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Standardised past performance to 30 September*	2016	2017	2018	2019	2020
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*Source: Morningstar, share price, total return in sterling as at 30.09.20. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

Reasons to stay positive on housebuilders, estate agents and DIY sellers

The stamp duty holiday ending in March could cause a property market wobble but investors should focus on the longer term

Investors in housebuilders, estate agents and other property-related companies are not panicking about signs of a slowdown in the UK housing market despite new data showing more cracks.

This would suggest investors are taking a longer-term view rather than worrying about short-term blips which is a healthy approach.

The broader property sector faces a big test at the end of March when the stamp duty holiday comes to an end. Since July 2020, homebuyers haven't had to pay any stamp duty on properties worth up to £500,000, saving them a considerable amount of money. This has provided support for the property market and driven activity during the pandemic.

We're now at the point where any new transactions are unlikely to qualify for the stamp duty relief because it is currently taking about four months to complete a purchase. That hasn't stopped people from trying as there is still a lot of interest in moving home, but the closer we get to the 31 March deadline the greater the risk of the property market experiencing a pullback.

In fact, Rightmove's house price index for January shows average selling prices fell for the third month in a row, albeit each month only dipped by less than 1%.

There are growing calls to extend the stamp duty relief period. After all, the strength of the property market is one of the Government's good news stories and it will want to preserve this status.

Even if the stamp duty rules revert to their previous form, there are still good reasons to remain optimistic about the property market longer term.

A lot of people will have saved money since lockdown conditions first began in March 2020. Even though the restrictions of movement may have been frustrating they could have given many people the chance to squirrel away cash and put them in a stronger position to afford a home deposit.

You must also consider many people will have been stuck in tiny flats or house shares, another key driver for looking for more spacious accommodation, particularly if you take the view that partial working from home could be here to stay.

We see plenty of reasons to stay positive on housebuilders, estate agents, builders' merchants and DIY sellers. The latter have been beneficiaries of lockdown as the more time people spend at home, the more they are thinking about making alterations to their house or flat.

A lot of people will be waiting until Spring to do work on their home when the daylight hours are longer and the weather hopefully nicer to tackle jobs outside.

Estate agents should be classic reopening plays – more freedom to view properties will be a tailwind to their business.

Housebuilders are in strong financial shape and are investing in new land to create future value. While there have been some issues with building material shortages, generally they are doing well. For example, a fortnight ago **Barratt Developments (BDEV)** raised its sales forecasts.

Property market activity levels might ease back from the stamp duty-inspired rally but taking a longer-term perspective on the sector would suggest there are still plenty of reasons to be invested.

By **Daniel Coatsworth** Editor

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CFA UK Publication of the Year CFA UK Journalism Awards 2019

News Provider of the Year (Highly Commended) CFA UK Journalism Awards 2020


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Shares in cruise operators start to rise as potential early vaccine beneficiaries

Reports suggests cruise operators are seeing a rise in bookings from over 50s

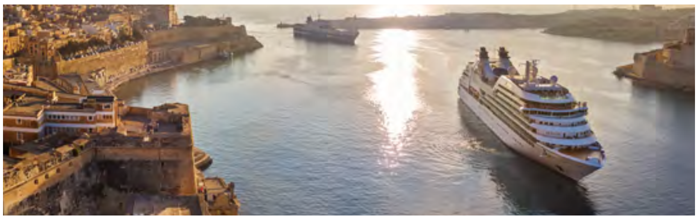
Certain travel stocks with relevance to cruises have enjoyed a new lease of life as investors bet on them being early beneficiaries of the Covid vaccine rollout.

Cruises are typically popular among people in retirement and vaccines are now widely being administered to those in their 70s and 80s in the UK. However, reports suggest **Saga (SAGA)**, **Carnival (CCL)** and **TUI (TUI)** are among the cruise operators to have seen a spike in bookings from over-50s in recent weeks, suggesting that many people are arranging holidays ahead of receiving the vaccine.

The Government hopes to have vaccinated all over 50s, as well as all 16 to 64-year-olds with underlying health conditions, by the end of April.

Shares in two of the stocks are up year to date, with TUI – which owns the Marella Cruises and TUI River Cruise lines – jumping 38.6%, while Saga shares have gained 14.7%. Carnival is trading nearly 4% lower while overseas-listed cruise operators Norwegian Cruise Lines is flat this year and Royal Caribbean's shares are down 2.4%.

In contrast some other package holiday providers on the UK stock market which aren't involved in cruises have barely moved, such as **Jet2**

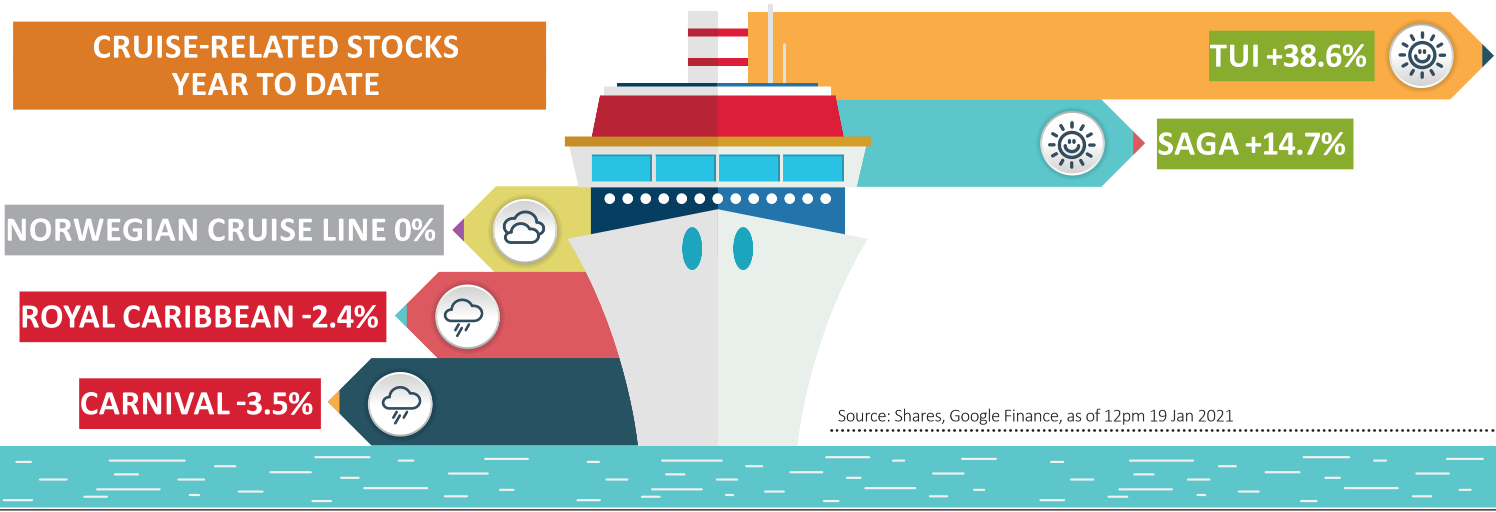


(JET2:AIM) which is flat year to date and **On The Beach (OTB)** which is up a mere 1.5%.

Despite renewed signs of activity in the travel sector, there are still some concerns that the pace of the vaccinations won't be fast enough to let everyone go on foreign summer holidays this year.

UK foreign secretary Dominic Raab has been among the politicians to urge the public not to book summer holidays just yet as it is 'hard to see' when restrictions will end, while prime minister Boris Johnson has warned of the threat of as yet unknown 'vaccine-busting' coronavirus variants that could develop in other countries.

Senior figures in the global airline industry, including the chief executives of Qatar Airways and Air Asia, have suggested passengers could be required to produce a vaccination certificate to be able to fly to other countries. If such a thing does get introduced, this could also impact the recovery in travel and holiday demand. [YF]



Major breakthrough for Netflix as it aims to be self-sustaining

The company closes on becoming free cash flow positive as it faces up to competition

The short-term picture for Netflix is looking encouraging after it beat expectations with its fourth quarter subscriber numbers and signalled an end to its reliance on heavy borrowing. However, question marks remain over its longer-term prospects in a highly competitive streaming space.

The company passed the 200 million subscriber milestone as it added a better-than-forecast 8.5 million new paid subscriptions. Previously, third quarter subscriber numbers had disappointed, with the company suffering a lull after securing tens of millions of new users as the pandemic hit.

Like other streaming services, Netflix has been a beneficiary of people being stuck at home while cinemas and other entertainment venues have been closed.

This highlights a challenge for Netflix and its peer group, which is how to profit not just from adding subscriptions but also from viewers making more use of the platform.

Despite this challenge, management remain committed to the current model, rather than looking at areas such as premium content for which you pay extra. They also outlined their belief they can continue to grow the subscriber base despite already being 60% penetrated in North America.

Notably the fourth quarter announcement included guidance that the company will soon become free cash flow positive and Netflix even tentatively outlined plans to buy back shares. The former factor would reduce its reliance on external debt financing to sustain its heavy investment in new productions.

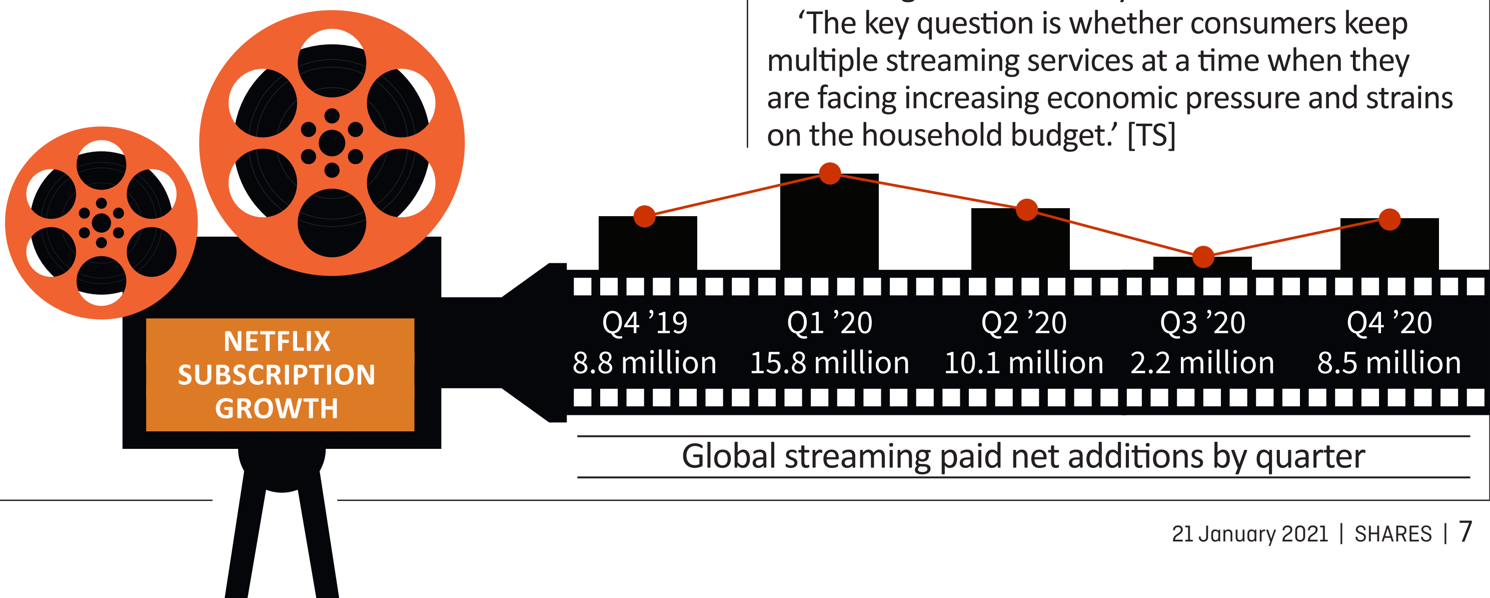
Helpfully many recently released productions appear to have hit the mark with viewers – notably the likes of *The Crown*, *Bridgerton* and *The Queen's Gambit*.

However, rivals are also stepping up their spend on new content, in particular Disney which also has decades worth of its own creations to fall back on.

Independent media analyst Ian Whittaker commented: 'While it stated it would be aggressive seeking out growth opportunities Netflix is essentially an operationally geared model (fixed cost of programming and the more subscribers you get, the higher the margins) and there is a natural limit on this.

'It's clear that Netflix does not intend to sit back and its comments about matching Disney at some point in family animation shows a willingness to take the fight to the enemy.

'The key question is whether consumers keep multiple streaming services at a time when they are facing increasing economic pressure and strains on the household budget.' [TS]



Global streaming paid net additions by quarter

Deliveroo could be valued at half the rating of US rival Doordash for IPO

But it could still be rated on a higher sales multiple than Just Eat Takeaway

Food delivery service group **Deliveroo** is expected to float on the UK or US stock market in April and be worth as much as £8 billion.

The company has just raised an extra £133 million of growth funding which values the business at £5 billion and the stock market listing is expected to be valued much higher, despite the battle for market share with chief rivals Uber Eats and **Just Eat Takeaway (JET)** intensifying.

Deliveroo recently announced expansion plans that will see its delivery riders and drivers operate in 100 more UK towns and cities this year as demand continues to surge during lockdown.

Deliveroo noted that consumer adoption has accelerated as more users are ordering more frequently on the platform. The company has also launched on-demand grocery services with Waitrose, Aldi, **Morrisons (MRW)** and Co-op.

The £5 billion valuation implied by Deliveroo's latest fundraising round is a massive jump from the mooted £3 billion or so estimate in November 2020, when the Competition and Markets Authority (CMA) finally cleared investment in the business by Amazon. The online retail giant had led a $575 million fundraise late in 2019 that gave it a 16% stake in Deliveroo, prompting a long-winded probe by the competition authorities.

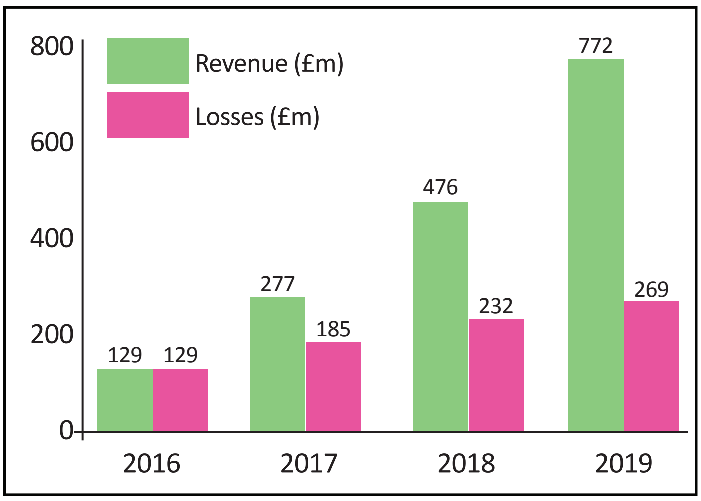
Existing backers, including private equity house Durable Capital Partners and Fidelity, are thought to be upbeat that an IPO will be at the top of a mooted £5 billion to £8 billion range, or even exceed it, says Rob Warensjo of analysis company Megabuyte.

The successful IPO of rival DoorDash last month in the US, which saw its share price double on its first day of trading and is currently valued at 19 times current year sales, is likely to have to raised expectations for Deliveroo's IPO pricing.

'Reports last year suggested 2020 revenue for Deliveroo is likely to land between £800 million and £1 billion, and that the group achieved profitability in the second and third quarters,' says Warensjo.

That revenue range would give Deliveroo a lower sales multiple of high single digits versus DoorDash, reflecting the US firm's greater scale and profits. However, Just Eat Takeaway's sales ratio is around six times. Interestingly, the latter company says it has put its stock market listings in London and Amsterdam under review as it plans to also list in the US following the acquisition of US firm Grubhub last year. [SF]

DELIVEROO'S SALES ARE SOARING, BUT LOSSES ARE ALSO RISING



Source: Deliveroo, Business of Apps

Shares in McDonald's stall as challenges mount

The company has been pushed out of its comfort zone by the pandemic

Like many established businesses, fast food giant McDonald's is being forced to adapt rapidly to the changes wrought by a global pandemic – and its ability to do so successfully will be a key focus when it announces fourth quarter earnings on 28 January.

Having enjoyed a strong recovery in the six months following the market's March 2020 lows the McDonald's share price has stalled since October. Comparable sales worldwide dipped 2.2% in the third quarter.

The appeal of McDonald's has been its speed and familiarity, with diners enjoying it as a convenient option to grab a quick bite in its restaurants or as a food-on-the-go option.

With many of its sites closed to customers for long periods due to Covid restrictions, the company has been forced to rely on drive-through and delivery sales.

Many people will still crave their regular McDonald's enough to order for home consumption, but it is competing with a larger marketplace and is no longer benefiting to the same extent from the competitive advantage derived from an unrivalled global footprint.

Another sense in which the business is being forced out of its comfort zone is on the product side where the company is adapting to changing customer tastes.

It faces two key tests on this front in 2021 with the launch of its McPlant plant-based meat alternative range and more immediately a new chicken sandwich as it looks to win out in the US fast food sector's so-called 'chicken war', as Americans' appetite for poultry-based burgers grows. [TC]

Three small cap new issues are currently flying high

HeiQ, Calnex and Verici Dx are all in demand with investors

A TRIO OF recently floated small caps have seen their shares perform extremely well since IPO, confirmation that new issues with compelling growth narratives can deliver impressive rapid-fire returns.

Swiss-based environmentally-minded materials company **HeiQ (HEIQ)** debuted on the Main Market on 7 December following a £60 million raise at 112p and has more than doubled to 240.3p on excitement surrounding technology that adds functionality to textiles, be it improving cooling, warming or even odour prevention.

Moreover, the company's antiviral surface protection effectively kills off infectious diseases such as Covid-19. HeiQ's clients including IKEA, where it helps produce curtains to purify the air, as well as **Burberry (BRBY)**, Zara and The North Face.

Also flying high is **Calnex Solutions (CLX:AIM)**, a provider of test and measurement solutions for the telecommunications sector with a customer roster that includes **BT (BT.A)**, Ericsson, Nokia and Facebook. Debuting on AIM in October after raising £22.5 million at 48p, its shares have dialled up a 145% gain to 117.5p, investors impressed by news of a 90% first half pre-tax profit increase to over £2.3 million.

Another in rude health is **Verici Dx (VRCI:AIM)**, which floated (3 Nov) via an oversubscribed fundraising at 20p and now trades at 92p. Sara Barrington-bossed Verici Dx develops tests to understand how a patient is likely to, and may be, responding to a kidney transplant. [JC]

Investors buying IAG shares will have to pay new Spanish tax

It's another blow for investors as dividends look to be off the menu for some time

UK investors buying shares in British Airways owner **International Consolidated Airlines (IAG)** will be affected by a new tax that has come into force this week on Spanish-registered companies.

Anglo-Spanish IAG, which is listed in London and Madrid, is now under the scope of Spain's Financial Transactions Tax, which levies a 0.2% tax on shares in listed companies in Spain with a market cap of over €1 billion.

The extra tax will add to shareholders' woes given that the airline is already denying investors a dividend due to the pandemic.

Analysts aren't forecasting IAG to start paying dividends again until 2022 according to consensus estimates compiled by Refinitiv, and even then the dividend per share for its 2022 financial year is currently expected to be just €0.04 per share, a lot lower than the €0.21 paid out in 2019.

IAG suspended shareholder payouts in April 2020 following the worldwide shutdown at the time due to the pandemic. In any case its ability to pay dividends near-term is significantly impacted as British Airways – the single biggest contributor to group profit – is banned from paying dividends to parent IAG for the duration of a £2 billion loan backed by the UK Government. [YF]

High hopes for Bahamas Petroleum exploration well

The drilling results should be out in February

SMALL CAP London-listed oil firm **Bahamas Petroleum (BPC:AIM)** is currently in the process of drilling among 2021's most high-impact oil exploration wells anywhere in the world.

The Perseverance #1 well has earned its name as the company has been trying in vain to test its large acreage position offshore The Bahamas for more than a decade – running into problems with funding and approval for drilling.

The well is targeting prospective resources of 770 million barrels of oil equivalent with results likely in the coming weeks.

House broker Shore Capital comments: 'We eagerly look forward to the announcement of drilling results in February.

'BPC is targeting very significant and potentially basin-opening upside, on acreage which has already been substantially de-risked and delineated over many years, and with the support of a technically advanced drill ship and world class oilfield service providers.'

Chief executive Simon Potter tells *Shares* that even if this first well isn't successful the company's merger with Columbus Energy in 2020, bringing with it production and development assets in Trinidad, means Bahamas has a 'much more stable corporate base'. [TS]

Buy into Disney's long-term dominance of the entertainment sector

This is a truly exceptional business with multiple strengths which should serve it well for decades to come

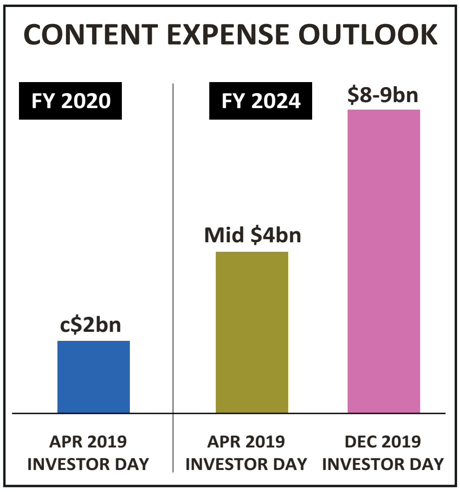
Not too many stocks through the course of this pandemic will be winners in both lockdown and reopening scenarios but Walt Disney is one.

Its relatively new streaming service Disney+ has been a favourite with families stuck at home needing to keep kids entertained, and its theme parks and resorts should benefit from pent-up demand as vaccines help unlock society.

That's the short to medium-term argument for buying Disney shares – the long-term case is even more compelling.

WHAT'S IN THE HOUSE OF MOUSE?

First let's take some time to consider what exactly Disney



Source: Disney

WALT DISNEY
BUY
$171.82
Market cap: **$310.9 billion**

is. It is hard to believe there is anybody bar perhaps some remote tribes in the Amazon who have never heard of Disney or at least some of its films.

For many of us watching Disney classics, and moments within them like the death of Bambi's mother or Aladdin's flying carpet ride, will have been a formative part of our childhood.

However, while still probably best known for its animations Disney is now a global entertainment business encompassing *Toy Story* creator Pixar as well as the *Star Wars* and Marvel titles.

To put that into context, these four cinematic universes together comprise 27 out of the 50 top grossing films of all time according to data from Box Office Mojo.

Disney also owns the ESPN sports channel, well-established video-on-demand service Hulu as well as the ABC broadcast network in the US and 20th Century Studios (formerly Twentieth Century Fox and acquired in 2019).

BEATING SUBSCRIBER TARGETS

Just before Christmas the company announced it was way ahead of the curve with global subscriber targets for its streaming services as it engages more directly with consumers.

At the outset Disney was targeting 60 million to 90 million global subscribers for Disney+ by the end of its September 2024 financial year. As of 2 December 2020, it had already hit 87 million and those 2024 targets have now been increased to between 230 million and 260 million.

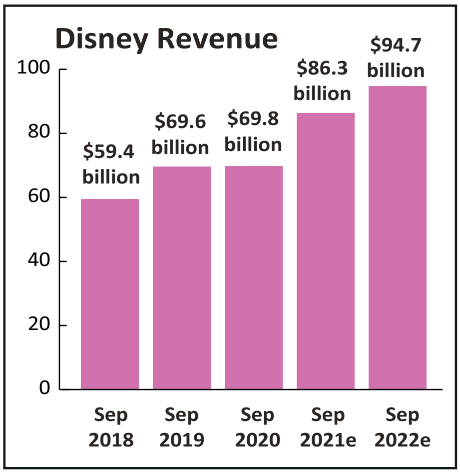
This has been achieved largely based on a wealth of historic content attracting viewers, and this existing material alone is helping to underpin an increase in the cost of a monthly Disney+ subscription from February 2021 onwards. In the US from $6.99 to $7.99 and in the UK from £5.99 to £7.99.

However, at the same time as revealing the positive subscriber news the company unveiled plans for 105 new films and TV series, sending shivers down the spine of competitors Netflix and Amazon as they include many new titles from successful franchises.

Around 80% will appear on Disney+ with some film titles appearing on the streaming service exclusively rather than getting a release in cinemas.

The planned projects include a prequel to the *Lion King*, a new version of the *Little Mermaid* in addition to a wave of new Marvel titles and a new entry in the *Indiana Jones* series.

The Star+ platform, set to be included with Disney+ subscriptions in Europe, will also add more shows pitched towards an adult audience.



Source: Refinitiv, 15 January 2021. e=estimated

REASONABLE VALUATION

Against this helpful backdrop and despite a strong run from the lows seen in March 2020, when we said to buy in an in-depth look at the business, the shares trade on a reasonably undemanding September 2023 (post-crisis and the peak of content investment) price-to-earnings ratio of 28.3 based on consensus forecasts. As a point of comparison Netflix shares trade on more than 40 times 2022 earnings per share.

The sheer breadth, depth and quality of Disney's content is only set to grow in the coming years, and that puts it at a significant advantage in what is admittedly a competitive streaming space.

The impact of the Covid-19 pandemic has fundamentally reshaped the group – with streaming overtaking the parks division to become the dominant contributor to group revenue.

As Steve Wreford, portfolio manager at **Lazard Global Thematic (B464177)**, observes: 'Sandbox tests means you set aside part of your business to try out something and if it doesn't work, it doesn't affect the rest of your business.

'Many consumer companies were forced into a very large sandbox in 2020 and none more so than Disney. Instead of releasing a lot of films at the cinema, they had to think about changing their business and releasing films like *Mulan* direct to TV on their own channel. We like companies who learned a lot about themselves in 2020.'

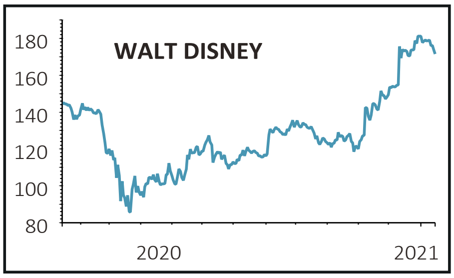
MAKING CONNECTIONS WITH CONSUMERS

Despite the shift in the

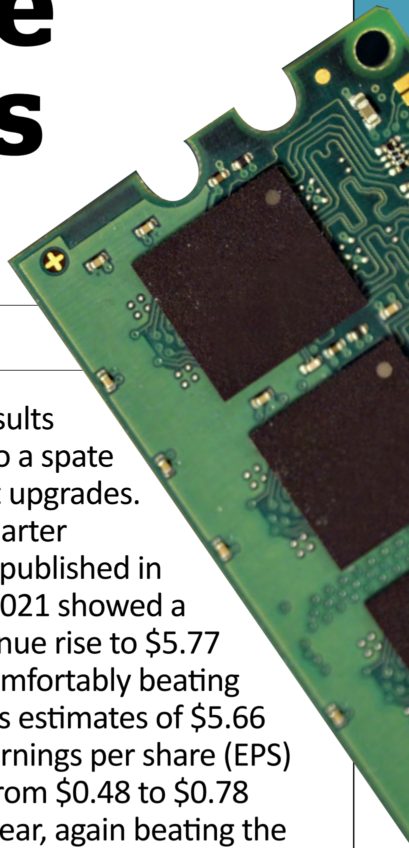
hierarchy within the group, it is important not to underestimate the importance of the parks. These resorts and the various entertainment divisions enjoy a symbiotic and mutually beneficial relationship, reinforcing people's attachment to Disney's creations.

We have quoted media commentator Matthew Ball's words on this effect before, but they bear repeating. 'There is nothing that can compare to the impact of a child being hugged by her heroes,' he says. 'The ability to enjoy your favourite intellectual property as "you" is unique and lasts a lifetime.'

Disney simply resonates on a much deeper level than other entertainment providers for many of us. And this makes it a fantastic stock to hold, if not for a lifetime then definitely for the long run. [TS]



Semiconductor cycle is turning to Micron's advantage



Chip maker is a tech growth story on an undemanding valuation

This complex memory microchip manufacturer is a good illustration that not all quality technology businesses trade on sky-high valuations. NASDAQ-listed Micron Technology is one of the world's top producers of DRAM (dynamic random access memory) and NAND flash memory chips.

DRAM is used in PCs, laptops, smartphones and servers to perform their various functions. NAND flash is what allows a memory stick to work, or you to store music on your phone.

A year ago, Micron was struggling, pushing against supply gluts and declining prices, as happens from time to time in this notoriously cyclical semiconductor industry. Then Covid came. But as with many tech stocks, what started as a headwind ended up creating an ideal environment in which the company could thrive.

Supply chains were disrupted by the pandemic, and the demand for memory chips in data centres and computers increased at the same time. This saw Micron's share price double since August, but we anticipate the rally will continue through 2021 as chip supply and pricing dynamics continue to improve.

Many analysts agree. 'Our industry checks indicate lean DRAM channel inventory, and we expect contract prices to improve sequentially into the February and May quarters,' said Summit Insights earlier this month.

MICRON TECHNOLOGY
BUY
(MU) $80.72

Market cap: **$90.3 billion**

Summit analysts also believe that NAND prices have now hit rock-bottom with recovery drivers coming from innovations in augmented and virtual reality, bendable smartphones and 5G adoption. 5G goes beyond smartphones, touching themes like internet of things connectivity, data centres and increased volumes of electronics in cars, not least electric vehicles.

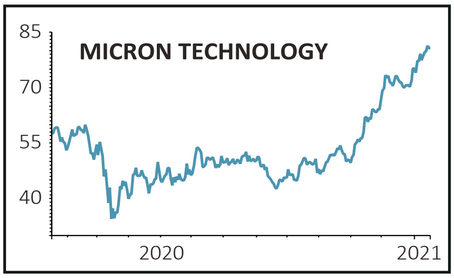
As a result, the chipmaker's results improved consistently throughout last year and it ended fiscal 2020 (to 31 August) on a solid note given the disruption caused by the pandemic.

The good news for investors is that Micron is widely expected to sharply improve its financial performance this year, and into fiscal 2022, as evident from its recent results that led to a spate of analyst upgrades.

First quarter numbers published in January 2021 showed a 12% revenue rise to $5.77 billion, comfortably beating consensus estimates of $5.66 billion. Earnings per share (EPS) jumped from $0.48 to $0.78 year-on-year, again beating the $0.69 forecast.

There remained nods to caution in the statement, although that may imply potential to repeatedly outstrip expectations as the year progresses. As the business backcloth continues to improve, so earnings recovery should accelerate. EPS is expected to increase 45% this year, then almost double in 2022 to $7.93.

That would slash the already reasonable valuation, or send the stock shooting higher. At the current $80.72, the 2021 price to earnings multiple stands at 19.6, falling to 10.2 the year after. [SF]



BAILLIE GIFFORD US GROWTH (USA) 335.92p

Gain to date: 135.7%

Original entry point:

Buy at 142.5p, 8 August 2019

UNDOUBTEDLY THE PERFORMANCE of **Baillie Gifford US Growth (USA)** has been helped by a strong showing for American equities but it has demonstrated an impressive ability to outperform.

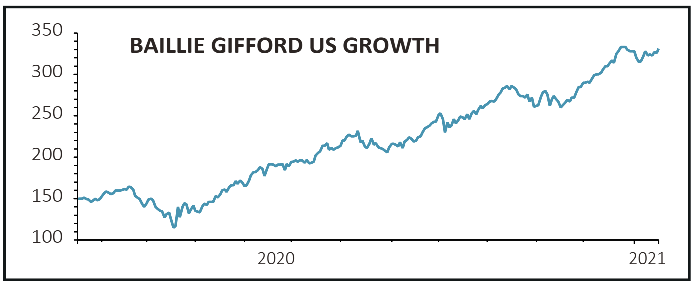
As such we are sitting on a gain of more than 100% after flagging a positive view on the trust in August 2019.

The portfolio, which includes listed and unlisted US companies, recorded a share price and net asset value (NAV) return of 50.8% and 53.8% respectively in the six months to 30 November, well ahead of the 11.1% total return from its benchmark, the S&P 500.

Numis comments: 'The fund is differentiated from its peers by a focus on disruptive growth stocks, and the ability to invest up to 50% of the portfolio in unquoted securities.'

Investec says traditional equity investors continue to face challenges in achieving exposure to a new generation of companies with superior growth characteristics that are choosing to stay unlisted for longer.

'Meanwhile, many equity market incumbents are increasingly growth-challenged and/or overly indebted,' it adds. 'We believe that Baillie Gifford US Growth provides a highly effective and cost-effective solution to these challenges.'



SHARES SAYS:
Still a long-term buy. [TS]

POLAR CAPITAL (POLR:AIM) 660.04p

Gain to date: 45%

Original entry point:

Buy at 455p, 18 June 2020

SPECIALIST FUND MANAGER **Polar Capital (POLR:AIM)** has made good operational and strategic progress since we outlined its attractions last June.

Assets under management (AuM) have recovered strongly since the March lows, growing 55% to nearly £19 billion. The biggest contributors were market and fund performance which added £5.2 billion.

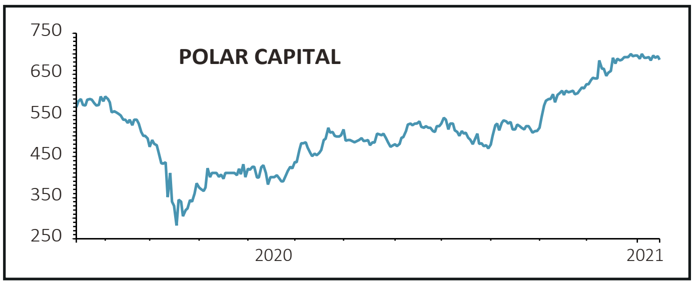
Net subscriptions added £1.46 billion, offset by a £301 million outflow from the closure of the UK Absolute Equity Fund. The recently acquired Phaeacian team saw net inflows of £431 million.

Polar Capital earned £19.3 million of performance fees in the nine months to 21 December 2020.

In late December, Polar announced it had agreed terms to purchase Dalton Capital, a UK boutique manager with £1.12 billion in AuM.

The deal has strong strategic rationale bringing complementary skills to its existing European income team as well as providing broader wholesale and institutional distribution into Europe, particularly Germany.

Shore Capital estimates the deal could add around £4 million of pre-tax profit to the March 2022 financial year.



SHARES SAYS:
We continue to rate Polar Capital as high-quality business trading on an attractive valuation (10.7 times next 12 months' forecast earnings) and providing a dividend yield around 5.5%. Keep buying. [MG]

GENUS

(GNS) £45.64

Gain to date: 60.4%

Original entry point:

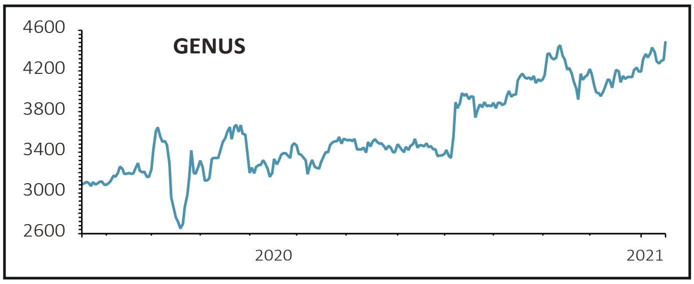
Buy at £28.46, 19 September 2019

Shares in animal genetics company **Genus (GNS)** reached an all-time high this week after the company upped guidance for full year growth.

Commenting on trading for the six months to 31 December 2020, Genus said it expected adjusted pre-tax profit in actual currency to be between £47 million and £49 million compared with £36.6 million in the previous year.

Revenues are expected to be in the £285 million to £287 million range, up 5% from the £270.7 million achieved in 2019. Strong trading in the pig genetics business in China continued as farmers rebuilt pig herds after the impact from African Swine fever. In addition, bovine genetics showed strength across Brazil, Russia, India and China.

While the board expects some slowdown in the second half, the momentum already gained will result in higher growth than previously expected for the year to 30 June 2021.



SHARES SAYS: ↗

The current consensus analyst estimate for full year pre-tax profit is £79.2 million on revenues of £592 million according to data provided by Refinitiv, implying upward pressure on estimates once analysts incorporate the latest update. The stock remains a 'buy'. [MG]

EXPERIAN

(EXPN) £27.12

Loss to date: -11.6%

Original entry point:

Buy at £30.69, 15 October 2020

CREDIT CHECKING AND data services provider **Experian (EXPN)** has continued to perform well against the backdrop of the pandemic, reporting better than expected third quarter organic revenue growth of 7% and 10% overall constant currency growth (19 Jan).

The US remained the driving force with core data services growing at 12% offset by weak automotive-related business. Consumer services was very strong, up 18% driven by rising memberships.

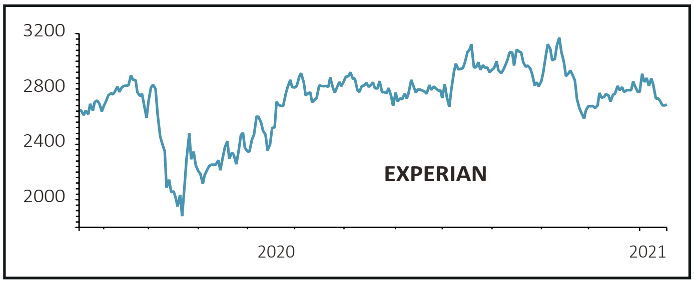
Latin America, around 14% of the total group also exhibited good organic growth of 13% driven by very strong consumer services in Brazil which grew 178% as memberships increased to 56 million.

The UK and Ireland struggled with revenue dropping 2% although one bright spot was consumer services which returned to growth.

The rest of the world comprising Europe, Middle East and Asia Pacific saw an 11% decline in organic revenues.

The company guided for slower fourth quarter growth within the range of 3% to 5% impacted by the tough comparatives of last year.

Full-year earnings before interest are expected to be between $1.36 billion and $1.38 billion, around 2% higher than current the consensus analyst forecast of $1.34 billion according to data from Refinitiv.

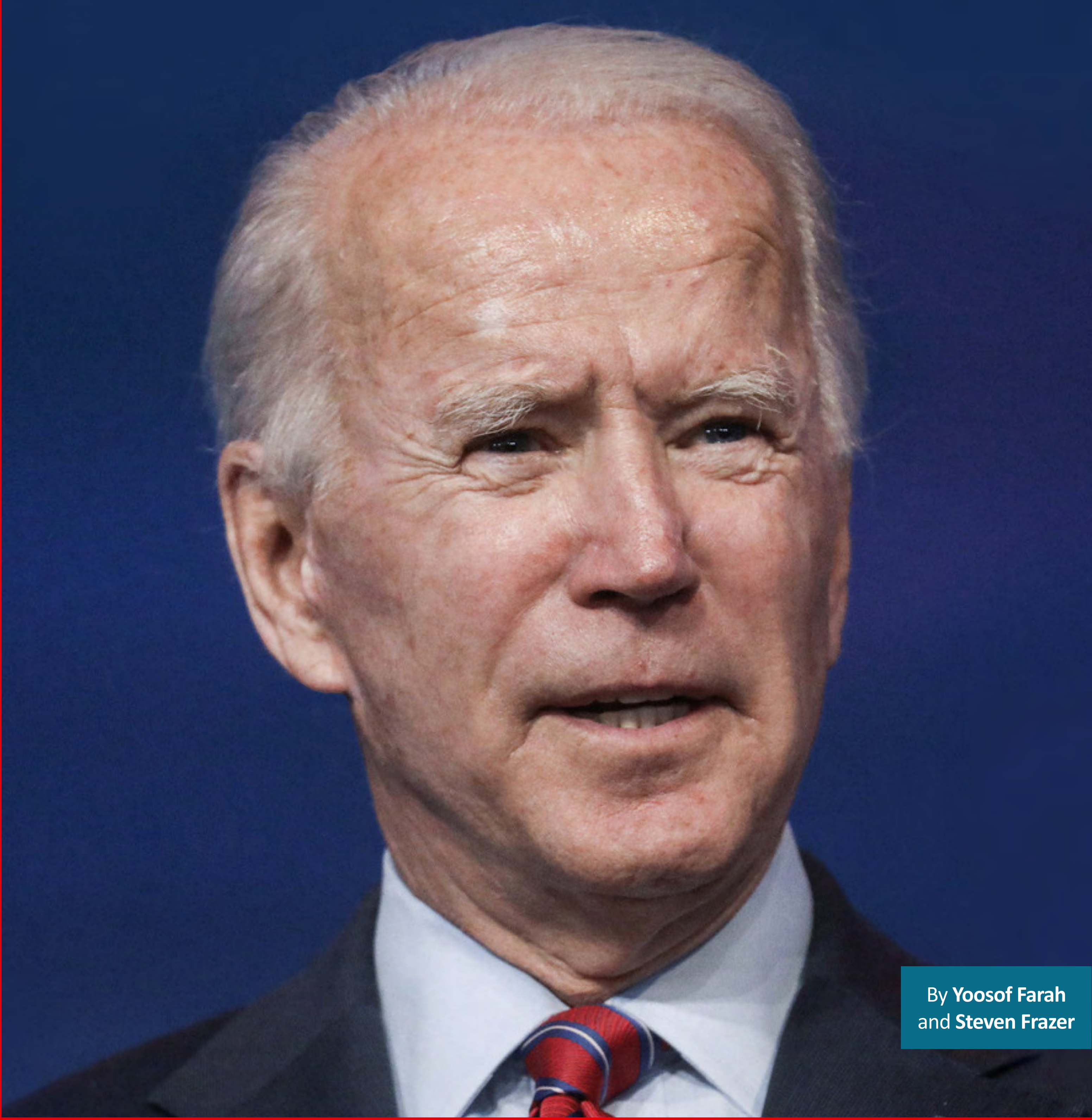


SHARES SAYS: ↗

The resilience of the business and positive outlook means the shares remain a buy. [MG]

INVESTING UNDER BIDEN

Where to put your money as the **US** starts a new journey



By **Yoosof Farah**
and **Steven Frazer**

Joe Biden is now officially president of the United States, something which is likely to have implications for your portfolio.

His policy plans, ranging from infrastructure and renewable energy to technology and healthcare, will have direct impact on indices like the S&P 500 and FTSE 100, as well as a lot of the big companies held in a wide range of high-profile funds.

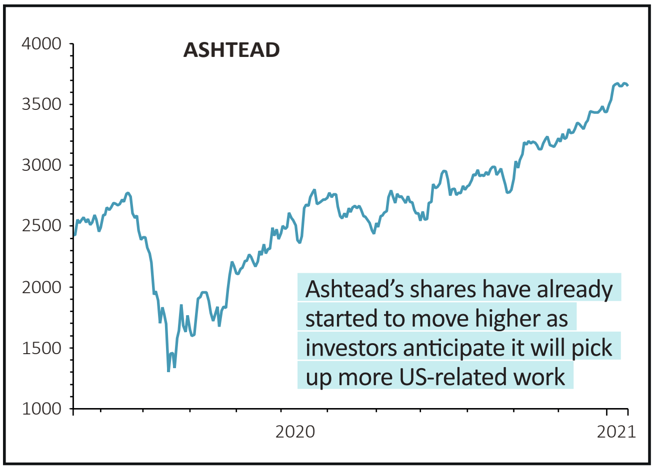
INFRASTRUCTURE STOCKS

One of Biden's most talked-about policies has been his 'Build Back Better' plan, with a pledge to spend $2 trillion within the next four years on upgrading America's ageing infrastructure.

The most talked about part of that plan involves making big investments in clean energy, and we'll discuss Biden's green energy plans in more detail later in the article, asking whether all the gains have already been made in clean energy stocks or if there's still further upside to come.

But he has also committed to revamping the country's traditional infrastructure like roads, rail and bridges, as well as build over 1.5 million new affordable, sustainable homes and retrofit another 4 million to make them more energy efficient.

It's likely these plans would increase demand for the services of equipment rental firm **Ashtead (AHT)**, as well as building materials supplier **CRH (CRH)** and plumbing and heating product provider **Ferguson (FERG)**, all of whom have a big presence in the US.



WHAT ABOUT HEALTHCARE?

Biden is also planning major changes in healthcare policy, including bringing back the Affordable Care Act, also known as Obamacare, which mandates that all Americans need to have some form of health insurance or risk paying a penalty.

He also hopes to lower drug prices, introducing a bill that would penalise pharmaceutical companies for any price hikes that are higher than inflation, requiring them to pay rebates to the Medicare programme.

$1.9 TRILLION STIMULUS PLAN

The first item for Biden's in-tray is getting his proposed $1.9 trillion stimulus plan through Congress, which comes as US jobless claims have repeatedly come in worse than expected in recent months.

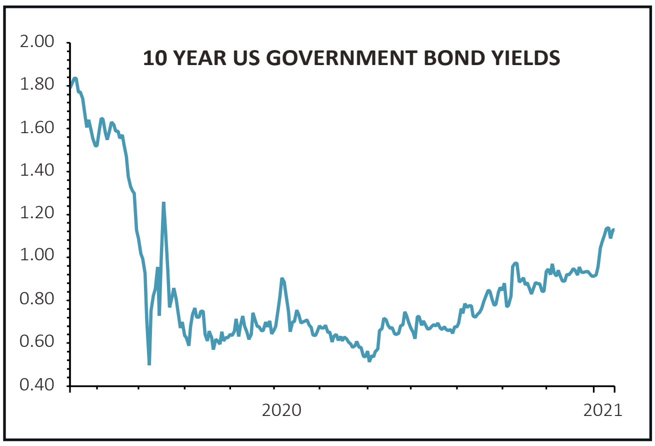
The number of Americans actively collecting state jobless benefits came in at 5.3 million on 2 January, significantly below the 10.6 million at the height of the pandemic but still well above pre-pandemic levels of 1.7 million.

'Employment is a crucial indicator of the economy and it has not been giving many positive signals for a while now,' says Neil Birrell, chief investment officer at Premier Miton Investors. 'This is a step backwards. Even if there are anomalies in the data it looks like the virus is increasing in its impact.'

Biden's proposed support package, called the 'American Rescue Plan', involves direct payments of $1,400 to eligible Americans, raising jobless benefits from $300 to $400 a week, as well as $400 billion to boost vaccination and testing, and $150 billion for state and local government.

Having risen in anticipation of Biden's plan, markets fell after the news was announced with concerns about the cost of the package.

The yield on 10-year US government bonds, known as Treasuries, was pushed to its highest since March on expectations the government will need to borrow more to fund the spending. Yields move higher as bond prices fall.



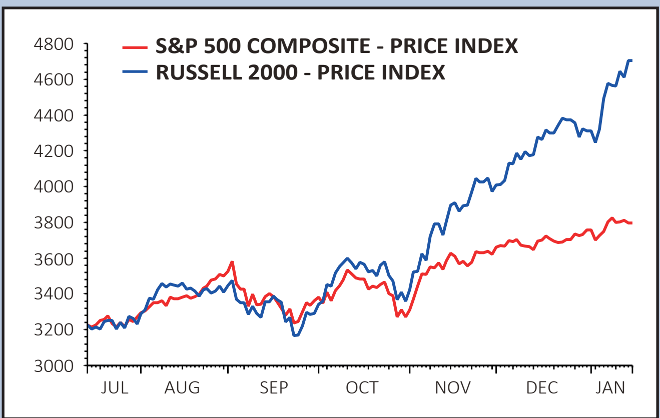
Simple ways to invest in the US stock market

FOR THOSE WHO want to play the US market under the new Biden era, there are two simple options to consider.

An ETF following the S&P 500, like **iShares Core S&P 500 (CSP1)**, could be a good choice for someone looking for long-term growth from the US stock market. We currently prefer the S&P 500 index to the tech-heavy Nasdaq index given the possible headwinds the tech sector faces if Biden gets at least some of his plans through Congress. However, it must be noted that the S&P 500 does include some tech stocks.

The alternative is to buy an ETF following the Russell 2000 index such as **L&G Russell 2000 (RTWP)**, which contains more domestically focused companies that are more likely to benefit from an economic bounceback and recovery in value stocks.

It's worth pointing out you'd be buying into the Russell 2000 after it has already rallied strongly in anticipation of big stimulus plans. The S&P 500 on the other hand fell after the president-elect's $1.9 trillion support package proposal (14 Jan) – the market's way of saying which index is likely to benefit the most, at least in the short term.



Analysts fear this could lead to higher interest rates or tax hikes, which could negatively impact equity valuations. Rising yields threaten to weigh on companies with longer-duration cash flows such as tech and growth shares.

THE BIG TAX ISSUE

Beyond Covid, Biden's main economic policies are to raise the minimum wage and invest large amounts into green energy, moves which were designed to go down well with the two main types of traditional Democrat voters – young people and blue-collar workers.

Biden also plans to raise corporate tax from 21% to 28% and will look at ways to control 'Big Tech' and what a Democrat subcommittee in the House of Representatives called 'systematic and continuing abuses' of their monopoly power. There is a separate section in this article on this topic.

Analysts at RBC forecast before the election that Biden's tax plans could bring down the S&P 500's earnings per share (EPS) by around 9%, while analysts at Jefferies estimate that for some companies, every 1% rise in corporate tax could impact EPS by 1.5%.

BIDEN STILL FACES CHALLENGES

Steve Wreford, a global thematic equity portfolio manager at Lazard, warns Biden doesn't have 'carte blanche to do whatever he wants', pointing out the Democrats may have a clean sweep but it is not a blue wave where they have a massive majority. 'There are some quite conservative figures in the Democrat side of the Senate who will prevent some very dramatic things from happening,' he says.

It's a fair point. After all, Biden only won 51% of the popular vote, and control of the House of Representatives narrowed considerably following the election, with the Democrats' majority going from 35 seats to 10. Their 222 seats in the House is only four above the 218 needed for a majority.

In addition, Democratic control of the Senate is as thin as possible and technically the seat count is 50-50, meaning they only have control via vice president Kamala Harris' tie-breaking vote.

The outlook for healthcare stocks

WHEN IT COMES to healthcare, Trevor Polischuk, manager of the **Worldwide Healthcare Trust (WWH)**, believes passing any controversial legislation will be very difficult for the Democrats because their majority control is so narrow.

'We have identified an important number of moderate Democratic Senators and Representatives who would not support any harmful healthcare bills and would "walk across the aisle" and vote with Republicans,' he says.

Many investors will be cautious towards large cap pharma and large cap biotech stocks due to increased uncertainties under Biden, such as caps on drug pricing.

However, his policies could generate a better backdrop for tools and diagnostics firms, hospitals and managed care companies. And there should be a favourable environment for small and mid-cap biotech stocks where innovation and not product pricing is the key driver of valuation.

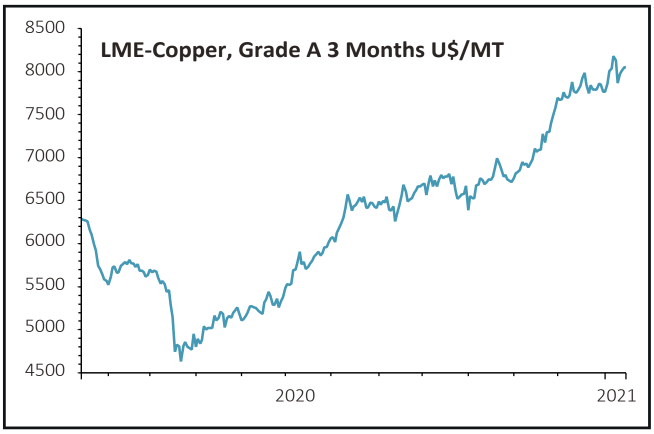
WHAT DOES THE NARROW MARGIN MEAN FOR TAXES?

Asset manager BlackRock believes a Democratic majority could well pave the way for major green investment but sees greater fiscal spending to be largely funded through more government borrowing rather than higher taxes, given the Democrats' slim majority in both chambers of Congress.

'The policy revolution has brought on greater tolerance for higher debt globally, yet just how long such attitudes could last is key,' says BlackRock. 'Modest increases in corporate taxes may be possible, but large-scale changes including raising taxes on high-income earners, appear unlikely, in our view.'

IMPACT ON COMMODITIES

Biden's win and the Democrats' Congress majority could also have implications in the world of commodities, with copper highlighted as a beneficiary due to a weakening US dollar.



Many see the dollar potentially weakening further under a Biden administration, given that compared to Trump, Biden would likely reduce uncertainty in international trade policy, reducing the need for the dollar as a safe-haven asset.

And Liberum analyst Ben Davis points out that where the dollar weakens, copper – a global economic bellwether – tends to strengthen, and notes that copper prices have been 'heavily supported' in the last three quarters by the weak dollar.

He says: 'With support from the Fed ongoing and a major stimulus programme to come, we expect the dollar to remain under pressure. This, along with a vaccine-driven global economic recovery, should continue to support copper.'

Strengthening copper prices should provide a tailwind to earnings for many of the big FTSE 100 miners including pureplay copper producer **Antofagasta (ANTO)**.

There is also an interesting read-across to Japan, where the anticipated easing of tensions between the US and China could indirectly benefit Japanese exporters.

Naoki Kamiyama, chief strategist at Nikko Asset Management, thinks that if consumer demand from the world's biggest economy increases, it will benefit Japan both directly and indirectly. 'This is not only because Japan's exports to the US would increase, but that its exports of parts and machinery-related infrastructure to other countries, notably those in Asia which cater to the US market, would also increase,' he says.

Compared to Donald Trump, Biden is expected to take a more low-key approach to Washington's trade deficits with its allies. Biden's 'Made in America' plan to bring back critical supply chains to the US is a potential concern for export nations, but its impact is likely to be relatively limited on Japan which already possesses significant US production capacity.

IS IT TOO LATE TO RIDE THE RENEWABLES WAVE?

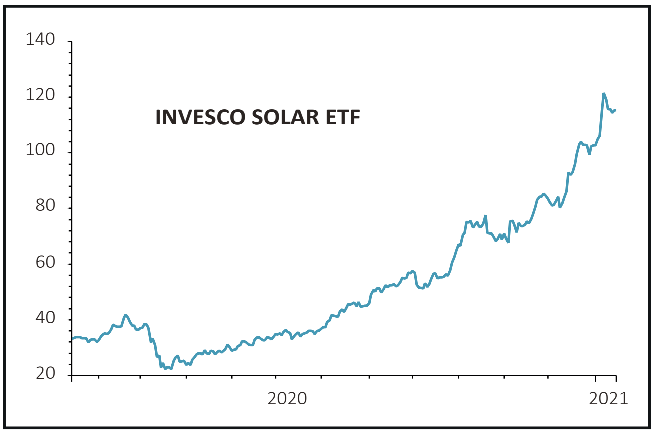
Renewable energy stocks have soared on the back of Biden's election win and the Democrats taking the Senate too, given his ambitious plans which he has pledged to deliver upon in his four years of office.

Exact details are thin on the ground, but as part of his $2 trillion 'Build Back Better' infrastructure plan Biden has pledged to make a 'historic investment' in clean energy by the end of his first term in 2025, and put enforcement mechanisms in place to ensure the US becomes a '100% clean energy economy' and net-zero carbon by no later than 2050.

The very real chance of big, meaningful amounts of money flowing into the renewable energy sector has sparked some massive gains in clean energy stocks.

But with some becoming five-baggers since their March lows and soaring far above their pre-pandemic levels, the natural question to ask is whether most of the good money has already been made.

For example, popular clean energy exchange-traded fund Invesco Solar ETF recorded gains of 233% in 2020, most of it towards the back end of the year, first as investors bet on a Biden election victory and then when he actually won.



The ETF is now trading on a forward multiple of 53.2 times earnings, meaning expectations for the underlying stocks are now sky high.

Certainly, Wreford at Lazard is one who thinks it will be hard to find winning equity investments in the clean energy and renewables industry. He points out that 'when capital goes into an industry, returns go down.'

The portfolio manager explains: 'We always look for more than a total addressable market story. Just because a market is going to get big, that is not enough for a return on an opportunity. If demand is going to be met with massively increased supply, that doesn't translate into good shareholder returns.

'Our view is that with one or two limited exceptions, we think the vast majority of returns in the world of sustainability will be eaten away. The broader idea of wanting to be more energy efficient and moving towards electric vehicles and reducing emissions, that will move forward. We just need to be very careful about where we pick our spots.'

Others are more optimistic. Randeep Somel, manager of the M&G Climate Solutions Fund, says Biden's win and the Democrats clean sweep 'represents a huge opportunity for climate-focused sustainability companies both in the US, and also worldwide'.

He points out Biden's pick for treasury secretary, former Fed chair Janet Yellen, has also advocated a carbon tax to both help climate goals and raise much needed revenue to implement climate policy. 'The Georgia results means this policy will at least now be put to both chambers for serious discussion and a vote,' he says.

Analysts at Goldman Sachs say European giants EDP, EDPR, Orsted and RWE are well placed to enjoy higher earnings from activity in US renewable energy investment, while **National Grid (NG.)** and Iberdrola would benefit from investment in power grids.

They also note that eight of the top 10 global renewable developers are European, creating even more opportunity for EDP, EDPR, Orsted and RWE in Biden's policy changes.

'In such a fragmented industry, we believe that the scale achieved by these renewables majors brings significant advantages, which translate into premium returns (versus those of much smaller developers).'

RWE (RWE:ETR) €37.75 BUY

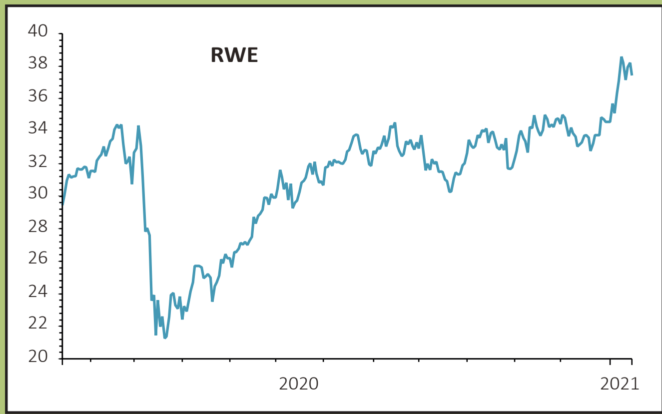
BUY

GERMAN ENERGY GIANT RWE has been tipped by analysts as a potential big beneficiary of a Biden presidency and investment into clean energy.

The company is the world's second largest player in offshore wind, behind Orsted, and the third largest renewable energy generator in Europe. It also has operations in parts of Asia and North America.

The company says it ranks among the top 10 onshore wind companies in the US, saying: 'We develop, own, and operate some of the most efficient, highest performing renewable energy projects in the United States.'

As noted by Goldman Sachs, those with scale are a lot better placed than the smaller developers in being able to capture the upside from the $600 billion of investment set to go into the sector during the 2020s.



Its peer Orsted has a lot of the same positive tailwinds as RWE – the one snag is that this has very much been recognised by investors, with Orsted trading on a 12-month forward price to earnings (PE) ratio of 51.

RWE on the other hand has a cheaper valuation with a PE of 18.8, but the multiple demanded of its peer shows the potential for its shares.

Considering the soaring valuations of many stocks in the renewables sector now, finding companies which still have meaningful share price growth ahead looks difficult. But there are still pockets of relative value in the sector, and RWE stands out as a key stock to buy.

POINTS TO CONSIDER FOR TECH STOCKS

Many market commentators have suggested Biden's inauguration as president represents a turning point for tech stocks, namely a less favourable backdrop.

Regulators worldwide are taking a much firmer stand on the scale and power of big tech companies. There is a growing sense that major tech platforms like Alphabet's Google, Facebook and Twitter are not up to the task of governing themselves or their users.

The rampant spread of misinformation, proliferation of hateful and violent content, and monopolistic power that limits competition are just some of the criticisms levelled at big tech.

In the US, members of Congress have acknowledged that government's hitherto light-touch approach to antitrust enforcement in the digital marketplace has failed.

'The power of these companies has become so big that they cannot avoid being part of the conversation about societal issues,' says James Anderson of **Scottish Mortgage Investment Trust (SMT)**.

'That the conversation is about who controls media and data makes some of those shares less attractive,' adds Baillie Gifford fund manager Tom Slater.

These are hot issues in the US and elsewhere and Biden will want to send a message that he will be a president with a firm, if friendly, hand.

'Biden has a reputation for "reaching across the aisle" to forge deals with Republicans,' says

Walter Price, who runs the **Allianz Technology Trust (ATT)**. That makes 'draconian changes seem unlikely', in the fund manager's opinion, with 'decent checks and balances' more likely to be put in place.

'This should bode well for technology as an enabler for so many things, including green energy and infrastructure,' he adds.

Polar Capital fund manager Ben Rogoff hopes policymakers and society will recognise and support the positive impact of technological adoption on tackling the wide array of problems humanity faces, from climate change to financial inclusion.

Regulatory overhaul is one area for investors to watch, but there are other cyclical factors that could hurt tech share prices in 2021, such as rising inflation. That could see interest rates rise and, in simple terms, investors may decide that the relatively high valuations of many tech stocks are no longer worth paying if cheaper growth is available elsewhere.

'If we go into a reflationary and then inflationary environment, tech is not the area you want to hide in,' says Andrew Warwick of Newton Investments' real returns team.

That's not to say investors should dump all high-quality tech companies with great long-range growth prospects. A better approach would be a considered re-examination of these stocks.

'If we saw inflationary pressures mounting, it would prompt some reshaping of my portfolio,' admits Allianz's Walter Price. 'But any prospect of higher prices could take years to play out and, in the meantime, inflation is likely to remain subdued.'

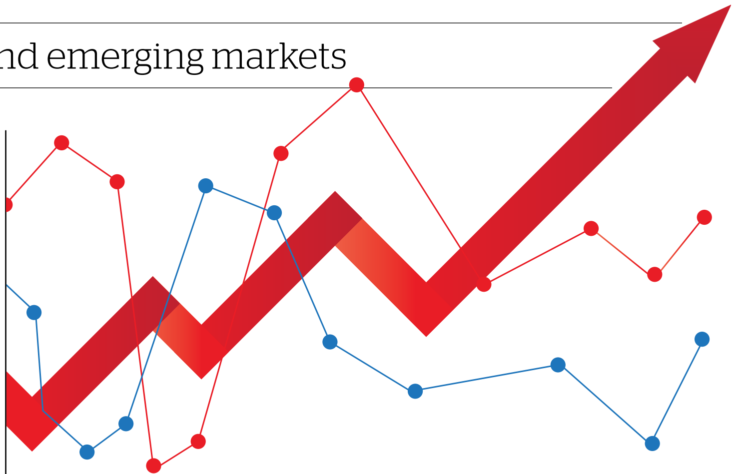
DISCLAIMER: Co-author Steven Frazer owns shares in Scottish Mortgage and Allianz Technology Trust.

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

The return of inflation

What rising prices mean for value stocks and emerging markets



One theme which continues to exercise financial markets is whether inflation is primed to make a comeback and – if so – what this could mean for asset allocation and portfolio strategies.

The five-year forward inflation expectation in the US now stands at 2.11%, its highest level since December 2018, and financial markets are beginning to react: bond yields are ticking higher, bitcoin is going bananas while gold holds relatively firm. Within equity markets cyclical growth (or 'value,' for want of a better word) is again trying to cast off a decade of underperformance relative to perceived secular growth sectors such as technology.

Inflation expectations are still ticking higher

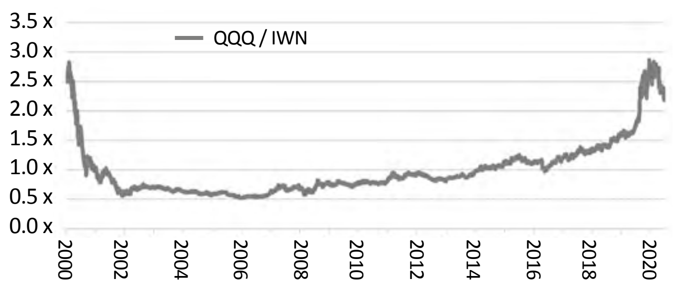
Source: FRED- St. Louis Federal Reserve database

As this column has suggested before, the battle for portfolio style (and performance) supremacy within equities can be seen by comparing the returns provided by two exchange-traded funds (ETFs) in the US: the QQQ Invesco Trust, which follows the price of the biggest non-financial stocks on the NASDAQ, and the Russell 2000 Value ETF.

If the line on this chart goes up, 'growth' is outperforming. If it goes down, 'value' is outperforming. As can be seen, cyclical growth outperformance stretches to summer 2020.

But this trend can be seen in another way too,

Cyclical growth (or 'value') is coming back into fashion



Source: Refinitiv data

this time on a geographic basis. Over the past decade, investors have adapted to the low growth, low inflation, low interest rate environment by buying long-dated assets such as bonds and equity growth (such as technology stocks), and forgetting about commodities, cyclical equities ('value') and emerging markets.

Yet as inflation creeps back onto the radar, perhaps for the first time in 40 years since then Fed chairman Paul Volcker set about wiping it out, emerging markets are coming back into fashion too.

This can be seen using the same technique as before, this time by dividing the performance of America's S&P 500 index by the MSCI Emerging Markets benchmark. American outperformance peaked in September, since when emerging arenas have done better.

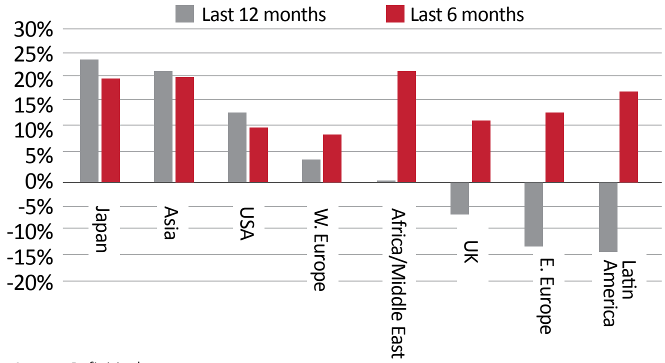
Insightful commentary on market issues

RUSS MOULD
AJ Bell Investment Director

Has US outperformance run out of steam?

Source: Refinitiv data

Emerging markets are forging a comeback



Source: Refinitiv data

CLEAR PATTERN

This return to form for emerging markets coincides with a period of strength for commodity prices and dollar weakness. Whether it lasts may hinge to a great degree on those two trends, which also tie into the inflation narrative.

If those three continue to coincide, then we could see a third major period of emerging market outperformance relative to the US (and by implication developed markets), to match those of 1988-1994 and then 2000-2010, so this EM resurgence must be monitored closely. If it proves to be no mere flash in the pan, then it could have profound portfolio implications.

The resurgence of EMs can be seen by digging deeper into geographic performance trends, too.

Japan may be the best performer, in total return, sterling-denominated terms over the past 12 months, but Asia is a close second. The data from the past six months, when cyclical growth, or value, began to try and forge its latest comeback, show outperformance from not just Asia, but the Middle East and Africa, Latin America, and Eastern Europe, too.

EAST OF EDEN

Global export plays like South Korea and Taiwan have done well of late, but tourism and travel destinations like Thailand and Hong Kong are clear laggards. Perhaps South East Asia becomes the next leg of the post-vaccine, global upturn story.

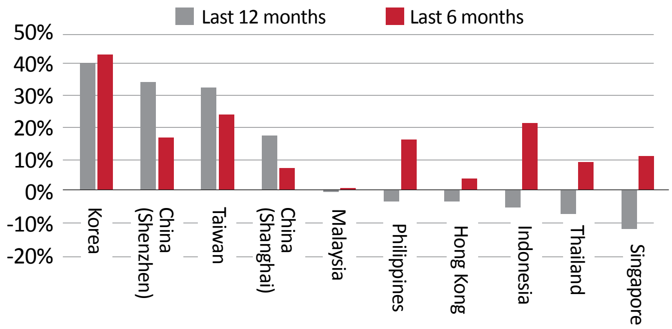
There may be other reasons for the return to form of emerging markets, beyond commodity strength, dollar weakness and markets' preoccupation with inflation and a near-term economic recovery, as this column hinted just under a year ago.

Perhaps Asia's outperformance reflects the view that region was first in and first out when it comes to the global pandemic (even allowing for recent local flare-ups). Given the experience of SARS in 2002-03, Asia may have been better prepared and equipped to deal with such a situation.

In addition, Asian nations learned harsh lessons about debt during their currency crisis of 1997-98 and as a result aggregate government borrowing levels are generally much lower as a percentage of GDP than they are in the West.

Such facets could help to shape long-term outperformance too, especially as soundness of finances usually wins out in the end.

Country performance trends within Asia also hint at markets' desire to price in an economic upturn



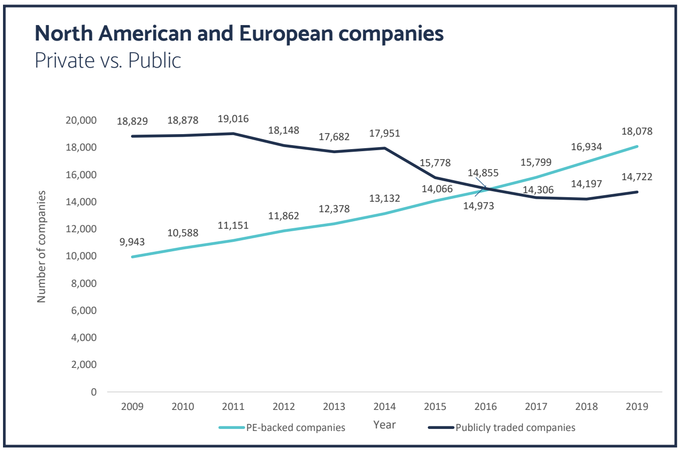
Source: Refinitiv data

PANTHEON

Making the private, **public**

The $4.4 trillion global private equity market has been growing steadily and, according to research by Preqin, is expected to double by 2025. With its inherent ability to be nimble, flexible and respond quickly to changing market dynamics, we believe that private equity ("PE") will emerge strongly from the COVID-19 crisis.

We believe that private equity will continue to benefit from the observed shrinkage of the public markets which has seen the number of public companies reduce by c.2% per year while the number of private equity-backed companies has been increasing by c.8% per year. We believe that this structural trend, along with the increasing recognition of the benefits that PE managers can bring to their investee businesses, is fuelling the future growth of the private equity industry as predicted by Preqin.



Source: "PitchBook", July 2020. Public company data for 2019 based on "PitchBook" estimate due to the unavailability of World Bank data which is used for the previous years.

Capital in the private equity industry (which covers a range of stages in a company's life from venture capital and growth equity through to buyouts, and also includes take-private transactions) is managed predominantly in illiquid, difficult to access non-listed fund structures which require sizeable minimum investments and are mainly directed towards large institutional investors such as pension funds and insurance companies. These investors are able to dedicate considerable resources and expertise to handling the complex nature of investing in private equity funds.

Helen Steers, Partner at Pantheon and manager of PIP

While there can be significant barriers to entry to participating in this exciting and growing asset class for smaller investors, there is an alternative route – investing in a listed private equity company. Through buying just one share in Pantheon International Plc ("PIP"), investors can easily participate in an actively managed, diversified portfolio of high quality, hand-picked private assets which themselves are managed by many of the best private equity managers in the world. PIP is one of the longest established private equity companies on the London Stock Exchange and is managed by Pantheon – an experienced and prominent global investor in private markets – who does all the hard work of managing PIP's portfolio on shareholders' behalf. As at 30 November 2020, PIP had net assets of £1.7bn and had generated average NAV growth of 11.7% per year since it was launched over 33 years ago in 1987. Research carried out by us – and available on PIP's website[1] – showed that benchmark alternative allocations in private wealth portfolios could have benefited on a risk-adjusted basis from the inclusion of a listed PE company such as PIP. Of course, investors should always consider the risks and the respective advantages or disadvantages of investing in private equity and remember that, as with any investment, past performance does not indicate future results.

PIP invests across the full spectrum of private equity with a particular focus on small to medium sized buyouts and growth: those businesses typically have multiple levers that a PE manager can pull to create value and help those businesses to realise their growth plan, the entry valuations are often more attractive than in other parts of the private equity market, and there are several routes to exit such as selling the business to another private equity manager, to a trade buyer or exiting via an IPO.

1 PIP's website: www.piplc.com. "Mind the Allocation Gap" research can be found within Media & Insights/Research.

The best PE managers focus on long-term value creation through providing hands-on operational and strategic support and they are typically sector experts who bring significant expertise, knowledge, networks and contacts to companies that are often in niche sectors and demonstrate real growth potential. In general, private equity managers are nimble and able to spot long-term trends, enabling them to back future "winners" that become well-known success stories. Recent examples of this in Europe are Spotify and Just Eat – both companies benefited from rounds of venture capital and growth equity, and were in PIP's portfolio at the time that they went public.

The deep experience of the private equity managers in PIP's portfolio has also served them well so far during the COVID-19 crisis. Although our PE managers could not have predicted the trigger for the current crisis, they had been expecting an economic downturn and were prepared to support their portfolio companies with both capital and operational expertise when times became difficult. In addition, prior to the onset of the crisis many of PIP's underlying managers were investing already in sectors focused on the rapid digitalisation of the economy, process automation and data management, and others had backed segments in the healthcare and consumer services areas that were benefiting from secular trends driven by demographics and lifestyle shifts. All these sectors have shown resilience over the past several months, and have weathered the storm well.

PIP's portfolio is truly global – it is tilted towards the USA, which has the deepest, most developed PE market, but also offers exposure to private equity investments in Europe, Asia and Emerging Markets. PIP's direct investment approach into the third party funds and co-investment opportunities that are sourced for it by Pantheon means that it has the flexibility to increase and decrease its weighting to the different investment types according to what it regards as the best fit for PIP's portfolio, and to vary the rate at which it makes investments.

Increasingly, PE managers are well-positioned to assess risks related to Environment, Social & Governance ("ESG") effectively and to manage potential ESG issues and opportunities at both the portfolio level and the underlying companies. The interests of the ultimate investors, the PE manager and the business' management are well aligned and the tight governance in private equity ensures that action can be taken if a portfolio company is not achieving its plan. As one of the first private equity signatories in 2007 to the United Nations-backed Principles for Responsible Investment (UNPRI), the world's leading proponent of responsible investment, the core principles of responsible investment are embedded in Pantheon's due diligence processes when assessing an investment opportunity as well as through the proactive monitoring of the businesses in PIP's underlying portfolio for the duration of the investment. This continual assessment continues right until the investment is exited. Pantheon is also a leader in promoting diversity and inclusion, and that is also reflected on PIP's Board of which three directors out of seven are female.

Investors must assess carefully what is suitable for them and their investment objectives and tolerance/appetite for risk, however it is our belief that an investment trust such as PIP, which Pantheon has managed successfully through multiple economic cycles, provides straightforward access to the attractive and growing private equity opportunity, and the potential to achieve healthy returns over the long term.

Investing in future trends while avoiding the crowd

Obvious good news will already be priced in to a stock, so Lazard has a different approach to playing the world of tomorrow

The events of 2020 have given us a clue as to where the world is headed, such as more time spent working from home and wider use of technology to do business. It was easy to spot those trends, and shares in relevant companies have already been bid up to high levels as the market prices in likely future success.

You could argue these are now crowded trades, and so anyone buying today is going to struggle to make decent returns when so much good news is already discounted into a stock's valuation. This can be frustrating, particularly as investors are often told to look to the future to help shape decisions.

However, there is still merit in using themes to narrow down where to find opportunities. The market isn't always right in terms of pricing in likely future success, and you can still find underappreciated companies which play into a strong theme.

WHERE TO START

One hunting ground is to look at companies helping the 'obvious' winners to succeed. It's a bit like the Californian gold rush of the 1840s and 1850s – the picks and shovel sellers made more money than those who eventually discovered gold.

Asset manager Lazard has proved to be good at tapping into investment themes, being early to spot the potential of certain companies and knowing when to take profits when certain parts of the market are looking crowded.

UK investors can access its expertise through investment funds **Lazard Global Thematic Focus (BKX9F08)** and **Lazard Global Thematic (B464177)**, the former being a best ideas version of the latter.

SELECTIVE APPROACH

Part of its approach is to look

Lazard Global Thematic Focus: investment themes

Asset efficiency	Harvesting efficiency gains from industrial assets
Bits of chips	Key components enabling digital transformation
Empowered consumer	The best consumer growth companies share common characteristics
Software as a standard	The new standards automating white-collar jobs
Digital runway	The emerging market fintech and financial inclusion opportunity
Data, networks and profits	Where artificial intelligence meets data privacy

Source: Lazard

for what it calls 'second order effects' of themes, essentially the companies providing the picks and shovels to support certain themes. For example, it is confident that digitisation of systems is a strong structural growth theme across many industries, but which stocks to buy?

While any semiconductor company would seem like an obvious beneficiary, the industry faces the threat of China aiming to make 70% of its own semiconductors by 2025 and there is also the potential for big Western users to make their own components. Therefore, it doesn't pay to buy just anything from this sector.

Lazard prefers to look at parts of the supply chain that provide essential components and which can push up prices without affecting demand for their products.

'You've just had a lot of auto companies saying they wouldn't be able to produce as many vehicles as they want in the first quarter of 2021 because of a shortage of semiconductors,'

says Steve Wreford, a portfolio manager in Lazard's global thematic equity team. 'These are the mission critical components. The impact of a shortage is pricing power.'

Infineon is among the semiconductor names in the Lazard Global Thematic Focus portfolio and its share price is up 62% over the past 12 months, with the rally having been sustained since the market low in March 2020.

SOME THEMES ARE 'PASSÉ'

In contrast, some of the stocks which investors perceive to be part of structural growth themes have struggled to sustain positive share price momentum in recent months.

For example, Zoom Technologies – which is not in the Lazard portfolio – initially saw its stock rally when people realised the benefits of using web-based conference systems in lockdown and how it could be a long-term beneficiary of more people working from home.

However, Zoom's shares have fallen by more than a third since October as investors took a more sceptical view that the video conferencing had no barriers to entry and commanded little customer loyalty, plus the vaccine roll-out could see demand decline for web calls.

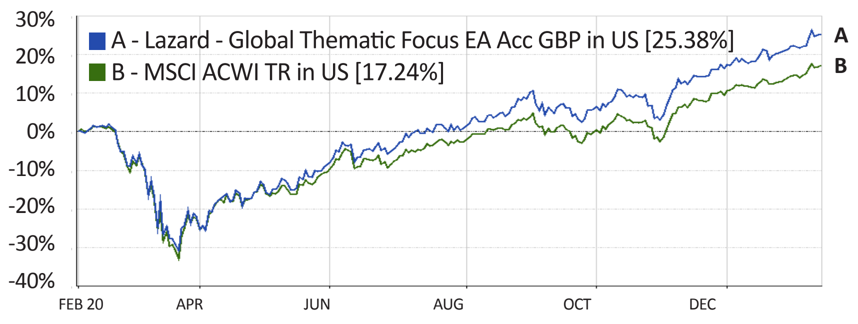
'The idea that 2020 has accelerated structural change is passé – it is well known now, and fully discounted. We actively try to avoid what's discounted in the market. I think everyone knows we will work from home more now,' says Wreford. 'It's all about facing forward.'

LASTING APPEAL

The fund is interested in companies which will provide services that will be in demand for many years to come, rather

OFF TO AN IMPRESSIVE START

From launch on 5 February 2020 to 14 January 2021, Lazard Global Thematic Focus has returned 25.4% in US dollar terms versus 17.2% from the MSCI ACWI benchmark, according to FE Fundinfo.



Source: FE Fundinfo

than something that is in favour now but might wane over time. Autodesk and PTC are in its portfolio precisely for this reason.

Autodesk makes architectural software and Wreford says it is learned in college and people in the property/construction industry will probably use it for the rest of their career. 'PTC makes industrial design software, which takes a long time to learn and it will be in place for a very long time,' he adds.

Wreford says these stocks underperformed for a few months in 2020 on initial concerns there would be fewer buildings going up and less industrial activity, therefore less need for licences. He argues the opposite will happen. 'They are establishing themselves as the industry standard for the next generation of architects and designers.'

ANOTHER MISUNDERSTOOD COMPANY

Another company that has been misunderstood, in Wreford's view, is Johnson Controls even though the shares have doubled in price since the March 2020 lows. It taps in to one of Lazard's favourite themes, namely 'asset efficiency' which is the rise of industrial operating systems that make physical assets smarter such as managing air conditioning and energy usage or making factory robots learn from each other.

'Johnson Controls has a building operating system and is off the radar because buildings are dull,' says the portfolio manager. 'It is are now applying artificial intelligence technology to monitor all the data and

automate how energy efficiency is improved. The company is perceived to be a value stock because people think it is just a traditional building company.'

NEW HYBRID WORLD

Wreford is also a fan of companies which have been forward thinking, allowing themselves to adapt during the pandemic and be beneficiaries when society reopens. Names fitting this theme in its portfolio include retailer Inditex. 'It's done a great job and spent about eight years making sure all of its inventory was tagged with RFID which means Inditex knows exactly where all of its inventory is around the world at any one time.

'That enabled it to turn every Zara store into a distribution centre when the pandemic hit. Inditex will sell more when people can return to stores and see and feel the clothes.'

Wreford says Inditex is still trading at a reasonable valuation – 26 times the next 12 months' forecast earnings – because people are still worried about new strains of coronavirus which might affect near-term trading.

CONTRARIAN VIEW

There is clear willingness to go against the crowd if the long-term opportunity outweighs any short-term issues. A good example is the fund owning a stake in Chinese e-commerce giant Alibaba. The portfolio says the stock has already been 'crushed' because of being a large shareholder in Ant Financial which has come under regulatory scrutiny in China, as well big tech being under scrutiny.

However, it plays well to the 'empowered consumer' theme in Lazard's portfolio. 'It trades on a mid-teens PE (price to earnings) ratio a couple of years out – an astonishingly inexpensive valuation for a company that has a reasonable chance of growing its revenues north of 20%,' says Wreford.

'The general rule that we've found as long-term investors is that it pays to buy uncertainty. The flipside is that when an idea becomes widely known like working from home accelerating, there are no incremental buyers left so it is a good time to recycle capital elsewhere.

'With Alibaba, the regulatory risk is real but based on what we know now we feel you are probably paid to take it.'

By **Daniel Coatsworth**
Editor

Lazard Global Thematic Focus Fund

Click Here to Invest

More best stock ideas from fund managers

This is the second part of our feature on what pleased and disappointed the professionals in 2020 and their favourite stocks for 2021

In the second part of our two-part feature we get another fascinating range of responses on what did and didn't work out for top fund managers during a tumultuous 2020 and which stocks they are most excited about now.

Interestingly computer games firm **Codemasters (CDM:AIM)** features as both a success story in the eyes of one manager and a disappointment in the eyes of another. Read on to discover more insights from the professionals behind fund portfolios.

Andrew Vaughan

SDL Free Spirit Fund (BYYQC27)

MOST PLEASED WITH IN 2020: **EKF DIAGNOSTICS**

'**EKF Diagnostics (EKF:AIM)** has been a large position for the fund, having been held since 2017, and the share price approximately doubled in 2020.

'More significantly I am pleased with the way management are reinvesting in the business for future growth.

'Cash windfalls from contract manufacturing of components for Covid-19 testing kits are being deployed into new joint ventures with the Mount Sinai healthcare system in the US and into the core analysers and enzymes business, with enough left over for EKF to have paid a maiden dividend in 2020.'

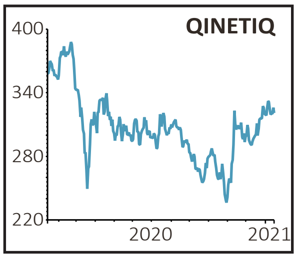
MOST DISAPPOINTED WITH IN 2020: **CODEMASTERS (CDM:AIM)**

'My disappointment here may seem surprising, with the share price closing the year almost 100% above the fund's first purchase price in July 2020. However, **Codemasters (CDM:AIM)** looks set to be acquired, forcing us out of our holding.

'There are some extraordinarily favourable dynamics at play in the computer games industry and I feel that management rolled over too readily in return for short-term rewards. That Codemasters had only joined AIM in 2018, less than three years ago, adds to the disappointment.'

MOST EXCITED ABOUT FOR 2021: **QINETIQ (QQ.)**

'New holdings are rare for Free Spirit and inevitably come with excitement, and **Qinetiq (QQ.)** has just joined the fund. Qinetiq has intellectual capital nurtured by its c.3,000 scientists and engineers, and a specialist customer base that combine to create formidable economic moats. I see some traits that are similar to **Avon Rubber (AVON)**, which has served the fund so well.'



David Horner and Oliver Knott

Chelverton UK Dividend Trust (SDV)

MOST PLEASED WITH IN 2020: **BELVOIR (BLV:AIM)**

'2020 was a difficult year for dividends, with many companies choosing to retain cash during the height of the pandemic uncertainty. Property franchise group **Belvoir (BLV:AIM)** was not our best performing share price in 2020, but the group managed the challenges of the pandemic well.

'Management provided clear guidance throughout the year and ultimately the strong trading performance showcased the underlying resilience of the group's franchise model.

'While the 2019 final dividend was cancelled in March, the group reinstated its progressive dividend policy at the interims, and has paid two 'catch-up' dividend payments.'

WHICH STOCK WERE YOU MOST DISAPPOINTED WITH IN 2020: **BLOOMSBURY (BMY)**

'Operationally this is a well-run company and performed well in 2020, however as long-term income-focused investors, we see dilution as a major headwind against achieving good returns over the medium/long term.

'As such we believe equity should be treated as a scarce resource. Unfortunately 2020 saw a number of management teams raise new equity at very low prices, to give their businesses a short-term buffer against potential downside scenarios.

'While a number of businesses, particularly in the leisure sector, genuinely required a capital injection to see them through the pandemic, other businesses raised cash where there was simply no need, and the dilution from these raises is permanent. One of the most saddening examples was **Bloomsbury Publishing (BMY)**, which despite having a net cash position of £31 million at February 2020, proceeded to raise a further £8.4 million via an equity placing in April.

'The group went on to report its best first-half earnings since 2008 and reinstated its dividend, but the dilution will not be unwound. Bloomsbury remains well placed to benefit from the shift to digital products going into 2021 and beyond but tops our list of disappointments in 2020 due to factors which were within the board's control.'

MOST EXCITED ABOUT FOR 2021: **RANDALL & QUILTER (RQIH:AIM)**

'**Randall & Quilter (RQIH:AIM)** is a stock that we know well and have held in the income investment trust for over 10 years, where it has delivered steady growth and regular cash returns to shareholders.

'The group has simplified its operations in recent years and is now focused on two lines of business: Legacy M&A and Program Management, which began operations in 2017 and is seeing strong growth.

'The Covid-19 crisis is creating a positive environment within the insurance market for both divisions, and we believe the group has a unique competitive position from which to take advantage. With the investment case much more 'investor friendly' than it has been in the past and the Program Management division likely to become more material to the group, we believe 2021 could be the year when more growth orientated investors start to take notice.'

Charles Montanaro

Montanaro UK Smaller Companies (MTU)

MOST PLEASED WITH IN 2020: **KAINOS (KNOS)**

'Sometimes the stock that gives the most satisfaction is not simply the best performer: **Kainos (KNOS)** wins the award for us last year. Founded in 1986 in Belfast, Kainos provides both IT services and software tools to its customers, delivering digital transformation programmes primarily to the UK Government.

'Examples include DVLA, where you can now view your driving licence records online; updating the MOT system with a new online service; the Register to Vote online system; and first time passport applications. Kainos is seen as a "safe pair of hands".

'In the sell-off last Spring, investors worried that demand would fall as Government budgets were postponed and risked being cut.

'This allowed us to increase our holdings ahead of Kainos subsequently beating expectations leading to analyst upgrades.

'Over the year, the shares rose by almost two thirds.'

MOST DISAPPOINTED WITH IN 2020: **JAMES FISHER (FSJ)**

'Not simply the company that gave the lowest return, the greatest disappointment was an investment held for more than a decade that had a history of delivering 10% earnings growth every year: **James Fisher (FSJ)**.

'This is a mini conglomerate with a portfolio of niche businesses operating in the global marine, renewables, oil offshore, nuclear, defence and shipping industries.

'It was hit hard by the fall in the oil price last year with particular weakness in the Marine Support division.

'The company recently acquired two dive support vessels (Paladin and Swordfish) for diving in West Africa at a cost of over £56 million which saw a collapse in demand causing losses. It is always disappointing when a company loses its reputation for consistency and conservative management.'

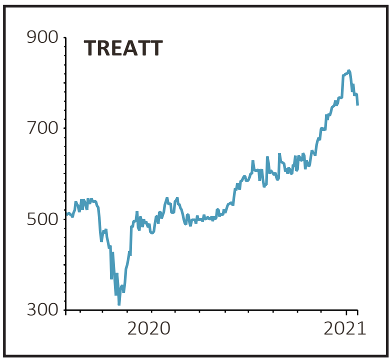
MOST EXCITED ABOUT FOR 2021: **TREATT (TET)**

'2021 is likely to be a challenging and volatile market with a tough economic outlook. So the choice is for a defensive company that has the potential to beat expectations with low risk: **Treatt (TET)**.

'It makes ingredients for flavour and fragrance houses and beverage manufacturers around the world. Founded in 1886, it specialises in citrus oils including innovations such as Treattarome, a natural sugar-like tasting solution that can be added to beverages and food products for maximum flavour but less sugar, for example in iced tea, which is very popular in the States. It is also working on natural solutions for cold brewed coffee.

'Other opportunities include seltzers, alcohol spirits, flavoured craft beers and flavoured tonics.

'Treatt recently completed the expansion of its US facilities, while the new UK facilities are expected to open up in 2021 reflecting confidence in future demand. This investment is transformative.'



Alex Wright

Fidelity Special Values (FSV)

MOST PLEASED WITH IN 2020: **HALFORDS (HFD)**

'We are in a very unusual situation. Recessions are typically caused by rising interest rates and liquidity in general drying out, resulting in a squeeze in monetary conditions, but the current situation is very different as interest rates are very low and credit facilities for firms and consumers are plentiful.

'As a result of lockdown, consumers are spending considerably less on transport/travel, leisure activities and eating out, and more on housing, DIY, electronics and sports equipment/clothing. This has benefited several of my holdings, but I have been particularly pleased with **Halfords (HFD)** which has seen stronger-than-anticipated trading, especially in bicycles.'

BIGGEST DISAPPOINTMENT OF 2020: **MEGGITT (MGGT)** OR **C&C (CCR)**

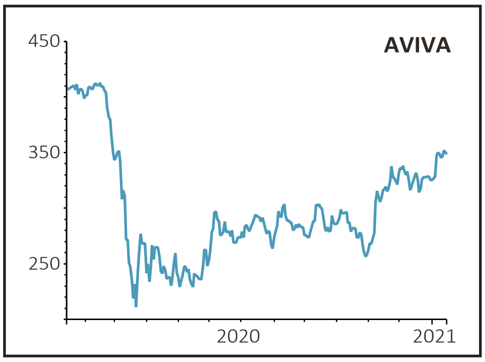
'The pandemic has had a profound impact on both individual businesses and the overall economy, which shrank by a record 20% in the second quarter of last year. Our holdings were not immune and a few, like aerospace equipment supplier **Meggitt (MGGT)** and alcoholic drink manufacturer and distributor **C&C Group (CCR)**, two normally-resilient businesses, have been severely impacted by the disruptions as fewer planes fly and pubs and restaurants have to operate under considerable restrictions.'

MOST EXCITED ABOUT FOR 2021: **AVIVA (AV.)**

'Life insurance is a space I am excited about and where I increased exposure further last year, as they were shunned by investors who saw them as UK GDP proxies vulnerable to economic and Brexit risks. Since the virus outbreak, life insurers have proved resilient and my conviction has increased due to improved company disclosure. The sector offers an attractive combination of cheap valuations, strong demand/supply fundamentals and growing earnings.

'One of the stocks I have added to is **Aviva (AV.)** whose decision to temporarily pause dividends, despite not being required to do so, spooked the market and caused its shares to lag. Aviva is a great example of the value currently on offer and is one of our largest holdings. It trades on six times 2021 earnings, despite reporting strong results last year that underlined its resilience during the Covid-19 crisis and seeing record sales of bulk annuities.

'The new CEO is implementing far-reaching strategic changes aimed at refocusing on the core businesses in the UK, Ireland and Canada. The disposal of a number of its international businesses is under way and deals for its Singapore operations and parts of Italy joint venture were announced, valuing those at close to 19 and eight times earnings respectively. The company also has significant scope to improve its cost base, another key initiative.'



Fraser Mackersie

Unicorn UK Growth Fund (3121793)

MOST PLEASED WITH IN 2020: **CODEMASTERS (CDM:AIM)**

'The two computer game developers we hold, **Frontier Developments (FDEV:AIM)** and **Codemasters (CDM:AIM)**, both performed well during the year as lockdown measures stimulated a broad increase in demand for all forms of in-home entertainment.

'Events in 2020 have really accelerated what was already a very attractive long term structural growth opportunity for both companies, driven by a strong pipeline of future releases and the ongoing shift towards digital downloads rather than physical disc sales.

'Towards the end of the period Codemasters also received bid approaches from two US peers – highlighting the unique, IP-rich qualities of the computer developer space.'

BIGGEST DISAPPOINTMENT OF 2020: **TRAVEL STOCKS**

'Going into 2020 one of our largest sector weightings was in travel and leisure, which has clearly found itself in the eye of the storm in terms of the pandemic restrictions.

'Given the nature of the challenges faced by companies in this sector and the admirable way many have coped it's unfair to single out an individual company, but it's clearly been the sector that's hurt us the most in 2020.'

MOST EXCITED ABOUT FOR 2021: **FULHAM SHORE (FUL:AIM)**

'Restaurants have had a very tough year as enforced trading restrictions and overcapacity have seen a number of permanent high-profile closures.

'These are very challenging conditions for all operators but those that survive should be well placed to thrive in the recovery as pent-up demand for eating out and an attractive property market create favourable conditions for growth.'

Shaking up the UK listing rules – wise move or danger ahead?

It feels like the wrong time to relax rules just to attract more fast growth businesses

A shake-up of the UK stock market listing rules could be on the cards to attract faster growing companies and there are mixed opinions as to whether the proposed changes would be beneficial.

ShareSoc, which campaigns on behalf of small investors, and the Quoted Company Alliance (QCA), which lobbies on behalf of small and mid-cap companies, both see the current rules as 'antiquated' and not fit for purpose, yet they have very different notions about what needs to be done.

There is also a feeling that now is the wrong time to be chasing growth companies given how markets have been so bullish of late.

Flooding the market with less mature businesses doesn't seem a good idea when some experts suggest we are heading towards bubble territory, with bitcoin racing ahead, a large number of inexperienced investors chasing penny stocks and bragging about gains on social media, and so on.

WHAT'S HAPPENING?

The Government has commissioned an independent review of the London Stock Exchange listing rules following the UK's exit from the EU, to be chaired by Lord Hill.

The consultation is canvassing industry views on current rules around free floats (the amount of shares that are free to be publicly traded and not held by directors and strategic investors), dual class share listings and track record requirements.

The review is trying to explore how to make London a more attractive market for the innovative and successful companies while also maintaining the highest standards of corporate governance and shareholder protections.

TARGETING FASTER GROWING COMPANIES

Although London Stock Exchange hasn't published its response to the review, according to a person familiar with the matter it prioritises maintaining both issuer and investor confidence while also suggesting tweaking some of the rules to make the market more attractive for fast growing companies.

We understand it is eager to speed up the timetable for floating a company on the UK stock market as well as letting more retail investors take part in IPOs (initial public offerings). The timetable is currently five to six weeks compared to two in the US.

ShareSoc argues that standards should not be relaxed just to attract more companies and highlights the need to stop even more frauds and scams.

Director Cliff Weight says: 'It is noticeable that this review has focused on what can be done to make the UK a more attractive regime for companies to list, where perhaps a more important consideration is what can be done to make the UK a more attractive regime in which to invest.'

DIFFERENT TYPES OF LISTING

MOST PEOPLE MAY be familiar with London's Main Market and AIM market listings, but for the uninitiated there are different segments that comprise a Main Market listing.

The Premium listing requires that companies adhere to the UK's highest standards which are stricter than the EU's minimum requirements under the Standard listing.

In addition, there is a High Growth Segment which provides more flexibility than the Premium listing. Food delivery company **Just Eat (JET)** listed under the High Growth Segment before moving to the Premium listing.

The Standard listing has cost advantages because there is no requirements to appoint a nominated adviser (NOMAD) or sponsor and no requirement to comply with the UK Corporate Governance Code.

Also, companies are not subject to providing significant or related party transactions.

MORE FLEXIBILITY, MORE RISK

The QCA has framed its own response from the perspective of making the London market less burdensome for the small and medium sized companies that it represents.

The group thinks the review represents a good opportunity to inject fresh ideas and suggests radical changes to the current rules, calling for the Standard listing on London's Main Market to be reinvented completely. It advocates creating a new market emulating the growth-focused Nasdaq in the US.

The QCA argues that the Standard listing is a 'tarnished product' and seldom used. Creating a new growth platform for mid-sized firms would provide a natural progression path for firms that have outgrown AIM but are not yet ready to move to a Premium listing on London's Main Market.

It recommends a new branding aimed at specific types of companies. It would encourage growth companies, tech, e-commerce and science to remain in the UK and create wealth and jobs.

The group argues it would be necessary to relax some of the rules around the minimum free float, prior track record of the business and prospectus requirements.

ARE THERE ANY SHARED VALUES?

There are areas of agreement between the QCA and ShareSoc such as the inherent conflict of interest between the commercial interests of the LSE to quote as many companies as possible with the need for effective regulation.

Both organisations say the rules for producing a prospectus for secondary market placings should be abolished as well as the €8 million fundraising limit before a prospectus is required.

IT'S NOT ALL BAD NEWS

By some measures the current rules have served UK and international investors well. For example, data provided by Factset shows London to have one of the most diversified investor bases in the world.

Just over half of investors are international compared with just 15% for the New York Stock Exchange and Nasdaq in the US.

Lord Hill is expected to report his findings in the early part of this year. Whatever his recommendations, they could be very important for the development of the UK stock market.

By **Martin Gamble**
Senior Reporter

Boosting the return on your retirement savings

There is a strong case for looking beyond the default options when it comes to a pension

For many people, their private pension will grow to become their biggest asset, outside the home they live in, and yet the investments that drive the performance of these retirement plans often slip by under the radar.

Part of the problem is that we all associate pensions with retirement, and indeed, it's in later life when these schemes start to pay an income. But the size of your pension pot, and consequently your comfort in retirement, is determined by the decisions you take when you are much younger.

Many of the obvious ways you can boost your pension pot require sacrifices. Making bigger contributions leaves you with less money in the here and now.

Starting pension saving earlier might compromise other financial goals you have when you are younger, such as saving for a house deposit, or paying down debt. And at the other end of the spectrum, for some people, delaying retirement will be a necessity brought on by inadequate pension planning in earlier years.

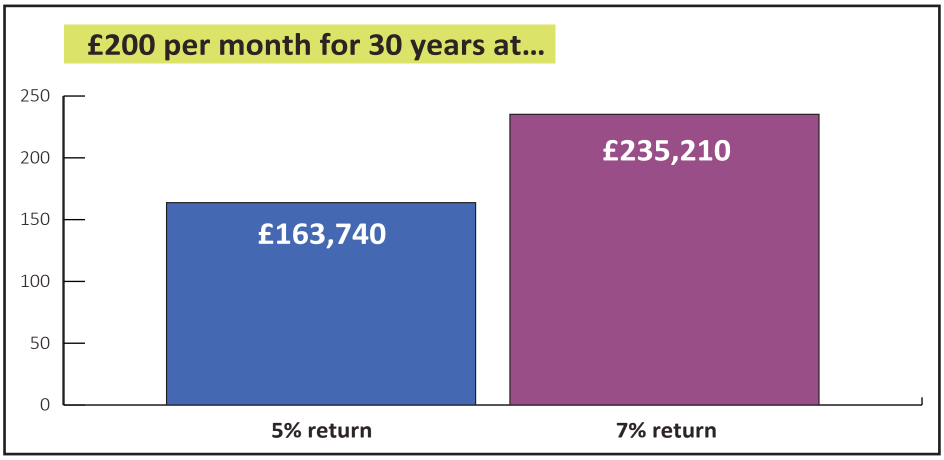
FOCUS ON RETURNS

There is one way to boost your pension however, which simply requires a little time and effort. That's to try and improve your investment returns. To illustrate the difference it could make, after 30 years, a £200 monthly pension contribution would be worth £163,740 if it grew at 5% a year, but £235,210 if it grew at 7% a year, after charges.

THE SIZE OF YOUR PENSION POT IS DETERMINED BY THE DECISIONS YOU TAKE WHEN YOU ARE MUCH YOUNGER

Now we all know that there isn't a magic money tree which is going to guarantee you better returns, but because of the way many workplace pension schemes are run, you may be able to considerably improve the performance of the fund you hold in it.

That's because the default fund which is automatically chosen for you is done on a 'one size fits all' basis.



Source: Shares

MIDDLE OF THE ROAD 'PLODDERS'

Your employer has to pick a single default fund that is the least worst fit for the whole workforce, and unfortunately that often means these funds are simply middle of the road plodders.

They're designed that way, because understandably employers don't want to take risks when selecting a fund for hundreds, or even thousands of people. It's a heavy responsibility.

But within your workplace pension there will usually be other investment options available, so it's worth checking if there's something which might be a bit better suited to you than a fund which was chosen for everybody in the workforce as a whole.

One thing to consider is the proportion of the default fund allocated to equities, and whether this is appropriate for you.

Default funds tend to have a fairly conservative asset mix, with up to 50% in cash and bonds. While that means lower volatility, it can also hamper long term performance.

This is particularly the case if you're some way from retirement, and saving regularly, as this puts you in the ideal place to ride out the ups and downs of the stock market in search of higher returns.

ACTIVE OR PASSIVE?

Many default funds also take a passive approach to the markets they're investing in. The benefit of this approach is it's generally cheap, and limits the chance of extreme

underperformance compared to the benchmark index.

However there will never be outperformance, and if it's doing its job properly, a passive fund should be expected to underperform the index it is tracking by the level of charges that it levies.

For many people, the simplicity and low cost of passive funds makes them attractive, but if you invest in active funds elsewhere, then there's no reason not to consider them for your workplace pension. There are some managers who have delivered exceptional outperformance over long time periods, though the trick is to pick those who will do so going forward.

A long track and successful record provides some measure of comfort that an active manager isn't just a flash in the pan, though it's not a cast iron guarantee that outperformance will continue in future.

As ever, there's no obligation to choose one strategy over another, it is possible to combine a mix of both passive and active funds within one portfolio, or indeed one workplace pension plan.

CONSOLIDATING PENSIONS

As well as your current workplace pension, it's as important, if not more so, to consider old workplace pension plans (though this doesn't apply to defined benefit schemes like final salary plans). Unless you've selected otherwise, you may well be still invested in a default fund many years after you've left a particular employer.

And if your employer decides to change their default fund after you've left, your pension doesn't automatically switch across as you're no longer a member of staff. So you could end up in a fund which was selected twenty years ago by an ex-employer, even though they're not using it for their current staff because they've found a better option.

Needless to say it's worth taking a look under the bonnet of your old pensions plans to make sure you've investments are up to scratch by today's standards, both in terms of performance and charges. You might also give some thought to consolidating them all in one place to make them easier to manage.

Doing so will likely take a bit of effort pulling all the paperwork together, but it will make the job of keeping an eye on things much easier in future. Given the current lockdown, it's hard to think of a better time to spend a bit of time getting a grip on old pension plans.

By **Laith Khalaf**
Financial Analyst

Options for a SIPP that doesn't need to pay bills

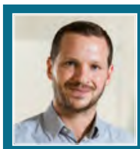
One person is in the fortunate position of having a workplace pension that covers their living costs

I retired two years ago from the NHS at age 60. My current annual NHS pension is about £36,000 after tax. This is indexed and enough to cover a comfortable lifestyle for me.

I have a SIPP account from which I took 25% tax-free cash three years ago and is currently worth £90,000 invested into five different diversified shares.

I do not need to draw down this SIPP at present and I do not want to buy an annuity. What are my options?

Fred (podcast listener)



Tom Selby
AJ Bell
Senior Analyst says:

As you have accessed your 25% tax-free cash and the rest of your fund remains invested, I'm going to assume your fund has been 'crystallised' in drawdown.

'Crystallising' just means choosing a retirement income route and is a step you need to take to access your tax-free cash. When you crystallise your fund, HMRC will carry out a test to check how much lifetime allowance you have used.

Given you have already taken this step, there are two broad retirement income options open to you: use the remaining fund to generate a flexible income while staying invested through drawdown, or use it to purchase an annuity paying a guaranteed income for life. You can also combine the two.

However, you've said you don't want to buy an annuity, so that just leaves drawdown.

Your main decision to make regarding your SIPP is when, or indeed if, you want to access this money and how quickly to do it.

For most people making sure the withdrawals from their SIPP can last their lifetime will be a key issue, although having a significant guaranteed income – such as your NHS defined benefit (DB) pension – might mean this is less of an issue for you.

As a very rough guide, for a healthy 65-year-old withdrawals at a rate higher than 3% to 4% of the initial value of the pot, rising each year with inflation, may risk it running out before you die. Whether this happens will depend on a variety of factors including your health and investment performance.

Tax should also be a consideration if you come to draw an income as taking large withdrawals – or indeed your entire SIPP fund at once – could see you pay more to HMRC than if you stagger withdrawals over time.

Note that taking taxable income from your SIPP will reduce your maximum available annual allowance from £40,000 to £4,000 a year (the 'money purchase annual allowance'). The annual allowance is the total contributions you and your employer can make to your pension. The amount you personally can pay in may be lower than that amount.

Finally, when making decisions about accessing your SIPP you might want to think about passing money onto loved ones when you die.

Any money you don't withdraw can be passed on to your nominated beneficiaries. If you die before age 75, then they won't pay any income tax on any money they withdraw, while if you die after 75 it will be taxed in the same way as income when they withdraw money.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

More secrets of the income statement revealed

It is important to make sure a company is generating cash as well as profit

This week we continue the analysis of an income statement using retailer **Next (NXT)** to illustrate the key items.

Last week we looked at items like revenue alongside gross and operating profit. Below the operating line we find the financial income and expense line and taxes.

Next had £1.1 billion of net debt in January 2020 excluding a further £1.2 billion of lease liabilities.

The accounting rules on leases changed a few years ago to include them in the debt calculation for companies. It's not clear what the benefits are because

CONSOLIDATED INCOME STATEMENT	NEXT ANNUAL REPORT 2020	
	52 weeks to 25 January 2020 £m	52 weeks to 26 January 2019 Restated £m
Continuing operations		
Revenue	**3,997.5**	3,917.1
Credit account interest	**268.7**	250.3
Total revenue (including credit account interest)	**4,266.2**	4,167.4
Cost of sales	**(2,584.20)**	(2,562.20)
Impairment losses on customer and other receivables	**(41.5)**	-(52.7)
Gross profit	**1,640.50**	1,552.50
Distribution costs	**(517)**	(457.5)
Administrative expenses	**(267.7)**	(255.4)
Other (losses)/gains		
Trading profit	**854.3**	841.0
Share of results of associates and joint venture	**(0.4)**	0.1
Operating profit	**853.9**	841.1
Finance income	**0.2**	0.4
Finance costs	**(105.6)**	(107.9)
Profit before taxation	**748.5**	733.6
Taxation	**(138.3)**	(134.5)
Profit for the year attributable to equity holders of the Parent Company	**610.2**	599.1
Earnings per share		
Basic	**472.4p**	441.7p
Diluted	**468.8p**	439.3p

NEXT FREE CASH FLOW ANALYSIS

	2010	2020	CAGR %
Cash from operations (£m)	572	927	4.9
Capital Expenditures (£m)	98.6	139	3.5
Free cash flow (£m)	473.4	788	5.2
Net Profit	364	610	5.3
Free cash flow/ Net Profit	77%	77%	
Depreciation (m)	123	263	7.8
EPS (p)	186	469	9.7
Shares in issue (m)	196	130	-4

Source: Stockopedia, Refinitiv

investors have always treated long term leases as debt. Next explains its treatment of leases on page 149 of the annual report.

The finance charge of £105.6 million is broken down in note five to the accounts.

It is comprised of interest on the bonds (debt owned by investors) of £43.6 million and finance costs on lease liabilities of £62 million.

Income from the roughly £50 million of cash held was negligible. It is always worth checking the consistency of net debt from year to year and the trend as well as any covenants attached them.

Covenants are legal clauses which act to protect the lender and which the borrower must operate within in order to keep its borrowing facilities.

Next's £44 million of annual interest cost works out at roughly 3.8% of the value of bonds issued, which looks reasonable against the coupons attached to the bonds which can be found in the notes to the accounts on page 166.

TAXES

Taxes of £138.3 million represent an effective tax rate of 18.5%, slightly below the 19% statutory corporate tax rate and in line with the prior year.

Because interest payments reduce profit, they effectively lower the taxes that a business pays. Had Next been debt free the taxes paid would have been £158 million, (pre-tax profit of £853.9 million times 18.5%) lowering profit available for shareholders.

NET PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

Again, looking at the trends rather than the one-year numbers, profit after tax has grown at 5.3% a year which looks dull, but respectable given the huge headwinds faced by clothing retailers over the last decade.

It is often easier to use a service like Sharepad or Stockopedia when looking at longer term trends because these services collate all the data in an easily readable format.

At this point it is worth taking a glance at the cash flow statement to see if profit has been supported by cash generated in the business.

Next has consistently generated cash in line with profit over the years with free cash flow representing 77% of profit. This is in large part due to capital expenditure remaining below depreciation over the last decade.

Over the last decade Next has charged £1.5 billion of depreciation while making capital expenditures of only £1.2 billion.

Free cash flow is usually defined as cash generated from operations minus capital expenditure. Free cash flow is the money available to shareholders.

It is up to management to

NEXT TOTAL RETURN

	2011	2021	Gain
Next Share Price (p)	1994	7988	301%
Shares Purchased	500		
Value (£)	9,970	39,940	301%
New Shares (reinvested Dividends)	117		
Total Shares	617		
Value (£)		49,286	394%
Compound Annual Growth Rate			17.3%

Source: Stockopedia, Refinitiv

choose how best to use that cash for the benefit of long-term shareholders. As we shall discus this is one of the most important but often overlooked decisions that contributes to the creation of shareholder value.

THE IMPORTANCE OF CAPITAL ALLOCATION

There are essentially three choices: paying dividends, reinvesting back into the business to grow future profits or buying back shares. These are not mutually exclusive, and the most profitable companies can do all three at the same time.

A small but important point on buying back shares is that it only creates value if the shares are purchased below their theoretical fair value. This is always a non-precise, subjective process, so requires some judgement.

Next's management has frequently decided the best use of its free cash flows was to buy back shares which has resulted in the number of shares in issue shrinking by a third over the last decade to 130 million shares.

Next spent £300 million in 2020 and has forked out an average of £223 million pounds a year buying back its shares in the last decade.

This turned out to be a very good capital allocation decision for shareholders.

That's because the 'modest' 5.3% growth in profit has almost doubled when divided into fewer shares which means that earnings per share has grown at an impressive compound annual growth rate (CAGR) of 9.7% a year.

CALCULATING SHAREHOLDER VALUE

The company has also paid out rising dividends over the years, rising from 66p per share to 174p, translating into a CAGR of 10% a year.

Had investors reinvested the dividends every year into more Next shares, they would've received a total CAGR return of 17.3% based on the end of year share prices, provided by Next in the 10-year summary of financial data.

That means an investment of £9,970 a decade ago would have turned into £49,286 today.

Reinvesting income that you don't need means you get the full compounding kicker to total returns over longer periods.

THE NUMBERS MEAN NOTHING WITHOUT CONTEXT

When reading the annual report, it is important to put the performance into some context and relate them to the company's strategy and key performance indicators.

Most companies will make strategy presentations available on their websites as well as the financial indicators management use to track performance against goals.

It is also worth looking out for capital market day presentations which are sometimes recorded where you can see and hear the senior management team talk about the business.

These sources are invaluable for interpreting company announcements and financial reports in order to assess if the company is going in its intended direction.

Think of it as the glue that binds together the bigger picture with all the financial minutiae that companies provide. In most cases, good leadership and clear communication of strategy are a sign of a well-run company that cares about its shareholders.

A well run business which also has a strong market position and good growth prospects should, over time, produce respectable returns.

By **Martin Gamble**
Senior Reporter

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

25 January: Crest Nicholson, SThree. **27 January:** RedX Pharma. **28 January:** Oxford BioDynamics.

Half year results

26 January: PZ Cussons, Quiz. **27 January:** Hargreaves Services. **28 January:** Hansard Global, Joules, Rank.

Trading statements

22 January: Computacenter, Record, TheWorks.co.uk. **25 January:** Plant Health Care. **26 January:** DP Eurasia, Saga. **27 January:** 3i Group, Brewin Dolphin, Tullow Oil. **28 January:** Anglo American, Britvic, Euromoney Institutional Investors, Intermediate Capital, Talktalk Telecom.

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