**<u>The Times</u>**

**How to Invest £10,000**

# As inflation rises, diversify

*The third in our four-part series on how to beat inflation*

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By Mark Dampier

Each week we ask an expert for tips on how to invest £10,000. This is the third in our four-part series on ways to mitigate the impact of inflation on your portfolio.

The official rate of inflation hit 2.9% in May — the highest level in almost four years.

Mark Dampier, 60, head of research at Britain's largest investment platform Hargreaves Lansdown, said: "Unless you have an index-linked pension or you hold index-linked bonds from National Savings & Investments [both of which increase payments in line with inflation], the rising cost of living presents a serious threat to your wealth.

"Unfortunately, the former are less common than they used to be and the latter are no longer on sale to the public. So, what are the options?

"Shares are seen as an inflation hedge but, like so many investment rules, this is only partially true. In the 1970s inflation soared as high as 26%. In this environment, companies cannot increase their prices fast enough to keep pace with rising costs and profits take a hit. What you do depends on whether you think inflation is potentially a global problem or just a UK one. If the latter, you should invest in overseas markets. You could also invest with fund managers who think inflation will be a problem and try to protect your capital if shares fall.

"To hedge against inflation, I would divide my £10,000 equally into the three funds below."

**Capital Gearing Trust** (up 9% over a year)
This investment trust, managed by Peter Spiller, is arguably the fund to buy if you think inflation is going to take off. An investment trust is basically a listed company that makes investments. You buy shares in the fund as you would in any company.

The fund is in “capital preservation” mode at present with significant holdings in US Tips (Treasury inflation-protected securities). These are nearly equivalent to UK index-linked government bonds (known as gilts) but far better value.

Spiller expects a rerun of the inflationary 1970s, so he is trying to protect capital. If he is right, you would expect this fund to be one of the top performers in years to come.

**RIT Capital Partners** (up 13.4%)
Headed by Jacob Rothschild, this is probably the best-managed investment trust in the business. It has a wide mandate — investing in shares, bonds, currencies, hedge funds and commodities. This gives it the greatest flexibility in trying to preserve wealth.

It depends on the managers making the right choice, but RIT Capital Partners’ performance has been excellent over many years.

The share price is trading at a premium to the net asset value (NAV). This means it looks expensive compared with the fund’s underlying investments. I would wait until the NAV came to 0% or the shares were trading at a discount before buying.

[You can find out whether an investment trust is trading at a premium or a discount by checking websites such as trustnet.com or morningstar.com].

**Lindsell Train Global Equity** (up 18%)
This is a more conventional fund that buys key brands all over the world. It includes holdings in the UK, Japan and other overseas markets. It doesn’t invest in new technology but rather the great franchises and brands of the past few decades. Unilever and Heineken are top holdings; we were drinking beer thousands of years ago and I expect us to continue to do so.

The fund has had a remarkably good run over the past eight years, but I would be happy to put money into it on a 10-year view.