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VOL 24 / ISSUE 38 / 29 SEPTEMBER 2022 / £4.49

SHARES

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THE BOSS IS OFF

Why are so many FTSE 100 CEOs leaving?

STERLING, STOCKS AND GILTS HIT: Here's what could happen next

Contents

Daniel **Coatsworth**

EDITOR'S VIEW

Discount retailers could be the next losers from inflation and interest rate shock

Margins are getting squeezed and trading down boost might not be strong enough

The slump in the pound has been the big talking point for investors over the past week thanks to the market's negative response to the new UK Government's mini-Budget.

All those experts who had been banging the drum that UK equities were cheap may now be sitting with their head in their hands, as shares in many domestic-facing companies have become even cheaper.

Unfortunately, we're in a situation where high inflation is proving stickier than expected, which means the Bank of England is going to have to keep on raising interest rates. Making matters worse is the fact the slump in the pound itself will fuel more inflation, as it becomes even more expensive to buy in goods and services from overseas.

Consumers will be watching every penny and businesses will be questioning their ability to fulfil short to medium-term growth plans.

Nick Clay, manager of the **Redwheel Global Equity Income Fund (BMBQMY8)**, suggests one of the most vulnerable parts of the market could be discount retailers – precisely the type of business you might expect to thrive in tougher times such as now.

In theory, consumers under financial pressure will trade down from more expensive retailers to cheaper shops. For example, the head of discount grocery store Aldi told the *BBC* that people were switching to its stores 'in droves' as they prioritise value.

Clay doesn't think it is that clear-cut. We've had two decades of cheap debt and disinflation which has enabled various low margin businesses to thrive. The surge in the cost of living and interest rates now provides a shock to their system.

'You cannot underestimate the importance of the change in backdrop we now face,' says Clay. 'Target in the US and the likes of Wilko in the UK, they're basically saying they cannot put prices up for the consumer because the whole point of their business model is to do everything cheaply. Therefore, they're having to take the pain and the hit of cost inflation in their margins. The problem is that most of these businesses are low margin in the first place.'

The challenge for these types of companies is to ensure that sales volumes remain high, which one might expect to be helped by consumers seeking to trade down from elsewhere. 'Unfortunately, trading down isn't pushing up revenue fast enough to offset the fact that the cost base is increasing so margins are getting hit,' observes Clay.

For example, **Target's (TGT:NYSE)** second quarter operating income margin slumped from 9.8% to 1.2% in 2022, year-on-year. In the six months to 28 February 2022, **ASOS (ASC)** had gross margins of 43.1% which sounds impressive, but an already-tiny operating profit margin in the region of 6% in 2021 disappeared completely this year.

B&M European Value Retail (BME) is considered one of the cheapest places to buy everyday goods in the UK, but it warned four months ago that its earnings could fall this year as customers shied away from higher margin big ticket items at its stores, in favour of food and smaller consumer goods.

A real toxic combination in the current environment would be low margins and high debts, and that's something we'll look at in next week's issue of *Shares*.

Sterling, stocks and gilts hit: here's what could happen next

We look at the aftermath of the new UK Government's mini-Budget

In the early hours of 26 September, days after a mini-Budget which belied its modest billing, sterling hit its lowest level against the dollar on record.

Since new chancellor Kwasi Kwarteng sat down in the chamber having delivered his statement the market reaction has been savage as the pound sinks, gilt yields surge and UK stocks dive.

In the simplest terms, investors are concerned about the announced package of tax cuts, combined with an existing energy bailout, being funded by increased borrowing.

BlackRock comments: 'The UK government revealed a fiscal splurge on Friday that effectively throws money at an inflation problem, in our view. After last week's hike, this means the Bank of England will have to hike more and leave rates elevated for longer than it planned to, we think. But more importantly, the fiscal splurge puts the UK's fiscal credibility into question.'

The currency markets have taken the headlines as the discussion around sterling hitting parity against the dollar and the euro heats up. To put these moves in a longer-term context it is worth pointing out that the UK currency has been weakening for some time, particularly since the Brexit vote in 2016. The dollar has also been very strong against most global currencies.

The pound has slumped in value

Chart: Shares magazine • Source: Refinitiv

The moves in the gilt (UK government bond) market have been more dramatic and ultimately more consequential. At the beginning of August, the yield on the five-year gilt was a little more than 1.5%. By early it September it had moved above 3% and then topped out at more than 4.6% in the wake of the mini-Budget.

Chief investment officer of public fixed income at M&G Investments, Jim Leaviss, says: 'The rise in yields will already be feeding through into new fixed rate UK mortgage rates – and as tax cuts will disproportionally benefit the highest rate taxpayers (who have a low marginal propensity to consume) it is possible that those higher mortgage costs will have more economic impact than the "animal spirits" unleashing that the government hopes for.'

On 28 September the Bank of England announced it would be purchasing gilts in an effort to restore market stability but as we write there is no sign of an emergency rate rise or Kwarteng performing a U-turn on tax cuts.

UK interest rates of 6% are now being priced in for the first half of 2023. This would result in a big increase in borrowing costs and in particular make mortgages much more expensive.

In turn this will only increase pressures on consumer spending and have a big impact on demand in the property market. In this context it was not surprising to see shares in housebuilders and retailers on the back foot. The cost of financing debt is also likely to increase – with consumer-facing businesses with significant borrowings looking particularly vulnerable.

In terms of the wider stock market the FTSE 100 is down a relatively modest 2% since last week's mini-Budget, helped by the fact weaker sterling boosts the relative value of the overseas earnings which dominate the index. The more domestic-facing FTSE 250 has slumped a more pronounced 3.8% to its lowest levels since 2020.

This, combined with a poorly pound, may prompt opportunistic overseas buyers to hunt for bargains on the UK market, just as they did after the Brexit vote in 2016 and during the pandemic.

While in the short term this might provide some relief to investors in companies which attract M&A attention, the danger is businesses are taken out at prices which fail to reflect their long-term prospects and the breadth and depth of the UK market is undermined. [TS]

Housebuilders, property investors and retailers slump on mini-Budget

Company	Performance since 23 September mini-Budget (%)
Urban Logistics REIT	−17
Warehouse REIT	−16
Moonpig	−16
Rightmove	−13
Taylor Wimpey	−12
JD Sports Fashion	−12
Land Securities	−11
Segro	−11
Redrow	−11
Bellway	−11

Table: Shares magazine • Source: SharePad, data 22 September market close to 10.30am 27 September 2022

HOW RISING INTEREST RATES AND INFLATION IMPACT DIFFERENT ASSET CLASSES

STOCKS AND SHARES

- Borrowing costs go up for companies which means less money to reinvest for growth and there is pressure on profit margins, which in turn can be negative for earnings and therefore share prices.
- Consumers also suffer from higher borrowing costs which can feed through into reduced demand for goods and services because they're watching their pennies, again impacting corporate earnings and share prices.
- Rising interest rates can have a negative impact when calculating the present value of future cash flows.
- Greater competition from cash. If someone can get something like 4% a year from cash in the bank almost risk-free, they may become less willing to take the risk of putting money into the stock market for only a little bit more potential return. The risk to cash is the real value of the money being eroded by inflation.

BONDS

- The purchasing power of fixed bond payments is reduced by rising inflation.
- Older bonds become less attractive if new bonds are issued at higher yields.

CURRENCIES

- Rising interest rates typically push up the value of a country's currency. However, as we've just seen in the UK, that isn't always the case if the markets question the cost of any economic support.

Tesco, Greggs and Wetherspoon to reveal state of the UK consumer

All three will update the market on trading in a very difficult environment

A trio of companies with value credentials are about to update the market on the health of the UK consumer. Upcoming statements from **Tesco (TSCO)**, **Greggs (GRG)** and pubs operator **JD Wetherspoon (JDW)** will allow investors to take the temperature of a consumer buckling under the strain of the cost-of-living crisis and fretting over a looming recession.

Rising food prices, domestic energy bills and mortgage payments are squeezing shoppers' wallets, while the plunge in sterling is adding to inflationary pressures.

The latest GfK Consumer Confidence index hit a new record low of -49 for September 2022, painting a bleak picture of the consumer environment, though the energy price cap and the Government's tax cuts might provide some relief to the public.

Tesco's first-half results on 5 October will be scrutinised for commentary around footfall and average basket size, particularly as Aldi recently overtook Morrisons to become the UK's fourth biggest supermarket with cash-strapped customers switching to discounters in droves.

Ocado Retail, the joint venture between **Ocado (OCDO)** and **Marks & Spencer (MKS)**, reported on 13 September that its average basket size fell 6% to £116 in the 13 weeks to 28 August.

In an update on 17 June, Tesco insisted a 'laser focus on value' helped it outperform the market over the 13 weeks to 28 May, though CEO Ken Murphy did highlight 'some early indications of changing customer behaviour as a result of the inflationary environment' and Tesco's online performance coming up against some tough year-on-year comparative figures.

Investors will be watching food-on-the-go retailer Greggs' third quarter update on 4 October for evidence it continues to trade well and gain market share, where total sales rose 27.1% to £694.5 million in the first-half period running to 2 July 2022.

Rising raw material, energy and wage costs mean it doesn't anticipate material profit progression this year. As new CEO Roisin Currie stressed in August, Greggs offers 'exceptional value for customers looking for food and drink on-the-go', although the danger for Greggs is that customers begin making their own packed lunches at home rather than grabbing food and drink on the move.

Wetherspoons uncorks full-year results on 7 October, having previously said like-for-like sales for the first 11 weeks of its final quarter were 0.4% lower than pre-pandemic levels and guided towards higher-than-expected full year losses of around £30 million.

Broker Numis says 'the combination of soft sales and accelerating cost inflation in an operationally and financially geared business is a concern'. [JC]


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RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
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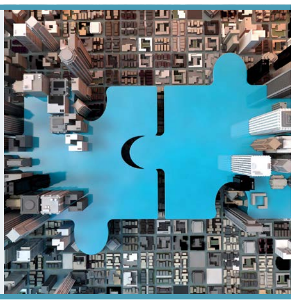
Capital at risk.
Pension rules apply.
Recommended Provider Which? Investment Platforms May 2020
Recommended Provider Which? Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020

With the pound falling, use this trust to invest overseas in quality companies

JPMorgan Global Growth & Income's merger with the Scottish Investment Trust has created an attractive vehicle with competitive costs

JPMORGAN GLOBAL GROWTH & INCOME
BUY
(JGGI) 415p

Assets: £1.44 billion



At the beginning of September 2022, the Scottish Investment Trust was subsumed into **JPMorgan Global Growth & Income (JGGI)**.

We think this is good news for anyone who has come across from the Scottish Investment Trust and for existing investors in the JPMorgan fund. For those not already invested, now is also a great time to buy shares in the combined entity.

Weakness in sterling has boosted the relative value of global earnings and volatile markets have created opportunities to invest in great businesses at more attractive prices.

THE BACKGROUND

Both trusts can trace their history back to 1887, yet their fortunes have not been the same. The Scottish Investment Trust had underperformed for some time, even lagging when the value investment style came back into faction. In contrast, JPMorgan Global Growth & Income generated strong returns.

The latter comfortably tops the Association of Investment Companies' Global Equity Income sector over 10 years and over five years it is in a dead heat with **Securities Trust of Scotland (STS)**. Even comparing it to names in the AIC's Global sector JPMorgan Global Growth & Income only stands behind **Scottish Mortgage (SMT)** and **Lindsell Train (LTI)** over the past decade.

JP Morgan Global Growth & Income has outperformed its peer group

Trust	10-year share price total return (%)
JP Morgan Global Growth & Income	260.2
Scottish American	196.6
Invesco Select Trust - Global Equity Income Shares	189.8
Securities Trust of Scotland	154.7
Henderson International Income	125.9
Murray International	84.9
Majedie	69.4

Table: Shares magazine • Source: AIC, data to 26 September 2022

Merging it with the Scottish Investment Trust has helped create a vehicle with greater scale – assets are well in excess of £1 billion – and that has resulted in lower costs with an ongoing charge of just 0.53% for the combined entity.

While JPMorgan Global Growth & Income shares a focus on value with the former Scottish Investment Trust, it is not looking for beaten up companies which can recover. Instead, it hunts for quality businesses trading at attractive prices. Shares in the trust itself trade at a modest 3.8% discount to net asset value.

BACKED BY A SKILLED RESEARCH TEAM

Managed by Helge Skibeli, Raj Tanna and Tim Woodhouse the trust typically holds 50 to 60

JP Morgan Global Growth & Income - sector breakdown (%)

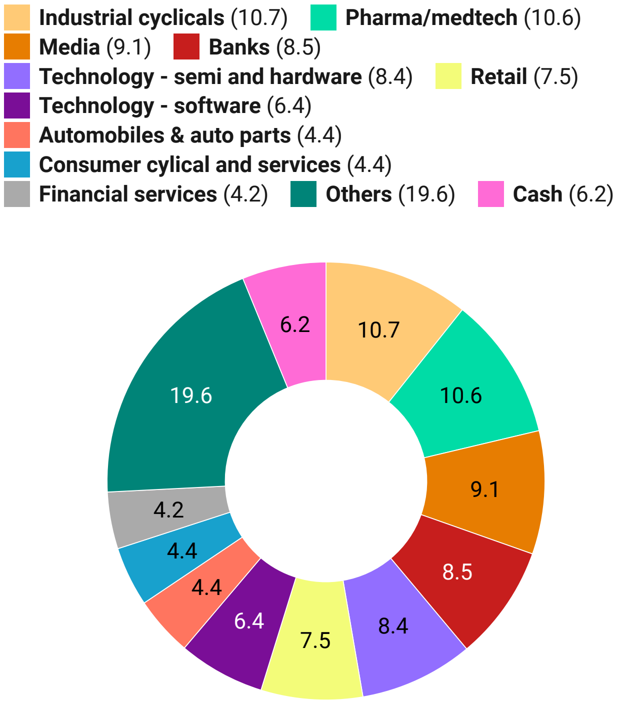


Chart: Shares magazine • Source: JP Morgan, data to 31 August 2022

stocks. The managers are backed by an experienced group of global analysts who track a universe of 2,500 stocks across 19 different sectors.

As Skibeli notes: 'Our job as portfolio managers is to capture the very best insights and ideas from this highly-skilled research team. We compose the portfolio such that it has a lower price to earnings ratio than the all-company index and a higher expected growth rate. This is a winning combination and something we make sure is always in place in this portfolio.'

The portfolio managers and research analysts have daily calls where they take a detailed look at the sector and stock-specific outlooks for existing holdings and shares which they are thinking about adding to the portfolio. 'What is unique about the calls is the incredible diversity of backgrounds and perspectives. This always leads to an exchange of information of views and insights which is highly additive to us as global portfolio managers,' Skibeli comments.

The focus on identifying compelling individual investments rather than concentrating on any specific sector has resulted in a diversified portfolio. The trust is noticeably underweight technology relative to the wider index and continues to avoid highly valued and unprofitable tech businesses.

Tim Woodhouse points out that top holdings like **McDonald's (MCD:NYSE)** and **American Express (AXP:NYSE)** are 'very well protected' from inflation because 'American Express takes a small slice of every transaction and if prices are rising they get to take a larger slice, while McDonald's is a franchise business so taking a franchise fee without taking much pain from labour costs or food price inflation'.

Woodhouse and Skibeli identify their favourite stocks as **Amazon (AMZN:NDQ)** and **LVMH (LVMH:BIT)** respectively.

Amazon is favoured due to what Woodhouse describes as the 'underappreciated' duration of growth in the retail and cloud computing businesses, which should enable it to generate free cash flow of $100 billion by 2026.

According to Skibeli, luxury goods firm LVMH offers 'a long trajectory of secular growth, meaningfully higher than nominal GDP growth for the next decade' as well as market share gains in different luxury categories and a business model which underpins faster growth in free cash flow than revenue.

As the name of the trust suggests there is also a focus on income. The trust aims to pay a dividend of 4% of its net asset value in four quarterly payments. Because this can be taken out of income and capital the company can maintain its focus on the best investments rather than chasing lower-quality but high-yielding companies. [TS]

JPMorgan Global Growth & Income

Chart: Shares magazine • Source: Refinitiv

Why Ten Entertainment shares are too cheap to ignore

This company might prove more resilient during a recession than implied by the current stock valuation

Tenpin bowling and family entertainment company **Ten Entertainment (TEG:AIM)** has all the attributes of a great investment at a great price.

Operationally, the business has performed superbly over the last two years against a difficult macroeconomic backdrop. It is positioned to continue to outperform, led by a clear focus on its unswerving value-for-money proposition.

As consumers continue to tighten their belts in the face of high inflation and rising interest rates, *Shares* believes Ten Entertainment's value proposition will represent one of the few affordable family treats.

Like many leisure businesses Ten Entertainment had to close its doors during the pandemic. But unlike many companies it is now generating twice as much profit compared to before the pandemic, testament to the strength of its business model and good execution.

In the first half of 2022 the average realised price of a game of bowling including VAT was £5.19 which is 2.1% lower than the same period in 2019.

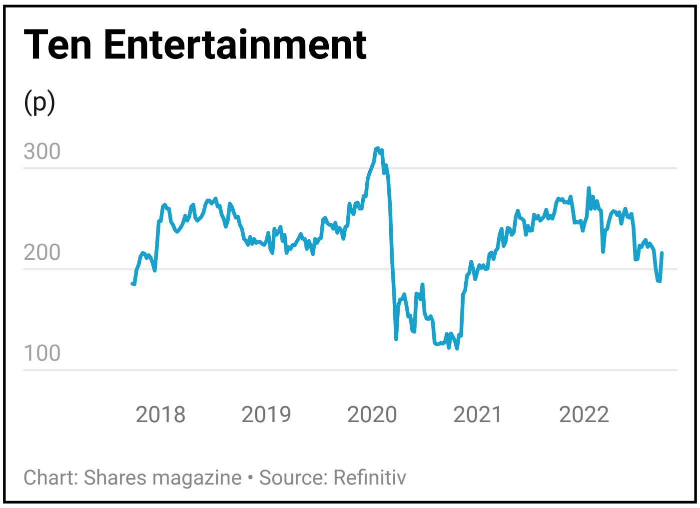


Chart: Shares magazine • Source: Refinitiv

TEN ENTERTAINMENT
BUY
(TEG:AIM) 214.7p

Market Cap: £149 million

However, the company has been rewarded with both higher footfall and customers spending more on each visit. For example, the average spend per head in the first half of 2022 increased by 7.4% to £15.98.

As management explained, 'This inflation-busting approach means that against the trend of most other hospitality and leisure operators, we have been able to bring down our relative prices and significantly increase the value of the experience for our customers at every visit.'

Sites are being refurbished and new activities and revenue streams are being added by utilising otherwise dead space. For example, the company has added 16 extra bowling lanes, 21 karaoke rooms, 19 new escape rooms and two additional laser tag arenas since 2019.

Overall sales per square foot have increased by 41% since 2019 to £90 per square foot. Ten Entertainment has locked in energy prices at 2020 prices out to September 2024.

Historically the company has opened between two and four new sites a year. Centres in Crewe, Dundee and Milton Keynes are expected to open in the first half of 2023.

The shares trade on a mere 7.6 times forecast earnings for 2022, with the valuation ratio falling to seven times for 2023 while the forecast dividend yield of 4.3% is three times covered by earnings per share. The company is in a net cash position.

If the market doesn't recognise the great value on offer from the shares now and drive a rerating in the stock, a trade or private equity buyer could feasibly step in and acquire it. [MGam]

Fresh hope for Unilever revival as Jope says long goodbye

The Dove soap-to-Domestos maker's earnings outlook is improving and activist Peltz is making his presence felt

UNILEVER
(ULVR) £40.64

Gain to date: 2.1%

Shares in **Unilever (ULVR)** are up 2.1% since we suggested buying the consumer goods goliath at £39.79 on 4 August 2022, arguing a rally from March's five-year lows at the Marmite-to-Magnum ice cream maker had further to run aided by a better macro backdrop combined with self-help measures.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

While the wider environment remains challenging, Unilever's shares rose on the announcement (26 September) CEO Alan Jope plans to retire from the company at the end of 2023, after five years in the role, having endured a difficult tenure since taking over in 2019.

He has faced criticism over the failed takeover approach for **GSK's (GSK)** consumer health business, now trading as a separate entity called **Haleon (HLN)**, and Unilever's whole strategic direction. The FTSE 100 group is hunting for Jope's successor and will consider both internal and external candidates.

Jope has also received brickbats from, among others, noted fund manager Terry Smith for focusing too much on sustainability at the expense of the fundamentals of the business.

Billionaire activist Nelson Peltz was recently appointed as a non-executive director after his investment firm Trian took a stake in the Dove soap-to-Hellmann's mayonnaise maker.

Unilever has now ruled out transformational acquisitions and implemented a new category-focused organisational structure to help the company deliver consistent growth and generate cost savings.

WHAT SHOULD INVESTORS DO NEXT?

Hang on to shares in a business with brand strength, pricing power and big potential in emerging markets, as the influence of Peltz is only likely to increase and this could mean more radical action to streamline the group and improve performance.

Berenberg argues Unilever's new simplified structure leaves it repositioned for faster growth and will make it easier to dispose of 'smaller sub-businesses', while easing cost pressures and price increases should support 'material' margin recovery from 2023.

The broker also believes Unilever's valuation is attractive versus global peers and its 'long streak of underperformance has begun to reverse'. It believes the 'more attractive earnings outlook (both from organic growth and margin recovery) should enable that to continue'. [JC]

Unilever

Chart: Shares magazine • Source: Refinitiv

THE BOSS IS OFF

Why are so many FTSE 100 CEOs leaving?

By **Ian Conway** Companies Editor

There is no question this year has been an extraordinarily difficult one for many companies, who have had to cope with a sharp rise in both operating and financial costs as energy and labour prices have jumped and interest rates have gone up.

It is therefore not such a surprise that FTSE 100 chief executives are leaving in record numbers, with over a dozen either having moved already this year or due to move on in the coming months.

For investors, change at the top can be a mixed blessing depending on who takes over and how they set out their agenda.

CALLING TIME

Having led their companies through the turbulence of the last two years, from a pandemic-induced global shutdown to a dramatic recovery and an acute supply chain squeeze topped off with spiralling input costs, senior executives are understandably fatigued.

Like many of their employees, they will have been assessing their own work-life balance and wondering whether to step off the merry-go-round and let someone else take the reins.

For the bosses of firms with a largely domestic focus, the prospect of having to slog through a UK recession which could last a year or more has possibly been the final straw.

'This is a tough time to be piloting a business and many took the job expecting to deliver shareholder value through growth, not downsizing and cutbacks,' says James Henderson, co-manager of **Henderson Opportunities Trust (HOT)** and **Lowland Investment Company (LWI)**.

There may be other factors at play too, says Henderson. The UK Corporate Governance Code introduced in 2018 means chairs and non-executive directors have a maximum term of nine years.

'The chair who inherits you may be less patient

FTSE 100 musical chairs – who's in and who's out?

Leaving date	Company	Out	In
01 Mar 2022	Johnson Matthey	Robert MacLeod	Liam Condon
31 Mar 2022	Prudential	Mike Wells	Mark Fitzpatrick
01 Apr 2022	Burberry	Marco Gobetti	Jonathan Akeroyd
01 Apr 2022	Smith & Nephew	Roland Diggelmann	Deepak Nath
19 Apr 2022	Anglo American	Mark Cutifani	Duncan Wanblad
26 Sep 2022	B&M European Value Retail	Simon Arora	Alex Russo
26 Apr 2022	Taylor Wimpey	Pete Redfern	Jennie Daly
30 Sep 2022	JD Sports	Peter Cowgill*	Regis Schultz
30 Sep 2022	Reckitt	Laxman Narasimhan	Nicandro Durante
01 Jan 2023	Rolls-Royce	Warren East	Tufan Erginbilgic
01 Jan 2023	Shell	Ben van Beurden	Wael Sawan
Feb 2023	Rightmove	Peter Brooks-Johnson	TBC
Mar 2023	Whitbread	Alison Brittain	Dominic Paul
Apr 2023	Halma	Andrew Williams	Marc Ronchetti
2023	M&G	John Foley	TBC
2023	Unilever	Alan Jope	TBC
2023	United Utilities	Steve Mogford	Louise Beardmore

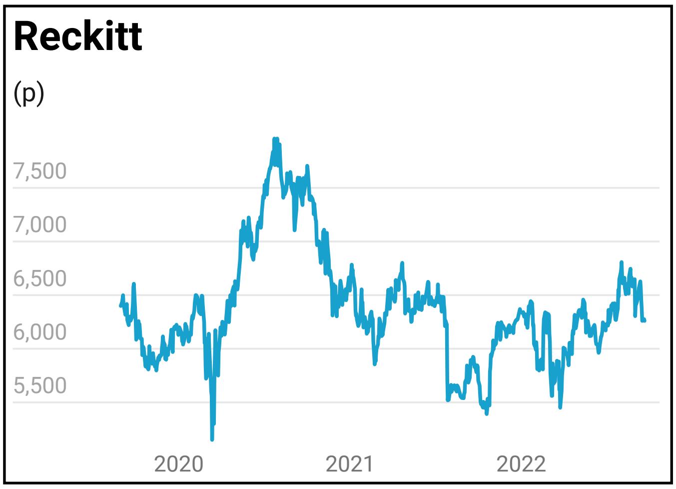
Table: Shares magazine • Source: Shares, company announcements. *Kath Smith was interim CEO from May to September 2022

than the one who appointed you, and non-execs are in more of a hurry to achieve something, so chief executives are under greater pressure than ever to justify their pay and given less time to do it.'

The list of those stepping down includes some of the FTSE's most experienced executives such as Simon Arora, who has masterminded the success of store chain **B&M European Value Retail (BME)** for 17 years, and **Halma (HLMA)** boss Andrew Williams who has been at the helm of the engineering business a similar time.

On the other hand, some have been there for what seems like five minutes, like **Smith & Nephew (SN.)** chief executive Roland Diggelmann and **Reckitt (RB.)** head Laxman Narasimhan, both of whom only arrived in late 2019 and are already moving on.

Simon Arora recently stood down as B&M CEO after 17 years in charge



Reckitt share price during the period Laxman Narasimhan was CEO

Having extricated Reckitt from its disastrous 2017 acquisition of Mead Johnson, albeit at a large loss, Narasimhan has been courted by US coffee chain **Starbucks (SBUX:NYSE)** which is itself experiencing trouble with sales in China and is facing union protests at home so he hasn't opted for the quiet life.

OUT WITH THE OLD

For shareholders, there are no hard-and-fast rules as to what a change of leadership means for the business and whether they should hold onto their investment or move on themselves.

'Investors must take each case on its merits,' says Henderson. 'There is no easy way of telling how much difference a change at the top will make.'

Like fund managers, no two chief executives are identical, so to expect 'more of the same' from the newcomer may be unrealistic, although if the person taking over has been in the same industry or even the same company for some time investors may feel a sense of continuity.

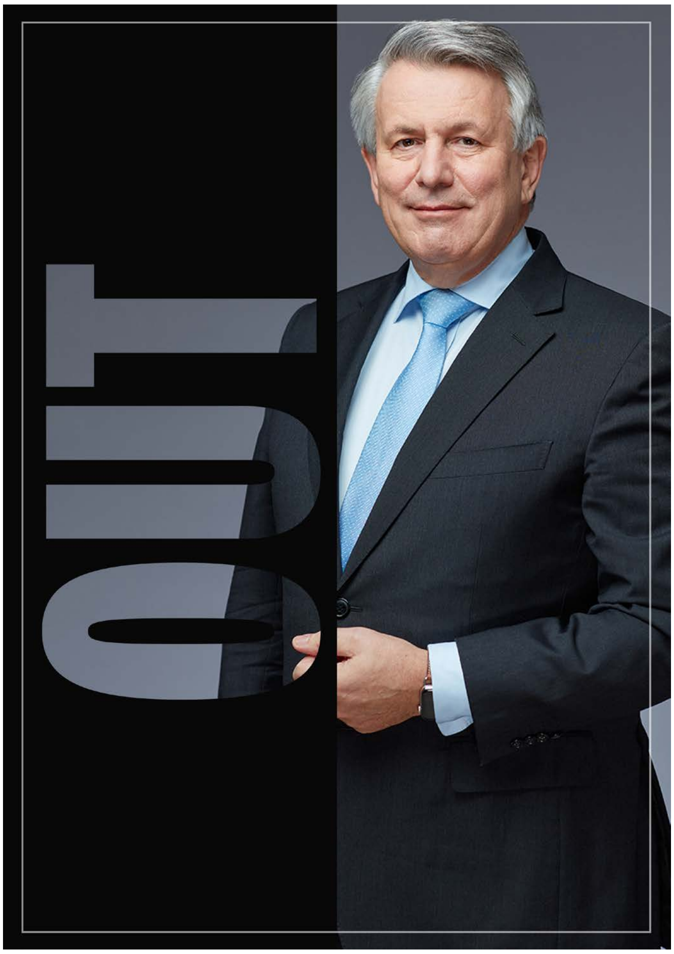
Ben van Beurden's replacement at oil producer **Shell (SHEL)**, Wael Sawan, is unlikely to make radical changes given he is a 25-year veteran of the company and a member of the executive committee where he would have worked closely with the current chief executive.

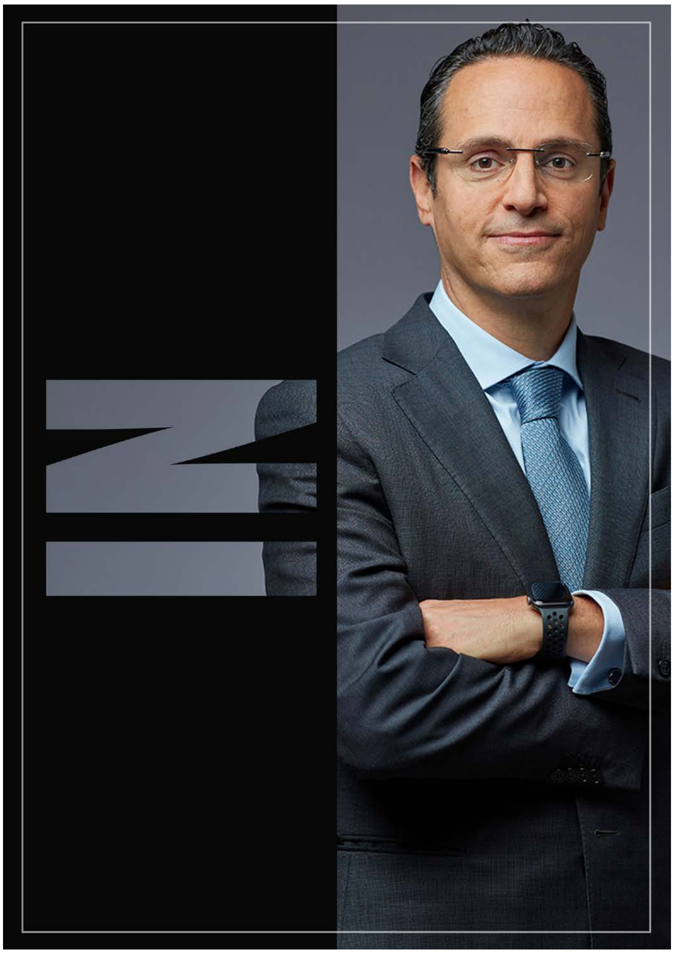
In the case of industrial equipment rental firm **Ashtead (AHT)**, Brendan Horgan may have seemed a relative newbie when he took over the top job in 2019 but he joined the group's US operation Sunbelt Rentals back in 1996 and was head of that business from 2011 so he was fully grounded in the company's way of working.

There are always exceptions, and while Mike Coupe, the **Sainsbury's (SBRY)** 'lifer' who took over in 2014, may have been ingrained in the corporate culture, he failed to take the business forward.

As a result, he was replaced two years ago by ex-Boots and **Marks & Spencer (MKS)** man Simon Roberts who has invested heavily in technology to keep the grocer one step ahead of Asda and Morrisons.

Outsiders are more likely to shake things up, which can lead to problems but equally can be a





Changing of the guard at Shell. Ben Van Beurden (left) is being replaced by Wael Sawan (right) as CEO

Some new CEOs are expected to buy a substantial number of shares so their interests are aligned with other shareholders.

For example, on the day Philip Jansen was appointed as **BT (BT.A)** CEO in 2018, the new boss agreed to buy £2 million worth of shares within 30 days of the announcement.

BT said this was the first step towards Jansen meeting the company's requirement that the CEO must own shares worth at least 300% of their salary.

good thing if change is needed.

For investors in security firm G4S, bringing in an outsider was exactly what was needed as the firm had grown too quickly and become completely unfocused under Nick Buckles.

After taking over in 2013, having been parachuted in from BG Group, Ashley Almanza took a 'scorched earth' approach to reshaping the business, putting no fewer than 35 poorly performing units on the chopping block while expanding the core operations in fast-growing emerging markets.

The 2021 takeover of G4S by Allied Universal for £3.8 billion, after a fierce bid battle with Canadian firm GardaWorld, was a clear vindication of the board's decision to take a chance on Almanza.

IN WITH THE NEW

When a new chief executive does arrive, it's important to see whether their deeds match their actions.

For instance, while they will naturally be full of praise for their new employer, do they buy any shares off their own bat and is it a credible amount or do they wait for the firm to raise capital and pick some up on the cheap?

Remuneration is also a regular bone of contention, and with pressure to keep basic salaries relatively low companies will usually bump up their directors' pay with performance-related share awards or bonuses. Therefore, investors should scrutinise details of the new chief executive's incentive package.

Bosses whose bonuses – which often make up most of their overall compensation – depend on share price or earnings-related targets can be prone to short-termism at best and fraud at worst, going to extreme measures to qualify for the payment.

Investors should also look closely at a chief executive's past record on capital allocation. Have they historically been good custodians of the company's money, reinvesting in the business for future growth, or are they acquisition junkies?

What is their attitude to leverage, how have they managed risk, and how have they dealt with the pressure from institutions to achieve short-term returns? These are all questions individual shareholders should be asking.

Trevor Green, head of UK equities at Aviva Investors, suggests as a general rule it is fair to give new arrivals 100 days to get their feet under the desk, understand the business (if they don't already) and explain their strategy to the market.

BEYOND THE FIRST 100 DAYS

The trend for chief executives to head off into the sunset isn't confined to the top-flight by any means.

Generally speaking, smaller companies are likely to feel a chief executive's departure more keenly than larger ones as they operate with a tighter team, whereas larger companies have deeper management structures which means they can continue to operate like a well-oiled machine while they search for a replacement.

Dubai Metro rapid transit network was opened in 2009 and is operated by Serco

Earlier this month, Rupert Soames, who has turned outsourcing firm **Serco (SRP)** from the butt of many a joke a decade ago into a thriving company with a world-class US defence business, announced he was 'outsourcing himself' at the start of next year, namely stepping down as CEO.

The shares dropped nearly 7% on the news, which isn't surprising given how ardently Soames defended the firm against a barrage of criticism during his tenure, and we can't help but feel the company and the FTSE 250 are poorer for his decision to leave.

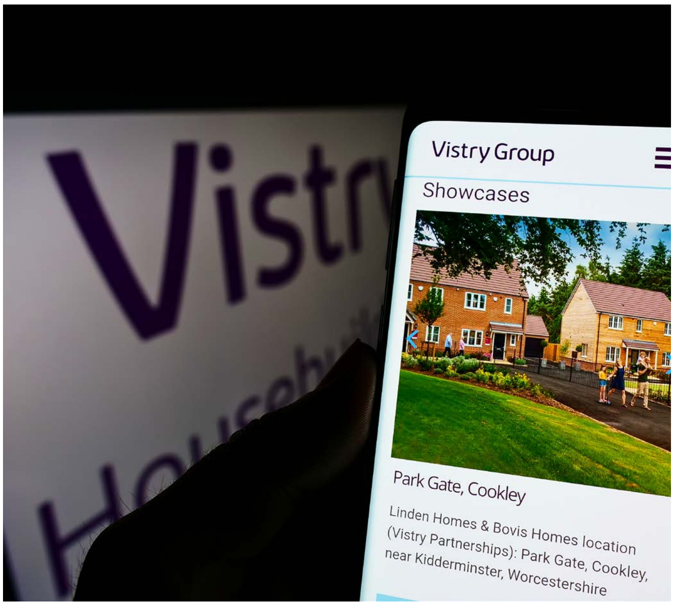
However, fund manager James Henderson warns against making snap judgements. He says: 'The share price may take a tumble on the day a departure is announced but it often recovers sufficiently for you to judge the new appointee properly.

'We would probably put them on closer watch for a while until we are confident in the direction of travel, and we like to meet and hear from new management quickly.'

SWITCHING FIRMS

Another imminent mover is Gavin Slark, who announced in July he was moving on from builders' merchant and DIY firm **Grafton Group (GFTU)** after 11 years at the top, having greatly improved the company's returns and successfully expanded its geographic footprint in the Netherlands and Nordic region.

Slark isn't disappearing altogether, though, as he is replacing Steve Francis as chief executive of insulation firm **SIG (SHI)** next February.



Finally, we have to applaud Greg Fitzgerald and the team at developer **Vistry (VTY)** for bidding for rival **Countryside Partnerships (CSP)** while it was in management limbo with no chairman and the chief executive role being shared on an interim basis.

No doubt the rest of the companies in the FTSE 250 have taken note and succession plans are being hastily drawn up.

The Curtis comeback: a return to form for City of London Investment Trust

The popular fund has bounced back after a patchy showing in 2021

Job Curtis, fund manager for **City of London Investment Trust (CTY)**, has engineered a remarkable turnaround in performance over the past year. This has negated concerns *Shares* highlighted last October regarding a period of underperformance versus the UK equity income investment trust sector average on a three and five-year basis.

On 19 September when the eyes of the nation were focused on the funeral of Queen Elizabeth II, City of London Investment Trust reported results for the year to 30 June 2022. These revealed an improvement in performance with the trust recording a one-year increase in net asset value of 7.5%. This compared with a 1.6% increase in the FTSE All-Share index and a 1.4% decline in the AIC UK Equity Income sector.

This return to form for Curtis means the trust has outperformed the FTSE All-Share index, the AIC UK Equity Income sector and the UK Equity Income OEIC Sector on a one, three, five and 10-year basis.

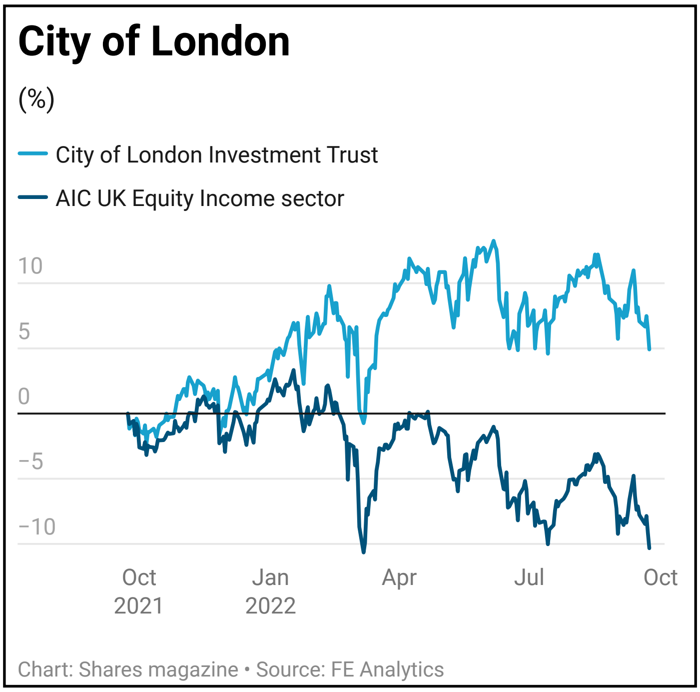


Chart: Shares magazine • Source: FE Analytics

The trust's earnings per share increased by an impressive 21% from 17.09p to 20.72p, helped by good dividend growth from its portfolio companies. City of London increased its own dividend by 2.6%, marking 56 years of annual dividend increases, the longest record of any investment trust.

It must also be noted the trust's ongoing charge ratio of 0.37% is the lowest in the AIC UK Equity Income sector.

VALUE STOCKS BACK IN FASHION

A key driver behind the resurgence in City of London's performance has been the rerating of value-oriented stocks. This has been driven by a rise in interest rates as central banks have attempted to tame inflation.

In an inflationary and rising interest rate environment, the present-day valuation of future cash flows is negatively impacted. This is bad for funds and trusts that invest in growth style stocks where earnings are expected to be much higher in the future than today. However, it favours those with value style investments – which is City of London's approach – as these stocks already offer good cash flow today.

STOCKS DRIVING OUTPERFORMANCE

Defence contractor **BAE Systems (BA.)** was the top contributor to City of London's full-year results. The world is on the cusp of a significant increase in defence spending, a direct response to Russia's invasion of Ukraine, and investors have bid up shares in the sector including BAE in the belief that near and mid-term earnings will greatly improve.

Chart: Shares magazine • Source: FE Analytics

The trust has a 3.3% weighting in BAE Systems whose share price has risen by 43.5% so far in 2022.

The tobacco sector has been another key driver of performance. Curtis holds both **British American Tobacco (BATS)** which is the portfolio's largest holding at 4.8% and **Imperial Brands (IMB)** at 2.5%.

Curtis highlighted British American Tobacco's 6% dividend yield and free cash flow yield of over 10%. He said the US is the company's biggest market where it is experiencing considerable success in both the cigarette market and next generation products. British American Tobacco recently became the US leader in vaping after its Vuse product outsold rival Juul.

NEW ADDITIONS TO THE TRUST

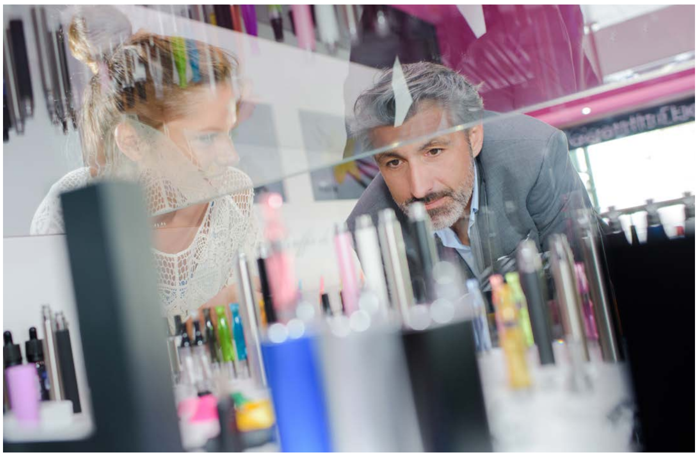
One of the newest additions to City of London's portfolio is FTSE 100 private equity investor **3i Group (III)**.

3i's biggest investment is in Dutch retailer Action and accounts for approximately half of its assets.

Action is the fastest non-food discounter in Europe, offering an ever-changing variety of approximately 6,000 products in 2,000 stores to more than 11 million customers every week. An additional 8 million customers visit Action's website on a weekly basis.

The low-cost retailer is ideally positioned to benefit from the squeeze in consumer discretionary expenditure as soaring food and fuel costs force individuals to trade down from more expensive retailers.

3i Group also owns 30% of **3i Infrastructure (3IN)** which has stakes in various infrastructure projects including ones focused on energy generation and data communications.



Year-to-date shares in British American Tobacco and Imperial Brands have risen by 21.6% and 13.9% respectively.

PRICING POWER

The ability to raise prices without damaging demand is a key competitive advantage during periods of high inflation. Both British American Tobacco and Imperial Brands excel on this front. Tobacco is addictive which makes it difficult for people to quit. The industry is also highly consolidated with the four largest companies controlling more than 80% of the market value.

Within the consumer staples sector that accounts for 20.4% of City of London's portfolio, Curtis has mastered the art of selecting companies that have pricing power. **Diageo (DGE)**, **Unilever (ULVR)** and **Reckitt (RB.)** have all demonstrated the ability to pass on increasing input costs to the consumer.

In its results for the year ended 30 June 2022, Johnnie Walker whisky seller Diageo said price increases and supply productivity savings had 'more than offset the absolute impact of cost inflation'. Unilever increased prices by 9.8% in the first half of 2022 to mitigate cost inflation.

Reckitt also demonstrated the strength of its brand portfolio in its recent first-half results (published on 27 July). The group posted an 8.6% increase in like-for-like sales despite lifting prices by 7.4%.

TAKEOVER BOOST

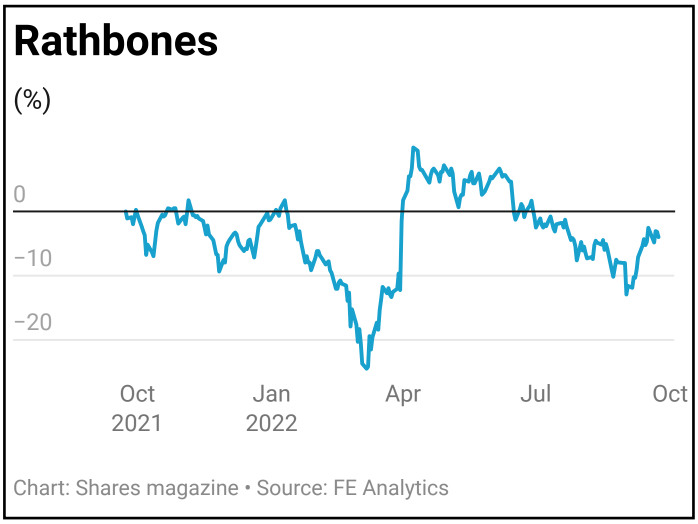
Asset manager **Brewin Dolphin (BRW)** is another stock that has been key in driving performance. On 31 March Royal Bank of Canada made a surprise bid for the 260-year-old UK wealth management firm. The cash offer of 515p per share values the business at £1.6 billion, a 62% uplift on the share price the day before the bid.

Fund manager Job Curtis didn't wait for the takeover to complete before offloading some of the trust's investment in Brewin Dolphin, selling half of his position at a small discount to the offer price.

He then bought shares in another wealth manager, **Rathbones (RAT)**, whose shares were trading at a significant discount to the valuation at which Brewin Dolphin is being acquired.

Rathbones operates across the full spectrum of wealth management services from discretionary where a professional manages a tailored portfolio of assets on an investor's behalf to multi-asset solutions, investing in everything from stocks to bonds to property and single-strategy funds.

On a pre-synergy basis Royal Bank of Canada is paying 21 times current year earnings for Brewin Dolphin. Putting Rathbones at a similar multiple would imply a share price of more than £30 a share versus the current £18.68 market price.



By **Mark Gardner** Senior Reporter

Why the Turkish market takes the prize for the best performer in 2022

Stocks in the country, located at the crossroads of Europe and Asia, have soared in price this year

The Turkish stock market has performed better than any other global counterpart in 2022 to date, leaving its wider emerging markets benchmark for dust. The ISE National 100 index in Istanbul is up 72.2% as of 21 September 2022.

These gains have been eked out despite sky-high inflation. This perhaps reflects the country's decision to go against the grain and cut interest rates and attempts by Turkish investors to get a return at least somewhere approaching an 80% inflation rate.

A recovery in the all-important tourist industry in the wake of the pandemic may also have helped sentiment, while Turkey is also benefiting from a reallocation of global supply chains.

At the same time Turkish stocks are inexpensive after years of underperformance which has left its weighting in the MSCI Emerging Markets index at very modest levels.

Over the last 10 years the annualised return from the MSCI Turkey index is -4.9% compared with 5.7% for MSCI Emerging Markets as the country has endured political instability and a currency devaluation.

Writing in 2021 the OECD noted that: 'For a more inclusive and sustained recovery structural challenges such as low labour force participation of women, widespread informality, weak skills, rigid employment rules hampering reallocation and large share of low-quality employment have to be addressed.'

Unlike other emerging markets there are limited signs of innovation in the Turkish economy, with technology under-represented in the Turkish market. Instead the industrials and financials sectors dominate, accounting for more than 50% of the MSCI Turkey index.

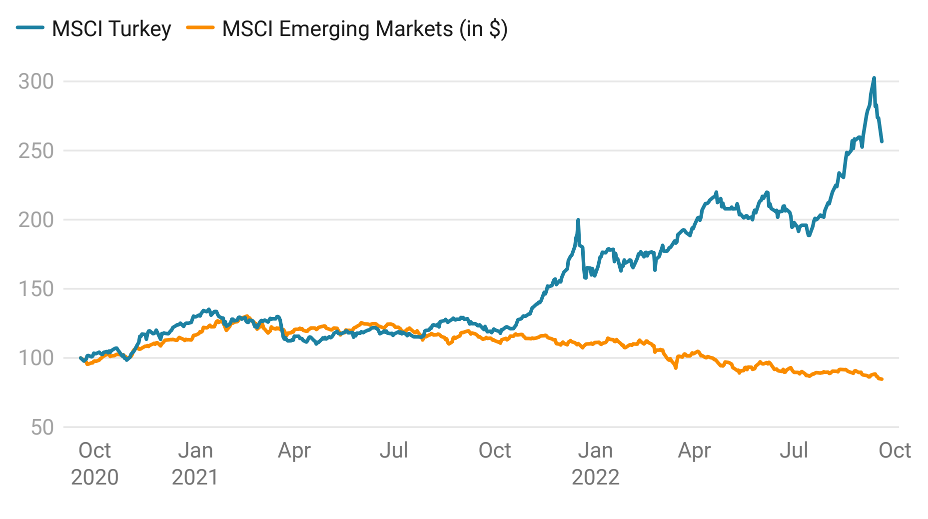


Chart: Shares magazine • Source: Refinitiv

Emerging markets: Views from the experts

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

1. There are several positive catalysts that could help **China's market** recover. These include an easing of zero-Covid restrictions, a reduction in geopolitical tensions and clear evidence of no further tightening in the regulatory environment. We see reasons for optimism in each area. The government is likely to continually adjust Covid-19 policies – driving greater economic resilience and flexibility in the face of localised restrictions – and utilise flexible policy tools.

2. Areas aligned with the **Chinese government's long-term goals** should offer the most opportunities for investors. Common prosperity, for instance, could expand the aggregate size of disposable income and support social welfare as lower-tier cities remain a large untapped market for many consumer products and services. Green development, with orderly decarbonisation to avoid disruption to economic growth, should enable Chinese companies to secure global leadership in supply chains spanning from new energy vehicles (NEVs) to solar. In our view, sectors with high exposure to NEVs, solar, wind power and energy storage have upside potential due to strong NEV growth momentum, high energy prices, the ongoing Russia-Ukraine war and government subsidies. In addition, gaining independence from imports through domestic substitution in key technologies, such as semiconductors, represents a huge growth opportunity with strategic benefits. Putting this in context, China imported over $400 billion in semiconductors in 2021.

3. **Wheat prices:** The Russian invasion of Ukraine pushed wheat prices on the Chicago Board of Trade to $12.9 per bushel in April 2022, compared to a prior three-year average of $6. However, prices have recently declined to $8.03 per bushel, driven by a number of factors. These include the US Department of Agriculture forecast of a 1% drop in global consumption of

wheat, the resumption of grain shipments from Ukraine, and a record Russian wheat harvest offsetting lower production in China – the world's largest wheat producer – which has been impacted by drought. The drop in wheat prices should contribute to reduced inflation pressures in EMs, which are also benefiting from discounted access to Russian energy exports that have been re-routed to these markets following sanctions imposed by the United States and European Union.

DANNI HEWSON
AJ Bell Financial Analyst

Just what does the new stamp duty cut mean for housebuilders?

Any boost to the sector from the move could be overshadowed by surging mortgage costs

Even if you don't directly hold stocks in UK housebuilders you might be exposed to these companies through your pensions or other investments; historically they're decent dividend payers and income is attractive.

So, your ears might have perked up upon hearing the new chancellor pulled a cut to stamp duty out of his hat during his 'mini-Budget' along with all the other rabbits that have set markets abuzz. Stamp duty has long been perceived as a 'bad tax' a monetary boulder that often gets in the way of house market fluidity, making downsizing a particular issue because of the costs involved for those going the other way.

Under Kwarteng's new regime there would be no stamp duty on transactions under £250,000 with this threshold increased to £425,000 for first-time buyers. But is taking a chunk off the bottom of that boulder really the best way to solve the housing conundrum that has plagued the UK for decades?

HOUSEBUILDERS HAVE BEEN UNDER PRESSURE

It's fair to say the sector's been under the cosh for most of the year with share prices taking a massive hit. Rising raw material, energy and labour costs have squeezed margins, concern about the cost of living crisis has dented confidence that the

How the big UK housebuilders have performed in 2022

Company	Year-to-date performance (%)	Performance since mini-Budget announced (%)
Persimmon	−56.6%	−10.1%
Barratt Development	−49.6%	−8.6%
Taylor Wimpey	−46.6%	−11.1%
Berkeley	−30.7%	−7.1%

Table: Shares magazine • Source: Sharepad, data to 12pm, 27 September 2022

DANNI HEWSON
AJ Bell Financial Analyst

UK interest rate

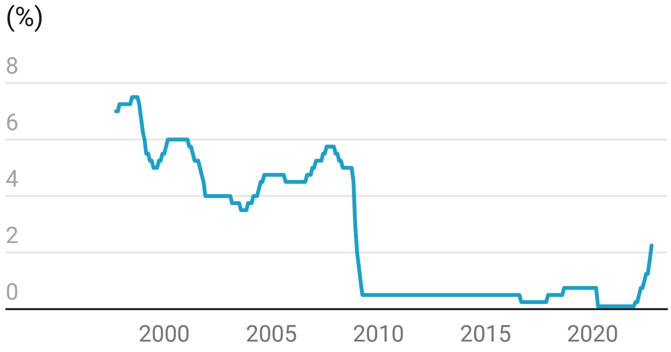


Chart: Shares magazine • Source: Refinitiv, Bank of England base rate

housing market will keep simmering and cladding issues have lingered like bad smell, though in that case it does seem that a new chapter has finally been started.

So, it wasn't surprising that speculation that the new chancellor was gearing up to make major changes to stamp duty prompted a flurry of renewed interest from investors. They only had to look back a matter of months to see the affect changes to this tax could have on the market with the former chancellor Rishi Sunak's Covid holiday creating an incentive that house buyers were quick to grab hold of.

The excitement was short lived with the not so mini fiscal event sending shockwaves through markets and prompting expectations that the UK's central bank would have to raise interest rates faster and further than had been anticipated.

With markets now pricing in the prospect of 6% rates by next spring increased mortgage costs are expected to negate any benefit to house buyer budgets or sentiment. Plus, with a shroud of opacity pulled down over rate expectations some mortgage lenders have pulled certain products off the shelves completely.

IS STAMP DUTY THE BEST WAY TO ADDRESS MARKET PROBLEMS?

But all that aside, is fiddling with stamp duty really the best way to fix Britain's housing market? The temporary stamp duty holiday which created a stampede by buyers to close before it ended has been blamed for pushing up prices and it's a trend which has continued into 2022. Over the 12 months to July the average UK house price jumped by 15.5% which the Office for National Statistics says is the biggest increase in 19 years.

When you consider you now have to shell out £292,000 for the average UK property that means would be buyers have to save a whopping £29,000 just on the deposit and that's before having to fork out around £1,200 a month on mortgage payments many of the so called 'generation rent' feel the dream of homeownership is of the pipe variety. That feeling will have grown more acute with no sign of a replacement for the soon to be defunct Help to Buy scheme.

PLANNING PROGRESS

But there was a nugget in the mini-Budget that hasn't garnered many headlines but could be the key that unlocks a rapid period of house building. Investment zones would enjoy streamlined planning rules, enhanced tax benefits and local authority support.

The Government says it's in talks with 38 areas in England and plans to offer similar enticements Scotland, Wales and Northern Ireland. This is unlikely to create a 'blank cheque' for housebuilders to act unilaterally as councils will still have to answer to their constituents when polling day rolls around.

It is also not exactly a new idea but it could present a real opportunity for housebuilders and for the house buying public. Supply is the elephant in the room. Clearly housebuilders will be keeping a close eye on how demand is impacted by the current economic turmoil as building more means selling more.

Average selling prices will be watched keenly, and developers will be hoping that by streamlining their processes they will be able to bring down costs.

The right homes in the right places at the right price is clearly the golden ticket and developers that can offer energy efficiency improvements will have an additional string to their bow.

BAILLIE GIFFORD

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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Discover which shares Warren Buffett has been buying in 2022

While the bear has been roaring, the legendary investor has been on a buying spree this year

Investors have endured a tortuous nine months characterised by volatility and uncertainty with stock markets plunging on a combination of surging inflation and rising interest rates, fears over the outlook for supply chains and global growth, lockdowns in China and conflict in Ukraine.

Year-to-date, the S&P 500 and Nasdaq Composite are down 21% and 29% respectively at the time of writing.

While the bears have been firmly in charge in 2022, Warren Buffett, the 'Sage of Omaha' and world's lionised investor, has been actively buying stocks through his **Berkshire Hathaway (BRK.B:NYSE)** conglomerate, staying true to the second half of his oft-quoted contrarian mantra to be 'fearful when others are greedy, and greedy when others are fearful'.

Buffett and Berkshire Hathaway often buy early during market downturns, snapping up quality merchandise when it is on sale; remember, Berkshire made large share purchases in late 2008, just months before the stock market bottomed in March 2009, so the recent buying spree suggests Buffett sees brighter times ahead for the markets.

FOLLOW THE MASTER

One of the world's greatest value investors, the 92-year-old Buffett boasts an incredible track record and is famed for a focus on long term investing and buying businesses with wide economic moats that trade at below their intrinsic value.

Unsurprisingly, investors are always keen to follow Buffett when he puts money to work and one of the most widely watched filings each quarter is Berkshire Hathaway's '13-F', a form

Recent Buffett buys and sells

Buys
Activision Blizzard
Ally Financial
Apple
Celanese
Chevron
Citigroup
HP
Markel
McKesson
Occidental Petroleum
Paramount Global
Sells
AbbVie
Royalty Pharma
Verizon

Table: Shares magazine • Source: Berkshire Hathaway which all US-domiciled funds with $100 million or more in assets under management must publish.

The filing gives Buffett acolytes the chance to see what the great man has been buying and selling, though long-term business partner Charlie Munger and Berkshire's two investing deputies – Todd Combs and Ted Weschler – also have influence at the Buffett-run holding company.

CONTRARIAN TASTE FOR TECH

Bear markets send investors of a nervous disposition heading for the exits, yet these situations create opportunities for investors such as Buffett to buy up chunks of what he sees as wonderful businesses which have been oversold.

Berkshire Hathaway's 13-F and quarterly SEC filings reveal that the conglomerate has put billions of dollars to work in stocks in 2022 to date, and that's on top of Berkshire Hathaway share buybacks which demonstrate Buffett and Munger believe their own company is undervalued.

According to the Q2 2022 13-F filing, the latest available, Buffett and his investing team purchased pushing on for 7.7 million shares in Berkshire's biggest stock investment by value, namely **Apple (AAPL:NASDAQ)**, during the first six months of the year.

Buffett has ramped up his stake in the iPhone maker, which has a wide economic moat, strong brand and pricing power. Berkshire held 894,802,319 shares in Apple at the end of the second quarter, a stake then worth $122.3 billion, which accounted for 41% of Berkshire's share portfolio and will have ripened in value given a rise in the Apple share price through July and into August.

Buffett also beefed up Berkshire's stake in **Activision Blizzard (ATVI:NASDAQ)** during the first half of the year.

Atypically for long term investor Buffett and Berkshire, this one is an arbitrage play. Software colossus **Microsoft (MSFT:NASDAQ)** made an all-cash offer of $95 per share to acquire Activision Blizzard back in January, but the shares have traded consistently below the bid price and currently swap hands for $75.32, with regulators weighing up whether to wave the takeover through.

FAN OF FINANCIALS

They might not quicken the pulse, but Buffett remains a big fan of financials and has invested in two new banking stocks and value plays in 2022-to-date, namely **Citigroup (C:NYSE)** and

Berkshire Hathaway key equity holdings

Biggest stocks by value ($000) and percentage of its portfolio

Apple	122,337,373	**41.00**
Bank of America	31,444,432	**11.00**
Coca-Cola	25,164,000	**8.40**
Chevron	23,373,304	**7.80**
American Express	21,016,276	**7.00**
Kraft Heinz	12,419,712	**4.10**
Occidental Petroleum	9,335,408	**3.10**
Moodys	6,709,439	**2.20**
US Bancorp	5,513,432	**1.80**
Activision Blizzard	5,325,713	**1.80**

Table: Shares magazine • Source: Berkshire Hathaway

Ally Financial (ALLY:NYSE). Buffett appears to be backing Citigroup's transformation plan under new CEO Jane Fraser. Based on date from the Gurufocus website, Berkshire's near-2.9% stake in the bank was worth over $2.5 billion at the end of the second quarter.

Berkshire has also acquired a 9.7% interest in Ally Financial, a stake worth over $1 billion at the end of Q2 based on the latest filing. A digital bank with a large automotive loan book, Ally's purely online presence means it is well-suited for tough economic times during which consumers tend to place a high value on convenience.

PIPELINE TO PROFITS

This year, Buffett has made a massive bet on the energy sector, piling back into high-flying oil and gas producer **Occidental Petroleum (OXY:NYSE)** at a higher share price than when he sold the stock in 2020, a rare miscalculation from the master.

Buffett has also increased his stake in energy giant **Chevron (CVX:NYSE)**, a free cash flow monster Berkshire started buying in late 2020, by more than 320% in 2022, leaving Berkshire holding 8.25% of the company. Buffett evidently believes energy commodity prices will stay elevated for years to come given global supply issues and Russia's disastrous incursion into Ukraine.

NEW IN 2022

New positions for Berkshire in 2022 include **HP (HPQ:NYSE),** the California-based and lowly valued computer hardware play with some of the hallmarks Buffett looks for in a company, such as savvy capital allocation by the pandemic beneficiary's management. The PC-to-printer maker has also introduced shareholder-friendly

initiatives, returning capital to investors through dividends and share buybacks.

Also among Buffett's spate of recent stock purchases is **Paramount Global (PARA:NASDAQ)**, the entertainment titan offering exposure to traditional distribution and streaming services and a wide moat in the form of a huge film catalogue. Berkshire has also initiated positions in chemicals concern **Celanese (CE:NYSE)**, a maker of advanced engineered materials such as polymers that fits the Buffett bill, since it generates a superior return on equity than many peers, which suggests the company has competitive advantages that rivals cannot easily replicate.

Shares in pharmaceuticals distributor-to-medical supplies provider **McKesson (MCK:NYSE)** have also been bought, bringing Buffett exposure to a pharmaceutical distribution business generating steadily growing revenue without the risk of clinical failures. Also new in 2022 is specialty insurance company **Markel (MKL:NYSE)**. Buffett is renowned as a fan of insurance companies, which collect premiums up front and pay out claims later, leaving them with a 'float' they can invest until policyholder claims deplete it. Insurers also have pricing power and the ability to raise premiums, a sought-after quality during times of high inflation.

This year, Berkshire has sold its stake in telecommunications company **Verizon (VZ:NYSE)** and exited positions in drug royalties firm **Royalty Pharma (RPRX:NASDAQ)** and pharmaceutical firm **AbbVie (ABBV:NYSE)**.

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

Confused about the cost of investing in funds? We have the answers

It's not as complicated as you think once you understand the basics of fund and platform charges

Fees on actively managed funds have declined in recent years as pressures from cheaper passive funds and greater regulatory scrutiny have taken their toll.

But arguably attempts by the Financial Conduct Authority to provide more transparency around fund fees has led to some confusion for investors.

In a nutshell, investors simply need to know that fund performance data is quoted after charges have been deducted, and the ongoing charges figure or OCF will tell you how much the fund will cost to own per year, albeit this number doesn't include any charges from your ISA or SIPP (self-invested personal pension) provider.

THE BASICS OF FUND COSTS

In broad terms, fund costs can be split into two groups: those relating to investment activity (investment management fees and transaction costs) and those relating to the operations of the fund.

A manager will receive more money in fees if assets under management increase and vice-versa. It isn't a perfect operating model but traditionally that is how most fund managers get paid. It is sometimes referred to as an ad valorem fee.

The management fee is deducted from a fund's net asset value. Fund performance figures are quoted after management fees have been taken.

Some fund managers charge performance fees on top of the annual management fee. They are paid when a pre-specified performance hurdle is attained. Total fees are sometimes capped at a certain percentage of assets under management, also known as AUM.

A 'high water mark' mechanism is applied to performance fees. This requires the fund to regain any lost performance from its highest point before future performance fees are earned.

INVESTOR PROTECTION COMES AT A COST

Identifying the operational costs of running a fund requires a bit more work from investors.

Funds are required to provide investors with an ongoing charges figure which is quoted as a percentage of AUM. This captures all fees paid by the investor including the annual management fee.

Investors can quantify the ongoing operational costs of running a fund by deducting the management fee from the OCF, although this isn't always straightforward as many asset managers no longer publish an annual management charge figure.

Taking **Fundsmith Equity Fund (FUND:B41YBW71)** as an example, the OCF is 0.94%. The investment manager's annual fee is 0.9%, so the ongoing operational annual cost of running the fund is 0.04% (0.94 minus 0.9).

This represents a relatively low drag on investment performance. But more broadly the figure can vary depending on the level of AUM and cost of service providers to a fund.

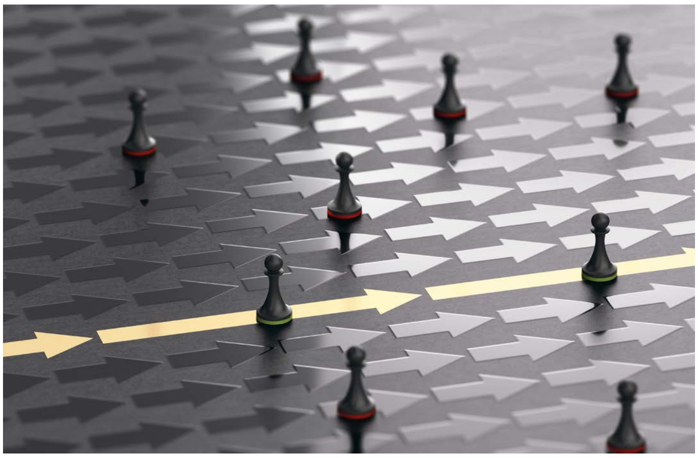
Over the last few years running funds has become more onerous from a legal, regulatory and administrative perspective. Increasing regulation has pushed up costs.

The upside is that today's investors in funds are probably better protected from potential fraud and mismanagement than ever before. However, the extra administrative and regulatory burden has come at a financial cost, the bulk of which is footed by the investors in the form of ongoing operational charges.

SCALE ADVANTAGES

At this point it may be useful to explain the importance of scale. Funds with higher AUM have an advantage over smaller funds because operational costs are largely fixed.

In other words, as AUM increases, fees grow faster than operating costs. This translates into a lower performance drag which benefits overall investment performance.



DEALING FEES AND SPREADS

Another cost which acts as a drag on investment performance is transaction-related costs associated with buying and selling stocks in the portfolio.

Buying and selling shares also incurs a dealing spread which is the difference between the buying and selling price. And then there is stamp duty tax, which in the UK is 0.5% for purchases over the value of £1,000.

Dealing costs are captured in the calculation of NAV. Fund managers have to publish the annual cost of dealing but it can often be difficult to find this information.

For example, the Fundsmith Equity Fund reported transaction fees of 0.01% last year and estimates the fee to be 0.02% over the coming 12 months.

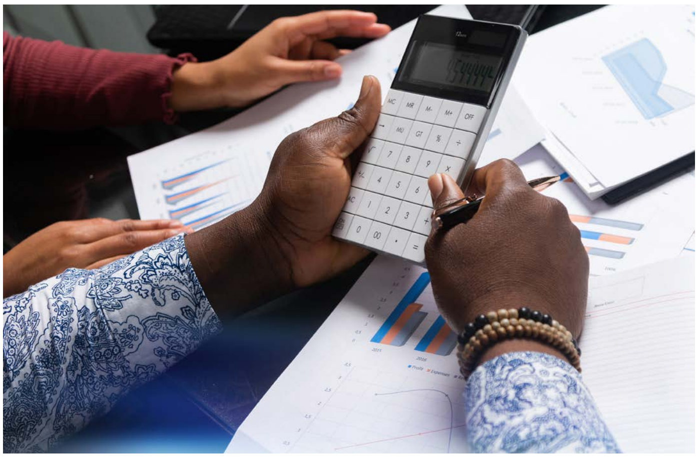
For performance purposes funds report their net returns after all costs which allows a comparison across the fund universe.

It is important to remember that performance drag can come from the relative efficiency of running a fund as well as the annual investment fee.

PLATFORM CHARGES

The final thing to consider is the money you pay to your ISA or SIPP provider. Typically, you pay a fee to buy or sell a fund, and then an ongoing custody charge which is essentially the price charged by the investment platform to look after your investments.

For example, someone wanting to invest £10,000 in Fundsmith Equity Fund via the AJ Bell platform will pay £1.50 dealing charge and £25 annual custody charge to the company, and the fund manager gets £94.01 for the ongoing charge and £2 for transaction charges. That adds up to £122.51 or 1.22% of the £10,000 investment. You'll find a cost calculator on AJ Bell's website for each fund, such as this one for Fundsmith. Just select any fund and go the relevant product page, then click 'Costs' on the left hand menu.



For clarity, you pay the platform charges out of cash in your ISA or SIPP account, and the ongoing fund charges are deducted from your investment.

DISCLAIMER: AJ Bell owns Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell and units in Fundsmith Equity Fund referenced in this article.

By **Martin Gamble** Education Editor

WATCH RECENT PRESENTATIONS

Henderson European Focus Trust

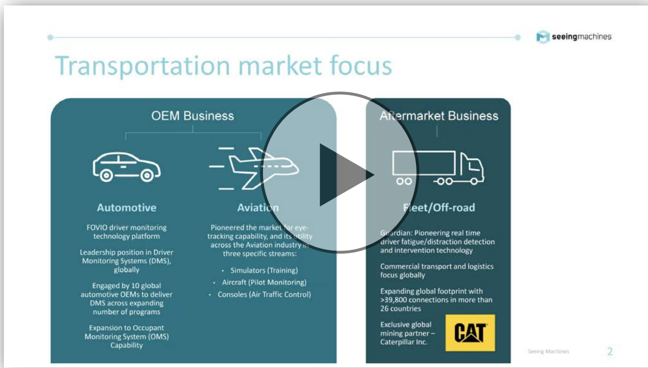
Tom O'Hara, Portfolio Manager

Henderson European Focus Trust (HEFT) seeks to maximise total return (a combination of income and capital growth) from a portfolio of stocks listed in Europe. The portfolio can hold companies of any size but has a strong bias towards large cap.

STV Group

Simon Pitts, CEO & Lindsay Dixon, FD

STV Group (STVG) is Scotland's digital media brand, providing consumers with a wide range of high-quality content on air, online and on demand. STV Group comprises three dynamic operation divisions: Channel 3 broadcaster, STV; free streaming service, STV Player; and production company, STV Studios.



Seeing Machines

Paul McGlone, CEO

Seeing Machines (SEE) is the leader in vision-based driver monitoring technology that enables machines to see, understand and assist people. Seeing Machines' technology powers products that need to deliver reliable real-time understanding of vehicle operators. The technology spans the critical measurement of where a driver is looking, through to classification of their cognitive state as it applies to accident risk.

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SHARES SPOTLIGHT

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What's the downside of moving from capped to flexible drawdown?

Tom Selby explains the key points to consider

I was planning to flip from capped drawdown to flexible drawdown to boost my income. However, my income review is due in October and the GAD rate has increased to 3.25%. I still think I'd like the extra flexibility, but are there any downsides?
Lucy

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

The GAD rate is set by the Government Actuaries Department and is designed to reflect the healthy annuity rate available in the market at different ages. The rates are updated monthly, and their purpose is to determine the amount someone in 'capped drawdown' can take each year as income.

Before the pension freedoms were introduced in 2015, there were two drawdown options – flexible drawdown and capped drawdown. Flexible drawdown is essentially what everyone has now from age 55, but pre-freedoms you had to have a minimum level of guaranteed income to qualify.

Those who didn't reach the minimum income requirement could still enter drawdown, but the income they could take each year was capped. Most people didn't reach the minimum income requirement before the freedoms were introduced, so this was the most common form of drawdown back then.

The capped drawdown income cap is set with reference to the GAD rate. There are people still in capped drawdown today, and so the GAD rate remains relevant to them. The maximum income someone in capped drawdown can take is reviewed every three years before age 75, and annually post-75.

The maximum income someone can take is 150% of the GAD rate at the time of the review. The amount you can take varies depending on age – these are the relevant tables.

Take a 65-year-old with a £100,000 fund in capped drawdown and a GAD rate of 3.25% (the rate set for October 2022). The GAD tables show a 65-year-old can take £61 per £1,000 of fund in drawdown. The calculation to use is (£100,000/£1,000) x £61 = £6,100. Multiply that by 150% to get the max income they can take under capped drawdown: 150% x £6,100 = £9,150.

One reason to stay in capped drawdown is that taking an income this way doesn't count as flexibly accessing your pension, so it doesn't trigger the money purchase annual allowance. You can take taxable income up to your capped drawdown limit and retain a £40,000 annual allowance. In flexi-access drawdown, taking even £1 of taxable income will trigger the MPAA.

If you exceed your capped drawdown income cap you flip into flexi-access drawdown. You can change your drawdown to flexi-access drawdown by speaking to your provider or transferring to a new provider. Capped drawdown is no longer available for anyone accessing their benefits for the first time, and once you switch out of capped drawdown you can't go back.

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.

Should you overpay your mortgage now that interest rates are shooting up?

The rising cost of debt means taking a closer look at your finances

Over the last 15 years, interest rates have been on a downward curve, and while house prices have ballooned, the cost of servicing mortgage debt has been mercifully low.

That is now changing rapidly, as the Bank of England tightens monetary policy to deal with spiralling inflation. Many people will consequently be looking forward to rolling onto their next mortgage deal with some trepidation and may be wondering about whether to use any excess savings to pay down the debt on their home.

There are lots of different dynamics at play in this scenario, so everyone must assess their own situation individually. But there are some common factors.

WHAT'S YOUR CURRENT RATE?

Clearly an important consideration is the rate of interest you're paying on your mortgage, and how long you have got it locked in for.

Those who took out fixed-rate deals in 2021 probably benefited from extremely favourable interest rates, and so have less of an incentive to pay down their debt. Those with longer to go on such mortgages might be a bit more comfortable leaving their debt level as it is, while those who are soon coming to the end of their deals are probably a bit twitchy about re-mortgaging.

The best rate on a two-year fix, based on a 75% loan to value, is currently 4.5% according to Moneyfacts. A year ago the typical rate was 1.2%, according to the Bank of England. That's quite some jump.

WATCH OUT FOR OVERPAYMENT CHARGES

Before paying down your mortgage you need to factor in any fees you might incur in doing so. Many mortgages will only allow you to overpay a certain amount each year, often set at a maximum of 10%, though some providers will have lower limits.

If you pay back above this amount, you could start to rack up large penalty fees, and the whole endeavour becomes less economical.

So, it's important that before you start to overpay, you check the terms of your mortgage to make sure you don't face any punitive charges and adjust your payment if you do.

You should also compare your mortgage interest to the rates you can get on cash. Interest rates have moved up sharply, so you might be able to earn

more on cash in the bank than the interest you are paying on your mortgage. That's particularly the case if you're willing to lock your savings away for a while.

There are some one-year fixed-rate bonds currently offering 3.5% interest. However, you do need to account for the potential effect of tax on your cash interest. The first £1,000 of interest you earn each year as a basic-rate taxpayer is tax-free, and that allowance falls to £500 for a higher-rate taxpayer and zero for an additional-rate taxpayer. But anything above these levels is taxed at your marginal rate, so you need to consider what you will get net of tax if you are thinking about using savings to offset your mortgage interest.

Clearly if you're locking money away for a set period of time, in a three-year savings bond for instance, you need to ensure the money is available when you next re-mortgage, because that will probably be at a higher rate, and you may wish to use the cash to reduce your debt at that juncture.

HAVE YOU GOT EMERGENCY CASH SET ASIDE?

If you are paying down your mortgage, you also need to make sure you maintain enough cash for a rainy-day fund, so you don't find yourself caught short in an emergency.

It's possible to take money back out of your home, but this would require re-mortgaging, and all the costs and inconvenience that involves, so it's highly undesirable. It's much better to maintain a sensible cash buffer to cover emergencies, typically three to six months of household expenses will do.

Mortgages are a cheap way of borrowing, so you should attend to any other debt first, because it will probably be costing you a whole lot more in interest. This includes personal loans, store cards and credit cards.

You can often move credit cards to a new account paying 0% for a limited time, but this is ultimately just kicking the can down the road, and after the introductory period, the lender will start to charge more normal rates of interest.

Once more expensive debt is cleared, the instinct to pay down your mortgage is a natural and sensible one but do make sure you consider all the costs and alternatives before proceeding.

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
3 October: James Halstead, Quadrise Fuels. **5 October:** Netcall. **6 October:** Avation. **7 October:** JD Wetherspoon.

Half-year results:
30 September: CMO, Dignity, DP Eurasia. **3 October:** Tortilla Mexican Grill. **4 October:** Inspiration Healthcare. **5 October:** Tesco.

Trading updates
30 September: Pennon. **4 October:** Greggs, Mondi.

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.

THIS WEEK: 11 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

Energy, renewables and resources

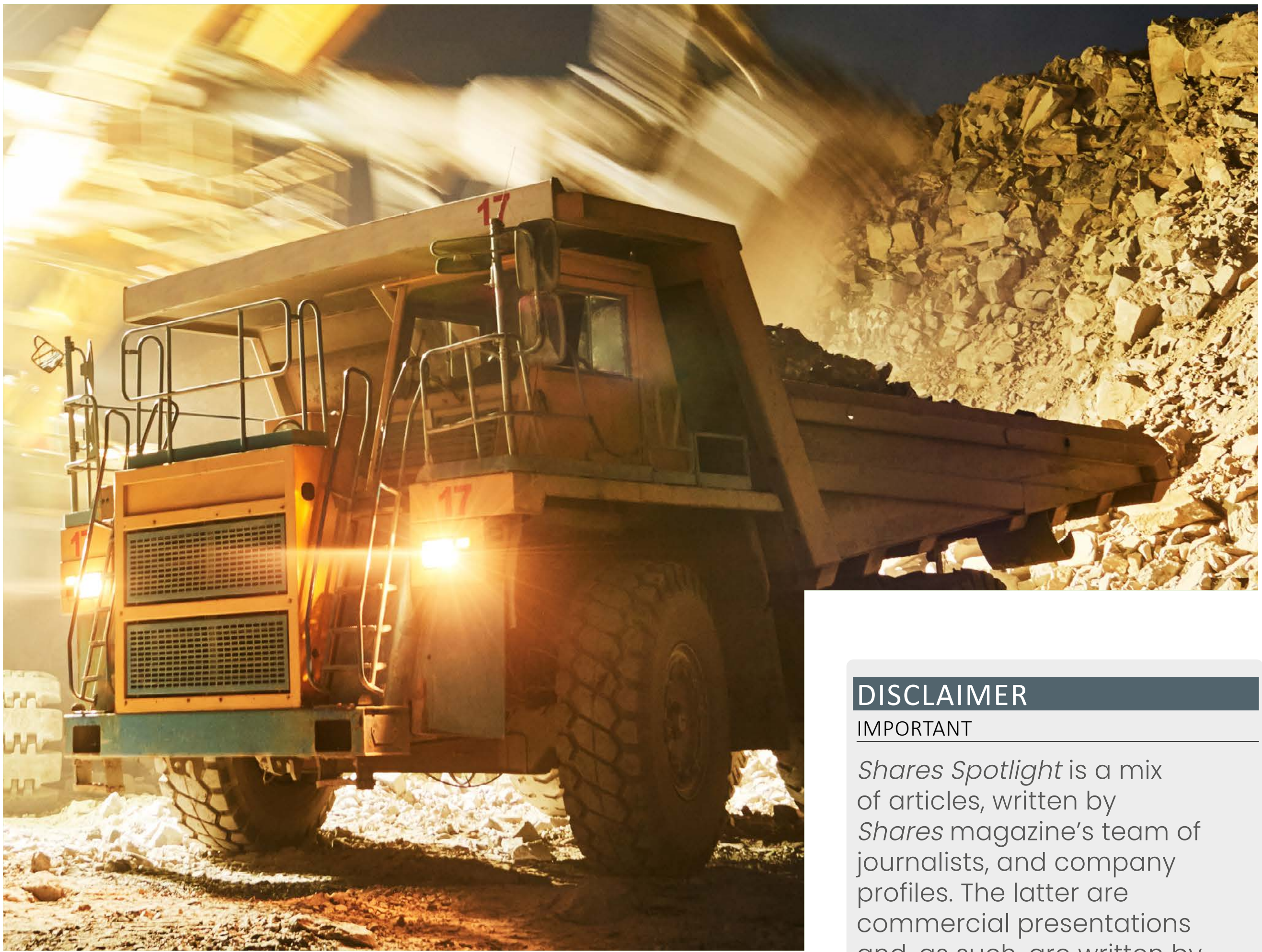
FIRST CLASS METALS

WISHBONE GOLD

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

ISSN 2632-5748

SEPTEMBER 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.

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

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

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

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

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

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

Previous issues of Spotlight are available on our website.

The big role storage facilities play in the global oil industry

Movements of crude around the globe would not be possible without this critical infrastructure

Storage facilities play a crucial role in the crude oil and oil products industry. They serve as a logistical midstream link between the upstream (exploration and production) and the downstream (refining) segments of the oil industry. Additionally, they support refining businesses by storing end products.

Storage terminals are not only used to store primary, intermediate and end products, they facilitate the continuous supply of feedstock to refineries and chemical plants in the processing industry and absorb fluctuations in sales volumes. Each change in the mode of transport requires temporary storage capacities (terminals with tank storage facilities). An efficient oil industry logistics chain would be inconceivable without such infrastructure.

WHAT ARE THE SECTOR'S MAIN CHARACTERISTICS?

The oil storage sector is characterised by sustainable growth, with the business model ensuring recurring revenue and high EBITDA margins. Due to the limited direct exposure to commodity prices (third-party storage providers do not own the oil they store), the oil storage sector is far less cyclical than the energy industry.

Thus, this asset class is attractive for infrastructure-focused investors. Storage facilities also offer revenue-generating ancillary services. The inflows may vary depending on the demand for such services. These include throughput services, blending, heating and inter-tank transfers. What are the different types of terminals? Many major energy companies and traders own and operate terminal storage facilities to help integrate their upstream or downstream assets into the marketplace. Although the basic capabilities of such terminals are often the same as the ones owned by independent operators, in general they do not provide storage to third parties.

However, by utilising third-party storage providers, major energy companies can avoid the large capital expenditure required to build their own infrastructure. Independent storage providers have more flexibility and can adjust better to market movements because their storage is accessible to the open market and is used by third parties. Tank storage terminals can be classified as:

- **Hub terminals:** Located near the major oil hubs (Amsterdam-Rotterdam-Antwerp (ARA), Houston, Singapore and the United Arab Emirates (Fujairah)), where high-volume product flows intersect.
- **Import/export terminals:** Used for storing products that are exported or imported by local companies.
- **Industrial terminals:** Designed as a component of larger complexes of the chemicals industry.

WHAT ARE THE MAIN DRIVERS OF GROWTH?

The main demand driver for the tank storage industry is the development of the (seaborne) transport volume of oil and oil products. This is determined by total consumption and/or the processing volume of crude oil and oil products and by trade flows. The location of terminal assets is also a significant value driver: the hub terminals are well positioned and are less sensitive to local and regional economic circumstances as their business activity is related to global trade (therefore less volatile and with a lower risk profile).

Storage capacity additions are driven by market structure (contango versus backwardation) and do not exhibit a strong correlation with spot oil prices. Currently, there are several capacity expansion projects planned/ ongoing in the main trading hubs.

WHAT IMPACT DOES CONTANGO AND BACKWARDATION HAVE ON OIL STORAGE?

A contango occurs when futures prices are higher than current spot prices. If the spread between the prices is large enough to cover storage, finance and shipping costs, traders can make a profit by buying oil now and selling it on the futures market for delivery later.

However, to capitalise on this profit, traders need storage (and transport) capacity. In this scenario, storage rates typically tend to increase, but the fees from ancillary services may fall due to lower utilisation of these services. Backwardation occurs when futures prices are lower than current spot prices. Storage rates tend to fall during backwardation but are balanced by higher ancillary fees since utilisation of ancillary services typically rises.

WHAT COULD IMPACT OIL STORAGE IN THE FUTURE?

There is a risk of declining demand for road fuels due to climate policy, improved engine efficiency and the adoption of electric vehicles. However, we would expect increased demand for the blending of biofuels, hence the need for tank storage (where much of the blending takes place). However, in the event of lower local demand, European refineries could increase their volume of exports, which would increase demand for storage.

According to the International Energy Agency, global oil demand is still growing; by 2025 global oil consumption should reach 103.2 million barrels per day (mb/d) (an increase of 3.5mb/d from 2019 levels). However, in its Sustainable Development Scenario (consistent with global net-zero emissions by 2070) oil demand declines by 3mb/d over the same period. A pathway to net-zero emissions globally by 2050 would require even sharper falls.

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

First Class Metals

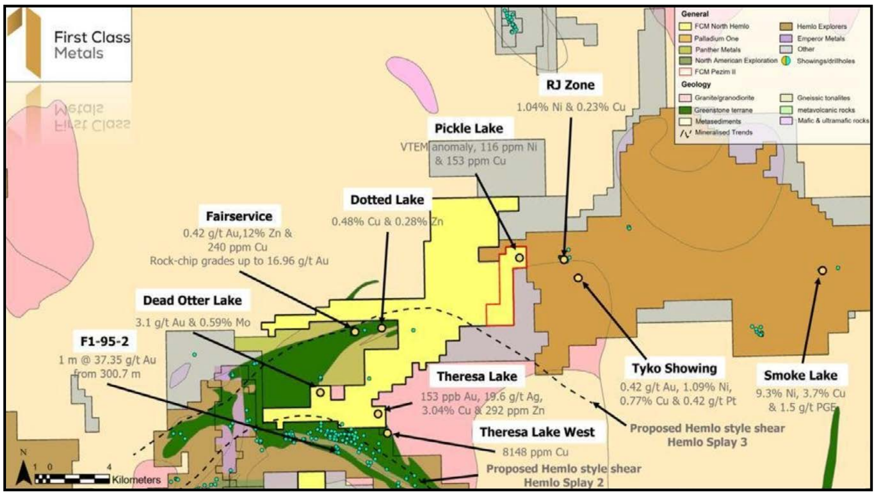
First Class Metals eyes new Ontario nickel district following Pickle Lake discovery

firstclassmetalsplc.com

It's no secret that the world is going to need more nickel moving forward. In fact, given the metal's critical role in electric vehicle batteries, McKinsey expects demand to nearly double to four million tonnes by 2030.

It's also no secret, however, that nickel reserves are simply not equipped to keep pace due to supply chain underinvestment throughout historical bear market conditions.

These dynamics mean demand for pipeline assets that can be quickly advanced is advancing considerably among producers worldwide. Given its recent discovery of a high-grade nickel-copper sulphide zone at one of its projects in Ontario, Canada, this is providing a very promising backdrop for explorer **First Class Metals (FCM)**.



A PROMISING DISCOVERY

As revealed earlier this month, First Class Metal's nickel-copper discovery was made through drilling on its Pickle Lake JV property. The work was completed by **Palladium One (PDM:CVE)** as part of its option to earn-in to an 80% interest in the area subject to a three-year work program commitment.

Palladium One intersected sulphide mineralisation over 5.5 meters including massive to semi-massive sulphides over 1.75 meters from 185.25 to 187 meters downhole. This was itself located within a 600m electromagnetic anomaly called the "West Pickle Zone", where soil sampling returned up to 116ppm nickel and 153ppm copper last year.

For First Class Metals, the discovery is highly encouraging for two reasons.

First, it stands to unlock considerable value across a property in which it will retain at least a 20% stake. With results of drilling to define the geology and extent of the new high-grade copper-nickel zone on the way, exactly how much value could soon become clearer.

But beyond this, the discovery also reinforces Palladium One and First Class Metal's belief that the West Pickle Zone is an extension of the former's "RJ Zone" just 2.7km to the east. RJ is located along a potential feeder dyke system and has returned up to 1.04% nickel and 0.23% copper over 16.2m.

Likewise, the discovery is also thought to closely resemble

Palladium One's Smoke Lake and Tyko zones slightly further to the east, which also boast very high nickel grades.

Given all these similarities, the pair believe they could have highlighted a new, underlying nickel district in the northern section of Ontario's Hemlo-Schreiber greenstone belt.

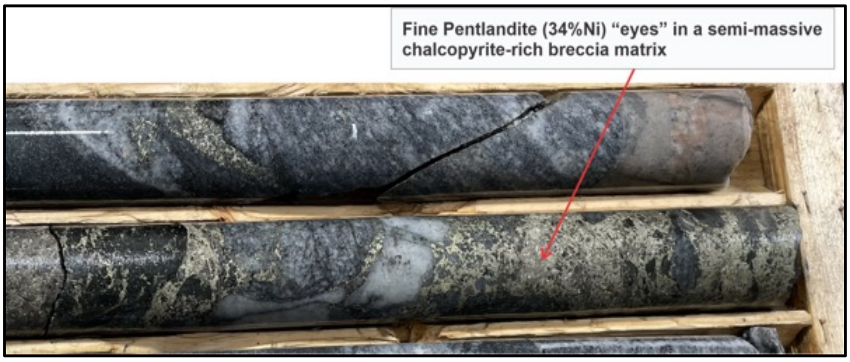
Specifically, they believe that this could defined by a robust east-west trending, 20km-long nickel sulphide mineralising system. What's more, given the West Pickle Zone discovery remains open, they believe that this system could very well extend much further to the west.

A NEW NICKEL DISTRICT?

If this potential for an extended mineralised sulphide system turns into a reality, then it would be very significant for First Class Metals.

This is because the Pickle Lake JV area sits on the eastern flank of the company's North Hemlo project, which covers a large area immediately to the west (the yellow section on the map on previous page).

First Class Metals is the 100%-owner of North Hemlo. So, if the inferred east-west trending district scale nickel sulphide mineralising system is found to extend onto its own flagship licence area, then it



would enjoy sole exposure to any upside this unlocks.

To examine this potential, First Class Metals is currently processing the results of a high resolution 4,200 line-kilometre survey completed over North Hemlo. Results are expected soon, and the work forms part of a wider programme of systematic exploration that has also included soil and rock sampling.

Now, these results alone stand to unlock a considerable amount of value for First Class Metals. Especially given that North Hemlo sits in Ontario–an ultra-mining friendly jurisdiction likely to be favoured by any producers looking to boost their nickel reserves.

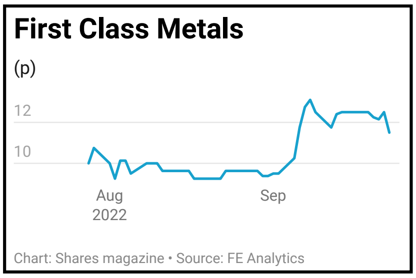
But it's also important to remember that the project is just one part of a wider land package in the northern section of the Hemlo-Schreiber greenstone belt covering more than 180 square kilometres.

This includes Esa, where the business believes a large shear identified by explorers to the immediate east and west of its property extends through its own licence area.

It also includes McKellar, which sits in a prime geological setting adjacent to **Generation Mining's (GENM:TSE)** Marathon palladium project, Sugar Cube, which is contiguous to **Silver Lake Resources' (SLR:ASX)** Sugar Zone gold mine, and the Western claims, which are all located on favourable geological trends.

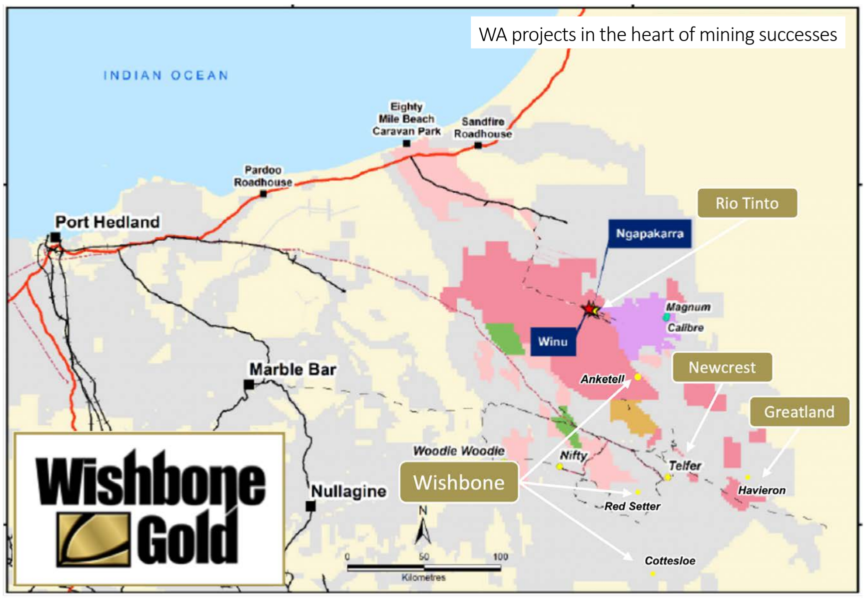
All of these projects stand to become more valuable if First Class Metals can confirm further extensions of a large, new regional nickel district. So, with various work streams underway, right now could be a good entry point for investors before it potentially enjoys further success.

After all, this could very quickly thrust the explorer right onto the radar of producers worldwide searching for efficient ways of boosting their reserves of nickel and other metals.



2022 results from Wishbone Gold's exploration portfolio are hugely exciting: further expansion is on the cards

wishbonegold.com



In the midst of lockdown in 2020, with Emirates Airlines grounded and flows of gold from Africa near to zero **Wishbone Gold (WSBN:AIM)** was restructured taking it back to its exploration roots in Australia.

This led directly to extending its position in Queensland with the acquisition of Wishbone VI in July 2021 but, more importantly, to Wishbone's expansion into Western Australia in the Patersons Ranges, the same province as **Greatland Gold's (GGP:AIM)** Havieron gold copper project.

Wishbone today is a fully fledged exploration company with one of the most exciting portfolios in the industry

WESTERN AUSTRALIA

Red Setter

The flagship project in WA is the Red Setter project, which is the major part of the 67 square kilometre package acquired in November 2020. Red Setter is located only 13 km south-west of **Newcrest Mining's (NCM:AIM)** Telfer gold mine and about 60km west of Newcrest and Greatland Gold's Havieron discovery.

The maiden drilling programme at Red Setter commenced in December 2021 focused on the major 3.5 kilometre by 500 metre magnetic anomaly. To put this in perspective this anomaly is approximately 10 times the size of the anomaly at Havieron.

Drilling is delivering excellent results so far, with the intersection of multiple zones of quartz veining, carbonate and chalcopyrite and pyrrhotite. One hole is intersecting visible sulphides of chalcopyrite and pyrrhotite that started at only 57 metres down hole.

In September 2022 Wishbone is starting a gravity survey that covers 16 square kilometres surrounding these drill results. This will enable the focusing of further drilling on the specific gravity anomalies of mineralization within the magnetic target. Results of this gravity survey are anticipated during October. Importantly, there are now 50 drill sites approved for drilling along the Red Setter magnetic trend.

Cottesloe Project

Cottesloe is an entirely different type of project. A 92 square kilometre site to the south of Red Setter which has established mineral shows from previous drilling.

Multiple significant drilling results include:

- SCR225: **5m at 102g/t Ag** from 14m
- SCR247: **2m at 73g/t Ag & 4.6% Pb** from 8m
- EWP-2: **22m at 42.7g/t Ag** from 8m
- EWP-3: **18m at 29.3g/t Ag** from 6m
- EWP-7: **20m at 35.9g/t Ag** from 2m
- EWP-11: **4m at 41.25g/t Ag** from 14m and 1**0m at 41.6 g/t Ag** from 24m
- EWP-12: **8m at 58.37g/t Ag** from 20m
- EWP-24: **8m at 54.87g/t Ag** from 40m

These are all essential metals for the production of electric cars and their batteries. The project sits in a corridor of base metal mineralisation, with the Nifty Copper Mine to the north and the Maroochydore Copper Project in the south.

Wishbone has an approved programme of works for the drilling of 20 reverse circulation drill holes set to commence later this year, in conjunction with the second

Brecciation around 280- 290m.
Note local clots of pyrite

phase of the Red Setter drilling programme.

A recent test run of soil geochemistry showed positive responses. Six traverses were undertaken across four geophysical targets. All but one of the traverses returned coherent, multipoint, anomalies for lead or silver. The numerous zones of anomalies appear to be clearly related to the stratigraphy as expressed by magnetic data.

Anketell Project

In August 2022, Wishbone took an option to acquire a highly prospective gold-copper project and expand their presence in Western Australia. The Anketell Gold-Copper Project is located around 85 kilometres north of Red Setter. Significant gold, copper mineralisation has been discovered in the Paterson Province with two world class deposits (Telfer and Nifty) currently being mined, with the latest world class discoveries of Havieron and Winu advancing towards mining.

Wishbone is in the centre of active exploration by large companies which have had excellent success to date. Anketell has a discrete bullseye magnetic feature, that is similar to other known mineralised features in the district and a prime target for drilling.

QUEENSLAND

Wishbone Group of properties

In June 2022 Wishbone began its maiden drill programme at its Queensland exploration properties Wishbone II (Halo and Grassy Oaky) and Wishbone VI (historic City of Melbourne gold workings site). The maiden drill programme

Chalcopyrite and pyrrhotite in quartz vein ~350m down hole

consists of 2,000 metres of reverse circulation holes to test surface gold and copper anomalies at depth and look for continuous underground structures.

The results were excellent: at Halo, thick intercepts of copper from surface, such as 124m at 0.34% Cu, with higher grades of 1%-2% copper in oxide and deep primary zones were found. The mineralisation style and alteration assemblages are similar in nature to the centres of deeper level porphyry/ plutonic style or possibly Iron-Oxide Copper Gold (IOCG) systems.

CONCLUSION

The growth over the last two years is hugely exciting. Wishbone have a great team both within the company and with its advisors. Most of all Wishbone are grateful to its shareholders for their support.

Wishbone Gold

Chart: Shares magazine • Source: FE Analytics

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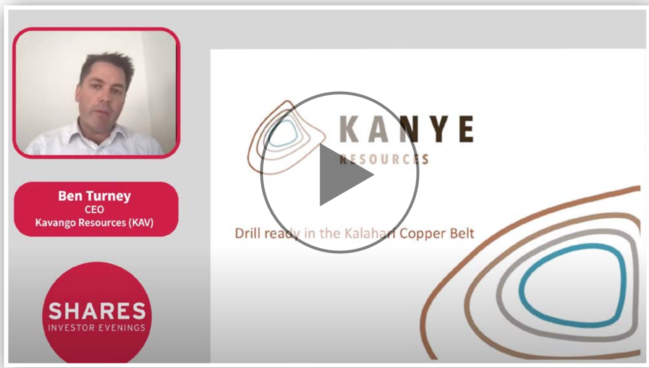
i(X) Net Zero
Steven M Oyer, CEO
& Dmitri Tsvetkov, CFO

i(x) Net Zero is an investment company that focuses on Energy Transition and Sustainability in the Built Environment. It provides its shareholders with the opportunity to create long-term capital growth with a positive, scalable, measurable, and sustainable impact on the environment and on the communities it serves.



Kavango Resources
Ben Turney, CEO

Kavango Resources is an exploration group targeting the discovery of mineral deposits in Botswana. The company's operating segment include Exploration and Corporate. Its projects include Kalahari Suture Zone; Ditau and Kalahari Copper Belt.

Royal Road Minerals
Luis Puerto, VP of Corporate Administration

Royal Road Minerals is the product of many years of collective experience in mineral exploration, security and reincorporation in post-conflict environments such as the Balkans, the Caucasus, Africa, South America and the Middle East.

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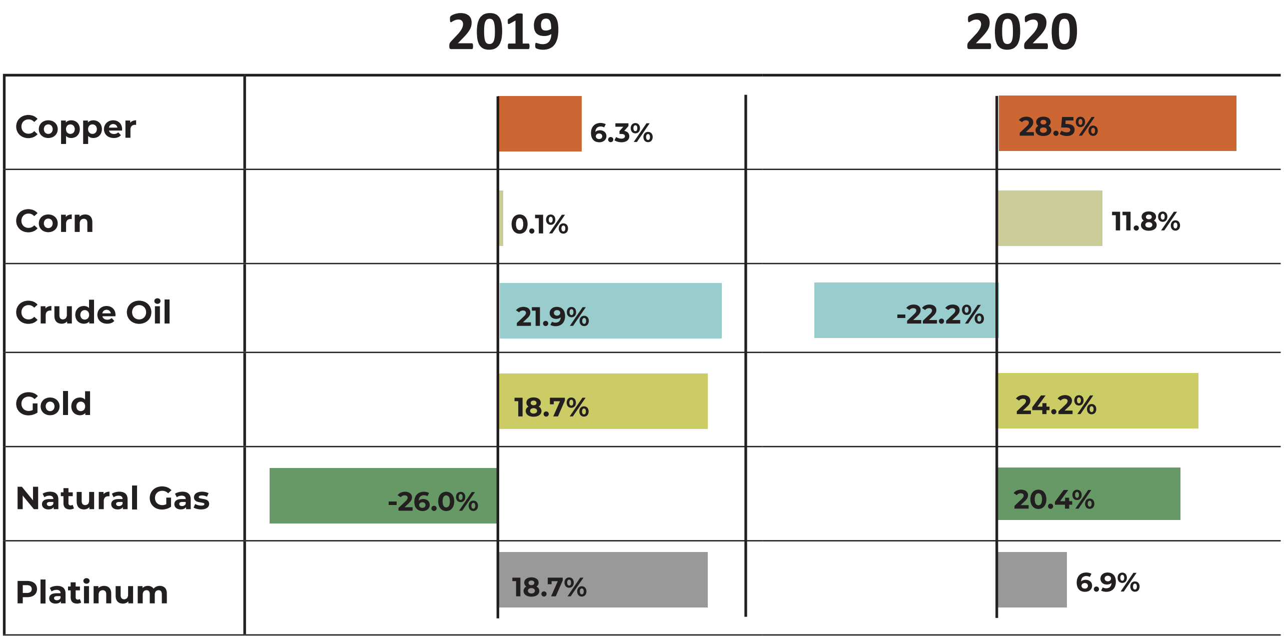
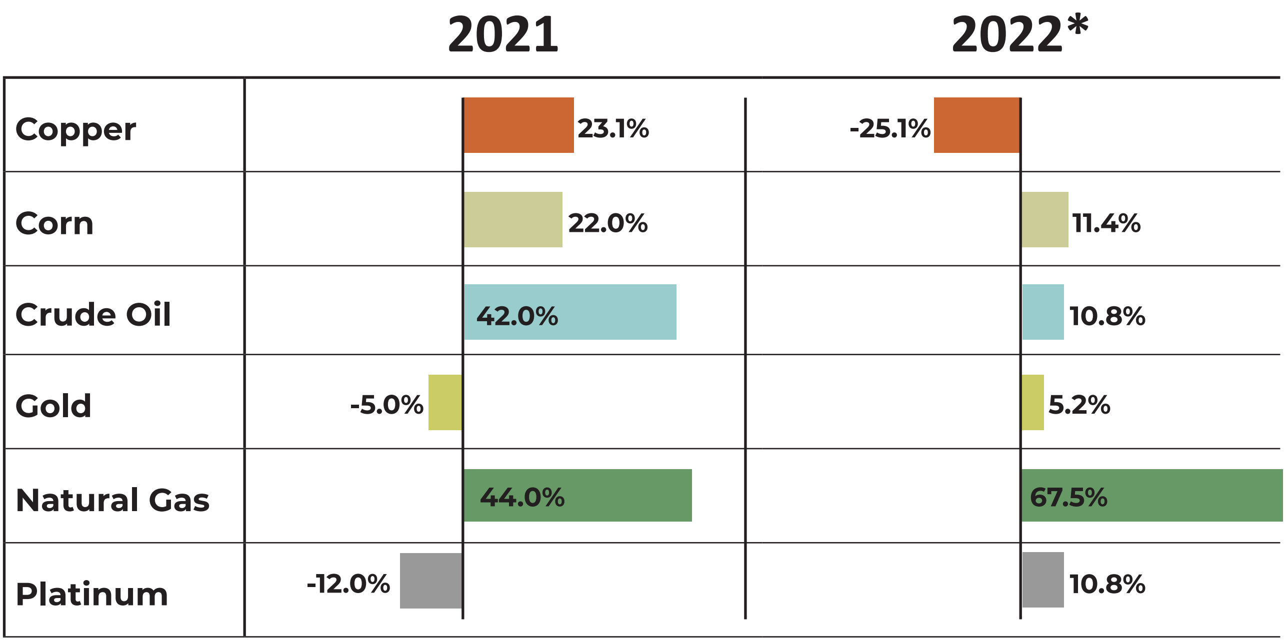
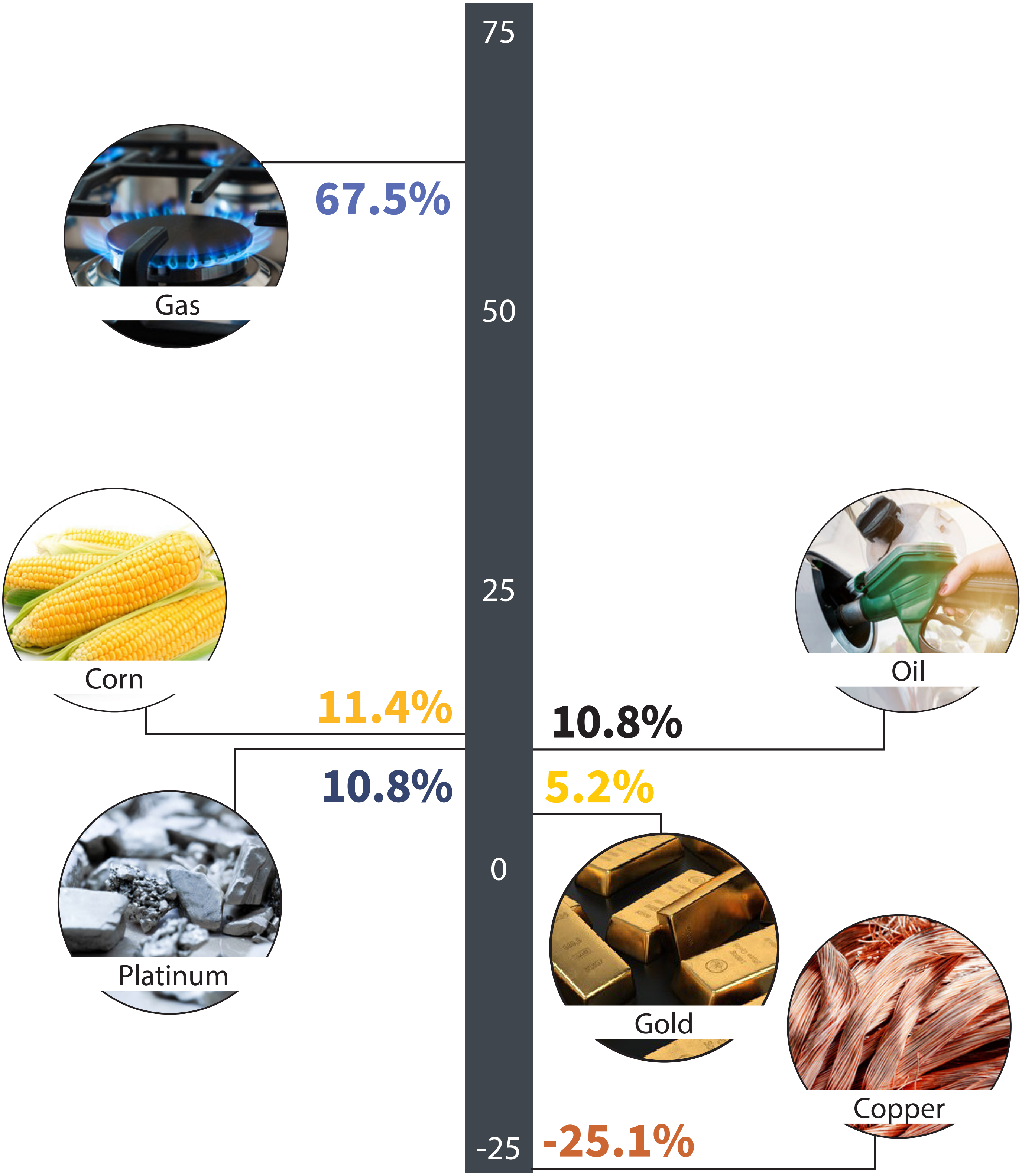
Databank – Commodity price performance 2019-2022





Source: Refinitiv. *Data to 26 September 2022.

Databank – Gain / loss so far in 2022



Source: Refinitiv. Data to 26 September 2022.