4 SHIRES
ASSET MANAGEMENT

Investment Commentary

Autumn 2021

Expert Asset Management
Investments | Pensions | Financial Planning

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Introduction

Welcome to the 4 Shires investment commentary for the Autumn of 2021.

Markets remain volatile as we come out of the Covid pandemic. However there remains considerable undervaluation in the UK market relative to other markets and current monetary policies remain accommodative for equities vs. bonds.

In this edition we look at how the recovery in economic activity is causing supply issues, how China is changing the approach to its economic model as well as the way the UK income tax changes will affect you and the economy.

In our markets section we look at UK giant companies Tesco and AstraZeneca and the benefits of investing in value shares in an inflationary environment.

Supply chain problems

The recent supply chain bottlenecks have caused problems across the world economy. From shipping costs, blocked up ports, semiconductor and staff shortages, the bottlenecks are pervasive. Many of them have come from the after effects of Covid coupled with the surge in demand from consumers keen to restart their normal patterns of life. What is not known is how much longer these supply disruptions will persist.

Shipping has seen a surge in demand at the same time as a slowdown in port throughput. Ships are taking longer to clear ports which is, in turn, causing further delays. 8m TEU (twenty foot equivalent unit) containers are waiting to be unloaded or sitting on ports, an increase of 10% vs. a year ago. At the end of October circa 80 container ships awaited unloading off the California coast, one of the busiest container destinations in the world.

Container shipping rates have surged in recent months (*graph source: Economist*). But the situation is even worse for a container out of China, where a 40 foot container costs $15,000 to ship from Shanghai to New York versus $2,500 in 2019.

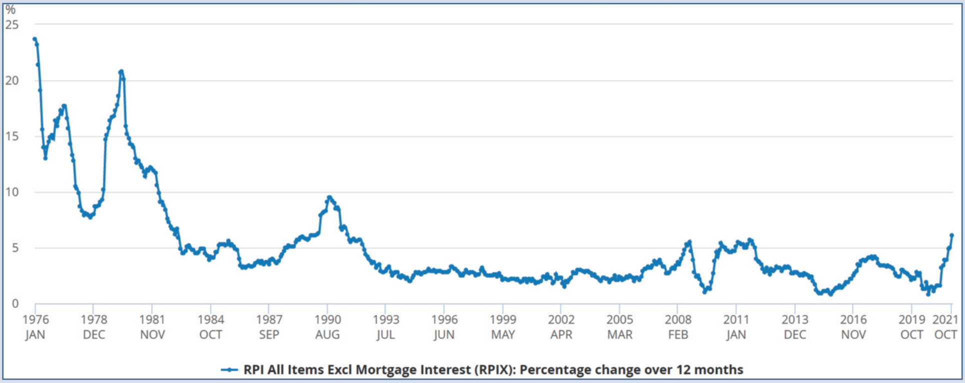
The knock-on effects across industries of a lack of components and materials is most obvious in a lack of semiconductors, the electronic brains behind all modern products. The car industry has suffered from low production levels as a result of these shortages, at a time when our obsession for more gadgets in cars has increased their usage. In addition, the trend to outsource chip manufacture has caused bottlenecks in Taiwan's TSMC, the worlds' largest chip foundry, as well as other producers. JP Morgan estimates these chip shortages will be present until mid-2022, at which point supply ought to improve steadily.

Another of the pinchpoints in the global economy, and probably the most serious for the inflation outlook, is that of labour supply. In Britain we can see tight labour markets across particular industries, particularly in transportation (HGV drivers) and in hospitality, both brought about by lack of training of new drivers and Brexit. However, the broader issue is a developed world phenomenon, with its source in the decling birth rates (see our summer investment commentary) and skills shortages in key industries.

The U.S. is also seeing labour shortages, across almost all industries, but particularly in construction. Wage rates are rising, and with the cost of living rising, this pressure to increase wages is rising. High container shipping rates have a knock on effect to finished products prices. Construction costs are surging. Companies find it easier to increase wages to obtain employees. Amazon warehouses are increasing sign-up bonuses for warehouse operatives so that they can continue to deliver to their customers on their tight turnaround times.

Inflation in the U.S. is currently up 5.4% year-on-year. UK inflation (CPI) is up 4.3%, but the broader inflation rate (RPIX - excluding mortgage interest), is up over 6% year-on-year, and is at the highest level since the early 1990s.

UK inflation (RPIX) since 1976



(graph source: ONS)

With supply chain problems continuing into 2022, it is likely that economies will face higher costs (current US wage growth is 4% year-on-year). This could lead to higher levels of inflation than we have been used to over the past 2-3 decades.

Energy crisis in Europe

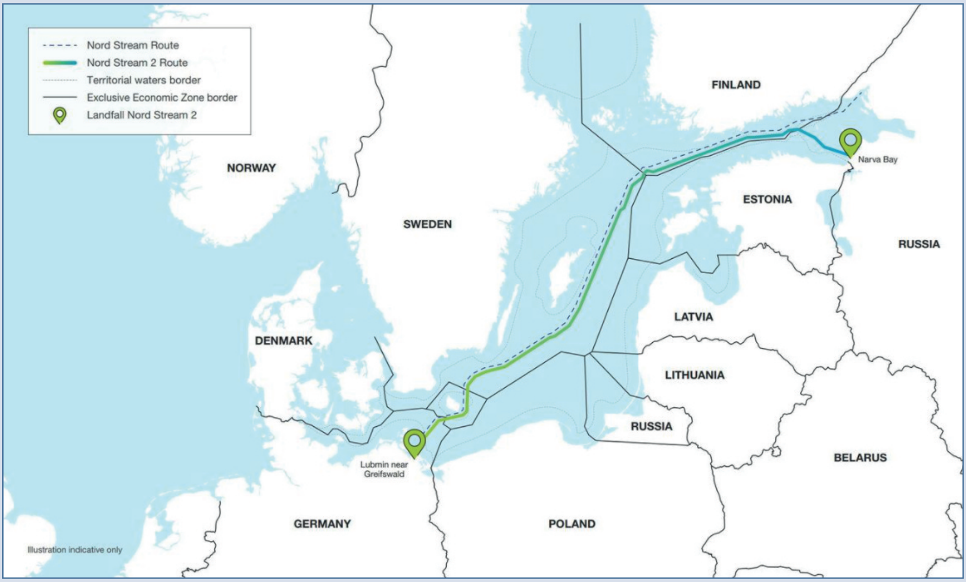
The surge in gas and electricity prices have two different sources. The first was a lack of wind in the summer in Europe which tightened electricity prices. This was because we have increased our dependence on renewables as a percentage of total electricity supply, made more pronounced by the closure of nuclear power stations in countries such as Germany. This lead to the burning of more fossil fuels to meet electricity demand. Unfortunately Europe's electricity supply is more dependent on Russian gas than ever before. This has been made clear recently as a result of the need for higher gas volumes have been coupled with lower Western European production and the reduction in coal fired generation. The 10 year chart of Dutch gas prices shows the incredible spike in gas prices in 2021:

(graph source: Trading Economics)

The drop in European gas supply has come at a time of lower investment in hydrocarbon exploration expenditure. More striking is the dramatic drop in gas production at the enormous Dutch Groningen field. An earthquake at about 3.6 on the Richter scale, considered to be a modest quake by seismologists, in 2012 was caused directly by the extraction of gas from the field. These minor quakes continued for the ensuing years until, in 2018, the Dutch government decided to close the field by 2022. Production had peaked at 88bcm (billion cubic metres) in 1968, but was nearly 30bcm only 5 years ago. Today production is circa 3bcm.

Russia has been playing its part in the recent price surge by not expanding flow through its main existing pipeline. The ever-devious Russian president Putin did not want to increase cash flow to Ukraine which benefits from revenue linked to gas volume from having the main pipeline run through its territory. Russia is keen for Europe to authorise importation of gas via its new Nordstream II pipeline that goes underneath the Baltic Sea and avoids Ukraine. It is highly likely that the pipeline will be approved shortly, against opposition by the UK and US.

(*Picture source: Bloomberg*)



Part of the problem has been the lack of a clear road path for the energy transition from fossil fuels to renewables such as solar and wind power. When the wind doesn't blow, how do we provide energy? We invest in battery supply businesses such as the **GSF Energy Storage Fund**, but the technology is still in its infancy and is used as a means of boosting short term electricity supply at peak operating hours.

The recent COP26 climate change conference in Glasgow saw strenuous lobbying by energy companies to slow the energy transition process. It seems likely that our addiction to Russian gas will slow that transition further and make western Europe more dependent on Russia until the transition roadmap is more clearly defined and understood.

Common prosperity in China

Xi Jinping has promoted his new drive to take on certain parts of the economy with a moral overtone that he has named the 'Common Prosperity' approach. Common prosperity was a phrase used by Mao Tse Tung and also by Deng Xiao Ping. The latter said that it would be ok for some regions to get rich first in order to accelerate the goal of Common Prosperity. The goal to narrow the ever-expanding wealth gap has an aim of reducing all poverty by 2035, and achieving Common Prosperity by 2050.

It has touched several areas of the economy. The start was an attack on the internet giants, Alibaba and TenCent. With the partial dismantling of Ant Financial, the increased regulation of internet banking and payment companies and the limiting of time for children to play computer games (only an hour a day at the weekend), the Chinese government has partially subdued the largest two giant tech companies. In addition, the government is creating its own cloud internet service and has regulated algorithms to ensure that companies abide by principles of fairness without abusing customers. Finally, overeas listed stocks are being put under pressure in case Chinese data falls into overseas hands.

But this control has gone further than the technology companies. There have been restrictions on paying for private education. For-profit tutoring in core school subjects has been banned, which has pretty much shut down what was a substantial sector with several well-run listed companies.

Bitcoin use has been restricted, with no payments allowed via crypto-currencies. All mining for Bitcoin has also been banned, which has been consuming ever-increasing amounts of power and exacerbating chip shortages particularly in graphics cards.

Property developers have already been told to improve their financial condition, and this is beginning to have a knock-on effect in the property market. The aim of improving the finances of such companies is to remove the excessive speculation in property by Chinese investors. The next article looks at the continuing effect this is having on Evergrande and the Chinese residential property market.

Evergande – China's property crisis

The Chinese property company Evergrande is teetering on the edge of bankruptcy. Its $300bn of liabilities would make it the largest corporate collapse in China since Deng Xaio Ping's reforms started in 1979. In October 2020 China announced financial limits, the 'three lines', and these are causing serious distress to several companies that did not, or were unable to, fulfil them.

The red lines are:
- 70% ceiling on liabilities to assets, excluding advance proceeds from projects sold on contract
- 100% cap on net debt to equity
- cash to short-term borrowing ratio of at least one

Much of the problem in the sector has come from the up-front payments taken by developers to finance their enormous building programmes. As soon as there is a crisis in confidence, not only do property buyers demonstrate for the return of their deposits, but new buyers are reluctant to place these deposits. Suddenly banks become concerned about the credit quality of the residential developers that are borrowing their funds.

Other developers in trouble include Country Garden, Sinic Holdings and R&F Properties, although Evergrande is by far the largest Chinese residential property developer. UBS estimates that there are ten property developers facing issues with their funding.

Evergrande's debt is around $300bn in value, although that does exclude its land and other assets. As the crisis has played out, the business has been selling down assets and land, whilst also selling its flats to raise money to pay the interest on its debts. Between July and October the company has completed 57,642 units which will have aided its quest for cash. The main shareholder of Evergrande, Hui Ka Yan, has been raising money personally via deeply discounted asset sales and pledges, and has so far put around $1.1bn into the company to make bond payments and to pay salaries. It is questionable as to how long he can continue to do this. The key data looks to be the repayment of a $3.2bn loan in March 2022.

Whether Evergrande survives or not, the Chinese residential property market is slowing, and when it will turn the corner is not certain. It is worth remembering that Chinese investors prefer property to almost any other type of asset, and the experience of the last 20 years for these investors is that prices only go up. This may be a change of direction and a fork in the road that encourages diversification amongst investors.

Fortunately, for the banking system, the outstanding mortgage debt is relatively modest at this stage, although certain banks have higher levels of exposure. Ping-An Bank (linked to the giant, eponymous life assurance business) and Minsheng Bank have both lent to property developers. Minsheng has close links to Evergrande, but Shenjiang Bank, majority owned by Evergrande, is alleged to have lent extensively to its parent. This circular lending is behind some of the problems, and would, theoretically, be impossible in the Western banking system.

What would the Chinese government do to mitigate the problems in the property sector?

It is likely that they would intervene to protect buyers who had bought off-plan and ensure the completion of the flats they had purchased. Banks that weren't too linked to developers would most likely be bailed out.

But the implication on the Chinese economy is less benign. Most stock market falls have over-inflated residential property as their root cause, and engineering a correction is very hard to achieve. The restoration of confidence in the asset needs to be as swift as possible. China's property sector accounts for circa 20% - 25% of the economy, so any swift solution is likely to be out of reach and would be likely to cause a slowdown in the long term growth potential of the economy until it is resolved.

UK income tax changes

Chancellor Rishi Sunak has set out the government's fiscal stance over the coming 3 years via the September tax rise and the Autumn budget. Higher taxation to 'nominally' pay for social care is expected to cause fiscal drag, which is a brake on economic growth by government taxation policies, on the economy. Some of the balance of the money will be spent on boosting the socal care provision in the UK, but only after the money has been spent to boost the NHS during and after Covid. The balance in expenditure is primarily being spent on education. In this article we will look at what the increase in taxes is, and how this will affect taxpayers and the economy.

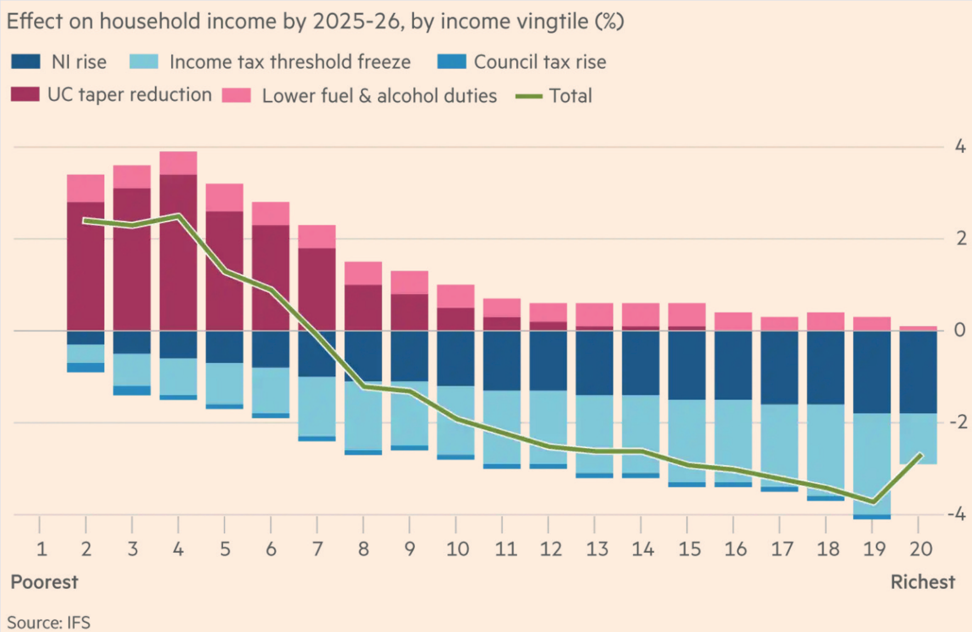
Tax increases – National insurance will rise across the board by an additional 1.25%. In addtion, national insurance for employers will rise by a similar amount. This is in effect a 2.5% tax rise on UK incomes above the personal allowance, bar for the retired who will only pay 1.25% more. In addition, dividend taxation will rise from 7.5% for basic rate taxpayers up to 8.75%, for high rate taxpayers to 33.7% from 32.5% and for highest rate taxpayers to 39.35% from 38.1%. The tax changes will come into effect from April 6th 2022.

However, the freezing of personal allowances, the 'tax-creep' effect whereby pay rises to keep up with inflation are paid increasingly to the government, will cause most people to pay more tax. The tax bands are now to be fixed for tax year 2021/22 until April 5th 2026 as follows:

Tax year	Personal allowance	High rate band
2021/22	12,570	50,270
2022/23	12,570	50,270
2023/24	12,570	50,270
2024/25	12,570	50,270
2025/26	12,570	50,270

(*Table Source: 4 Shires*)

The net taxation effect of the budget depending on your income level can be seen over the coming years below:



(chart source Financial Times/IFS)

The minimum wage increase and the univeral credit taper reduction helps those at the lower end of the income scale, whereas middle and higher income brackets will pay increasingly more of their income as a result of the tax changes.

In addition, from April 6th 2028, the age from which you can take your private pension will change from 55 to 57 years old. Coupled with the freizing of the lifetime allowance at £1.0731m until tax year 2026/27, this means the government is limiting the size of pensions before punitive tax rates emerge. If you believe you are affected by this change, and many are, please get in touch with 4 Shires so that we can discuss how we can help to mitigate this change.

The money that will be raised is theoretically to be spent on increasing social care provision. However, over the short term it is likely to be spent on the NHS to clear the high level of waiting lists that exist as a result of delayed operations and treatments due to the primacy of the pandemic. Interestingly, it appears the benefits of Brexit have lead to a tax rise to pay for the NHS, if one remembers the £350m a week on the red bus. Political polemic aside, the money that is being raised will eventually be spent on increasing funding for the demographic ageing crisis that the country faces.

Sadly the economy will fare less well. The tax increases mean people will have less money in their pockets to spend, and consumption is circa two thirds of the economy. Businesses will also have less money available for investment. Whilst the government is betting on a strong recovery from the pandemic, the increase in taxation will temper this. The tax rise and lack of increase in tax thresholds will cause the economic recovery to be less strong than it could have been. The UK faces the highest rates of tax seen since the 1950s, a time in which Britain was recovering from the exigencies of World War II.

Biden - Lame duck presidency?

When Joe Biden became President in January of this year, he was expected to bring calm and experience back to the White House and reunite a divided nation. Yet just ten months into his term, his presidency is on the brink of failure. Infighting within his own party has threatened to torpedo his ambitious domestic agenda, summarized by two pieces of legislation that the Democrats have not been able to vote out of Congress. His claim to competence, which was what his predecessor was often criticized for having a lack of, has been shredded by a calamitous exit from Afghanistan and ongoing border crisis. With the midterms just a year away, the Covid pandemic continuing, inflation rising and the possible return of Donald Trump as a Republican candidate, the situation looks bleak for the current President.

Despite Biden announcing the terms of a $1.75 trillion framework to salvage his "Build Back Better" legislation, originally $3.5 trillion, his approval rating has taken a beating. The latest polls show just 42% of Americans approve of his job, while 52% disapprove. This represents a 14% drop since his inauguration. No president in the modern era has fallen out of grace so swiftly into a presidency.

The mid-term elections are historically difficult for first term presidencies as proven by Obama's Democrats losing 63 seats in 2010 which was the worst performance by a sitting President since 1938. With the Democrats holding the slimmest of majorities in Congress, there is a genuine fear that 2022 could be a lot worse than even Obama's mid-terms. The off-year elections have only added to the worries with Republican Glenn Youngkin's victory over his Democratic rival in the governor's race for Virginia, a state where Biden won by 10 points last year. As political commentator Van Jones, a former adviser to President Barack Obama, said on CNN, "Democrats are looking over the edge of a cliff."

President Biden has managed to get his infrastructure bill through Congress, but much of the rest of his agenda has yet to be fulfilled. Democrats are staring at the possibility of a failed presidency, just one year in, with the Republicans currently eying up 47 Democrats who could be vulnerable in the mid-terms. A rout next year in the mid term Congressional elections would heighten concerns that the president, soon to be 79 years old, was effectively a lame duck, and would intensify concerns as to whether he would even run again in 2024. A lame duck presidency is one where the presient cannot pass his legislative agenda through Congress due to his/her party losing control of the houses of Congress, making the executive unable to implement its agenda. Republicans, should they win both the House (where Democrats currently have a five-seat margin) and the Senate (which Democrats control by just one vote), would control any legislative agenda, and there is already talk of impeachment payback for the Trump years. The Republicans could conceivably seek to impeach Biden over the lethal Afghanistan debacle or his alleged failure to enforce immigration laws at the southern border.

That is why the Democrats' main concern now is straightforward: What can Biden do to avoid a failed presidency? From interviews with administration and Congressional sources, Democratic party members and presidential scholars suggest the president still has time to salvage his first term with the priority being the passing of domestic economic bills. However, failure to do this and failure to boost his current approval rating could result in a possible return of a certain former President.

4 SHIRES
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4 Shires Clients Events 2022

We look forward to keeping you in touch with the world of investment and how it affects you throughout the coming year.

January

Winter 2021 Investment Commentary

Winter 2021 Investment Commentary webinar

Wealth Matters, our bi-monthly financial advice periodical

February

Financial planning seminar

4 Shires 10-year anniversary celebration

Wine tasting - London

March

Wealth Matters, our bi-monthly financial advice periodical

April

Spring 2022 Investment Commentary

Spring 2022 Investment Commentary webinar

May

Wealth Matters, our bi-monthly financial advice periodical

June/July

Investment seminar and Garden Party

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Portfolio Activity & Investments

The recent announcement of a new Covid strain in Southern Africa, the Omicron variant, has rattled markets. However, the trajectory of economic recovery has been established, and stock markets globally have been recovering. We have purchased exposure to British supermarket chain, **Tesco**, and reinvested in **AstraZeneca** following its exciting drug pipeline breakthroughs. We have also switched from a unit trust, **RWC UK Equity Income**, to **Temple Bar investment trust**. Finally, we look at what might happen to value and growth shares as a result of sustained inflation.

(*Graphs source: Alpha Terminal*)

Tesco

Britain's largest supermarket should be a clear beneficiary of inflation. They have a 27.6% market share of food retail in the UK according to research organisation Kantar, meaning that £1 out of every £4 of grocery expenditure is spent in Tesco. Their nearest competitor is Sainsburys with a 15.2% share. Until recently, all supermarkets were losing share to the Germans, Aldi and Lidl, who have steadily built up 7.9% and 6.2% market shares respectively. But the pandemic has begun to stabilise market shares and make the sector more profitable. This has not been lost on the private equity funds, one of wom acquired William Morrison. The attractiveness of the supermarket sector has come about for several reasons. The first is that the pandemic made customers more dependent on their local stores due to compulsory retail store closures elsewhere. Secondly, inflation is good for supermarkets. When prices rise, supermarkets can sell higher price items, whilst paying for cheaper supplies they bought 90-100 days previously. This enhances their profits as suppliers effectively finance the working capital of the business.

Merry Christmas
& Happy New Year

From everyone at
4 Shires Asset Management

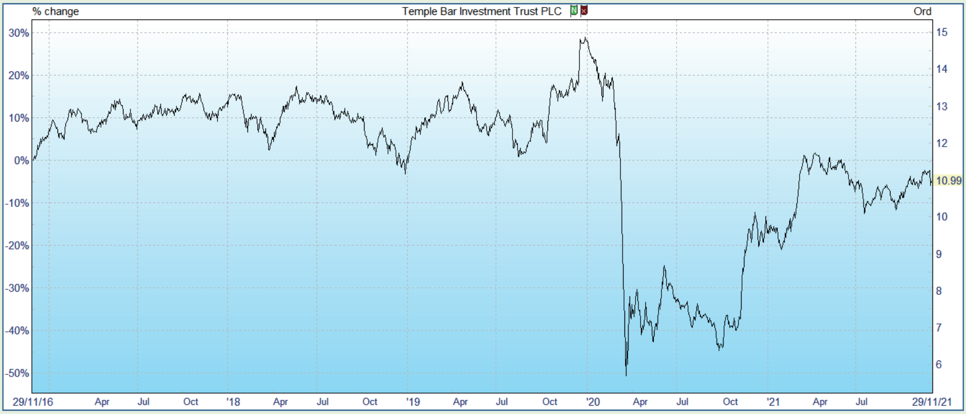
Tesco trades on circa 13x times February 2023 earnings, with an expected 3.8% dividend yield. The company has reduced its borrowings following the sale of its Thai business to Thai conglomerate C. Pokhpand.

AstraZeneca

We recently bought back into AstraZeneca shares as their drug pipeline has expanded following recent trials. Their drug, Enhertu, has been found to be effective against inoperable breast cancer in their most recent trial, and the FDA has granted the company 'breakthrough' status. Breakthrough status enables the company to sell their product to sufferers of breast cancer earlier than expected due to the unmet need and the improvement of the treatment over existing substances. Breast cancer is the most prevalent type of cancer in the world, with 2.3m diagnoses in 2020 and 685,000 deaths. This makes AstraZeneca's new drug likely to be an instant blockbuster.

The rest of the business has also seen significant trial success over recent months. This also gives confidence of significant earnings growth from next year and beyond from what is mostly a young portfolio of drugs. The company has recently completed its acquisition of U.S. drug company Alexion.

The stock trades on 16.4x December 2022 earnings, falling to 13.6x earnings the following year, implying 20% earnings growth. The stock's earnings growth ought to be recognised as the profits begin to drive the stock price higher.



RWC UK Equity Income to Temple Bar Investment Trust switch

We recently switched out of RWC UK Equity Income fund and into Temple Bar Investment Trust. The reason for this switch is to save our clients annual charges by switching from the open-ended investment vehicle and into the closed-end fund. Both funds are run on the same mandate but simply differ in the investment capital structure. An open-ended fund is simply a diversified portfolio of investor money that can issue an unlimited number of shares (hence the open-end) with daily pricing based on their current Net Asset Value. On the other hand, a closed-end fund has a fixed number of shares that can be bought and sold on an exchange.

The RWC fund was currently charging an annual charge of 0.80% whereas the Temple Bar fund is charging 0.50% per annum, therefore saving our clients 0.3% annually on this investment. Furthermore, the closed-end fund has been trading at a relatively large discount to Net Asset Value of between 6-8% whereas the RWC fund is priced at its current NAV. The fund focuses primarily on UK value shares with a large weighting in financials, such as NatWest and Standard Chartered, basic materials, including Anglo American, and consumer services stocks such as Marks and Spencer. These value shares have low valuations and, often, high dividend yields that should do well in the current environment (see next article).

Effects of Inflation on Value and Growth Shares

Stocks can often be broken down into two subcategories of value and growth. Value stocks tend to have steady, predictable business models that generate modest gains in revenue and earnings over time, and are often more exposed to the economic cycle. They generally trade at cheaper valuations compared to their earnings and long-term growth potential. On the other hand, growth stocks prioritize going from small businesses to leaders in their respective industries as quickly as possible. These types of companies tend to concentrate on building up their revenue, often at the delaying of profitability. Unlike value stocks they tend to have high valuations based on their future earnings and may not even be profitable. Rising inflation is likely to have a profound effect on both these two subcategories of stocks.

With inflation surging globally, the most likely response is for central banks to raise interest rates. We have seen this in Australia and Canada already, and it is likely to happen in the UK over the next year. Growth stocks are inversely correlated to interest rates. Over the last decade, during a period of record low rates, growth stocks have surged. When rates are low, growth stocks benefit, as their future growth opportunities look very high in present value terms. This is often the reason given as to why growth stocks have performed so strongly during this period. This is emphasised by the fact that the U.S. markets, which are currently dominated by growth stocks, have significantly outperformed Europe and Japan which have more of a value make up. When interest rates rise, investors are forced to discount the future earnings of growth companies more. In turn, this reduces today's value of those future earnings, causing the price of growth stocks to fall.

Value stocks, particularly those with pricing power, should perform stronger during periods of high inflation. Due to their low valuations, the increase in rates will not have much of an impact on their discounted cash flow valuations as their cash flows are generally very well-known and predictable. Certain value stocks such as banks and life insurance companies see interest rate rises as a huge positive and they will be able to increase their net interest rate margins and thus their profitability. Companies with pricing power, such as the tobacco stocks, should also benefit as they are able to pass these costs on to the consumer by raising prices. This will benefit companies which have high inelastic demand of their products. Finally, those companies more exposed to the economic cycle will also do well.

Overall, the effect of inflation on growth and value stocks should be starkly different. As inflation rises, so do interest rates. As interest rates rise, growth stocks with high valuations will have to be discounted at higher rates resulting in an underperformance of growth stocks for the first time in over a decade. We have currently positioned portfolios more towards value shares.

Markets & Investment Outlook

In this section we look at a few topical areas of financial markets. In the first article we look at two subsidiary energy markets, coal and uranium. We also look at how climate change is affecting stock markets and investments.

Coal & Uranium markets

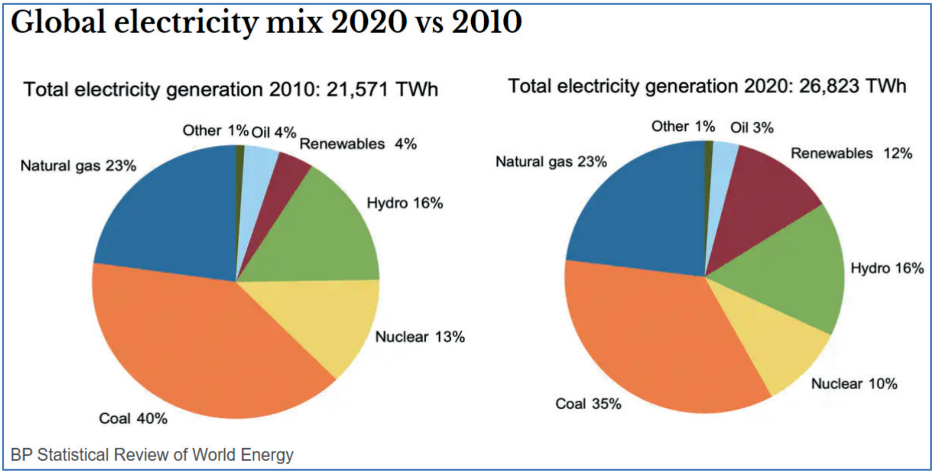
The recent return to work has caused an oil price spike. However, much of the world's energy generating capacity is fired by coal.

The biggest moves of any commodity have come in coal this year due to a shortage of the high carbon emitting, black fuel. When the wind didn't blow and gas storage was unavailable or prices too high, coal saw a price renaissance, with prices rising this year over 3 times from the low of circa $50 to the current price of $171 per tonne.

The price is likely to fall back again once investment has gone into other markets and renewable energy production increases. However, it is one symbol of an energy transition that is in trouble. More global coordination needs to take place to ensure the lights stay on.

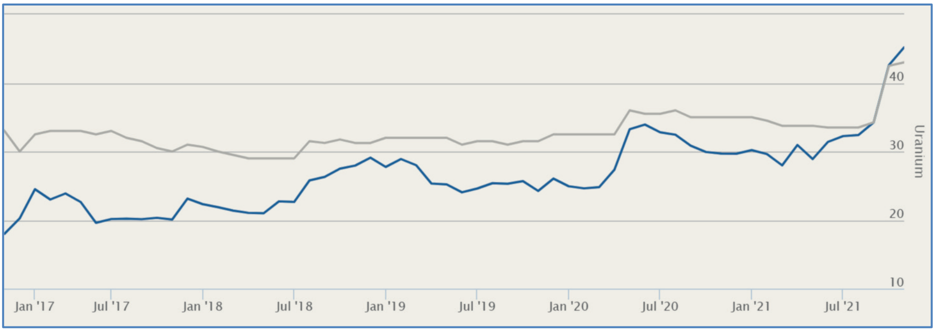
(Chart source: *Trading Economics*)

The table below shows the 2020 energy mix by generation source vs. that of 10 years ago:



Uranium is a low traded volume commodity that is a beneficiary of the energy transition. It is dawning on the governments and energy departments of governments that when the wind doesn't blow, and to hit ambitious carbon reduction targets, the world needs nuclear power. As nuclear fusion remains at the research stage, nuclear fission, powered by uranium, is the best way to generate the vast amounts of power required. The recent announcement by Rolls Royce of smaller, cheaper and quick to build reactors will help to keep the price buoyant.

5 year Uranium chart ($/lb)



(Chart source: Cameco)

We have exposure to the uranium markets via our shareholding in **BHP** which owns one of the largest uranium mines in the world, Olympic Dam, in Australia. We view this as an important part of a transition to a cleaner, greener future.

Climate change effects

The changes to our climate are blowing a wind of change through the corridors of the investment management industry. The need to consider the environmental impact of a company's outputs from its operations and the compulsion to declare this in line with the EU's Sustainable Finance Disclosure Regulation (SFDR) are affecting what fund managers will and can buy for their clients. While the EU has 3 categories for funds that need to be disclosed, the UK has 5 categories. These are:

UK Proposed label	EU equivalent	UK Description
Not promoted as sustainable	Article 6	Sustainability risks have not been integrated into investment decisions. No specific sustainability goals.
Responsible	Article 8	Impact of material sustainability factors on financial risk and return considered
Sustainable 'Transitioning'	Article 8	Sustainable characteristics, themes or objectives; low allocation to Taxonomy-aligned activities
Sustainable 'Aligned'	Article 9	Sustainable characteristics, themes or objectives; high allocation to Taxonomy-aligned activities
Sustainable 'Impact'	Article 9	Objective of delivering positive environmental or social impact

(Table source: Bloomberg)

This will make it easier for wealth managers to understand the underlying alignment of the funds with their own goals and something clients can understand. Taxonomy is a dictionary that defines how sustainable a business or sector is. We currently invest in a range of investment companies and funds in these areas, and would agree that some form of definition, or taxonomy, would help.

Of course, the property insurance sector is already living under the realities of climate change impacts, and the recent hurricane Ida has reminded the sector of the dangers of insuring property in the US. Profit warnings from Lancashire insurance following Ida show that risk models are not yet pricing in the risk of climates changing. Models may be deficient in this area.

The result of regulations and hurricanes are clear. Investors need to take into account the environmental effects of their investments, and increasingly so if we are to meet the climate change targets endorsed by governments. We as investors must play our part, but we also need to be able to second guess those stocks that institutional investors feel unable to hold, or those that are having a positive environmental impact.

Investment Outlook

Stock markets have recently been ebbing and flowing, pricing whether growth or value investments will be more attractive. It seems to us that value shares are starting to outperform as government bond yields increase. The changing inflation expectations are driving bond yields higher as labour market conditions tighten.

Assuming that there is no new lockdown in global economies and that the pandemic steadily diminishes in severity, a cyclical rebound and inflationary pickup favour value shares. Growth markets are showing the strain of over-valuation and over-investment which ought to reduce those returns over the coming years.

Important

Compliance Section

In this section of the commentary, we would like to remind our clients and prospective clients of the following regulatory topics:

Investment Firms Prudential Regime (IFPR)

The latest wave of regulatory change has come in the form of the IFPR, which says how much capital firms need to hold to:

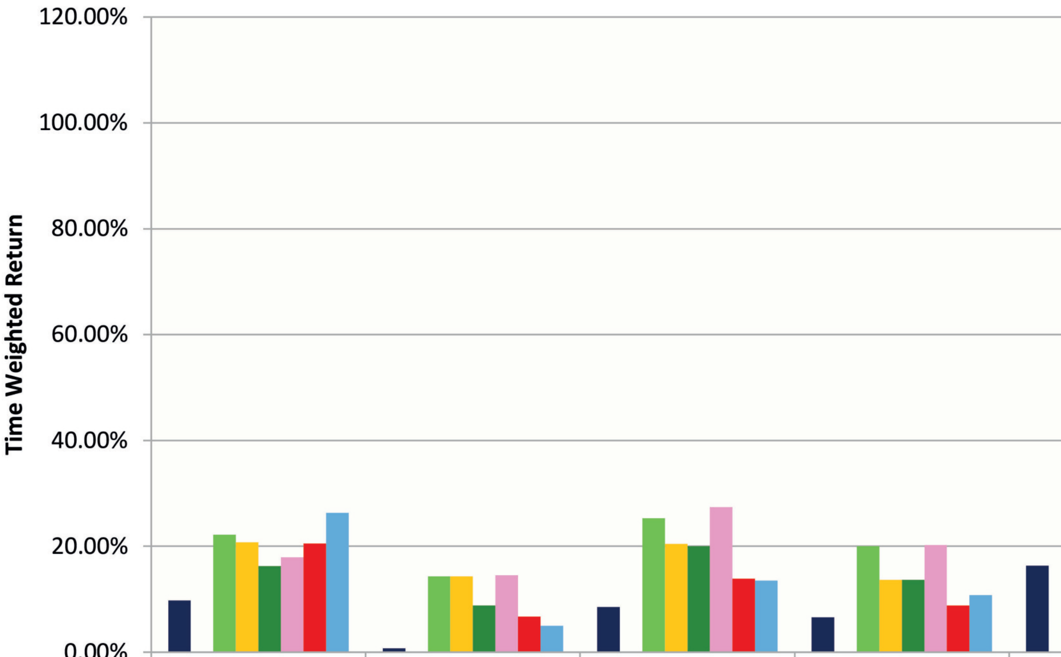
- support their business
- anticipate volatility from markets
- stress test their business model
- ensure an orderly wind down in extreme cases

This will come into effect on 1st January 2022.

4 Shires Asset Management has a strong capital base and regularly reviews its requirements with regards to new and existing regulations. Clients should rest assured that we believe we have sufficient capital for difficult trading environments as was proven by the Covid pandemic.

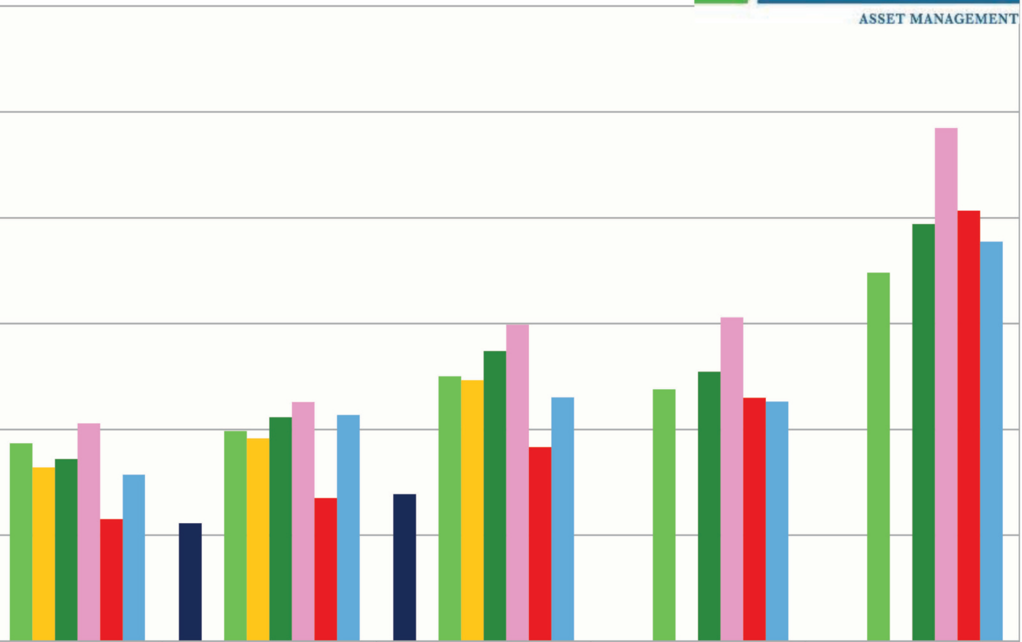
If you would like to know more about IFPR, please do get in touch.

4 Shires investment performance



	1 year	2 years	3 years	4 years
Risk A	9.74%	0.76%	8.54%	6.59%
Risk B				
Risk D	22.18%	14.30%	25.34%	20.07%
Risk E	20.77%	14.30%	20.49%	13.70%
Risk F	16.30%	8.80%	20.02%	13.70%
Risk G	17.93%	14.56%	27.38%	20.23%
Risk I	20.55%	6.76%	13.85%	8.79%
UK IMI	26.33%	4.99%	13.54%	10.76%

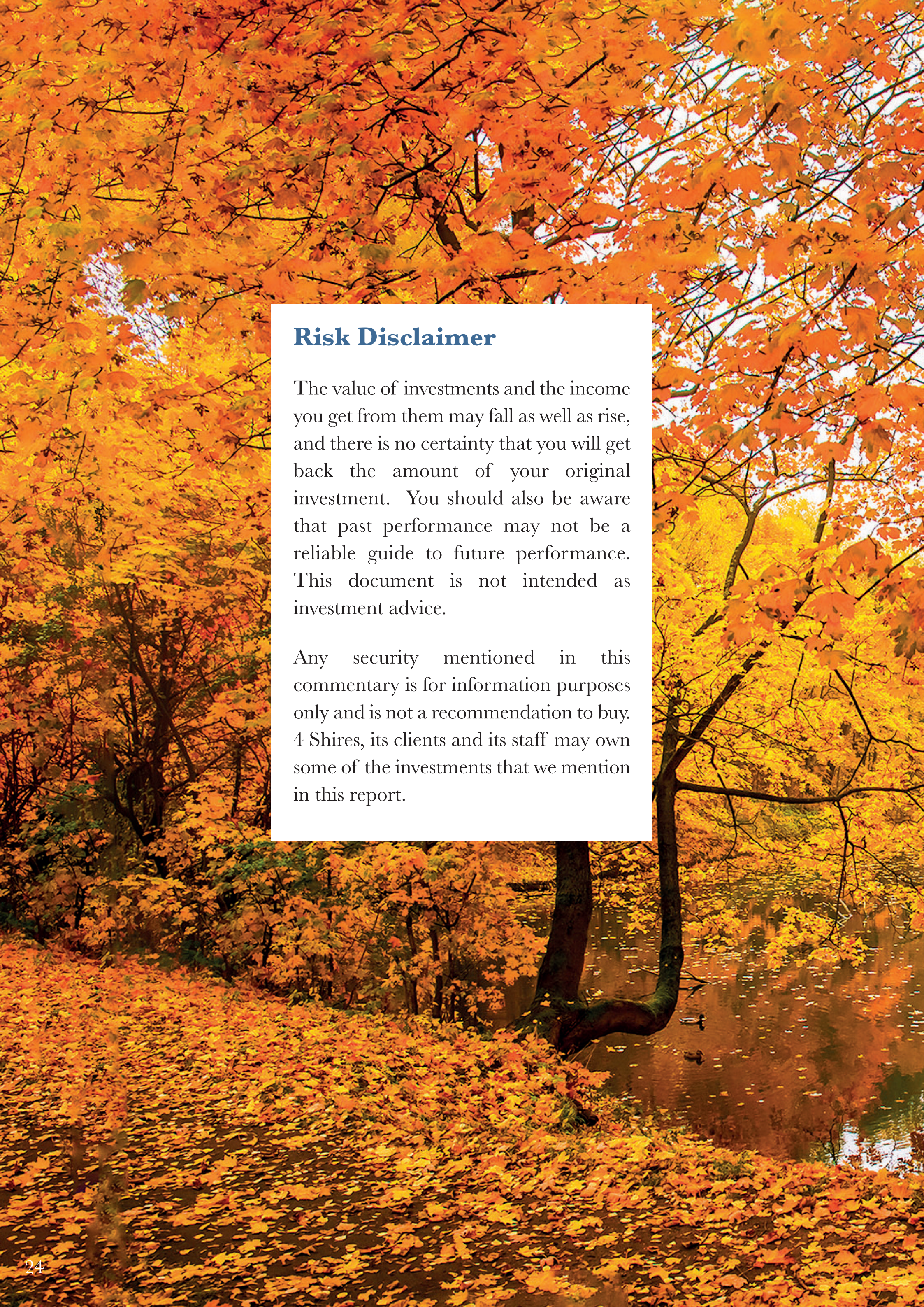
Graph to 5th November 2021 showing the average performance of all of the portfolios on each risk scale.



5 years	6 years	7 years	8 years	9 years
16.33%	22.26%	27.77%		
37.40%	39.67%	50.01%	47.58%	69.62%
32.81%	38.33%	49.30%		
34.45%	42.28%	54.83%	50.89%	78.81%
41.11%	45.21%	59.78%	61.15%	96.93%
23.05%	27.07%	36.66%	45.96%	81.37%
31.45%	42.72%	46.08%	45.23%	75.49%

Notes: Performance is measured to 05/11/2021. All 4 Shires performance figures are net of management fees, VAT, stamp duty and commissions. Total return measures include dividends and income received. Time weighted return measures consider deposits and withdrawals to/from the portfolio. The performance for each risk scale includes every portfolio in that risk scale at that time.

Disclaimer: Disclaimer: The value of investments and the income you get from them may fall as well as rise, and there is no certainty that you will get back the amount of your original investment. You should also be aware that past performance may not be a reliable guide to future performance.



Risk Disclaimer

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Any security mentioned in this commentary is for information purposes only and is not a recommendation to buy. 4 Shires, its clients and its staff may own some of the investments that we mention in this report.

4 SHIRES

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