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The investments to make and how to spot digital impostors

PLUS

THE **INVESTMENT TRUSTS** AIMING TO BEAT **INFLATION**

THE **WINNERS** AND **LOSERS** FROM THE UK **REOPENING** PLAN

CAN MINING GIANT **GLENCORE** OVERCOME **ESG CONCERNS**?

Will market democracy ever be more than an illusion?

It's never been easier to access the markets but it is far from a level playing field

The internet has transformed how financial markets are accessed and, in some ways, has democratised trading and investing.

A whole range of different asset classes and investment vehicles are now available to ordinary punters in a way which would have been unthinkable in the 1990s when you would phone your broker to place a buy or sell order on a share or fund.

The development of social media and its influence in the markets has arguably been the big development of the last decade, with this trend reaching something of a high watermark in the early weeks of 2021 when participants in the 'Wallstreetbets' Reddit forum engineered a short squeeze in several US stocks, including Texas computer games retailer GameStop, which hedge funds were betting against.

However, events of the past few weeks have demonstrated the limits on democracy in the markets. This includes the reversal of the gains in stocks like GameStop, the threat of greater regulation in the wake of the affair, and the limits placed on individuals' ability to trade by nascent trading platforms like Robinhood at the height of the market volatility.

PROTECTION OR A CLOSED SHOP?

Closer to home, online trading company **IG Group's (IGG)** move to increase the margin it requires for trading in over 1,000 small-cap stocks to 100%, effectively prevents customers from taking larger positions in these stocks using leverage.

The platform also revealed it had reached limits on the amount of cryptocurrency it holds as a business and it was not accepting new buy orders from clients, just days after bitcoin hit record highs above $50,000.

In addition, The Financial Conduct Authority is

looking to protect retail consumers by restricting their access to crypto assets.

Whether this will be truly perceived as protection by the recent wave of fresh entrants into the markets or, rightly or wrongly, as an indication that the markets are a closed shop weighted in favour of big institutions like asset managers and investment banks is open to question.

To some extent it is inevitable that institutional investors will be at an advantage, in any capitalist enterprise scale makes a difference to purchasing power.

After all **Tesco (TSCO)** would pay a very different price for milk from a dairy farmer than an individual shopper rocking up to the farm shop.

However, regulators need to strike a balance if a potential new cohort of investors, the entry of which would seem a healthy development for the UK market, are not to be permanently alienated.

Within this context, the recent call by several investment platforms for initial public offerings to be opened up to retail investors is a welcome development. Equal access to share placings is another area where the rights of individuals could be much better protected.

By **Tom Sieber** Deputy 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

Rising bond yields start to weigh on popular stocks

Investors begin to heed inflation warning signs

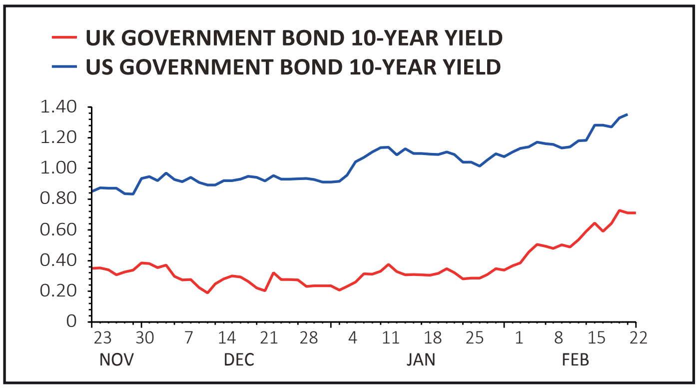
US technology stocks sold off on 22 February following a period of mounting concern about inflation, reflected in rising yields on government debt, and the implications for interest rates. This had a knock-on impact for UK-related tech stocks and funds including a big decline in **Scottish Mortgage Investment Trust (SMT)**.

In the UK 10-year government bond (gilt) yields have gone from 0.2% at the start of the year to 0.7%. The US 10-year Treasury yield has surged above 1% for the first time since the pandemic to now trade at 1.36%.

WHY RATES MATTER TO INVESTORS

Government bond rates matter because they are used as a cost of capital or the risk-free rate by investors to calculate fair values for stocks.

Everything else being equal, higher rates make stocks less attractive.



Until recently, investors have broadly welcomed higher rates as confirmation that economies will rebound strongly later this year.

Consequently, companies are expected to generate better than average earnings growth. According to investment bank Société Generale analysts expect global earnings to surge by 30% this year.

The prospect of higher earnings growth has driven demand for so-called value shares and away from growth shares, because the value stocks are considered more cyclical and have better earnings growth potential in an economic rebound.

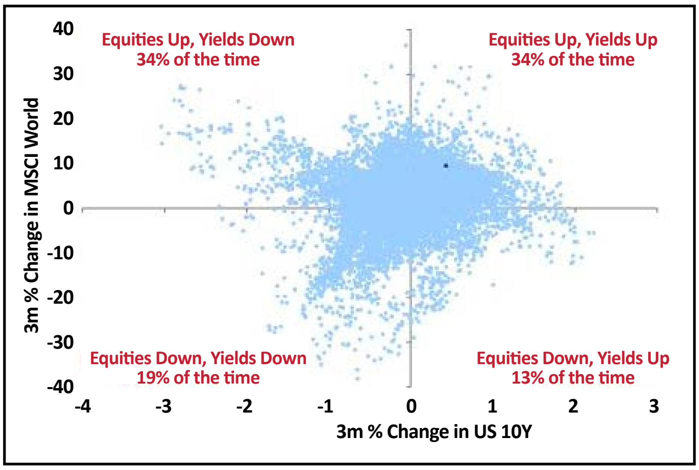
In addition, higher interest rates penalise the theoretical valuation of longer duration stable growth companies (such as tech names) more than shorter duration cyclical companies.

Many analysts and strategists view higher rates as part of a normal economic recovery and helpful for stocks and especially cyclical shares.

US investment bank Bank of America says: 'Rising bond yields should support value versus growth, banks and insurance, while weighing on pharma and utilities.'

Morgan Stanley argues that it's not unusual for interest rates and equities to rise at the same time, pointing out that over the last 40 years it has been relatively rare to see periods of rising bond yields and falling equity prices.

Rare to see periods of rising bond yields and falling equity prices



Source: Morgan Stanley

John Paulsen, chief strategist at research house Leuthold agrees, and points out that since 1900 whenever rising bond yields stayed below 3%, stocks have thrived.

Government bond yields in the US and UK are certainly nowhere near the 3% level at present.

IS THE MARKET TOO RELAXED ABOUT INFLATION?

The reflation narrative and assumption that central banks will keep a lid on interest rates for longer, regardless of higher inflation, has arguably become the consensus view and priced into markets.

For example, the latest Bank of America fund manager survey showed cash levels had been whittled down to eight-year lows while allocations to commodities were at their highest since 2011.

In other words, investors have already gone 'all-in', spurred on by accommodative central bank policies.

Investment bank ING's comments on inflation illustrate the consensus view very well. It says: 'We are all aware the run rate of monthly inflation numbers has picked up a bit, no one really expects inflation to push up and stay at levels that will require central bank tightening anytime soon, especially not the Fed (US Federal Reserve) or the ECB (European Central Bank)'.

But with the US $1.9 trillion fiscal stimulus likely to be voted through in March and a strong rebound in economic activity already baked in, some observers see the prospect of pent-up consumer spending as potentially worrisome for markets.

One such observer is Chetan Ahya, chief economist at Morgan Stanley, who believes that US policy makers have been very generous supporting households and businesses.

SPENDING SPREE AHEAD?

In aggregate, US households will have around $2 trillion of excess savings assuming the latest package is passed and Ahya argues that consumers are only holding onto savings because their spending options have been limited.

Pent-up demand could lead to a splurge in spending once economies fully open, paving the way for a 'regime shift' towards higher inflation.

The risk of higher inflation is heightened by the huge national debts that have been built up to deal with the economic damage inflicted by the pandemic. This may crimp central banks' policy response should inflation overshoot, allowing inflationary pressure to get out of control.

It's noteworthy that more institutional investors have added inflation protection strategies to their armoury including the controversial gold alternative, bitcoin.

UK fund manager Ruffer is backing cryptocurrency bitcoin, believing it is only in the early stages of being adopted as a mainstream asset. The firm has since seen a return on investment of up to £693 million after the currency surged to record highs above $50,000.

ANOTHER ISSUE TO CONSIDER

Finally, there is some debate about the common wisdom that higher inflation is good for equities and bad for bonds.

Companies need to replace assets over time and if inflation drives prices of plant and machinery higher, then historical profits and returns on capital are overstated, leading to theoretically lower valuations for shares. [MG]

Reopening trade sparks travel, leisure rally

Plans to lift lockdown restrictions spark optimism but investors should not be cavalier in chasing leading stocks

Holidays, travel and leisure stocks roared higher following the Government's outline of how Britain will escape the pandemic restrictions.

Companies including airports outlets operator **SSP (SSP)**, **Rank (RNK)** and **WH Smith (SMWH)** posted double-digit gains s investors rallied behind sectors most likely to cash-in from the lifting of lockdown restrictions.

International travel will remain problematic and subject to restrictions, isolation and testing, but even so bookings have shot up, with **EasyJet (EZJ)** reporting a 300% and 600% surge in flight and holiday bookings respectively, lifting others in the airlines sector on the promise of a salvaged summer season.

'The key points to the roadmap for the UK Food & Beverage channel was the removal of the substantive meal requirement and no future curfews, coupled with the opening of the majority of indoor leisure and hospitality from 17 May', said analysts at broker Shore Capital.

After a year of doom and gloom a line in the sand has seemingly been drawn with clear plan of how the UK moves beyond Covid. 'The roadmap to reopening provides operators with a basis on which to plan, although the exact phasing of the four steps (other than schools on 8 March) remains to be determined and the dates are badged as "at the earliest",' said Tim Barratt, analyst at Numis.

'Now we will likely see investor confidence skyrocket as the private sector looks to get behind these businesses to support recovery and enable future growth', said Luke Davis, chief executive of wealth management firm IW Capital.

'Pubs will bounce back along with restaurants and other hospitality, no one will want to stay at home after the year we've had, and I really believe that.'

But investors should think carefully about chasing 'reopening' stocks that have already rallied strongly over the past few weeks. For example, cinemas chain **Cineworld's (CINE)** 15% gain early this week was part of a month long 40%-plus surge, with investors betting on a sharp recovery for the business as lockdown restrictions are lifted in the coming months.

There are clear reasons for optimism backed by the pace of the vaccine rollout and promising data regarding virus transmission by those vaccinated. 'The pent-up demand from this current lockdown is sure to act as a springboard to recovery for a lot of businesses in the UK', said IW Capital''s Davis.

'People want to get out and spend, businesses want to grow, and investors want to help them do that, it's a perfect storm for rapid growth.' [SF]

Reopening rally top stocks

	Since 19 Feb*	Past month
SSP	18.8%	7.3%
Rank	16.4%	25.3%
WH Smith	15.9%	12.6%
Cineworld	15.7%	41.5%
EasyJet	13.9%	24.3%
Babcock	14.3%	21.4%
C&C	13.0%	14.0%
Rolls-Royce	11.5%	13.4%
TUI	11.8%	7.4%
Hammerson	10.6%	12.3%

Source: Sharepad *to 1pm 23 Feb

Banks signal return to dividends but outlook remains cloudy

The sector faces big challenges in a record low interest rate environment

The UK's four major high-street lenders posted results for the year to December which beat forecasts one way or another, and all flagged a return to dividends in line with regulatory guidance, but there was little to cheer regarding the longer term.

After barring the banks from paying dividends last March in order to ensure they remained well capitalized, the Prudential Regulatory Authority (PRA) eased the rules on shareholder pay-outs and share buybacks in December and the banks went about as far on capital returns as they could within the constraints set out by the PRA.

Lloyds (LLOY), the UK's biggest mortgage lender, posted a 73% drop in full year pre-tax profits, slightly better than market forecasts, and said it would pay a dividend of 0.57p per share, the maximum allowed by the regulator given its capital ratios.

The bank set itself new targets for costs and returns on tangible equity, while also saying it aimed to resume a 'progressive and sustainable' dividend policy.

However, it admitted that its financial performance is 'inextricably linked to the health of the UK economy' and that 'significant uncertainties remain' over the spread of the virus, the speed and efficacy of the vaccination programme and the pace of economic recovery.

Barclays (BARC) delivered pre-tax profit 50% ahead of market forecasts thanks to a record contribution from its investment banking business, which continues to gain market share even against its Wall Street rivals.

With a capital ratio of 15.1%, the bank announced a 1p per share dividend and a £700 million share buyback, meaning a total shareholder return of 5p per share. However, talk of 'headwinds' persisting in the medium term sent the shares lower.

UK banks earnings and dividends for 2020

Company	2020 earnings	Change	2020 dividend
Barclays	£3.06bn	-30%	5p/share
HSBC	$8.8bn	-34%	15c/share
Lloyds	£1.2bn	-73%	0.57p/share
NatWest Group	-£753m	N/A	3p/share

Source: Company accounts, Shares
2020 earnings are pre-tax, before exceptional items
Barclays dividends comprise 1p/share cash plus £700m buyback

NatWest (NWG) fared better, its shares rising despite the group posting a hefty loss for 2020 due to the lack of investment banking income to offset the squeeze on lending margins.

Instead, lower provisions for bad loans and a rise in mortgage lending meant it finished the year with a capital ratio of 18.5%, higher than most of its UK and European peers. The company also announced plans to exit its Irish operations.

Recently appointed chief executive Alison Rose vowed to distribute a minimum of £800 million of surplus capital per year from 2021 to 2023 through a mix of ordinary and special dividends, but again references to 'uncertainty' in the short and medium term saw the share price ultimately drift lower in the wake of the numbers.

The UK's largest bank by market value, **HSBC (HSBA)**, recorded a 34% drop in full year profit due to lower revenue and a substantial hike in provisions for potential credit losses as it firmed up plans to focus on Asia for future growth.

The firm committed itself to a 15c interim dividend, substantially below 2019's payment of 50c per share, and cancelled the option of scrip dividends.

Call to stop shutting retail investors out of IPOs

Platform bosses want retail investors to get a foot in the door to market floats

For too long, initial public offerings (IPOs) have been largely the preserve of institutional investors, leaving retail investors out in the cold.

Besides IPOs, retail investors are also disadvantaged when it comes to taking part in secondary fundraisings.

In summary 'retail shareholder rights are almost completely ignored when it comes to the vast majority of IPOs, which largely take place between City institutions behind closed doors'.

This is the view expressed by the chief executives of AJ Bell, Hargreaves Lansdown and Interactive Investor in an open letter to Jon Glen MP, economic secretary to the treasury and city minister, to consider the rights of retail shareholders when it comes to IPOs.

These platforms want their arguments to also be heard by the boards and advisers of companies considering listing on the London Stock Exchange.

AJ Bell CEO Andy Bell further commented: 'Having been through an IPO recently, one of the problems is that companies are dissuaded from including a retail element in their IPO by their financial advisers because it is easier and quicker for them to place shares with the institutions that they know.

PRIMARYBID

A platform which provides access for private investors in company fundraisings is PrimaryBid. Investors can download the firm's app, put in their account details and when a company announces a new share issue with a retail tranche the investor receives an email notification. They can then opt to take part through the app on a first come, first served basis. You can read more about PrimaryBid and its potential limitations here.

'This ignores the benefits of shareholder diversification, brand awareness and customer loyalty that can be gained by including retail investors in an IPO.'

Retail investors 'are a growing market but are excluded from the majority of IPOs via the LSE, with the **Hut Group (THG)**, **Dr. Martens (DOC)** and **Moonpig (MOON)** recent high-profile examples', states the letter, which also draws attention to the shocking fact that private investors were excluded from 93% of share launches between October 2017 and October 2020.

'Part of this debate should be around whether there needs to be a regulatory obligation on companies coming to market to consider a retail element to their IPO.' adds the letter, which calls on the boards, chairs and CEOs of companies considering an IPO, as well as their advisers, to ensure 'a proportion of the shares offered through their IPOs are made available to UK retail investors'.

The letter argues that: 'Retail investors should have as much right as any other institution to invest at IPO, rather than having to "get in line" and potentially buy the shares at a premium in the open market, post IPO.'

DISCLAIMER: AJ Bell is the owner and publisher of Shares magazine. The author (James Crux) and editor (Tom Sieber) of this article own shares in AJ Bell.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FUND
Investment world look like a big puzzle?
We've solved it in one fund.
The investment world likes to complicate everything. Our Managed Fund likes to keep it really simple. It's made up of equities, bonds and cash, and we think to generate great returns, that's all you need. The result is a balanced portfolio with low turnover and low fees. Beautifully straightforward, it's been answering questions since 1987.
Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.
Find out more by watching our film at bailliegifford.com
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Actual Investors

Buy Marshalls as Britain builds for recovery

Specialist construction firm has seen its shares stall which creates an opportunity for investors

The rebound in specialist building products firm **Marshalls (MSLH)** share price from its March 2020 lows has stalled and it is currently underperforming the wider building materials space. We see that as an opportunity.

The lack of share price action may reflect the fact it has a higher valuation relative to peers, but we think a premium is more than warranted by the quality on offer. Buy ahead of full-year results on 11 March which should signal a strong recovery in 2021.

While a 2020 price to earnings ratio of 60-plus reflects the interruption to demand brought about by the pandemic, the shares should look increasingly good value as the recovery feeds through – with the 2022 PE dropping to 22.7 and the shares offering a 2.3% dividend yield for that same year.

We believe the consensus forecasts underpinning these metrics could end up looking quite conservative.

MARSHALLS
BUY
(MSLH) 638.5p
Market cap: £1.3 billion

Revenue analysis: end market

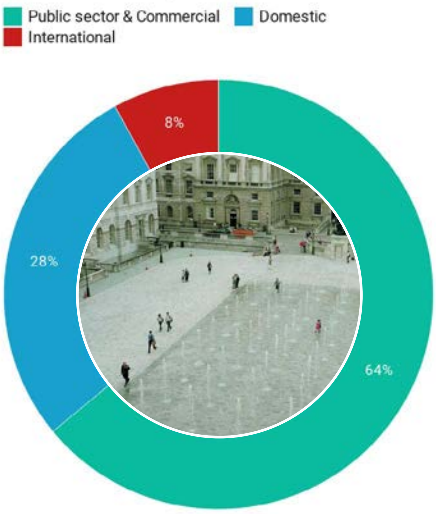


Chart: Shares Magazine • Source: Marshalls • Created with Datawrapper

WHAT DOES MARSHALLS DO?

Marshalls makes and distributes external landscaping products like bollards and paving slabs and is the UK leader in this market – it also offers customers support with planning, engineering and design work on projects.

It serves a client base which runs from big governmental and corporate clients down to tradesmen putting in patios and driveways in people's homes.

The company has an excellent track record of identifying and targeting areas which are likely to see growth and its most recent strategy update (running to 2023) focused on markets with obvious drivers like housebuilding, water management and transport infrastructure.

Like all good businesses it invests material sums internally to improve itself such as revamping its technology and logistics platform and allocating capital to product development.

The company's technology enables it to offer guidance all the way back to when the architect is drawing up the plans on a project, by enabling them to get the specifications for Marshalls' product range online and inserting them into the blueprints.

INVESTING IN THE BUSINESS

In product development, chief executive Martyn Coffey tells *Shares* the company is working on a better finish for some of its products and coming up with concrete products which look like granite, a material mainly sourced from China and therefore much more expensive.

The company is starting construction on a new dual block paving plant at its site in St Ives which represents an investment of £20 million over the next three years.

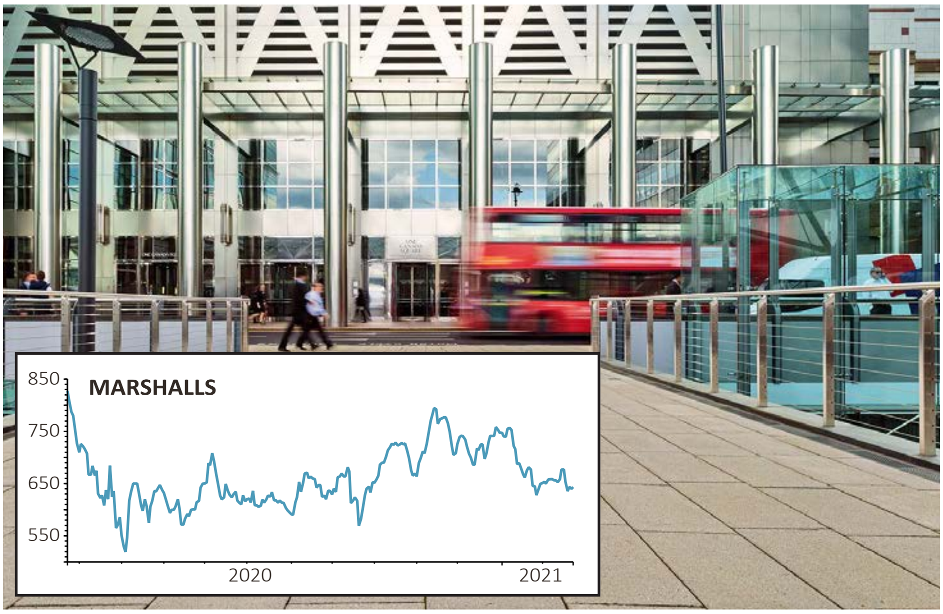
It complements organic growth with bolt-on acquisitions with Coffey revealing the company is currently interested in deals which would boost its footprint in the water management space.

This spending on organic and acquisitive growth is backed by a strong balance sheet. A year-end trading update (13 Jan) flagged net debt of just £27 million despite the repayment of furlough and VAT support from the Government. Numis analyst Chris Millington forecasts this will come down to £7 million by the end of 2021.

Over the long term, the company's model has served shareholders well. In the last 10 years it has delivered an annualised total return of 20.3% according to SharePad – compared with 5.6% for the FTSE All-Share and 5% for the sector.

DEMAND DRIVERS

Coffey says Marshalls is seeing



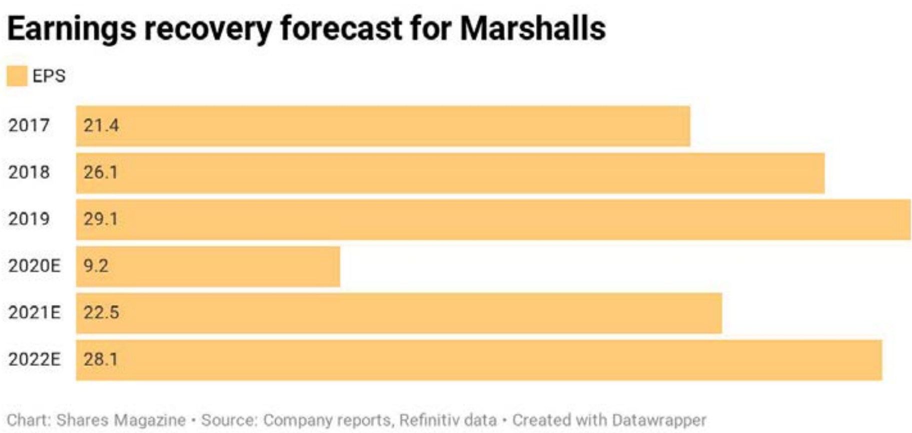
excellent demand in the domestic market as people look to scrub up their outdoor spaces in the wake of the pandemic, adding that Covid looks set to have more than just a short-term impact on people's living habits.

'People are using space differently and investing long-term to do so,' he says. 'This is not just a blip. We are seeing pedestrianisation in inner cities and attempts to make outdoor spaces more appealing by converting car parks, creating paved areas for tables and chairs. These are long-lasting effects.'

Government spending on infrastructure to help fire the recovery from coronavirus should also be supportive to Marshalls. While the pressure on less robust rivals should reinforce and bolster its market share.

The company also ticks ESG (environmental, social, governance) boxes, having committed to ethical sourcing of raw materials for the last 15 years as well as paying the living wage, targeting a reduction in emissions and being 'Fair Tax' certified for the last six years (effectively meaning it pays corporation tax responsibly).

Risks include a deterioration in the Covid-19 situation which leads to another pause in construction activity or a hit to consumer-led business due to a downturn in the economy. However, most of Marshall's domestic customers are in the over-55 age group which has been least affected financially by the crisis.



By **Tom Sieber**
Deputy Editor

Hargreaves Services is primed for growth after exiting coal

Sale of business boosts finances and frees the company to focus on core operations

A major shift in the business means now is an excellent time to buy small cap **Hargreaves Services (HSP:AIM)**. The group delivers projects and services in the infrastructure, energy and property services, principally in the UK but also in South East Asia.

Its main division, Distribution and Services, provides waste handling and logistics to various sectors together with specialist earthworks for major infrastructure projects.

Hargreaves Land develops brownfield sites for both residential and commercial construction and works with all the major UK housebuilders.

The group also used to own a mining business, producing and selling coal to industrial customers, but in July 2020 it ceased operations and in December it sold all of its specialty coal inventories to its German joint venture HRMS for £24 million.

Hargreaves was left with a small inventory of heavy industrial coal, which it will have sold by the end of the current financial year in May, and a 49.9% stake in HRMS but importantly an 86% economic stake.

HARGREAVES SERVICES
BUY
(HSP:AIM) 320p

Market cap: **£103 million**

WHAT THE COAL EXIT MEANS

Ending coal trading means turnover will be lower by £25 million this year and £30 million next year, but pre-tax earnings will be unaffected as Hargreaves will have lower working capital costs and will take the bulk of the profits generated by HRMS as a 'share of associates'.

Longer-term, HRMS aims to grow to €300 million of annualized revenue serving the steel, cement and other heavy industrial sectors in Germany and the UK, making Hargreaves's stake a valuable long-term asset.

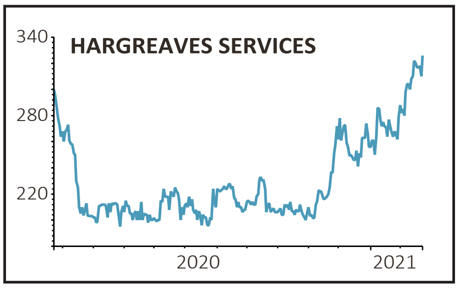
In the interim, the coal disposal makes the group's results much less seasonal while the receipt of £24 million makes it debt-free and allows it to negotiate much improved borrowing terms.

The core business has just been boosted by a five-year deal with biomass energy producer **Drax (DRX)** for materials handling, plant operation and maintenance at Selby, starting in April, cementing its position as a key supplier.

Work on HS2 had been delayed, but the firm is close to signing a revised four-year contract on a cost-plus basis with the main contractors. Having been bitten in the past, Hargreaves no longer works on a fixed-price basis.

Meanwhile the property business is moving at pace with the sale of two plots at its Blindwells development near Edinburgh to house builders **Bellway (BWY)** and **Persimmon (PSN)**, a first sale at its Unity site in Doncaster and the signing of a new site at Bridlington.

As a cherry on top, the firm has reinstated its annual dividend and will pay a 12p per share special dividend from the proceeds of the coal sale later in 2021. [IC]



WALMART

$138.3

Loss to date: 5.1%

Original entry point:

Buy at $145.80, 11 February 2021

OUR 'BUY' CALL on Walmart is 5.1% in the red, the shares selling off following a fourth quarter earnings (18 Feb) miss and a warning from the world's biggest retailer that it expects sales to moderate this year.

Short-term investors were unnerved by Walmart's plans to invest $14 billion in its business, yet we are bullish about the Bentonville-based retail powerhouse's market share and online prospects over the long term.

The consumer defensive colossus reported record sales for the fourth quarter and full year, though Q4 earnings of $1.39 per share came in shy of analysts' estimates after Covid-costs and the repayment of UK property tax relief (linked to its soon to be divested Asda operation).

Total revenue for Q4 rose 7.3% to a forecast-beating $152.1 billion, with US like-for-like sales exceeding estimates with an 8.6% rise, with a boost as shoppers spent stimulus cheques on its keenly priced wares.

Covid winner Walmart's US online sales grew by a heady 69%, although this did mark a slowdown on the 79% growth seen in the third quarter and was the slowest growth rate since the start of the pandemic, illustrating the headwinds Walmart will face as pandemic tailwinds begin to fade.

Walmart also announced plans to invest the best part of $14 billion in full year 2022 as it ramps up automation to fuel future growth and improves its supply chain and customer experience to stay ahead of demand and ensure it can compete with rivals including Amazon.

'Change in retail accelerated in 2020,' explained chief executive Doug McMillon. 'The capabilities we've built in previous years put us ahead, and we're going to stay ahead. Our business is strong, and we're making it even stronger with targeted investments to accelerate growth, including raises for 425,000 associates in frontline roles driving

the customer experience.'

McMillion argued that this is a time to be 'even more aggressive because of the opportunity we see in front of us. The strategy, team and capabilities are in place.

'We have momentum with customers, and our financial position is strong.'

Walmart also raised the annual dividend to $2.20, up 2% year-on-year and marking its 48th consecutive year of dividend increases. Combined with the approval of a new $20 billion share buyback, the payout hike served to highlight Walmart's attractions as an attractive total returns story.

Growth rates may well slow as Walmart laps some very tough comparatives, yet this progressive, high-quality dividend payer with 'Every Day Low Price' at the cornerstone of its strategy is well placed to continue taking market share as hard-pressed US consumers seek to save money in the difficult economic times ahead.

SHARES SAYS: ↗

Keep buying retail winner Walmart. [JC]

AVIVA

(AV.) 379p

Gain to date: 25.9%

Original entry point:

Buy at 301p, 17 September 2020

CHIEF EXECUTIVE AMANDA Blanc's mission to transform **Aviva (AV.)** into a business focused on the UK, Ireland and Canada took another step forward this week with the sale of the French business to local insurer Aema Groupe.

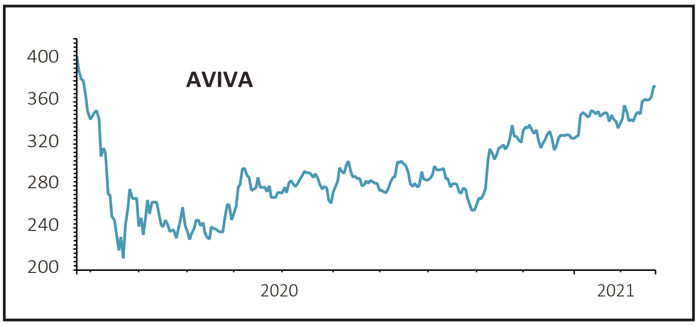
The deal brings in €3.2 billion (around £2.6 billion), increasing the firm's excess capital above the Solvency II cover ratio by £2.1 billion, giving it further scope to reduce debt, make long-term growth investments and return cash to shareholders.

It also removes a highly capital-intensive business which exposed the group to unnecessary volatility and interest rate risk through its Eurofonds guaranteed life insurance product and yet which didn't pay out dividends.

'The sale of Aviva France is a very significant milestone in the delivery of our strategy.

'It is an excellent outcome for shareholders, customers, employees and distributors. The transaction will increase Aviva's financial strength, remove significant volatility and bring real focus to the group', commented Blanc.

The disposal of the French unit follows the sale of businesses in Hong Kong and Vietnam last December and in Italy and Singapore the month before that.



SHARES SAYS: ↗
The market clearly likes the CEO's plan, as do we. [IC]

TARGET HEALTHCARE REIT

(THRL) 112.4p

Gain to date: 5.2%

Original entry point:

Buy at 106.8p, 16 July 2020

CARE HOME INVESTOR **Target Healthcare REIT (THRL)** may not have knocked the lights out in terms of share price performance since we flagged it in July 2020 but the steady gains in the interim look a decent outcome given the pressures on the sector from Covid-19.

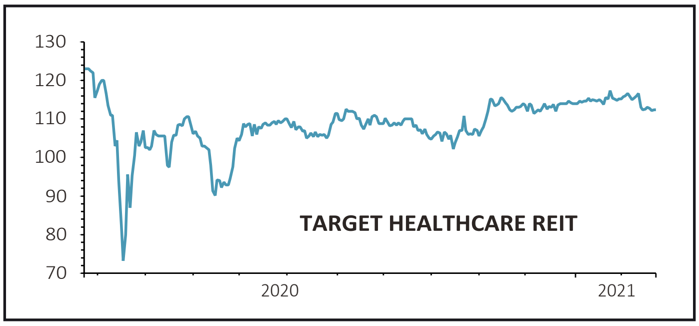
The REIT has remained a reliable source of income through the period, maintaining its progressive dividend policy.

As chief executive Kenneth MacKenzie tells *Shares*, the pandemic has made the case for its focus on purpose-built facilities with en-suite wet rooms given the increasing importance of infection control.

With vaccinations happening across care homes the level of enquiries across its portfolio is ramping up, which should help rebuild occupancy levels.

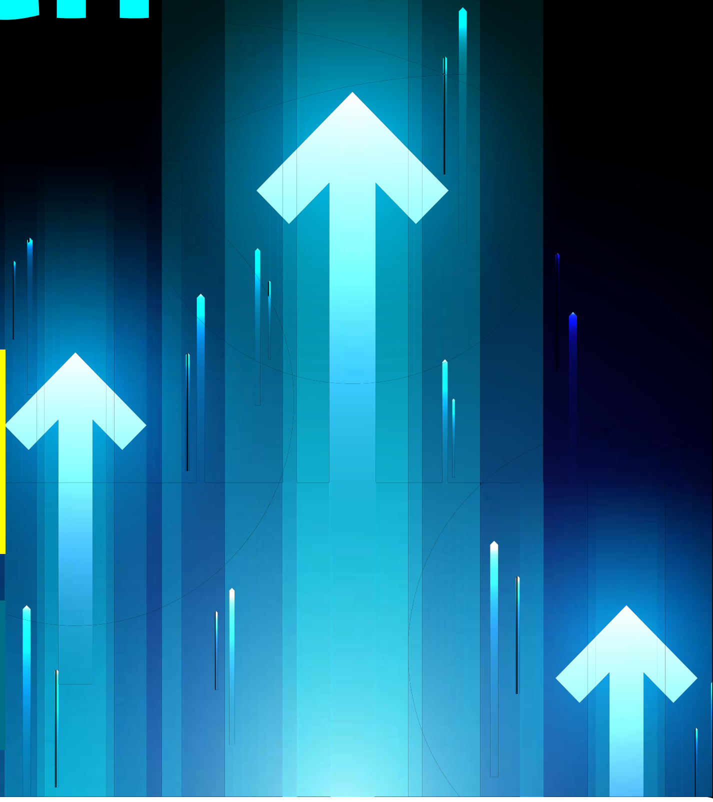
In this context Target recently announced plans to raise £50 million to invest in a pipeline of £224 million worth of existing assets and development opportunities.

MacKenzie says the expansion plans will help boost the number of tenants and thereby diversify the risk on its income stream.



SHARES SAYS: ↗
The shares continue to offer a highly attractive 6% yield and are well placed in a space which benefits from structural growth drivers. [TS]

TRUE TECH GROWTH STOCKS



The investments to make and how to spot digital impostors

By **Steven Frazer** News Editor

When **Moonpig (MOON)** listed on the London stock market earlier this month it used a plethora of buzzwords to describe itself. It called itself a 'platform', talked about its 'proprietary technology and apps' and said it leaned heavily on 'data science'.

This may seem curious for a business that basically sells an extensive range of greeting cards. As one analyst told *Shares*, it's a consumer of tech rather than a creator of tech.

This feature is not about Moonpig, we looked in depth at it last week and readers are free to come to their own conclusions on that business, but it does raise a question that has become increasingly relevant during the Covid pandemic; just what is a technology stock these days?

Tech stocks, in the broader sense, are widely perceived as the real stock market winners during the pandemic notwithstanding the recent wobble on inflation concerns. Lockdowns have forced many organisations to think online for the first time, or speed-up existing digital transformation plans to keep up with changing demands of consumers and businesses.

In this article we'll talk to top fund managers about why growth prospects not labels matter and identify three of our top relevant investment ideas.

TECH IS IN DEMAND

Eight of the S&P 500's top stock performers in 2020 were 'tech' companies of one stripe or another, including PayPal, Nvidia and ServiceNow.

In the UK, **Ocado (OCDO)**, **Flutter Entertainment (FLTR)**, **ASOS (ASC:AIM)**, **ITM Power (ITM:AIM)** and **AO World (AO.)**, which might make claim for a tech badge, all featured in the top 10 of their respective market cap groups.

The gravitational shift of investors embracing the technology space means businesses across every sector, from fashion to finance, are now claiming the tech label. It has become cooler to be about the internet of things than just things, but the recasting is seductive in more tangible ways.

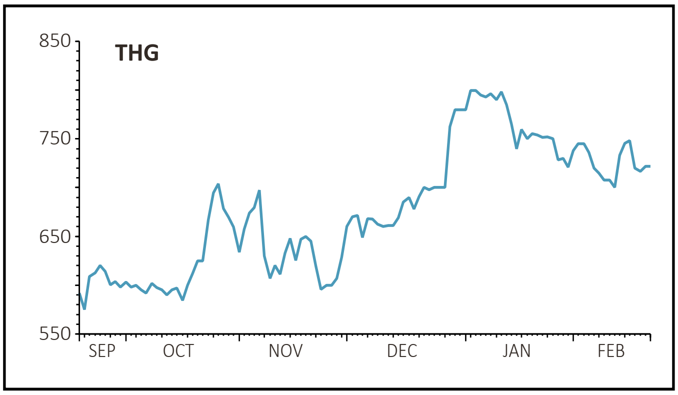
It implies faster growth, easy and cheap scalability and better returns. That opens the door to pools of investment capital that might not otherwise be available and can push stock valuations to extraordinary levels.

One 1999 study called '*A Rose.com by any other name*' illustrated how, during the dotcom bubble of 1997 to 2000, companies adding the dotcom suffix to the end of their name experienced a temporary surge in their stock price.

The company did not have to be particularly affiliated with the internet, showing there was real financial gain by aligning your company with tech. The landscape has changed since the dotcom bubble but parallels between dotcom then and tech today are there to see.

WHY THE HUT WAS A HIT

The Hut Group, or **THG (THG)** as it is officially called, is an apt example. The £7 billion company has seen its share price rally more than 40% since its initial public offering (IPO) in September last year despite making most of its sales and, as far as we can tell, all profit from simply selling stuff online.



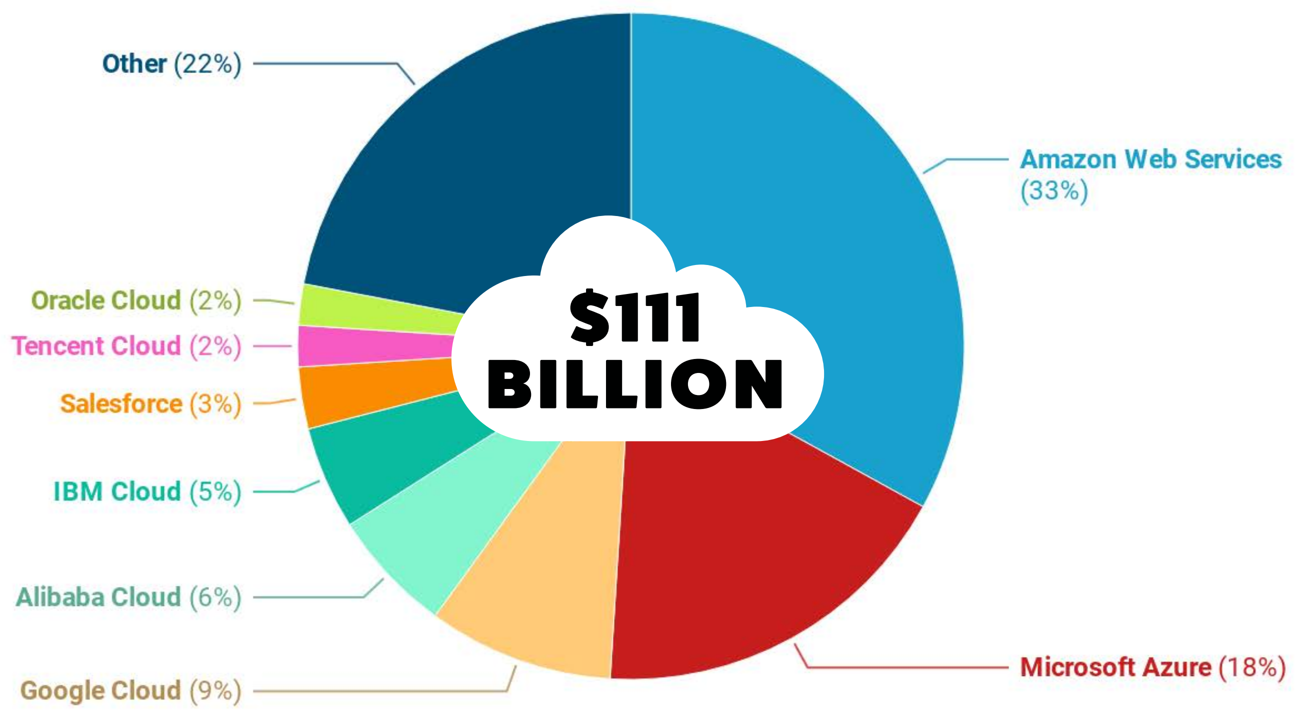
THG has two main parts to its business, selling beauty products through Lookfantastic and other websites, and Myprotein in sports nutrition. These together generate about 80% of revenue.

An emerging third leg is its retailer tech platform Ingenuity, worth 11% of annual sales. It is effectively a ready-made online sales platform for businesses and brands eager to go digital. It's a full service that covers everything from designing websites, payments and goods delivery. Product manufacturing can even be managed if a client wants it. It's a mini-Shopify, if you like.

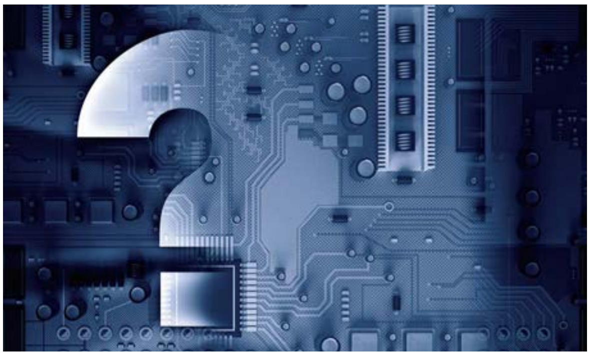
Whether THG deserves its rough 32-times EV/EBITDA valuation (enterprise value/ earnings before interest, tax, depreciation and amortisation) will depend on whether you see THG as a run-of-the-mill online retailer, or a more exciting tech platform that can deliver on 40% growth forecasts.

Canny readers might well say the same is true of Amazon. It too makes most of its revenue from selling stuff online, but it can also say that its real tech bit – cloud platform AWS – generates roughly 55% to 60% of the firm's profit on 30%-plus operating margins, something that THG cannot.

Amazon's AWS leads $111 billion cloud infrastructure market (worldwide market share*)



Source: Synergy+A1:A13 Research, Statista *12 months to 30 June 2020 • Created with Datawrapper



WHAT IS A TECH STOCK?

'It's generally a company whose primary business is selling tech or tech services. A more nuanced definition is a company with tech or tech services as a key part of its business. It's a hard question.'

Todd Berkowitz, vice president of research, Gartner

Puffing up tech credentials can be a way of implying that a company is at the forefront of innovation without necessarily having to innovate. Exciting IPOs like DoorDash, Airbnb, Peloton and Lemonade, have been huge hits with investors and have set stock price pulses racing in the US.

How tech these businesses, and many others like them, really are is open to debate as the definitions of what a technology company is blur.

TECH CREATORS NOT CONSUMERS

'At Blue Whale, we make a distinction between the users of tech and the creators of tech', said Stephen Yiu, lead manager of the £700 million **LF Blue Whale Growth Fund (BD6PG78).**

What's in the Blue Whale Growth Fund?

Adobe	Mastercard
Amazon	Microsoft
Autodesk	PayPal
Facebook	Stryker
Intuit	Visa

Source: Blue Whale Growth Fund (no % stake details)

'We see lower barriers to entry for users of tech which decelerates growth as competition catch up. Creators of tech are better able to maintain their competitive edge and therefore enjoy sustainable growth for longer', Yiu believes.

'As much as retail analysts want to think of Amazon as a retailer, it is really a technology and cloud company that monetises through sales of products and services', said Baird analyst Colin Sebastian.

'As much as traditional media investors want to think of Google (officially called Alphabet) as a media company, they are a hardcore engineering company that monetises its advanced computing platform through search and advertising.'

'Are companies that are embracing technology now considered technology companies? Probably not', said Sebastian.

But Baillie Gifford's Tom Slater believes labels like tech are unhelpful.

'Anytime you frame something like that you draw false comparisons', said the co-manager of **Scottish Mortgage (SMT)** investment trust. Far more important is 'the business model - can you take advantage of the opportunities.'

In Slater's view, Amazon's success in retail wasn't because the business was underpinned by technology, but by the way it changed the way goods were sold.

For example, in the past a consumer branded goods company could only sell into the retail channel and give 50% to a retailer, but now those products can be sold direct to consumers. There are options to sell on their own website or do

WHAT IS A TECH STOCK?

'A tech company uses technology to create an unfair advantage in terms of product uniqueness or scale or improved margins. Ask the question: Could this company exist without technology? If the answer is no, it has to be a tech company.'

Greg Bettinelli, partner, Upfront Ventures

they use Facebook, Instagram, Pinterest, all these different channels.

'It's no longer about being the most efficient or the most dominant in a fixed mode of operating, it's about competing in completely different environments with a completely different set of competitors. Sure, that's happened because of technology but it is the business model and whether it is adaptable enough to succeed in that environment that matters', Slater said.

'I think the only reason people talk about technology is because index makers classify stocks as technology.'

Tancredi Cordero of investment advisory Kuros Associates agrees that asking if a company is tech or not is far too simplistic. 'From an investors standpoint technology is a global, multidimensional phenomenon, which is no longer segregated within the boundaries of a single industry', he said.

TECHNOLOGY IS MISSION CRITICAL

Cordero believes that every industry and business must have the highest possible application of technology in the 21st Century because it is critical for survival as a business, not a strategic option.

'In the next 10 years we will experience the most dramatic shifts (and concentration) in market shares across industries, which is going to be determined by technological applications and younger consumers preferences that are also geared towards digital experiences and user interfaces (UIs)', said Cordero.

'People asking you is such and such company a technology stock are missing the point', states William De Gale, who runs the **Bluebox Global Technology Fund**, currently an institutions-only fund that is hoping to get the UCITs retail investor green light down the line.

De Gale sees the distinction between disruptors and enablers as crucial to long-run returns success, and 'everybody is focusing on the disruptors.'

"From an investors standpoint technology is a global, multidimensional phenomenon, which is no longer segregated within the boundaries of a single industry"

Tancredi Cordero of investment advisory Kuros Associates

What's in the Bluebox Global Technology Fund?

Microsoft	5.8%
Adobe	4.4%
TSMC	4.4%
ASML	4.3%
EPAM	3.8%

Source: Bluebox Global Technology Fund

He recalls the first company to talk to him about using big data was an engineering company about 12 to 15 years ago, during his days as a fund manager at BlackRock. Applying big data analytics would allow the engineers to spot potential aero engines problems before they had happened, so they could be pulled out of operation and serviced in a planned way that would save a lot of money.

'But it didn't benefit because all the other aero engineering companies did exactly the same', said De Gale.

SEMICONDUCTOR FOCUS

De Gale spent years analysing the semiconductor space and he remains a big fan of the space. Semiconductor companies 'have real value because everything depends on them so their stock valuations will inflate at the same speed, if not faster than everything else.'

US-listed Ukrainian software services company EPAM is a great example of De Gale's direct connection investment theme, where computing increasingly becomes embedded into all parts of life.

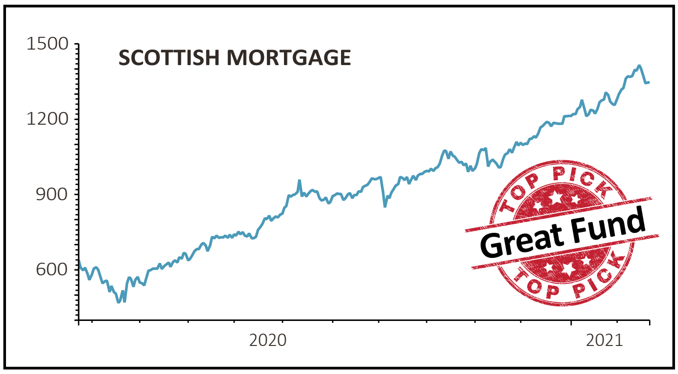
Over recently months EPAM has built parcels delivery notification systems, oil refinery software that allows inspections without shutting down, a wealth management system, developing new drug discovery processes and helped computer games designer Epic to get 350 million people playing Fortnite in the cloud.

'These are completely different industries, potentially disrupting the disruptors' he said.

'That's why it's gone from $12 to $360 (now $381) in the nine years since IPO outperforming Tesla. But no one talks about it because it's not seen as a disruptor so must be boring. No one ever pays for boring.'

THREE WAYS TO INVEST IN TECH GROWTH

Scottish Mortgage (SMT) £12.14

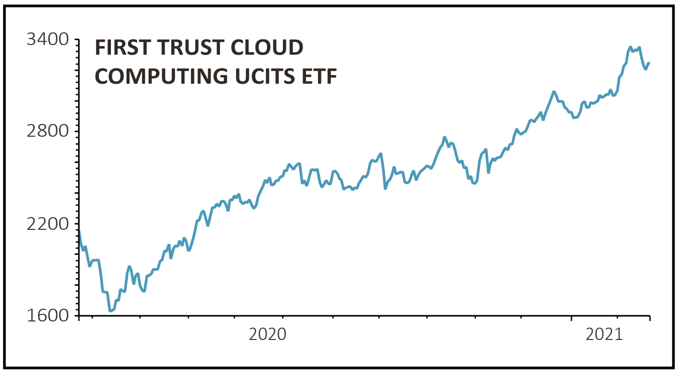


Carved a gold-plated reputation with investors as an elite picker of growth stocks, controlling almost £20 billion of assets. This investment trust prides itself on identifying exciting growth companies capable of producing superior returns for investors over the medium to long term, or at least five years. One of the ways Scottish Mortgage can continue to diverge from more mainstream funds will be to unearth opportunities among privately-owned companies not listed on stock markets. It has done this successfully in the past, backing the likes of music streaming service provider Spotify, ride hailer Lyft and workplace collaboration platform Slack before they floated in the US.

Key stocks: Tesla, Amazon, Tencent, Illumina, Nio

TOP PICK Great ETF TOP PICK

First Trust Cloud Computing UCITS ETF Class A GBP (FSKY) £30.76

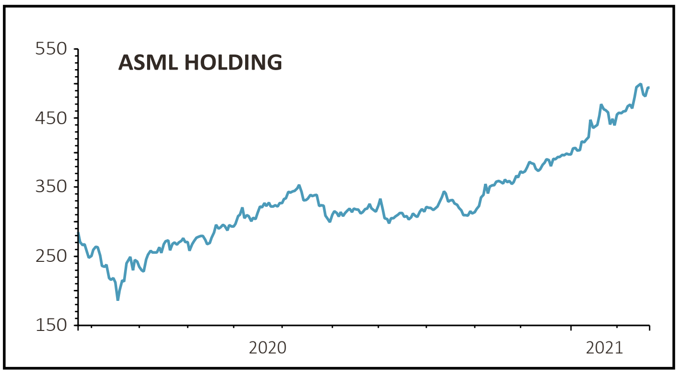


There are few growth themes more talked about than cloud computing and while it may feel old hat, cloud adoption remains in its very early days. Estimates predict $199 billion opportunity in 2019 will reach $760 billion by 2027. The First Trust Cloud Computing ETF is a great way to get in on this growth. It tracks 50 of the world's leading cloud stocks providing wider cloud growth opportunities while still handing investors stock diversification.

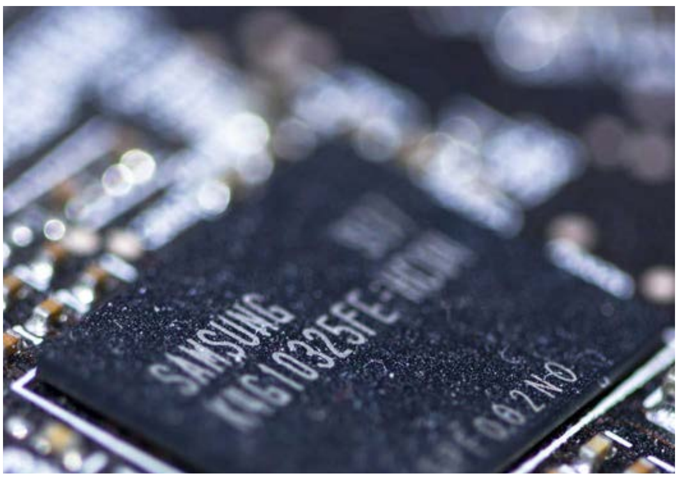
Key stocks: Amazon, Alphabet, Microsoft, Alibaba. Kingsoft Cloud

TOP PICK Great Stock TOP PICK

ASML €470



It's a tough ask to pick a single stock but given how crucial semiconductors are to resilient and structural growth themes going forward, Euronext-listed Dutch firm ASML is a super option. It's the only company in the world capable of manufacturing the extreme ultraviolet (EUV) tools needed for printing bleeding edge, complex semiconductor chips. This is clever multi-million dollar lithography technology kit which uses light to print tiny patterns on silicon, a fundamental part of microchip mass production. All of the major chips designers and manufacturers, including Intel, Samsung, Apple, Nvidia and AMD, use the tools to make chips cheaper, smaller and increase their complexity.



DISCLAIMER: The author Steven Frazer owns shares in Scottish Mortgage and Blue Whale Growth Fund

Inflation-busting investment trusts

As rising prices return we look at how these vehicles could help protect your wealth

Having bumped along at negligible levels for much of 2020 as the UK economy struggled under months of lockdown, consumer inflation is back, with big implications for your savings and investment portfolio.

UK CPI jumped to a four-month high of 0.7% in January, up from 0.6% in December 2020. Admittedly this rate of inflation remains modest by historical standards, yet CPI now stands at four times what it was in August 2020.

Commodity prices have been creeping up, and the market seems to be buying into a global economic recovery, with cyclical stocks performing well. Combined with the huge amount of monetary and fiscal stimulus pumped into the economy, inflationary pressures may be brewing.

TRUST IN TRUSTS

Inflation erodes the purchasing power of savings, so investors alarmed by its onset should look to the investment trusts sector for some protection.

Because these vehicles can invest in a broad range of asset classes, be patient backers of their holdings, use debt to potentially boost returns and keep cash on hand to help smooth dividend payments they have a number of tools at their disposal to help combat the impact of inflation on returns.

One band of companies that are well placed to mitigate the effects of rising prices are the AIC's 'Dividend Heroes', trusts that have increased their dividends every year for at least 20 years in a row. Although this list reveals the trusts with the most formidable long-run dividend growth records, it doesn't tell you the level of dividend growth and what it would be in real terms when adjusted for inflation.

This is important, because if a trust's dividend growth fails to keep pace with the cost of living, then the 'real' value of these dividends will be eroded.

However, certain 'heroes' have the stated objective of keeping inflation at bay. With 54 years of unbroken dividend growth under its belt, global trust **Bankers (BNKR)** seeks to achieve capital growth ahead of the FTSE World Index and dividend growth greater than UK CPI inflation.

Witan (WTAN) aims to deliver a benchmark-beating total

AIC Dividend Heroes

Company	AIC Sector	Consecutive years of dividend increase
City of London	UK Equity Income	54
Bankers	Global	54
Alliance Trust	Global	53
Caledonia Investments	Flexible Investment	52
BMO Global Smaller Companies	Global Smaller Companies	50
F&C Investment Trust	Global	49
Brunner	Global	49
JPMorgan Claverhouse	UK Equity Income	48
Murray Income	UK Equity Income	47
Witan	Global	46
Scottish American	Global Equity Income	41
Merchants	UK Equity Income	38
Scottish Mortgage	Global	38
The Scottish Investment Trust	Global	37

Source: The AIC

return twinned with dividend growth ahead of inflation, while **The Scottish Investment Trust (SCIN)**, which has increased its regular dividend for 37 years, has the stated aim of achieving dividend growth ahead of UK inflation.

Another hero with an inflation-busting mandate is **The Scottish American Investment Trust (SAIN)** or 'SAINTS', the Baillie Gifford-managed fund focused on delivering real dividend growth by increasing capital and growing income.

In its 2020 results (11 Feb), SAINTS declared a 12p total dividend, 1.1% higher than the 2019 dividend, above the 0.6% rate of UK CPI inflation over the same period and extending the trust's record of dividend increases to 41 consecutive years.

Focused predominantly on equities, with leading holdings including TSMC, Microsoft and Procter & Gamble, SAINTS has a high active share of 90%, meaning the managers run a portfolio that looks different to the index, and the trust is also free to invest in income-generating assets including bonds and property.

The operational performance of SAINTS' holdings has proved remarkably resilient during the pandemic, while the portfolio's dividend income held up much better than that of the market as a whole.

OTHER STRATEGIES

Investors can also find inflation-busting strategies in AIC sectors including Renewable Energy, Infrastructure, Flexible Investment and Property. For instance, **Greencoat UK Wind (UKW)** seeks to deliver an annual dividend that increases in line with RPI, while preserving the capital value of its clean energy portfolio, and infrastructure fund **International Public Partnerships (INPP)** looks to deliver inflation-linked returns by growing dividends and capital appreciation.

Within the Flexible Investment sector, **Capital Gearing Trust's (CGT)** dual objectives are to preserve shareholders' real wealth and achieve absolute total return over the medium to longer term.

Net asset value (NAV) total return performance has outstripped UK RPI since January 2000 underpinned by a multi-asset portfolio that holds everything from conventional and index-linked government bonds to equities, commodities, cash and other funds.

Sector peer **Seneca Global Income & Growth (SIGT)** is a multi-asset value trust that seeks to achieve a total return of 'at least CPI plus 6% per annum after costs with low volatility' and aims to grow aggregate annual dividends 'at least in line with inflation'.

And in the property sector, **Civitas Social Housing (CSH)** offers income from a UK portfolio of long-term, inflation-linked leases. The bulk of the portfolio is invested in housing for vulnerable adults with special needs, meaning the fund achieves a positive social impact by improving outcomes for residents while demonstrating value for money for the government.

INFLATION-BUSTING TRUSTS TO BUY

The Scottish American Investment Trust (SAIN)

470.3p

Premium: 3.1%

Dividend yield: 2.54%

Source: Morningstar

WE THINK IT is worth paying a modest premium to access the acumen of the Toby Ross and James Dow-managed Scottish American Investment, which remains the best performing fund in its Global Equity Income peer group in NAV total return terms over the past five years. SAINTS, as it's otherwise known, delivered a net asset value total return (capital and income) of 14.5% for 2020, ahead of the total return from global equities of 13%, thanks to the resilience of many of its companies during the pandemic and a positive return from property investments with a high proportion of RPI-linked rents. Over the last 10 years, SAINTS' dividends have increased above the rate of inflation and though the portfolio was not completely immune from the Covid dividend crisis, its global mandate and focus on resilient businesses has proved its worth. 'Every one of our 10 largest holdings increased their dividends in 2020,' said SAINTS in its results statement.

Blackrock World Mining (BRWM)

591.5p

Premium: 2%

Yield: 3.7%

Source: Morningstar

HISTORICALLY, THE MINING sector has performed well on an absolute basis and relative to broader equity markets during periods of rising inflation and with a potential commodities super-cycle underway, **BlackRock World Mining (BRWM)** looks a good portfolio hedge against inflation. A diversified total return-focused trust, BlackRock World Mining invests in mining and metals assets worldwide. Co-managers Evy Hambro and Olivia Markham point out that miners' balance sheets are strong, earnings and dividends are rising while mined commodity supply has been impacted by Covid-related disruptions and inventories are low relative to history for most commodities. They expect commodity supply to be constrained by the underinvestment of recent years. Meanwhile, commodity demand should continue to be buoyed by increased global infrastructure spend as governments seek to kick-start their economies. Longer term the transition to a lower carbon global economy should support demand for mined commodities used in industries such as electric vehicles.

Tritax Eurobox (EBOX)

103.5p

Discount: -4.2%

Yield: 3.8%

Source: Morningstar

LOGISTICS PROPERTY INVESTOR **Tritax EuroBox (BOXE)** is a beneficiary of the acceleration of the adoption of e-commerce and the supply chain onshoring engendered by the pandemic. The Nick Preston-managed fund's updated dividend policy now aims to deliver progressive, covered payments with the vast majority of rents either inflation-linked or subject to fixed uplifts. And Tritax EuroBox recently reported a significant gain on the sale of one of its Polish assets, which impressed investors and sent its shares towards fresh highs. The divestment of the site in Lodz, to Savills Investment Management, saw Liberum Capital comment: 'EuroBox trades at a considerable discount to European logistics peers and we expect a strong re-rating in the shares over 2021' This may be supported by a recently announced £173 million fundraise to buy big box warehouses in Germany and Italy. One drawback to consider is relatively high fees, despite a recent reduction, of 1.3% on the first €500 million of assets.

Primary Health Properties (PHP)

149.9p

Premium: 33%

Dividend yield: 4.2%

Source: Morningstar

INVESTORS SEEKING A secure, inflation-proofed yield underpinned by a government-backed income stream should buy **Primary Health Properties (PHP)**. While the shares trade on a big premium they still offer generous dividends backed by investments in the structurally attractive health care facilities market. The portfolio, made up of 513 properties valued at £2.6 billion, is now managed internally after a restructuring in January 2021, reducing costs and complexity for investors. It has a strong pipeline of development and acquisition opportunities with 90% of its income funded by government bodies and the Covid-19 pandemic reinforcing the importance of providing health care outside of a hospital setting in order to ease capacity constraints. UK leases have effectively upward only rent reviews and leases in its Irish portfolio are linked to inflation.

By **James Crux,**
Funds & Investment Trusts Editor

Why it is not yet time to buy Glencore

The investment case is clouded by several major issues

Mining company **Glencore (GLEN)** has long been a source of intrigue for investors but we feel prospective investors should hold off on buying the shares until it resolves a number of issues.

On the face it, the investment case looks clear – Glencore has been described as the world's largest middleman for the raw materials that fuel, feed and underpin civilisation.

THE COMMODITIES MIDDLEMAN

It's the biggest commodities trader in the world, putting it in a great position whenever there's a boom time in commodities, some predicting a super cycle for this decade.

It is also one of the largest mining companies globally in its own right, digging metals out of the ground like cobalt, copper and nickel – attractive commodities which are all set to see structurally higher demand and significant price growth as the world moves to renewable energy and electric vehicles.

Combine that with its huge cash generation, stable balance sheet and more than palatable valuations of 1.4 times price-to-book or 11 times forward price-to-earnings according to Stockopedia, apart from the general ups and downs of the commodities markets it could be hard to see where the downside is with Glencore.

But this is a company that, despite its presence in the FTSE 100 is embedded in secrecy.

Based in the sleepy town of Baar in Switzerland, this lack of transparency has drawn ire from many investors down the years.

Glencore's mining EBITDA margins

	2020	2019
Copper	42%	29%
Zinc	35%	33%
Nickel	25%	25%
Coal	18%	36%

Source: Glencore 2020 Preliminary Results Presentation

CHEQUERED RECENT HISTORY

It has faced repeated criticism for some of the deals it has done, particularly in some of the poorest and most corrupt countries in the world, and is under investigation by various regulators, with each probe weighing further on its share price.

In 2018 the US Department of Justice (DoJ) launched an investigation into Glencore, examining possible violations of the Foreign Corrupt Practices Act in its operations in Nigeria, Venezuela and the Democratic Republic of Congo (DRC).

Liberum analyst Ben Davis told the *Financial Times* at the time that investors weren't just concerned about the fact it could

Where Glencore sees its earnings - 2021 implied EBITDA outlook

Copper	42%
Nickel	6%
Zinc	18%
Coal	15%

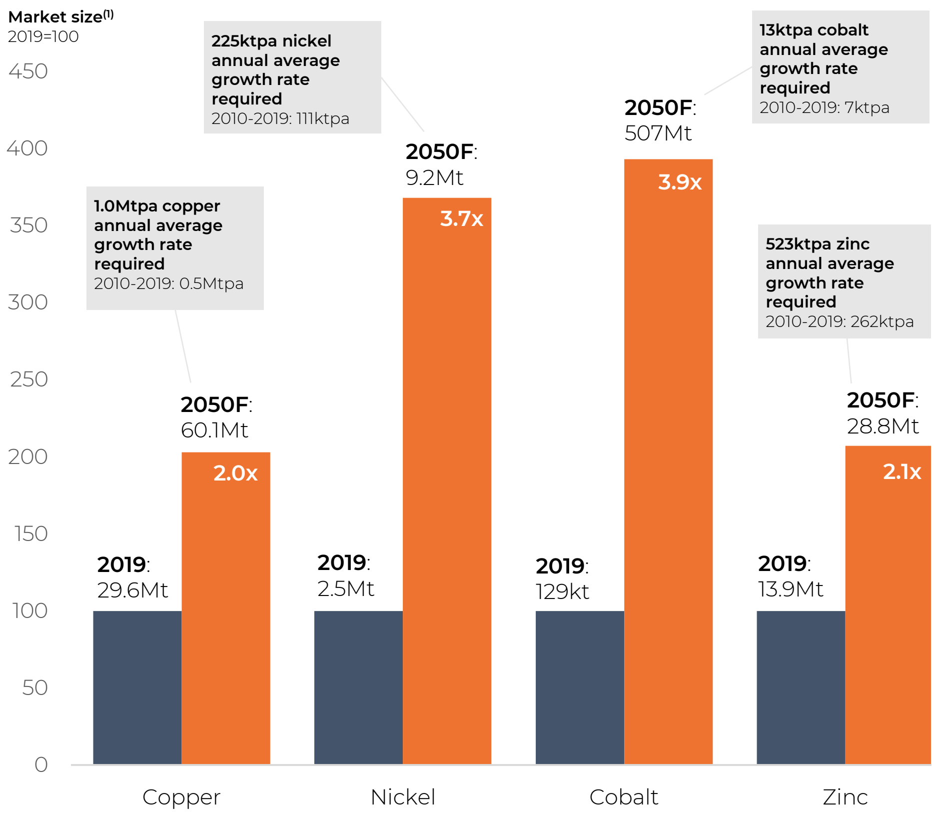
Source: Glencore 2020 Preliminary Results Presentation face a substantial fine as a result of the investigation, but that ‘everyone is worried about what else they have got in the closet’.

Following on from the US DoJ investigation, the US Commodity Futures Trading Commission initiated a probe in April 2019 looking at whether Glencore had fallen foul of certain provisions of the Commodity Exchange Act and engaged in ‘corrupt practices in connection with commodities’. The UK Serious Fraud Office then opened its own investigation in December 2019 over suspicions of bribery.

More recently, in June 2020 the Swiss Attorney General launched a criminal investigation into the firm (its fourth regulatory probe in less than two years) regarding a ‘failure to have the organizational measures in place, to prevent alleged corruption in the Democratic Republic of Congo (DRC).

An award-winning investigative feature by Bloomberg in November 2018 detailed alleged corrupt practices as Glencore looked to gain access to huge cobalt deposits in the DRC.

Forecast commodity demand under a Rapid Transition 1.5°C pathway



Source: Glencore

HOW IT MAKES MONEY

Glencore makes it money in two main ways – mining, which it calls ‘industrial activities’, and trading, known as ‘marketing’. Founded in 1974 by commodities traders Marc Rich and Pincus Green, its name is an abbreviation of ‘Global Energy Commodity Resources’.

Before becoming a big diversified miner, it was focused on trading commodities and this accounts for around 28% of its earnings, with mining activities accounting for 67% and the rest coming from what Glencore calls ‘corporate and other activities’, relating to earnings from holdings in other companies like the privately-owned Viterra, a Canadian grain-handling business formerly known as Glencore Agriculture.

The company has been led since 2002 by charismatic chief executive Ivan Glasenberg, a no-nonsense 64-year-old South African who’s the son

of Lithuanian immigrants and back in the day was a champion speed walker.

He is set to retire in June 2021 but to understand Glencore today you need to understand Glasenberg, one of the mining industry's most prominent figures.

Glasenberg joined the firm's coal division as a trader in 1984 and worked his way up through the ranks before landing the top job having been part of a group of executives who bought out founder Rich's controlling stake in the firm.

Described in press reports as 'hard', 'relentless' and 'blunt', Glasenberg is said to be more focused on physical materials, the mines and where the materials end up as opposed to the abstract numbers involved in the trading of commodities.

Glencore says the majority of its earnings comes from the 'metals and minerals that enable the transition to a low-carbon economy', pointing out it is one of the largest global producers of copper, nickel, zinc, vanadium and cobalt and says it will 'continue to prioritise investment into these commodities.'

ELECTRIC VEHICLE FOCUS

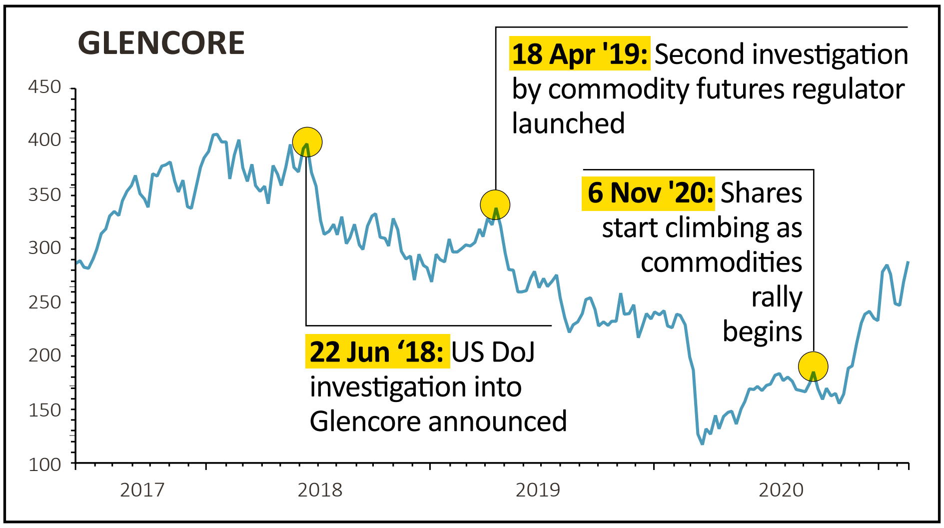
Glasenberg has been obsessed for a number of years with metals key to the electric vehicle revolution, and proudly told investors at an annual meeting months before its first regulatory investigation that the firm is 'best-placed of all the large-cap companies to take advantage of this electric vehicle phenomenon'.

This explains why Glencore has pushed heavily into cobalt for example, which currently only makes a small contribution to earnings but could increase significantly as it continues to ramp-up its Katanga mine. In past AGMs Glasenberg has reminded shareholders of predictions that global cobalt production would need to treble by 2030 to keep up with demand.

Its main commodities at the moment are copper, zinc, nickel and coal. Copper makes the biggest contribution to the group's earnings, and this year Glencore is forecasting EBITDA (earnings before interest, tax, depreciation and amortisation) from copper of $6.7 billion, out of a total implied group EBITDA of $16 billion, according to guidance in its 2020 results presentation.

The company's significant interest in copper dates back to around 2006 as Glasenberg spearheaded a push to mine the commodity having reportedly been convinced that China's appetite for it was 'insatiable', with the economic bellwether metal used in everything from household appliances to the electrification of infrastructure.

Zinc is expected to be the next biggest contributor to Glencore's earnings at $2.8 billion, followed by coal at $2.5 billion and then nickel at $1 billion.



A DIRTY LEGACY IN COAL

Glencore is still a big producer of thermal coal, the 'dirty' kind used as a source of energy, unlike metallurgical coal which is mainly used a key ingredient for steelmaking.

Rivals **Anglo American (AAL)**, **BHP (BHP)** and **Rio Tinto (RIO)** have all either sold out of thermal coal entirely, or have committed to selling off all their assets producing the commodity.

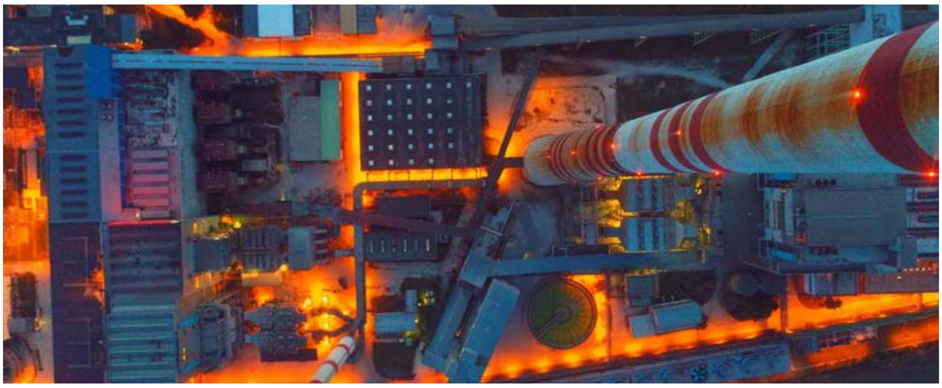
Glencore hasn't gone that far, perhaps understandably given its contribution to the group's earnings, but has said it will show 'responsible stewardship' of its 'declining' coal business 'over time as the industry decarbonises'.

Glencore announced its preliminary results for 2020 on 16 February, the last under Glasenberg. The miner ticked most of the boxes set by analysts.

It missed revenue expectations with a 34% drop to $142.3 billion, compared to the $157.1 billion analysts had anticipated, but on the plus side it reinstated its dividend with a payout of $0.12 per share, equivalent to a roughly 3% yield, and raised the prospect of further increases in returns to shareholders if commodity prices stay strong.

That came as adjusted EBITDA, a measure tracked by analysts, hit $11.6 billion, unchanged from 2019 but a full $1 billion more than market forecasts.

Glencore's net debt was also in focus and this has been



cut by $3.9 billion in the second half of 2020 to $15.8 billion in total, within its target range of $10 billion to $16 billion and paving the way for the dividend to be reinstated.

Having reported free cash flow of $7.2 billion following bumper commodity prices, it hopes to now have a 'fast-track pathway' for getting net debt down towards the lower end of its range.

CLIMATE STRATEGY

In addition, the company also unveiled a 'sector-leading' climate strategy, targeting a 40% reduction in total CO2 emissions by 2035 and a 2050 net zero ambition for Scope 1,2 and 3 emissions, and it says it will put the plan to a shareholder vote at its AGM.

This has been welcomed by investors, in particular Royal London Asset Management, whose senior responsible investment analyst Carlota Garcia-Manas thinks it 'constitutes another big step' in Glencore's 'transformation' and 'climate evolution', adding that Glencore is 'one of a few companies leading the way' on climate issues.

The uptick in commodities prices culminating with its annual results has given Glencore's share price a shot in the arm, soaring around 90% since the start of November, but its shares are still trading a lot lower than the 380p mark they were at before the latest round of investigations started, indicating that professional investors are still cautious on what the future holds for the company.

SHARES SAYS: It may be tempting to buy the shares now given they still look relatively cheap when you consider the company's exposure to commodities underpinned by structural growth drivers. However, we think it is prudent to wait until the clouds cast by the various probes facing the business are over and there's evidence Glencore is getting its act together on governance and its social impact.

By **Yoosof Farah**
Reporter

Janus Henderson INVESTORS

The case for investing **in financials**

In an echo of the crisis of 2008, financial stocks have again been hard hit in the current COVID-19 downturn. Despite the sector's well-publicised past difficulties, and the current headwinds, this article sets out why The Bankers Investment Trust remains an enthusiastic advocate of the sector, and argues that financials should form a key element of any intelligently diversified portfolio.

ENTIRE TOMES HAVE been devoted to investing in the financial services sector – hardly surprising when you consider its size, and therefore its significance to the world's capital markets. To say the financial sector is large doesn't do it justice. Of the total market capitalisation of the S&P 500, the world's largest stock market index, financials account for just under 10% of the $28.5 trillion valuation.[1] Turning our attention to the UK market, the sector's dominance is more pronounced still, representing over 25% of the entire market capitalisation of the FTSE All-Share Index.[2]

It is not merely its size, however, that has led the financial services sector to be referred to as the 'nervous system of capitalism', it's the fact that it permeates almost every aspect of corporate and personal daily life, forming a critical component of the world's economic engine. Make no mistake – a modern economy simply cannot exist without a well-developed financial system given its breadth and depth, the sector comprising a diverse range of industries including banks, investment managers, insurance companies, mortgage lenders and real estate firms amongst others, all of which provide the services required to help keep 'Main Street' functioning on a daily basis. It includes some of the largest organisations on the planet – from insurer Allianz, to asset manager Berkshire Hathaway to retail and commercial bank Citibank – together with many thousands of smaller players in every region of the globe.

A NEW-FOUND RESILIENCE

Over recent years, the financial sector has not been without its detractors, and understandably so. The blatant self-interest which permeated its ranks at the turn of the century culminated in the financial crisis of 2007–2008, also known as the global financial crisis (GFC). Patently imprudent loan underwriting by banks led to the collapse of the US sub-prime mortgage market and caused

the value of sub-prime lending to go into freefall, damaging financial institutions globally and precipitating the bankruptcy of Lehman Brothers on 15th September 2008, an international banking crisis and the most severe global recession since the Great Depression of the 1930s. Europe was not insulated from its effects, with bank bailouts widespread across the region, totalling £500 bn in the UK alone. All three of Iceland's major banks failed – relative to the size of its economy, it was the largest economic collapse suffered by any country in history.

In an echo of 2008's upheaval, the share prices of banks have been hard hit in the current COVID-19 downturn despite, on paper, being more resilient than they were 12 years ago through post-GFC structural reforms – considerably more capital and more liquidity in the banking sector, for example. In the UK, the three key measures of bank capital – overall capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio – are up to three times higher than at the start of the global financial crisis, according to the Bank of England's Financial Stability Reports. The Federal Reserve and the European Central Bank reached similarly positive conclusions regarding US and eurozone banks' resilience.

WHAT DRIVES FINANCIAL EARNINGS?

When reviewing the performance of the financial services sector, it's instructive to contemplate the two principal drivers of earnings. The first is interest rates. Since a large element of the sector makes money by arbitraging short- and long-term rates, the precise relationship between the two is highly relevant: and the larger the spread between the two, the better. Debt, by virtue of its servicing costs being tax-deductible, typically offers a cheaper source of funding than equity, and hence will generally lower the overall cost of funding, thereby enhancing the return on equity. Whilst there are clear incentives to operate with some degree of financial leverage, banks are already highly leveraged institutions – the debt to equity ratio is commonly 95:5 – and profits are therefore strongly related to net interest margins, which has rendered lending a substantially harder business to be in over recent years … and some believe may remain so, given the prospect of a 'low for longer' interest rate environment and the possibility that UK interest rates might turn negative. It's worth adding that insurers similarly find low interest rate environments detrimental given that premium income is largely invested in interest-bearing assets.

The second earnings driver is the velocity of financial transactions which, needless to say, is fuelled by consumer confidence and the health of the underlying economy. Whilst somewhat suppressed of late, economic expansion and the dilution of lockdown measures as the grip of COVID-19 loosens should catalyse a marked uptick in this measure.

Given these and other market challenges, it's unsurprising that financials as a sector has underperformed the broader market over the last decade: the MSCI World Financials Index has grown at an annualised rate of 4.42% whereas the MSCI World Index has grown at 8.84% - twice as fast.[3] Despite these headwinds and continued market volatility however, The Bankers Investment Trust PLC – managed since 2003 by Alex Crooke, Co-Head of Equities, EMEA and Asia Pacific at Janus Henderson – is increasingly an enthusiastic investor in financials. Despite the sector's well-publicised past difficulties, the trust's allocation to financials remains at circa 25%, but is focussed on companies taking advantage of paperless payments rather than traditional banks and insurers. Visa, Mastercard, Moody's, PayPal and American Express all feature within the top 20 holdings.[4] Performance has been solid, the share price having outperformed the benchmark over one, five and 10 years – over 10 years, the trust's NAV is up 179.2% compared to the 119.2% of the benchmark.[5] Meanwhile, dividend payouts have been equally impressive. Whilst the second quarter of 2020 was marked by widespread dividend suspensions and reductions – UK banks for example, and to a lesser extent insurers, were pressured by the Prudential Regulatory Authority to suspend dividend distributions amid the coronavirus crisis – the trust was able to maintain its 53-year unbroken run of dividend increases.

WHY NOW?

A wide range of factors suggests that the outlook for financials over the coming year is genuinely positive, and it is worth noting that, this time around, rather than being the core of the problem, the banks are increasingly viewed as part of the solution. The contributory factors are:

- with the US presidential election now behind us, a degree of clarity has emerged; a similar level of clarification is anticipated as the UK's Brexit negotiations are finalised
- the arrival of a number of highly effective COVID-19 vaccines suggests that a lifting of draconian lockdown measures and a return to normality may not now be far away
- rather than recapitalising banks, governments are providing guarantees to prevent both retail and commercial loans defaulting in the first place – this is almost the opposite of what happened during the GFC and should catalyse loan growth
- there is evidence of strong deposit inflows into banks globally – loan/deposit ratios have fallen markedly, such that they have ample liquidity[6]
- most businesses have already been accommodating historically low rates for

Annual performance (cumulative income) (%)

Discrete year performance % change (updated quarterly)	Share Price	NAV
30/09/2019 to 30/09/2020	9.1	6.5
28/09/2018 to 30/09/2019	8.1	6.6
29/09/2017 to 28/09/2018	11.5	12.4
30/09/2016 to 29/09/2017	27.6	19.4
30/09/2015 to 30/09/2016	14.2	24.9

All performance, cumulative growth and annual growth data is sourced from Morningstar, as at 30th November 2020.
Past performance is not a guide to future performance.

many years and through focussing on reducing costs are now earning reasonable returns

- the sector was already attractively priced prior to the current sell-off, and current valuations have already priced in worse than GFC loan-book deterioration in both Europe and the US, to the point where large banks trade on only about 10 times earnings – considerably less regarding the likes of Citibank or RBS – and some banks and insurers can now be bought for less than half the value of their assets
- banking is particularly sensitive to the economic cycle given the highly leveraged nature of the business model, and so should respond well to any post-pandemic improvement in conditions
- recent years have seen an explosion of innovative ways to 'do' finance – the relentless rise of fintech, accelerating phenomena like micro-finance, 'open banking', mobile-only banking and the like are all serving to fuel sector growth and to motivate the next generation of customers, keeping incumbents on their toes. These new ways to deliver services to clients are being employed by the established financial firms to reduce costs and develop additional revenue from their customers
- a considerable opportunity remains in addressing the needs of the 'unbanked', i.e. those that don't use traditional banking services – in the US, as many as nine million households are unbanked[7]; worldwide, circa 1.7 billion are unbanked, yet two-thirds of them own a mobile phone that could help them access financial services[8]
- finally, we may be wrong in the view of perpetually low interest rates: if inflation starts to rise as a result of central banks supporting economies, then long-term interest rates may rise; financials traditionally benefit both in terms of profitability and share prices if the spread between short and long-term rates expands.

Financial services companies are evolving their business models to meet post-pandemic challenges and increasing competition, and to continue to rebuild consumer confidence. They represent a significant proportion of global GDP and are fundamental to ensuring that the economy functions efficiently. Playing such an integral role in the lives of consumers, businesses and institutions, we continue to believe the sector should form a key element of any diversified portfolio.

[1]Source: S&P Dow Jones Indices factsheet, 30.10.20
[2]Source: FTSE Russell factsheet, 30.10.20
[3]Source: Janus Henderson Investors, USD, to 30.10.20
[4]Source: Janus Henderson Investors, as at 31.10.20
[5]Source: Morningstar, total return, vs FTSE All-Share Index to 31.10.17 and FTSE World Index from 01.11.17, to 30.10.20
[6]Source: Standard & Poors Market Intelligence, Loan-to-deposit ratio at US banks hits 29-year low as transaction accounts surge, 25.06.2020
[7]Source: How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey, October 2020
[8]Source: The World Bank, Global Findex, 19.04.18

GLOSSARY

Capital ratio - A measure of the funds a bank has in reserve against the riskier assets it holds that could be vulnerable in the event of a crisis.

Tier 1 capital ratio – the ratio of a bank's core tier 1 capital—that is, its equity capital and disclosed reserves—to its total risk-weighted assets.

Tier 1 common capital ratio – a measurement of a bank's core equity capital, compared with its total risk-weighted assets, and signifies a bank's financial strength. Tier 1 common capital excludes any preferred shares or non-controlling interests, which makes it differ from the closely related tier 1 capital ratio

Volatility - The rate and extent at which the price of a portfolio, security or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. It is used as a measure of the riskiness of an investment

Valuation metrics - Metrics used to gauge a company's performance, financial health and expectations for future earnings eg, price to earnings (P/E) ratio and return on equity (ROE).

Market capitalisation - The total market value of a company's issued shares. It is calculated by multiplying the number of shares in issue by the current price of the shares. The figure is used to determine a company's size and is often abbreviated to 'market cap'.

Liquidity - The ability to buy or sell a particular security or asset in the market. Assets that can be easily traded in the market (without causing a major price move) are referred to as 'liquid'.

Leverage - The use of borrowing to increase exposure to an asset/market. This can be done by borrowing cash and using it to buy an asset, or by using financial instruments such as derivatives to simulate the effect of borrowing for further investment in assets.

Debt to equity ratio - The measure used to understand the degree to which a company is financing its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.

Analysing Gym Group's investment credentials

We apply the insights covered by our *First Time Investor* series to an individual stock

We are approaching the culmination of our long-running *First Time Investor* series.

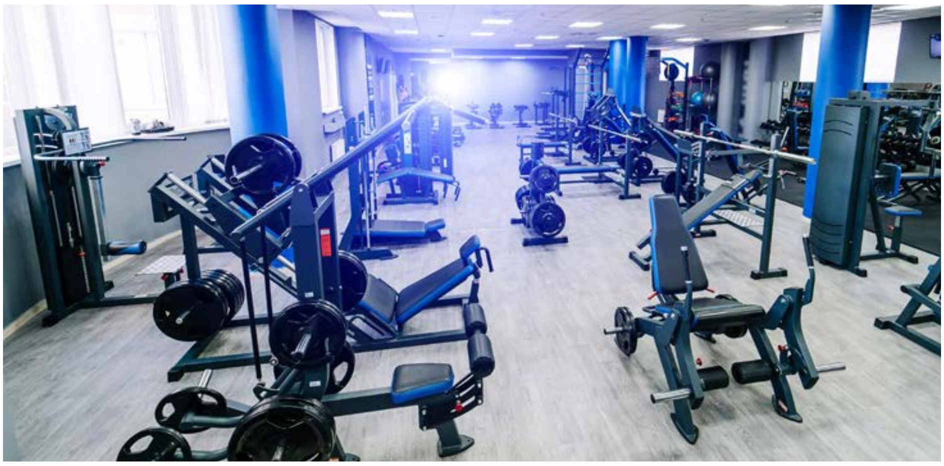
While we have used practical examples throughout to help illustrate our guide to investing and the markets, in these final parts we go a step further and apply everything we've discussed to the analysis of an individual stock which we believe is also a highly attractive investment for the long run.

We have chosen to look at low-cost gym operator **The Gym Group (GYM:AIM)**. As of February 2021 its shares have been clobbered by the lockdowns necessitated by the coronavirus pandemic and still trade around 35% below their 2018 peak.

As we have stressed throughout the series investing is a long- term endeavour and we adopt that mindset in the following analysis. We simply want to find out why Gym could be a potentially rewarding long-term investment.

We use a familiar framework and start by posing three fundamental questions; does Gym have a durable business; can its earnings and cash flow grow faster than the market; how likely is it that the share price will grow in line with profits?

In other words, how much could an investor make if profits rise as expected.



DOES GYM GROUP HAVE A DURABLE BUSINESS?

Increased wealth and a desire to be more active in old age has been a key driver for the health and fitness sector, leading to structural growth over many years.

It is unlikely the pandemic has changed this basic human activity in a fundamental way. In fact, the pandemic may have helped to cement the relationship between exercise and mental wellbeing.

After all, during lockdown daily exercise has become one of the few legitimate reasons for leaving the house.

When Gym reopened sites after the first lockdown in July 2020, it reported good levels of demand from existing and new customers.

The economic damage caused by the pandemic has increased the number of available sites in attractive locations, fostering growth and improving the future quality of Gym's estate.

INCREASING PENETRATION OF LOW-COST GYMS

UK health club membership has grown by a third over the last 12 years and now represents around 16% of the UK population supporting revenue just under £5 billion.

Gym Group operates in the low-cost segment which has seen the fastest growth within the wider health and fitness market.

According to a study by consultancy PwC, commissioned by Gym Group, low-cost gyms have become a clear category winner over the last decade, taking market share from around 3% in 2012 to more than 12%.

In terms of memberships, the share is greater with low cost membership growing from 2%

of the total market to over 25%, demonstrating their disruptive impact on the gym market.

Further penetration in the UK has plenty of headroom, argues PwC, noting the 10 largest brands only represent 16% of the market compared with 68% in Germany.

The report estimates that the number of low-cost gyms could double over the next five years.

Gym had a market share of 24.6% as reported at 30 June 2020 and has consistently grown its share of the pie.

IS GROWTH PROFITABLE/HOW DOES GYM GROUP COMPETE?

As we have said before, the only growth investors should be interested in is profitable growth. So, the first question that comes to mind is how do low-cost gyms manage to make an economic return for their investors when they offer such low prices?

Low cost is defined as under £25 outside London and £30 inside the capital. On average Gym generates £18.5 of revenue per month per customer across the estate with no contracts. Traditional gyms can cost anything from £40 per month upwards.

Gym's major advantage is its low labour intensity and high asset efficiency. For example, the company operates with just one or two staff for each of its 184 sites and has built strong technology solutions to make a visit to the gym easier and more fun.

Gym doesn't provide any wet facilities, which means, no swimming pools, saunas or steam rooms. There aren't social areas or coffee machines which means that the company achieves higher revenue density and improved efficiencies.

Adding further to efficiencies compared with traditional gyms, its customers can use the facilities 24/7 which opens the gyms to a wider segment of society. For example, shift workers, taxi drivers and general participants in the 'gig' economy.

The company is very innovative in finding ways to improve the customer experience. During summer 2020 it launched an app which showed how busy their gyms were at any time of the day or night which allowed its customers to use their time more effectively.

This innovation increased App usage by 114% compared with pre-pandemic levels.

It seems reasonable to conclude that the factors driving the company's growth and market share gains are sustainable. Gym is the lowest price operator within the sector.

As the business grows and scales up further there is scope to increase it price advantage without impacting profitability, creating a virtuous circle.

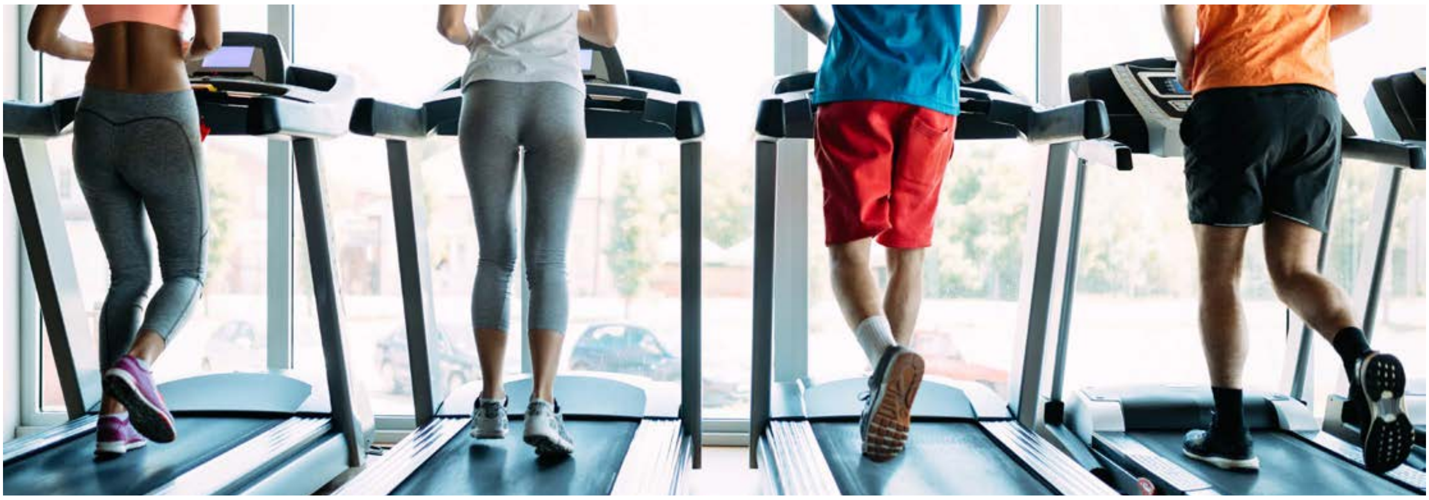
GYM'S INCOME STATEMENT

The reported numbers don't reflect the underlying profitability of the business because all the largely fixed costs associated with building and fitting out sites have been

Gym Group income statement

	2012	2015	2020
	2012	2015	2019
Revenue (£m)	22.3	60	153
Selling/General/Admin Expenses (£m)	16.1	49.5	66.3
Depreciation & Amortisation (£m)	3.9	13.2	63.9
Operating profit (£m)	1.9	-4.3	21.1
Percentage of revenue (%)			
Selling/General/Admin Expenses	72%	83%	43%
Depreciation & Amortisation	17%	22%	42%
Operating profit	9%	n/a	14%

Source: Stockopedia, Refinitiv



recognised before they have reached sales maturity.

As the table illustrates revenue has grown quickly, from £22 million in 2012 to £153 million in 2019 which is a compound annual growth rate (CAGR) of 32% a year.

The distortion to reported profit is illustrated by the depreciation and amortisation charges which have increased to 64% of revenues from 4% in 2012. These charges reflect wear and tear on gym equipment and fixtures and fittings as well as two acquisitions.

Gym group operating cash flow

	(£m)
2019	40.8
2018	34
2017	24.7
2016	24.9
CAGR	17.9%

(Compound Annual Growth Rate)
Source: Gym Group

To get a clearer picture of underlying profits, an adjustment needs to be made to depreciation charges so that only maintenance costs are used rather than the full charge.

In the key performance indicators (KPI) section of the website, Gym lays out the calculation for investors. It refers to this metric as group operating cash flow (OCF).

It represents EBITDA (earnings before interest, taxes, depreciation and amortisation) minus maintenance depreciation and working capital expenses.

The company has grown OCF by 64% over the last three years equivalent to a CAGR of 17.8% a year. The 'steady state' profit represents a healthy profit margin of 26.7% of revenue, compared with the 14% reported operating margin.

Gym Group return on invested capital of mature sites

	(%)
2019	31
2018	30
2017	30
2016	32
Average	31

Source: Gym Group

As utilisation of sites increases revenue will grow without the associated costs and reported margins should rise.

Gym Group provides return on capital measures for mature sites which show they have consistently achieved 30%-to-32% returns over the last four years. The measurement is adjusted EBITDA divided by the total capital initially invested in the sites.

This is a very high return and supports the company's strategy to prioritise investing in its estate and further grow its share of the market. Gym doesn't pay dividends.

As we have pointed out before management's capital allocation decisions are an important factor in driving shareholder value.

Next week will uncover how Gym finances its business by examining the balance sheet. We will also look at the valuation, analysts' growth expectations, who owns the company and some plausible scenarios for future shareholder returns.

By **Martin Gamble**
Senior Reporter

Why do fund managers lend stock to short sellers?

The rush by Reddit users to own heavily shorted stocks raises an important question about short selling in general

Why do institutional investors such as fund managers lend shares to people who are betting that a share price will fall? I understand they receive a fee but won't the shares on loan be worth less when they are returned? How does that support their main objective which is (presumably) to provide good investment returns for their stakeholders?
Paul

Ryan Hughes head of active portfolios at AJ Bell, replies:

This is a good question. After all, it feels unnatural to think that a fund manager might lend a stock they own to another manager, particularly when the latter is hoping that the share price will fall.

However, it's not just other fund managers that the stock gets lent to. Brokers also want to borrow the stock to ensure that they have sufficient liquidity in that stock to fulfil their obligations as a market maker.

In both cases, whether lending to a broker or a short seller, the fundamental difference between these two parties and the owning fund manager is time horizon.

The fundamental owner of the stock is, in nearly all cases, going to be a long-term investor. They aren't simply holding the stock for a short-term gain, and therefore they are comfortable with the idea of lending this stock to someone else as they have little intention of selling it in the near future.

This allows them to generate a small amount of revenue that invariably gets split between the fund and the asset manager.

If you take a passive fund as an example, they will be very happy lending their big FTSE 100

WHAT IS SHORT SELLING?

Short selling involves taking a bet that a specific company's share price will decline.

The individual would effectively borrow shares from someone else for a small fee, sell them to raise capital and buy the same number of shares again at cheaper price in order to return the stock to the original lender, keeping the difference in price as profit.

If the shares go up in value then the short seller will either have to put more cash into their trading account to keep the bet going or be forced to buy stock at a higher price in order to close out their position.

Short selling is very high risk and is not suitable for most retail investors. When buying a share, the maximum amount someone can lose is 100% – i.e. everything they originally invested. When shorting a share, it is possible to lose more money than placed on the bet. [DC]

stocks as they will in all likelihood be holding them for many years and therefore over time the additional income generated by stock lending can be significant.

A study last year indicated that stock lending revenue in 2019 was nearly $8.7 billion so we are talking about big sums.

TYPICAL BORROWERS

If we think about who is borrowing the stock, then a broker has a very short time horizon – perhaps only a day, maybe a bit longer – but will happily pay a small fee for short term borrowing to ensure they can meet their obligations.

The second typical borrower is a short seller and the evidence suggests that most investors/traders in this category have a short time horizon, often measured in a few weeks or months. This is because they often see a catalyst for a share price to fall and therefore will likely go short around that time.

Given the cost of borrowing is expensive for a short seller, they are unlikely to hold their shorts for long periods. Therefore, the long-term holder can lend to the short seller without worrying too much about what the short-term share price movement will be. Even if it falls over the course of a few weeks, their time horizon is much longer.

PAIR TRADES

Some short sellers aren't even hoping the share price falls, they are simply hoping that one stock outperforms another, known as a pair trade. They may go short **Lloyds (LLOY)** and long **Barclays (BARC)** and therefore if Barclays outperforms Lloyds, they win even if both shares go up. The lender of the stock is oblivious to the motives of the borrower and is happy as long as they receive their fee.

Ultimately, there is a belief that shorting helps make the market more efficient, something the Federal Reserve suggested after the last financial crisis.

However, at various times, there will be certain instances or stocks that seem to bring this into question. It's important to remember that huge amounts of stock lending happen every day without any consequence for investors and, as indicated above, can generate significant revenue which helps returns for investors. Whether there is enough transparency around the investor doing the lending and to whom is another matter.

WHAT YOU CAN LEARN FROM SHORT SELLERS

Short sellers are often viewed negatively. They can be perceived as greedy and downright manipulative.

What is usually forgotten amid the emotion is the real value that short sellers can sometimes bring. For decades short sellers have done the hard digging required to expose corporate fraud, for example.

When analysts, fund managers and a company's own auditor fail to identify serious problems in a business, sometimes the short sellers can.

In some cases, the FCA or the Serious Fraud Office are only alerted to potential rule breaking after it has been exposed by a short seller.

A generous interpretation might characterise short sellers as the stock market's detectives. That said, one must also recognise the potential for individuals to spread lies to drive down a share price for their own financial gain. [SF]

The final frontier of investing

Looking at the markets which have yet to achieve 'emerging' status

Most people will be familiar with the term emerging markets but what about frontier markets? These are the countries like Sri Lanka and Croatia which sit in the category just below 'emerging'.

Markets are placed in one of three categories – developed, emerging, or frontier – based on criteria such as the level of economic development, the size and liquidity of their capital markets plus how accessible they are to international investors.

According to index provider MSCI levels of economic development are not used to distinguish between frontier and emerging markets (with this measure only used to delineate developed markets) 'given the very wide variety of development levels within each of these two universes'.

Status is instead determined by a series of other tests. As at May 2020 to achieve 'frontier' classification, alongside other metrics, a market had to include two companies with a valuation of at least $700 million, have at least some openness to foreign ownership with some capacity for capital inflows and outflows.

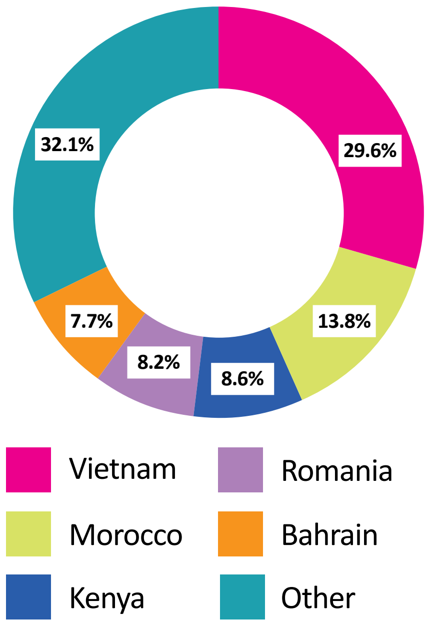
By comparison an emerging market had to have at least three companies with a market cap of $1.4 billion and have 'significant' openness to foreign ownership.

Companies do graduate from the frontier to emerging classification, the latest example being Kuwait which achieved its 'promotion' in November 2020.

MSCI aims to set the bar high, noting the intention is that such movements are 'irreversible'. However, there are examples of markets going the other way. In 2013 Morocco moved from emerging to frontier status.

The pie chart shows the MSCI Frontier Markets index is dominated by Vietnam which has a weighting of nearly 30%.

MSCI Frontier Markets – country weightings



Source: MSCI, data as at 31 January 2021

Emerging markets: Views from the experts

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

1. Emerging markets (EMs) outpaced developed markets in 2020, with the gap widening further in January, reversing a period of underperformance and fund outflows. This is reflective of the fact that many companies, particularly those in East Asia, successfully managed their business operations during the pandemic and should emerge from the crisis in a stronger competitive position. Nonetheless, EM equities continue to trade at a discount to developed markets. An improvement in earnings visibility as economic recovery becomes more widespread across EMs should enable a further broadening of market performance. Corporate earnings are also expected to see a sharp rebound in 2021 from the low base in 2020.

2. In many EMs, a central new reality is the rise of domestic demand as a driver of growth. By contrast, **Taiwan's** companies derive over 70% of revenues from abroad. However, these exports are not low-quality products, nor are they commodities subject to cyclical fluctuations in demand and pricing, characteristics many have historically associated with EMs. Taiwan's highly educated workforce has been the

backbone of its steady ascent up the value chain in manufacturing; it is now an exporter of technology components and essential semiconductor chips that constitute the computing power behind modern technologies. The importance of these products in the world economy is only increasing, which is a powerful tailwind for Taiwan's economy.

3. Often overlooked, we believe that the **frontier markets (FMs)** asset class continues to exhibit significant long-term growth potential. The structural opportunity is akin to EMs 30 years ago, except that the development curve is likely to be more rapid due to technology availability. Over the long term, we believe domestic dynamics that are geared toward favorable demographics and under-penetrated sector stories will drive FMs. In contrast to developed markets, most FMs have high population growth rates and an expanding working population. In addition, the pace of urbanization in FMs, when coupled with lower penetration of basic services, creates potential opportunities to tap into a growing domestic consumer market. Rising sovereign debt levels and higher unemployment, however, are among the key challenges that policymakers in FMs would have to monitor and address, in our view.

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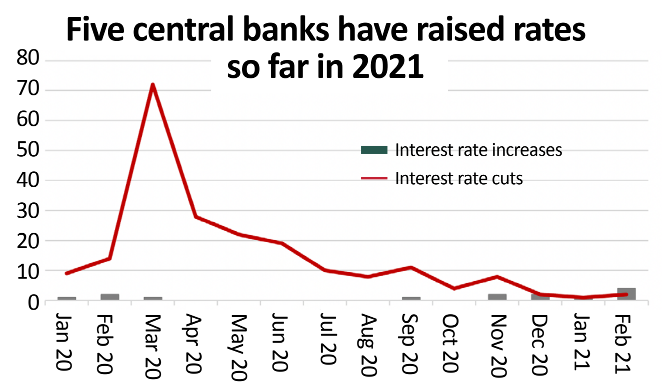
RUSS MOULD
AJ Bell Investment Director

An emerging trend to note in bond markets

Could rising yields on government debt in the developing world be a warning signal?

Zambia, Venezuela, Tajikistan and Armenia do not make a habit of featuring in this column, not least as they are a bit off the beaten track, even for the most intrepid investor. But they catch the eye because each member of this quartet has seen an increase in interest rates this year, to take the total for 2021 so far to five increases and two cuts from global central banks (Mozambique is the fifth for those who are interested).



Source: www.cbrates.com

Those who are not interested will ponder the relevance of this possible trend, but they may need to pay attention for three reasons.

It could be an early 'risk-off' sign in financial markets. When investors become incrementally more cautious, they tend to cut their riskiest positions first. Frontier markets such as these, or even more generally, would fit that bill. Their central banks may be raising rates to try and lure capital back or at least reaffirm their credibility with overseas lenders.

It could be a sign that markets are, at the periphery, starting to deleverage or at least balk at the tidal wave of debt that continues to build – Bloomberg data shows that the total of global bonds in issue now stands at a record-high $67.6 trillion.

And generally speaking, when markets turn cautious, it is the peripheral markets that show distress first, rather than the core ones, as it is in the latter that the bulls always have the greatest faith and thus where they make their final stand before they capitulate and make way for the bears.

It could be a sign that inflationary worries are seeping into government bond markets the world over (see this column). Bloomberg research reveals that the value of global bonds with negative yields has dropped by $3 trillion this year so far, although that still leaves a total of some $14 trillion.

None of these things may come to pass. It could be that the deflationary force of interest payments, demographic trends and central bank intervention keep fixed-income investors in clover as they combine to keep interest rates and inflation well and truly anchored, to the benefit of the bond portion of any portfolio, especially the long-duration segment.

Yet if any of the above three trends keep running, then the meagre coupons offered by most fixed-instruments would leave them looking like return-free risk and speak in favour of short-duration exposure for anyone seeking bond-like ballast in their asset allocation plan.

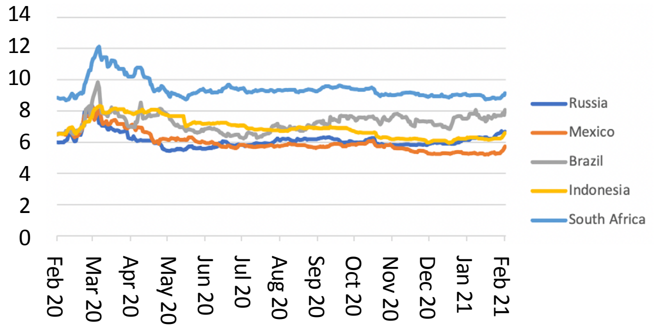
TURNING TIDE

A quick look at the benchmark 10-year bonds of key emerging markets might suggest that investors are taking risk off the table. Selling bonds here means yields are creeping up and prices creeping down. They might not look like big moves, but the very right-hand side of those lines show an upward

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Emerging market bond yields are moving higher



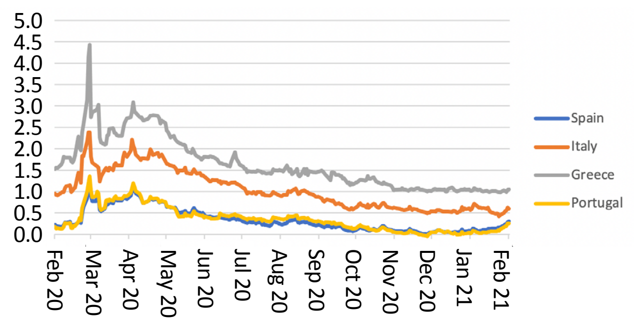
Source: Refinitiv data

shift in bond yields – to 6.59% from 6.15% in the last month alone in Russia.

A look at developed market bonds suggests concerns over gathering debt. In Europe, for example, benchmark 10-year bond yields are creeping higher, despite the European Central Bank's quantitative easing (QE) scheme.

No wonder when you consider that the world's debt pile soared by $24 trillion to a record $281 trillion in 2020, according to the Institute of International Finance. That was an extra 35 percentage points of GDP to take the debt/GDP ratio to 355%. Remember that the Global Financial Crisis started in 2008 when the global debt was 'just' $187 trillion.

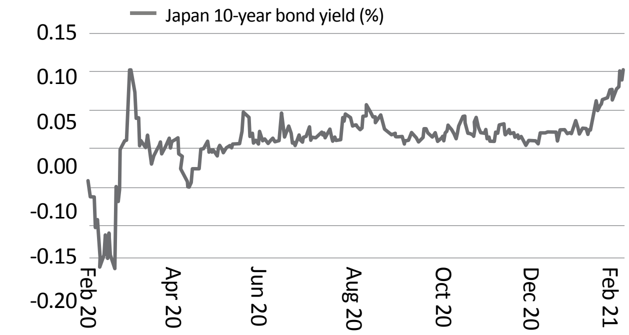
Developed market bond yields are going up



Source: Refinitiv data

Even the yield on 10-year Japanese Government Bonds (JGBs) stands at 0.10%, the top of the Bank of Japan's target range and no different from late January 2016. Perhaps even loyal holders of JGBs are contemplating the return

10-year JGB yield sits at top of BoJ's target range



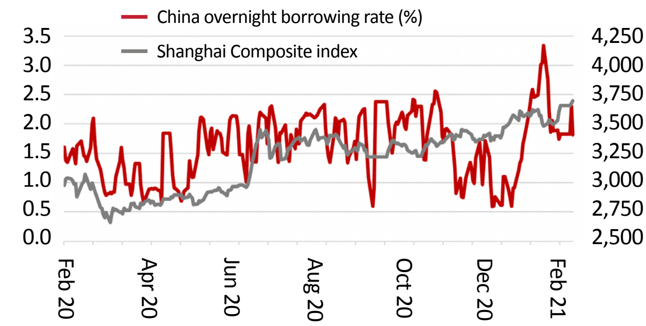
Source: Refinitiv data

of inflation after 30 years.

CHINA SYNDROME

Again, all of these trends could yet fizzle out. In a worst-case scenario, they become more pronounced. Central banks may want to raise rates to curb inflation, if it really does run hot, but struggle to do so, because of the immediate impact this would have economic growth - and financial asset prices. In this context, China is an interesting test case.

China did not hike overnight lending rates for long



Source: Refinitiv data

The People's Bank of China jacked up overnight borrowing costs in late January but quickly backed off as the Shanghai Composite index wobbled. As soon as policy was eased, share prices rose. The monetary authorities have a delicate balancing act ahead of them.

What does the March budget hold in store?

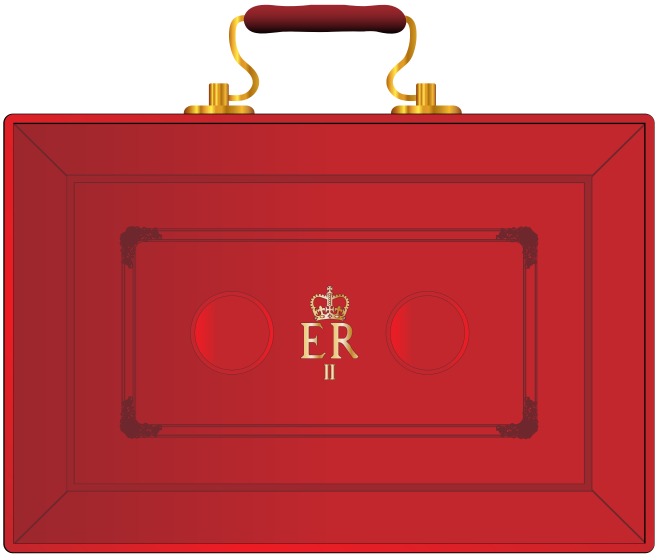
A look at how potential moves by chancellor Rishi Sunak might affect your finances

Tax or spend? That's the question facing the chancellor Rishi Sunak in his spring budget on 3 March. Given the pandemic is still raging, and the nation remains in lockdown, it seems likely he will keep his foot on the accelerator of public spending for the time being.

But that just means the tax brakes are going to have to come on harder when the pandemic is in the rear-view mirror, to restore order to the treasury's finances.

The Government can borrow at such low rates right now that it makes sense to open up the purse strings, and go for broke on generating economic growth. But at some point the taxpayer will need to pick up the bill.

The Institute for Fiscal Studies reckons that £60 billion of tax rises would be a plausible figure to expect in the medium term in order for the books to be balanced. Below is a summary of some of the key points for savers and investors to keep an eye on in the forthcoming budget, and beyond.



STAMP DUTY HOLIDAY

The stamp duty holiday is due to end on 31 March, and again there have been calls to extend this exemption. These seem pretty hard to justify. The stamp duty holiday is not particularly well targeted in terms of helping people onto the housing ladder who might be struggling to afford the move.

In fact, by stimulating demand and pumping up prices, it's arguably making the prospect of property ownership more remote for many people. Rather than extending what was devised as an emergency measure, it would be more sensible to conduct a root and branch review of stamp duty.

However, Government appetite for such a review is probably limited at the moment, given it has other more pressing priorities, and the stamp duty system has been the subject of a series of reforms since 2014, so it's not like it's flown under the radar.

What's more the Government won't simply want to give up the £8 billion it receives each year from taxing residential property transactions.

There have been some calls to replace stamp duty with an annual property levy alongside council tax, but such proposals sound like a guaranteed way to raise a chorus of boos and hisses from homeowners up and down the land.

CAPITAL GAINS TAX

The chancellor asked the Office for Tax Simplification to review capital gains tax (CGT) last year. The OTS duly obliged and recommended that CGT rates be raised in line with income tax rates, and that the annual £12,300 annual allowance of CGT free gains be cut to £2,000 to £4,000. For a treasury that is looking to pinch some pennies, CGT looks like low hanging fruit.

If the chancellor is minded to raise CGT, it's just possible we may get some movement in the March budget. The government would want to give notice that any change to CGT is coming, to avoid a fire sale of assets, and Rishi Sunak could use the budget to signal rate rises in future. That could stamp some thrifty credentials on a budget that risks being perceived as profligate.

HIGHER RATE TAX RELIEF ON PENSIONS

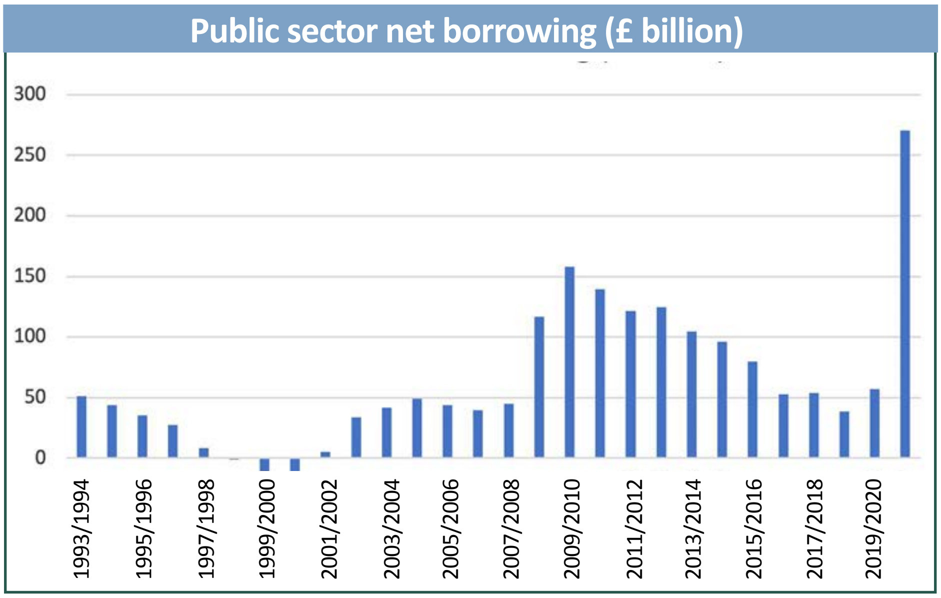
No budget is complete nowadays without some speculation that higher rate tax relief on pensions might be axed. Such a move would be progressive, and would raise money for the exchequer. But it would be fiendishly difficult to implement, requiring replumbing for huge parts of the pension system.

Raiding pensions is politically toxic at any time, but one group of people who would be particularly badly hit by cutting higher rate relief would be doctors, the very people who have been on the front line in the battle with Covid. Trying to cut pension tax relief right now could make Theresa May's 'dementia tax' look like a long-lived and successful government policy.

GREEN TAXES AND SPENDING

Environmental measures are likely to feature heavily in government fiscal policy, particularly this year seeing as the government is hosting the UN Climate Change Conference in November. Unfreezing fuel duty looks like a nice green policy which also raises money for the exchequer.

There have been reports the Government is looking into some sort of 'pay per mile' tax for drivers, to protect treasury revenues as the shift to electric cars takes place. However, with the government also wanting to get the economy moving, right now doesn't present the most timely entry point. It also seems unlikely the chancellor will want to add to the anguish of airlines and holidaymakers by increasing air passenger duty.



Source: Office for National Statistics

STEALTH TAXES

The Conservative election manifesto pledged no rises to income tax or national insurance, but the chancellor could choose to freeze allowances instead, when normally they would be expected to rise by at least inflation. Workers will then pay more tax as their earnings rise, but the tax-free allowances stay static. It's fiscal drag on steroids.

The Resolution Foundation reckons that keeping the tax-free allowance at £12,500 would raise £5 billion a year by 2024/25, while keeping the higher rate threshold at £50,000 would raise £1 billion a year. Those are pretty tempting sums for the chancellor to grab, without even technically raising taxes.

WEALTH TAXES

The Conservative chair of the Commons select committee has suggested a one-off wealth tax to help pay for the cost of the pandemic. The Covid crisis has exacerbated the gulf between rich and poor, and while some people have struggled to make ends meet, others have actually prospered financially as a result of lockdown.

A wealth tax would attempt to redress that balance. However the chancellor has reportedly dismissed the idea, and it doesn't seem to chime with traditional conservative values. However these are unprecedented times, and there are some surveys which suggest many taxpayers are actually willing to put their hand in their pocket to help out.

By **Laith Khalaf**
Financial Analyst

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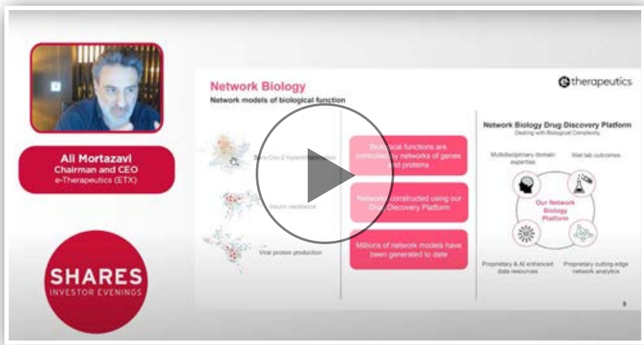
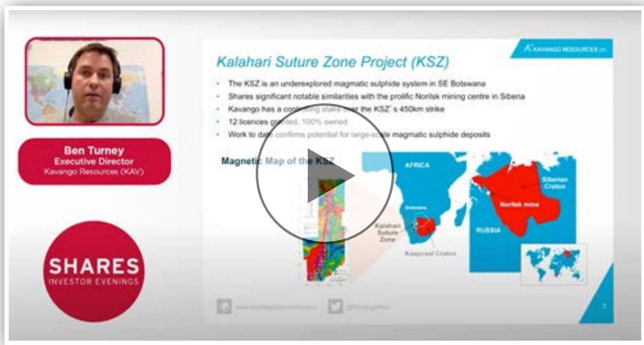


e-Therapeutics (ETX) – Ali Mortazavi, Chairman & CEO

e-therapeutics is an Oxford-based, computational drug discovery company. Using bespoke large datasets and its proprietary AI-supported Network Biology Platform, e-therapeutics can derive and analyse computational models of any disease-relevant biological function. These in silico models are then used to identify active compounds, novel drug targets and mechanisms.



Kavango Resources (KAV) – Ben Turney, Executive Director

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

OPEN ORPHAN (ORPH) – Cathal Friel, Executive Chairman

Open Orphan is a rapidly growing niche CRO pharmaceutical services company which is the world leader in testing vaccines and antivirals through the use of human challenge clinical trials. Open Orphan is actively involved in the fight against COVID-19.

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Which should I choose: ISA, Lifetime ISA or SIPP?

The choice of vehicle for your savings will depend on your personal circumstances

I currently have a few investments across ISAs, Lifetime ISAs and SIPPs.

I am willing to put money away for a reasonable timeframe, around 25 years, to aid me in retirement.

Would my money bit better off in an ISA, Lifetime ISA or SIPP?

Robert (Money & Markets podcast listener)

Tom Selby
AJ Bell
Senior Analyst says:

Whether your money would be better placed in an ISA, Lifetime ISA or a SIPP will depend on your priorities and personal circumstances.

This will likely in part be about getting the biggest bang for your buck via tax incentives, but you will also want to ensure you have the right combination of easily accessible funds alongside money that is locked away.

ISAs benefit from tax-free investment growth and tax-free withdrawals, with a maximum subscription of £20,000 each tax year.

Lifetime ISAs have a lower subscription limit of £4,000 that sits within the overall ISA limit mentioned above but you benefit from an upfront bonus of 25%, up to a maximum of £1,000 per tax year. Once you've opened a Lifetime ISA (you must be aged 18-39 to qualify) you can keep paying in and receiving a 25% bonus until the day before your 50th birthday.

The money can then be accessed tax-free for a deposit on a first home worth £450,000 or less, from age 60 or if you become terminally ill. If you access the money in any other circumstances a penalty will be applied (20% of withdrawn funds in 2020/21, due to rise to 25% in 2021/22).

SIPPs benefit from a much higher annual contribution limit of £40,000 (the 'annual allowance'), with a lifetime allowance of just over £1 million that rises each year in line with inflation. Personal contributions are limited to 100% of earnings in each tax year.

You will receive an upfront boost on your SIPP contributions via 20% basic-rate pension tax relief – equivalent to the 25% bonus offered through a Lifetime ISA – while higher and additional-rate taxpayers can reclaim extra 20% or 25% tax relief, via their tax returns respectively.

You can then access a quarter of your fund tax-free from age 55 (rising to 57 from April 2028), with the rest taxed in the same way as income.

OUTCOME

In terms of the outcome for someone in retirement, let's compare someone who pays the maximum possible into a Lifetime ISA - £4,000 a year for 33 years – with someone who pays the same amount into an ISA and a SIPP.

If they enjoyed 4% investment growth each year, by age 66 the Lifetime ISA investor could have a tax-free fund worth £645,000.

The ISA investor, meanwhile, could have a tax-free pot worth £516,000 after paying in the same amount over the same time period.

The SIPP investor could have a fund worth £645,000 – the same as the Lifetime ISA investor – with 25% available tax-free and the rest taxed in the same way as income. They could then limit the income tax they pay by staggering their retirement withdrawals.

If they were a higher-rate taxpayer they could have reclaimed an extra £33,000 in tax relief via their SIPP, while an additional-rate taxpayer could have reclaimed £41,250.

If that reclaimed tax relief was invested in an ISA each year, it could have generated a tax-free pot worth £129,000 (higher-rate taxpayer) or £161,000 (additional-rate taxpayer) by age 66.

One other key difference to bear in mind is the tax treatment of SIPPs on death.

Unlike ISAs and Lifetime ISAs, any money left in a SIPP won't count towards your estate for inheritance tax purposes, and can usually be passed on to your nominated beneficiaries tax-free if you die before age 75, while if you die after 75 it will be taxed in the same way as income when they come to make a withdrawal.

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.

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

26 February: FBD, Glenveagh Properties, Jupiter Fund Management, Law Debenture, RSA Insurance, VR Education. **1 March:** AFC Energy, Aggreko, Bunzl, Centralnic, Craneware, GlobalData, Greencoat Renewables, Medica, Quartix, Reach. **2 March**, Flutter Entertainment, Foxtons, James Fisher, PPHE Hotel, Rotork, Signature Aviation, Travis Perkins, Taylor Wimpey, Weir, XP Power. **3 March:** Getbusy, International Personal Finance, Nichols, PageGroup, Prudential, Persimmon. **4 March:** Admiral, Aviva, Coats, CRH, Entain, Franchise Brands, Hutchison China Meditech, Morgan Advanced Materials, Melrose, Rathbone Brothers, Rentokil, Synthomer, Vesuvius, Vistry, William Hill.

Half-year results

1 March: Craneware. **2 March:** Ashtead, Bluefield Solar Income, Hotel Chocolat, Supermarket Income REIT. **4 March:** Galliford Try.

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THIS WEEK: 12 PAGES OF BONUS CONTENT

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INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

FEBRUARY 2021

ISSN 2632-5748

Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

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

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

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

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

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

Previous issues of Spotlight are available on our website.

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The outlook for health care in 2021

From the Covid response to the M&A, the key things to watch in the coming months

2020 was a busy year for global healthcare with unprecedented efforts to develop vaccines, treatments, and diagnostics for Covid-19.

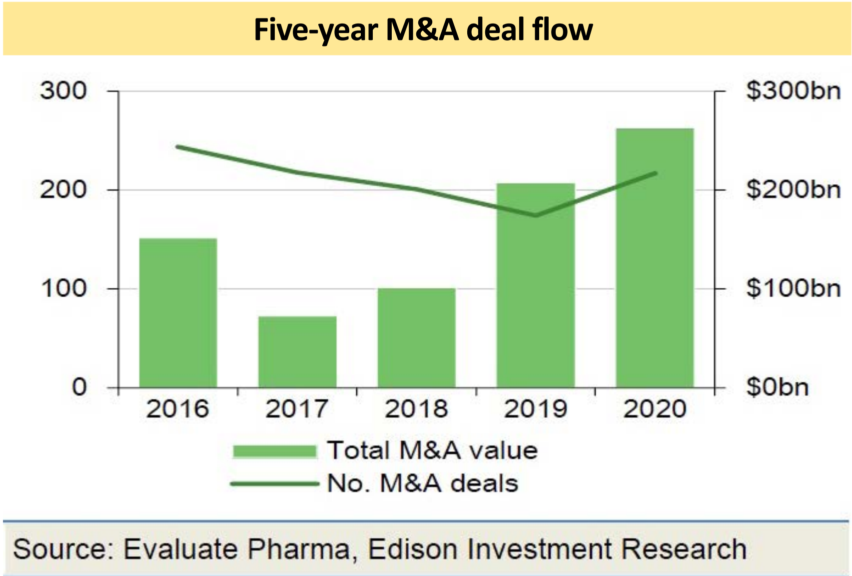
Headline risks have subsided as the US presidential election unfolded, enabling both M&A and partnering deal flow to continue unabated into 2021 and driving biotech indexes to all-time highs in the US.

WHAT WILL EMERGE FROM THE COVID-19 FALLOUT?

Healthcare industry players have sprinted along the vaccine development tightrope, surmounted regulatory hurdles and delivered solutions to a global pandemic in an unprecedented timeframe.

For us, a big takeaway from the pandemic has not just been the resurgent interest in anti-infectives and vaccines, but also diagnostics and manufacturing stepping out from the shadows as their importance has increasingly come into focus. Collaboration has been key to this, and the newly formed alliances will likely strengthen in the near-term, potentially enabling further expansion of current partnerships.

- What is the market outlook for diagnostics and treatments if the pandemic subsides?



- Will the newly adopted dosing regimens for Covid-19 vaccines provide sufficient efficacy?
- What market will emerge for these Covid-19 vaccines once current supply agreements are fulfilled?
- How long can Covid-19 vaccine protection last and can you re-administer the same vaccine?

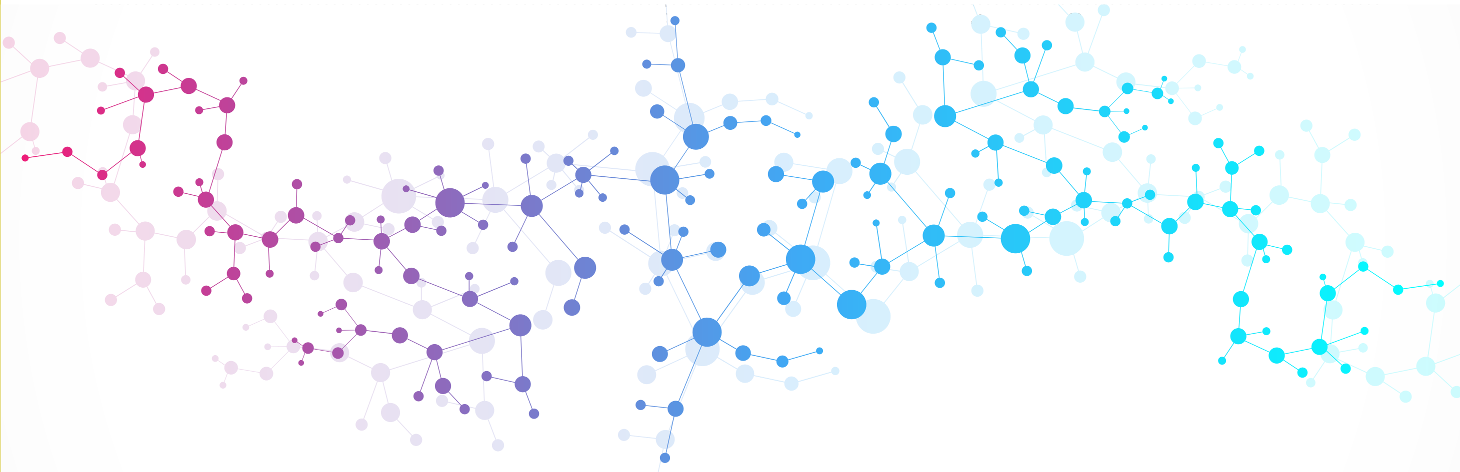
What is clear in our view, is that the status quo has been disrupted. The emergent vaccine platforms, such BioNTech's and Moderna's mRNA-based or Oxford University's AdV-based, will likely remain and challenge the incumbent platforms, which have failed to adapt in a timely manner.

Likewise, regulators will have learnt from the process and are likely to be re-evaluating their internal processes.

ARE BETA-AMYLOID ALZHEIMER'S DRUGS BACK IN VOGUE?

Before Covid-19 became the primary focus of 2020, a big talking point heading into the year was how the FDA (US Food and Drug Administration) might view Biogen's (BIIB) conflicting Phase III EMERGE and ENGAGE data for aducanumab, and whether the amyloid hypothesis could spring back to life in Alzheimer's disease research.

This remains largely unanswered until the PDUFA



decision date (7 March 2021), despite the negative outcome from the advisory committee (AdComm) meeting on 6 November 2020 where members voted against three key questions on whether these data are supportive of efficacy.

Although AdComm stances are typically upheld by the FDA these are non-binding, as highlighted with the controversial approval of Sarepta's Duchenne muscular dystrophy drug eteplirsen.

This leaves the door open for aducanumab being approved and would be a significant catalyst for Alzheimer's research more broadly. We await to see how the FDA finally decides to view the conflicting datasets in the face of a hugely under-treated patient population.

There has been significant investor interest in beta-amyloid-targeting drugs recently; Biogen gained and then lost around $15 billion in market capitalisation prior to and as a result of the AdComm decision regarding aducanumab, with share price effects rippling across other companies with a focus on Alzheimer's.

Furthermore, Eli Lilly announced positive headline data last week from the Phase II TRAILBLAZER-ALZ trial for donanemab, resulting in an increase of around $20 billion in Lilly's market cap with positive effects again being reflected in other companies' share prices, including Biogen.

HOW LONG CAN DEAL MOMENTUM BE SUSTAINED?

Deal flow in the sector continued to gain momentum in 2020, with M&A transactions and product licensing deals totalling five-year highs as large-cap pharma sought to bolster top-lines and expand into new therapeutic areas.

With business development occurring virtually in the pandemic, negotiations that would have taken weeks with face-to-face meetings and travel, have been able to take place in days. Will this trend continue during 2021 given the usual West Coast congregation that acts as a melting pot of introductions has not occurred in the same way this year?

Expectations for deal flow remain positive in 2021 following some big moves in Q420, including: **AstraZeneca (AZN)** expanding its rare-disease offering through the proposed $39 billion acquisition of Alexion, likely for its burgeoning franchise of C5-complement inhibitors (Soliris and Ultomiris); and Bayer's acquisition of Asklepios for $4 billion as it steps up its aspirations in cell and gene therapies.

Several notable deals occurred in January 2021 from Sanofi, including its proposed $1.5 billion acquisition of Kymab primarily for its Phase II OX40-targeting antibody and its licensing deal with Biond Biologics worth up to $1.1 billion, for a ILT2-targeting antibody

Novartis's recent licensing deal with BeiGene is also notable, with Novartis paying $650 million upfront for select commercial rights to Beigene's PD-1 tislelizumab, with milestones of up to $1.6 billion. Combined with the $1 billion deal signed in August 2020 between Eli Lilly and Innovent for the latter's PD-1 Tyvyt, these deals are seen as strong validations for some of the Chinese-developed drugs.

With the IPO window still seemingly strong also, invariably there will continue to be a trade-off between companies raising additional capital and progressing projects internally to retain economic value, versus out-licensing to larger external partners. Combined with US biotech indices being valued at all-time highs, it will be interesting to see if sector deal flow continues in 2021.

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

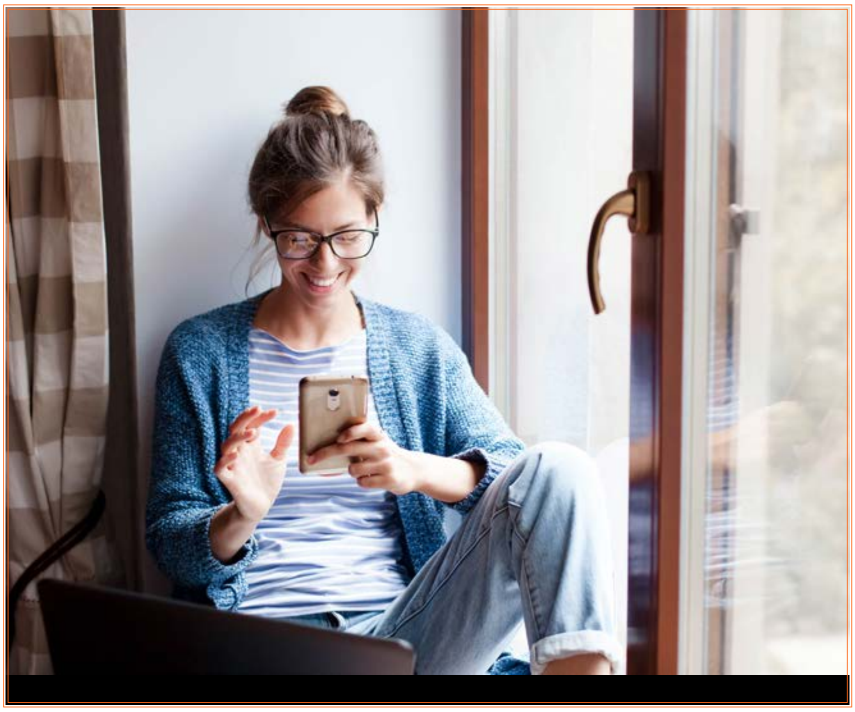
Boku – the global leader in carrier billing becoming a mainstream payments processor

www.boku.com

Boku (BOKU:AIM) is a world leading mobile carrier commerce company. While Covid-19 cast a long shadow over 2020 and continues to do so, Boku, positioned as it is, at the intersection of mobile and digital entertainment, is one of the fortunate companies that has been able to prosper.

Headquartered in London, with offices in various locations globally including in the US, Estonia, Mumbai, Munich, Beijing, Paris, Sao Paulo, Singapore, Taipei, and Tokyo, the company is a leading global provider of mobile payment and identity solutions.

Boku's Platform, which is linked to the billing, identity and sales systems of more than 220 mobile wallets and network operators worldwide, simplifies transacting on mobile devices and allows merchants to connect once to Boku and access the largest carrier network globally.



PAYMENTS BUSINESS PROSPERS

Within Boku Payments, Boku offers direct carrier billing (DCB), which enables mobile phone users, of which there are more than five billion worldwide, to buy goods and services and charge them to their mobile phone bill or pre-pay balance. Its Identity products are used to verify user details. Boku processes nearly one billion transactions worth more than $7 billion annually in more than 80 countries.

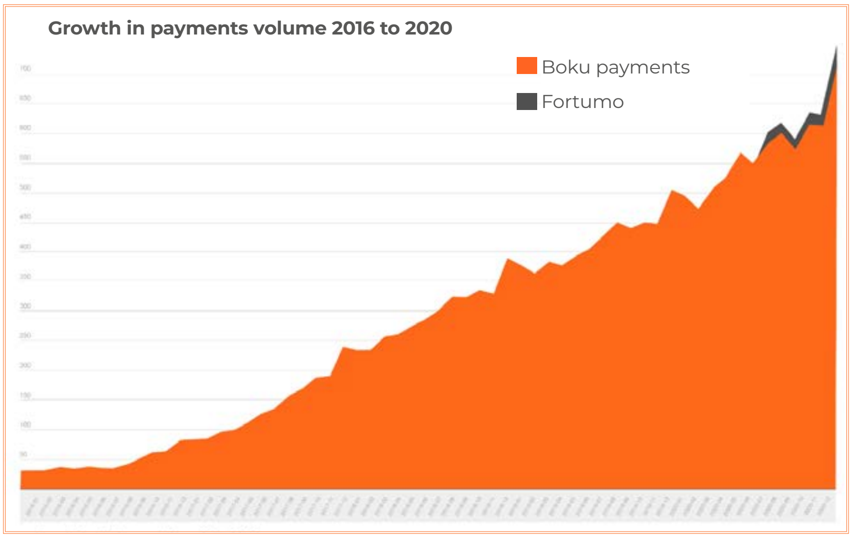
Global leaders that rely on Boku to acquire, monetise, and protect digital consumer transactions include Apple, Experian, Facebook, FIS, Fiserv, Google, Microsoft, Netflix, Paypal, Sony, Spotify and Western Union.

Boku's Payments Division, accounting for more than 90% of revenues, has prospered in the pandemic. As Boku's customers primarily supply digital entertainment services they saw demand increase and Boku, in turn, saw increased volumes and revenues. In December 2020, 28.8 million users transacted through Boku's payments systems.

At peak, Boku processed more than 400 transactions each second. Both were new records for the company.

Growth has been driven by existing connections, new launches and the acquisition of Fortumo in July 2020. In the last year new launches have been made for Amazon, Apple, Epic Games, Sony, Spotify, Netflix, Tencent, Microsoft, Google and many smaller merchants.

Boku was incorporated in 2008 and in November 2017 had a successful IPO on AIM, which has allowed it to focus on longer-term investment decisions and facilitate organic and acquisitive growth.



MATERIAL ACQUISITIONS

Since IPO Boku has completed two significant acqusitions. In January 2019, Boku completed the acquisition of Danal for $25 million as it expanded into mobile identity verification, a strategic move to leverage Boku's Platform to roll out its identity solutions globally and providing a complementary relationship between facilitating mobile payments and protecting against payment fraud.

In July 2020, Boku acquired Fortumo, a DCB competitor, for an enterprise value of $41 million. The acquisition consolidated the two leading and most profitable independent DCB operators. Fortumo has over 280 carrier connections in 80 countries, with particular strength in Asia-Pacific. Fortumo's primary focus on low-volume, high-margin SME merchants complements Boku's focus on high-volume low-margin global merchants.

Boku's long-term vision has always been to diversify its revenue streams and the company now has three central categories, its core DCB business, its identity solutions business and its eWallets business. The core business is in rude health with plenty of growth to come: on average each merchant in the network is connected to 32 of the 204 carriers in the network.

Boku Identity's network has expanded to more than 200 carriers in 60 countries, with contract wins in 2020 including LexisNexis, FIS (owners of Worldpay) and GDC. Mobile wallets are among the fastest growing payment solutions globally and Boku has made real progress launching this new payment method, initially to existing merchants and are now live with 11 wallets. It is clear that wallets will be a material contributor to revenue and profit in future years.

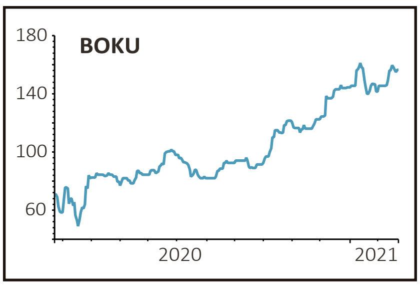
STRONG TRACK RECORD

Boku has a strong track record on delivering on what it set out to achieve. The company have a very resilient business, with continued revenue growth while also being robust against Covid-19, an enviable position for many.

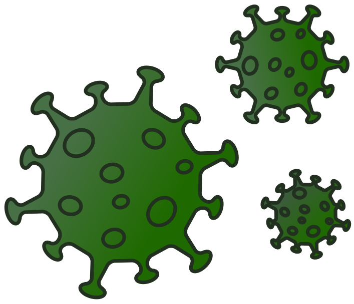
Jon Prideaux, CEO, attributes Boku's success to the strong team of individuals who work for the company, both in the UK and overseas.

In particular, Boku benefits from a strong senior management team - chairman and founder Mark Britto is currently PayPal's chief revenue officer. CEO Jon Prideaux has more than 30 years industry experience and started Visa Europe's e-commerce division. CFO Keith Butcher was CFO of Paysafe Group from 2010 to 2015, during which Paysafe's market cap grew from £40 million to £2 billion.

Going forward Boku will be investing in the platform to ensure that it can maximise opportunities, particularly in wallets, to meet the full market potential in all areas of the business, continuing to grow both revenue and profit.



Open Orphan facing up to Covid challenge



www.openorphan.com

Open Orphan plc (ORPH:AIM), a leader in testing vaccines and antivirals using human challenge trials. With operations in London, Paris and the Netherlands it is positioned for rapid growth as the world focuses on infectious diseases.

DELIVERING ON ITS PIPELINE

Over the past 12 months Open Orphan has successfully delivered on its pipeline of contracts with major pharma businesses, as such, its state of the art 24-bed quarantine clinic is fully booked until December 2021. To meet demand, Open Orphan opened a new 19-bed quarantine clinic in February 2021, the Whitechapel Clinic was converted on an innovative and low-cost basis.

The company is also a partner in the world's first COVID-19 human challenge programme, which will be run from a 19-bed ward at the Royal Free Hospital in London. The study is being backed by the UK Government and received ethics approval in February 2021.

SUPPORTING COVID-19 VACCINE DEVELOPMENT

Open Orphan is now the undisputed world leader in the commercial delivery of challenge studies which involve infecting healthy volunteers with a virus in a controlled quarantine setting to test vaccine efficacy, can potentially speed up vaccine development by two to three years, can test vaccine efficacy on specific variants of a virus and are far cheaper than large field studies. As Covid-19 has shown, all of these benefits are critical to vaccine development.

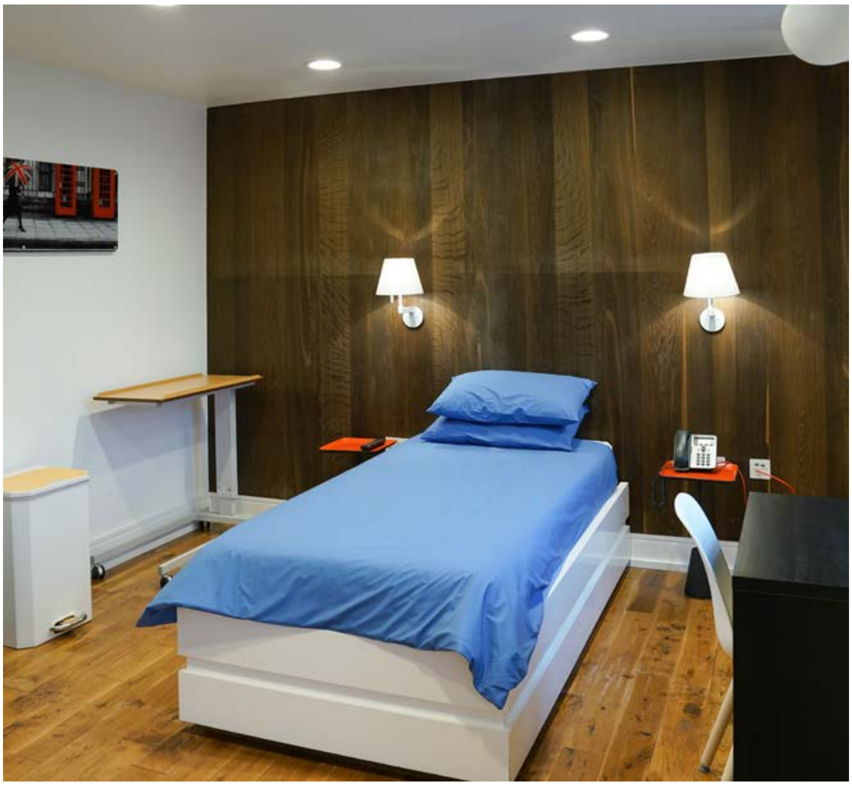
With the emergence of new mutations/variations of Covid-19, there is now an urgent need to rapidly develop a second-generation of vaccine against Covid-19 which will bring more human challenge clinical trial work to Open Orphan.

As has been widely reported, second-generation vaccines such as Codagenix COVI-VAC may provide immunity for five to seven years, protect against new variants and only require a single, intranasal dose and don't require deep freeze storage temperatures which hinders the effectiveness of roll-out. COVI-VAC is currently in phase I at Open Orphan's London clinic.

To meet demand, Open Orphan has opened new volunteer recruitment centres in London and Manchester by making use of spaces not currently in use due to the pandemic, increasing volunteer screening capacity by 520 slots per week. To find out more visit the dedicated volunteer recruitment website, www.flucamp.com. Individuals interested in taking part in the COVID-19 characterisation study can visit www.UKCovidChallenge.com to learn more.

SIGNIFICANT NEW GROWTH OPPORTUNITIES

Open Orphan has been developing its Disease in Motion® platform which includes the world's largest database of infectious disease progression data which can power wearables. The digital platform is now patented with applications for big tech and wearables; pharma and biotech companies.



The Company is also actively working towards the monetisation of its non-core assets: Imutex, Prep Biopharm and Immune modulator.

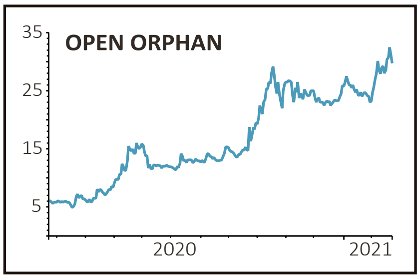
Since its formation, Open Orphan has consistently delivered on its objectives and was recently listed as a top 10 European CRO (contract research organisation).

The delivery of pipeline from a broad customer base and winning of major contracts including the Covid-19 Human Challenge Programme has resulted in the group reaching profitability in 2020. With global healthcare investment increasing, Open Orphan is in a strong position to deliver value for its shareholders and continues in the months and years ahead to be one of the fastest growing stocks on the London and Dublin exchanges.

"Looking ahead, I am extremely excited by the potential for this business, we have entered a decade of significant spending on vaccines and antivirals by both governments and pharma companies around the world."

"The Open Orphan Group is ideally positioned to capitalise on this increase in vaccine development expenditure."

Cathal Friel, Executive Chairman



Petards is positioned for growth

www.petards.com

Petards (PEG:AIM) is a well-established AIM-listed software developer of advanced security and surveillance systems, providing technology based solutions to the Rail, Traffic & Defence sectors.

SECTOR SYNOPSIS - POSITIONING FOR GROWTH

Petards Rail designs hardware and software systems which are located on-board trains under the 'eyeTrain' brand. These are primarily used in support of train drivers during their journeys, enabling visual camera surveillance whilst simultaneously recording data for them and for the train operators at their operational centres. These products have been developed over many years in close consultation with train builders, owners and operators with the product offerings continuing to grow through the adoption and utilisation of new technologies.

The surveillance and data collection systems provide on-board saloon cameras and a range of externally fitted cameras and sensors. Current products also include forward facing track debris detection and a technically advanced Automatic Selective Door Opening (ASDO) system linked to Global Satellite Positioning (GPS) technology. These products are all rail approved and meet the standards of compliance required for new train build and the UK retrofit market.

Petards RTS a software based business that licenses its operational Health & Safety software packages to Network Rail and its Tier 1 contractors as an essential part of their working on the UK on-track rail infrastructure. The software packages are a support tool for the contractors compliance with Health & Safety requirements in advance of their commencing work on the track.

Petards QRO, is a specialist camera and software integrator of traffic, number plate recognition and highway products. QRO integrates the 'best of breed' third party camera products together with its own suite of hardware products which are designed and developed by its own in-house hardware team and powered by its proprietary software. The business has continued to grow and improve its market presence through the establishment of framework agreements with a number of the UK law enforcement agencies and local authorities.

The Petards defence business is a long established supplier of defence related electronic countermeasure protection systems, mobile radio systems and related engineering services to the UK Ministry of Defence (MOD) as well as defence companies within countries forming the North Atlantic Treaty Organisation (NATO).

TECHNICAL - DYNAMIC APPROACH

Petards prides itself on the quality of its products and the commitment of the dedicated people who work within the organisation. With a large proportion of highly skilled and experienced people working within the business possessing an engineering doctorate or an engineering qualification, the leadership teams are able to proactively enhance the quality of product offerings, thereby providing the solutions and support that meet the needs of their customers.

By providing strong technical liason and support on projects to customers has enabled the businesses to enhance products with a competitive edge. These key customer relationships form an important partnership with new technologies being embedded into their new products together with additional applications.

Petards has established a new 'Petards Technology Centre' with a highly qualified in-house team to accelerate new product development within their respective markets. They are presently focussed on data capture, data transmission and analytics to improve their market position and fuel organic growth and value in the coming years.

The strengthening of software expertise within the group was a core strategic objective which together with the establishment of the new Technology Centre will support all group companies.

BOARD LEADERSHIP

The board is chaired by Raschid Abdullah with three other supporting directors. The board primarily deals with the strategic direction and investment decisions for the group, ensuring the group's financing requirements, relationships with the company's NOMAD, AIM listing compliance and relationships with investors as well as reviewing potential business opportunities.

Petards Group operates as a holding company with each operating business having its key performance drivers which include pre-approved budgets, cash flow forecasts, profitability targets, capital allocation and returns on capital employed, driven by a dedicated managing director or general manager who reports directly to the group CEO.

They are given responsibility with accountability, operating their businesses autonomously coupled with monthly reporting to the centre with a focus on the key performance drivers which are analysed and monitored by a small team at the centre.

PREVIOUS ACQUISITIONS

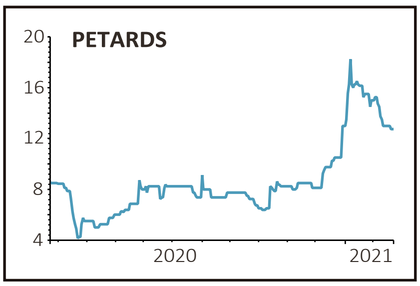
Since 2016, Petards has made two small acquisitions for cash both which have proven successful in terms of business growth with the winning of new business being a key driving force.

RECENT TRADING RELEASE

On 11 February 2021, Petards released to the market their trading update statement in respect of the year ended 31 December 2020 with a copy on Petards website.

Whilst that stock market release reported on the difficult trading experienced during 2020, it initiated an early and decisive action plan to reduce costs and to minimise the impact of Covid-19 on the business.

At the year ended 2020 it reported closing year end cash balances of £2.2 million and a net cash position of £1.2 million. It also reported a year end £12 million order book of which £10 million is currently scheduled for delivery in 2021. It also noted that economic conditions are presenting good quality acquisition opportunities in the privately owned sector.



Kettle controls leader Strix is gathering steam


Credit: Christopher Wormwell

Mark Bartlett
Chief executive officer

www.strix.com

Strix Group (KETL:AIM), an Isle of Man based company, is a global leader in the design, manufacture and supply of kettle safety controls, as well as other components and devices involving water filtration, water heating and temperature control and steam management.

The business has a rich history of providing brands, businesses and people with the best and safest products all around the world. It is listed on the AIM market of the London Stock Exchange which has allowed it to focus on longer-term investment decisions and facilitate a future of organic and acquisitive growth.

Credit: Christopher Wormwell

STRIX – A BRIEF HISTORY

Strix originally started in 1951 under the name Castletown Thermostats in the Isle of Man, founded by Eric Taylor. In 1982, Castletown Thermostats became Strix as it is known today, under his son John Taylor. The company initially focused on designing and manufacturing thermostatic controls for small domestic appliances.

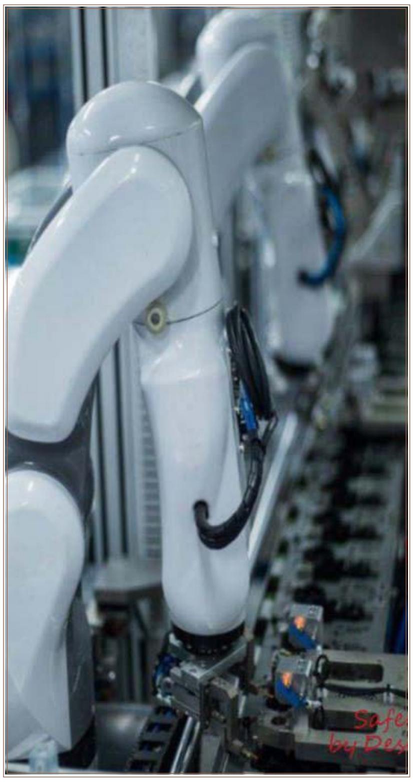
In the early 1980s Strix increased its presence on the Isle of Man by building its engineering and development centre on the island, as well as part of its key manufacturing facilities, which remain on the island to this day.

By 1988, Strix had become the world market leader for the supply of controls to the domestic water boiling appliances market and a year later opened its first overseas office in Hong Kong, solidifying its global roots. Today, Strix is the world's number one manufacturer of kettle controls and has established partnerships with brands, OEMs and retailers as well as a number of other components and devices in its water and appliance categories.

Strix and the Isle of Man Government have established a strong relationship and the company receives support from them in exchange for its continued business and custom over the past 40-plus years.

FLOATING ON AIM

In August 2017, Strix listed on the London Stock Exchange by being admitted to trading on AIM, with a £190 million IPO. Strix decided to list to



further invest in its research and development capabilities, to enhance the profile of the business, help defend its market share and provide opportunities for future growth, creating value for investors.

Strix also works with regulators all over the world to improve the regulation laws and ensure the enforcement of patent infringement. Strix is able to both enforce its patent rights and, where they have expired, utilise other legal redress such as copyright, to take legal action against those that seek to unlawfully copy its products.

Headquartered in the first UNESCO Biosphere on the Isle of Man, the company has a c.54% global value share of the kettle control market and is recognised as the most trusted technical partner in the industry employing over 800 people globally. Strix's long-term vision has always been to diversify its revenue streams and the company now has three central categories; its core kettle controls category, its water category and its appliance category.

CORE BRANDS

Strix has developed a variety of products within the water filtration market through its three core brands; Aqua Optima, astrea and HaloPure. These brands deliver global solutions for water filtration and sterilisation needs through the delivery of water bottles, jugs, filters and other related appliances. The appliance category, also a main focus for the company, has a portfolio of water, temperature and steam management technologies which have been commercialised in adjacent products and markets.

It is estimated that Strix safety controls are used over one billion times per day by consumers, in more than 100 countries, and by over 10% of the world's population. With 10 new contracts signed in 2020 with major brands across its three categories, Strix continues to use its relationships with brands and OEMs to drive innovation and new products to support its continued growth. The company is building a new, state of the art factory in China to facilitate its increasing demand, which is scheduled to be fully operational in August 2021.

MAJOR ACQUISITION

Strix acquired LAICA S.p.A in September 2020, a specialist company based in Italy which is focused on water purification and the sale of small domestic appliances for personal health and wellness applications.

Today, it has a large international footprint with specialist skills in both the water and the appliance categories which fits well with Strix's growth model. Coupled with Strix's existing Aqua Optima brand and the acquisition of HaloSource back in 2019, these acquisitions significantly enhance the company's position within the water and small domestic appliance category.

Despite a great historical track record, delivering on all areas it set out to achieve, Strix is just getting started.

The company has a very resilient business, with good liquidity and strong cash flow, an enviable position for many. Mark Bartlett, CEO, attributes Strix's success to the strong team of individuals who work for the company, both in the Isle of Man where the business is rooted and overseas.

The team at Strix has continually shown drive and commitment to the business, especially since listing in 2017. Going forward Strix is set to deliver on more of the same, managing its cost base wisely, while continuing to invest in R&D and its strategic objectives, delivering on its new products, completing the new factory to double manufacturing capacity and ensuring it is positioned to achieve its full potential.