STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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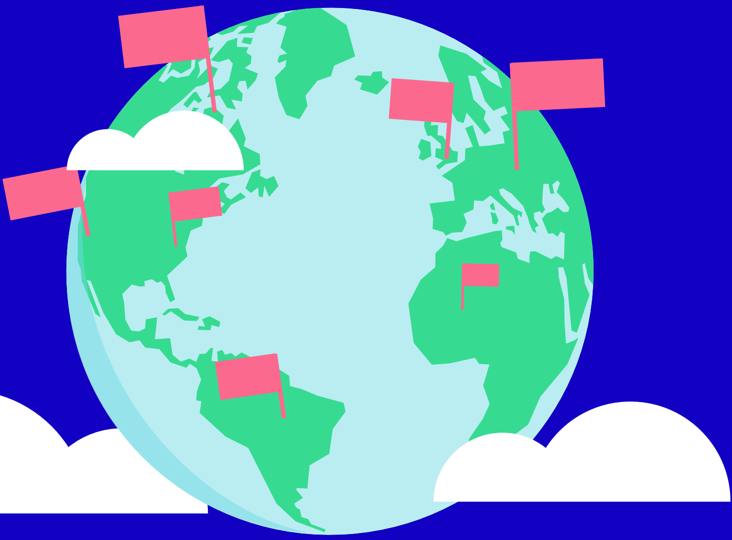
SHARES

WE MAKE INVESTING EASIER

WHEN to SELL a SHARE

How to know if it's time to exit an investment



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Understanding the key sensitivities, what's been in favour with investors and what might happen next.


WHEN to SELL a SHARE

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When to sell

Building a framework to help you decide if it is time to exit an investment and getting input from the experts.


Sector Report: Airlines

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The aviation industry's recovery from the pandemic is picking up pace but can it be sustained and which companies are best placed?

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

Currys upgrades profit guidance after better than expected trading


Shares in On the Beach fall 15% as marketing splurge keeps business loss-making


Land Securities shares rally as undimmed demand drives earnings growth


THG shares slump after board says 'no merit' in continuing buyout talks

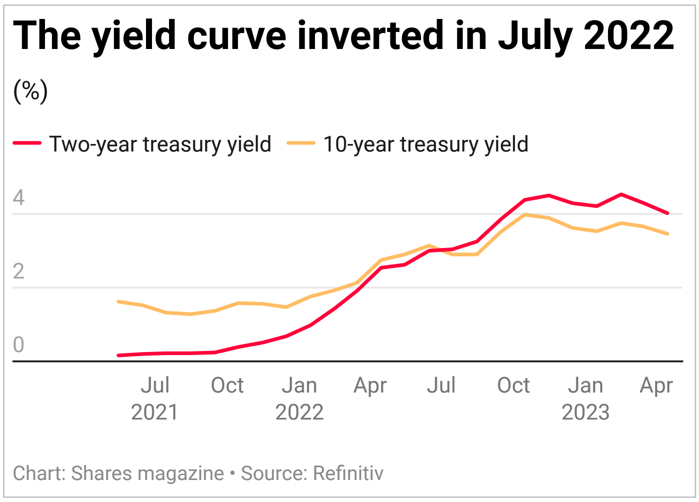

BING!
B NG!
BONG!
That's the sweet sound of taking control of your investments with AJ Bell.
AJBell
Feel good, investing.
Recommended Provider
Which?
Investment Platforms May 2022
Capital at risk.

Why bond and equity investors are pricing in very different futures

There are good arguments on both sides of the debate, but one side is going to be severely disappointed

The big disconnect between what bond markets are implying and what equity markets are expecting is widening with recent data suggesting the bond side may be gaining the upper hand as signs of a weakening economy filter through.

Economists at the US Federal Reserve are forecasting a shallow recession which, for all intents and purposes, means the Fed sees the economy achieving a soft landing.



Equity investors appear to agree and have so far, at least shrugged-off recession concerns. Investors can take comfort in a surprisingly robust first quarter earnings season.

According to Factset 78% of companies beat estimates compared with a 10-year average of 72%, which is also the highest percentage since the third quarter of 2021.

At the other end of the debate, bond markets have been signaling a recession for almost a year based on yield curve inversion, a measure which has historically predicted recessions.

Over the last 50 years the average lag between the US yield curve first inverting and the economy entering recession has been 12 months according to Statista.

Yield curve inversion refers to longer-dated

bond yields moving below shorter-dated yields. It normally signals bond investors believe the economic growth outlook is deteriorating.

The two-year, 10-year US treasury (government debt) yield curve inverted in July 2022 which implies the US economy could be entering a recession soon.

Evidence supporting the bond market's view has started to mount up. On 11 May jobless claims increased by 22,000 to 264,000, the biggest rise in one and a half years.

Meanwhile, consumer confidence plummeted to a two-year low according to the University of Michigan survey (12 May) driven by concerns the US debt ceiling debacle could push the economy into recession.

On 15 May the Empire State Manufacturing survey came in much worse than economists were expecting and signaled a sharp slowdown in business activity in New York state.

President and founder of Rosenberg Research, David Rosenberg tweeted that components of the the New York Empire State index were consistent with a 43.5 ISM print which is an 'iron clad recession indicator if there ever was one'. ISM is the Institute of Supply Management non-manufacturing index. A reading below 50 means the economy is in recession.

While stock markets have had minor wobbles in recent weeks, they have also shown remarkable resilience. The S&P 500 index is higher today than before the regional banking crisis in March which was set in motion by the collapse of Silicon Valley bank.

The benchmark S&P 500 is only 15% from its all-time highs while UK and European indices are within 3% to 5% of all-time highs. [MG]

Are private equity investors turning cold on UK companies?

The recent failure of some deals suggests they are certainly being more picky

All we have heard for the last few years is that private equity firms – especially those based in the US – have plenty of 'dry powder' to make acquisitions, and the UK market is a prime target due to the low valuations of stocks here.

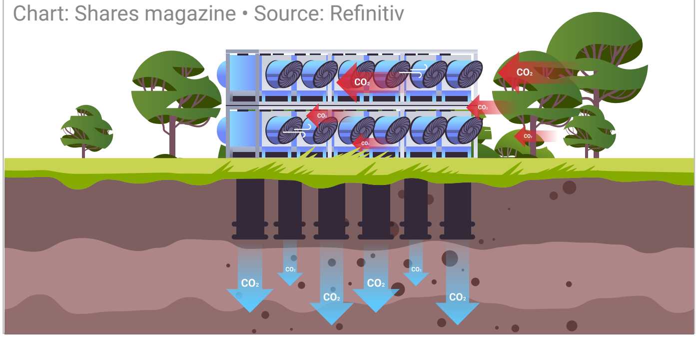
So why is it that several recent deals have failed to take off as the market expected, and what are the takeaways?

Earlier this week, New York-based private equity giant Apollo Asset Management announced that after months of chasing energy services and engineering firm **John Wood Group (WG.)** it was giving up and walking away.

What was notable about Apollo's decision is that, having finally got its hands on the necessary due diligence material at the fifth time of asking, and at the prompting of the Scottish-based company's shareholders, it decided not to proceed at all rather than make a cheeky offer.

Wood Group

Chart: Shares magazine • Source: Refinitiv



Failed UK takeovers in 2023

Home REIT	BlueStar
Standard Chartered	First Abu Dhabi Bank
THG	Apollo
Wood Group	Apollo

Table: Shares magazine • Source: Shares magazine, company announcements. Data correct as of 16 May 2023

That doesn't mean there was something in the books it didn't like, but given the talk at the start of the year about the 'bargain basement' valuations of UK companies being a catalyst for a pick-up in M&A (merger and acquisition) maybe Apollo decided there was a good reason Wood Group shares were down 80% from their 2017 peak.

In fairness, global M&A activity is down around 30% by volume this year according to figures from GlobalData due to a combination of reduced risk appetite and volatility in financial markets.

'The current market situation highlights the need for dealmakers to be more strategic in their investments and consider the impact of changing market conditions', says Aurojyoti Bose, lead analyst at GlobalData.

So, are buyers like Apollo just being more 'strategic' or is there something else at work?

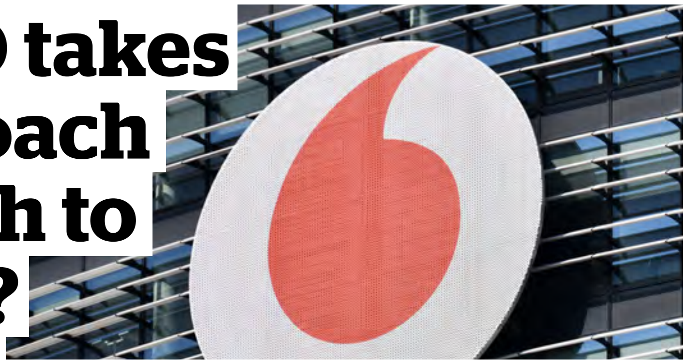
Even some relatively small deals have failed to get off the ground, such as the plan by UK private equity firm Marwyn to refinance **Unbound Group (UBG:AIM)**, the owner of Hotter Shoes.

Having proposed a cash injection of £10 million last month in exchange for a share in the business, Marwyn withdrew its offer last week and packed up its tent.

Just days later, Unbound issued a trading update warning conditions had worsened since its last update in January and revealed it was in talks with its lenders to waive covenants on its short-term debt to avoid running out of cash.

Therefore, rather as banks are tightening their lending standards, it looks as if private equity firms are being more selective and tightening their buying criteria, so the fact a target company looks 'cheap' is no longer enough to justify setting the gravy train in motion. [IC]

New Vodafone CEO takes no-nonsense approach but it will be enough to win over investors?



Margherita Della Valle says performance hasn't been good enough and plans to slash thousands of jobs

The new chief executive of **Vodafone (VOD)** has wasted no time in giving her views on the state of the FTSE 100 telecoms business and it's not pleasant. In her opening salvo for the group's full-year results, Margherita Della Valle said: 'Our performance has not been good enough. To consistently deliver, Vodafone must change.' She also announced 11,000 job cuts.

This straight-talking is often what the market wants to hear. After years of suffering, shareholders are looking for someone to revive growth at the telecoms business and they want to know if Della Valle is the person to deliver the goods.

This is classic kitchen-sinking, a term to describe a company delivering a bundle of bad news, often when a new CEO or finance director makes their first report in the job.

Some will write down the value of assets or put certain parts of a business up for review. Perhaps more powerful from a share price perspective is when a new director effectively says, 'enough is enough, the company cannot go on in its current state'.

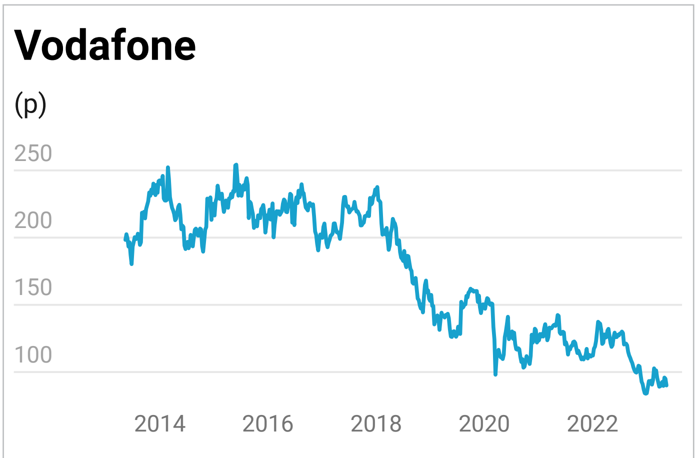


Chart: Shares magazine • Source: Refinitiv

That was certainly the situation with **Rolls-Royce (RR.)** when Tufan Erginbilgic joined as CEO at the start of 2023. He reportedly told staff in an internal briefing that the British engineer was a 'burning platform'.

The market liked this news as it suggested he was a non-nonsense type of leader, rather than the type of boss who might sweet-talk investors with ambitious plans for growth. Shares in Rolls-Royce have risen by 51% year-to-date on hopes of a turnaround and Della Valle might secretly be hoping for the same reaction.

She might need to be more aggressive as her criticism of the business has yet to win over the market. It didn't help that her comments accompanied a lacklustre set of results. Furthermore, Della Valle is different to Erginbilgic in that she was an internal promotion whereas the Rolls-Royce boss came from another company. That can make a big difference.

Della Valle has taken over from Nick Read who left after a troublesome four years. Investors might feel she is too ingrained in the existing culture to bring about change, whereas when Erginbilgic joined Rolls-Royce he brought completely fresh thinking.

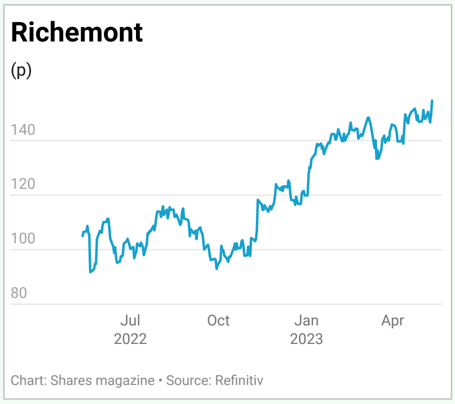
Another new CEO to watch is Tadeu Marroco at **British American Tobacco (BATS)**. He is also an internal promotion, moving up from finance director. His appointment on 15 May was a surprise to the market, with Jack Bowles stepping down as CEO with immediate effect.

There had been no speculation the cigarettes and vaping group was looking to change leader yet comments in the announcement implied that Bowles wasn't the right person to take the business to the next level. [DC]

Richemont on the rise as China reopening boosts shares

Moving HIGHER

Cash-rich Cartier-to-Montblanc brands-owner is benefiting from the extraordinary boom in luxury goods sales



Shares in luxury watches-to-jewellery retailer **Compagnie Financière Richemont (CFR:SWX)**, typically known as Richemont, have risen 47% over one year and are testing all-time highs at ₣156.9 (Swiss francs) following the conglomerate's forecast-beating sales (12 May) for the fourth quarter ended 31 March 2023.

In common with **LVMH (LVMH:BIT)**, **Kering (KER:EPA)** and **Hermes (RMS:EPA)**, the Cartier-to-Montblanc brands-owner is benefiting from the extraordinary boom in luxury goods sales and the rapid reopening of China.

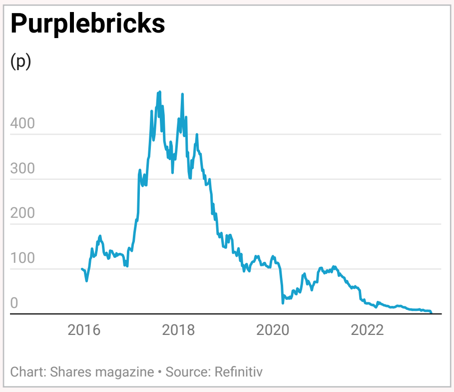
Richemont's sales and operating profits rose by a better-than-expected 19% and 34% respectively to all-time highs of €20 billion and €5 billion in the year to 31 March, which the world's third largest luxury goods maker concluded with €6.5 billion net cash in the coffers.

Founder and chairman Johann Rupert warned that 'economic volatility and political uncertainty look set to remain features of the trading environment', though he is confident that Richemont's brands are 'well positioned to meet strong demand, notably driven by a significant resumption of Chinese travel.' [JC]

Purplebricks shares collapse as Strike walks away and trading deteriorates

DOWN in the dumps

Online estate agent now trades at a fraction of the value it had when first listing in 2015



There are genuine concerns about the future of online estate agent **Purplebricks (PURP:AIM)** after the exit of a potential suitor, while the company also flagged a further deterioration in trading and signalled it was running out of cash.

Joining the stock market to some fanfare in 2015, at one time Purplebricks had grand ambitions of overseas expansion but these hopes were soon dashed. Even after retrenching to its core UK homeland the company has been tripped up by Covid and, more recently, a faltering property market.

Having put itself up for sale earlier in 2023, rival online agent Strike was in discussions with Purplebricks but has walked away from a full takeover and instead said it might buy some of the company's assets. Purplebricks has indicated any resulting return for shareholders would be below the 1.9p per share at which it was trading on 10 May.

Purplebricks' situation looks bleak. Instructions, a good indicator of future revenue and profit, fell by nearly half in the last three months of 2022, dropping from 10,964 a year earlier to just 5,672.

The company says one of its payment providers has been withholding funds because of its precarious position which is also likely to dissuade prospective clients from engaging Purplebricks' services. [TS]

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS

May 22: Kainos, Big Yellow
May 23: Helical, Assura, Cranswick, Calnex Solutions, Engage XR Holdings, RS , Bytes Technology
May 24: SSE, Great Portland Estates, C&C (CDI), Severn Trent, Marks & Spencer
May 25: Workspace, Renewi, QinetiQ , Pets at Home, United Utilities, Griffin Mining, Intermediate Capital

INTERIMS

May 23: Benchmark Holdings, Victorian Plumbing, Avon Protection

TRADING UPDATES

May 23: Benchmark Holdings, Seraphim Space Investment Trust
May 24: Aviva, Intertek, Close Brothers
May 25: Kingfisher, Johnson Matthey

Can retail stalwart Marks & Spencer maintain its positive momentum?

High street fashion-to-foods seller's results provide investors with their next chance to check on the health of the UK consumer

Forthcoming results (24 May) for the year ended 2 April 2023 from **Marks & Spencer (MKS)** will give investors another opportunity to take the temperature of the UK consumer, with upbeat guidance probably required to sustain the FTSE 250 retailer's positive share price momentum.

In January's third quarter trading statement, Marks & Spencer flagged robust trading momentum, though management prudently chose to retain guidance given cost headwinds and the inflationary pressures facing shoppers. Investors keenly await an update on trading in the opening weeks of the new financial year to see how Marks & Spencer has coped with recent wet weather and the ongoing cost-of-living squeeze.

Other talking points will include the performance of the Ocado Retail joint venture, online and overseas growth rates and the showing of third party brands including Jaeger.

Having strengthened its balance sheet and liquidity position, income-hungry investors will be watching to see if Marks & Spencer returns to the dividend list by declaring a payout for full year 2023. Now led by CEO Stuart Machin, the high street stalwart has rediscovered its mojo, is taking share in both its clothing and home and food businesses and is even opening new stores it says are 'core' to its aim of becoming the UK's leading omnichannel retailer. [JC]

Marks & Spencer

Year to March	Sales (£m)	Adjusted EPS (p)
2021 (A)	8,973	1.0
2022 (A)	10,909	18.9
2023 (F)	11,915	15.9
2024 (F)	12,559	14.5

Table: Shares magazine • Source: Company data, Shore Capital

Can Deere keep pushing up prices or will agricultural demand dive?

Industrial bellwether beat forecasts and raised the bar last time around

Despite recession concerns, the world's largest agricultural equipment maker **Deere & Co (DE:NYSE)** posted one of the first quarter's standout industrial reports and raised its full-year outlook.

We suspect Deere will do well to beat and raise forecasts again this time, although that is probably what it will take for the shares to revisit their recent highs around $440.

Demand from the farming industry has stayed strong as higher commodity prices last year have helped producers to buy new equipment or upgrade their fleets, which means Deere has been able to raise prices without impacting sales volumes.

Revenue for the three months to the end of January was up 32% to $12.65 billion, while higher margins meant earnings per share (EPS) were up a whopping 124% at $6.55 almost 20% ahead of the consensus forecast of $5.53 per share.

As a result, the firm raised its forecast for net income for the year to October from between $8 billion and $8.5 billion to between $8.75 billion and $9.25 billion, an increase of between 23% and 30% on last year.

Analysts in turn lifted their estimates for earnings per share for the full year from $28 to $30.60, an increase of 30% on the previous year.

In the quarter to April last year, the firm reported revenue of $13.4 billion and EPS of $6.10, and analysts have pencilled in sales of $14.8 billion and EPS of $8.50 for the latest quarter to the end of April. [IC]

Deere & Co forecasts

	Revenue	EPS
2Q 2023	$14.8 billion	$8.50
FY 2023	$54.3 billion	$30.60

Table: Shares magazine • Source: Nasdaq.Com and Zacks

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

May 19: Deere & Co, Foot Locker

May 22: Advance Auto Parts, Capital Southwest
May 23: Lowe's, Intuit, Palo Alto Networks, Zoom Video, Urban Outfitters, Nordstrom

May 24: Bank of Montreal, Bank of Nova Scotia
May 25: RBC, Medtronic, Workday, Autodesk, Ralph Lauren, Tiger Brands

Buy into Smiths' ongoing operational transformation

Greater focus and scale expected to significantly bolster shareholder value in coming years

SMITHS GROUP
(SMIN)
Price: £16.99
Market cap: £5.95 billion

Targeting largely defensive and highly regulated niches, **Smiths Group (SMIN)** has created a virtuous circle of high barriers to entry and increasing market share. Better still, it is in the middle of a transformation capable of adding millions in value for shareholders.

Smiths' calls itself a 'pioneer of progress' with a diverse portfolio of engineering operations with safety at their heart. These are widely seen as industry-leading niche businesses using a common operating model and all sharing the characteristics of being well-positioned in growing markets, technology-led, asset-light and with a high proportion of aftermarket revenues.

Products can be found in airport scanners, jet engines, apartment blocks and even NASA's Mars Rover, and as decarbonisation presses ahead, it strongly positions Smiths to play a big role in re-equipping industry. It is also increasingly involved in energy transition, such as LNG (liquefied natural gas), green hydrogen and carbon capture.

Customers tend to be global enterprises, like **Boeing (BA:NYSE), Airbus (AIR:EPA)**, **Shell (SHEL)** and **ExxonMobil (XOM:NYSE)**, and national governments.

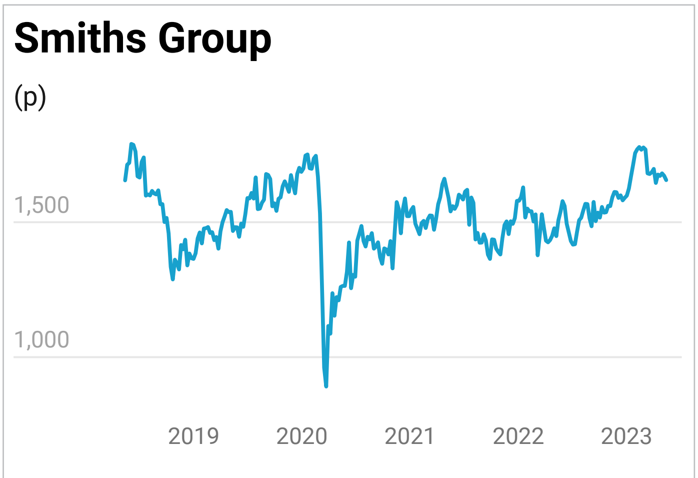


Chart: Shares magazine • Source: Refinitiv

Having long resisted market pressure to break up the group, something that has attracted private equity to cast glances in the past, the appointment of CEO Paul Keel in 2021 saw Smiths embrace a shift for greater focus, concentrating on areas where scale could reap rewards. This process saw Smiths sell its medical division in 2021 for $2.4 billion, and it is still ongoing.

Analysts at Bank of America have flagged how this process has helped deleverage the balance sheet (net debt fell from £1.01 billion to £110 million in 2022) freeing resources for bolt-on acquisitions to add value elsewhere. 'We see optionality to unlock significant value from broader portfolio transformation, such as we have seen elsewhere in the UK industrial space,' said Bank of America, namechecking **Spectris (SXS)** and **IMI (IMI)**, whose shares have rallied 28% and 27% respectively over the past year.

This will also help Smiths continue to improve important operating and investment metrics. For example, return on capital employed was 15.2% at the half-year stage, with a medium-term target of 15% to 17%.

Operating margins were 16.1% at the half-year stage and are expected to keep improving over the next few years.

While the implied forecast 2.5% dividend yield is nothing to write home about, estimated dividend cover in excess of two times this year implies scope to accelerate payout growth faster than earnings, if M&A opportunities prove hard to find. Bank of America calculates that Smiths' stock is trading on a rough 25% discount to the sector on an enterprise value/EBITDA (earnings before interest, tax, depreciation and amortisation) of 11.5 times. [SF]

A great way to invest in world-beating companies from across the Channel

There are plenty of European firms which can rival their US counterparts

Conventional wisdom says the US is the only place to find world-beating companies while Europe has lots of 'interesting' niche businesses like specialist engineering and luxury goods companies.

The truth is Europe has dozens of companies which are at least on a par with if not well ahead of their US counterparts, and investment trust **BlackRock Greater Europe (BRGE)** owns many of them.

The trust's top three holdings as at the end of March, which made up just under a quarter of the portfolio, were Danish drug maker **Novo Nordisk (NOVO-B:CPH)**, French luxury goods giant **LVMH (MOHF:FRA)** and Dutch semiconductor equipment manufacturer **ASML (ASML:AMS)**.

The rest of the portfolio is also built along 'quality growth' lines and includes luxury goods group **Hermes (RMS:FRA)**, chip maker **STMicroelectronics (STM:FRA)**, iconic sports car manufacturer **Ferrari (RACE:NYSE)** and posh chocolatier **Lindt & Sprungli (LISPE:SWX)**.

Thanks to its asset allocation – plenty of tech, luxury and healthcare and no direct exposure to banks – the trust had a good first quarter, posting a 14.2% increase in net asset value and a share price gain of 12.9% against an 8.6% rise for the FTSE World Europe ex-UK index.

BlackRock Greater Europe

Chart: Shares magazine • Source: Refinitiv

BLACKROCK GREATER EUROPE (BRGE) 544p

Market cap: £548 million

The fundamentals for its main holdings remain positive: Novo Nordisk surprised the market with the strength of demand for its obesity drugs in the US, while LVMH and Hermes saw their revenues soar on Chinese demand for luxury goods.

At the same time, the economic outlook for Europe has materially improved over the last six months meaning its more domestic-facing holdings have also performed well.

'Despite year-to-date gains, the set up for the European equity market remains favourable relative to developed market peers such as the US, and European equities are still under-owned and valuations remain attractive,' say the managers.

European companies have much better balance sheets than in the past, having spent the decade since the financial crisis deleveraging themselves, and major stimulus programmes such as the Recovery Fund, Green Deal and the REPowerEU plan 'can drive demand for years to come in areas such as infrastructure, automation, innovation in medicines, the shift to electric vehicles, digitisation or decarbonisation', add the managers.

The trust has an ongoing charges of 0.98%, not particularly cheap, but given its long-term record of outperformance can be argued is fair for the value added by the team. The trust trades at a 4% discount to net asset value. [IC]

Smart cookies who followed us into Mondelez are 23% in the money

The biscuits, chocolates and baked snacks maker is flexing its pricing power muscles and has positive sales momentum

MONDELEZ INTERNATIONAL (MDLZ:NASDAQ) $77.86

Gain to date: 23.2%

Shares in snacking giant **Mondelez International (MDLZ:NASDAQ)** are up more than 23% since we urged readers to buy at $63.22 on 10 November last year, with the stock testing fresh all-time highs. Investors evidently have a strong appetite for exposure to the earnings and cash flows generated by Mondelez's iconic portfolio of brands including Oreo, Cadbury Dairy Milk, Toblerone, belVita breakfast biscuits and Ritz crackers.

These products are demonstrably resilient and enjoy high levels of loyalty from consumers who should continue to spend on tasty snacks that provide a bit of succour during straitened economic times.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

Since we highlighted Mondelez's attractions, the company has agreed to sell its gum business in developed markets – including brands such as Trident and Dentyne – to Perfetti Van Melle for $1.35 billion, and served up solid full year and fourth quarter results in January, with organic sales up 15.4% in Q4.

Chart: Shares magazine • Source: Refinitiv

More recent first quarter results (27 April) showed a strong start to the year with organic sales growth accelerating to a forecast-beating 19.4% thanks to price increases to offset cost inflation combined with volume growth, with the company's 2022 acquisitions Clif Bar and Ricolino helping fatten up the top line.

In confident mood, management also raised both its organic sales growth and adjusted earnings per share guidance for the year to 10%-plus. Chairman and CEO Dirk Van de Put insisted his charge saw 'broad-based demand across both developed and emerging markets' in the first quarter, as consumers around the world 'continue to prioritise our chocolate, biscuits, and baked snacks categories and brands'.

WHAT SHOULD INVESTORS DO NOW?

While the shares aren't cheap on 24.5 times estimated 2023 earnings, risk-averse investors concerned about a global recession should stick with this high-quality business. *Shares* believes Mondelez, whose fans include noted fund manager Nick Train, should continue to grow sales and earnings during tougher economic times, while Mondelez is returning copious amounts of capital to shareholders through dividends and share buybacks. [JC]

Schroders

Investing for income **in a world of inflation**

Once upon a time, there was a real return on cash. For much of modern economic history, official interest rates would consistently be above the prevailing rate of inflation. That all changed in the global financial crisis of 2007-09, as the chart below illustrates, with global central banks slashing rates to close to zero and then keeping them there for more than a decade. Although UK interest rates have climbed in recent months back towards what used to be considered normal levels, they remain significantly below the current rate of UK inflation.

This means that UK deposit holders are seeing the value of their cash savings gradually eroded by the effects of inflation. Indeed, although interest rates are now higher, the rate of erosion has increased as inflation has risen over the last couple of years. There may now be a 'nominal' (before inflation) return on cash, but the 'real' (after inflation) return is quite significantly negative. Cash savers beware – things are not looking quite as rosy as they may appear at first glance.

So, what are the alternatives to cash? If income investors are worried about the erosive power of inflation, they may prefer to look at delivering a 'real' return, rather than a nominal. Some assets have historically protected investors from inflation, by rising

at a similar or slightly higher pace than prices in the broader economy over the long term.

EQUITIES HAVE THE EDGE

By their nature, equities can be considered to deliver a real return. When you buy an equity such as a listed investment trust, you are buying a share of that company's current and future profits. Company profits have historically demonstrated an ability to keep pace with inflation, because individual businesses can pass on price increases to their customers. This is known as pricing power, which tends to become a highly prized investment characteristic when inflation is high.

As a result of this pricing power, the long-term record of returns delivered by equities is impressive. For example, the real return from the UK stock market

UK inflation continues to erode cash savings

Past performance is not a guide to the future

Source: Koyfin to 2 February 2023

since 1900 has been 5.3% per annum[1]. Of course, investors must accept a higher degree of volatility from equities, but the long-term reward for tolerating that volatility suggests that it is worth it.

Meanwhile, the yield available from some regional stock markets is also very enticing, even when compared to interest rates. Indeed, at 4.3%, the dividend yield on the UK stock market is still higher than official interest rates. Yields in some parts of Europe and the emerging markets, particularly Asia, also look attractive.

REAL ESTATE FOR REAL RETURNS

As the name suggests, real estate is a real asset. The income from commercial real estate can provide investors with reassuring protection against high inflation. Rents in the EU are generally indexed to inflation and while there is no explicit link in most UK leases, commercial rents in the UK have kept pace with inflation over the long term. That said, it should be noted that commercial real estate values and returns are also influenced by interest rates, and a rise in interest rates at a time when the outlook for the economy is deteriorating could lead to a fall in values, even if rents are rising. This explains why many real estate investment trusts are currently available at steep discounts to their net asset value, which in turn should help shield investors from the capital risk – the bad news may already be in the price.

Like in equity markets, the yield available on real estate assets looks enticing for income investors. Yields of over 7% are currently possible from UK real estate investment trusts, such as those run by Schroders. Long-term total returns have also historically been attractive, underpinned by a high income that can rise steadily over time.

WHY NOT CHOOSE AN INVESTMENT TRUST?

Investment trusts are often seen as an attractive route to market for income investors, because of their ability to smooth the flow of income to their shareholders. Investment trusts can retain up to 15% of their net income generated each year to build up reserves which can then be used to smooth out dividend payments, allowing them to maintain or grow their payouts even in volatile market conditions. REITs can retain up to 10% of their aggregate property rental business profits, as calculated for tax purposes, for similar reasons.

With UK interest rates at their highest level since 2008, cash savers are finally being rewarded with a return on their deposits again. But this still isn't enough to protect savers from the erosive power of inflation. Fortunately, there are other options and Schroders has a range of investment trusts offering an attractive starting income and the potential for inflation beating growth over time.

Click here to find out more about our income generating investment trusts >

[1] Source: Credit Suisse Global Investment Returns Yearbook 2022

What is the market telling us and where could it go next?

Stocks have been predictably unpredictable this year, we look at the implications for investors

Had investors gazed into a crystal ball at the start of 2023 they might have concluded that the investment landscape would be hard to predict this year. No surprise there.

Now, halfway through the second quarter, prospects for global markets are little clearer with persistent uncertainty and asset price volatility. That said, some analysts believe that there is comfort to be taken from improved prospects for medium-term portfolio returns following the sharp drop in valuations last year, as both bond and stock markets uncharacteristically fell together.

The major US stock markets – the Dow Jones Industrial Average, S&P 500, and Nasdaq Composite – have all made gains so far in 2023, with the tech-heavy Nasdaq up more than 17% thanks to investor's sharp reassessment of growth stocks right at the start of the year (Nasdaq rallied 11% in January).

The S&P 500's more than 7% gains to date imply an annualised return of around 16% this year, if trends continue, returns that few would have dreamed possible at the start of the year. The UK's FTSE 100 has also been robust in 2023, on track for annualised returns of nearly 10% this year, again, if current trends persist. That's before dividends. Capital returns even close to this would be genuinely surprising with soaring interest rates significantly elevating the cost of borrowing for businesses.

How major markets have performed in 2023

Rebased to 100

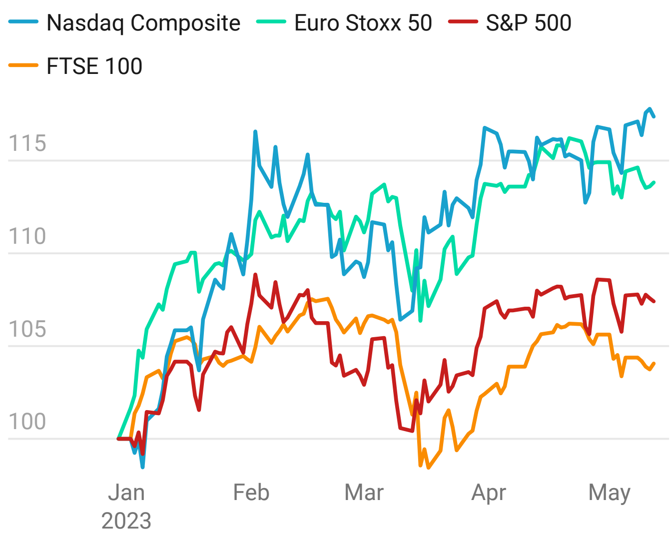


Chart: Shares magazine • Source: Refinitiv

Eurozone markets have been even stronger, the Euro Stoxx 50 (a collection of Europe's 50 largest companies) is up 14% year-to-date, thanks in large part to similar rallies for German (DAX) and French (CAC) markets.

'The switch from low interest rates over the past year has driven demand away from the growth companies and more into value stocks, and 'that really plays into Europe, which has always been more of a value market than the US,' says Richard

Saldanha, lead manager for the Global Equity Income Fund at Aviva Investors.

WHAT'S WORKED FOR RETURNS THIS YEAR

Shares of **LVMH (MC:EPA)**, Europe's most valuable company worth €9.2 billion, reached at an all-time high in April after the luxury goods giant reported strong sales lifted by a rebound in China. LVMH stock has rallied 30% in 2023, while European luxury peers **Hermes (RMS:PA)** and **L'Oreal (OREP:PA)** have made similar gains.

Looking at UK sectors, it is interesting to note that financial services companies have been among the poorest performers so far this year. Why tobacco has had such a rough 2023 ride to date is nuanced, given it is effectively just two companies – **British American Tobacco (BATS)** and **Imperial Brands (IMB)**, but that commodity stocks have struggled, or industrial metals, as the UK sector is called, should not be so surprising.

Key commodities from crude oil to copper and iron ore started 2023 with strong gains in the belief that a post-pandemic recovery in China, the world's top consumer of raw materials, would more than offset darkening economic clouds in Europe and the US. Yet some believe that China's reopening was not strong enough 'to offset the negative impact of rising rates,' particularly following the Fed's positioning and what markets could see as 'recession by design, or the Fed prepared to take aggressive action in order to cool inflation, no matter the economic impact, meaning higher rates and for much longer than previously anticipated,' says Ole Hansen, head of commodity strategy at Saxo Bank.

Copper

($)

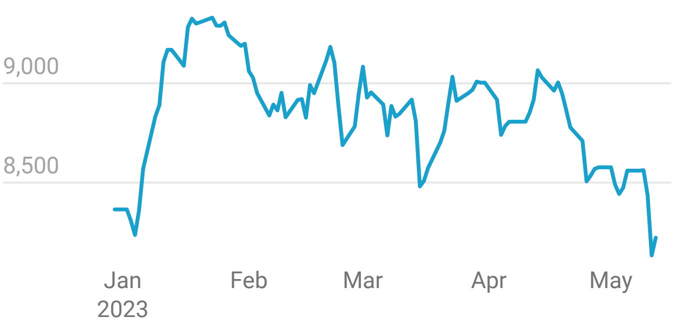


Chart: Shares magazine • Source: Refinitiv

UK sectors that have done well this year, and those that have not

Top five	Year to date performance (%)	One year performance (%)
Aerospace & Defense	24.8	40.3
Travel & Leisure	23.7	21.8
Electronic & Electrical Equip.	19.2	16.4
Household Goods	18.6	-4.4
General Financial	17.3	16.2
Worst five		
Life Insurance	-1.3	10.1
Equity Investment Instruments	-2.0	-4.5
Nonlife Insurance	-3.4	8.9
Tobacco	-15.5	-14.0
Industrial Metals	-20.4	-13.5

Table: Shares magazine • Source: Morningstar, to 15 May 2023

Copper prices, for example, has been supported by rising demand from electrical vehicles, renewable power generation and energy storage and transmission, but that rally has run out of steam.

Copper prices tend to be seen as proxy for economic expansion in a comparable way that rising gold prices imply nervousness, and sharp falls over the past month of the former, and near record highs for the latter act as an indicator of investor caution and recession concerns.

FINDING THE RIGHT BALANCE

One of the key challenges for investors now is balancing the relatively strong current environment in developed markets with various medium-term risks, what Berenberg analysts are calling 'the great divergence.'

'For instance, the US ran a far more expansionary fiscal policy than Europe in the early stages of the pandemic, and although major regions influence each other, the outlook for the post-shock performance differs from region to region,' says Berenberg. 'By 2024, more normal patterns may re-assert themselves with less divergence in growth between the US, China and Europe,' yet this outcome is far from guaranteed.

'Economic conditions have so far been resilient in the US – employment gains support consumer spending, but the economy is losing momentum in response to Fed tightening,' Berenberg says. 'Banks are also tightening credit standards in the wake of banking tremors and in anticipation of stricter regulations. This points to a mild recession, but sustained growth in consumption and stabilisation of housing may offset a decline in business investment and avert a fall in real GDP,' say the investment bank's analysts.

"Economic conditions have so far been resilient in the US - employment gains support consumer spending, but the economy is losing momentum"

US economic chatter more recently has focused on concerns about the nation's debt ceiling and the prospect of an unheard-of default on US bonds. Default has never happened before and could push the US and global economy into harrowing territory, economists say.

Default looms by June so talks around raising the $31.4 trillion ceiling are urgent and failure to find an agreement is clearly worrying for financial markets. Yet US lawmakers have been here before and have previously knocked heads and been able to pull an 11th-hour rabbit out of the hat.

In contrast to the US banking crisis, China's bank stocks have rallied in recent weeks on news that Beijing will allow state-backed firms to access more capital. This rally has started to fizzle out, however, after trade data for April showed imports shrank and export growth slowed.

PUBLIC ENEMY NUMBER ONE

Clearly, inflation is still too high and too sticky for policymakers to relax and it remains public enemy number one for central banks. 'We still expect a recession in the US and Europe within the next 12 months,' says Eugene Philalithis, head of multi-asset management, for Europe at Fidelity.

'Both the Fed and the ECB have tightened monetary policy significantly, the effects of which are still yet to be fully realised.'

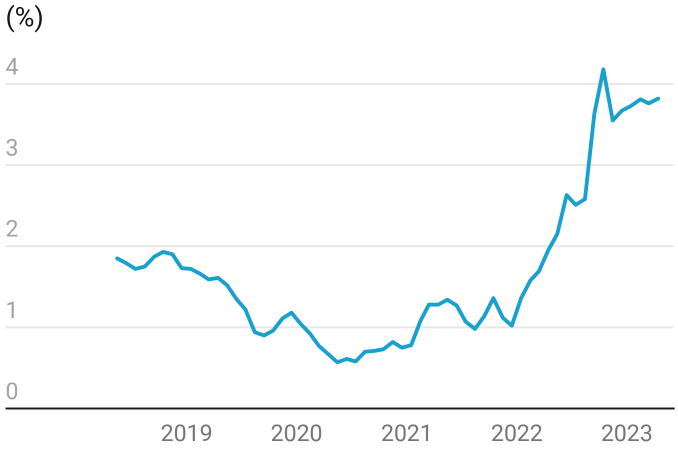
Bond yields support the recessionary scenario. 'Within fixed income, we prefer to allocate towards higher quality and more defensive government and investment grade bonds and away from riskier high yield debt,' say Canaccord analysts.

They are allocating away from corporate credit, as credit conditions continue to tighten in the aftermath of banking sector stress and loan markets are seeing rising rates of distress. 'We prefer UK Gilts over Bunds (German bonds) and JGBs (Japanese bonds) as inflation dynamics soften as opposed to the more hawkish ECB.'

Sentiment has been supported in recent weeks by the fact that a 2008-style financial crisis looks much less likely than it did when Silicon Valley Bank collapsed in March. 'Silicon Valley Bank became the poster child for a very old kind of panic, one in which depositors lost faith in the bank and made for the exit all at once,' explains Saxo's chief investment officer, Steen Jakobsen.

Unlike the Great Financial Crisis, 'this banking crisis is not about the solvency of banks, but whether the banks can continue to operate

UK yield on 20-year gilts



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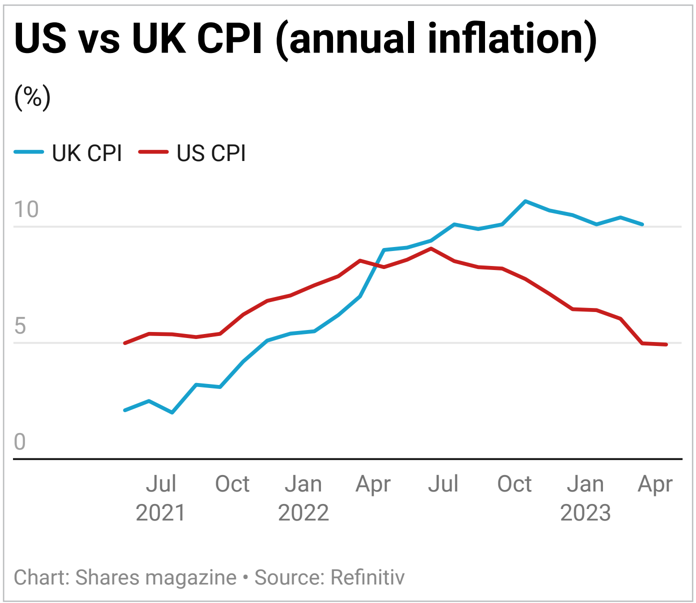

profitably if funding costs rise,' Jakobsen says.

Yet jitters in the banking sector have accelerated financial tightening, and Philalithis says his Fidelity team are watching closely to understand the impact of this across markets. 'The hit to confidence in the financial sector will reverberate through the rest of the US economy and adds to a growing number of macro headwinds,' he says.

Inflation prospects may be improving but the outlook is still uncomfortable, and key questions remain unanswered. How long will inflation drag on economic and market sentiment? How quickly can central banks get inflation back to their long-run goal of around 2%, and how will these factors influence interest rates decisions through the rest of 2023?

'We don't yet know what that comfort level for central banks will be, although we suspect it will be higher than their own 2% annual targets,' say analysts at Canaccord Genuity, so what this might mean for the 2023 inflation forecasts is also not clear.

WHAT ELSE WILL MARKETS BE WATCHING?

'The US is clearly slowing down towards "stall speed", with a range of conflicting factors influencing economic growth, and we expect very slow or no growth for the rest of the year,' say Canaccord's analysts.

We have already seen recessions in those sectors most sensitive to rising rates, such as housing, and those susceptible to weakness in the face of US dollar strength, most obviously manufacturing and certain exports. For now, the US consumer is still in fine health, with some lingering savings from the pandemic available and a tight jobs market providing confidence.

How long those powerful factors behind consumption will persist is open to question and will be monitored closely.

China is emerging from its zero-Covid policy far faster than expected, accompanied by a broadening package of growth-positive policy announcements. Many other emerging markets are benefiting from falling inflation, peak monetary tightening, and attractive valuations, believes Fidelity's Philalithis.

This may prove a potent mix, despite global headwinds. 'We think the recent pause in China's reopening rally is temporary, and improving corporate earnings are likely to take over from cheap valuations as the main driver in the next stage of the rebound.'

Corporate results have so far demonstrated largely robust revenue growth in a world of high nominal economic growth, but profit margins are struggling under the weight of rising labour costs and elevated input pressures. This trend might not reverse as quickly as some hope, which suggests that investors would be wise to remain wary of relatively optimistic earnings forecasts, and the implied valuations based on these expectations.

FINAL THOUGHTS FOR INVESTORS

Analysts and market strategists seem to increasingly believe that we are in the middle of a change in basic assumptions, where structurally higher price pressures will be driven by changing global supply chains and the costs of climate change. Yet it is not clear how quickly these pressures will become apparent or when they might begin to outweigh more cyclical economic factors.

'What is clear to me is that idiosyncratic fundamental factors are likely to play a bigger part in driving securities prices than they have over recent years when macroeconomic factors such as discount rates far outweighed company specific developments,' says Ronald Temple, chief market strategist at investment bank Lazard.

In a world of uncertainty, questionable economic forecasting, and known unknowns around inflation and interest rates, it is a natural reaction for investors to be suspicious of many investments. Surely, if risks

Interest rate calls to come in 2023

Bank of England	US Federal Reserve	European Central Bank
Thursday, 22 June 2023	Wednesday, 14 June 2023	Thursday, 15 June 2023
Thursday, 3 August 2023	Wednesday, 26 July 2023	Thursday, 27 July 2023
Thursday, 21 September 2023	Wednesday, 20 September 2023	Thursday, 14 September 2023
Thursday, 2 November 2023	Wednesday, 1 November 2023	Thursday, 26 October 2023
Thursday, 14 December 2023	Wednesday, 13 December 2023	Thursday, 14 December 2023

Table: Shares magazine • Source: Bank of England, Federal Reserve, European Central Bank

abound in the macroeconomic backdrop, investors should avoid riskier investments.

But that is not what market wisdom suggests, in our view. Often, the best investment decisions are those that feel most difficult to make. Better to keep things in simple terms; how much does any investment cost relative to its long-term potential worth, and what is everyone else doing?

Canaccord sums it up as 'a bit like buying a house, when the worst time to do so is when prices have risen quickly in a short space of time, but everyone still wants to buy houses'.

So where are we today? 'In a sense it is a Goldilocks scenario, where things are neither too hot nor too cold, but great for pursuing a balanced and diversified approach with your investment strategies.'

By **Steven Frazer** News Editor

abrdn

As China reopens, why pick an income strategy?

Yoojeong Oh, Investment Manager, abrdn Asian Income Fund Limited

- *China's reopening has delivered a timely boost to Asia's economies and financial markets*
- *Asian exposure needs to weather near-term risks, while also focusing on long-term secular trends*
- *Dividend investing in Asia does not necessarily come at the expense of growth*

China's reopening has reversed a significant period of weakness for Chinese stock markets and renewed enthusiasm for the Asian region more widely. Amid this environment of greater confidence, is an income strategy the right way to harness opportunities in Asia?

As economic activity resumes with China's reopening, there are multiple beneficiaries: from the pandemic laggards, such as travel and leisure companies, to consumption related industries, which are benefiting from reviving consumer confidence. The positive effects have spilled over to the export-oriented markets of Taiwan and South Korea, while tourists are also beginning to return to popular destinations such as Thailand.

This underlines China's pivotal role in Asia's economic recovery, and its reopening bodes well for the region's prospects in 2023. In addition, inflationary pressures are not as acute in Asia as in the West. This gives Asian companies a notable advantage and resilience over their Western peers, which are facing rising costs and labour difficulties.

While the operating environment appears to be changing for the better in Asia, investors would also need to consider potential near-term risks. Recovery within China is unlikely to be a straight line, albeit we expect domestic consumption to underpin economic growth this year as the country reaches herd immunity fast. The real estate market is stabilising, and we are monitoring domestic sentiment which, in turn, depends on buyers' confidence in an economic recovery.

Broader inflation and interest rate concerns are still very real. Persistent inflation and a strong labour market are giving the US Federal Reserve pause for thought when it comes to moderating or ending its cycle of interest rate increases. The global economy remains fragile with recession risks in Europe and the US, while geopolitical tensions could also act as a break on Chinese growth.

More recently, banking turmoil in the US and Europe has caused jitters across markets because of concerns that this could result in tightening funding conditions and potential regulatory squeeze, which in turn, could hurt asset quality, the growth recovery and capital flows in the Asia Pacific. The question is what next and this is why we have always backed the banks that are well-capitalised, well-funded, have conservative underwriting and treasury management, and have not taken unnecessary risks to grow. Our bank holdings may even benefit from a flight to quality for both deposits and maybe even wealth management flows in the case of the Singapore banks.

Against this backdrop, we believe it is vital to position Asian exposure to weather near-term risks, and we believe that a portfolio of quality holdings with sustainable competitive advantages and robust balance sheets, which are less reliant on debt financing and continue to display financial strength, will protect their margins and dividends better even in the face of persistent inflation and a higher rate environment.

Over the longer term, investors should also focus on the long-term secular trends playing out across Asia, such as huge consumer markets, technology and green energy. The region also has favourable population demographics. These themes are creating opportunities in areas such as digitalisation, healthcare and wealth management.

INCOME AND GROWTH

Unlike in some Western markets, dividend investing in Asia does not necessarily come at the expense of growth. Many Asian companies pay stable dividends while also growing at a decent pace. Equally, income investors are not confined to low growth sectors. For example, the Abrdn Asian Income Fund has a high weighting in information technology stocks, focusing on areas such as hardware, semiconductors and foundry companies. The trust holds companies with strong balance sheets that are also growing their revenues and dividend payouts over time.

In Asia, dividend contribution has been on a steady upward path, helped by greater capital discipline and shareholder-friendly reforms. It now comprises close to half of total returns to shareholders. 2022 was a bumper year for dividends globally, but particularly so in Asia. The MSCI AC Asia Pacific ex Japan Index had a dividend payout ratio of 45% and a gross aggregate dividend yield of 3.4% as of end-December 2022, trumping most other major global markets on both metrics. On the trust, we increased the dividend by 7.5%, a 14th year-on-year increase, giving investors a significant head-start in outpacing inflation.

Valuations remain reasonable across Asian markets, while earnings have been at cyclical lows and look set to recover. There is still abundant choice of businesses that generate good profitability and cash flow and pay higher than the benchmark dividend. At the same time, their strong balance sheets should provide some defensiveness if the reopening trade proves bumpier than expected.

PORTFOLIO IN ACTION

This balance of leaning into the recovery while managing potential risks is in evidence throughout the portfolio. The trust holds an overweight to Singapore, for example, because it provides a quality screen in accessing growth in markets such as Malaysia, Indonesia, Thailand and even China. The big banks in Singapore, such as OCBC, have exposure to China's burgeoning small and medium-sized enterprises (SME) sector. The consumer-oriented and tech-linked names that we hold are hitched to secular themes, including e-commerce and technological development.

Our tech hardware and semiconductor holdings in TSMC and Samsung are the two largest positions for the trust. The dividend yield for both looks quite low, but these companies have grown their dividends per share on a dollar basis and follow a dividend pay-out policy that is linked to their free cash flow generation. Looking ahead, earnings growth for these market leaders looks well supported as prospects for high-power computing, data centres and servers remain compelling, while AI complexity would boost semiconductor demand and overall market expansion.

'Going green' is a strong theme across the portfolio, with significant government support for the renewable energy transition across Asia. Among the trust's holdings here, electric vehicle (EV) battery manufacturer LG Chem has a cash generative chemicals business that provides funding for new investments and R&D in the energy storage space. LG Chem is now one of the top five EV battery players globally. PowerGrid – the national grid of India – is spending at least 20% of its capital expenditure on renewable energy sources, while also paying a compelling yield.

The opportunities from the reopening of China – and its impact across Asia – can be harnessed effectively through a dividend strategy, which may also provide greater protection against some of the risks. There is growth opportunity in income strategies in Asia and dividends have proved extremely resilient through the economic turbulence of recent years. Investors could be missing out if they focus only on growth strategies to participate in the region's recovery.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein, and not as an investment recommendation or indication of performance.

Important information:

Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Movements in exchange rates will impact on both the level of income received and the capital value of your investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- The Company invests in emerging markets which tend to be more volatile than mature markets and the value of your investment could move sharply up or down.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.

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

As an investor, you should be willing to sell shares in a company should you believe its best days are in the past. You will inevitably get things wrong from time to time and/or the investment case can change and, in these circumstances, you must summon up the courage to click the sell button.

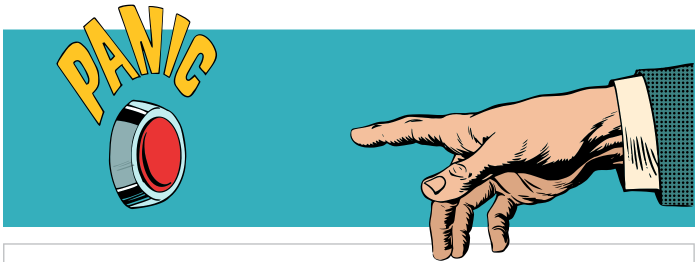
Buying low and selling high is the key objective when it comes to investing in shares, but even experienced and professional stock pickers get this the wrong way round, buying high and selling low. Many investors stick with poorly performing stocks in the hope they will recover, while others panic and sell great businesses when their shares are caught up in wider market drawdowns with the aim of avoiding larger losses when a sharp rally could be right around the corner.

WHY IT PAYS TO HOLD YOUR NERVE

Investors are living through a volatile period for stock markets, with the past five years alone punctuated by political turbulence, a pandemic, war in Ukraine, red-hot inflation and rising interest rates. But as the chart below shows, skittish investors who sold their equity holdings when

CHECKLIST: TIMES WHEN YOU MIGHT WANT TO SELL A SHARE

- Has your confidence in the company changed?
- Has the stock become overvalued?
- Is this a suitable time to take profits?
- Is this a classic ‘falling knife’?
- Have key management figures departed?
- Are financial metrics worsening?
- Has a transformational acquisition increased risk?
- Have you identified better opportunities elsewhere?



Investors who sold in a panic in the early stages of Covid missed out on a big recovery

MSCI All Country World Index

Chart: Shares magazine • Source: Refinitiv

global markets plunged on the arrival of Covid and the implementation of lockdowns in early 2020 may have rued the decision, as they missed out on strong subsequent rallies.

A plunging share price isn't an automatic reason to sell a great company, so long as the investment case remains intact and the business has just encountered a short-term hiccough.

Take the world's biggest retailer, **Walmart (WMT:NYSE)**, which we identified as a *Great Ideas* selection in February 2021 at $145.8 in the belief its strong value proposition would deliver further market share gains.

A matter of days later shares in the groceries-to-general merchandise goliath sold-off on fourth quarter earnings miss (18 February) and accompanying warning sales would moderate, but we urged readers to keep buying at $138.30. Admittedly, the shares provided a bumpy ride as May 2022 witnessed Walmart issuing weaker-than-expected earnings and a profit warning, then a further alert in July 2022 with inflation forcing customers to cut back on discretionary purchases, followed by downbeat guidance in February of 2023.

Yet despite these short-term setbacks, shares in Walmart are currently trading 5% above our original recommendation level at $152.60, the share price buoyed by consistent market share gains, progress in reducing its bloated inventory and returns of capital including dividends and share buybacks, while the long-term outlook for the

retailer remains positive.

Stories such as Walmart serve as a lesson to keep your emotions in check and reassess your investment thesis when a bad spell strikes a company you have previously backed. Just because a share price has fallen sharply doesn't necessarily mean you should ditch the stock.

Instead, you should ask yourself some tough questions, such as has the fundamental investment thesis changed, are you simply reacting to a share price fall, and is it worth monitoring the stock a little longer to see if your continued confidence is justified? To make this process easier for readers, we have provided a simple decision flow chart (see graphic later in the article).

WHY YOU SHOULDN'T BE AFRAID TO TAKE PROFITS

'No-one ever went broke taking a profit' is a quote attributed to one of the Rockefellers and to illustrate the point, here is a profit-taking example from one of our recent *Great Ideas* selections.

We originally flagged **On The Beach (OTB)** at 129p in July 2022, having identified that shares in the online package holidays in the sun seller were trading at their lowest valuation in the seven years since listing on the stock market. We argued this had created an excellent opportunity to invest in a financially strong and 'fundamentally sound' business with good longer-term prospects.

Initially it looked like we had gone positive too early, as the shares sank to an all-time low in late September 2022 before roaring back along with a revived travel sector to leave our trade more than 37% in the money at 177p.

We then urged readers to take profits in February 2023 following some mixed comments on trading and on concerns higher spending could weigh on short-term profit margins. Our timing on selling was nigh-on perfect, as we missed the share price peak by a matter of days, and the shares have subsequently slipped back to 127.2p.

DON'T CATCH A FALLING KNIFE

'Don't catch a falling knife' is another well-known investing adage, which means a plunging share price may drop further. Trying to catch a knife that is falling is a dangerous thing to do and can lead to portfolio bloodshed, as this example demonstrates.

We recommended **Avon Protection (AVON)** at £26.94 in July 2021 in the belief the protective equipment firm was moving past its problems, but

sadly the military equipment business' alarming run of profit warnings continued.

Unfortunately, we doubled down on the recommendation in August 2021 after the company delivered its first revenue warning, but the situation worsened in November 2021 as Avon revealed new delays on orders for its body armour business and announced a strategic review of the division. The news prompted us to duck out at a 60% loss, having sold out too late.

LESSONS FROM THE PROFESSIONALS

Adam Avigdori, co-manager of investment trust **BlackRock Income & Growth (BRIG)**, views having a rigorous sell discipline as a core part of managing risk and highlights three key situations when he considers selling a share. The first is when a share has reached its target price.

'Meeting a price target doesn't mean moving out of an entire holding completely, but it may result in the selling of a segment of a holding to crystalise a portion of the gains or using it as an opportunity to evaluate the company fundamentals and its future prospects,' he explains.

The second scenario is if new public information becomes known, whether company specific or relating to the broader economy, which undermines a fundamental part of the investment case. 'We are constantly analysing our portfolio to check the validity of our holdings' investment theses, and we will act if those theses have weakened,' he points out.

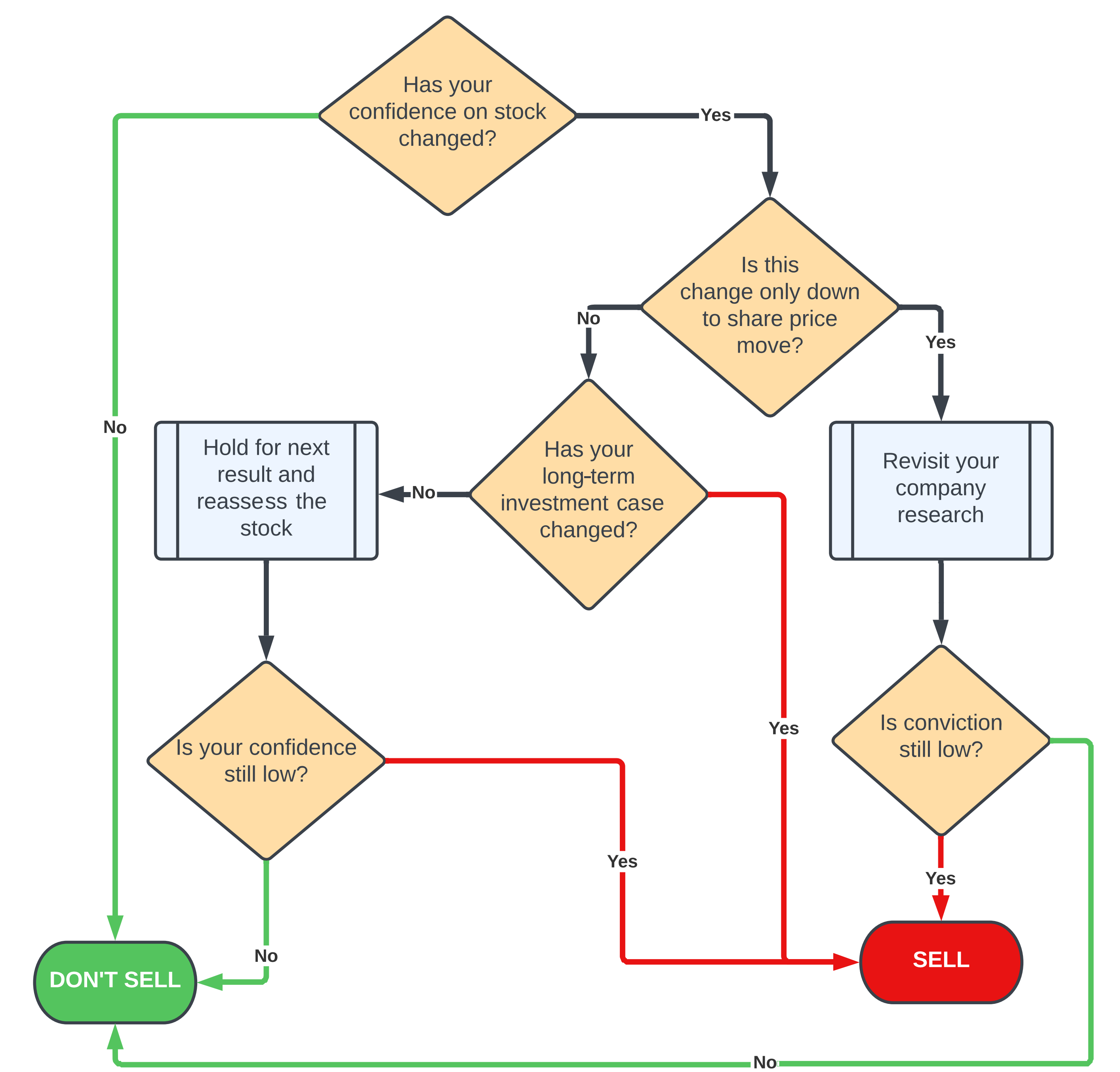
Thirdly, added information 'may also have a positive impact on our investment theses, meaning we may want to build on an existing holding or start a new position, when we find a new idea that has a stronger case for inclusion in the portfolio.

'Inevitably, this may mean we reappraise and reduce other holdings, to ensure our best ideas are properly represented.'

Also chiming in is Eric Burns, chief analyst at Sanford DeLand, the manager of the **CFP SDL UK Buffettology (BF0LDZ3)** and **CFP SDL Free Spirit (BYYQC27)** funds which follow 'Business Perspective Investing', a quality-focused approach championed by Buffett and Charlie Munger.

Burns says this Business Perspective Investing process means there are only a very small

How to decide if you should sell or not



Source: Shares magazine

number of reasons why Sanford DeLand would sell a holding and that decision is 'driven by what's going on at the business itself rather than often extraneous factors such as movements in share prices.

'Remember that the market is there to serve you, not to instruct you. Our preference is to hold our companies for the very long term – indeed for the first 10 years of the Buffettology Fund the portfolio turnover implied an average holding period of more than 12 years.'

There are two core reasons why Sanford DeLand sells a holding, namely 'fundamental change' and 'oversight'. Burns regards fundamental change as 'something that has changed for the worse and isn't likely to get better anytime soon'. Examples might be 'an adverse change in regulation, a new strategy and/or management team or, worst of all, a "transformational" acquisition.

'Often the latter does more to transform the fortunes of the vendor or the advisers working on the deal than it does shareholder value.' Oversight is a polite way of saying the managers got something wrong in their original investment thesis. 'It happens,' concedes Burns. 'No investor is infallible but the important thing is to learn from

AN ART NOT A SCIENCE

Richard de Lisle, manager of the **VT De Lisle America Fund (B3QF3G6)**, says: 'The most predictive factor of future performance is, inconveniently, momentum. Therefore, the best sell discipline may be not to have a sell discipline.

De Lisle continues: 'This discussion is comparable to the age-old question about economics: "Is it a science or an art?" Peter Lynch, one of the best fund managers ever (he delivered a compounded annual return of 29.2% for Fidelity's Magellan Fund in the 1980s), said that he got more from his study of philosophy than from anything else. He tended to sell when everything was going very well.

'We agree. For us, the investment case changes daily. Valuation is a moving target based on so many variables, both endogenous and exogenous to the company, that we have little hard targeting to use. Shares are therefore sold for a conjunction of reasons, none of which can be quantified except in the context of the time they apply. Quant methods are best used for buying. The variables for selling are so numerous, a sale can best be summarised as a feeling because selling is, after all, an art, not a science.'

those mistakes and not to repeat them.'

Richard Scrope, manager of the **VT Tyndall Global Select Fund (BGRCF38)**, points out there are many situations when investors might sell a stock, from a fundamental weakening of the financial position to a deterioration in a company's competitive advantage. However, in addition to these considerations, his approach is to apply a three-point screen for all stocks in the portfolio which every position must pass.

'A failure to satisfy any one of these three factors would result in the sale of the position,' explains Scrope. 'The three fundamental questions we ask are: Do you understand the company in its entirety? Is it economically profitable throughout the cycle? Do you trust the management?'

VT Tyndall Global Select doesn't use price targets or stop losses as Scrope believes these are 'destructive to investor capital. In our view, if the investment case remains, a significant price correction should be viewed as an opportunity to buy more, not crystalise a loss.

'As long-term investors, avoiding the heuristic tendency to react to short-term news flow is paramount and rather than selling, we believe the first reaction should be to sit tight while continuing to challenge the investment case that led us to invest in a stock in the first place.'

Some less obvious considerations when selling shares for Dowgate Wealth's Laurence Hulse, manager of smaller companies-focused investment trust **Onward Opportunities (ONWD:AIM)**, include the retirement of industry heavyweights, as well as the examination of forecast margins versus through-the-cycle peaks and the direction of travel of metrics such as cash conversion, return on invested capital and cash flow return on capital. On a more light-hearted note, Hulse was once put off buying a share in a turnaround situation when the CEO revealed he had a golf handicap of two suggesting way too much time on the course.

WHY GOVERNANCE MATTERS

David Elton, manager of the CFP **Castlefield Sustainable UK Smaller Companies Fund (B1XQNH9)**, monitors investments using not only traditional financial criteria, but also on a range of other factors because 'we want to distinguish where non-financial risks (like ESG) might morph into business and financial risks which might ultimately impair the value of a clients' investment.

'For example, from time to time we've faced hold/sell decisions around the "G" of ESG – i.e., governance matters within a company. In one such situation, our investment case was impaired following what we saw as a lack of oversight and responsibility being taken amidst a challenging backdrop. This led to us losing confidence in management's ability to turn that business around and we exited the holding, avoiding further share price volatility and downside.'

Elton explains that governance concerns also have 'the potential to create negative headlines, such as when a company seems to be out of step with public sentiment. In rare cases, where the reputational risk surrounding a company becomes too high and is a significant distraction for management, we can no longer justify its position in portfolios and our process may lead us to sell the shares.

Editor's View: Tom Sieber

If supermarkets are profiteering why are their margins so skinny?

The returns generated by the likes of Tesco and Sainsbury's are not much to write home about

One of the big reasons why inflation remains stubbornly high in the UK is the continued appreciation in food prices. This is having a damaging impact on lower-income households because the weekly shop accounts for a larger proportion of their overall budget and is, self-evidently, a non-discretionary spend.

While trading down can achieve some savings, the price of staples like pasta, tea and chips have seen some of the largest rises. Naturally in such a situation politicians will be looking to point fingers and the leader of the Liberal Democrats, Ed Davey, recently attributed blame to the supermarkets and 'food multinationals', calling for the Competition and Markets Authority to investigate.

Focusing on the supermarkets, how fair is this claim? Shore Capital analyst Clive Black has little doubt: 'To suggest that UK supermarkets a) rip folks off and b) earn supernormal profits is not only incorrect it is insane.'

He adds: 'Just pause for a moment: The British Government, the British people, are blessed to have one of the most advanced food systems in the world. That evolving system has helped to reduce the proportion of household income expended on food from more than a third to a tenth since the Second World War.

'That is a massive benefit of innovation, investment, technological change, and entrepreneurship to society and an enhancement of living standards. More to the point, we have an amazing choice of safe product.'

This is a strong argument, and we should definitely not take for UK supermarkets for granted. **Tesco (TSCO)** did see a spike in earnings in the initial stages of the pandemic, helped by a surge in online orders which made that part of the business more economic and by the fact the supermarket sector was one of only a small segment of retail businesses allowed to operate during lockdowns.

However, there is little evidence that the surge in prices coming out of the pandemic has been of much lasting benefit as the chart indicates.

Tesco operates in a mature and highly competitive market with slim profit margins and has plenty of capital tied up in areas like stores, stock and logistics facilities. Though it benefits from its scale, being by some distance the market leader in the UK.

As Black observes, over the long-term supermarkets have achieved margins of between 0% and 4% and returns on capital employed, or the return on the money spent funding the business, in the single digits.

These are not charities. If supermarkets do not generate a sufficiently generous return to compensate investors for putting their money at risk in their shares, then funding these capital-intensive operations could become a problem.

Without a robust supermarket sector, the problems around the affordability of food are only likely to get worse.

But investors need to be wary. Politicians do not always make rational decisions and if the political wind has turned against the big grocery firms, then this could become a material risk to investing in the supermarket space.

Tesco vs Sainsbury's earnings per share

Rebased to 100

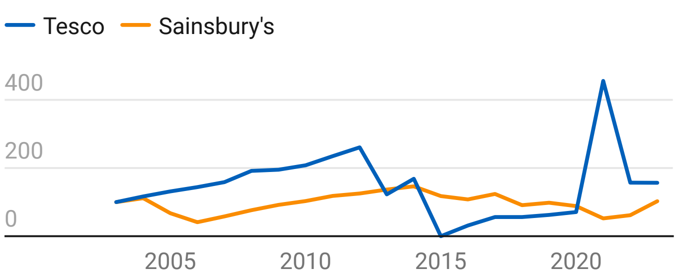


Chart: Shares magazine • Source: Refinitiv

Invesco

CAN **UK COMPANIES** BENEFIT FROM **US CLIMATE PLANS?**

*Author: **Ciaran Mallon, Fund Manager***

America can demonstrate impressive commitment when it throws itself into something. Take President Biden's supersize climate change plans.

Three acts in particular – the Inflation Reduction Act, the Chips Act and the Bipartisan Infrastructure Law – look set to cement (in a low-carbon way) Biden's name in history.

The US has got the renewable energy bug and is using hundreds of billions of dollars in grants and tax breaks to unleash a torrent of entrepreneurial spirit and intellectual capital. I think the results will be quite something to see in the years ahead.

It is rare for a president to succeed in pushing through such dramatic legislation. Perhaps what has helped Biden has been the way he has focused spending on benefiting the US, creating jobs by reshoring manufacturing and reducing dependence on China and other nations. The beneficiaries of this money should be American companies and workers.

It may come as a surprise to learn, then, that several UK-listed companies within our portfolio look set to benefit, too.

National Grid: Around 40% of National Grid's assets are in the US, distributing electricity and gas across New York and Massachusetts, employing 17,000 staff and serving 20 million people. Through National Grid Ventures (NGV) it operates and invests in large energy projects, Invesco

technologies and partnerships to help accelerate the transition to clean energy in the US and also across the UK and Europe. The business is working, as part of a joint venture, to connect a wind farm to the onshore transmission system which will deliver offshore wind capacity for Rhode Island and Connecticut. In partnership with other well-known businesses, it is also jointly bidding for new wind farm projects in the Northeast US. In addition, it is building electric vehicle charging networks and also investing in solar, clean hydrogen and battery storage projects. On both sides of the Atlantic we are going to need more robust networks for dealing with energy transition as we increasingly come to rely on electricity.

Drax: Drax offers a useful alternative renewable energy focus with its hydro-electric plants and sustainable biomass power generation units, which used to be coal-fired. The company has a global bioenergy supply business operating from 18 sites in the US and Canada, producing compressed wood pellets for its own plants and customers in Europe and Asia from sustainably managed forests in North America. These pellets are from low-grade wood produced as a by-product of the production of higher-value lumber and furniture. The company has faced criticism, but we believe Drax is sourcing its biomass from sustainably managed forests – a renewable activity that uses resources sensibly and is vastly preferable to burning coal. It is aiming to be carbon negative by 2030 through carbon capture and storage. There is no single solution in the transition to a low-carbon world, and we believe biomass has a part to play – here and in the US.

Ashtead: The legislation introduced under the Biden administration will lead to a prodigious amount of construction. Operating under the brand Sunbelt Rentals, Ashtead is an international equipment rental company. It rents a vast range of construction and industrial equipment, like forklift trucks, earth-moving diggers, cherry-pickers, pumps, pneumatic drills, power units and portable accommodation for workers. It aims to be a one-stop shop and has over a thousand stores across the US. It is the second-largest equipment rental business in North America.

Indirect winners

Even companies that have not previously had operations in the US may still benefit. Take SSE – formerly Scottish and Southern Electric. This is one of the world's leading builders and operators of wind farms – an experience it has developed in the North Sea, which has an unusually shallow bed. Dogger Bank, off the Northeast coast, connected Britain to Europe during the Ice Age will be the site of a new windfarm which, when fully complete in 2026, will be capable of powering 6 million British homes. SSE is examining global opportunities, and North America looks like an obvious market for its valuable expertise. The company recently opened an office in Boston and is assessing potential participation in renewable wind projects.

Compass Group: At stadiums, museums, corporate cafes, hospitals or schools, most of us will at some time have eaten food produced by the Compass Group. It is a huge contract food service and hospitality business. More than half of its footprint is in the US, where it operates many different brands, depending on location. It should benefit from supporting construction projects – feeding the workers building the new America.

Global Britain

Although the portfolio is invested predominantly in UK listed companies many of these companies are multinational businesses with exposure to North American markets and could potentially benefit either directly or indirectly from the investment the US government is planning. Added to this is the fact that Europe is now talking about creating similar initiatives. Some of the companies I have mentioned here potentially look well placed to benefit from that, too.

It is a reminder that when you invest in a UK investment trust like ours you are not making a call on the direction of the UK economy – many of the best companies listed in the UK are multinational and this makes them an exciting way to benefit from tomorrow's global growth.

Want to know more?

Ciaran Mallon is a Fund Manager within the Henley-based UK Equities team and co-manages the UK Equity portfolio within the Invesco Select Trust plc with fund manager James Goldstone. Click below to learn more about the investment trust.

Invesco Select Trust PLC (LSE:IVPU) Share price | AJ Bell

Invesco Select Trust plc UK Equity Share Portfolio

Investment Risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations), and investors may not get back the full amount invested.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

The Invesco Select Trust plc uses derivatives for efficient portfolio management, which may result in increased volatility in the NAV. In addition, some companies are suspending, lowering or postponing their dividend payments, which may affect the income received by the product during this period and in the future.

The Invesco Select Trust plc UK Equity Share Portfolio invests in smaller companies, which may result in a higher level of risk than a product that invests in larger companies. Securities of smaller companies may be subject to abrupt price movements and may be less liquid, which may mean they are not easy to buy or sell.

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Further details of the Companies' Investment Policies and Risks and Investment Limits can be found in the Report of the Directors contained within the Companies' Annual Financial Reports.

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Are shareholders with nominee accounts losing out on company access?

A new campaign by a high-street name calls for a legislative reform

As small shareholders, most of us hold our investments in what is known as a 'nominee' account whether it is through a platform or through a broking firm.

Having a nominee account safeguards our investments while at the same time it reduces costs and increases efficiencies for the broker or platform.

However, a persistent criticism of nominee accounts is the lack of opportunity for small shareholders to have direct contact with the companies they are invested in who in turn typically don't know who their shareholders are.

WHY ARE NOMINEE ACCOUNTS POPULAR?

Years ago, if you had an account at a stockbroking firm and owned shares in say a dozen companies, your name would have been on each company's list of shareholders, and you would have had a physical share certificate showing the number of shares you owned.

As individual share accounts took off with the privatisation of former state-owned firms like **BT Group (BT.A)** in the late 1980s, it became obvious that the old system of buying and selling shares and re-registering the new owner by physically moving pieces of paper around was costly and cumbersome.

By setting up a digital registry of shareholdings, costs could be greatly reduced, while using nominee accounts would greatly simplify the record-keeping process and at the same time safeguard customers' investments by 'ring-fencing' their accounts.

For the system to work, your shares are held in the name of your broker or platform, so although you are still the 'beneficial owner', the companies you invest in have no idea who you are.

You can still vote at AGMs (annual general meetings) and on issues which come up outside of regular meetings – such as whether to take your dividends in cash or in the form of 'scrip' (subscription) shares – but if a company wants to speak directly with you, they can't.

That may about to change though, if a petition being put before parliament by one of the UK's biggest high street retailers gains traction.

GIVING SMALL SHAREHOLDERS A VOICE

In a campaign titled 'Share Your Voice', none other than **Marks & Spencer (MKS)** is calling for far-reaching changes to UK company law which, while it was updated in 2006, the firm says is still largely 'stuck in a 40-year-old time warp'.

For those interested in reading more about the campaign and/or signing the petition, it can be found **here**.

'Outdated legislation means that ordinary people who have invested in the UK's listed businesses struggle to hear from and communicate with them.

'Almost half of individual shareholders cannot directly engage with the company they invest in as they invest via nominee platforms, and the rest are constrained by an outdated, paper-based system that would in any other facet of life be obsolete.'

The firm claims this 'wholly unsatisfactory' situation can be fixed through a handful of straightforward amendments to the UK Companies Act 2006 to 'reconnect shareholders to the companies they invest in'.

In its own case, Marks & Spencer believes that at its current rate of annual decline, 'within 30 years the company will not be able to speak to a single shareholder without a change to legislation as we are losing visibility of over 1% of our register annually'.

The firm goes on to say: 'The convenience of investing via nominee platforms has come at the expense of the important link between companies and their retail shareholders.

'Companies don't know who their investors are and investors are powerless and completely detached from the companies they are funding.

'This eats away at the bond of trust and sense of mutual accountability between ordinary investors and markets and, in the end, it will eat away at the legitimacy of our capital markets.'

NOT A ONE-WAY STREET

On the one hand, anything that brings small investors closer to the companies they invest in can only be a good thing, but it doesn't have to be a one-way affair.

Investors are quite used to chasing companies for information these days, and to describe small shareholders as 'powerless and completely detached' from companies seems to be over-egging the pudding somewhat.

Like most large and mid-sized firms, Marks & Spencer has a well-laid-out corporate website and offers small investors the option to sign up for all manner of updates including press releases, reports and presentations and regulatory news with an easy-to-use link.

Most investment platforms allow digital voting on motions put forward at AGMs and give shareholders the option to allocate up to and including their full shareholding for or against when it comes to major decisions like directors' compensation and the ability to issue or buy back shares.

As far as the roll-out of digital AGMs is concerned, again shareholders – and even non-shareholders – are usually able to sign up online and watch proceedings from the comfort of their own home simply by clicking a link on the company's website and verifying their identity.

By **Ian Conway** Companies Editor

GLOBAL X ETFs RESEARCH

Copper Demand Catalysts Materialising Into Opportunities

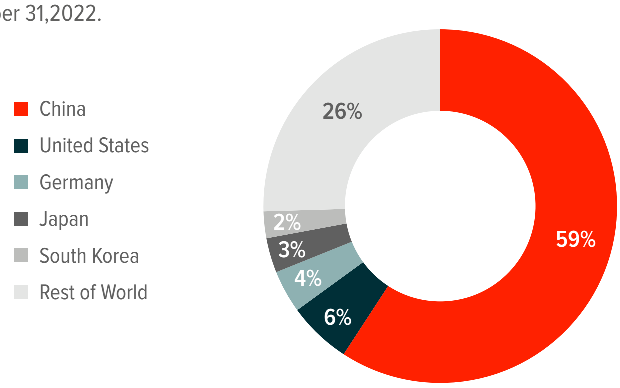
Authored by:
Global X Research Team

Copper is a workhorse metal in the global economy given its high ductility, conductivity, and corrosion-resistant properties. The quicker-than-expected economic recovery in China, driven by the recovery in its influential property sector, coupled with global clean energy initiatives are major catalysts that could lead to higher secular demand for copper.

China is the biggest consumer in the world, using more than half of the world's supply of copper.[1] At the centre of China's consumption is its building and construction sector, which accounts for about 30% of total copper end use.[2] How China's property sector bounces back from COVID-induced slowdowns is a key factor in the trajectory for copper demand. The massive property sector rescue package that the government unveiled in November 2022 should help.[3] This rescue package is more pragmatic and comprehensive than earlier measures, signalling the central government's determination to support developer financing and manage the spill over risks.

COPPER DEMAND SHARE

Source: Global X ETFs with information derived from Bloomberg LP. Data as of December 31,2022.



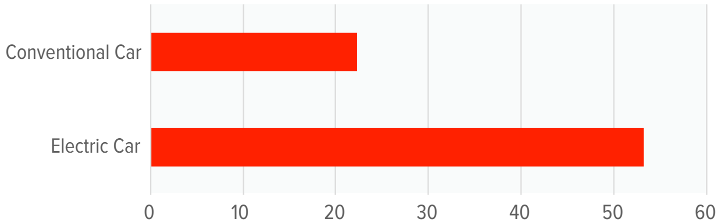
Copper supply might increase in 2023 due to project ramp-ups[4], but supply disruption risks are a consideration, particularly in key Central and South American production regions. Chile and Peru alone provide almost 40% of the global copper supply.[5] Recent disruptions in the region include the Las Bambas copper mine in Peru, where production was partially cut after road blockades in February 2023 prevented the delivery of raw materials[6]. Disruptions like this increase the risk of a copper shortfall in the coming years, which can put pressure on prices.

Copper's useful characteristics imply that its demand is closely linked to economic cycles, industrialisation, and now the energy transition. In the medium term, energy transition-related demand and lagging supply investment might mainly drive higher copper prices.

Many governments are investing to develop renewable energy including solar power and increase electric vehicles (EV) adoption, notably the United States and Europe.[7] As a result, these two economies are becoming key drivers of the surge in copper demand.

COPPER USAGE IN ELECTRIC VEHICLES (EV) VS. INTERNAL COMBUSTION ENGINE (ICE) VEHICLES (KG/VEHICLE)

Sources: Global X ETFs with information derived from International Energy Agency (2022, October). Minerals used in electric cars compared to conventional cars.



According to the International Energy Agency (IEA), annual copper demand globally is expected to double by 2030.[8] Copper is one of the minerals that will be indispensable to the energy transition. Its conductive qualities make copper a key component of low-emissions power production technologies like solar photovoltaic (PV) panels, wind turbines, and batteries, in addition to its widespread use in the energy transmission and distribution grids.[9]

MINERALS CRITICAL TO CLEAN ENERGY TECHNOLOGIES

Sources: Global X ETFs with information derived from International Energy Agency (2022, October). Minerals used in clean energy technologies compared to other power generation sources.

	Copper	Cobalt	Nickel	Lithium	REEs	Chromium	Zinc	PGMs	Aluminium
Solar PV	High	Low	Low	Low	Low	Low	Low	Low	High
Wind	High	Low	Moderate	Low	High	Moderate	High	Low	Moderate
Hydro	Moderate	Low	Low	Low	Low	Moderate	Moderate	Low	Moderate
CSP	Moderate	Low	Moderate	Low	Low	High	Moderate	Low	High
Bioenergy	High	Low	Low	Low	Low	Low	Moderate	Low	Moderate
Geothermal	Low	Low	High	Low	Low	High	Low	Low	Low
Nuclear	Moderate	Low	Moderate	Low	Low	Moderate	Low	Low	Low
Electricity Networks	High	Low	Low	Low	Low	Low	Low	Low	High
EVs & Battery Storage	High	High	High	High	High	Low	Low	Low	High
Hydrogen	Low	Low	High	Low	Moderate	Low	Low	High	Moderate

Relative importance of minerals for a particular clean energy technology: High ● Moderate ● Low ●

Copper may not have the shine of a precious metal, but the world puts it to work in myriad ways due to its unique characteristics. Tight supply, a bullish long-term story linked to the energy transition, and the potential for an economic boom as China reopens create a compelling investment case for copper, in our view. Despite high volatility and risks linked to an expected global slowdown, we believe copper is still supported in the near term while a Supercycle, or sustained period of economic growth, is envisioned over the decade.

RELATED ETF

COPG-LN: The Global X Copper Miners UCITS ETF (COPG LN) provides investors access to a broad range of copper mining companies.

Capital at risk. The value of an investment in ETFs may go down as well as up. Prospectuses and Key Investor Information Documents (KIIDs) for this ETF is available in English at globalxetfs.eu/funds/copx.

INTERESTED IN LEARNING MORE? EXPLORE OUR INSIGHTS AND SUBSCRIBE TO FUTURE UPDATES.

Footnotes

[1]Bloomberg LP (2022, December 31). Copper demand share.

[2]JP Morgan. (2022, May 06). Global Commodities Research, Base Metals Primer: Copper End-Use by Sector.

[3]Reuters (2022, November 14). China's 'most comprehensive' rescue package for property sector lifts stocks, bonds.

[4]JP Morgan (2023, March 7). Copper Outlook Presentation.

[5]Bloomberg LP (2022, September 30). Copper mine production share.

[6]Reuters (2023, February 1). Peru's Las Bambas mine set to halt production as blockades remain, source says.

[7]BBC (2023, February 1). EU takes on US as tries to win electric car battle.

[8]International Energy Agency (IEA). (2022, October 27). World Energy Outlook 2022.

[9]International Energy Agency (IEA). (2022, October 27). World Energy Outlook 2022.

Glossary

The Purchasing Managers' Index (PMI): An index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarises whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

Air travel is making a comeback: discover the best airline shares to invest in

Demand for summer bookings and lower fuel costs have lifted the sector's performance close to pre-pandemic levels

There has been a string of good news from across the airline sector of late. Budget airline **EasyJet (EZJ)** said in its latest set of quarterly results that its package holiday arm is currently 80% sold for summer 2023, British Airways owner **International Consolidated Airlines (IAG)** said it expects capacity to be around 97% of levels pre-pandemic and airline and holidays group **Jet2 (JET2: AIM)** has increased its fleet capacity due to strong passenger demand by one million seats for summer travel.

IAG, Jet2 and easyJet have all beaten market expectations in the first quarter of the year and raised their guidance for the full year.

WHAT IS A LOAD FACTOR?

This is the percentage of available seating capacity which has been filled with passengers.

Anglo-German tour operator **TUI (TUI)** said that 2.4 million customers booked holidays in the second quarter of this year – an increase of 600,000 customers compared to last year.

'Bookings for summer 2023 are significantly up at 13% on prior year accompanied by higher average selling prices,' it said.

PENT UP DEMAND

It would be fair to say that these airlines and other European airlines are continuing to benefit from pent up demand because of the pandemic.

Bank of America said in a research note: **'Air France-KLM (AF:EPA)** in its 1Q earnings call highlighted strong yields (above 20%), helped by high load factors and noted an acceleration in yields into summer.'

According to the International Air Transport Association (IATA) total traffic in March 2023 (measured in revenue passenger kilometres or RPKs) rose 52.4% compared to March 2022. Globally, traffic is now at 88% of March 2019 levels.

Heathrow airport reported a year-on-year rise in passenger numbers in April to 6,398,870 compared to 5,081,426 last year (excluding passenger numbers from Gatwick, Stansted, Edinburgh, Naples, Aberdeen, Glasgow and Southampton).

LOWER FUEL COSTS

Aside from demand, airlines have also benefited from lower fuel costs in the first quarter of 2023.

This is a stark contrast to the start of 2022 when the price of jet fuel increased by approximately 90% and cost roughly 120% more, on average, than it did in 2021. This price increase presented a significant challenge for airlines as fuel is often the largest operating cost, accounting for around 25% of total costs depending on the year, according to consulting firm McKinsey.

As of 12 May 2023, the average annual price of Brent crude oil is $74 per barrel. A far cry from March 2022 when the Russian invasion of Ukraine disrupted global crude flows causing prices to soar.

Although the Brent crude oil price has fallen since peak levels last year, fuel prices remain an issue, according to Gerald Khoo analyst at Liberum: 'Fuel prices remain volatile, and our outer year forecasts are theoretically more sensitive with much lower (or no) hedging cover in place.'

Interestingly Khoo notes that the supply chain issues which have dogged the sector are leading to a more disciplined approach to pricing. He says: 'Lower fuel prices would normally stimulate incremental capacity, eroding the strength in average fares. However, there are widespread supply chain bottlenecks including manufacturer delivery delays (with production rates of most aircraft types still below pre-pandemic levels), staff shortages and reduced availability of spare parts. These are limiting the airline industry's normal propensity for self-destructive behaviour and enforcing disciplined capacity growth. These factors underpin our optimistic outlook.'

How airline stocks have performed in the last five years

Company	Five-year total return (%)
Jet2	42.3
Wizz Air	−7.0
International Consolidated Airlines	−57.5
EasyJet	−62.5
TUI	−91.2
MSCI World	**53.8**

Table: Shares magazine • Source: FE Analytics, data to 10 May 2023, total return in GB

HOW HAVE DIFFERENT UK AIRLINE STOCKS PERFORMED

Over the past five years the only UK airline which has performed anywhere close to the level of the MSCI World index, delivering a 42.3% total return compared to 53.8% from this benchmark is Jet2.

Jet2's strategy of keeping its customers happy over the years has paid off as it is the only UK airline to receive the coveted Recommended Provider 2023 badge from consumer champion Which?

Jet2 recently upgraded its full-year guidance to a range of £387 million to £392 million, covering the 12 months to end of 31 March 2023.

AIRLINES TO BUY

Jet2 (JET2:AIM)

Package holiday and budget airline Jet2 has been the star of the sector over the last few years in part due to its fair treatment of customers during the pandemic and it has reached a market leading position in the UK off the back of this.

Any concern investors have missed the boat should be dispelled by an undemanding price to earnings ratio of 8.5 times and we think it can maintain its recent momentum as it continues to take market share.

Damian Brewer, analyst at Canaccord, says: 'Jet2 bookings have strengthened, and average load factors are now slightly ahead of Winter 2018/19 (at the same point) on 24% more seat capacity and achieved pricing and margins

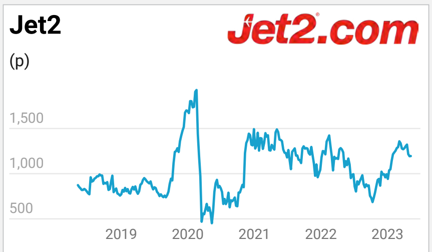


Chart: Shares magazine • Source: Refinitiv

looking significantly higher. We anticipate that the confidence and loyalty built will pay back in 2023's tougher market as Jet2 takes market share with its focus on all-inclusive holidays with 'Customer First' service.'

The company has also overtaken TUI to become the UK's largest tour operator. According to the latest Air Travel Organisers' Licensing scheme (ATOL) data published by the Civil Aviation Authority (CAA), Jet2 has increased its licence for 2023 by over 500,000 and is now licensed to carry 5.8 million passengers, over half a million more than TUI, which has a licence for 5.3 million passengers.

International Consolidated Airlines includes British Airways, Spanish carrier Iberia and Vueling, and has seen a fall of 57.5% over a five-year period compared to the MSCI World index. It was particularly vulnerable to a Covid-inspired fall in business-related travel as it relied on people jetting off to meetings across the Atlantic for a considerable chunk of its revenue.

Chart: Shares magazine • Source: Refinitiv

DEBT PROBLEMS WEIGH ON TUI AND EASYJET

Both EasyJet and TUI shares have seen a 62.5% and 91.2% fall over the five-year period compared to the MSCI World Index.

This is understandable due to the pandemic which put both companies balance sheets under significant strain and prompted big, dilutive fundraisings.

During the pandemic TUI received state aid from the German government which they recently announced has been paid back with the help of a €1.8 billion rights issue.

Over the past six months, EasyJet's share price has recovered slightly up over 20% due to a series of broker upgrades.

In April, EasyJet reported an 80% rise in group revenue to £2.7 billion for the six months ending 31 March 2023 compared to £1.5 billion in the same period last year.

EasyJet also benefits from a holiday arm which enjoyed strong UK demand, and the budget airline is further upgrading its growth expectations to circa

AIRLINES TO BUY

International Consolidated Airlines (IAG)

An improving picture on fuel prices and recovering demand should help support International Consolidated Airlines' share price. The stock trades on a price to earnings ratio of 6.7 times and earnings are expected to bounce back strongly in 2023 and 2024. As the company's elevated level of fixed costs means even modest increases in revenue can result in a big increase in earnings

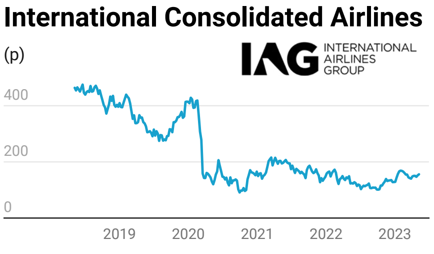


Chart: Shares magazine • Source: Refinitiv

per share.

Olly Anibaba, analyst at research outfit Third Bridge has not lost faith in the group and believes British Airways will be the 'best-performing airline within the IAG group this year with trans-Atlantic travel driving revenue growth.

'The reopening of the Chinese and Japanese markets, coupled with high demand for premium leisure and corporate travel between the US and UK, bodes well for the airline.

'Iberia sees good opportunities in their North and Latin America markets due to the strong dollar. The recovery of corporate travel in Spain and Latin America is essential for their growth. The acquisition of Air Europa consolidates market position in Spain and improves their competitive positioning against big groups such as Air France-KLM and **Lufthansa (LHA:DE)**,' adds Anibaba.

60% year-on-year from 50% previously.

WHAT NEXT FOR THE AIRLINE INDUSTRY?

No doubt in the near-term fuel price volatility, strikes and rising inflation, particularly in the UK might affect airline stocks.

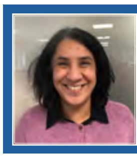
Chart: Shares magazine • Source: Refinitiv

However, there is no denying demand is strong. Consumers seem willing and able to pay higher prices for their summer or winter holidays to escape doom and gloom but how long for?

The Bank of England has recently warned that high inflation could last longer than expected, if this is the case, consumers might rethink their holiday spending.

In the long-term carbon emissions will prove to be an issue for the airline industry, and investors can expect to see a scramble by airlines to cut their carbon footprint.

Some European airlines like **Air France-KLM (AF.PA)** have already begun re-evaluating their approach in this area by setting themselves ambitious targets for the use of sustainable aviation fuels.



By **Sabuhi Gard** Investment Writer

PIP: Investing in high-growth and resilient sectors

Over a decade ago or so, your local pub chain or major high street store may well have been owned by a private equity manager but nowadays that is typically no longer the case. Helen Steers, Pantheon Investment Partner and lead manager of Pantheon International Plc ("PIP", ticker code: PIN), discusses how for some time private equity managers have been getting behind companies operating in sectors that are likely to remain resilient even in times of economic stress.

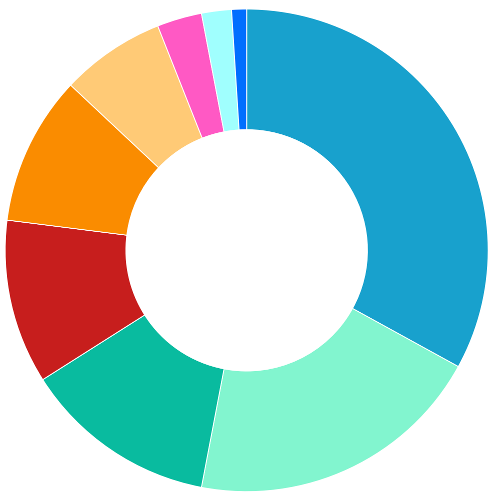
PIP is a FTSE 250 private equity investment company that is managed by Pantheon, a leading global private markets investor, and overseen by an independent Board of Directors. Investors must carefully assess what is suitable for them and their investment objectives and tolerance for, and attitude to, risk, but we believe that PIP provides exposure to high growth, exciting private companies, many of which are in niche sectors, managed by many of the best private equity managers in the world.

Helen Steers, Partner at Pantheon and manager of PIP

We are actively managing PIP's portfolio to flexibly tilt its investments towards where we see the best opportunities and, as a result, the portfolio has evolved significantly in the more than 35 years that PIP has been around. For example, a few years ago consumer would have been the largest sector in PIP's portfolio and it was primarily focused on companies reliant on consumer discretionary spend.

Today it is the third largest sector for PIP, accounting for just 13% of the portfolio, and predominantly consists of "consumer staples and services" companies. These include businesses offering education services, a sector that tends to be counter cyclical in an economic downturn as increased numbers of people return to education and training to develop their skills. Nowadays, the two largest sectors in PIP's portfolio are information technology and healthcare (accounting for 33% and 20% respectively), which are being propelled by underlying themes such as digitalisation and automation; ageing demographics in developed markets; and the increasing demand for high-quality healthcare products and services. We believe that looking at opportunities through a long-term investment lens is essential to tap into what appear to be ongoing long-term structural trends.

We believe that PIP's sectoral exposure diversifies the effects of cyclical trends within particular industry segments.



Based on valuations as at 31 December 2022 adjusted for known calls and distributions to 28 February 2023. The chart accounts for 100% of PIP's portfolio.

Source: PIP March 2023 Newsletter

Innovations in technology are impacting all sectors

The nature of technology and the opportunities that it offers have pushed the technology sector to evolve from a 'vertical', made up of companies largely specialised in software and hardware, to also being a 'horizontal'. The line between a company traditionally thought of as technology, such as Microsoft, and those outside the tech sphere has become increasingly blurred in the era of big data, connectivity, and digital enablement. In addition, those outside technology are increasingly interconnected with the sector's products and services. We have seen this in PIP's portfolio where several sectors are being disrupted by technology. For example, ShiftKey, a healthcare company in our portfolio, operates an online platform to connect available nurses with healthcare facilities across the USA by enabling nurses to share their credentials and then apply to work daily shifts that match their requirements. The platform has benefitted from the fundamental supply/demand imbalance caused by an ageing population and a severe, ongoing nursing shortage in the USA.

Spending on mission-critical software tends to continue through market cycles and historically has been resilient to recessions. The IT companies in PIP's portfolio are high-quality, cash generative companies with strong recurring revenues. For example, PIP recently invested in The Access Group, a leading provider of fully integrated business management software solutions, headquartered in the UK. This company has delivered uninterrupted profitable growth over the past 15 years, and has doubled in size since 2020. This additional investment will enable The Access Group to continue its growth strategy and enhance its products and solutions.

The products and services provided by technology companies have become increasingly central to our lives and business ecosystems. While the sector has experienced a sharp sell-off in listed markets in the face of rising rates, we believe that the technology megatrend is here to stay. Research carried out by Pantheon[1] revealed that there is a broader array of opportunities in the private markets than in listed markets, with the number of PE-backed technology firms in the USA outweighing those in the entire US listed space by a ratio of 2.3:1[2], and this is without including venture capital-backed firms. Additionally, in public markets there is substantial concentration in a handful of mega-cap names. The evidence thus far suggests that the private tech valuation correction has been more muted than public peers, however it is difficult to be definitive given the uncertain macroeconomic outlook. Against this backdrop, it is especially important that we remain focused on finding quality private equity managers and deals.

Living longer and demanding more from our healthcare providers

Healthcare is another interesting area for private equity managers who recognised early on that people getting older in the developed world and more affluent in developing economies would inevitably lead to increased demand for a higher quality supply of products and services. According to McKinsey & Company, in the USA where over half of PIP's portfolio is invested, healthcare spending could grow by 7.1% from 2022 to 2027.

Our managers have been able to identify a broad range of investment opportunities consisting of those companies that are using technology to improve efficiencies in healthcare as well as those providing "traditional" products and services. An example of this in PIP's portfolio is Smile Doctors, which is a US provider of orthodontic treatments and services. Smile Doctors is more than four times larger than its closest peer and has first mover advantage to execute on the consolidation opportunities in a fragmented market where approximately 95% of US orthodontic practices are independent.

Conclusion

We expect our chosen sectors to continue to offer compelling opportunities for PIP. Other interesting investment areas for private equity are Financial Services - which in PIP's case are typically companies offering insurance and wealth management products and services - and companies offering solutions for sustainability and energy efficiency. While past performance is not a guide to future results, we believe that our active management of PIP's portfolio and access to many of the highest quality private equity managers globally, who are sector experts, are just some of the reasons why PIP has generated in excess of 12% average NAV growth (net of fees) per year since it was launched on the London Stock Exchange in 1987.

[1] "Beyond 'big tech': technology investing in private markets", published November 2022

[2] Pantheon analysis of Pitchbook data to 31 December 2021

Beware: the expensive mortgage rate you should avoid at all costs

Moving on to the standard variable rate can be an costly mistake

Lots of homeowners are facing the prospect of re-mortgaging in the next year, coming off their cheap fixed-rate deals from the past few years and into a market where mortgage rates are far higher. With another rate increase hitting homeowners on 11 May, there's no doubt that the mortgage market is a scary place to be now. But the worst thing people can do is bury their head in the sand and fall onto their lender's SVR (standard variable rate) – as those rates have shot up too.

WHAT IS AN SVR?

An SVR is the default rate that you fall onto when your fixed rate deal ends and you've not got a new mortgage deal. It's the most expensive rate that a mortgage provider will charge and is far higher than any fixed rate or tracker deal on the market.

As the base rate has risen, so too have SVRs. Moneyfacts data shows that in April 2021 the average SVR across all mortgage lenders was 4.41%, and at the time the base rate stood at just 0.1%. But as of April this year, the average SVR was 7.3%, following base rate shooting up to 4.25%. The Bank of England has hiked rates once again, meaning that those SVR figures are likely to climb again.

WHAT IMPACT DOES THAT HAVE ON BORROWING COSTS?

If you're on a fixed-rate deal and you then fall onto the SVR, you'll see a huge increase in the monthly cost of your mortgage. This is accentuated by the fact that lots of people are on mortgage deals where they are paying 2% or less, as they locked in when rates were rock-bottom, meaning the gulf between that fixed rate and current SVRs is huge.

Let's take someone with a £200,000 mortgage who got a fixed-rate deal two years ago, when the average two-year fix was 3.45% for someone with a 90% loan-to-value. On a 25-year mortgage your repayments would be £996 a month, or just under £12,000 a year. However, if you come off that rate and fall onto the current average SVR of 7.3% you will repay £1,452 a month, which is almost £5,500 a year more in mortgage costs.

The difference is worse if you had a better loan-to-value when you took out your mortgage two years ago, and also if you have higher borrowing. For those with a 60% loan-to-value the average two-year fix in April 2021 was 1.63%, if you move from that rate up to the average SVR now and have a £400,000 mortgage your monthly costs

How average SVRs have changed as the base rate has risen

	Apr-21	Apr-22	Oct-22	Mar-23	Apr-23
Average standard variable rate (SVR)	4.41%	4.71%	5.63%	7.12%	7.30%
Bank of England base rate	0.10%	0.75%	2.25%	4.00%	4.25%

Table: Shares magazine • Source: Moneyfacts.co.uk/Bank of England

will increase from £1,624 to £2,904 – a whopping £1,280 a month more, or more than £15,000 a year extra.

HOW DO I AVOID THIS?

Put simply: secure a new mortgage deal before yours expires. Some people don't realise their mortgage fixed rate is coming to an end, or realise too late to get a new deal in time. Others are worried about the rates in the market at the moment and are either burying their head in the sand or planning to wait it out until rates fall.

As the figures above show, even paying one month on the SVR can eat up a big chunk of money. Look up your mortgage documents and check when your fixed-rate deal comes to an end and speak to a broker, if you use one.

You can get ahead of the deal ending too, many mortgage companies will let you secure a new deal six months ahead of your current deal ending. It means you can do the hunting around and paperwork for a new mortgage months ahead of it actually coming into place. This avoids a last-minute dash to secure a new deal, potentially meaning you miss the deadline of your current mortgage ending.

WHAT IF I'M TRAPPED WITH MY CURRENT PROVIDER?

Some people's circumstances will have changed since they took out their last fixed-rate deal, meaning they can no longer get a new mortgage with a new lender. Maybe the household income has fallen and so you wouldn't be eligible to borrow the full amount or your house has fallen in value and you no longer have sufficient equity in the property to get a new mortgage deal. It's a bit trickier for these people.

You should still be able to remortgage with your current lender. It means that you won't be able to shop around to get the cheapest rate, so you could pay more than with other lenders – but you'll pay much less than the SVR. Typically, if you stay on the same level of borrowing your lender won't re-check your details. But this means that if you want to borrow more money you might face more challenges. Your best bet is to talk to a mortgage broker, who will be able to lay out all your options.

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

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Knock on wood as the economy bites

FSF's portfolio of forestry has provided stability in volatile markets...

It is no secret that the last two years have been challenging for investors in almost all asset classes. Valuations have been dramatically re-rated across the board, a trend which is being reflected by investment trusts themselves, estimated to currently be sitting on their widest average discounts since 2008, according to Stifel.

In this context, it has become clear that even some of those assets investors consider the resilient staples within their portfolios can significantly falter in the face of particularly difficult macroeconomic conditions. Real assets for instance have suffered dramatic valuation downshifts, as rapidly rising interest rates impact the market for assets that are typically purchased with debt.

In this context, an asset class for which valuations have remained relatively stable is an intriguing prospect. Enter, UK forestry. The asset class may be a relatively newly investable one in a listed format, but its characteristics are unique. One aspect of this is that it benefits from the influence of not one but two separate markets in determining valuations.

Land that is able to be afforested is valued on the basis of both land prices and future timber prices. Unusually for a real asset, such land is typically not bought with debt, which has helped prices in this market hold up even as interest rates rise. Further, while demand for timber has fallen in the short term as increasing costs of living bite and the pace of construction and renovation projects slows, it is expected to rise significantly in the medium and long term due to embedded supply shortages which are impossible to rectify quickly because commercial trees take decades to reach harvesting maturity. While short-term shocks, such as storms, can increase the amount of timber coming to market, mature commercial timber can be harvested at any point over a five to ten year harvesting window, meaning that owners focused on total return as opposed to regular yield can delay harvesting should such a shock occur.

Forestry valuations are also supported by the broader business and policy context. With the need and demand for sustainability so high, forestry assets are in demand from a wide variety of buyers, seeking exposure for an equally broad number of reasons, both financial and sustainability-focused.

London Stock Exchange listed **Foresight Sustainable Forestry (FSF)** takes this compelling investment proposition a step further. When acquiring assets, the team typically seeks to add 'natural capital alpha', i.e. generate additional value through their investing approach, which often comes as a result of improving the sustainability profile of these land assets.

While afforestation for the purposes of timber production is one example of the development value creation available with land assets, other alpha-adding opportunities include supporting carbon removal projects through planting and even aiding flood mitigation projects through land management.

The team also pursues a tactical acquisition strategy, which can include buying sites in close proximity to one another to introduce production synergies and economies of scale. As a trusted counterparty in the market, they often access properties that have not yet been listed publicly, giving the sellers a swift and reliable exit whilst also generating value for FSF.

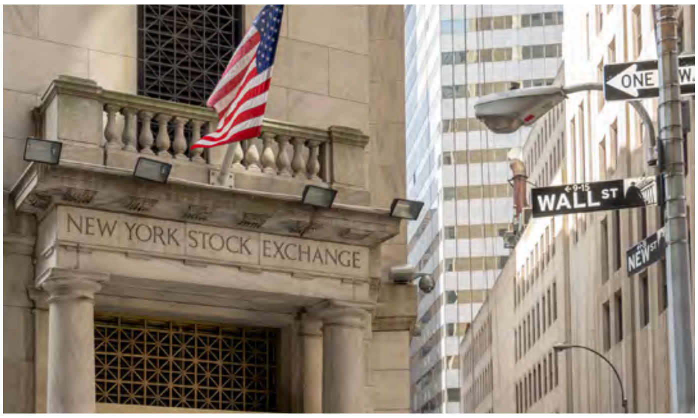
The effectiveness of these techniques and the resilience of the FSF process have been demonstrated last week, when at its latest revaluation the trust's NAV appreciated by 3.5p per share to 108.5p, despite being determined amidst a subdued period for timber prices, announced on 11/05/2023.

Although UK forestry managed sustainably in a listed format remains relatively under-served, global demand for forestry as an asset class is rising rapidly with increasing numbers of private funds being launched explicitly to target this opportunity. The Foresight team themselves have been investing in such assets for around five years already, with FSF launched a year and a half ago. Crucially, as the only trust investing in forestry and natural capital, it remains the only liquid route, in an otherwise relatively illiquid asset class, for most private investors to tap into this intriguing, diversifying and resilient part of the real estate sector.

Click **here** read our latest research on Foresight Sustainable Forestry

Have we reached the peak of the US market's appeal as a listing venue?

Companies could be flocking to the New York market at just the wrong time



One issue which continues to bedevil the UK market is the number of firms who are considering switching their main listing from the London Stock Exchange, usually to New York, and the potential newcomers who are opting to float stateside rather than on this side of the pond.

This is leading to much handwringing and comment that London is in decline as a financial centre, as well as proposed reforms from the London Stock Exchange to ease its listing requirements and by implication lessen investor protections.

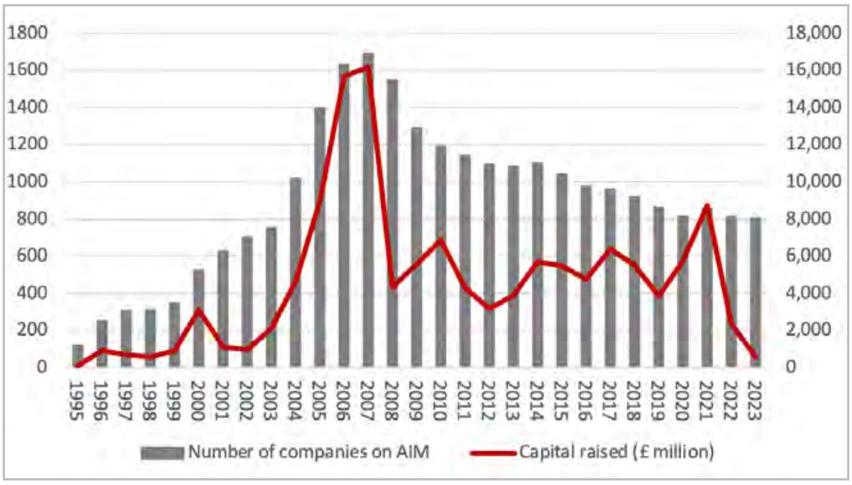
It is hard to see how increasing the risks facing investors can help the London market over the long term, as the authorities prepare to admit firms without even three years of accounts or let related party transactions go through on the nod without a shareholder vote.

This, it could be argued, means the Main Market increasingly comes to resemble the junior AIM market, whose own boom in new issuance spawned more than one scandal and in turn to tighter regulation and a less laissez-faire approach in the early 2000s.

Loosening listing rules may help advisers, brokers and lawyers (as well as sellers of the paper) make a quick buck, but whether this creates a thriving environment for investors and potential *buyers* of newly-listed stock remains to be seen. It seems doubtful, for as John Maynard Keynes once tersely noted: 'When the capital development of a country becomes the key product of a casino, the job is likely to be ill done.'

But there is another potential issue which investors should ponder, as ARM, **CRH (CRH)** and **Flutter Entertainment (FLTR)** consider following in the footsteps of **Ferguson (FERG:NYSE)** and decamping from London to New York and that is valuation.

AIM tightened its rules after a boom in new issues in the early 2000s



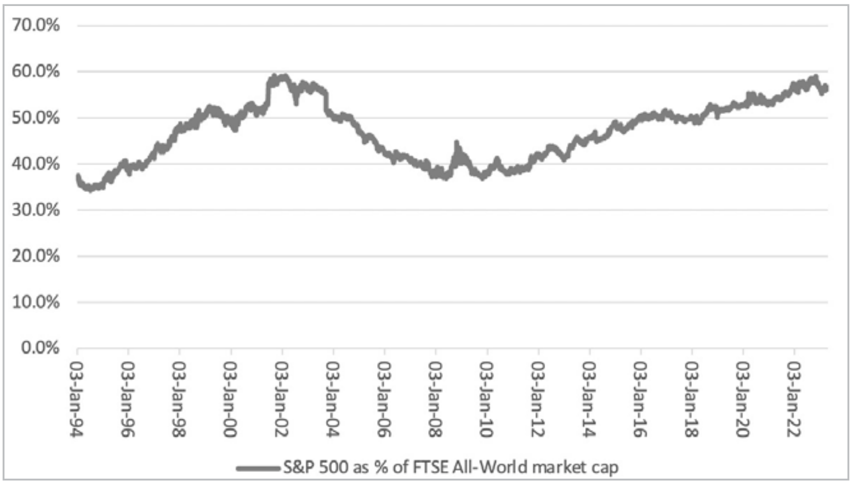
Source: Refinitiv data

MATTER OF MOTIVE

According to analysts' consensus estimates, Standard & Poor's and FactSet, America's S&P 500 index trades on around 20 times forward earnings for 2023 and 18 times for 2024. The FTSE 100, by contrast, is currently afforded forward price/earnings (PE) multiples of 11.5 times and 11.0 times, respectively. What stock-and-options laden executive would not consider switching their listing if it offered the prospect of a near-doubling in rating and therefore potentially share price?

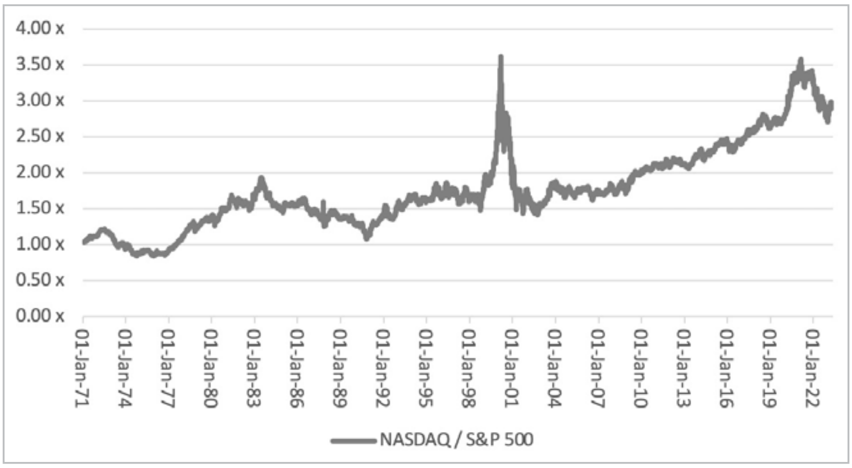
Russ Mould: Insightful commentary on market issues

The S&P's market cap stands near all-time highs, relative to the FTSE All-World



Source: Refinitiv data

The Nasdaq's performance relative to the S&P 500 stands near all-time highs



Source: Refinitiv data

Investors may therefore be tempted to tag along for the ride, but they must consider the implications. Why is the shift taking place? If it is because the bulk of the assets are there, or the bulk of the employees, then it makes perfect sense, for reasons of managing currencies, reporting, and making stock and dividend payments to staff and shareholders as efficient as possible from a tax and currency point of view. It may provide a currency for acquisitions. These all may help support and enhance the competitive position of the business, which is ultimately what the investor buys into when they acquire stock.

But if it is just a matter of financial engineering and hoping for a higher rating, then the benefits are potentially more ephemeral. And if the firm is listing in one place rather than another simply so it can get a higher earnings multiple and the vendor can sell the stock more expensively, in whose interest is that? It may help the vendor, as in the case of **Softbank (9984:TYO)** with ARM, as the Japanese technology incubator looks to raise cash and prove it is not an indebted mess that just got lucky with one early-stage investment in **Alibaba (9988:HK)**. But if the vendor is getting a higher price, then the implication is that there is less on the table for the investor as the buyer.

RELATIVE VALUES

Executive teams and investors alike should also consider another issue before they hitch themselves to the momentum of the US equity market. The S&P 500's market cap is near its all-time high relative to that of the FTSE All-World.

The last time it was this high, at roughly 60%, the US stopped outperforming and started underperforming, weighed down by a valuation that proved unsustainable as the technology, media and telecoms bubble burst. Indeed, it already looks like the US is gently underperforming other equity markets, almost unnoticed.

Within that context, the tech-laden Nasdaq has undeniably outperformed the S&P easily for many years. But its relative rating is now also just coming off an all-time high, even as most commentators continue to champion the sector. Executives – and investors - looking to piggy-back US tech stock momentum in search of a pay day should perhaps bear this in mind, just in case they hook up with something that is losing pace, rather than gaining it.

By **Russ Mould**
Investment Research Director at AJ Bell

WATCH RECENT PRESENTATIONS

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Richard Fraser, CEO

Frenkel Topping Group (FEN) is a long-established family of businesses who are tried, tested and trusted. We are always available to provide advice and technical support to our legal Clients and those they represent. We support lawyers and their Clients with a concierge approach to anything they may need throughout the litigation journey.

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Sukh Chamdal, CEO & Mike Botha, CFO

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

Murray Income Trust

Charles Luke, Investment Manager

The Murray Income Trust was founded in 1923 aiming for high and growing income with capital growth. The Trust has a long track record of raising dividends every year since 1973.

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WHO WE ARE

EDITOR:
Daniel Coatsworth
@Dan_Coatsworth

DEPUTY EDITOR:
Tom Sieber
@SharesMagTom

NEWS EDITOR:
Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:
James Crux
@SharesMagJames

EDUCATION EDITOR:
Martin Gamble
@Chilligg

COMPANIES EDITOR:
Ian Conway
@SharesMaglan

INVESTMENT WRITER:
Sabuhi Gard
@sharesmagsabuhi

CONTRIBUTORS:
Danni Hewson
Laith Khalaf
Russ Mould
Tom Selby
Laura Suter

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

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.

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