Shore Capital's 11.7p 2023 earnings estimate.

The forthcoming appointment of a new CEO offers a potentially powerful catalyst, and the board says it has interviewed 'a number of high calibre candidates' for the role.

The incoming CEO will inherit a best-in-class retailer that is not only ahead of the pack in premium trainers but has also expanded its presence in the gym and cycling market.

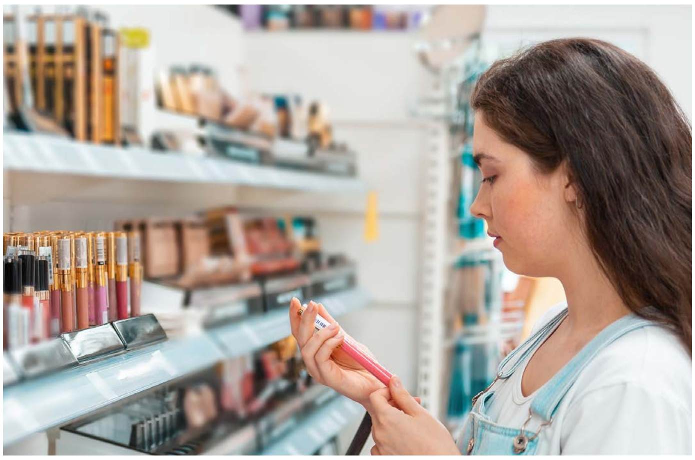
As Shore Capital wrote: 'Notwithstanding the current geopolitical uncertainty, we are bullish on JD's ability to pass through cost inflation to consumers and drive sales density thanks to a genuinely outstanding store portfolio and consumer engagement.' [JC]

JD Sports Fashion

Chart: Sharesmagazine.co.uk • Source: Refinitiv

Essentra's strategic transformation on track after disposal of packaging unit

The firm is delivering on its side of the bargain and the market should follow



ESSENTRA

(ESNT) 271p

Loss to date: 12.6%

We said to buy FTSE 250 components and packaging firm **Essentra (ESNT)** at 310p on 11 November 2021, believing it would benefit from ditching its conglomerate status and becoming a focused industrial parts supplier.

This shift might result in better profit margins and a higher stock market rating. To illustrate, Essentra's components business has an operating margin of 19% while the filters business has a 9.5% margin and packaging has a 4.2% margin.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

So far, everything has gone according to plan. It has agreed to sell its packaging business to Austrian rival May-Melnhof for £312 million.

The price is slightly above the £302 million valuation in March and represents an exit multiple of 12.5 times EV (enterprise value) to EBITDA (earnings before interest, tax, depreciation and amortisation), well above the average multiple of nine times for recent deals in the sector.

The next step is to find a buyer for the cigarette filter business, which generated around £300 million in sales last year, roughly the same as the components business.

Although the sale process may seem more challenging due to the nature of business, the tobacco companies which the group serves are obvious buyers.

WHAT SHOULD INVESTORS DO NEXT?

While we are disappointed the shares are trading below our entry price, it means the company looks even cheaper. Stick with it.

Analysts from Numis forecast 23.6p earnings per share for this financial year, putting the stock on a multiple of 11.5 times.

If the filters business fetches £225 million, allowing for its low margins, that leaves the rump components business on nine times EV to EBITDA according to Numis estimates, which is attractive for a firm with a 19% operating margin and over £500 million in cash.

As Essentra turns itself into a higher-margin, pure-play components maker we believe the market and potentially other industry buyers will appreciate what it has to offer. [IC]

Chart: Sharesmagazine.co.uk • Source: Refinitiv

REMAINING RESOLUTE AMID MARKET UNCERTAINTY.

Jamie Ross, Portfolio Manager of **Henderson EuroTrust**, provides an update on the Trust, highlighting how he is navigating this volatile market environment, areas where he is finding opportunities, and how companies are dealing with higher input costs.

THE END OF GLOBALISATION?

RESHAPING FOOD, FUEL AND FACTORY SUPPLY CHAINS

By **Mark Gardner** Senior Reporter

In recent decades globalisation has transformed economies, societies, and capital markets. More and more companies started operating on an international scale, enabling them to look beyond their homeland for manufacturing, supplies and labour.

This period was accompanied by a marked decline in inflation and lower central bank interest rates. By participating in the global economy millions of people were able to join the ranks of the middle class.

However, the current wave of globalisation could be coming to an end. This is because an increasingly confrontational relationship between America and China has been exacerbated by the Ukraine conflict. The Coronavirus epidemic has also exposed fractures in our economic interdependency.

WHY DOES THIS MATTER?

An end to the positive effects of globalisation has significant implications for investors.

First, nations will need to become less reliant on outsourcing for manufactured goods. Robotics providers should benefit as manufacturing is moved closer to end markets and more automation is introduced.

Second, the surge in prices for grain and fertiliser, following the imposition of Russian sanctions and the supply disruptions associated with the Ukraine conflict, has highlighted the strategic importance of domestic agricultural production.

Companies that can enhance agricultural productivity and the nutritional content and appeal of food products are ideally positioned to gain from the current dislocations in the soft commodities markets.

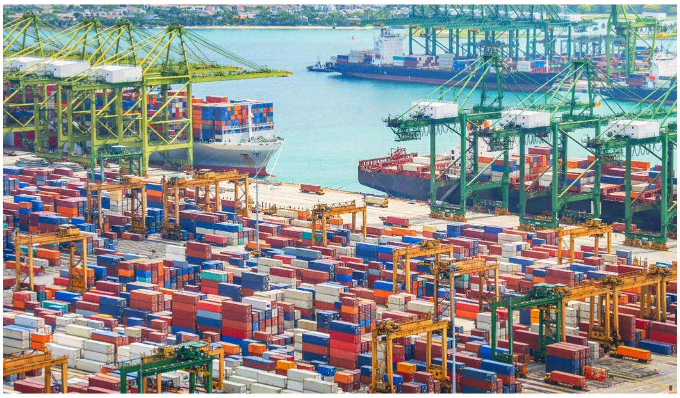
Finally, overdependence by Western European economies on Russian energy will create incentives to develop domestic energy resources both in fossil fuels and in renewables.

From a stock perspective **Kerry (KYGA)**, **Ocado (OCDO)**, **Deere & Company (DE:NYSE)** and **John Wood (WG)** all offer goods and services that could benefit from these trends.

GOLDEN AREA OF GLOBALISATION

The current wave of globalisation began in the 1990s and was triggered by the collapse of the Soviet Union, the subsequent expansion of the European Union and economic reforms in China, India and Latin America.

Tariffs in the industrialised world more than halved. India joined the World Trade Organisation in 1995 and China followed in 2021. Resources that were previously inaccessible to Western economies including the labour forces in these countries and markets were tapped.



The introduction and widespread adoption of international container shipping, falling costs for rail transportation, coupled with advances in communication through the internet fuelled this wave of globalisation.

Between 1930 and 2000 there was a huge decline in the cost of air and sea transportation. This was mirrored by a marked reduction in the charges associated with both telephone and satellite communication.

DRIVERS OF DEGLOBALISATION

The integration of China into the world economy and Eastern Europe into the European Union were key drivers for the exponential growth in goods traded because China and Eastern Europe were the most popular outsourcing destinations.

IS THE DEGLOBALISATION ARGUMENT WRONG?

Speculation that the Russia-Ukraine war will accelerate a process of deglobalisation and/or lead to the fracture of the world trade and financial systems looks overdone, argues Oxford Economics.

'There will certainly be some reshuffling of supply chains and trade patterns, especially involving Russia,' it says.

'The conflict may also give some further momentum to broader changes in supply chains already in train due to the pandemic and other recent disruptions and trade restrictions, though we doubt the effect of that will be very big.'

Oxford Economics adds: 'Firms may give some more thought to doing business in parts of the world subject to geopolitical risks – including possibly China – and in some cases this may tip the balance against such an engagement.

'Some of these supply chain shifts may be painful for some firms in the near term and may intensify claims that deglobalisation is happening. But the medium-term impact is likely to be small, with some shifts (such as importing more from one place than another) not necessarily implying deglobalisation at all.'

However, as both regions mature, they are witnessing a slowdown in their respective growth rates.

Another factor driving deglobalisation has been the imposition of higher tariff rates by America and China. Global steel and aluminium tariffs imposed by the US in 2018 were a shock to the global trade system and prompted retaliation.

The US-China trade war has taken the average US tariff on Chinese imports from 3% at the outset to almost 20% now.

A report published in 2020 by the Economist Intelligence Unit predicted that the pandemic would reverse globalisation by accelerating a move towards regional supply chains.

'By building a quasi-independent regional supply chain in America or Europe, a global company will provide a hedge against future shocks to their network,' the report said.

Covid has disrupted trade and highlighted China's pre-eminent role in global value chains.

According to its state council, China accounted for 30% of world manufacturing in 2021, up from 22.5% in 2021. Chinese products are ubiquitous in the electronics, automotive, machinery and textile sectors.

BENEFICIARIES OF DEGLOBALISATION

'We are entering a period of mass customisation particularly with the rise of robotics,' says David Jane, a portfolio manager at Premier Miton.

'We are replacing mass produced homogenous goods from China with more unique goods produced with high value labour in the west, but in combination with high levels of technological input.'

Whilst Jane acknowledges domestic manufacturing may be more expensive, he maintains it has many strategic advantages.

'First, companies are better able to control their intellectual property. Second, they can be much more flexible in the production phase with faster turnarounds. Finally, they become much less reliant on lengthy shipping routes, which have environmental issues going forward.'

Jane also suggests companies able to facilitate an increase in domestic energy production will be in demand.

'In this deglobalised and perhaps more hostile world what becomes important is to have your own energy production. That goes to both fossil fuels and renewables in practice.

'Many countries have huge fossil fuel reserves they are not using and there has been a massive underinvestment. Many countries have become very lazy about their energy supply in recent years, assuming it will be cheap and freely available from Russia and the Middle East, and that has been called into question.'

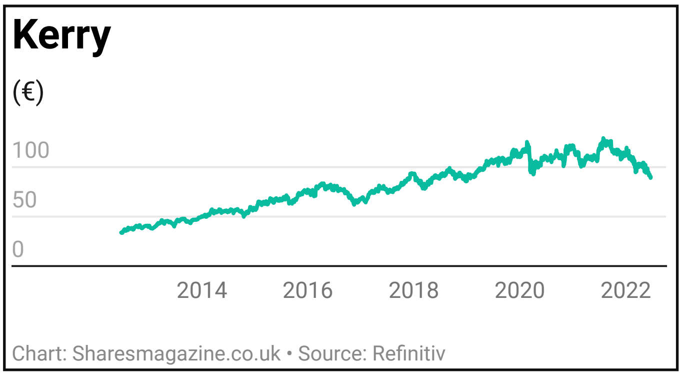
Jane argues that businesses able to enhance agricultural productivity or improve the nutritional quality and taste of food will gather increasing interest among investors.

'Ukraine and Russia are not only key producers of grain for the rest of the world, they are also important suppliers of fertilisers,' he says.

'So, there are huge issues around food supply. Also, a growing and wealthier population will require better and higher quality food in the future.'

FOUR STOCKS RELEVANT TO THE DEGLOBALISATION THEME

Kerry (KYGA) €88.68



If countries are under pressure to improve the amount of food sourced domestically, one way to make a limited range of products more appealing is to use flavourings.

Kerry is a global manufacturer of ingredients and recipe solutions for the food and beverage industry. It supplies branded and private label packaged foods in the UK and Ireland. Kerry is also embedded into customers' supply chains by covering flavour, textile and nutritional needs.

Ingredients manufacturers often act as the research and development centres for food companies. In recent years they've been in demand to help reduce fat, sugar and salt content given government pressure on food companies to offer healthier products, and a general shift among consumers towards health and wellness.

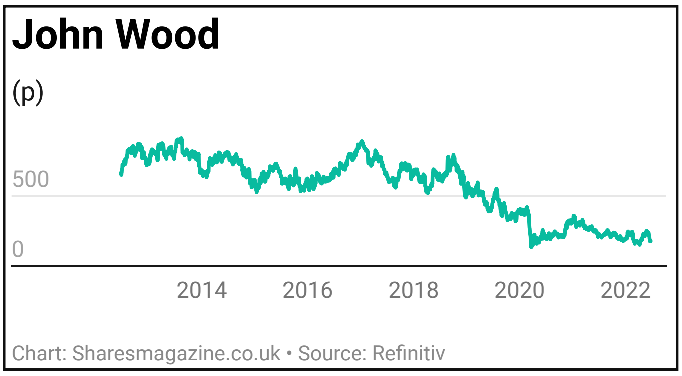
Kerry's first quarter 2022 results were ahead of expectations with organic growth increasing by 12.9% including 6.8% volume growth in taste and nutrition activities.

The company has been managing inflation well. Group EBITDA (earnings, before interest, tax, depreciation and amortisation) margins increased by 10 basis points in the three-month period.

According to Berenberg, earnings per share are forecast to grow by 12.7% between 2022 and 2023, from 429.2 cents to 483.8 cents. This places Kerry on a 2022 price earnings ratio of 20.7 falling to 18.3 in 2023.

The shares are currently trading at their lowest level since January 2019, despite the business making significant progress in recent years.

John Wood (WG.) 175.7p



Russia's invasion of Ukraine is spurring Western countries to think about the source of future energy supplies, and making governments think more about domestic resources.

There is a good chance more money will be ploughed into oil and gas drilling, as well as investment into renewable energy, and this plays to John Wood's strengths. Its shares have been weak for years amid fears about a reduction in oil and gas activity, yet the outlook is now starting to improve.

John Wood is an energy services company with $6.4 billion of sales operating in more than 60 countries. It is involved in many different activities from consulting and project work to getting its hands dirty with maintenance and engineering.

In June the company agreed the sale of its Built Environment business for $1.9 billion. The proceeds will be used to reduce debt and thereby strengthen the group's balance sheet.

In April, management highlighted an increase in contracts around 'maximising production volumes from conventional upstream assets' specifically in the Middle East. The order book was up 19% year-on-year to $7.7 billion in 2021.

Berenberg forecasts a 2022-2024 compound annual earnings per share growth rate of 11%.

The broker has a 270p price target representing 54% upside from current levels. This is based on a target six times EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortisation) multiple.

Ocado (OCDO) 849p

Ocado uses robots in its warehouses to pick customer orders, a critical part of its solutions platform which it has licensed to US grocery firm Kroger and others around the world.

The company has just raised £578 million through a share placing, and it also announced a new £300 million revolving credit facility.

This is a critical development because it provides the group with significant liquidity to fund the expansion of its smart technology platform.

Ocado is introducing various innovations such as the world's lightest and most efficient grocery fulfilment bot; much lighter grids; robotic arms that pick groceries directly from the grid; and increased capability for short lead time deliveries.

Competition and technological innovation in automating grocery fulfilment will enhance the convenience of digital grocery shopping.

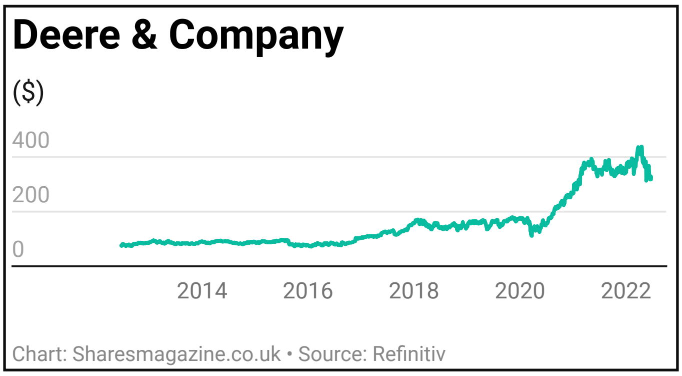
Grocers therefore will be forced to address their online propositions and Ocado's platform is a structural winner.

Online grocery requires both centralised fulfilment and micro-fulfilment, addressing different shopping occasions and markets.

What also makes Ocado interesting from an 'end of globalisation' perspective is its move into vertical farming. This is where crops are grown indoors in stacked layers, often next to a grocery distribution centre. It minimises water, land and transport and carbon footprints.

Ocado has a stake in Jones Food Company which is building its second vertical farm. While this investment is unlikely to be a key driver for Ocado's share price, it is a sound strategic move and could lead to further activity in this field over time.

Deere & Company (DE:NYSE) $317.93



The ongoing rally in commodity prices will continue to fuel agricultural equipment demand, encouraging farmers to boost spending on new kit. Deere & Company is a natural beneficiary given it is one of the dominant players in this market globally.

Furthermore, a drive to increase domestic agricultural production in various parts of the world should also lead to increased investment in the type of equipment offered by Deere – either from direct buyers or rental companies wanting to increase their fleet.

Deere is organised into four divisions, the two largest of which are dedicated to agricultural machinery and make up roughly two thirds of sales.

Production and Precision Agriculture develops and manufactures equipment and technology for production-scale farming such as tractors, combines and seeding and crop care equipment.

Small Agriculture and Turf supplies mid-size and small growers and makes production systems for dairy and livestock. Products include small tractors, ride-on mowers, golf course equipment and utility vehicles.

The Construction and Forestry division manufactures earth movers, material handling, timber harvesting and road building equipment and accounts for roughly a quarter of sales.

The fourth division is Financial Services, which provides credit to buyers of Deere equipment and makes up roughly 10% of sales.


Image Provided as Courtesy of John Deere

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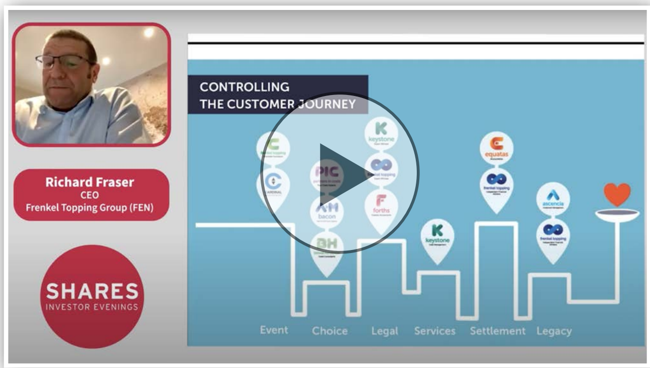

Frenkel Topping Group
Richard Fraser, CEO

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Impax Asset Management Group
Ian Simm, Founder & Chief Executive

Impax Asset Management Group offers a range of listed equity, fixed income and private markets strategies. All strategies utilise the firm's specialist expertise in understanding investment opportunities arising from the transition to a more sustainable economy.

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Harvey Sinclair, CEO

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RUSS MOULD
AJ Bell Investment Director

The key things that could tell you if a US recession is coming

Investors tend to spot the signs well before economists

US Federal Reserve chair Jay Powell in his testimony to the US Senate Banking Committee in Washington declared a risk that America is heading into a recession. This represents refreshing honesty, especially for the head of an organisation with an unbroken record of failing to accurately predict any of the downturns seen since its foundation 109 years ago.

That shows just how difficult it is to spot a recession – America's National Bureau of Economic Research was a year late in flagging the US downturn that started towards the end of 2007, a delay that rendered any such insight totally useless, especially from an investment point of view.

The question now is how can investors tell if Powell is right, especially as where America goes the world tends to follow?

LAGGING INDICATORS

In this respect GDP growth data is no use. It is published with a lag of a month or two and subsequently revised.

Unemployment data is similarly ineffective from an investment point of view, for the same reason.

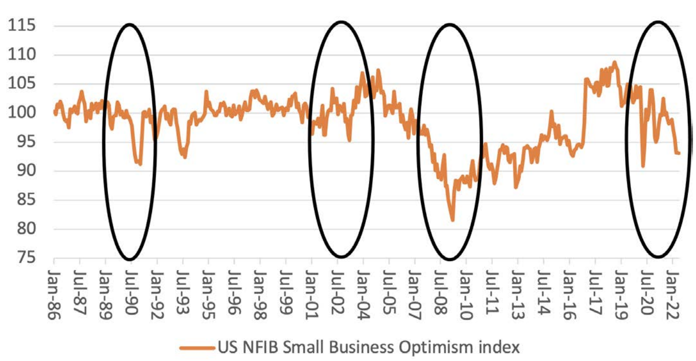
Its only use may be as a contrarian indicator – once cyclical lows are hit then things can only get worse and vice-versa. US and UK unemployment rates currently stand at low levels. Job vacancy data may have more value.

Lagging indicators which carry more weight include retail sales and housing, as both tap into how 70% of the US economy is driven by consumption. This year's weakness in retail sales and the way in which new home sales have fallen year-on-year 10 times in 11 months are potentially ominous.

CONCURRENT INDICATORS

Sentiment surveys may bring more insight. A good one to consider for the US is the NFIB smaller companies business survey. Just under 30 million US firms employ less than 500 people and they represent all bar a couple of percent of the total workforce. The NFIB has gone below 95 three times since 1985 and each time signalled a recession (the indicator got down to 96 in the 2001-02 downturn).

Sliding US smaller company confidence bodes ill



Source: NFIB, Refinitiv data

LEADING INDICATORS

Believers in financial markets may prefer to put their faith in forward-looking indicators and frankly there may be few better ones that financial assets. Investors have skin in the game and money is on the line. Economists do not.

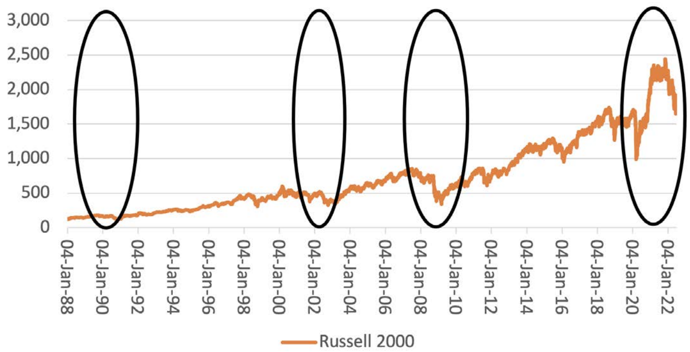
Three useful benchmarks are small caps,

RUSS MOULD
AJ Bell Investment Director

transport stocks and copper.

Smaller companies tend to be much more sensitive to their local economy than mega-cap multi-nationals. The Russell 2000 index peaked before the 1991-92, 2001-02 and 2007-09 recessions.

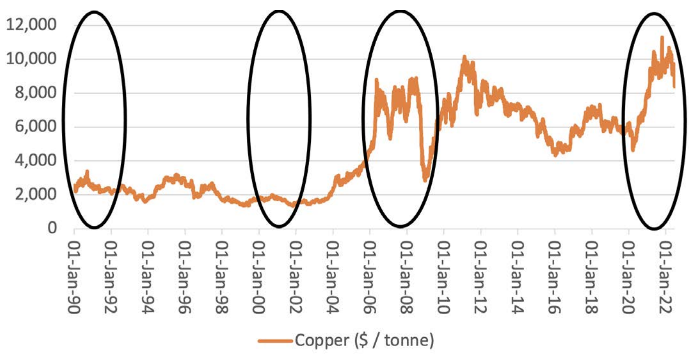
US Russell 2000 index is in a bear market



Source: Refinitiv data

'Doctor Copper' is a good guide to global economic health as the metal's ductility and conductivity mean it is used in many industries across the globe. The current triple-top on the chart does look spookily like that of 2006-08.

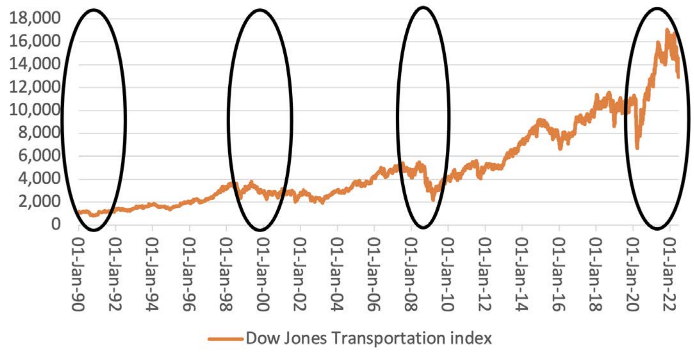
Dr Copper is looking a bit poorly



Source: Refinitiv data

Richard Russell's Dow Theory states that industrials cannot do well if transport shares are doing badly, because weak transport stocks implies that goods are not being shipped because of an inventory pile-up, weak end-demand or both. By contrast, a surge in transport stocks suggests end-demand is good, because shelves and forecourts must be replenished, and the newly manufactured products must be moved around.

Transport stocks need to get back on the rails



Source: Refinitiv data

CONCLUSION

On the face of it, the outlook is difficult at best, grim at worst, although a downturn would take some of the heat out of inflation, if recent commodity price action is any guide. Investors must also bear in mind two other points.

First, the stock market is not the economy and vice-versa. If a downturn does hit, share prices will have gone down long before analysts begin cutting their forecasts and economists declare a recession. By the time the economists have woken up, there must be a chance that equities are already looking toward the next upturn.

Second, monetary stimulus from central banks and fiscal stimulus from governments could change sentiment. Most Western governments are potless but central banks can always turn to quantitative easing to help them and another firehose of cheap liquidity could galvanise risk assets.

If push comes to shove, central banks may be prepared to take their chances with inflation rather than recession, especially given the West's indebted state.

As economist and shrewd stock market player J.M. Keynes wrote in 1923's *A Tract on Monetary Reform*, 'Inflation is unjust and deflation inexpedient. Of the two, perhaps deflation is worse; because it is worse in an impoverished world to provoke unemployment than to disappoint the rentier.'

Is China's technology sector primed for a big recovery?

Beijing is easing its tough regulatory stance on the country's tech and internet firms

News that China is easing its crackdown on the domestic technology sector could help boost the overall market and increase innovation in the world's second largest economy.

Technology stocks still dominate the Chinese stock market despite recent pressure on their share prices linked to a rotation out of growth shares and Beijing's tighter line on regulation.

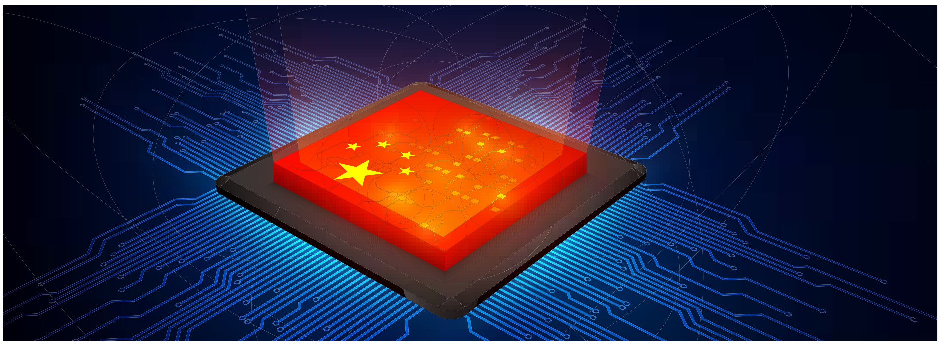
More than 30% of the MSCI China index relates to a handful of names in the e-commerce and internet platform space, including **Tencent (0700:HKG)**, **Alibaba (9988:HKG)**, **Meituan (3690:HKG)**, **JD.com (9618:HKG)**, **NetEase (9999:HKG)** and **Baidu (9888:HKG)**.

A report from the International Monetary Fund in June 2021 noted: 'China has many of the ingredients that contribute to innovation – a large domestic market; high spending (2.4% of GDP) on research and development; millions of scientists, engineers and software developers graduating every year; and gradually improving intellectual property protection.'

A more supportive regulatory backdrop could help unlock these advantages and deliver a more innovative domestic economy.

While the MSCI Emerging Markets ex-China index has a decent allocation to tech, it has a more than 35% weighting towards financials and materials, industries which have dominated for a long time in the developing world.

These two sectors combined make up less than 20% of the MSCI China index.



China has a lot of big tech names

MSCI China top 10 constituents

Company	Index weighting
Tencent	12.5%
Alibaba	8.8%
Meituan	4.6%
China Construction Bank	3.4%
JD.com	2.7%
Netease	2.1%
Ping An Insurance	1.9%
Baidu	1.8%
ICBC	1.6%
Bank of China	1.5%

Table: Sharesmagazine.co.uk • Source: MSCI, data as at 31 May 2022

Emerging markets: Views from the experts

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

1. Chinese policymakers signalled an easing of their year-long crackdown on the **information technology** sector in May 2022. This has raised expectation that the record penalties and constraints on doing business in the sector are moving into the rear-view mirror. An example of the policy changes included the People's Bank of China's announcement of a return to 'normalised supervision' with respect to the technology sector's financial activities. In addition, premier Li Keqiang also signalled stronger support for the standardised and healthy development of the platform economy. Although uncertainties remain, the easing of the crackdown on the information technology sector is a positive development for investors.

2. While China continues to pursue its 'dynamic zero' **Covid** policy, it is adapting how it lives with the virus. Cities are transitioning to a policy of requiring a negative test within 72 hours to access public spaces, including transport, offices and shopping centres. The challenge for businesses is how to encourage consumers out of their apartments and into the shops given the new requirements, which some view as cumbersome. One winner could be the platform economy as consumers opt to purchase even more goods and services online.

3. Elevated commodity prices have positively impacted emerging markets including Brazil, which is a net commodity exporter. However, the dark side of resource nationalism is starting to emerge, with markets including India, Malaysia and Indonesia implementing bans on the export of grain and other agricultural commodities. Designed to control domestic **inflation** by increasing supply, this can have the opposite effect as producers reduce production driven by a margin squeeze created by rising input costs and falling revenue due to excess domestic supply. Other emerging markets are trying to find ways to address looming global food price increases through a range of measures aimed at reducing inflationary pressures, including the release of Ukrainian grain trapped in storage and lowering fertiliser costs.

FEATURE

How food group Kellogg's breakup provides a blueprint for unloved Unilever

The cereal maker's three-way breakup will give it more focus

Corn Flakes, Rice Krispies and Pringles maker **Kellogg (K: NYSE)** is to separate into three independently listed food businesses focused on snacks, cereals and plant-based food in a bid to unlock value for shareholders.

Kellogg's break-up is following in the footsteps of corporate giants such as **GSK (GSK)**, **General Electric (GE:NYSE)** and **Toshiba (TYO:6502)** and could create a blueprint for UK consumer goods giant **Unilever (ULVR)** to follow.

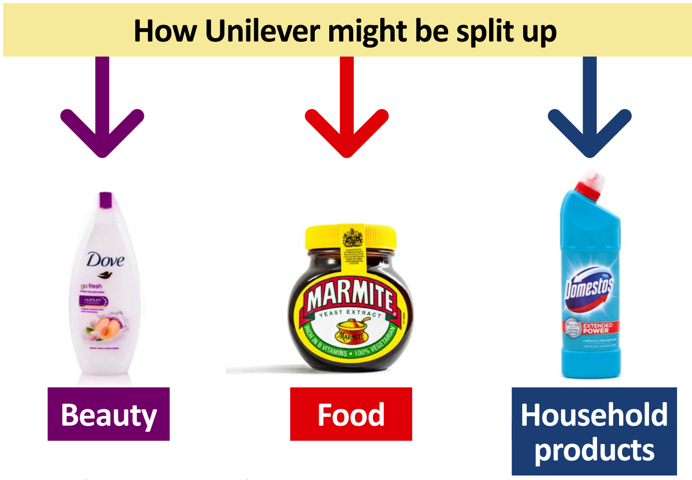
Set to complete by the end of 2023, Kellogg's separation will see the food giant spin off US, Canadian and Caribbean cereal and plant-based businesses which collectively represented about 20% of Kellogg's sales in 2021.

The remaining business, which accounted for roughly 80% of sales in 2021, will have a sharpened focus on global snacking, international cereal and noodles and North America frozen breakfast products.

Kellogg's boss Steve Cahillane said all three businesses have 'significant standalone potential', though he is staying on as CEO of the faster growing and higher margin global snacking company which makes brands including Cheez-It and Pop-Tarts.

Interestingly, there was no activist investor pushing for the Kellogg's split, as it typically the case with such demergers. It is a different story at Unilever where billionaire activist Nelson Peltz was recently appointed as a non-executive director after taking a stake in the business. Shares in the £92 billion cap are down 16.1% over one year.

Peltz's arrival adds to the pressure on the Dove-to-Marmite-maker's beleaguered boss Alan Jope to come up with a market-pleasing strategy after the botched takeover of GSK's consumer healthcare arm. UK investors will recall Peltz's presence on Cadbury's share register led to a break-up and eventual sale of that company.

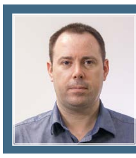


Source: Sharesmagazine.co.uk

Breaking up Unilever, whose sprawling range spans everything from plant-based meats, mayonnaise and ice creams to deodorants, washing and bathing products and bleach, could make sense.

Unilever has an enviable collection of brands, but hard-nosed investors have urged the board to break the company up into three separate divisions, namely beauty, food and household products.

In January, Unilever presented its own plan for a 'simpler, more category-focused business' built around beauty and wellbeing, personal care, home care, nutrition and ice cream, with its new structure to generate around €600 million of cost savings over two years. Tellingly, food and refreshment was not mentioned as a key business area, implying this part of the business may have been earmarked for sale.



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

What makes Polar Capital Technology Trust tick?

The popular investment trust is having a tougher time of late

This year has been ugly for technology investors. The challenges facing equity markets have combined to form one of biggest headwinds to investment returns for decades, including inflation soaring to levels not seen in decades.

The feeling that things will get worse before they improve continues to dominate the investment mood, and some disappointing earnings updates and lukewarm guidance have seen the technology sector give back some of its considerable long-term outperformance of the wider markets.

It has also seen technology investment trust discounts widen.

Polar Capital Technology Trust (PCT) remains the largest tech specialist investment trust, worth around £2.6 billion. Investors will find many of the world's largest and best-known tech companies prominent in the portfolio, including Google parent **Microsoft (MSFT:NASDAQ)**, **Apple (AAPL:NASDAQ)** and **Alphabet (GOOG:NASDAQ)** as the trust's three largest holdings.

Being what manager Ben Rogoff calls 'benchmark aware' means some very large technology stocks simply must be owned. This can sometimes lead to accusations of index hugging.

Only half of the Dow Jones Global Technology benchmark's top 10 weightings feature in Polar Capital Technology's own top 10, while four of the other five – **Broadcom (AVGO:NASDAQ)**, **Adobe (ADBE:NASDAQ)**, **Intel (INTC:NASDAQ)** and **Cisco Systems (CSCO:NASDAQ)** – don't even feature in Polar's top 15 positions, as of 9 June.

With a portfolio of typically around 100 to 120 stocks, Polar Capital Technology's investment strategy is as much about finessing its stakes to

Polar Capital Technology Trust: Top 10 versus benchmark

Polar Capital Technology Trust (9 June 2022)	Benchmark (31 May 2022)
Microsoft	Apple
Apple	Microsoft
Alphabet	Alphabet A
Advanced Micro Devices	Alphabet C
TSMC	Nvidia
Samsung	Meta Platforms
Nvidia	Broadcom
ServiceNow	Adobe
ASML	Cisco Systems
Amazon	Intel

Table: Sharesmagazine.co.uk • Source: Polar Capital Technology, S&P Global. Benchmark = Dow Jones Global Technology index

Polar Capital Technology Trust 2022 performance (to 31 May)

	Year-to-date
Share price	−28.6%
Net asset value	−21.3%
Benchmark	−17.9%

Table: Sharesmagazine.co.uk • Source: Polar Capital Technology. Benchmark = Dow Jones Global Technology index

larger or smaller than the benchmark as it is about picking long-run winners and losers, often referred to in fund management circles as being overweight (more than your benchmark) or underweight (less).

This has worked against the trust this year. As investors have retreated to the sector titans, such as those listed above, Polar Capital Technology's underweight position in some of these mega caps has seen it underperform the Dow Jones Global Technology index in 2022.

Polar Capital Technology's manager Ben Rogoff remains undeterred, stating that technology stocks are in a better place than last year.

The manager has reduced exposure to sectors such as e-commerce, payments and online advertising due to the difficulty of knowing what the real growth rates are in these sectors.

Rogoff has shown a willingness to adapt the portfolio as circumstances change and new opportunities emerge. This has been illustrated in the past when Polar Capital Technology slashed exposure to Facebook-owner **Meta Platforms (META:NASDAQ)** as it became embroiled in a scandal over consumer privacy. Similarly, Microsoft has been increasingly backed by the trust as its cloud computing and artificial intelligence engine opportunity became clearer.

TRACK RECORD

In the 10 years to 31 May 2022, the trust's net asset value increased by 497%, beating its Dow Jones Global Technology benchmark which grew by 490% in value. However, on a one, three and five-year basis, the trust's net asset value has underperformed the benchmark.

Rogoff remains married to key technology themes, such as software as a service, industry automation, cloud infrastructure and security, connectivity and 5G, and the artificial intelligence tools needed to sift and analyse digital information.

Cybersecurity is a good example as nations and enterprises become increasingly concerned in the wake of Russia's invasion of Ukraine. Rogoff has been meaningfully adding to the sector during recent market weakness, including bolstering stakes in specialists **Cloudflare (NET:NYSE)** and **Crowdstrike (CRWD:NASDAQ)**.

'Despite the wide range of macroeconomic and market outcomes from here, the recent compression in valuation multiples and

Polar Capital portfolio: some of its other biggest holdings

Tencent	Amazon.com	Micron Technology
ServiceNow	CrowdStrike	Infineon Technologies
Salesforce.com	KLA Tencor	Tesla Motors
Marvell Technology	Seagate Technology	Workday
Applied Materials	Toyko Electron	Spotify Technology
HubSpot	DocuSign	Everbridge

Table: Sharesmagazine.co.uk • Source: Polar Capital Technology

Polar Capital Technology Trust has lagged its benchmark on a short to medium-term basis

	1 year	3 years	5 years	10 years
Net asset value per share	−6.6%	63.8%	123.0%	496.8%
Benchmark	0.6%	79.9%	127.8%	490.1%

Table: Sharesmagazine.co.uk • Source: Polar Capital Technology. Benchmark = Dow Jones Global Technology index

deterioration in investor sentiment provide room for a potential rally in the near-term and may well represent a good entry point in the long-term,' Rogoff said in his latest bulletin to investors on 31 May.

The fund manager takes heart from companies continuing to invest heavily in technology. 'At the same time, (equity) valuations have become more attractive, reflecting steep drawdowns and a high level of investor pessimism with many stocks, in our view, beginning to price in a mild recession,' he added.

This is illustrated by Polar Capital Technology's discount to net asset value widening substantially. According to Trustnet, the shares at £19 are trading 14% below net asset value. This is much deeper than the trust's five-year average discount of 4.6%, based on Trustnet data.

Rogoff remains chipper about the long-run

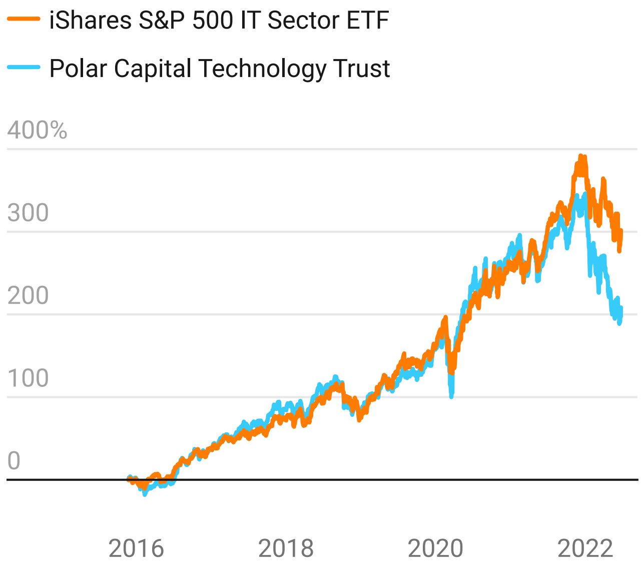


Chart: Sharesmagazine.co.uk • Source: Refinitiv

prospects for select technology themes and we believe the trust is a good choice for investors wanting exposure to an actively managed portfolio in the tech space.

AN ALTERNATIVE ROUTE

For anyone seeking a passive investment as an alternative to Polar Capital Technology Trust, *Shares* couldn't find a London-listed exchange-traded fund tracking the trust's Dow Jones Global Technology benchmark index. However, investors might want to consider **iShares S&P 500 Information Technology Sector UCITS ETF (IITU)**.

While this ETF only focuses on US-listed stocks rather than the whole world, the performance has been better than the Polar Capital trust since the former's launch just under seven years ago.

Since inception on 23 November 2015, the sterling-denominated version of the iShares ETF has delivered a 301% total return (capital gains and dividends) versus 208% from the Polar Capital trust, according to FE Analytics.

DISCLAIMER: The author owns shares in Polar Capital Technology Trust

By **Steven Frazer** News Editor

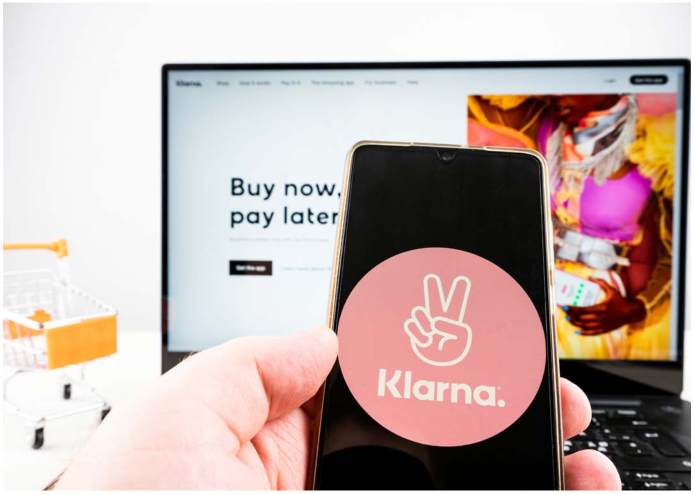
Preparing for a wave of value write-downs in the private equity trust universe

The recent travails of privately-owned Swedish fintech Klarna have ignited the debate over valuations

Private equity investors have been put on warning after press reports last month that privately-owned BNPL (buy now, pay later) specialist Klarna was seeking to raise fresh capital at a steep discount to its previous valuation.

This has raised the question of whether private equity valuations need to be downgraded across the board, as this would affect many investment trusts with unquoted holdings.

The answer is almost certainly not but investors do need to know what they own and whether they are happy with the risk that in some cases valuations will need to be cut.



RETAIL CASUALTY

According to the *Wall Street Journal*, Swedish firm Klarna approached investors in May to raise $1 billion of new financing at a valuation 'in the low $30 billion range'.

That compares with a valuation of more than $45 billion in June last year when Japan's SoftBank led the previous investment round.

The *Financial Times* goes further, suggesting investors have recently been approached 'with the opportunity to invest at a valuation below $20 billion', or less than half its value of a year ago.

The collapse in valuations of publicly-listed buy now, pay later competitors such as US company **Affirm (AFRM:NASDAQ)**, whose shares are down 80% this year, means Klarna investors may now have to bite the bullet.

SWINGS AND ROUNDABOUTS

UK investment trust **Chrysalis Investments (CHRY)** revealed in its March factsheet that Klarna was its second largest holding, making up 19% of the portfolio and group net asset value of roughly 212p per share based on what was thought to be a conservative valuation of $30 billion.

As analysts at Numis point out, a potential funding round for Klarna at a $15 billion valuation would reduce Chrysalis's NAV by 9.5% to around 192p, while its shares are currently trading at around 106p or a 45% discount adjusted for the reduced valuation of Klarna.

On that basis, it could be argued that the damage has been done and the downside for its stake in Klarna is already reflected in the share price.

Notably the valuation of Starling Bank, Chrysalis's biggest holding, was revised *upward* to almost twice the level of a year ago in its April funding round, showing that, as the managers argue, 'fast growth is able to counteract valuation compression in certain circumstances'.

Also, according to media reports, insurance technology company Wefox – which represents around 11% of Chrysalis's portfolio – is in advanced talks to raise money at a valuation of between $5 billion and $6 billion.

That is almost *double* its valuation of $3 billion a year ago, so what Chrysalis has 'lost' on its Klarna

UK Private Equity Investment Trusts

Company	Discount to NAV
HarbourVest Global Private Equity	-45.9%
Pantheon International	-45.7%
ICG Enterprise	-41.1%
NB Private Equity Partners	-38.7%
Abrdn Private Equity Opportunities	-37.1%
Oakley Capital Investments	-34.0%
Apax Global Alpha	-27.1%
HgCapital	-21.3%
Princess Private Equity	-16.9%
3i	-13.2%

Table: Sharesmagazine.co.uk • Source: The AIC, Shares, data as of 24 June 2022. NAV = net asset value

stake it has partially recouped on some of its other investments.

THE BIG NAMES

Most small investors who want exposure to the $5.3 trillion global private equity market tend to buy specialist investments trusts.

The top three private equity investment companies are **3i (III)**, which manages £13.5 billion of private assets, **HarbourVest Global (HVPE)** with £3 billion of assets and **Pantheon International (PIN)** with £2.4 billion of assets.

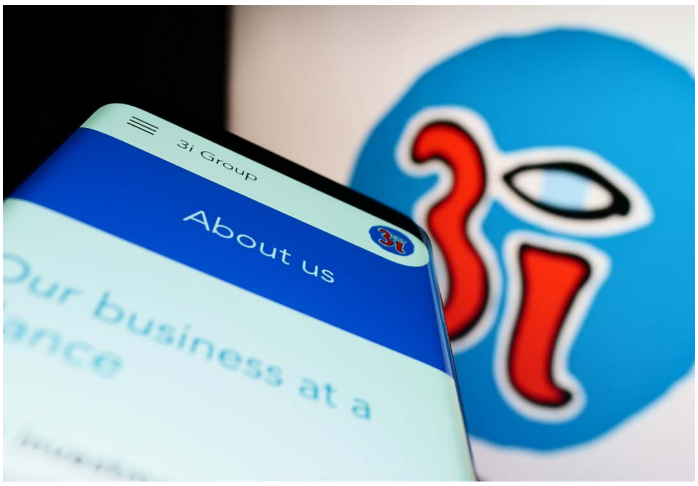
The biggest holding in 3i's 30-stock portfolio is Dutch store chain Action, Europe's biggest non-food discount retailer which was worth just under £7.2 billion or 55% of total assets at the end of March.

The value of Action increased by a whopping £2.6 billion last year or more than three times the increase in value of the next top 10 stocks (roughly £830 million).

3i flagged declines in value at two of its holdings which together amounted to £63 million, a drop in the ocean compared with the £3.5 billion increase in the value of its overall portfolio.

Coincidentally on 23 June the firm announced it was selling its stake in European natural healthcare player Havea to BC Partners at a 50% premium to its March 2022 valuation.

It seems unlikely 3i will see any major downgrades to the NAV of its assets in the immediate future, which helps explain the smaller discount on its shares – just 17% – compared with the sector average of 25%.



CHECK THE SMALL PRINT

While 3i's portfolio is fairly transparent, investors should really do their homework on other private equity trusts before they decide to invest.

For example, HarbourVest Global invests in more than 1,000 companies with its top 10 holdings only representing around 8.5% of the portfolio.

They include Klarna, UK fintech company Revolut, Chinese fast fashion e-commerce platform Shein and US buyout firm Preston Hollow.

The firm claims its 'multi-layered investment approach', which involves taking stakes in many different businesses at different stages of their evolution, 'creates diversification' and leads to a 'well-balanced portfolio'.

However, digging into the firm's latest update it turns out almost a third of the portfolio was invested in technology companies at the end of May.

Given the difficult backdrop for tech and tech-enabled businesses over the last six to nine months, it is hardly surprising the shares are down nearly 30% year-to-date and trade at a 45% discount to NAV.

Pantheon International is one of the longest-established private equity firms on the market and takes a different approach to both 3i and HarbourVest.

As well as buying direct stakes in companies, it invests in other private equity funds in the US and Europe including smaller niche funds which are hard for private investors to access.

GETTING IN AT THE GROUND FLOOR

This means it can get in 'at the ground floor' in exciting new smaller companies, but it also means it pays fees to other managers which can be expensive and it has a higher risk profile.

In each of its most recent monthly updates, for March and April, the firm has recorded around a 4% uplift in NAV due to a mixture of valuation gains, foreign exchange movements and share buybacks.

However, digging into the latest monthly report it turns out only around 10% of the valuations of its fund investments in April were the result of 'marking to market' at the end of the month.

Remarkably, more than three quarters of the valuations of its fund holdings were based on their managers' reports dating back to December 2021, and some even dated back to last September.

In other words there is a serious lag in valuing the bulk of the firm's portfolio, which means investors might be in for a nice surprise while asset values in general are rising but they could be in for a nasty shock when values are falling.

So, while the official NAV at the end of April stood at 447p per share, the actual NAV could be somewhat different, which goes some way to explaining the sizeable discount on the shares at present.

EXPERT VIEWS

Just as with individual stocks, calling the bottom in private equity vehicles is impossible but the team at Numis argue Chrysalis's current share price appears to be 'factoring in a significant amount of bad news'.

They also highlight the fact the trust had around £62 million cash at the end of March as well as some £40 million in listed holdings adjusting for share price moves since then.

James Carthew, head of investment company research at QuotedData, says past data suggests private equity NAVs tend to beat their listed market counterparts during bear markets.

'Discounts tend to overshoot on the downside as investors get overly pessimistic and some real bargains appear. Shares in **HgCapital Trust (HGT)** have risen more than five-fold since 2008, and despite trading on a 44% discount Pantheon international's share price has risen more than ten-fold,' says Carthew.

Ultimately, as we have said before, investors have to weigh up their risk appetite and their time horizon when deciding whether to invest in anything.

The lower visibility which comes with owning private equity investment companies makes that exercise even more important.

By **Ian Conway** Companies Editor

Parents: four things to consider before helping your child on the property ladder

The Bank of Mum and Dad has become a crucial player in the housing market

Parents are now financially involved in half of all property purchases for those under the age of 35, according to the latest estimates from Legal and General. This shows the importance of the Bank of Mum and Dad to the housing market.

Estate agent Savills estimates that as of last year just shy of £10 billion has been handed over by parents to help their children get on the property ladder, a significant increase from the £5 billion recorded in 2020. House prices rising means a greater number of parents are handing over more cash.

However, this financial support varies in form: for some parents it's a gift, while others are providing a loan that must be repaid over time or when the property is sold. But generous parents helping their offspring need to consider numerous factors before they gift money.

SHOULD I GIFT THE MONEY OR LOAN IT?

Partly this comes down to what you can afford – some parents might be able to spare the money and others might need it back later, such as for their retirement. Even if you can just loan the money, it will be a big help to your children, as it boosts their deposit level and so either increases their house purchase limit or reduces the amount they need to borrow – saving them money over the long term.

However, if you are loaning the money the mortgage company will take this into account when assessing your child's affordability.

If they are repaying the loan each month that will eat into how much they can afford to pay out for a mortgage. It might not be a deal breaker or affect how much they can borrow if they have sufficient disposable income, but it's a factor to consider (and check with your mortgage broker).

Lots of parents will gift the money informally, but it might be a good idea to draw up a legal agreement that you both sign with the terms of the loan. Particularly if the next question is relevant to you…

HOW DO I STOP MY CHILD'S PARTNER TAKING THE CASH?

Lots of people buy their first home with a partner or friend, as getting on the property ladder solo is a tall order. However, if you're gifting money for the purchase, how do you make sure their partner doesn't ultimately get the money? What happens with that gift when the house is sold, or if they break up?

It depends how the finances are split. If both

parties are putting in the same amount for a deposit (including the parents' gift) then it's an easy split, but if the balance isn't 50:50 you might need to draw up an agreement.

Legal advice is essential here. You can draw up an agreement that shows who owns what proportion of the property should they break up.

You'll also want to consider whether your child and their partner are buying as tenants in common or on a joint tenancy basis. As tenants in common should one person die their share of the house will pass to their beneficiaries – which could ensure that the gift you've made doesn't go to the partner. It also allows for different shares of the property to be owned by each person. Joint tenants own an equal share and if one dies their share automatically goes to the other person.

ARE THERE TAX IMPLICATIONS OF GIFTING MONEY?

You don't need to worry about any immediate tax implications of gifting money to your child, but you do need to be aware of the seven-year rule – where tax will be due if you die within seven years of making the gift.

It is only a factor if your estate is large enough to pay inheritance tax, but if it is then you need to bear in mind that inheritance tax will be due, on a sliding scale, if you die within seven years.

I CAN'T AFFORD TO GIFT MONEY; IS THERE ANY OTHER WAY I CAN HELP?

Lots of parents won't be able to hand over tens of thousands of pounds in cash, particularly if they have multiple children and want to treat them equally. But there are other ways to help.

Buying the property as a joint owner with your child can be tricky if you already own a home, as it means the property would be counted as a second home and you would be liable to pay the stamp duty surcharge, which is an extra 3%.

As stamp duty is money you need to have in cash, rather than something you can add to the mortgage, it means this help is often not financially viable.

But you can be on the mortgage with your child without owning the property. This is called a 'joint borrower, sole proprietor' mortgage, and effectively means you're lending your spending power to your child, so they are approved to borrow more money (and therefore buy a higher value property).

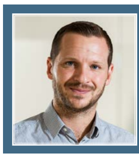
You'll often pay a higher interest rate for this type of mortgage as it's a more niche product. But that shouldn't put you off, just find a good mortgage broker who can help source the best deal.

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

Top tips for the lifetime allowance charge

What it means, how it works and things to consider

Could you explain the lifetime allowance charge and whether it makes sense to take your excess as a lump sum or income?
Arthur



Tom Selby, AJ Bell Head of Retirement Policy says:

The lifetime allowance restricts how much you can draw in total from all your pensions over your lifetime before incurring a tax charge. The current lifetime allowance is £1,073,100.

Various 'protections' exist to allow savers to retain a higher lifetime allowance, subject to certain conditions being met.

The amount of lifetime allowance you have used will be tested whenever a 'benefit crystallisation event' occurs, such as taking your pension tax-free cash, taking an income via drawdown or buying an annuity.

A final lifetime allowance test will be carried out at age 75, covering your 'uncrystallised' funds as well as any investment growth above withdrawals on your 'crystallised' funds.

If you have used up your available lifetime allowance, any excess will be subject to a lifetime allowance charge.

The amount depends on whether you use the excess to provide an income or take it as a lump sum.

If you use the excess to provide an income, you will pay a 25% lifetime allowance charge, with any subsequent withdrawals taxed in the same way as income.

If you take the excess as a lump sum, you will pay a 55% lifetime allowance charge, with no income tax to pay.

The impact of taking the excess as an income versus lump sum will depend on the income tax bracket when the money is eventually withdrawn, and on how long it is left invested.

Let's assume the excess is £50,000, meaning if someone took this as a lump sum the lifetime allowance charge would be £27,500 (£50,000 x 55%).

If they took the excess as an income instead, they would pay an initial charge of £12,500 (£50,000 x 25%). The remaining £37,500 would then be subject to income tax.

For a basic-rate (20%) taxpayer, the income tax charge would be £7,500 (£37,500 x 20%), so a total of £20,000. A higher-rate (40%) taxpayer would be charged £15,000 (£37,500 x 40%), so a total of £27,500. An additional-rate (45%) taxpayer would incur a £16,875 (£37,500 x 45%) tax charge, so a total of £29,375.

Only the additional-rate taxpayer would be better off taking the lump sum. In practice, those with an excess may not need to take the money immediately.

The other consideration is inheritance tax. Taking the excess as a lump sum means it will be included in your estate for IHT purposes on death.

If left in the pension, it usually won't be included in your estate and can be passed on tax-free to your nominated beneficiaries if you die before age 75. If you die after age 75, it will be taxed as income for your beneficiaries when they make a withdrawal.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

Fevertree is well positioned to maintain and grow its market leading position

Fevertree has several competitive advantages which look robust and sustainable

This is the concluding part of the series on how to find and analyse growth stocks. It is focused on identifying competitive strengths and weaknesses as well as valuation.

As a reminder, in part one we looked at how to identify quality growth companies, while in part two we narrowed the UK share universe down to around 30 interesting growth stock candidates. From that list we chose to look at beverages group **Fevertree Drinks (FEVR:AIM)**.

In a fast-changing world, staying ahead of the competition is an important part of delivering sustainable profit growth for shareholders.

THIS IS FINAL article in a three-part series looking at how to find and analyse growth stocks. We look at the valuation and competitive strengths and weaknesses of our chosen UK-listed company.

In this article we discuss the competitive landscape in which Fevertree operates to identify strengths and weaknesses. Finally, we look at the valuation of the shares.

As we have previously highlighted, paying the wrong price can be very costly while finding undervalued growth can be richly rewarding.

FIRST-MOVER ADVANTAGE

Fevertree has built a formidable market position in premium mixers across several markets within a relatively short space of time.

Earlier in 2022, it was voted the world's number one best-selling premium mixer brand as well as the top trending mixer for the eighth consecutive year according to *Drinks International*.

Exploiting its first-mover advantage the company has driven growth in premium mixer drinks. This has allowed the firm to build strong relationships with spirits companies as well as drinks distributors.

Helping spirits brands grow sales of higher

Fevertree's competitive landscape

	UK	US	Europe	Australia	Canada
Market share gains 2021 vs 2019 (%)	0	1.9	3.4	8.5	1.7
Fevertree share (%)	40	5	14	14	6
Market size (£m)*	330	1400	663	83	160

Table: Sharesmagazine.co.uk • Source: Fevertree. *Retail: premium mixers

margin premium products to customers as a long-mixed drink is a key focus for the company.

The strategy is to co-promote the drink and the mixer. For example, in 2021 Fevertree entered a strategic partnership with Smirnoff called 'Spritz Up' designed to co-promote products.

QUALITY MATTERS

Another key strength is the firm's relentless focus on sourcing the best quality ingredients from around the globe. Provenance has become an important driver of customer preferences.

The company has forged long-term partnerships with key suppliers which differentiates its products from mass-market competitors.

The direct sourcing model and premium packaging (the company does not use plastic bottles) supports the product's quality image and builds brand value.

SCALEABLE OPERATIONS

The company operates a largely outsourced operating model which is supported by strong relationships with importers, ingredient suppliers, bottlers and spirits companies.

This capital-light approach has allowed Fevertree to grow the business relatively quickly while also increasing operational flexibility.

As its footprint of outsourced production and manufacturing with partners expands across the UK, Europe and the US, the company anticipates benefiting from greater efficiencies and improved margins.

INNOVATION

The final piece of the competitive jigsaw which helps drive growth is the firm's deep pipeline of innovative products.

The company sees an opportunity to extend flavours and formats to reflect different taste preferences across the globe.

In 2021 Fevertree launched a sparkling pink grapefruit soda in the US, positioned to be mixed with tequila or vodka.

Made with hand-picked Florida grapefruits and only containing 30 calories per 200 millilitre bottle, it has no artificial colours, flavours, ingredients or sweeteners.

It became the most successful launch for Fevertree in the US market to date.

THREATS

The macro economic environment has changed dramatically in the last few months with interest rates increasing to counter surging inflation.

There is a risk that money-pinched consumers decide to trade down in a tougher economic environment. After all, Fevertree is four times more expensive than own-label alternatives and twice the price of Schweppes.

Investment bank Berenberg believes the threat

from trading down is overplayed. Its research highlights that Fevertree is relatively inexpensive as it only makes up between 20% and 30% of the cost of a gin and tonic.

More importantly, argues Berenberg, in the event of a demand slowdown the company's outsourced business model means it is less likely to be impacted by negative operating effects than peers.

Companies with a higher proportion of fixed operating costs are more vulnerable to a fall in revenue because there is less flexibility to cut costs.

VALUATION

Valuation is not an exact science and the rating or PE (price to earnings) ratio applied by the market can move up or down depending on the general mood as well as fundamentals.

There was a lot of investor excitement when Fevertree listed on the London Stock Exchange in 2014 due to the strong growth it had achieved and was expected to deliver in the future.

Investors were willing to pay over 100 times earnings. That paid off as net profit grew from £1.3 million in 2014 to £61.8 million in 2018.

Those lucky or smart enough to buy the shares when it joined the stock market would have booked a 25-fold return if they held to the peak in September 2018 when the PE ratio was still a staggering 97.

Today the shares trade on a trailing PE of 35.6 and a one-year forward PE of 34.6.

That means the PE has dropped by 63% while the shares are also 63% below their peak. Analysts forecast net profit to reach £46.2 million by the end of 2022.

The closure of hospitality during the pandemic means the numbers from 2019 to 2022 do not reflect the underlying growth potential of the business.

WHAT IS THE RIGHT PE?

There are several different approaches and valuation models an investor might consider in valuing the shares.

A simple approach is to look at the average PE. Liberum has calculated the 10-year average PE for Fevertree is 48 which makes the current 35 figure look attractive.

Shares has taken the franchise factor model approach. The key determinants are the growth rate in earnings and return on equity (or ROE for short). The higher they are, the higher the justifiable PE.

Liberum forecasts earnings to grow 14% a year over the next three years, helped by some margin expansion.

Plugging in 14% growth and 20% ROE suggests the fair value PE is around 30 times, making the shares slightly more expensive than they should be in theory, using our reasoning.

However, even if the PE falls back to 30 over time, the potential 14% a year growth in earnings should translate into at least double-digit compound annual growth in shareholder returns.

Prudent investors might prefer to wait for the PE to fall further, but that is a judgement call for each individual investor.

In principle Fevertree meets our original objective of a company which has the potential to deliver at least 10% earnings growth. The competitive strengths of the business suggest it can maintain a higher than average return on equity.

By **Martin Gamble** Education Editor

SHARES INVESTOR WEBINAR

13 JULY 2022

Presentations: 18:00

Sponsored by AJBell Youinvest

Join *Shares* in our next Spotlight Investor Evening webinar on Wednesday 13 July 2022 at 18:00

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Cake Box

CAKE BOX

Sukh Chamdal, CEO & David Forth, CFO

The company generates revenue from the sale of goods and services. Geographically, it derives revenue from the United Kingdom. All of our products are 100% egg free. The founders of Eggfree Cake Box follow a strict lacto vegetarian diet, and that is how they came up with idea for the company.

Janus Henderson INVESTORS

CITY OF LONDON INVESTMENT TRUST

Job Curtis, Portfolio Manager

City of London Investment Trust s renowned for its record-setting annual dividend increases since 1966, the City of London Investment targets long-term income and capital growth. With a conservative management style the Trust invests mainly in UK equities with a bias towards large, multinational companies.

More to be announced

The webinar can be accessed on any device by registering using the link above

Event details

Presentations to start at 18:00

Contact

Lisa Frankel
media.events@ajbell.co.uk

Register for free now

www.sharesmagazine.co.uk/events

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

4 July: Augmentum Fintech, ReNeuron.**5 July:** Supreme, CML Microsystems. **6 July:** Redde Northgate, Argentex, Enteq Technologies, D4T4 Solutions, Zoo Digital. **7 July:** Currys, Jet2, Baltic Classifieds, Watches of Switzerland.

Half-year results:

4 July: Porvair. **5 July:** Kitwave. **6 July:** Robert Walters.

Trading Announcements

6 July: Ten Entertainment. **7 July:** Persimmon, Entain, Vistry, Time Finance.

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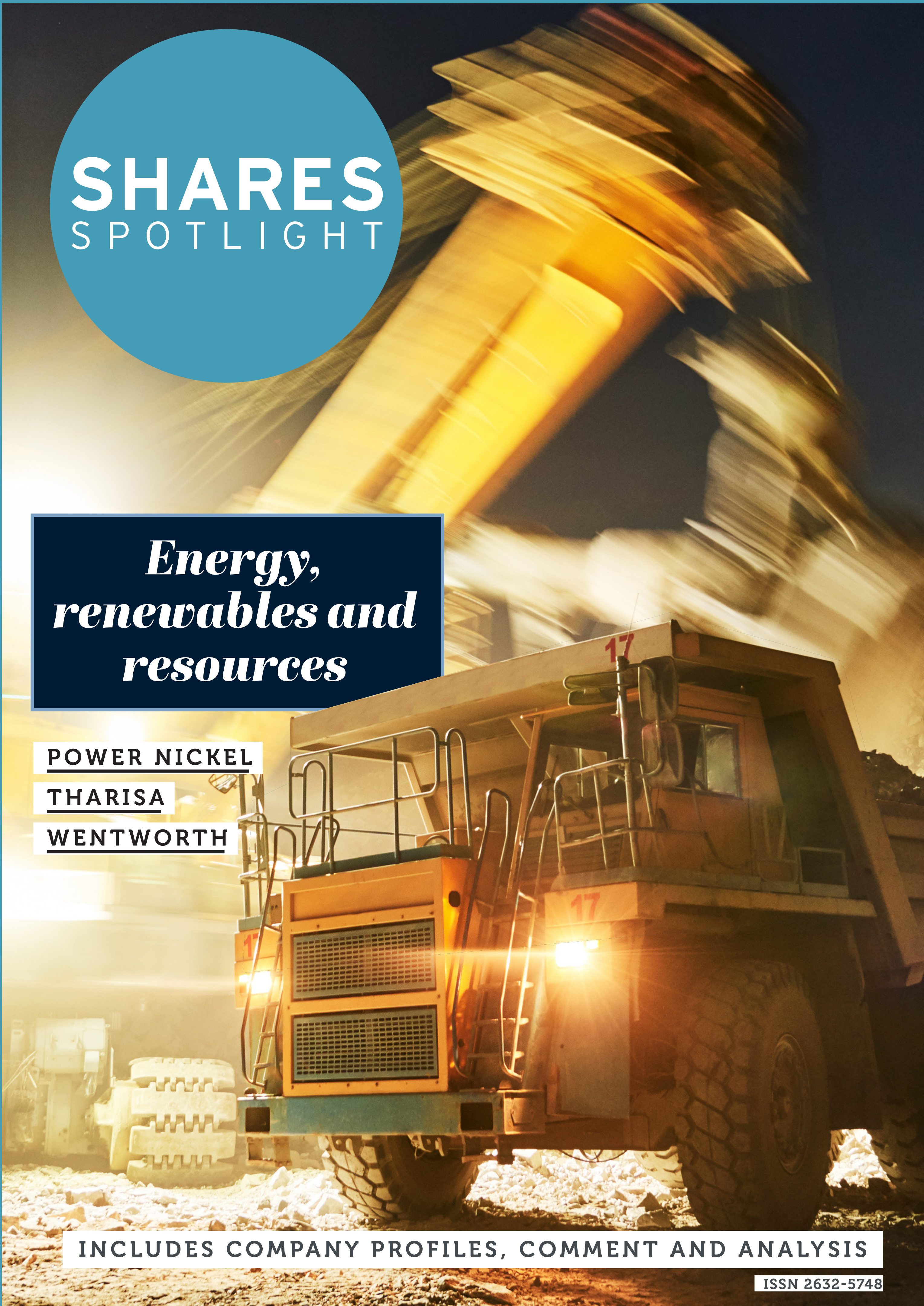
SHARES SPOTLIGHT



Energy, renewables and resources

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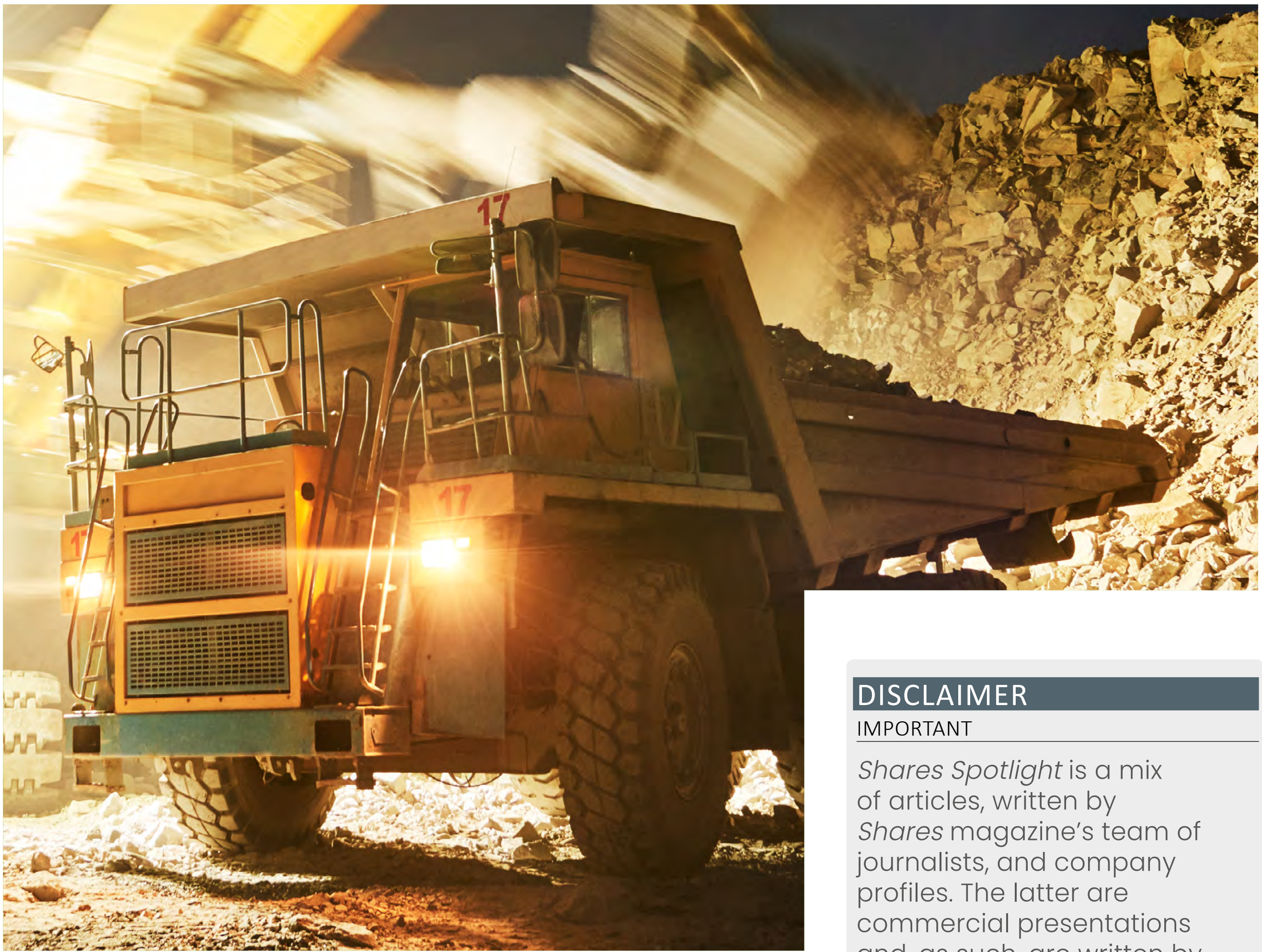


Introduction

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

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

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

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

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

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

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

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

Previous issues of Spotlight are available on our website.

Discover the London-listed miners big and small with Canadian roots

Canada is rich in natural resources and there are lots of its miners and oil and gas firms on the UK market

The world's second largest country by landmass, Canada is a country rich in natural resources. That is reflected in the Canadian corporate world which is dominated by mining and oil and gas companies.

The MSCI Canada index, for example, has a more than 30% weighting to the materials and energy sectors. This compares with less than 10% for the MSCI World developed market index.

Recognising UK investors' understanding and interest in these industries, several Canadian incorporated firms have listings in London, often alongside a listing in Toronto. According to SharePad there more than 20 firms from Canada listed in London and all but three of them are in the natural resources space.

GLOBAL HORIZONS

It is by no means the case that these firms have all their assets in Canada, with many pursuing opportunities in different parts of the globe.

In this article we're going to focus on the mining companies and in a future piece we will look at the oil and gas firms in the list.

One of the largest of London's Canadian contingent – **Yamana Gold**

Canadian miners with UK listings - how they have performed

Company	Market cap	Year-to-date performance (%)
Yamana Gold	£3.9 billion	36.7%
AEX Gold	£81.5 million	30.4%
Galantas Gold	£24.5 million	17.6%
Thor Explorations	£88.8 million	10.0%
Wheaton Precious Metals	£14.3 billion	0.5%
Gensource Potash	£66.2 million	−15.4%
Cornish Metals	£135.1 million	−17.6%
Mkango Resources	£44.7 million	−26.6%
Taseko Mines	£300.6 million	−30.5%
Orosur Mining	£17.4 million	−39.9%
Pure Gold Mining	£78.5 million	−71.7%

Table: Sharesmagazine.co.uk • Source: SharePad, data to 22 June 2022

(AUY) – agreed a $6.7 billion takeover bid from South Africa's Gold Fields at the end of May. This looks a done deal so it will soon be departing the UK stock market.

At the top of the tree though is **Wheaton Precious Metals (WPM)**. This company follows a royalty-based model which is popular in Canada but less well-understood in the UK.

It buys precious metal production in projects where this is a by-product to another metal. This allows it to secure this production at a discount to spot prices.

AEX SHINES IN 2022

The best performing UK-listed Canadian miner in 2022, excluding Yamana which was lifted by its recent bid, is **AEX Gold (AEXG:AIM)** which has been lifted by drilling results and joint venture with ACAM worth £36.7 million. This deal, with ACAM contributing half the funds, will help explore and develop its strategic minerals project in southern Greenland.

The company's gold assets will remain 100% in its own hands and are excluded from the joint venture. Chief executive Eldur Olafsson said: 'We are delighted to announce our planned partnership with ACAM LP specifically for the funding of our non-precious metal strategic mineral assets across our licence areas.'

Another strong year-to-date performer is **Galantas Gold (GAL:AIM)**. While it is a Canadian public company, it is best known to UK investors as an Ireland-based miner.

The company is looking to take mining operations at its Omagh gold project in Northern Ireland underground and remains on track to imminently commence production from the development.

Judging by the share price performance, investors have been prepared to look forward to this significant milestone, rather than be put off by an increase in quarterly losses reported on 31 May.

Net losses increased from CAD$640,000 to CAD$1.42 million in the three months to 31 March as the company expanded its exploration programme and developed its underground mine while also sustaining foreign exchange losses. Galantas had CAD$2.42 million in cash at the end of this period.

A further Canadian public company with a focus much closer to home is **Cornish Metals (CUSN:AIM)** which is the 100% owner of the South Crofty project, located in Cornwall's main mining district where tin mining dates back to 2,300 BC.

The company raised £40.5 million in May 2022 to fund the development of the mine which was worked with few interruptions for nearly 400 years up until its eventual closure in 1998.

THOR STARTS PRODUCTION IN NIGERIA

A UK-listed and Canadian incorporated company which has put in a solid showing in share price terms so far this year is **Thor Explorations (THX:AIM)**.

Focused on gold production in West Africa, in the fourth quarter of 2021 it completed construction on its 100%-owned Segilola gold project in south-west Nigeria.

The company posted revenue of $24.8 million in the first quarter of 2022 as it achieved commercial output from Segilola and swung to a profit of $200,473 compared with a net loss of $67,365 for the same period a year earlier.

Thor Explorations CEO Segun Lawson commented: 'Segilola is now running efficiently, and the company continues to be on track to achieve its guidance of 80,000 to 100,000 ounces of gold this year within our AISC (all-in sustaining costs) guidance of $850-$950 per ounce.'

Canada itself is also home to lots of mining companies and investors can trade Canadian shares through most investment platforms.

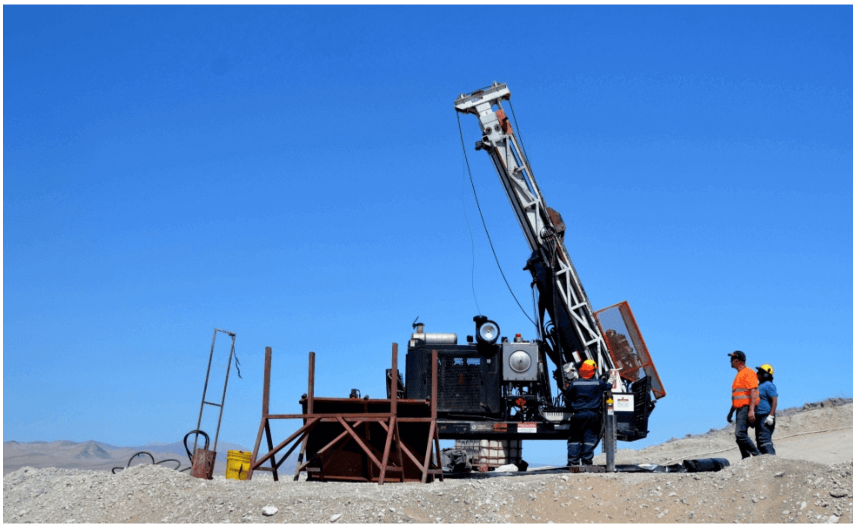
Among the junior mining firms listed in Toronto is Power Nickel and you can read more about this business in a profile later in this special report.

Power Nickel is well positioned to power the EV revolution

powernickel.com

The price per tonne of nickel is up nearly 100% year-on-year. The commodity bull market is here and, thanks to the electric vehicle (EV) revolution, it could be here to stay for many critical metals.

We would like to introduce you to a potentially undervalued company within this secular trend that is poised to supply the market with all of the high-grade battery-critical metals that are powering the shift to cleaner energy: **Power Nickel (PNPN:TSX-V)**.



NICKEL IS THE NEW GOLD

The shift to EVs is probably the most obvious trend on the planet right now.

What may not be so obvious to investors is the critical role that nickel plays in powering it.

The world produces approximately 2.7 million tonnes of nickel every year and 8% of that is consumed by lithium-ion (Li-ion) batteries.

Li-ion batteries are used to power EVs, of course, but they're also used in medical devices, cordless power tools, energy storage, and many more applications.

By 2025, it's expected that 58% of Li-ion batteries will contain nickel as the metal provides several advantages: less space, longer life, energy storage, lighter, etc.

In short: batteries with nickel-containing cathodes are simply more efficient.

This is leading companies and governments to make major investments in the R&D and production of these batteries, which are aligned with clean energy goals.

So it's clear that the future of EV batteries will contain much more nickel...but, not all nickel is created equal!

In fact, only 42% of global production is suitable for the battery supply chain. That's where Power Nickel comes into play with its latest game-changing acquisition.

NISK: GAME CHANGER

NISK is Power Nickel's flagship project which is well-placed in an active mining region of Quebec.

The market is hot for multiple battery metals and NISK has got them all with mineralisations in nickel, copper, cobalt, palladium, and platinum.

Its historic resources also have great potential for expansion:

The NISK deposit is open

at depth and along strike.

Power Nickel has completed in the fourth quarter of 2021 a 2,500 metre drill programme targeting high-grade nickel and copper mineralization for EVs.

Encouraging results from the new exploration holes confirm the presence of high-grade nickel mineralisation and point to extended mineralisation in what the company believes will be the first of many nickel charged pods in a string of pearls configuration.

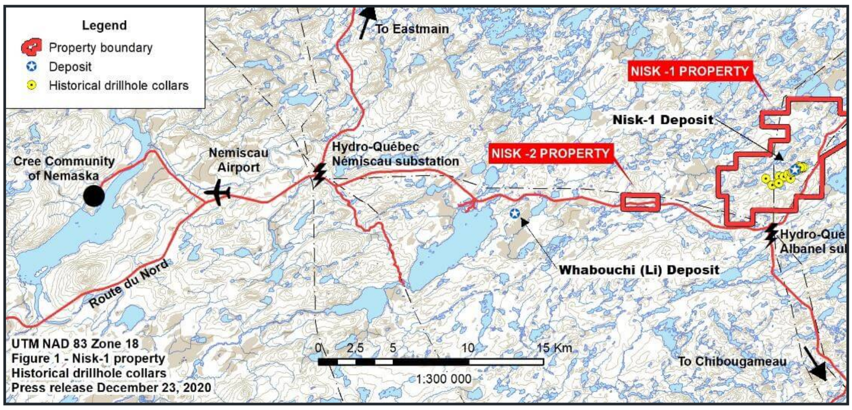
'The historical estimates are for about three million tons of nickel at NISK. We believe we can more than triple that number in the next 12 months,' says Terry Lynch, Power Nickel CEO.

The NISK property sits on 4,589 hectares and covers a total of 90 mineral claims which makes Power Nickel uniquely well-positioned to meet the growing demand for high-grade metals in the battery industry.

The new 43-101 resource estimate will be released in the second quarter and then the project will enter its second phase of drilling at the end of the quarter.

BONUS: OTHER PROJECTS

The potential at NISK alone is significant, but it's bolstered



by a portfolio of significant assets that could provide further value (and future cash flow) for investors.

The company owns 100% of Consolidation Gold and Silver and plans to use a plan of arrangements to dividend that asset out and create a new company 20% owned by Power Nickel shareholders and 80% owned by Power Nickel.

Consolidation Gold and Copper which focuses on the acquisition and exploration of copper and gold in Chile and British Columbia's famous Golden Triangle, where more than 130 million ounces of gold, 800 million ounces of silver, and 40 billion pounds of copper have been discovered to date

At the heart of the Golden Triangle lies the Golden Ivan Project, which hosts two known mineral showings described to be polymetallic veins that contain quantities of silver, lead, zinc, +/- gold, and +/- copper.

Consolidation Gold and Copper also owns 100% interest in three projects in Chile covering nearly 20k hectares.

That group is highlighted by the Tierra De Oro project which occupies 5,667 hectares of the country's prolific iron oxide-copper-gold belt. Phase one of drilling at the promising site has already returned 716g/t Silver 0.453% Copper over two metres.

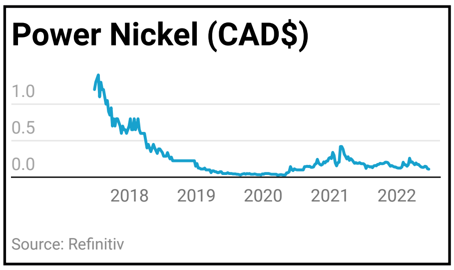
The company also holds a 3% royalty for Copaquire (a copper moly deposit it discovered) which is held by **Teck Resources (TECK:NYSE)**. The mine is expected to be brought into production in the future and will provide recurring cash flow for investors.

BOTTOM LINE

The recent surge in commodities and metals like nickel is not just a one-off, it's a foreshadowing of a future that will be powered by technologies that demand more and more high-grade metals.

Power Nickel is well-positioned to meet this demand and its potential for expansion (particularly at NISK) represents a historic opportunity in the midst of this commodities boom.

At a current market cap of CAD$12 million, this company could be considered undervalued and trading at a deep discount to its peers when considering that three million tons have already been historically confirmed.



Tharisa is mining metals which are critical in the energy transition

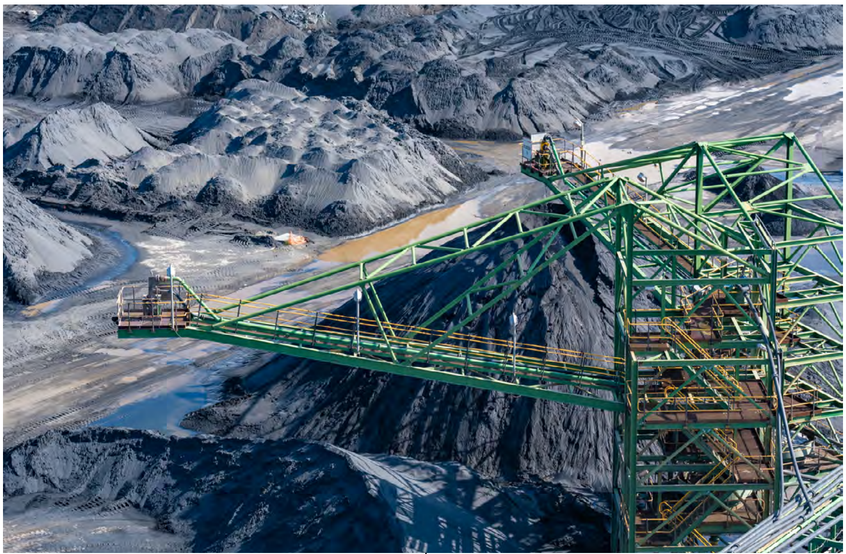
tharisa.com

Tharisa (THS) is an integrated resource group critical to the energy transition and decarbonisation of economies.

Its core strategy is to generate value through incorporating the entire value chain: mining, processing, exploration, and the beneficiation, marketing, sales, and logistics of PGMs and chrome concentrates, using innovation and technology as enablers.

Tharisa's principal operating asset is the Tharisa Mine located in the south-western limb of the Bushveld Complex, South Africa. The mechanised mine has a 20-year open-pit life and the ability to extend operations underground by at least an additional 40 years. Tharisa also owns Karo Mining Holdings, a development-stage, low-cost, open-pit PGM asset and Salene Chrome, a chrome asset, both located on the geologically abundant Great Dyke in Zimbabwe.

The company is committed to reducing its carbon emissions by 30% by 2030 and is currently developing a roadmap to become net carbon neutral by 2050. Tharisa plc is listed on



the **Johannesburg Stock Exchange (THA:JSE)** and the Main Board of the London Stock Exchange.

Demand for PGM continues to be strong, especially considering recent geopolitical events, including sanctions on Russia, a major PGM-producing country. The principal industrial uses of PGMs are the reduction of noxious gases through catalytic processes, as well as the core metals in the generation of energy through fuel cell technology.

While current spot prices remain weaker than in 2021, driven by short-term inflationary pressures, increasing interest rates and concerns over economic activity slow down, the long-term price outlook of PGMs remains positive as both palladium and rhodium remain in a supply deficit while platinum is forecast to be in a supply deficit within 24 months.

Chrome prices surged in the last several months, however, demand-supply is evenly balanced presently. Chrome is principally used in making steel stainless, however, there are also special applications in the chemical and foundry industries, both to which Tharisa supplies. Specialty chrome, which receives a premium compared to metallurgical chrome, makes up some 25% of the company's output, with the prices of these specialty products trading at a premium to metallurgical chrome.

Tharisa's ethos is to ensure we utilise and maximise the non-renewable resources we mine to the fullest and leverage in-house R&D capabilities. As such, the company has considerably advanced work at Arxo Metals Beneficiation Site. Arxo Metals is the R&D division of the company that successfully brought to market various value-add opportunities within Tharisa, including the Vulcan fine chrome recovery and beneficiation plant. Vulcan is the first large-scale plant in the world to produce chrome concentrates from chrome ultra-fines. This investment has allowed Tharisa to increase its chrome recoveries and add an additional 25% to output, thereby maximising production and cash flow generation.

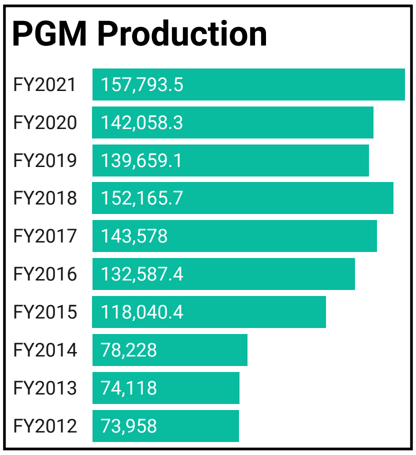
OUR ASSETS

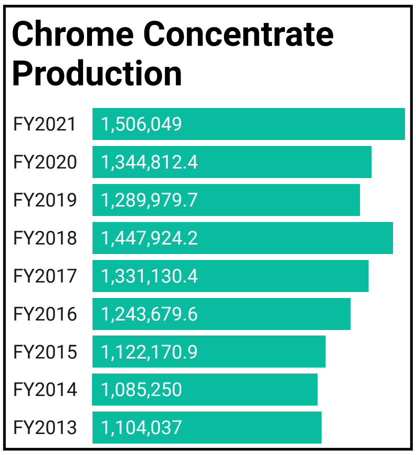
Our main producing asset is the 100%-owned Tharisa Mine. The operation produces both PGM concentrates, and chrome concentrates from an open pit, mechanised, low labour intensive mine, located in the south-western limb of the Bushveld complex in South Africa. The company is extremely proud of its safety record, having been fatality free over the past six years, and with one of the safest records of any mines in southern Africa.

The Tharisa mine also makes a vital contribution to its local stakeholders, including the direct employment of 700 people from the local community, learnerships and training opportunities and support to the local

communities in the form of primary services and education.

Operational for over 10 years, the life of mine was extended recently by an additional seven years to another 20 years for the open pit and is targeting throughput within the next 24 months in excess of 180 000 ounces of PGMs and some 2Mt of chrome concentrates per annum.





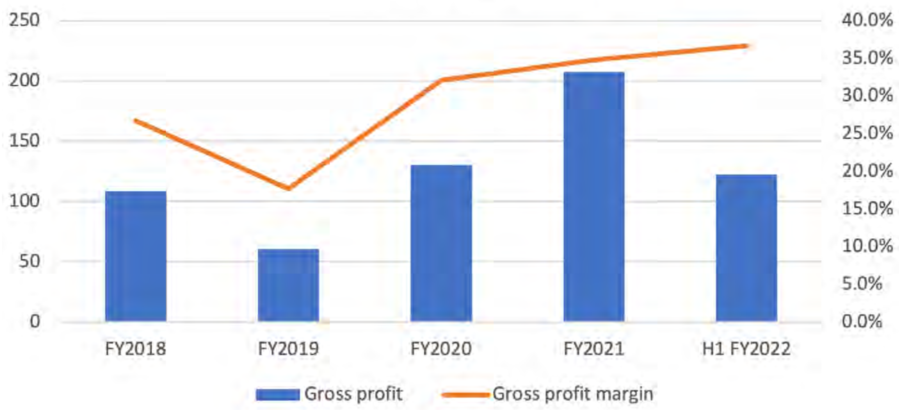
The Karo Platinum Project is a long-life asset with an initial 20-year life of mine and project post tax net present value of $770.4 million at spot PGM prices on 31 March 2022. It has initial probable reserves of 35.5 Mt at 2.31 g/t and 2.6 Moz (5PGE+Au) and a 3PGE+Au resource prill split favouring platinum (45.0%), palladium (42.0%) rhodium (4.0%) and gold (9.0%) with material base metal credits. Tharisa acquired a controlling interest in Karo earlier in 2022, increasing its stake to 66.3% from 26.8% (initially acquired in 2018).

The Mining Lease area for the Karo Project covers an area of 23 903 hectares and is located within the Great Dyke in the Mashonaland West District of Zimbabwe, approximately 80 kilometres South West of Harare, and situated within a designated Special Economic Zone, supported by good infrastructure, including road and power access in the project area.

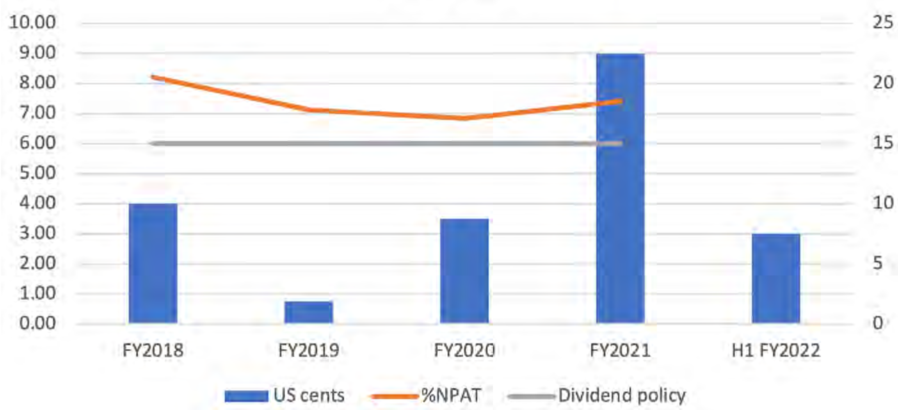
FINANCIAL PERFORMANCE

Tharisa delivered another strong financial performance for the six months ended 31 March 2022, despite a period of market volatility impacting commodity prices and input costs. Tharisa has demonstrated the importance of staying on the lower end of the cost curve. Over the course of the period, the company continued to increase margins and generate strong cash flows, underpinning the growth of the company.

Gross profit ($) and margin



Dividend



SUSTAINABLE GROWTH

Tharisa has set out a clear six-pillar growth strategy against which we measure our performance, while ensuring that the market is fully informed of our strategy and capital commitments.

Underpinning this is our application of innovation and technology as we continue to play a critical role in the energy transition through the metals, we mine. Our commitment to improving the lives of those we employ and the communities within which we work, combined with the returns we deliver for all our stakeholders, can only be achieved with sustainability at the core of Tharisa's strategy.

At the time of writing, Tharisa's share price stands at 145p, having listed on the Main Market of the London Stock Exchange in July 2016 at 45p per share. Since that time, Tharisa has also returned some $80 million in cash to shareholders through its dividend policy, which commits to returning at least 15% of net profits after tax to its shareholders.

At Tharisa we see sustainable growth being one which embraces all of our key stakeholders and includes the ongoing investment in our assets, local communities, and technologies, plus a commitment to minimising our environmental impact and our net zero policies.

It is this ethos that has allowed us to generate strong capital and yield returns to our shareholders. With the asset portfolio we have, which will last for more than the next half century, we have an extraordinary responsibility to deliver this sustainable growth as well as provide the metals required for the economies of the future.

**All prices are accurate as of 8 June 2022.*

Tharisa (p)

Source: Refinitiv

Wentworth Resources is enabling Tanzania's energy transformation

wentplc.com

Wentworth Resources (WEN:AIM) is a leading domestic natural gas producer in Tanzania with a core producing asset at Mnazi Bay – one of only two natural gas producing fields in Tanzania – in the onshore Ruvuma Basin in Southern Tanzania. Mnazi Bay is operated by Maurel & Prom (48.06%) with Wentworth (31.94%) and Tanzania Petroleum Development Corporation TPDC (20%) as joint venture partners.

The asset has been materially producing since 2015 into the National Natural Gas Infrastructure (NNGI) pipeline, which runs from the Mnazi Bay field to Dar Es Salaam, Tanzania's commercial capital and largest city.

A MULTI-ASSET DOMESTIC GAS PRODUCER MOVING TOWARDS A FULL CYCLE PORTFOLIO

Wentworth recently announced it has reached an agreement with Scirocco Energy to acquire its 25% non-operated working interest in the in the Ruvuma Gas Development Project Agreement, in Tanzania. This is a transformational transaction which establishes Wentworth as a dual-asset, full-cycle E&P with a significantly enhanced resource base and production profile.

The acquisition positions Wentworth as the leading domestic gas player in Tanzania with a diversified portfolio of production, appraisal and development; Ruvuma is a world-class, substantial and well understood resource of 1.9 trillion standard cubic feet.

The acquisition exactly aligns with the company's purpose to empower people with energy and deliver value for Tanzania and is a perfect example of Wentworth's strategy; to achieve growth and ultimately become the leading onshore gas producer in Tanzania. Furthermore, it reinforces the commitment to Tanzania as the company's region of focus and Wentworth's commitment to assist the Government of Tanzania to reach its goal of providing universal energy access by 2030.

STABLE AND GROWING PRODUCTION

With increasing gas demand in Tanzania due to ongoing industrialisation and the economic recovery post-Covid, Wentworth delivered record production at Mnazi Bay in 2021, averaging 81.6 MMscf/day (million standard cubic feet per day) up from 65.5 MMscf/d in 2020 and higher than upwardly revised guidance of 70-80 MMscf/day.

The company also achieved the strongest quarterly performance in its history in Q1 2022, with a new quarterly average daily production record of 98.5 MMcf/d, surpassing the previous record of 91.5 MMcf/d set during Q4 2021. This highlighted Wentworth's ability to respond quickly to growing demand and comfortably scale up volumes. Furthermore, Wentworth has demonstrated its absolute commitment to the health and safety of its team, with no operational disruption due to Covid and over five years without a Lost Time Incident (LTI).

In order to further optimise its production output, Wentworth has a continued focus on exploring and evaluating growth opportunities both within the Mnazi Bay licence and the greater geographical region to support increasing in-country demand for natural gas. The recently announced acquisition of 25% non-operated working interest in Ruvuma is testament to this.

RECORD FINANCIAL AND OPERATIONAL PERFORMANCE

In April 2022, Wentworth announced another year of exceptional operational and financial performance, driven by significant growth in gas demand, in Tanzania. Wentworth's resilient business model and strong fundamentals have placed the company in the most financially and operationally robust position in its corporate history, as revenue growth, ongoing cash generation, lower operating costs, and a focus on profitability drive continued strength.

As a financially disciplined company, Wentworth has focused on paying down debt since starting material production into the NNGI pipeline in 2015. The company is now debt-free with $26 million cash in hand and milestone gas sales revenue for 2021 of $23.8 million. Wentworth's investment case is further safeguarded by its long-term fixed gas price contract with the Government of Tanzania, limiting the company's exposure to commodity price volatility.

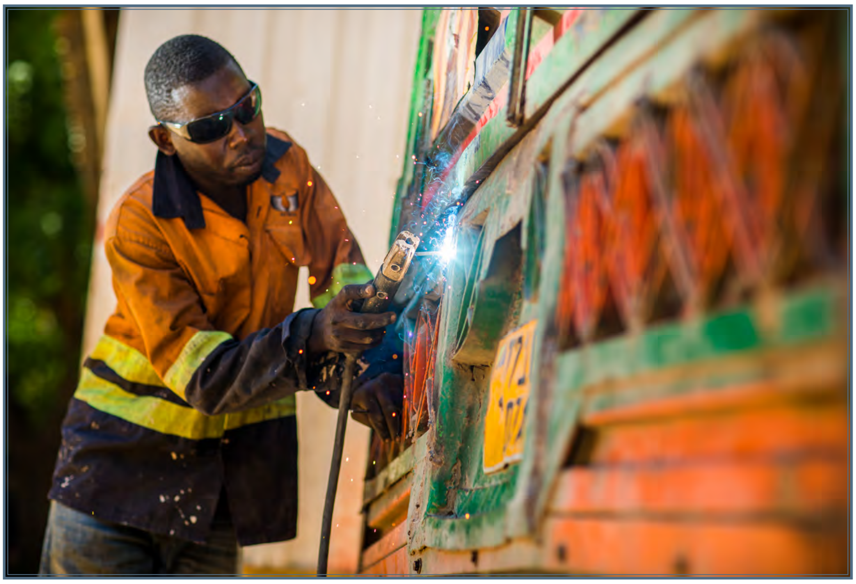
DIVIDEND DIFFERENTIATOR

Wentworth's strategy is to maximise shareholder value through asset optimisation and fiscal responsibility. Commitment to this strategy enabled the company to increase its 2021 final dividend to $2.7 million, bringing total distributions for 2021 to $4 million. Wentworth also initiated a share buyback programme in December 2021 of up to $2.6 million, to further support its capital return policy. Wentworth remains committed to its ongoing progressive capital returns, whilst simultaneously continuing its focus on growth opportunities, exemplified by the recent proposed acquisition of the 25% stake in the Ruvuma licence.

TRANSITIONING TANZANIA TO A SUSTAINABLE FUTURE

With a fast-growing population and economy poised for rapid growth, Tanzania is shifting away from its traditional agricultural economy to focus on large-scale industrialisation, adding considerable pressure to energy demand. With over 7 million people in the country still without access to energy, there is an urgent need to bring affordable and clean energy to Tanzania and Wentworth is perfectly positioned to help deliver this.

The government of Tanzania has set an ambitious target of universal energy access by 2030. This target, coupled with the Government's robust industrialisation strategy, provides a real opportunity for Wentworth. Through its alignment with UN Sustainable Development Goal 7 which is focused on



delivering affordable and clean energy, Wentworth is bringing affordable and continuous power to people's homes, schools, towns, and villages, often for the very first time.

With Mnazi Bay producing 50% of Tanzania's natural gas, to power over 30% of the country's electricity generation, Wentworth is playing a crucial role in connecting local communities and businesses to the grid. Wentworth's gas-to-power platform is part of the solution to enable 24/7 energy access for Tanzania and transform lives across the country.

The introduction of gas-fired power plants in Tanzania has also significantly reduced the cost of electricity by replacing expensive, heavy polluting diesel-based generation. While this has several environmental benefits, it also provides a more cost-effective solution for businesses and industries – vital for Tanzania's industrialisation ambitions.

NATURAL GAS AS A LOW-CARBON SOLUTION

Natural gas from Mnazi Bay is also accelerating Tanzania's energy transition by displacing heavy polluting fuels and securing a low-carbon future for the country and its people. With natural gas providing a reliable and affordable baseload power supply, more renewable technologies – such as hydroelectric power – can be gradually added to Tanzania's energy mix, without compromising energy access or security. Natural gas – which accounts for more than half of Tanzania's current power generation – is the right transition fuel to facilitate large-scale decarbonisation across the country.

Wentworth remains committed to not only reducing the carbon intensity of Tanzania's energy mix, but also reducing its own environmental footprint in its field operations and regional offices. As a non-operator with a lean corporate structure, Wentworth maintains a low emissions profile, with one of the lowest CO_2 intensities in the E&P sector in London at 0.29kg CO_2 e/boe based on FY 2021 numbers.

As a part of its ongoing sustainability journey, Wentworth is in the process of developing a climate strategy and identifying ways to further reduce and mitigate its carbon footprint. Wentworth has also established a partnership with Vitol to develop community-focused carbon credit programmes in Tanzania to offset all Mnazi Bay Scope 1 and 2 emissions and partially offset Scope 3 emissions from 2022

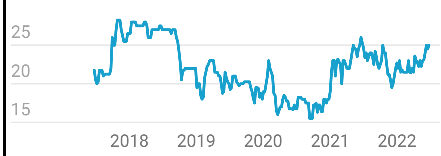
EMPOWERING PEOPLE WITH ENERGY

As a Tanzanian business, Wentworth creates employment and supply chain opportunities for local people, building long-term relationships that create real value. Wentworth also reinvests in the local community through its charitable foundation, the Wentworth Africa Foundation (WAF).

Established in 2007, WAF is focused on creating positive change in society by improving living conditions for people in the regions where Wentworth works through a variety of community-led programmes – specifically in the regions of Mtwara, Coastal and Lindi in Southern Tanzania.

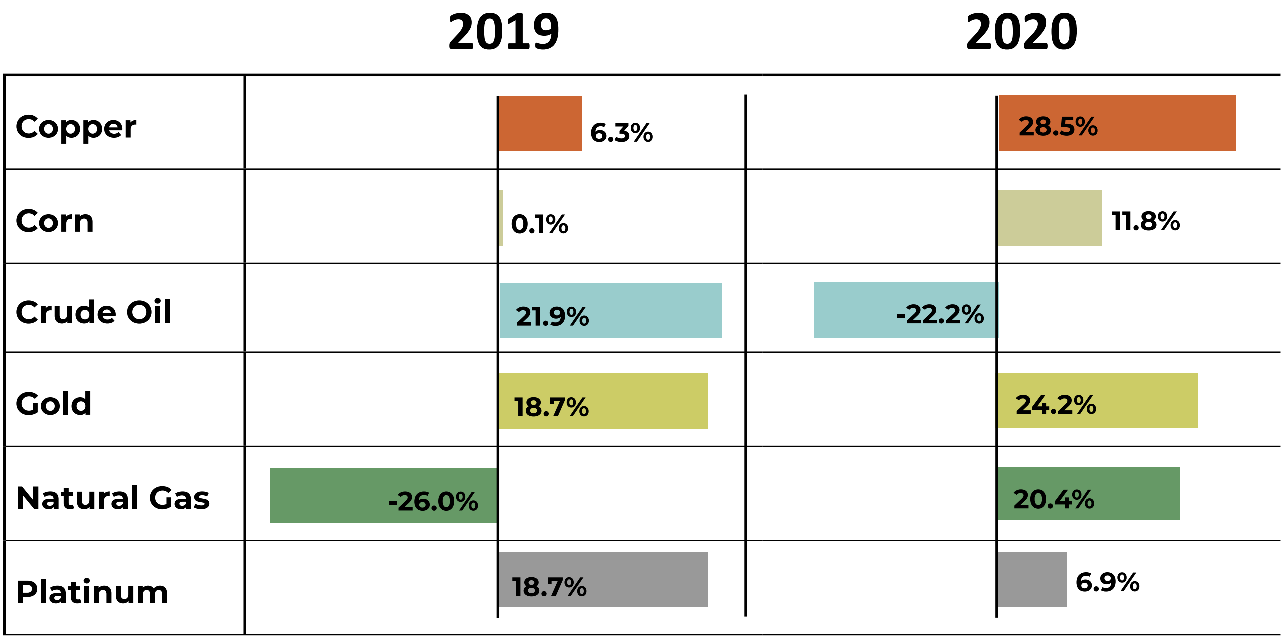
Wentworth is committed to being a leading player in Tanzania's energy growth and transition, delivering responsible, sustainable growth for shareholders, Tanzania and wider stakeholders.

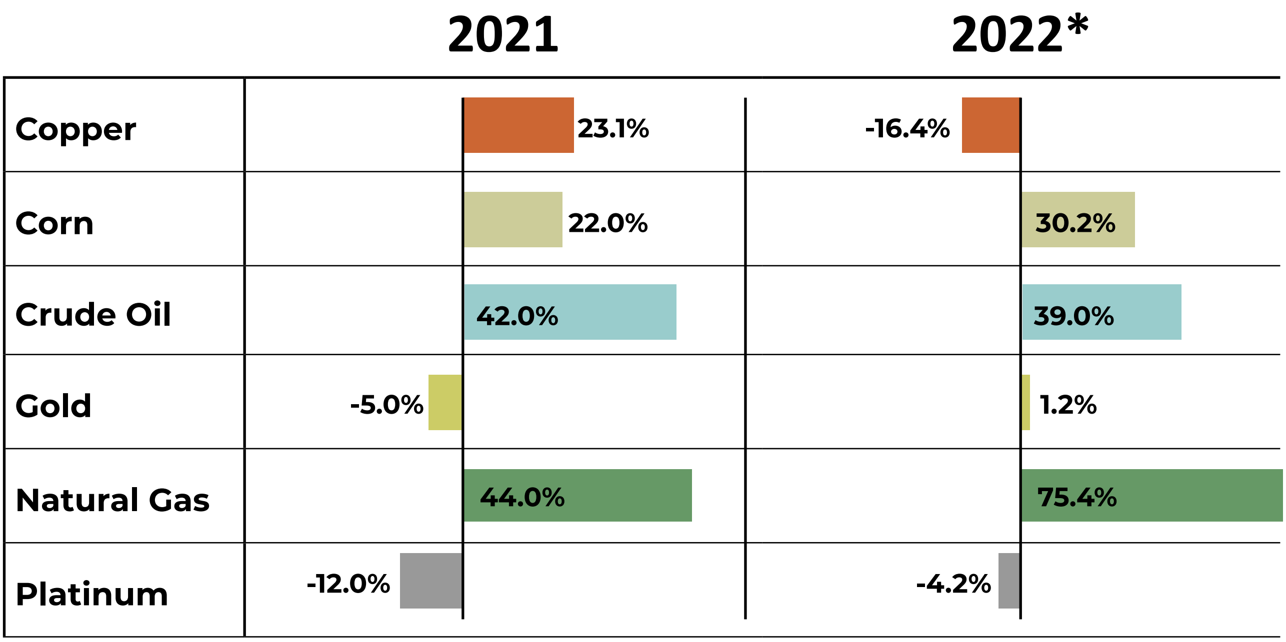
Wentworth Resources (p)



Source: Refinitiv

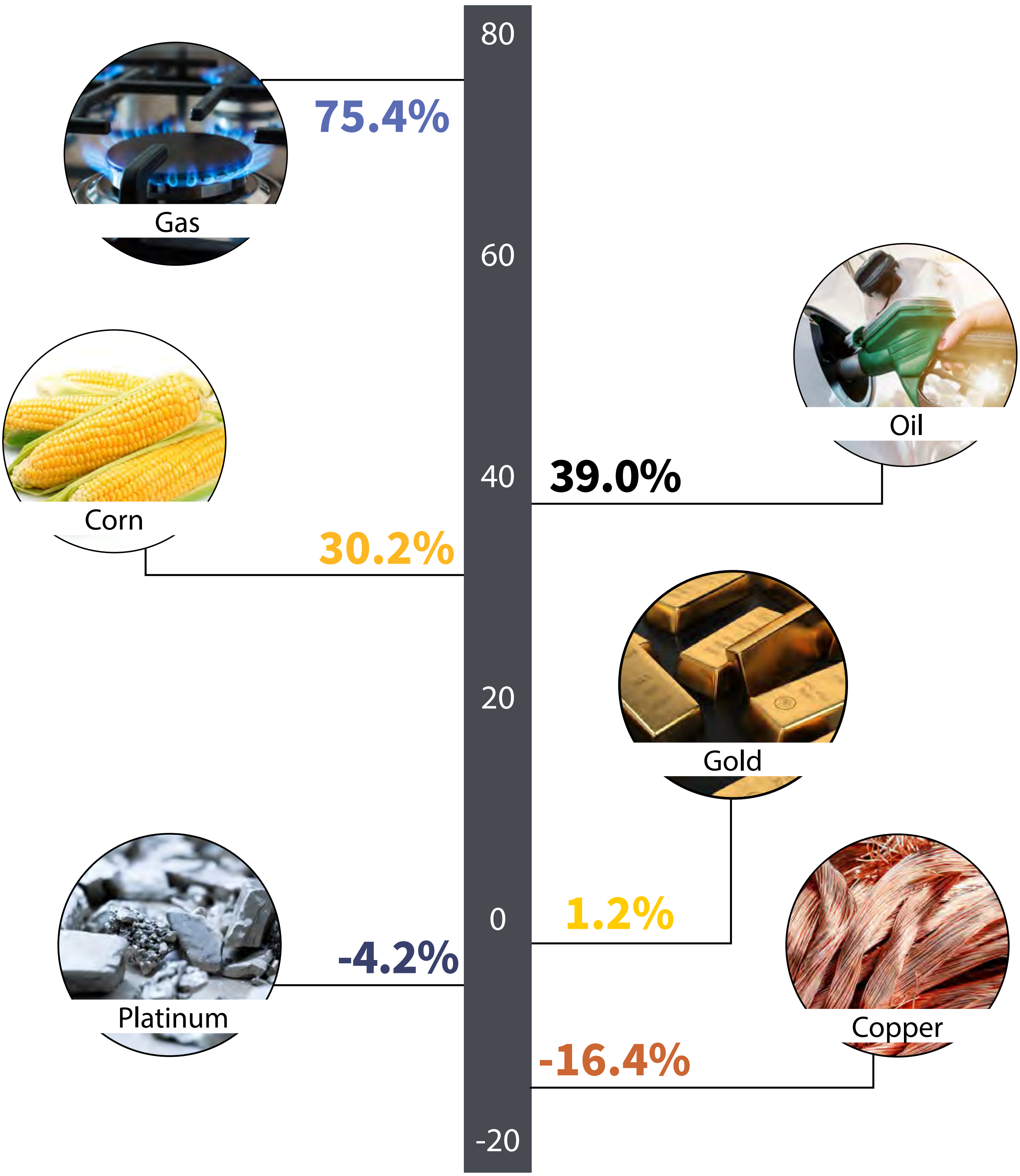
Databank – Commodity price performance 2019-2022





Source: Refinitiv. *Data to 24 June 2022.

Databank – Gain / loss so far in 2022



Source: Refinitiv. Data to 28 March 2022.