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Contents


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Daniel **Coatsworth**

EDITOR'S VIEW

Keep some cash back even though markets are rising

Conditions still warrant a more cautious approach

As the long hot nights become a distant memory, many investors will be giving their portfolios a sneaky peek to see how their investments are faring. Hopefully it will be a nice surprise as markets have risen since June.

A lot of people will have been too scared to look at their portfolios over the summer given the carnage experienced across global markets in the first half of 2022.

While many stocks are still sitting depressed, there are plenty which have started to bounce back. So, if you've just come back from holiday and don't welcome the prospect of returning to work, the recent performance of your investment portfolio might still put a smile on your face.

One of my personal portfolio holdings is **Fidelity Index World (BJS8SJ3)**, a fund that tracks an index of approximately 1,500 companies across 23 developed market countries. Between the start of January and mid-June, the sterling version of the fund had fallen by 14% in value. But the rebound has been fast and hard. As of 17 August, the fund has clawed back most of those losses and at that point it was only down 1.4% year-to-date.

That vindicates my decision to have kept investing money each month into the fund while the markets were weak earlier this year. I essentially managed to buy units at discounted prices not seen since 2021.

Even though markets are now picking up, I will continue to put more money into the fund. It's a no-brainer way to access companies around the world at a low annual charge of 0.12%.

I'm not the only one feasting on market opportunities. It feels as if quite a few investors are regaining their appetite for equities. Since mid-June, the US Nasdaq index is up 21.4% and the S&P 500 index is trading 16.5% higher.

Fidelity Index World bounces back after market sell-off

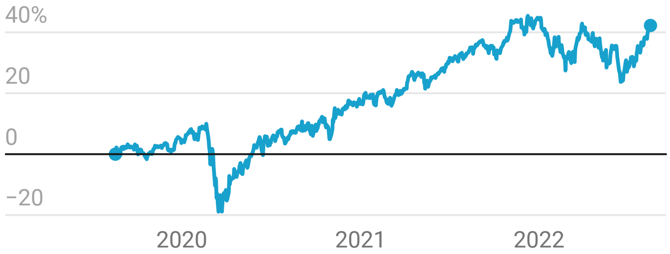


Chart: Shares magazine • Source: Refinitiv

Growth stocks which went out of favour late last year have been among the stronger risers recently. In the past month, the MSCI World Growth index has jumped by 12.1%.

The big question is whether we're at the turning point for markets and it's all plain sailing upward from here. The experts don't seem convinced.

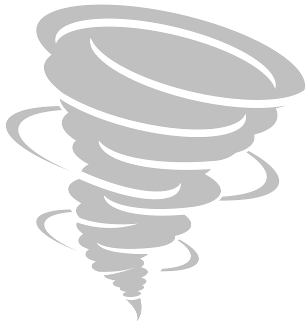
On 16 August, Bank of America published the results of its latest survey of fund managers around the world. It said that while sentiment was no longer 'apocalyptically bearish', fund managers were still sitting on an average 5.7% of assets in cash which the bank considers to be high.

In a strong market, cash in a portfolio can act as a drag on returns. In more uncertain times, it gives you the means by which to snap up bargains if prices suddenly get a lot cheaper.

Given the ongoing uncertainties around inflation and recession, having some 'readies' to hand might be a wise move. It's great that markets are currently moving higher, just don't assume it's going to be a smooth ride.

DISCLAIMER: The author owns units in Fidelity Index World

Why Fed chair's Jackson Hole speech matters so much to the markets



Powell's words could determine the direction of stocks and shares for the autumn

The global rally in recent months has been material but is beginning to be tested with the Jackson Hole summit in Wyoming, starting today (25 August), set to dictate the future trajectory of stocks.

The key question facing investors is whether the moves we have seen since June represent a return to a bullish outlook or a so-called 'bear market rally'.

In a recently published piece of research, Bank of America noted the average gain in 43 bear rallies (of more than 10%) since 1929 was 17.2% in 39 trading days. The most recent one is eerily similar at 17.4% in 41 days.

Driving the recovery in shares was a softening in US CPI inflation for July and a subsequent expectation of a pivot away from aggressive interest rate hikes from the US Federal Reserve.

In this context the words of Fed chair Jerome Powell on 26 August will be closely watched.

UK consumer confidence is at a record low

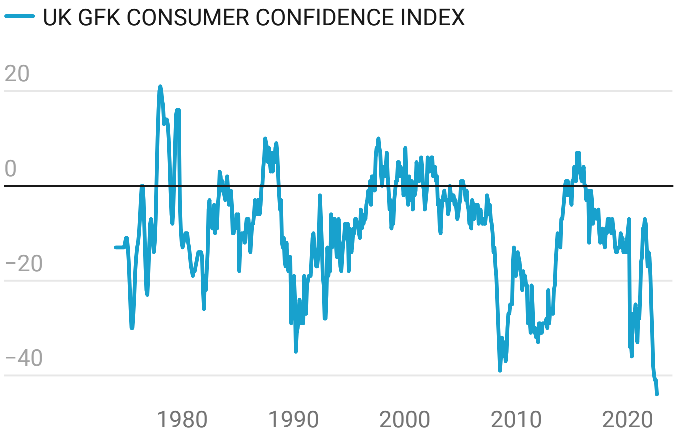


Chart: Shares magazine • Source: Refinitiv

He is widely expected to disappoint markets by suggesting rates may need to go higher and stay there for longer to control rising prices.

The release of the core Personal Consumption Expenditures index data, the Fed's preferred measure of inflation, on the same day, may also help to determine investor sentiment.

The situation in the US seems somewhat brighter than the UK where inflation continues to run very hot and looks increasingly entrenched.

Traders on the money markets (the market for short-term loans) are pricing in an increase in UK rates to 3.75% by next May.

Given Bank of England data suggests UK households borrowed a net £1.8 billion in June, up from £900 million in May and largely on credit cards, a recession driven by weaker consumer spending appears increasingly likely.

Consumer sentiment in August plunged to its lowest level on record according to the latest reading from data provider GfK.

This paints a bleak outlook for consumer-facing businesses, particularly retailers. While ONS figures for July showed a surprise increase in UK retail volumes, up 0.3% versus a 0.2% decline in June, this was boosted by online discounts which will have hit companies' margins.

Posh wellies seller **Joules (JOUL:AIM)** has predicted a significant loss for the first half of its current financial year. Sales of big-ticket items look particularly vulnerable as people cut back and online furniture retailer **Made.com (MADE)** has revealed it is planning a potential emergency fundraise.

While spending on leisure time and travel may be prioritised for now, that may get tougher once the full impact of increased energy prices and borrowing costs come through. [TS]

Zoom Communications is struggling to keep pandemic growth going

The video conferencing company is one of several lockdown winners to stumble this year

Zoom Communications (ZM:NASDAQ) is struggling to grow fast in the post-pandemic world after its latest earnings release once again disappointed investors. The San Jose company reported second quarter to 31 July 2022 adjusted earnings per share of $1.05, beating the $0.94 expected by analysts, but revenue growth slowed to single-digits.

Its $1.10 billion of revenue missed expectations of $1.12 billion, representing 8% year-on-year quarterly growth, sending the share price plunging more than 11% to $86.36. The stock peaked at $559 in October 2020.

At first glance, the latest market reaction may look harsh relative to a miss of less than 2%, but that means a $20 million revenue gap in the quarter. Investors were also reacting to lower guidance for Q3, with Zoom steering the market for adjusted EPS of $0.82 to $0.83 on revenue of $1.1 billion sales. Analysts had previously been looking for $0.91 in adjusted EPS and $1.15 billion in revenue.

Based on data from Investing.com, this is the fifth quarter straight of revenues between $1 billion and $1.1 billion. Zoom's 204,100 enterprise customers increased less than 3% from 198,900 three months earlier.

Zoom revenue growth has slowed to a crawl

	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Revenue ($bn)	1.02	1.05	1.07	1.07

Table: Shares magazine • Source: Investing.com

It's a far cry from two years ago when Zoom seemed to have the world at its feet, and its video conferencing software appeared as ubiquitous as Google's Gmail or Microsoft Word.

But Zoom is not alone among pandemic winners to have struggled to keep the growth fires burning. This year has seen **Netflix (NFLX:NASDAQ)** subscriber numbers decline for the first time in a decade, while **Peloton (PTON:NASDAQ)** has issued a series of growth misses as losses escalate.

Cloud security firm **Zscaler (ZS:NASDAQ)** will report Q4 results on 8 September, and they at least offer investors hope that not all pandemic winners are now losers.

Admittedly, Zscaler has suffered a 46% share price decline this year, as investors turned away from growth and tech equities. However, it has a long track record for meeting and beating quarterly forecasts that stretches back to 2018.

Analysts are anticipating $0.205 earnings per share on $305.5 million revenue in the three months to the end of July, compared to the $0.17 and $286.8 billion respectively in the previous quarter, and up to 60% revenue growth for the full year. [SF]

Cineworld shares now only worth pennies as it faces bankruptcy

Weak movie slate hasn't helped company but balance sheet woes are the real issue

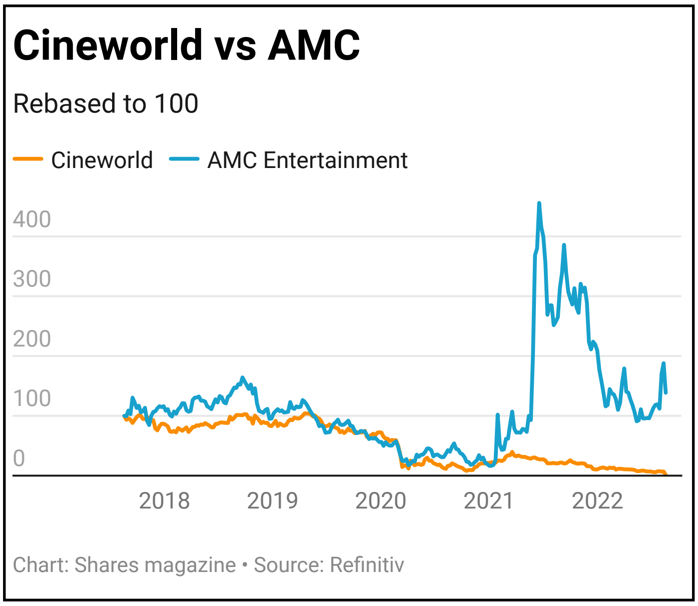
Shareholders in cinema operator **Cineworld (CINE)** face an uncertain future as the company confirms it may enter Chapter 11 bankruptcy in the US.

The best outcome if it goes down this route is, in its own words, 'very significant dilution' for existing investors as the company faces a testing combination of weaker trading and an extremely stretched balance sheet.

This is reflected in a share price which is down 87% since close on 16 August as rumours around the financial situation of the business started to build. At 2.7p as we write, the shares are down more than 99% from highs above 300p seen in 2019.

While Cineworld hasn't been helped by a lack of blockbuster releases this year, its real problems stem from its level of borrowings. Net debt at the last count totalled more than $4.8 billion.

The company took on significant leverage as part of the $3.6 billion deal to acquire US operator Regal in 2018. This may have made it the second largest cinema chain in the world but, from that moment, it was always vulnerable to a big extraneous shock which was then provided by the pandemic.



It stands in stark contrast to the position of the number one player in the cinema world, **AMC Entertainment (AMC:NYSE)**. AMC benefited from the 'meme stock' phenomenon as investors coordinated their efforts through social media platforms to drive up its share price.

While the shares have subsequently retraced much of those gains and the company has been guilty of some questionable strategic decisions of late, including investing in a gold mine and launching a popcorn venture, it was shrewd in taking advantage of its moment in the spotlight to secure more funds.

The company raised $1.8 billion from shareholders in 2021 and is still sitting on cash of more than $1 billion. This provides it with a decent buffer to contend with any short-term downward trend in trading.

Cineworld's UK peer **Everyman Media (EMAN:AIM)**, which strives to deliver a high-end experience, has endured a sluggish share price performance in 2022, falling 18.3% this year.

In its latest trading update (27 July) the company confirmed it had increased its number of cinemas from 28 in the first half of 2019 to 37 and said it had delivered record sales and earnings in the first six months of 2022. Net debt stood at £8.4 million at the end of 2021. The company is scheduled to announce its first-half results in full on 28 September. [TS]

Why global investment trusts have lagged behind their open-ended counterparts

Gearing has exacerbated losses for trusts with international horizons

The fact they are able to invest using borrowed money has contributed to the underperformance of global investment trusts compared with global open-ended funds over the last 12 months, according to recent research by Kepler.

The total net asset value (NAV) return for the AIC (Association of Investment Companies) Global Sector has fallen by 12.2%, versus a 3.2% decline for the Investment Association global sector.

Investment trusts are able to borrow money that can be invested alongside shareholder capital, also known as gearing, while open-ended funds cannot.

Gearing is expressed as a percentage and is calculated by dividing borrowings by net assets. It can magnify shareholder performance in both directions.

According to Kepler 10 out of 16 sampled investment trusts use some form of gearing.

Martin Currie Global Portfolio Trust (MNP) and **Scottish Mortgage Investment Trust (SMT)** are amongst the worst performers in the global sector during the last 12 months.

They are also fairly highly geared (11%), and focused on growth stocks which have struggled against a backdrop of rising interest rates.

Kepler reveals that **Global Opportunities Trust (GOT)** and **Brunner Investment Trust (BUT)** trade at significant discounts to net asset value, of 13.7% and 10.2% respectively.

They also both have a negative one-year Z-score indicating that their discount today is wider than its average over the past 12 months. [MGar]

Artisanal Spirits' maturing whisky stock 'worth 10 times' the value of the business

Investors don't seem interested given its share price has halved since June 2021

Investors looking for deep-value opportunities should note that shares in online premium whisky purveyor **Artisanal Spirits (ART:AIM)** trade at a material discount to the value of its maturing stock of Scotch whisky.

As Equity Development notes, this inventory has an estimated value of £430 million, more than 10 times Artisanal Spirits' £40 million market capitalisation at 57.15p a share. A curator and provider of premium single cask Scotch malt whisky for sale mainly online to a global membership, Artisanal serves up first-half results on 14 September.

It has already pre-announced 25% sales growth to knocking on £10 million, including what management dubbed a 'standout' performance in China, as well as a 24% advance in its Scotch Malt Whisky Society membership to over 35,500. Artisanal Spirits' management also reiterated its ambition to double sales between full year 2020's £15 million to £30 million by 2024.

Equity Development argues fair value for the shares is 150p, implying 162% upside at these levels. It says Artisanal Spirit's ownership of 'an abundant supply of maturing whisky stock should ensure that the company is capable of meeting the growth in demand for its products. The company is both hedged against inflation and insulated from any risks associated with supply chain disruption.' [JC]

This is how to play a surge in spending on cybersecurity around the world

L&G Cyber Security ETF should benefit from the big money companies are spending to protect their computer systems from online attacks

Threats to society's cybersecurity are as old as the internet but Russia's invasion of Ukraine has made the issue more acute for investors, as has more remote working in a post-pandemic world. Backing the wider theme through a low-cost ETF makes sense for several reasons, and we believe the **L&G Cyber Security ETF (ISPY)** ticks many of the right boxes for investors.

The ETF is large enough so that liquidity is not a problem, broad enough for reasonable diversification, and has scale to lower costs, which it did last year.

It's still not particularly cheap for a tracker fund, with ongoing costs of 0.69%, but it does have an attractive five-year total returns track record when most of its peers have only been around for a year or two, such as the **WisdomTree Cybersecurity ETF (CYSE)** and the **Global X Cybersecurity ETF (BUGG)**.

On a five-year basis the L&G Cyber Security ETF has delivered 17% annualised returns.

L&G Cyber Security ETF Top 10 holdings

	% of assets
Darktrace	6.0%
Cloudflare	5.3%
Ping Identity	4.8%
Trend Micro	4.4%
Splunk	4.2%
Qualys	4.1%
Blackberry	4.0%
CyberArk	4.0%
Cisco Systems	3.8%
SentinelOne	3.8%

Table: Shares magazine • Source: Morningstar, 22 August 2022

L&G CYBER SECURITY ETF
BUY
(ISPY) £17.60
Fund size: £1.8 billion

WHY YOUR PORTFOLIO NEEDS CYBERSECURITY

The space includes companies that provide security basics, like firewalls, anti-virus defence and passwords protections, but fighting off hackers is the much larger threat.

Where hackers were often tech-savvy individuals or small groups motivated more by ideology and putting one over on the establishment than money making, hackers today are far more sophisticated, organised and better funded, typically either state sponsored actors or criminal gangs looking to make vast profits.

This year the Ukrainian government was forced to bring in swathes of underground hackers in response to massive cyberattacks which were suspected to come from Russia as part of its war against the country.

Other countries were also put on alert, including the UK, and in January the nation's National Cyber Security Centre called on businesses to 'bolster their online defences' from potential Russian hackers.

As a result, the cybersecurity industry looks set to benefit from the significant rise in attacks on government agencies and major businesses which need to increase their spending on digital defence, and investors have already started to react.

PERFORMANCE IS PICKING UP

This year the L&G Cyber Security ETF is down 5.4%, according to FE Analytics data. The performance was a lot worse until recently, with the ETF having rallied 22% since mid-June, bolstered by the $2.4 billion buyout of US-listed Ping Identity and takeover talk surrounding the UK's **Darktrace (DARK)**, the fund's largest single stake at a little more than 6% of assets.

Other leading companies in the ETF portfolio include network security specialist **Cloudflare (NET:NYSE)**, big data analytics platform **Splunk (SPLK:NASDAQ)** and identity management tools firm **CyberArk (CYBR:NASDAQ)**.

The ETF also has a stake in **Trend Micro (4704:TYO)**, the Japanese company that provides cloud computing protections to hyperscale cloud players including **Amazon's (AMZN:NASDAQ)** AWS, **Alphabet's (GOOG:NASDAQ)** Google Cloud and **Microsoft's (MSFT:NASDAQ)** Azure.

BEING TAKEN MORE SERIOUSLY

Cybersecurity is a complex space and a rapidly expanding area for investment, with the issue widely recognised as business critical. According to Gartner, 88% of company bosses accept digital protections and safety is now a board level topic, with potential impacts of not doing enough too big and too costly to ignore.

Data from industry specialist McAfee shows the global cost of cybercrime went from an estimated $300 billion in 2013 to $945 billion in 2020, while the average cost of a data breach has jumped 17% in the past few years to $4.2 million, say **IBM (IBM:NASDAQ)** analysts.

INVESTMENT POURING IN

Cybersecurity companies have tended to develop systems in-house and use mergers and acquisitions to build out product sets and expand into vertical markets. Even the very biggest tech companies are expanding in this area.

For example, Alphabet has plans to spend over $10 billion to improve cybersecurity in the next five years while the overall industry is forecasted to hit $352 billion in 2026, up from $156 billion in 2020, according to Mordor Intelligence.

In March 2022, Alphabet agreed to pay $5.4 billion for cybersecurity firm Mandiant to bolster its Google Cloud platform, with clear intentions of combining its own automation expertise with Mandiant's intellectual property.

Microsoft has committed to spend $20 billion in security research and development over the next five years, dwarfing the R&D spend of any specialist security players.

Clients do not want to be tied to one supplier of cybersecurity tools, part of their own risk mitigation, which means taking a sector-based approach makes sense for retail investors.

The L&G Cyber Security ETF physically replicates the ISE Cyber Security UCITS index of 45 stocks. This basket includes a mix of infrastructure providers developing software and hardware for protecting access to files, websites and networks and service providers offering consulting and cyber-based services.

Companies in the broader investment universe are only eligible if they meet size requirements and have a three-month average daily traded value of at least $1 million. The underlying index applies a modified equal weight methodology where company weights are relative to the size of their respective sector and their liquidity versus peers within each sector.

Constituents are also screened against Legal & General Investment Management's Future World Protection List, which flags companies that violate the United Nations Global Compact. The latter is a pact to encourage businesses around the world to adopt sustainable and socially responsible policies. [SF]

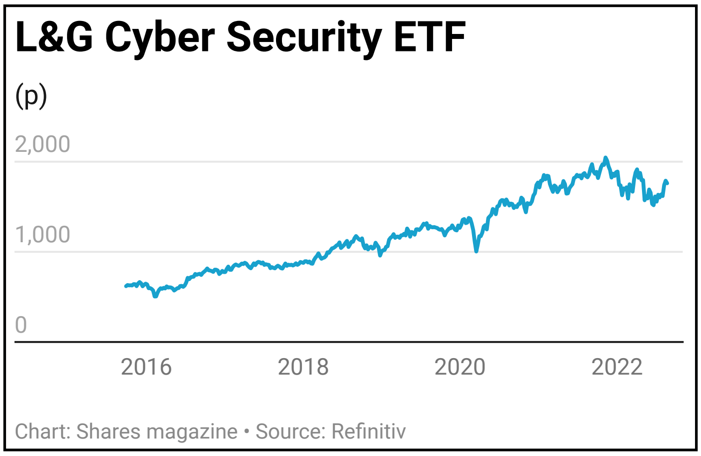


Chart: Shares magazine • Source: Refinitiv

Meet the company which literally turns rubbish into jet fuel

HIGHER RISK STOCK

Velocys has already agreed large forward sales with two major airline groups

It's often said that where there's muck there's brass, and recycling companies are much in vogue with investors nowadays.

One of the less well-known firms is **Velocys (VLS:AIM)**, previously known as Oxford Catalysts, which makes sustainable fuel from waste items.

Its products are aimed at the heavy transport and aviation markets which are integral to the global economy but at the same time difficult to 'decarbonise'.

Velocys' niche is in making compact, commercially ready reactors which use a chemical reaction to take carbon monoxide and hydrogen from household and forest waste residues and turn them into advanced biofuels like diesel and jet fuel.

The end products are high-quality versions of existing fuels and don't require any changes to engines or infrastructure, they simply burn cleaner, cutting exhaust pollutants and reducing greenhouse gas emissions.

Last September, Velocys won a grant from the UK Department for Transport under the 'Green Fuels, Green Skies' initiative to develop a project jointly with British Airways to convert hundreds of thousands of tonnes of residual waste into sustainable aviation fuel.

On the back of this grant, British Airways' parent company **International Consolidated Airlines (IAG)** signed a deal to take 73 million gallons of sustainable aviation fuel from the firm's Bayou Fuels project in Mississippi for 10 years starting in 2026.

The deal counts for a third of the facility's planned output, with **Southwest Airlines (LUV:NYSE)** taking the remaining two thirds of production over a 15-year period from 2026.

The Southwest deal, which covers the purchase of 219 million gallons of sustainable aviation fuel, 'has the potential to generate multi-billion revenues over the life of the contract' according to Velocys, as each gallon is expected to generate tradeable greenhouse gas credits which Southwest has guaranteed to buy at a minimum price.

VELOCYS
BUY
(VLS:AIM) 5.58p
Market Cap: £78 million

Recent US climate legislation included in the 2022 Inflation Reduction Act has allocated $369 billion to expand production and use of domestic clean energy and reduce emissions.

The inclusion of sustainable aviation fuel tax credits as part of the Act, along with incentives to develop advanced fuel technologies, represents a major source of additional income for Velocys in future US projects.

Given the firm is currently loss-making, pays no dividends, and isn't expected to become cash-flow positive until 2024, this is a high-risk investment and is only suited to investors who have a long-term perspective. [IC]

Velocys

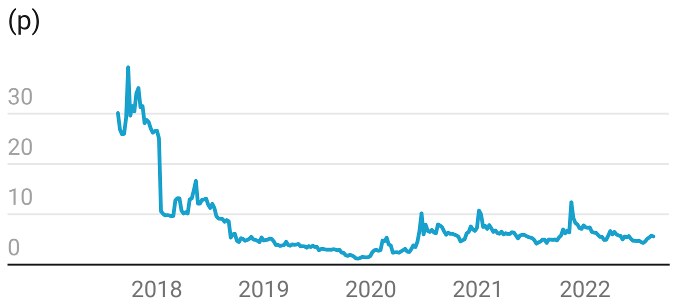


Chart: Shares magazine • Source: Refinitiv

Why FRP shares are up 34% since we said to buy

It has benefited from a surge in administrations and insolvencies

FRP ADVISORY

(FRP:AIM) 164P

Gain to date: 34%

We originally recommended buying advisory group FRP at 122p on 16 September 2021 because we believed it would benefit from an increase in insolvencies as the Government ended pandemic-linked insolvency restrictions.

The company specialises in corporate restructuring and helps businesses navigate the process of going into administration or liquidation.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

The subsequent advance in the share price has been driven by a rise in the number of insolvencies and administrations since the start of 2022.

According to data from the Insolvency Service, total company insolvencies increased from 1,567 in January to 1,827 in July, with the majority of these being creditors' voluntary liquidations. These have increased from 1,359 in January to 1,609 in July.

The number of County Court judgments filed by creditors trying to recover debts has also been on an increasing trend. This rebound has been boosted by a clearing of the Covid-induced backlog. The corporate finance division has also driven growth as FRP has benefited from the Spectrum and JDC Group acquisitions.

The former, acquired for £9.4 million, extended the group's geographical footprint in London and the south. The latter acquired for £5.3 million provided FRP with a presence in the east of England and bolstered its forensic accounting footprint.

WHAT SHOULD INVESTORS DO NEXT?

We recommend taking profits given the 34% share price increase coupled with the substantial re-rating in the earnings multiple.

In mid-September 2021, when we initially recommended buying FRP, it was trading on a calendar 2022 price to earnings ratio of 15.9. This now stands at 21.4-times.

The shares are no longer attractive from a valuation perspective given that management left earnings guidance unchanged at the full year results in July. Broker Liberum forecasts pre-tax profit and earnings per share growth for the current financial year (to 30 April 2023) of 5.6% and 3.9% respectively.

For the following year profit is expected to rise by 6.5% but earnings per share growth is forecast to be flat. [MGam]

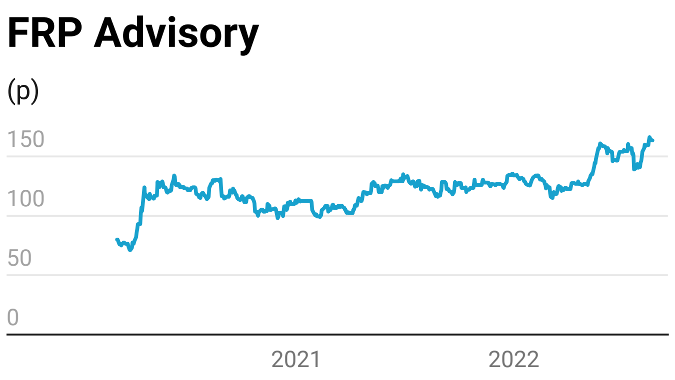


Chart: Shares magazine • Source: Refinitiv

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ADVERTORIAL

CASTING THE NET WIDER

Growth stocks are becoming more diverse, meaning stock-pickers need to embrace the unfamiliar, says Spencer Adair, manager of The Monks Investment Trust

Please remember that the value of an investment can fall and you may not get back the amount invested.

Anyone who thinks growth investing consists of simply loading up on a few mega-cap tech giants will be shocked by some of the companies in Monks' portfolio.

A Swedish oat milk producer? An American specialist in surgically implanted contact lenses? A female-friendly dating app? These businesses don't fit the digits-and-data growth stereotype, but they too hold big profit potential, according to Monk's manager Spencer Adair.

"What we're trying to achieve is a portfolio of the best global growth ideas from every corner of the world," he says. "We want to identify them early, hold them for a long time and let compounding work its magic."

The key, he says, is recognising that a few big digital platforms no longer hold a monopoly on hyper-growth. The range of double-digit growth companies has broadened, and Adair has cast his net wider to capture as many of them as possible.

Monks has broadened its view of what drives expansion. Like many growth portfolios, its holdings used to reflect two megatrends. One was the power of tech giants to disrupt traditional media and retailing. The other was the potential for surging consumption in emerging markets to propel favoured brands to new heights.

The problem is that these trends are maturing. They're unlikely to repeat the eye-popping results of their earlier years. To find new sources of growth, Monks has veered away from internet titans towards "earlier-stage, less certain, much more disparate, much less correlated growth drivers".

Some are no surprise – the shift to electric cars, for instance. Others include attempts to combat dementia, improve education and speed the shift to a more plant-based diet.

Among the more than 60 stocks that Monks classifies as disruptors are STAAR Surgical, which seeks to replace laser eye surgery with implantable contact lenses, and Denali Therapeutics, which is working on Alzheimer's drugs. Online education pioneer Chegg, and plant-based milk producer Oatly and Elon Musk's SpaceX aerospace venture also appear, as does Bumble.com, a dating app.

Adair's strategy for Monks will be tested in the years and decades to come. In the meantime, any manager whose portfolio spans both oat milk and space rockets can speak with authority on how variety brings opportunity, and with it, more chances of success.

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates.

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FOR SALE

GOOD TIME TO BUY HOUSEBUILDERS ON THE CHEAP

Share price returns of UK housebuilders year-to-date

UK Housebuilders	Share Price
Persimmon	−44%
Barratt Developments	−41%
Bellway	−35%
Taylor Wimpey	−35%
Vistry	−32%
Berkeley	−22%

Table: Shares magazine • Source: Shares, Google Finance. Data correct as of 22 August 2022

Share price returns of US housebuilders year-to-date

US Housebuilders	Share Price
Toll Brothers	−31%
DR Horton	−26%
KB Home	−25%
PulteGroup	−21%

Table: Shares magazine • Source: Shares, Marketscreener. Data correct as of 19 August 2022

By **Ian Conway** Companies Editor

Recent UK house price surveys seem to show the property market is beginning to cool, so should investors steer clear of the housebuilders or does their poor share price performance this year mean the worst is already factored into their valuations?

In this article we look at the survey data, compare it with the messages coming from the housebuilders themselves and pick two stocks we think offer the right mix of growth, value and income.

SEASONAL DIP

There's no disguising the fact that several of the most widely watched house price indices have recently shown a month-on-month fall in average prices.

The Rightmove index, which measures housing market activity and the price of property advertised for sale, saw average prices drop by 1.3% or £4,795 to £365,173 between July and August.

The immediate reaction from several analysts was to claim that rising interest rates in response to the country's severe inflation woes were starting to weigh down the housing market.

In fact, the monthly fall was perfectly normal as asking prices typically ease back at this time of year and the scale of the decline was in line with the August average over the last decade.

Meanwhile, the Halifax and Nationwide reports, which record actual selling prices rather than asking prices and tend to lag the Rightmove survey by a few weeks, both showed a decline of a couple of hundred pounds between June and July.

UNDERSTANDING THE SITUATION

Does this mean the housing market is about to grind to a halt and prices are going to fall? Far from it.

Even though the monthly figures showed a slight decline, the annual figures show selling prices still rising by between 11% and 12%, suggesting the housing market is in rude health despite the cost-of-living crisis.

Rightmove, which has been compiling its index for 20 years, says national average asking prices more than doubled in that period (up 134%), outstripping salaries (76%) and general inflation (93%).

It puts part of the August 2022 dip down to buyers being on holiday and part down to sellers pricing 'more competitively' to secure a buyer quickly, as the average time from accepting an offer to completing is four months and many people want to move before Christmas.

It also notes new listings are up 12% year-on-year this month but says there is still a 'massive imbalance' between demand and supply with the amount of available stock almost 40% below 2019's level.

Prices are still racing ahead in the regions, with Wales at the top of the table for annual house price inflation followed closely by the South-west of England, with rises of 14.7% and 14.3% respectively in July according to Halifax.

Price gains for bigger houses are noticeably outpacing those for smaller homes and first-time buyer properties too, with the average price of a detached house up 15% or over £60,000 in the year to July compared with 7.7% or around £12,000 for flats.

RISK FACTORS

As *Shares* sees it there are two things which could stymie the housing market, namely interest rates and energy bills.

After the recent rise in UK interest rates, the average monthly mortgage payment for first-time buyers putting down a 10% deposit has risen above £1,000 per month for the first time, 27% higher than at the start of the year, according to Rightmove.

As Tim Bannister, the firm's director of property science, reflects: 'The sixth consecutive interest rate rise, this time by 0.5% to 1.75%, will no doubt be in the minds of many would-be home-movers. Together with the rising cost of living, it will lead to reconsiderations of what they can afford to borrow and repay each month.'

Despite this, extra funds saved during lockdown, the ready availability of 90% loan-to-value mortgages and strong demand in the first-time

Key Ratios for Persimmon, Barratt and Berkeley

	Persimmon	Barratt*	Berkeley**
Index	FTSE 100	FTSE 100	FTSE 100
Market cap	£5.4 bn	£4.7 bn	£4.3 bn
Forecast revenues	£3.8 bn	£5.2 bn	£2.5 bn
Forecast P/E	6.9x	5.7x	9.7x
Forecast P/TNAV	2.6x	1.3x	1.8x
Prospective dividend yield	13.8%	8.3%	5.6%
Average selling price per home	£245,597	£300,000	£603,000
Number of plots for development	89,052	85,500	66,163
Value of plots	£21.9 bn	£25.7 bn	£40 bn

Table: Shares magazine • Source: Sharepad, company data, Shares magazine. Data correct as of 18 August 2022. Notes: Average selling prices as of June 2022 * Barratt Developments targets a land bank of 4.5 years of between 18,000 and 20,000 plots per year ** Berkeley average selling price and number of plots as of April 2022. P/TNAV = Price to tangible net asset value

Key ratios for Taylor Wimpey, Bellway and Vistry

	Taylor Wimpey	Bellway***	Vistry****
Index	FTSE 250	FTSE 250	FTSE 250
Market cap	£4.2 bn	£2.8 bn	£1.9 bn
Forecast revenues	£4.5 bn	£3.5 bn	£2.7 bn
Forecast P/E	6.2x	5.4x	5.9x
Forecast P/TNAV	1.5x	1x	1.4x
Prospective dividend yield	8.1%	6.1%	8.6%
Average selling price per home	£300,000	£314,400	£305,000
Number of plots for development	88,000	88,894	80,218
Value of plots	£26.4 bn	£28 bn	£24.5 bn

Table: Shares magazine • Source: Sharepad, company data, Shares magazine. Data correct as of 18 August 2022. Notes: Average selling prices as of June 2022. *** Bellway average selling price as of July 2022, number of plots as of January 2022 **** Vistry average selling prices and number of plots as of December 2021. P/TNAV = Price to tangible net asset value buyer sector – 32% higher than summer 2019 – would suggest the market may cool from what one agent describes as 'the frenzied bun-fight of the pandemic', but prices are unlikely to go into reverse.

Meanwhile, as the latest ONS figures show, consumers are facing unprecedented strain with the official inflation rate topping 10% last month for the first time in 40 years due to sharp spikes in food and drink prices.

Younger generations – typically those buying their first home or taking a second step up the property ladder – have never known double-digit inflation, so this is likely to be something of a shock to the system.

The impact of higher energy prices from October means households are going to be under even greater strain.

THE US SITUATION

From an investor's viewpoint, what goes on in the US matters a great deal for UK housing developers as even though none of them are active in that region, the US housing market forms a key part of consumer sentiment.

As David Jane, multi-asset manager at **Premier Miton Investors (PMI)**, observes: 'Anecdotal evidence suggests the recent rises in interest rates are having a material impact on homebuyers; US buyers typically take 30-year fixed rate mortgages and the cost of these has increased materially since the lows of 2021.

'Combined with house price rises over the same period, the cost of moving home has increased materially. The housing market has often led the overall economy in the US.'

The confidence indicator from the US National Association of Home Builders fell for the eighth month running in August to 49, meaning sentiment had swung from positive to negative for the first time since the pandemic.

'Tighter monetary policy from the Federal Reserve and persistently elevated construction costs have brought on a housing recession,' said the NAHB's chief economist Robert Dietz.

He is undoubtedly playing to the gallery, and visions of a financial crisis-style housing crash are far from reality, but it is worth noting some housebuilders have lowered prices by 5% to increase sales or limit cancellations.

Ratings agency Fitch recently said it expected a minor slowdown in the US housing market, although it cautioned a severe downtown – with prices falling by more than 10% and transactions down by 30% – was also 'possible but not yet probable'.

THE INDUSTRY VIEW

It's certainly not all clear skies for the housebuilders, but when you look at the average equity market valuation for the sector, share prices already seem to be factoring in tougher times ahead.

This year alone the share prices of the largest half-dozen UK developers are down by between 30% and 45% with only one, **Berkeley (BKY)**, falling by less.

Yet in its latest summer forecast, the Construction Products Association predicts private housebuilding activity will grow by 1% this year and flatline next year, while house prices will rise by 6% this year – consistent with the ONS forecast of 7% – and by 2.5% next year.

Moreover, the Construction Products Association says if house price inflation continues to surprise positively and high mortgage availability supports demand, risks to its forecasts 'may be skewed to the upside'.

In a similar vein, *Shares*' conversations with building materials and merchanting firms have recorded the common view that, while the industrial and infrastructure markets may be growing faster, the new-build private housing sector is still in good health.

Although the end of the Government's Help to Buy scheme in March 2023 may be a concern for some observers, the reality is the housebuilders have been weaning customers off the programme for some time to avoid a 'cliff-edge' scenario next spring.

TWO STOCKS TO BUY

We have gone for two national housebuilders, both of which have extremely solid financials underpinning their above-average dividends together with a long runway of growth as shown by their total number of plots.

BARRATT DEVELOPMENTS (BDEV) 449.2p

Barratt Developments is the nation's leading housebuilder. It delivered nearly 18,000 homes across England, Scotland and Wales in the financial year to June 2022.

It predominantly sells three and four-bedroom homes, which are most in demand, with limited exposure to flats and in particular London flats, which we think will serve it well as the regions are set to continue outperforming the capital.

It is the only developer to have been awarded the five-star customer rating 12 years in a row by the House Builders Federation and is one of the most highly rated firms in terms of sustainable building.

For the year to June 2022, pre-tax profits are expected to have beaten forecasts at around £1.05 billion while year-end net cash was £1.125 billion after a land spend of £1.05 billion and the £250 million acquisition of Gladman Developments.

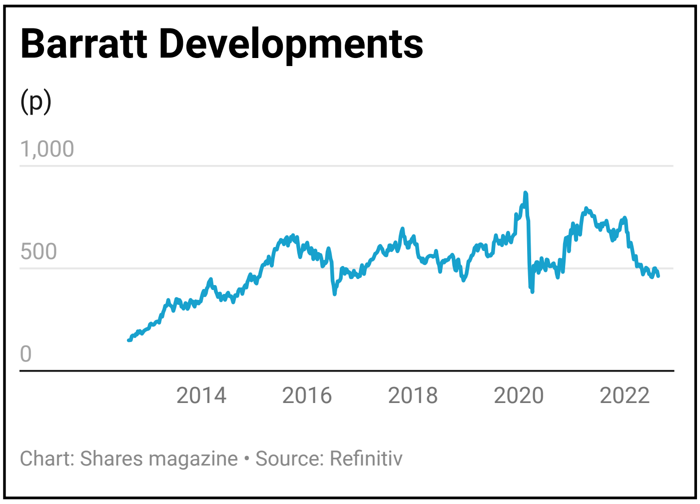
'We have delivered an excellent performance this year, reflecting the strong customer demand for our homes and the productivity of our sites,' said chief executive David Thomas.

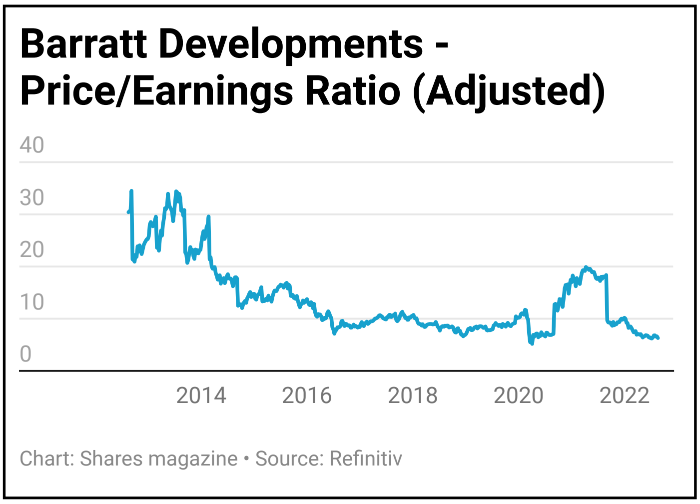
The company had forward sales, including joint ventures building affordable homes, of 13,579 units equivalent to £3.6 billion or nine months of revenues, and it aims to complete 20,000 homes a year.

Barratt has targeted a land bank of 4.5 years' worth of development, and it expects land approvals in the current financial year to be between 18,000 and 20,000 plots.

Under its new dividend policy, the full-year payout will be based on coverage of 2.25 times adjusted net income, and the board will update shareholders on its capital allocation policy – such as the potential for more special dividends and buybacks – with its results scheduled for publication on 7 September.

Even without any special dividends or buybacks, the shares currently yield over 8% and trade on a similar price to earnings ratio as they did during the onset of the pandemic and, going back much further, before the global financial crisis.





VISTRY (VTY)

832p

Our second choice is Kent-based developer Vistry, which was named Best Large Housebuilder last year at the Housebuilder Awards. It operates around 200 sites across England both under the Vistry and Bovis banners as well as in partnership with local authorities providing affordable and social housing.

Results for the first half to June 'significantly exceeded' the firm's expectations according to chief executive Greg Fitzgerald, with the average private weekly sales rate up 11% on last year.

'The business is in great shape and well positioned to maximise the broader market opportunities,' said Fitzgerald.

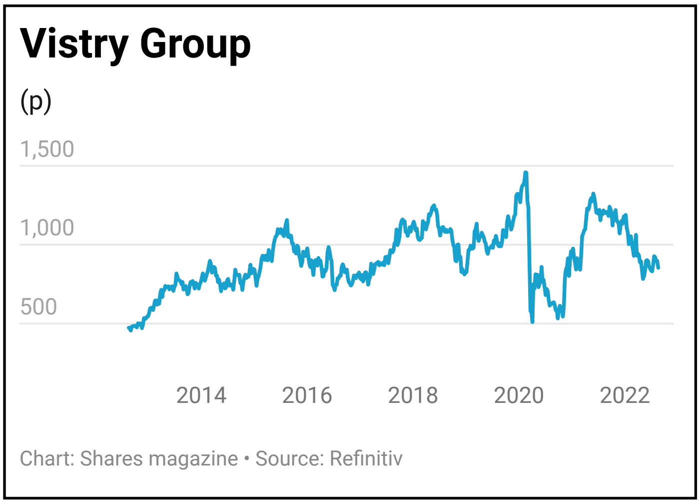
He added: 'Whilst mindful of the wider economic uncertainties, we are positive on the outlook and expect to see significant margin progression in the full year, with adjusted profit before tax at the top end of market forecasts.'

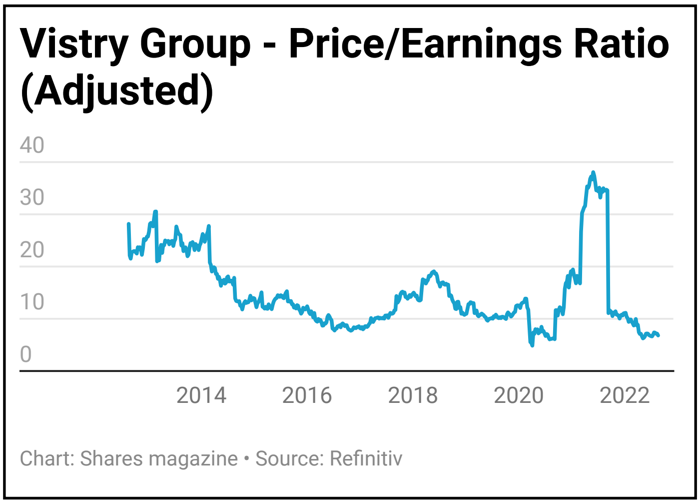
Private completions were up 3% to 3,219 units while partnership completions were up 24% to 1,106 units, and thanks to higher margins both divisions are seen topping their full year profit targets.

The total value of forward sales climbed 16% to £2.1 billion, representing 92% of forecast units for the year, and the firm more than replenished its land bank in the first half with returns on capital of above 25% on private plots and above 40% on partnership plots.

Net cash increased from £32 million to £115 million at the half year, and as well as paying a healthy 8%-plus dividend yield the company announced in May it would buy back up to £35 million of its shares.

Like Barratt, shares in Vistry are trading close to all-time lows on a price to earnings basis which combined with the dividend and the runway for growth makes an attractive combination.





Invesco

SEEKING INFLATION PROTECTION THROUGH COMPANIES WITH UTILITY-LIKE CHARACTERISTICS

Stephen Anness
Head of Global Equities

Key takeaways

1. Utilities are necessities and are therefore the last costs we cut when times are hard. As a result, providers often have the power to raise prices in line with inflation, which could help their share prices in times like these.

2. When most people consider utilities, they think of electricity, water and telecoms. However, these utility-like qualities can also be found in other sectors – some of them perhaps surprising.

3. From technology to lifts, read on to discover the sectors where these utility-like qualities can also be found.

When most people consider utilities, they think of electricity, water and telecoms. These are necessities and are therefore the last costs we cut when times are hard. Consequently, providers often have the power to raise prices in line with inflation, which should help their share prices in times like these.

These utility-like qualities can also be found in other sectors – some of them perhaps surprising.

Take technology. Microsoft Office is so deeply embedded in workflows worldwide that replacing it with a new system would be an enormous task for any Chief Technology Officer. Consider how many companies relied on Microsoft's video-conferencing software, Teams, to continue working during the pandemic – and how many continue to use it today to support hybrid working.

In Microsoft's early days you would buy software on a CD and upload it to your machine. This meant you could delay buying an update until it was absolutely essential. It also left the software vulnerable to piracy.

Nowadays, however, most people use a subscription model. This means software is downloaded online and constantly updated. It also means you have to continue paying if you want to use it, which gives Microsoft a constantly recurring income and allows the company to pass on inflation costs to consumers.

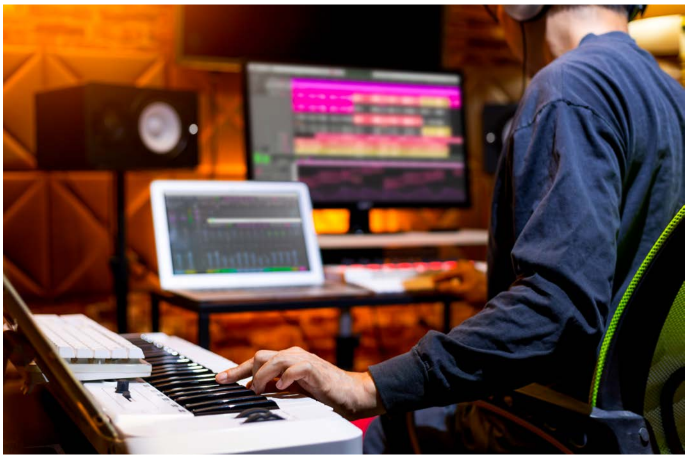
Communications frameworks
Another business with such qualities is American Tower – one of our biggest holdings. The company owns and operates wireless and broadcast communications infrastructure – the towers that hold satellite dishes for phone companies. It has around 221,000 sites across six continents.

Individual phone companies would struggle to build towers just for their own dishes as competitively as renting from American Tower, so the business has very high levels of client retention. Maintenance costs are low, so it has strong recurring income. And the fees it charges for renting tower space are typically linked to inflation.

The phone companies themselves are good at passing on costs. This is because, though we can put off upgrading handsets, few of us can survive without a mobile phone service. So income looks secure, too, in our view.

Audio
We cannot claim that music is as essential to life as water or electricity. Nonetheless, it is still one of the last costs consumers cut. In a world where few of us buy CDs anymore, streaming services like Spotify have become the equivalent of toll roads for music consumption.

Earlier this year we bought shares in **Universal Music Group (UMG)**. UMG owns and operates businesses engaged in music recording, publishing, merchandising and creating audio-visual content.



It owns the music rights to many of the world's best artists – past and present. It clips royalties every time its artists are streamed. In addition, modern technology means it can monetise its catalogue better than ever, picking up when music is being used for commercial purposes online and by broadcasters. Film producers, advertisers and videogame creators all use music – and must pay for it.

Lifts
Once you start looking for these qualities, you find them everywhere. Lift manufacturer Kone is another example. Much like the computer software sector, there are only a handful of major players in the lift and escalator industry – Otis, Schindler, Kone and Mitsubishi Electric.

Lift companies make most of their profits from ongoing equipment maintenance rather than from installation. Installing a new lift is expensive and time-consuming and can cause major disruption, especially in large office blocks with hundreds of people going in and out all day long. A building owner is unlikely to install a new lift without good reason. Additionally, there are usually regulations imposed upon owners of public buildings, requiring them to have their equipment serviced regularly – meaning recurring income for manufacturers.

Inflation protection
Companies with utility-like qualities can be susceptible to regulatory oversight and, like all businesses, are vulnerable to disruption. There is always the risk of their share prices falling and investors losing money. But we believe the qualities we have outlined help mitigate many risks, making them appealing to us in the current environment.

Invesco

Want to know more?

This investment trust is managed by Stephen Anness, Head of the Global Equities team.

Click below to learn more about the trust and the team.

[Invesco Select Trust plc Global Equity Income Share Portfolio]

The battle of the income funds: how Evenlode's two products fare

Both funds back quality companies and are popular with retail investors

In bear and bull markets, economic expansion or recession, income is rarely out of fashion with retail investors. **Evenlode Income (BD0B7D5)** has become one of the UK's favourite fund options, a £3.34 billion actively managed fund that has outstripped its UK equity income category almost three-to-one over the past decade.

In a year of red-hot inflation and interest rates rising from historic lows, the Evenlode Income fund has been more robust in 2022 than its sister product, **Evenlode Global Income (BF1QNC4)**, yet the opposite applies over a three-year basis. The predominantly UK-focused Evenlode Income has achieved 3.8% annualised total return versus 7.8% from Evenlode Global Income, according to Morningstar data.

That may surprise readers given that the UK has a reputation for being a market that pays much more generous dividends than many overseas regions such as the US.

In particular, the FTSE 100 is a popular hunting ground for equity income stocks given above-average yields. Insurer **Abrdn (ABDN)**, housebuilder **Persimmon (PSN)** and mining giant **Rio Tinto (RIO)** are among the big names luring investors with income yields above 8%, yet neither Evenlode fund owns these stocks.

Comparing income funds

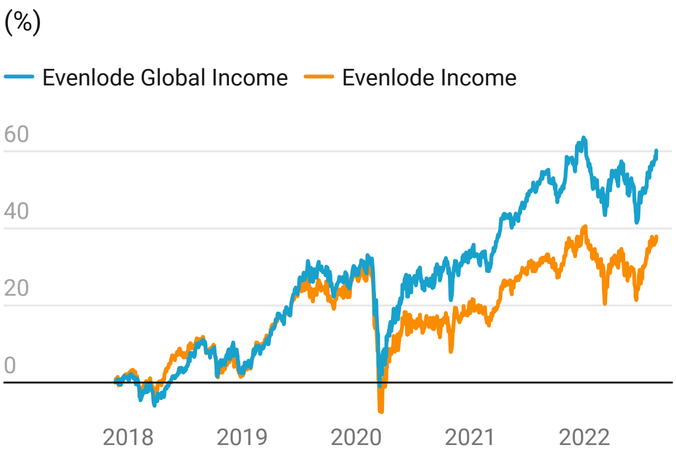


Chart: Shares magazine • Source: FE Analytics. Total return in GB

SHARED INVESTMENT IDEOLOGY

Both Evenlode funds share an investment ethos that focuses not on the biggest potential payouts, but on characteristics such as attractive structural growth opportunities; sustainable competitive advantages; and sustainable reinvestment that safeguards and extends their businesses.

A large part of the Evenlode process is focused on cash flow. 'We spend a lot of time looking at whether a company has attractive economics so it can generate lots of cash flow, and whether it is getting high returns on its invested capital,' says Ben Peters, Evenlode co-founder and fund manager. But there are more esoteric queries.

'I'm also thinking about what the company does and why the capitalist system might allow it to have these attractions,' he says. 'Is the company competitive? What are its advantages? Where's the value-add for the customer? We spend a lot of time thinking about this.'

It's possible to see this rationale play out by spinning through both funds' respective portfolios. Here you'll find names like **Microsoft (MSFT:NASDAQ)**, **Relx (RELX)**, **LVMH (MC:EPA)**, **GSK (GSK)** and **PepsiCo (PEP:NASDAQ)** – just some of the businesses many would comfortably predict will still be alive and paying dividends to shareholders 10 years from now.

Peters champions patience and a long-term investment horizon, but he is not above swooping on what he considers quality companies that may have tripped up. New holdings added to Evenlode Income this summer include credit checking agency **Experian (EXPN)** and distribution business **Diploma (DPLM)**.

In March, **Adidas (ADS:ETR)** was added to the Evenlode Global Income fund for the first time after sliding nearly 20% during the first quarter, an opportunity to buy one of the world's largest sportwear brands seemingly too good to resist. Testing firm **SGS (SGSN:SWX)**, a Swiss rival to **Intertek (INTK)**, was added in June.

TILTING THE STOCK SCALES

Fundamentally, while superficially a UK and global fund respectively, several stocks appear across both Evenlode portfolios, albeit in different weightings. For example, Microsoft is the Evenlode Global Income's largest single stake, worth 5.7% of its £1.8 billion assets, whereas the software giant ranks 15th for Evenlode Income at 2.1% of assets.

This means every 1% move in Microsoft's share price adds or subtracts about £1.3 million to/from the global fund's net assets, with a rough £700,000 impact on Evenlode Income.

Evenlode Income aims to have at least 80% of its assets in UK stocks with the remainder free to be invested anywhere in the world.

KitKat maker **Nestlé (NESN:SWX)** features exclusively in Evenlode Global Income. It has significantly increased capital expenditure to secure supply chains to satisfy consumer demand, but this will pinch free cash flow.

RESILIENT COMPANIES

Peters accepts it has been a discouraging year for investors yet says he finds it reassuring that the bedrock of Evenlode Income and Evenlode Global Income's cash generation is underpinned by repeat-purchase business models. The manager estimates about 78% of the former's portfolio is invested in companies that 'we categorise as having below average economic sensitivity'.

He is also supportive of portfolio companies across both funds using the flexibility of superior cash flows to invest in their long-term future even during the current difficulties.

Peters even sees plenty of investment opportunity, saying, 'Several high-quality cash compounding companies that we follow have seen drawdowns of between 40% to 50% over the last few months without any change in our view on their long-term fundamentals.'

The fund manager says all his own long-term savings are invested in Evenlode funds. That's encouraging as it suggests he won't take excessive risks to drive rewards.

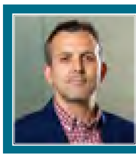
WHICH ONE TO BUY?

As for which fund investors should buy, while both are attraction propositions, on a long-term view we prefer the Evenlode Global Income fund for its ability to pick the very best opportunities in the world rather than be principally constrained to the UK market.

Its 2% yield is less than the 2.6% paid by Evenlode Income and may not be enough for someone who needs to use the dividends to pay their bills today, yet there is merit in owning the global fund if you're still in the wealth accumulation phase of your life.

You get exposure to a portfolio of quality companies which should be growing dividends each year. Buy the accumulation version of the fund and enjoy the compounding benefits of the fund automatically reinvesting dividends.

DISCLAIMER: Editor Daniel Coatsworth owns units in Evenlode Global Fund



By **Steven Frazer** News Editor

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Luis Puerto, VP of Corporate Administration

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NextEnergy Solar Fund (NESF)

Ross Grier, Managing Director, UK, NextEnergy Capital

NextEnergy Solar Fund Limited (NESF) is a specialist renewable energy investment company that invests in operating solar power plants and battery storage assets. NESF's investment objective is to provide ordinary shareholders with attractive risk-adjusted returns and is targeting a dividend yield of 7.52p for the current financial year.

Henderson Diversified Income Trust

Nick Ware, Portfolio Manager

Henderson Diversified Income Trust (HDIV) seeks a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

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How India's strong 2022 performance compares longer term

The country's forecast economic growth is robust and it has demographic advantages

The Indian stock market has outperformed the wider emerging markets space so far in 2022, just as it did in 2021.

While this follows on from a period of underperformance, on a long-term view, the showing of Indian stocks compares favourably with both the developed and developing world.

According to data from MSCI, over three years its Indian index has delivered an annualised return of 18.3%, over five years 12.4% and over 10 years 13.2%. The comparable figures for the wider emerging markets index are 5.7%, 6.9% and 8.9% respectively.

The MSCI World developed markets index, despite being dominated by what has been a buoyant US market over the last decade, has also not kept pace with India. Over three years its annualised return is 10.1%, on a five-year view 9.4% and over 10 years 10.8%.

The removal of some of the bureaucracy which has plagued the Indian economy seems to be helping, and big tech consultancies like Infosys and Tata Consultancy Services are seeing buoyant demand thanks to a post-pandemic digitisation drive.

While inflationary pressures, particularly rising commodity prices, are an issue for India, the latest economic outlook from the International Monetary Fund still expects 7.4% growth in 2022 and 6.1% in 2021.

Longer term the country is expected to benefit from favourable demographics with a large working age population.

India has outperformed wider emerging and developed markets

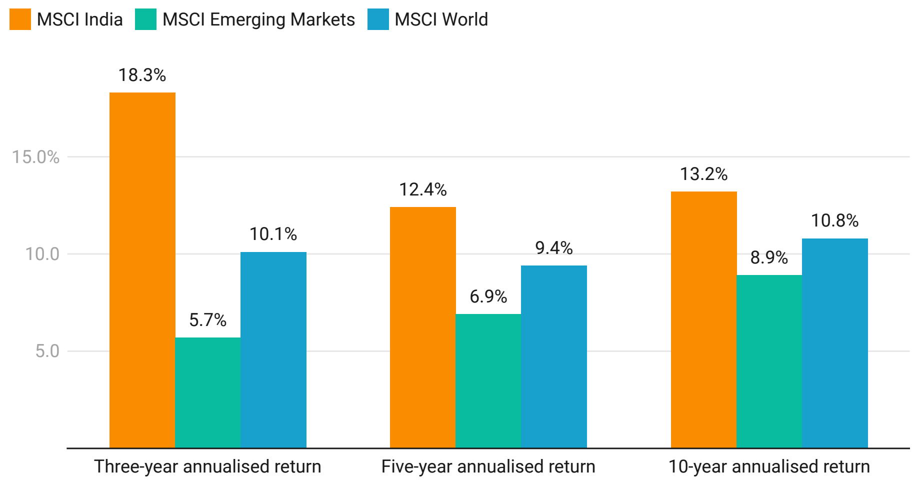


Chart: Shares magazine • Source: MSCI, data to 29 July 2022

Emerging markets: Views from the experts

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

1. Latin American markets rebounded in July, with Chile, Brazil and Peru among the leading performers, while Mexico and Colombia lagged. In Brazil, a smaller-than-expected increase in consumer prices in the first half of July, raised expectations of the start of a downward trend in inflation. Additionally, the labour market continued to recover with June unemployment falling to its lowest level since 2015. Although Mexico's second-quarter GDP growth exceeded market expectations, investors expect to see easing growth in the second half of 2022 on the back of weaker US demand.

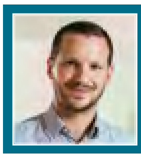
2. Earnings growth in emerging markets (EMs) for 2022 has been cut to -6% from +6% at the start of the year, based on consensus estimates. China has driven the reduction in EM earnings growth, with forecasts for 2022 declining to 4% growth from 14% over the same period. Analyst earnings revisions indicate further downward pressure on earnings forecasts is likely. The first half 2022 earnings season is expected to be weak, but the market has already discounted this scenario. Investors are likely to focus on guidance for 2023. Consensus expectations for next year call for 8% growth, relatively unchanged since the start of the year.

3. The **US dollar** trade-weighted index weakened modestly in July after reaching a cycle high in the month as investors discounted the timing of a peak in the US interest-rate cycle. The direction of the US dollar matters to EMs as it influences capital flows and the availability of liquidity. A strong US dollar tends to coincide with capital outflows and reduced liquidity availability in EMs, whereas a weak US dollar tends to coincide with capital inflows and the opposite trend for liquidity. As the US dollar strengthens and liquidity declines, companies with foreign currency debt find it harder to refinance foreign currency debt or raise new loans and vice versa. Expectations that the US Federal Reserve may be closer to the end than the start of its rate-hiking cycle have recently led the US dollar to weaken, leading to an improvement in liquidity conditions in EMs – foreign fund flows have increased into selected EMs, including India.

Cost of living crisis: How will inflation affect different types of pensions?

Discover the potential rise in the state pension amount and more

I'm 70 and have been following the '4% rule' since I started taking an income in drawdown on my 65th birthday. However, if I keep to that plan, I'll need to increase withdrawals by 10%+ in September this year. Is that sensible or will I risk running out of money in retirement?
Paul



Tom Selby, AJ Bell Head of Retirement Policy says:

Soaring inflation affects everyone, including those in receipt of a pension income. Not all pensions are made equal, however, with some – most notably public sector pensions – benefiting from generous and uncapped inflation protection.

State pensions are also set to rise substantially next year, with all eyes on September's inflation figure, which is traditionally used to uprate benefits the following year.

If by that time inflation has reached the Bank of England's forecast 13%, the new state pension would breach £200 a week for the first time, with the Exchequer wearing an estimated £13 billion bill.

THOSE IN DRAWDOWN

Anyone in drawdown needs to think carefully about how they respond to rising prices. The good news is that you're in complete control, thanks to flexible pension reforms that allow savers to choose exactly how they use their pension.

However, that also means it is up to you to ensure those savings last throughout your retirement. The natural thing to do in response to rising living costs might be to take more income from your pot to maintain your standard of living, but this increases the risk of your fund running out early.

This risk will be further exacerbated if larger withdrawals are combined with substantial market falls – something many have already experienced in 2022.

HOW INFLATION MIGHT DRIVE UP THE STATE PENSION

If inflation in September 2022 hits 13%, this implies the basic state pension would rise by £18.45 to £160.30 per week (£8,335.60 per year), while the new state pension would rise by £24.10 to £209.25 per week (£10,881 per year)

This isn't a reason to panic, but retirement investors must not stick their heads in the sand either. Think carefully before increasing your withdrawals and make sure you have considered the impact that decision could have, ideally

with the help of a financial adviser.

AJ Bell customer research suggests investors are taking a mixed approach, with the majority (60%) keeping withdrawals the same, while 24% are cutting back withdrawals in the face of market uncertainty and 16% are increasing withdrawals. All these actions may be perfectly sensible depending on the person's circumstances.

WHAT ABOUT THE STATE PENSION?

The 'basic' state pension and the 'new' state pension both benefit from the triple-lock guarantee, meaning they increase by the highest of average earnings, inflation or 2.5%. The inflation part of the triple-lock will almost certainly apply for the 2023 increase, assuming the triple-lock is retained.

Former chancellor Rishi Sunak suspended the triple-lock temporarily due to an unforeseen year-on-year spike in wage growth in 2021 after the pandemic supressed wages in 2020.

Nonetheless, it would be extremely divisive to break the triple-lock pledge again because of an unexpected rise in inflation – particularly with a general election on the horizon.

Currently, the basic state pension is worth £141.85 per week (£7,376.20 per year), while the new state pension pays £185.15 per week (£9,627.80 per year).

If inflation in September hits 13%, this implies the basic state pension would rise by £18.45 to £160.30 per week (£8,335.60 per year), while the new state pension would rise by £24.10 to £209.25 per week (£10,881 per year).

Other pensioner-related benefits – such as additional state pension (which applies to state pensions for those who reached state pension age before April 2016) and pension credit – and working-age benefits also usually rise in line with September's inflation figure.

HOW DOES INFLATION IMPACT ANNUITIES?

Annuities lock in a retirement income for life. This provides extra certainty but limits flexibility and extinguishes the possibility of generating further investment growth.

The impact of high inflation on those who have already bought annuities will depend on the type of annuity bought. Some will have inflation protection baked into the terms of the contract, although this is often capped. If inflation exceeds the cap – which it will for many this year – then your income is falling in real terms. This will no doubt anger people who purchased what they hoped would be an inflation-proofed income.

However, most people (historically at least) have bought annuities with no inflation protection, meaning they risk being brutally exposed to surging prices.

In the 2020/21 tax year

around 85% of the 60,000 annuities purchased were 'level-only', meaning they had no inflation protection at all. Just 15% of annuities bought were 'escalating', meaning they rise with inflation.

PUBLIC SECTOR DEFINED BENEFIT PENSIONS

Defined benefit pensions provide a guaranteed income for life similar to annuities, except this time the promise is underwritten by the employer. In the case of public sector pensions, that employer is the state, meaning pensions are essentially underwritten by taxpayers.

It means former public sector employees can expect to see their pension income rise by as much as 13% next year, depending on September's inflation figure.

There is a broad cost control mechanism that could see public sector pensions tightened in other areas – for example by raising retirement age or increasing contribution rates – to avoid the burden on taxpayers spiralling completely out of control.

PRIVATE SECTOR DEFINED BENEFIT PENSIONS

The impact of inflation on private sector defined benefit pensions will depend on the rules underpinning the scheme. Often these rules will place a cap on inflation protection, meaning they won't enjoy the same increases as their peers who worked in the public sector.

This pension apartheid will rankle former private sector

workers that see their spending power diminished.

Some schemes still use RPI as the measure of inflation against which to uprate pension payments. As things stand RPI is a whopping 12.3%, and typically runs higher than CPI. It could have meant private sector defined benefit scheme members received an incredible CPI-busting increase, but that will be quashed if schemes apply the 5% and 2.5% caps available to them.

THE PENSION PROTECTION FUND

When private sector defined benefit schemes go bust, the Pension Protection Fund is responsible for paying out members' pensions. If the UK enters recession, it is likely more schemes and their members will join the PPF if the parent company is forced under.

The inflation protection you might receive from the PPF varies depending on the period during which you built up the benefits.

In most cases payments relating to pensionable service from 6 April 1997 onward will rise in line with inflation each year, but subject to a cap of 2.5% a year. At current inflation rates that means PPF members will be experiencing significant real terms cuts in their benefits.

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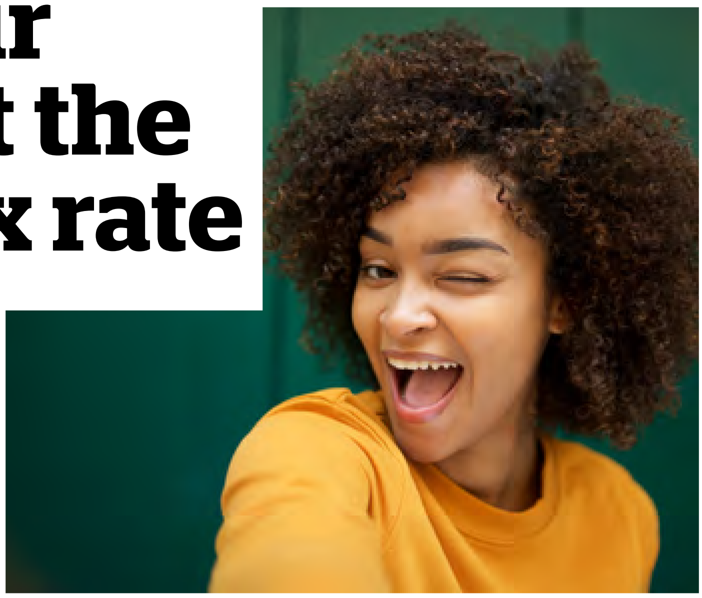
DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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.

How to use your pension to beat the sneaky 60% tax rate



If you're earning £100,000 or more, you need to know these clever tips

A sneaky quirk to the tax system means that some people pay a 60% tax rate on a portion of their income, but there is a way to beat it.

Most people think income tax is charged at 20% for basic-rate payers, 40% for those earning over £50,270 and 45% for those on more than £150,000 (except those living in Scotland where different rates apply). However, there is a little-known tax quirk that kicks in when you earn £100,000 that means you end up paying an effective tax rate of 60%.

WHY DOES IT HAPPEN?

At £100,000 you start to lose your tax-free personal allowance. You lose it at a rate of £1 of your tax-free allowance for every £2 you earn over the threshold, which means that by the time you earn £125,140 your personal allowance is zero.

What this means is income in the £100,000 to £125,140 bracket is not only subject to 40% tax, but effectively half of it again is moved from being tax-free to being taxed at 40% as the personal allowance is removed on a £1: £2 basis. It means a 60% effective tax rate on that portion of your earnings.

Once your personal allowance is wiped out (when you earn £125,140 or more) your tax level drops back down to the usual 40% before rising to 45% once you hit earnings of £150,000 or more.

It's a complicated and confusing tax quirk that catches many people out and means that tax rates in most of the UK are really 20%, rising to 40% before jumping up to 60%, then falling to 40% and ultimately rising to 45% again.

The principal is the same in Scotland, where the personal allowance is lost in the same way, but the impact is even higher due to the different bands and higher tax rates – 61.5%.

HOW DOES IT WORK IN PRACTICE?

Let's look at an example: someone who earns £100,000 a year will get their full entitlement to the personal allowance, so will get the first £12,570 of their earnings tax-free.

On the next £37,700 of their earnings, they will be charged 20% tax, and then the rest of their earnings above £50,270 will be taxed at 40%. On top of that they will be charged National Insurance.

However, a pay rise of £20,000 (admittedly a very decent pay rise, but a good one for this example) means they lose £10,000 of their personal allowance, reducing their tax-free allowance to £2,570.

This means they get £2,570 tax-free, then the next £37,700 of their earnings will be charged 20% tax, as before. But the amount above £40,270 will be taxed at 40% – which is now much higher, resulting in a bigger tax bill. In total it means of their £20,000 pay rise, £12,000 is taken in extra tax – amounting to 60%. On top of this, their National Insurance bill is also higher, as their income has grown.

HOW TO BEAT THE SYSTEM

But there is a way to beat it – pension contributions. The earnings figure that HMRC counts for personal allowance taper purposes is called your 'adjusted net income'. It's confusing Government terminology but it means all your

How a £20,000 payrise costs you £12,000 in extra tax

	Old salary	New salary	Increase in salary/tax
Income	£100,000	£120,000	£20,000
Personal allowance	£12,570	£2,570	
Tax @ 20%	£7,540	£7,540	
Tax @ 40%	£19,892	£31,892	£12,000
National Insurance	£6,612	£7,262	
Take-home pay	£65,957	£73,307	
Tax rate on increase	**-**	**-**	**60%**

How pension contributions can save you tax

			Difference in take-home pay
Income	£105,000	£100,000	
Pension contribution	£0	£5,000	
Personal allowance	£10,070	£12,570	
Tax @ 20%	£7,540	£7,540	
Tax @ 40%	£22,892	£19,892	
National Insurance	£6,774	£6,611	
Take-home pay	**£67,794**	**£65,957**	**£1,838**

Table: Shares magazine

income, including earnings, pensions, savings interest and investment dividends, minus any pension contributions or Gift Aid donations.

What this means in practice is that if a pay rise tips you over the £100,000 limit, you could make pension contributions to bring you under it.

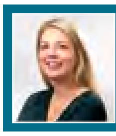
For example, if you earn £105,000 but make £5,000 of pension contributions, your 'adjusted net income' will be £100,000 and you won't be subject to the personal allowance taper – meaning no 60% tax rate.

It relies on you being able to spare the money to pay into your pension, but the cost of that pension contribution is lower when you compare it to just taking the income and paying higher tax.

HOW DOES THIS WORK IN PRACTICE?

The example in the table shows that making a £5,000 pension contribution costs you far less once accounted for the higher tax you would be paying on that money if you took it as income.

Your take-home pay is only £1,838 lower by making that £5,000 contribution, and you've got an extra £5,000 in your pension. This also doesn't account for any boost that money might be given if your employer matches pension contributions and you haven't already exhausted that benefit.



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

How National Grid makes its money and the big regulatory challenges it faces

The company owns and operates the UK's critical energy infrastructure

There are genuine fears about keeping the lights on this winter as the threat of Russia shutting off gas exports to Europe looms large.

FTSE 100 constituent **National Grid (NG.)** will have a central role in this story. At £11.70 its shares have handily outperformed the market year-to-date with double-digit gains and it is widely held by investors for its income appeal with a measure of inflation protection built in.

In this article we explain what the company does, how it makes money and discuss the short and long-term prospects for the share price.

NATIONAL GRID'S STORY

National Grid came into being as a result of the privatisation of the electricity industry in 1990, when it was formed as a business and owned by 12 regional electricity companies. It subsequently listed on the London Stock Exchange in 1995.

In 2022 the company owns and maintains gas and electricity grids in the UK and US. The £42.7 billion business also acts as system operator, ensuring supply and demand are balanced in real-time and facilitating the connection of assets to the transmission system.

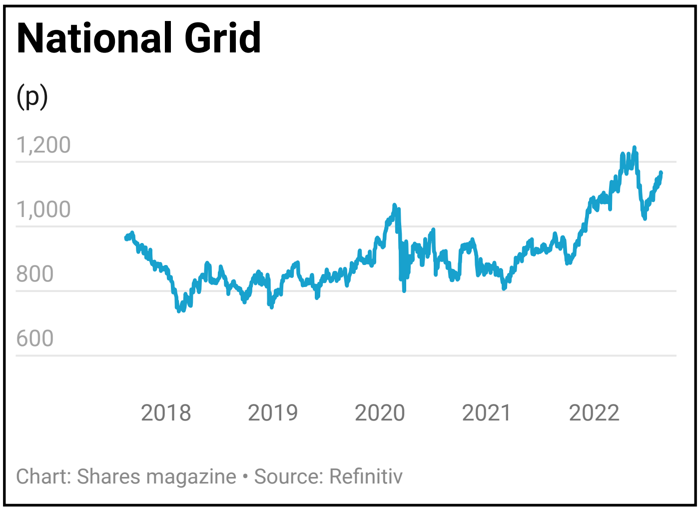


Chart: Shares magazine • Source: Refinitiv

Because gas and electricity are essentials for businesses and consumers, National Grid's activities are tightly regulated – a role performed by Ofgem in the UK.

HOW IT MAKES MONEY

As reward for keeping the network up to date and in working order, National Grid is allowed to charge its customers, the energy suppliers, a fair price. This is linked to inflation and there is the potential to earn more if it exceeds the targets set by the regulator.

This ensures it has enough cash to invest in its assets, pay interest on any debts and reward shareholders with regular dividends. Its policy is to grow the dividend in line with the CPIH (Consumer Prices Index including owner occupiers' housing costs) measure of inflation.

Balancing this out, National Grid also has inflation-linked payments on its borrowings.

Unlike energy producers, the profitability of its core operations is not heavily tied to price of energy, or the volumes used. It can grow its profit by investing in new pylons and pipelines and thereby increasing the size of its regulated asset base.

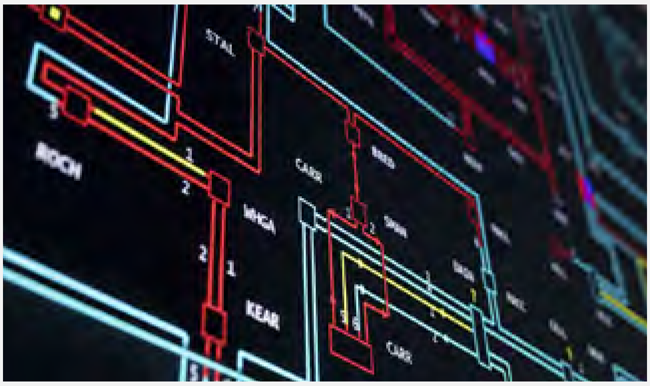
NATIONAL GRID'S STRUCTURE

The company has six different divisions: National Grid North America, National Grid Gas, National Grid Electricity Transmission, National Grid Electricity System Operator, Western Power Distribution and National Grid Ventures (and other activities).

NATIONAL GRID NORTH AMERICA: Owns and operates electricity and gas transmission and distribution facilities in Northeastern US.

NATIONAL GRID GAS: Owns and operates the gas transmission network across Great Britain (it is in the process of selling a 60% stake).

NATIONAL GRID ELECTRICITY TRANSMISSION: Owns and operates the high-voltage electricity transmission network in England and Wales.



NATIONAL GRID ELECTRICITY SYSTEM OPERATOR: Ensuring the supply and demand of electricity is balanced out across Great Britain.

WESTERN POWER DISTRIBUTION: Owns and operates electricity distribution networks for the Midlands, the south-west and south Wales.

NATIONAL GRID VENTURES (and other activities): Separate from the core regulated units, this is a portfolio of assets across the UK, including liquefied natural gas storage and regasification facilities, renewable energy generation and electricity interconnectors (high-voltage cables connecting electricity systems of neighbouring countries). Other activities primarily relate to the National Grid Partners venture capital arm which invests in innovative start-ups in the energy space.

National Grid - divisional breakdown of underlying operating profit, financial year ending March 2022

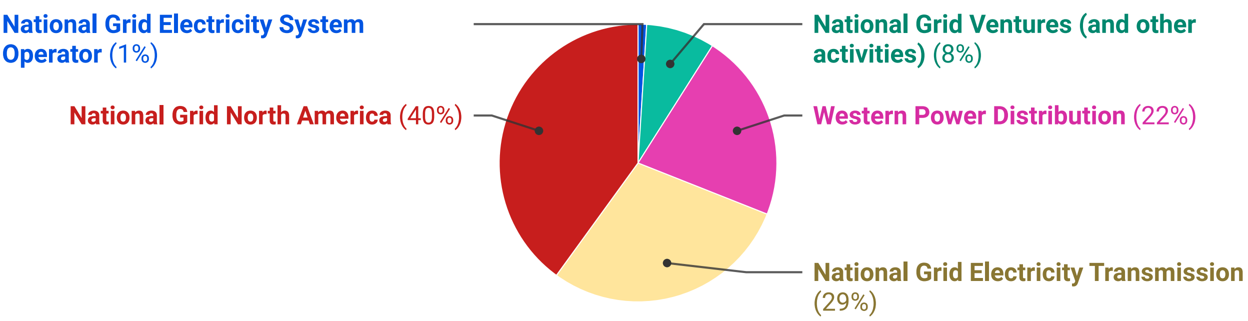


Chart: Shares magazine • Source: National Grid

Low borrowing costs have helped the business to increase investment, make more money and pay out more generous dividends. It expects to invest £30 billion to £35 billion across its energy networks and adjacent businesses, in the UK and US, over the five-year period to 2025/26 and thereby grow the asset base between 6% and 8% per year.

Berenberg explains how the inflation protection afforded the company works. 'In the UK, inflation increases the value of the group's regulated asset base (on which the group earns a real allowed rate of return). For example, a 100 basis-point increase in inflation would lead to a £230 million increase in the value of the group's £23 billion UK regulated asset base (UK electricity transmission and UK electricity distribution) compared to a £40 million equivalent increase in index-linked debt costs.

'In New York and New England, the group's price controls have various elements of forward-looking inflation forecasts or annual price increase mechanisms in place.'

SHIFT TOWARDS ELECTRICITY

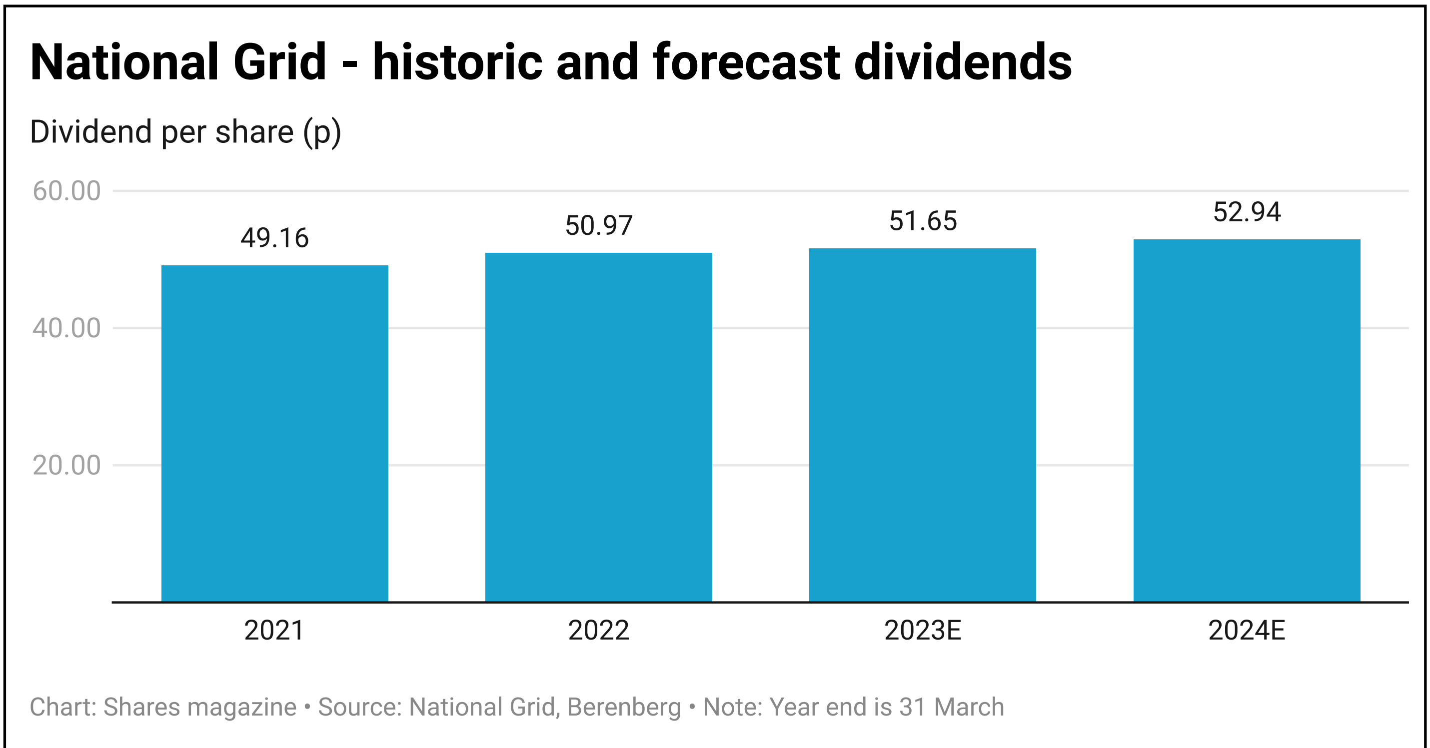
In recent years National Grid has been repositioning the business to have greater exposure to electricity as it prepares for a net zero future. The proportion of electricity assets is expected to grow from 60% to 70% of the group total as part of this strategy.

HOW THE ELECTRICITY AND GAS NETWORK WORKS IN THE UK

Electricity is generated from solar, hydro, wind, nuclear, fossil fuels and natural gas produced from deep underground and turned into energy by producers such as **Centrica (CNA)**.

National Grid takes this high voltage 'raw' electricity and high-pressure gas from the producers and carries it around the country on a network of cables, pipes, pylons and wires, while it also balances out supply and demand for electricity as the system operator.

To make it safe for use, a network of local operators helps to lower voltage and pressure before feeding it down their own pipes and cables to homes and businesses.



In 2021 the company acquired Western Power Distribution (WPD for short) – the distribution network operator for south Wales, the Midlands and the south-west of England.

To help fund the WPD deal it has agreed to sell a 60% interest in its UK gas transmission and metering business to a consortium of infrastructure investors including Australian bank Macquarie for £2.2 billion. The company also has an option agreement in place which could see the consortium return for the remaining 40%.

In addition, National Grid sold its 50% stake in a joint venture with housebuilder **Berkeley (BKG)** for £412.5 million and its Rhode Island business for $5.3 billion.

REGULATORY CHALLENGES

There are some serious challenges facing the business, particularly in terms of regulation.

Ofgem agrees a multi-year framework of investment and allowed returns – the latest of which covers the period 2021 to 2026. Dubbed RIIO-T2 it proved a nasty shock to National Grid as it effectively cut the level of return from 7% in the previous five-year period to 4.3% for electricity transmission and 4.6% for gas transmission.

In its role as an electricity distributor, it could be exposed to similar cuts under new price controls coming in early 2023.

Reports in *The Telegraph* suggest the UK Government is investigating the proposed sale of the majority stake in the gas transmission business amid concerns over energy security which, at the very least, could delay the deal.

A more existential threat is the prospect of renationalisation. There is already a plan for the system operator part of the business to return to public ownership from 2024. However, this contributed just 1% of group operating profit in the 12-month period to 31 March 2022.

A wider nationalisation of the network looks unlikely given the costs of compensating shareholders, but the current energy crisis means it could remain a live political issue and thereby have an impact on stock market sentiment towards the company.

DEBT CONCERNS

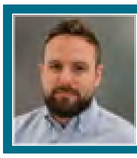
Due to the timing of different transactions National Grid is sitting on elevated levels of debt.

Total net debt stood at £42.8 billion as of 31 March and this includes more expensive bridge loans used to fund the WPD deal.

If the sale of the gas arm doesn't go through it could, in theory, see debt levels stay higher than expected. That implies more of the company's cash could disappear on interest costs and potentially threaten the commitment to inflation-linked growth in the dividend.

In the long-term National Grid should have a central role to play in the energy transition as Berenberg notes: 'We see significant opportunities for a number of years ahead from new connections and grid reinforcement and digitalisation that will be essential for growth in renewables, security of supply and increased electrification (across homes, industry and transportation).'

In *Shares*' view the key reasons for owning the shares are the built-in inflation protection and the dividend yield, which stands at 4.7% according to Stockopedia. Existing and prospective investors must recognise the risks to justify holding the shares as there is often a misconception that National Grid is a risk-free investment.



By **Tom Sieber** Deputy Editor

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Five key tests of the markets' tone for investors to monitor

Why it is worth keeping tabs on copper, small caps, transport indices, junk bonds and volatility

The summertime blues are nowhere to be seen. Share and bond prices are advancing, and oil and commodity prices are ebbing to help take the edge off inflationary concerns and permit markets to convince themselves that central banks are planning a policy pivot, in the form of interest rate cuts, sometime in 2023.

This all seems at odds with a world where inflation still stands at 40-year highs, economic data is softening quickly, consumer confidence is flat on its back, companies are flagging margin pressure, governments' scope to provide fiscal support is limited owing their impecunious state and geopolitical tensions remain elevated in Eastern Europe, the Middle East and South-East Asia.

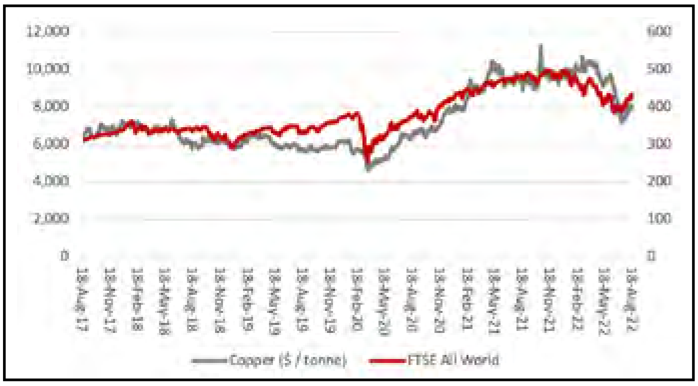
Bulls will counter these are no longer new 'news' items as they dominate the media every day. Bears will assert summer's surge is no more than a classic bear-market rally, a trap waiting to spring shut on the unwary, especially as the farrago involving **Bed Bath and Beyond (BBBY:NASDAQ)**, the launch of a leveraged, single-stock exchange-traded fund that tracks the share price of **Tesla (TSLA:NASDAQ)** and a renewed surge in meme stocks such as **AMC (AMC:NASDAQ)** do not feel like the sort of activity that usually calls a market bottom.

Regular readers will know this column has five tried-and-trusted ways of testing market sentiment. Intriguingly, all of them look delicately poised right now so they could prove a useful guide to where markets go during the autumn and beyond.

FAMOUS FIVE

1. Copper. The industrial metal is so called because its malleability, ductility and use in everything from cars to housing to domestic appliances make it a great barometer for global economic health. Copper's one-third plunge to barely $7,000 a tonne from north of $10,000 this summer fits with the view that a recession is coming but the metal is now back above $8,000. Further gains would help to reaffirm investors' faith in the equity market rally, while further weakness would raise fears of an economic slowdown and a recession, or even stagflation.

Copper is looking a bit brighter



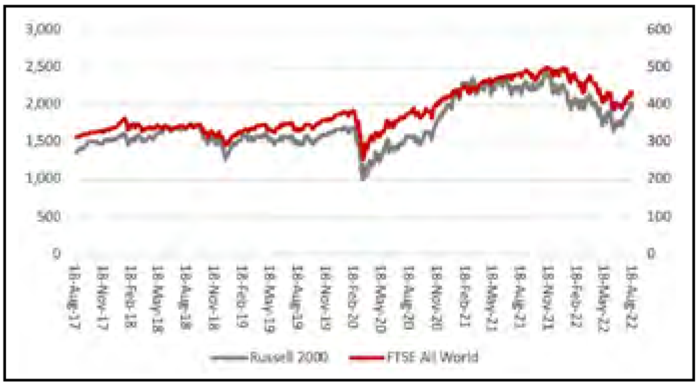
Source: Refinitiv data

2. Small caps. Market minnows are an excellent indicator of risk appetite – they tend to outperform when investors are bullish and fall faster than the broader market when they are bearish. The UK's FTSE Small Cap and AIM indices are among the worst performing global indices in 2022 and America's Russell 2000 is still in bear market territory, even after a one-fifth gain from its June nadir.

3. The transportation indices. The old theory goes that if the transports are not performing, the industrials cannot do so either, as if nothing is being

RUSS MOULD
AJ Bell Investment Director

US small caps are trying to forge a recovery



Source: Refinitiv data

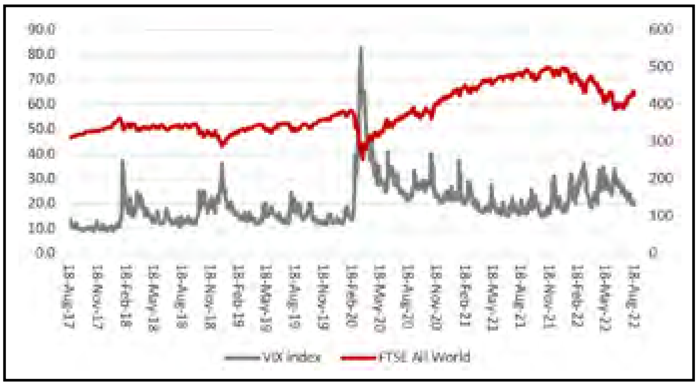
Junk bonds have yet to stage a convincing rally

Source: Refinitiv data

Transport stocks may be getting back on track

Source: Refinitiv data

The VIX index is creeping lower



Source: Refinitiv data

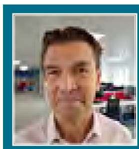
shipped, nothing is being sold. It may therefore be of some relief to bulls that America's Dow Jones Transports index is 14% above its lows and trying to steam higher but if that benchmark starts to sink again then there could be trouble ahead.

4. Junk bonds. High-yield bonds lie at the riskier end of the fixed-income spectrum as their more pejorative name of 'junk' bonds would suggest. The issuers have creaky balance sheets, volatile cash flows or both, and they need to pay a higher coupon as a result to attract buyers of the paper. They can trade a bit like equity, such is their risk profile, so bulls of stock markets will want to see the US-listed **iShares iBoxx High Yield Corporate Bond ETF (HYG:NYSE)** performing well. The bad news is the tracker fund is trading below the $80 level. Prior dives below that threshold signalled wider market volatility in 2008, 2015, 2020 and early 2022 so a recovery here is a matter of some urgency.

5. Volatility can be the friend of the investor – it can provide chances to sell stock expensively or buy it cheaply – but history shows that stock indices progress best when they make serene progress and a series of modest gains, and tend to fare less well when trading is choppy and there are big swings up and down. America's VIX, the so-called 'fear index,' stands just above its lifetime average of 19. That suggests sentiment is still bullish, especially as the reading is creeping down, and fits neatly with the advances in copper, small caps and transport stocks. However, junk bonds' struggles may suggest that something could yet test the latest risk-asset rally. After all, markets are often at their most dangerous just when making money looks easiest.

Investors worry recession will hurt advertising companies' earnings

Share prices are already falling but might it get worse from here?



By **Mark Gardner** Senior Reporter

The threat of a recession is prompting companies to cut back on their promotions and investors are increasingly wary of buying shares in the advertising sector. This is understandable given the strong correlation between global economic growth and nominal spending on advertising.

Both the MSCI European Media and Entertainment index and the MSCI World Media and Entertainment index have fallen year-to-date by 19.4% and 31.1% respectively.

Digital-focused advertising agency **S4 Capital (SFOR)** has seen its share price fall by 75% so far in 2022, not helped by a savage profit warning in July.

Two of the more traditional advertising agencies have also seen share price weakness despite either confirming or upgrading their earnings forecasts for the year. These are **WPP (WPP)** which is down by 30% and **Publicis (PUB:EPA)** which has declined by 16%.

PAY CLOSE ATTENTION TO ONLINE ADVERTISING

The economics team at Berenberg forecast a mild recession across the developed world, which is likely to negatively affect spending on advertising and marketing. Although advertising agencies will be affected by this event, internet-only media companies may fare worse.

Over the course of the last decade, advertising agencies' growth rate has decoupled from global advertising expenditure. This reflects their concentration on large corporates, while small and medium-sized enterprises have been the driving force behind advertising expansion during the last decade. This is in part because smaller companies tend to be more reliant on online advertisements to attract new customers.

Recently, lower levels of consumer demand coupled with privacy changes implemented by **Apple (APPL:NASDAQ)** have forced smaller companies to reduce their marketing spend to conserve cash.

Last year, Apple released an update for iPhones that let users decide if they wanted to allow apps on their device to target them for advertisements. Most users decided to opt-out which has essentially made mobile advertising less effective for companies.

Analytics platform Varos looked at data from

1,300 small businesses and found their revenue declines had accelerated each month in the second quarter of 2022, according to a report in the *Financial Times*. Varos' study also highlighted the cost of acquiring new customers through online advertising was 'significantly higher' this year than last, and that overall advertising spend on **Meta Platforms' (META:NASDAQ)** Facebook network in 2022 was materially lower versus 2021.

According to data group Lotame, difficulties facing small business have impacted the giants of the online advertising world including **Snap (SNAP:NYSE)**, **Alphabet (GOOG:NASDAQ)**-owned YouTube and **Twitter (TWTR:NYSE)** to the tune of $18 billion in revenues this year.

WILL WPP AND PUBLICIS BE NEXT TO WARN?

The message from both Publicis and WPP management teams has been consistent. Currently they do not see any sign of the downturn that the market is now anticipating.

Following a major restructuring and repositioning of the business, growth appears to be returning for Publicis, particularly in the key US market.

It continues to generate substantial cash flow, which allowed it to invest nearly €3 billion in buying Sapient (a business focused on digital transformation) in 2015, de-lever by the end of 2018 and subsequently buy Epsilon for $4.4 billion in 2019. Epsilon provides marketers with proprietary data resources to supplement audience profiles and measure customer engagement across channels.

Publicis views its CORE ID solution, which has 250 million profiles in the US alone, as a key asset that differentiates it from peers, and is one of the drivers behind it winning accounts with **McDonald's (MCD:NYSE)** and **Walmart (WMT:NYSE)**.

This focus on identity comes alongside management's comments that the forthcoming depreciation of third-party cookies is likely to have a bigger impact on marketers and publishers than investors currently understand.

Google is to stop using third-party cookies in its Chrome internet browser from 2024. Cookies enable advertisers to track users across multiple websites and serve more targeted advertisements.

According to Berenberg estimates, Publicis is trading on a 2022 price earnings multiple of 8.3. Earnings per share are forecast to fall by 2.9% from 2022 to 2023, before rebounding by 3.7% in 2024. The current 5.4% dividend yield is forecast to rise to 5.5% in 2023.

For UK advertising agency WPP results for the six months to 30 June reflected a 'strong first half' featuring 'sustained demand from clients', according to the company. An estimated total of $3.4 billion of net new business was secured during the period including Mars, Sky, Audi and **Danone (BN:EURONEXT)**.

WPP's forward guidance is for organic revenue growth of 6% to 7% for 2022 coupled with a 50-basis point uplift in the operating margin.

According to recently updated Shore Capital earnings and dividend forecasts WPP is currently trading on a price to earnings multiple of nine, which falls to eight times in 2023.

WPP's current full year dividend forecast is 35.5p. This equates to a 4.3% yield, rising to 4.7% in 2023.

While some potential bad news has already been priced into Publicis and WPP's shares, the key risk is that negative market sentiment towards the broader advertising market will continue to weigh on these stocks.

WHICH UK STOCKS ARE RELEVANT TO THE ADVERTISING THEME?

There is a wide variety of stocks on the UK market whose fortunes are linked to advertising activities.

Aside from the big advertising agencies WPP and S4 Capital, there is polling business **YouGov (YOU:AIM)**, whose data is heavily used by companies when targeting consumers.

Publisher **Future (FUTR)** generates a good chunk of its earnings from carrying advertising on its websites and in its magazines. **Bidstack (BIDS:AIM)** helps video game developers to earn more money by arranging for advertising to appear in their games. **Dianomi (DNM:AIM)** is a specialist in contextual advertising and helps brands to place adverts alongside relevant news topics.

Next Fifteen Communications (NFC:AIM) is trying to acquire **M&C Saatchi (SAA:AIM)**. Having initially recommended a bid in May, Saatchi withdrew its support after a big fall in Next Fifteen's market valuation reduced the value of the part of the deal being satisfied by shares. A meeting slated for 19 August aimed at resolving the situation was delayed until early in the fourth quarter of 2022.

How UK advertising-related stocks have performed over the last 12 months

Company	Market cap (£ million)	One-year performance (%)
Bidstack	27.5	61.6%
M&C Saatchi	192.6	20.2%
Next Fifteen Communications	945.9	1.2%
Ebiquity	62.6	−1.8%
YouGov	1308.6	−8.9%
WPP	8834.9	−16.2%
The Mission	53.7	−23.4%
Pebble Group	170.0	−31.2%
Dianomi	49.5	−50.3%
Tremor International	522.3	−54.6%
Future	2081.7	−55.1%
S4 Capital	822.0	−79.2%
Mirriad Advertising	17.4	−81.5%

Table: Shares magazine • Source: SharePad, data to 19 August 2022

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

30 August: Braemar Shipping Services.
31 August: ECO Animal Health.
1 September: Omega Diagnostics.
2 September: Ashmore, Time Finance.

Half-year results:

30 August: Centralnic, Old Mutual, Uniphar.
31 August: Bank of Cyprus, BBGI Global Infrastructure, Chesnara, Flowtech Fluidpower.
1 September: Alfa Financial Software, Eurocell, Gem Diamonds, Gulf Keystone Petroleum, PPHE Hotel.

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THIS WEEK: 11 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

TINYBUILD

ANGLE

CENTRALNIC

Growth & Innovation

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

ISSN 2632-5748

AUGUST 2022

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.

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.

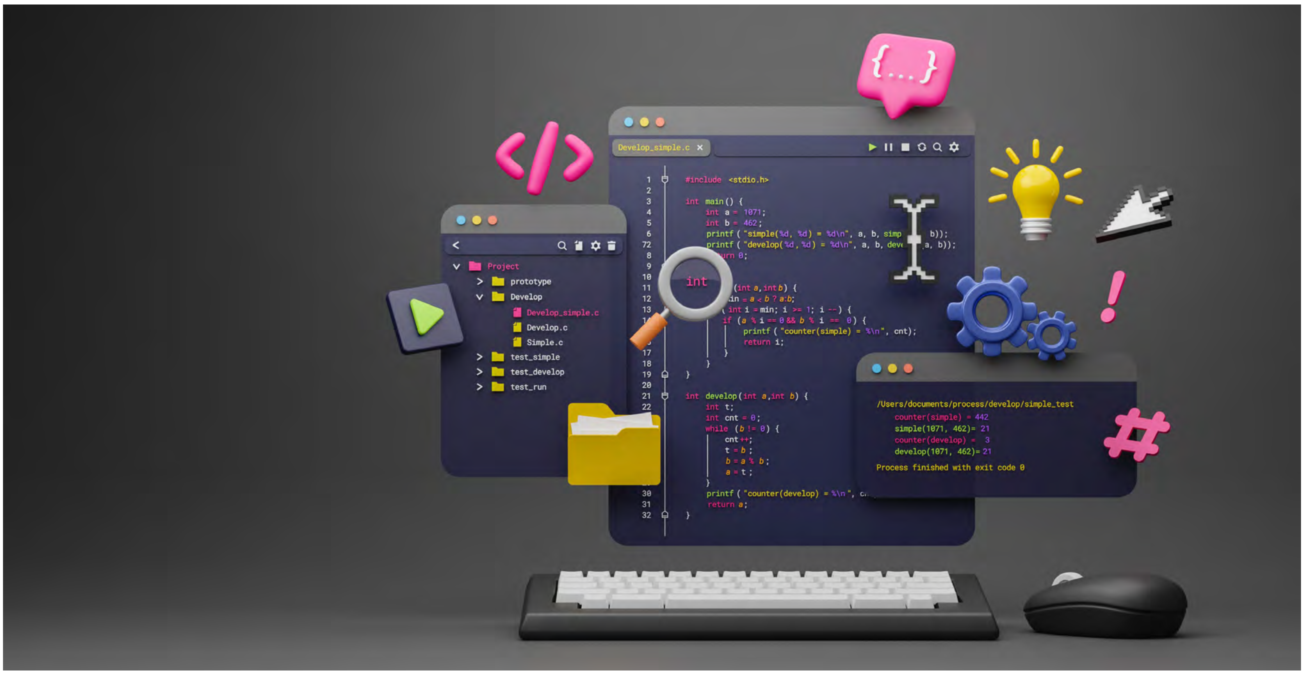
Some of the firms profiled in *Spotlight* will appear at our investor webinars and in-person events where you get to hear from management first hand.

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

Previous issues of Spotlight are available on our [website].

What is software-as-a-service and why does it continue to grow

Selling IT services through the cloud is proving an increasingly popular approach



Software-as-a-service (SaaS) is a subscription to IT services via the cloud and is available on the internet. SaaS has been around since 2000, but still has high growth potential, as not all companies have made the switch yet while new applications are continuously in development.

SaaS solutions are among the fastest-growing segments within the IT sector and, according to Gartner, they were still the largest public cloud services market segment in 2021, representing 37% of the market, or $152 billion.

Gartner expects end-user spending on public cloud services to increase 20% in 2022 to $495 billion, followed by growth of 21% in 2023 towards $600 billion.

The transition to the cloud has accelerated over the past two years due to the Covid-19 pandemic, as businesses have adapted to the new way of doing business and social dynamics.

Another effect of the pandemic is that now 70–80% of B2B decision makers prefer remote human interactions or digital self-service over face-to-face interactions (source: McKinsey). More companies are expected to adopt SaaS solutions for an increasing variety of business functions. According to Gartner, the high growth of public cloud services easily outpaces the expected growth in worldwide IT spending of 4% in 2022 and 5.5% in 2023.

A survey by BetterCloud also confirms the ongoing adoption of SaaS, as companies continue their digital transformation journeys. The survey divides the market of SaaS users into three groups. The first represents 15% of the total and consists of SaaS-powered workplaces, which are already almost entirely running on SaaS.

These organisations are now 93% SaaS based and this is expected to increase to 97% by 2025. The second group are the workplaces in transition, representing 70% of the total, which use a mix of SaaS and on-premises software.

These organisations are 55% SaaS based and this is expected to increase towards 78% by 2025. The third group are the traditional workplaces, representing 15% of the total, which are still primarily using on-premises tools. These organisations are only 8% SaaS based, but this is expected to increase to 27% by 2025. Many (smaller) organisations are still in the early stages of their SaaS adoption journey, but are expected to also switch to a digital workplace in due course.

WHY TRANSITION TO SAAS?

SaaS is replacing the perpetual software licence contract, which includes an ongoing maintenance contract. Perpetual licensing results in a lump-sum payment to acquire the licence, followed by implementation fees and ongoing annual maintenance costs.

Now the market has largely shifted to the subscription SaaS model, revenues are more evenly spread, as subscription fees are paid monthly or annually. Although already going on for many years, we expect the transformation from a perpetual licence model to SaaS to continue, driven by benefits to the customer such as lower upfront costs, higher security levels, up-to-date software and ease of use.

What are the key features of SaaS?

The key features of SaaS software are:

Multi-tenant: all customers use the same software solution. It is not customised, but can be personalised and configured by individual users. The benefit of this to the software developer is that only one version of the software needs to be maintained and software upgrades can be undertaken on an ad-hoc basis. Each upgrade is then made available to all users simultaneously. For the customer, this means more frequent small upgrades, rather than the disruption of larger upgrade projects.

Cloud-based: the software is accessed via browsers or mobile apps, with all data stored in the cloud. This means users can access the software from anywhere, a key benefit for deskless workers and those working from home.

Subscription licensing: rather than buying a perpetual licence upfront with an ongoing maintenance contract, the customer signs up to use the software for a minimum period. For SaaS solutions, this is typically three years, after which the customer can choose to stop using the software. The subscription fee includes the provision of upgrades and support on an ongoing basis. While SaaS companies highlight the high recurring revenues this business model provides (typically 80%+), this also requires the provision of high levels of ongoing customer service to ensure customer retention. For companies used to the perpetual licence model, this can represent a significant mind shift and the customer service ethos needs to run through the entire company.

Operational rather than capital cost for customers: as customers do not need to sign up for large perpetual licences and potentially complex installation projects, the decision to use SaaS software shifts from a capital expenditure project to an operational expenditure. Small numbers of employees can sign up to trials before extending to a wider base, if deemed suitable. This can make it easier to sign up new customers, although it also reduces the barriers to entry for competitors.

BUSINESS MODEL OF SAAS

SaaS has a subscription business model. Contracts are typically for three years with monthly or annual subscription payments. In some cases, SaaS providers earn additional transactional income, based on the volumes processed by their platforms. This can provide additional revenues for the software provider, boosting scale benefits.

IFRS 15 leaves companies some freedom to interpret how they recognise SaaS revenues. Typically, these revenues will be spread out over the contract period, rather than reported in one year, although in some cases the contractual arrangement may lead to the entire subscription amount being recognised upfront.

Part of the consultancy revenues (mainly related services) may also be categorised as SaaS revenues. The application of IFRS 15 has affected, for example, the level of SaaS revenues as a percentage of total revenues. This can influence the valuations of companies, which tend to be higher with a higher proportion of SaaS revenues.

HOW TO SUCCESSFULLY GROW A SAAS BUSINESS

Successful SaaS software businesses typically focus on growing the number of subscribers as fast as possible, which requires a significant investment in sales and marketing headcount. At the same time, product development is a key investment area, so that software remains competitive and adapts to customer demand for new functionality.

The main focus of SaaS providers is to encourage the adoption of their platform, both signing up new customers and expanding usage within its existing customer base. This will increase the scale of the company at relatively low additional costs.

TYPICAL SAAS VALUATION

In contrast to the 'lumpy' licence model, cloud-based SaaS leads to higher levels of recurring revenue. With a typical three-year subscription contract, the software supplier has a guaranteed income stream for the contract period, enhancing the predictability of its future results. Well-run SaaS companies typically have recurring revenues of more than 80%, low churn rates and derive EBITDA (earnings before interest, tax, depreciation and amortisation) margins of on average 15–20% or even higher, depending on the scale of the business. As there are also many start-ups in the market, with large investments in their business suppressing profitability, earnings multiples are not the best valuation metric for SaaS players, leaving sales multiples and DCF (discounted cash flow) as the most suitable valuation methods.

Looking at enterprise value to sales multiples, there is a wide range in valuation from 1.5 times to around 30 times. There seems to be a difference in valuation between US and European players.

The typical growth path for US SaaS companies appears to involve investing heavily in sales and marketing to gain market share as fast as possible, with little focus on achieving profitability in the short term, whereas European companies seem to focus more on balanced growth in revenues and profits.

Scale is very important in the SaaS environment and this seems the most logical explanation for the difference in valuation between the SaaS players.

This article is based on a report produced by Edison Investment Research, other Edison Explains and thematic research is available here.

Content is king – Invest in the future of entertainment

www.tinybuild.com

AIM-quoted **tinyBuild (TBLD:AIM)** is a leading video games publisher and developer with global operations. It has a growing portfolio of premium console and PC titles across the horror, action, simulation, and survival genres.

Co-founders Alex Nichiporchik (CEO) and Luke Burtis (COO) still hold a combined 45% of the capital and are fully aligned with investors for long term value creation.

Over the past 10 years, tinyBuild has grown from a team of two to more than 400 staff and a portfolio of more than 70 games. More recently, tinyBuild has released critically-acclaimed titles such as *Not for Broadcast*, a dystopian, darkly comedic TV propaganda simulator and top-selling titles such as *Potion Craft*, a relaxing and engaging alchemist simulator. Looking at the future, the company now has the largest and the highest quality pipeline of new games it has ever had. Upcoming games include *Hello Neighbor 2*, the highly anticipated sequel, as well as *SpiderHeck*, *Tinykin*, *The Fridge is Red*, *Rawmen*, *Asterigos*, *Nitro Kid*, and *I am Future*.

Headquartered in the US, tinyBuild now has operations stretching across the Americas and Europe. Its global footprint enables the company to source high-potential IP and work with talented developers in strategic geographies.

TINYBUILD HAS A UNIQUE STRATEGY FOR LOW-RISK GROWTH

tinyBuild focuses on three ways to drive organic growth. First, the Company leverages existing partnerships and in-house developer. Second, tinyBuild follows a multi-game and 'Game as a Service' franchise model expansion. Third, tinyBuild works on its IP portfolio to pursue multimedia opportunities such as books, graphic novels, merchandise, and TV series

Its organic growth strategy is supported by an evolving

M&A strategy which reflects tinyBuild's growing success and ambitions to scale and diversify the business. Since 2013, tinyBuild has completed a number of acquisitions, expanding its own-IP portfolio to include *Streets of Rogue* (June 2021), *Rawmen* (August 2021) and *Deadside* (September 2021), among others.

The company will continue to balance organic investment with M&A to capture opportunities as they arise and to diversify the business. tinyBuild will evaluate larger transactions as it looks to scale the business and accelerate growth.

For example, in November 2021, tinyBuild acquired US-based Versus Evil, the video game publisher of critically-acclaimed titles such as The Banner Saga and Pillars of Ethernity II.

TINYBUILD ENJOYS ONE OF THE LOWEST LEVELS OF STAFF TURNOVER IN THE INDUSTRY

Finding and retaining talented people who can deliver successful games is critical to the strategy. Especially when the market for talent is so competitive. tinyBuild enjoys one of the lowest levels of staff turnover in the sector: low single-digit compared to an estimated 15.5.% at an industry level according to specialist publication *Wired*.

This is because of the policies it has adopted and the culture that has been created, including trialling unlimited paid leave and giving staff extra holidays in appreciation of their hard work. The company is now planning to open its fourth permanent studio in Europe to support growth.

STRONG FINANCIAL TRACK RECORD

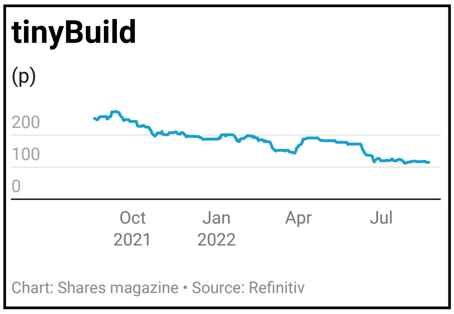
Since its IPO, tinyBuild's strategy has delivered a sustained financial performance. tinyBuild performed strongly in 2021 with revenue growth of 39% to $52.2 million (2020: $37.7 million). Operating profit increased by 64% to $12.5 million (2020: $7.7 million), with profit before tax and basic EPS (earnings per share) growing by a similar amount to $12.5m and 4.3c, respectively.

The company's back catalogue, revenues from older titles, typically represents over 70% of its annual revenue, demonstrating the longevity of its IP and giving visibility of revenues. Own-IP, titles for which the company owns the intellectual property, accounted for over 80% of revenue in 2021, explaining the industry-leading margins.

LOOKING AHEAD WITH EXCITEMENT

With a diverse portfolio of own IP titles, tinyBuild continues to benefit from platform competition and it is well positioned to benefit from the growth of subscription services such as Xbox Game Pass. tinyBuild recently announced a record number of new titles for release, underpinning management's confidence that it can deliver strong full year results .

tinyBuild recently updated the market to reaffirm its guidance of delivering 'at least in line with expectations', continuing a track record that saw the company meeting and beating consensus forecasts at every results since the IPO. Watch this space.



ANGLE achieves world first with FDA clearance for its Parsortix PC1 clinical system

www.angleplc.com

ANGLE (AGL:AIM) is a world-leading liquid biopsy company that has developed the Parsortix system for harvesting intact circulating tumour cells (CTCs) from a patient's blood sample for subsequent analysis.

In May 2022, ANGLE received US Food and Drug Administration (FDA) clearance for its Parsortix PC1 system. This is the first ever FDA product clearance for a device to harvest CTCs from metastatic breast cancer patient blood samples for subsequent, user-validated analysis.

FDA product clearance, the global gold standard for medical devices, gives ANGLE first mover advantage for intact cancer cell analysis in the global liquid biopsy market, which is estimated will grow to over US$100 billion per annum in the US alone.

LIQUID BIOPSY - HELPING HEALTHCARE SYSTEMS MANAGE THE REPERCUSSIONS OF COVID-19

Across the globe Covid-19 continues to disrupt cancer services, slowing diagnoses

and delaying treatment, creating a backlog that could take more than a decade to clear. Cancer remains a leading cause of death in most developed nations with an estimated 90% of deaths due to metastasis. As such, early diagnosis and care optimisation remain a priority.

Given the dynamic nature of cancer, selecting the appropriate treatment requires access to the most up-to-date status of a patient's disease and will be an urgent priority moving forward.

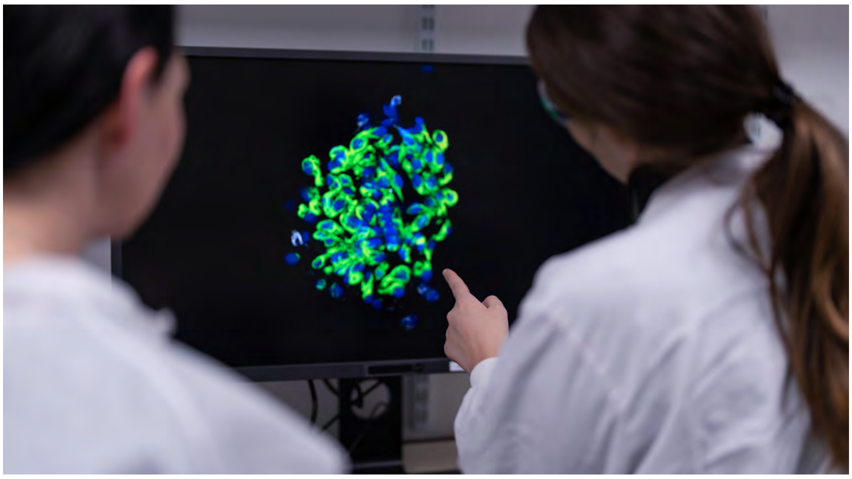
ANGLE believes its Parsortix liquid biopsy system can help to meet that need. CTCs as a liquid biopsy, have significant potential as a prognostic and diagnostic tool for clinicians. By enabling minimally-invasive, repeat liquid biopsies from a simple blood test to assess cancer status, the Parsortix system has the potential to deliver profound improvements in clinical and health economic outcomes in the diagnosis and treatment of cancer.

A CLEAR PATH TO SUCCESS

ANGLE has a clear, four-pronged strategy for achieving widespread adoption of the Parsortix system:

- **Regulatory approval**

The FDA De Novo Class II classification means that an entirely new medical device



classification has been granted by the FDA for the Parsortix PC1 system. The credibility associated with medical device FDA product clearance cannot be over-estimated and we anticipate that this will turbocharge all aspects of commercialisation of the Parsortix system.

- **Pharma services**

In March 2021, ANGLE opened new clinical service laboratories ahead of schedule in the UK and US (under its new 'Onc-ADaPT Labs' brand) with the first four biopharma customers now onboarded.

In April 2021, ANGLE secured its first large-scale sample processing services contract with an oncology focused pharmaceutical company, valued at up to $1.2 million.

In June 2022, ANGLE secured an additional contract, again worth $1.2 million, with the same pharma services customer demonstrating market confidence in both ANGLE and the solutions it offers. The customer, a pharma company with revenues exceeding $1 billion per annum, has selected the Parsortix system to undertake longitudinal monitoring of patients in its clinical trials, including a large, multi-centre, late stage trial in prostate cancer.

- **Clinical Studies**

ANGLE has signed a master clinical study agreement with Solaris Health Holdings LLC and its affiliate MidLantic Urology LLC, to collaborate and conduct clinical studies in prostate cancer and as a potential route to market in the US. Together with MidLantic Urology, ANGLE will initiate clinical studies aimed at investigating the use of the Parsortix system for the detection of prostate cancer and prediction of its severity in patients.

Assuming results are positive, the prostate cancer test, and other tests developed by ANGLE, will be offered from its clinical laboratories, which are currently undergoing CLIA and UKAS accreditation to enable use of Parsortix based tests for patient management.

- **Published evidence**

Leading independent cancer centres continue to publish positive results on their use of the Parsortix system with 66 peer-reviewed publications as of July 2022, across 24 different cancer types.

The Parsortix system has enabled breakthrough research into cancer metastasis and its treatment. It was recently used in a remarkable study published in Nature, demonstrating that in breast cancer patients CTCs are shed at a higher rate during sleep and that these CTCs have greater metastatic potential.

FDA CLEARANCE PROVIDES ANGLE WITH A MAJOR OPPORTUNITY IN AN EMERGING AND GROWING GLOBAL MARKET

The recent FDA clearance of ANGLE's Parsortix PC1 system, renewal of a substantial contract with a significant pharma services customer, involvement with large, critical clinical studies, the increasing rate of publications utilising the Parsortix system combined with a recent successful fundraise (£20 million in July 2022), demonstrates that ANGLE is gaining momentum in an expanding, large scale market.

ANGLE has the potential to positively impact cancer diagnosis, treatment, and monitoring for the millions of people whose lives are impacted by this disease every day. In the words of ANGLE's chief executive officer, Andrew Newland, 'the effective execution of ANGLE's strategy has the potential to deliver significant financial returns for ANGLE's shareholders, profoundly improve the outcome for cancer patients, and reduce healthcare costs'.

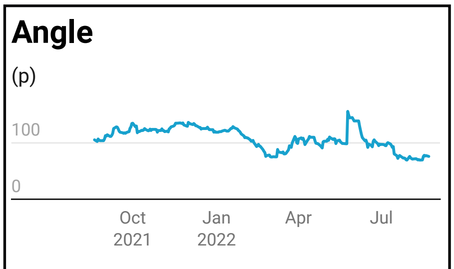


Chart: Shares magazine • Source: Refinitiv

CentralNic

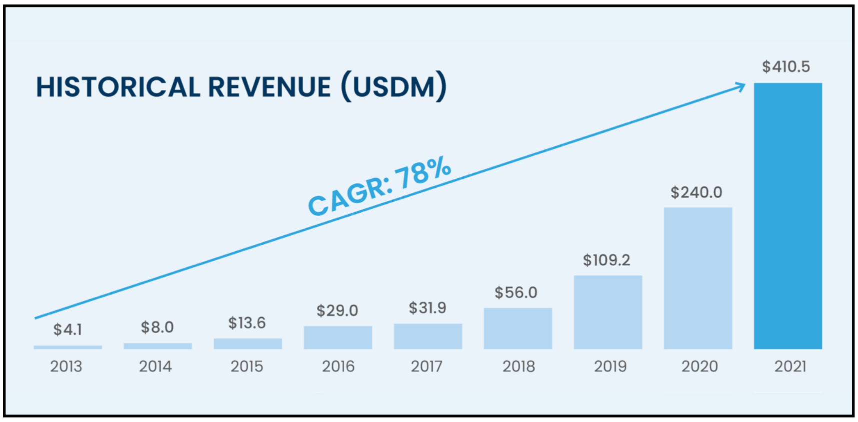
CentralNic is powering the growth of the digital economy

www.centralnicgroup.com

CentralNic (CNIC:AIM) is a London-based AIM-quoted company which helps to drive the growth of the global digital economy by developing and managing online marketplaces. This allows businesses globally to buy subscriptions to domain names for websites and email, monetise their websites, and acquire customers online.

CentralNic creates these marketplaces by acquiring and merging highly cash-generative recurring revenue businesses in its market, each with different customers and suppliers, and then integrating them together to create an accelerated growth network effect. This strategy has resulted in organic growth at a massive rate of 62% over the past 12 months.

Ben Crawford, CEO of CentralNic



BUCKING THE TREND WITH STRONG, ACCELERATING GROWTH

CentralNic is listed in the FT's 1000 list of Europe's fastest-growing companies, and from June 2022 has now been included in FTSE AIM 100 and AIM UK 50 indices.

While many other companies are suffering from recessionary forces, CentralNic has provided investors with increasing, sustainable growth during the period of COVID, further accelerating in 2022.

CentralNic has notched up six upgrades to market forecasts since the start of 2021. It delivered a strong financial performance in 2021, with revenue of $410.5 million, a 71% increase on the previous year, gross profits increased by 58% to $118.5 million and EBITDA (earnings before interest, tax, depreciation and amortisation) was up by 57% to $46.3 million.

The company's most recent market update, released in July 2022, showed further growth acceleration in the first six months of the year with revenue up 92% to c.$335 million and adjusted EBITDA up 85% c.$38 million, compared to the same period in 2021. Year-on-year organic growth for the trailing twelve months has risen to a record 62%.

The highlight of CentralNic's growth is that 99% of its earnings are recurring or utility-style rolling contract revenues, and CentralNic's cash conversion has remained at over 100% since it listed on the market in 2013.

ONLINE MARKETING...WITH A DIFFERENCE

This extraordinary growth is being driven by CentralNic's online marketing division, which has quickly overtaken the company's traditional domain name sales business as its largest source of revenues.

The core reason for CentralNic's success is that, unlike most online marketing businesses, its technology helps companies acquire customers on the internet without using third party cookies or capturing personal data, making it, in the words of CEO Ben Crawford, 'a new, better kind of tech company'.

Instead of traditional, invasive methods of marketing, CentralNic uses anonymous web traffic data, using Artificial Intelligence to analyse these datasets to identify the best websites on which to place advertisements and to optimise its own websites to obtain the most relevant customers for an advertiser client at the most affordable price.

CentralNic serves customers in almost every country in the world

> *"CentralNic's meteoric rise in organic revenue growth to 62% yoy proves the desirability of our privacy safe online marketing solutions. Despite this, we have currently penetrated less than 0.5% of the total addressable market. Our longer-term ambition is to be a $10bn revenue business which, with current organic growth, complemented by our ongoing successful M&A strategy, is eminently achievable."*
>
> **Ben Crawford, CEO of CentralNic**

Known as contextual advertising, this is becoming ever more sought after by advertisers as restrictions grow on the collection and sale of personal data online and individuals become increasingly privacy conscious.

STRATEGIC ACQUISITIONS

CentralNic's record organic growth has been achieved without the company stepping back from its core strategy of making earnings accretive acquisitions of high cash conversion, recurring revenue businesses that have annuity revenue streams and exposure to growth markets.

CentralNic made four acquisitions in 2021 and has already made a further three in 2022, all of which have added scale and capabilities. This includes the leading product comparison website business VGL, the Company's largest acquisition to date, which was funded by an oversubscribed equity placing and tap bond issue.

SUSTAINABLE MARKET OPPORTUNITY

CentralNic has continued to deliver sustainable growth thanks to its privacy safe solutions and the enormous scale of the market opportunities it is addressing.

Global advertising platforms including Google and Amazon have increased their spend on acquiring customers from third-party providers like CentralNic each year, with the combined total spend of these two companies at well over $100 billion in 2022.

As CentralNic's share of this market is under c.0.4% so far, the scope for continued growth over the next few years is immense.

CentralNic's ambition is to continue its high double digit growth rate to become the preferred provider of web presence services in its core markets. Its constant influx of new customers, new services and new acquisitions will, the director's believe, guarantee growth at that rate for many years to come.

CentralNic

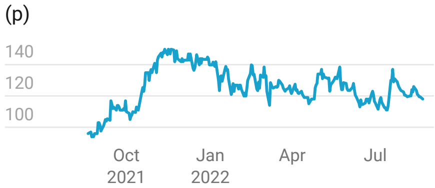


Chart: Shares magazine • Source: Refinitiv