STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 23 / ISSUE 12 / 01 APRIL 2021 / £4.49

SHARES

WE MAKE INVESTING EASIER

AVOIDING ESG FAKERS:

how to spot the best responsible investments

PLUS

LAST MINUTE **ISA** INVESTMENT **IDEAS**

CAZOO FLOAT TO SHAKE UP **USED CAR MARKET**

FRESH START FOR **BOOHOO**

DMGT's Cazoo boost: When old media meets new media

The newspaper publisher benefits from investment in an early-stage business

Amid all the hype around the multi-billion-dollar stock market listing of UK car marketplace Cazoo via a special purpose acquisition vehicle or SPAC in the US, it would be easy to miss the big windfall this could mean for newspaper publisher and shareholder **Daily Mail & General Trust (DMGT)**.

We increasingly live in a digital world – a trend which has only been accelerated by the pandemic. As a result, more of our entertainment, social interaction and learning takes place online.

The trend has been perceived as a serious threat to so-called old media businesses like broadcasters and newspaper publishers.

However, DMGT's investment in Cazoo shows how some of these traditional firms are harnessing their enduring reach to get in on the ground floor of disruptive and innovative new consumer-focused businesses.

As recently as 15 years ago people would have bought a used car from a dealership – often having consulted a classified advertisement in a printed newspaper, perhaps even one from DMGT's own stable. Now Cazoo sells cars online and offers free UK home delivery.

DMGT said it expects to receive around $1.35 billion (£1 billion) for its stake in cash and shares in the listed Cazoo business, having originally invested £117 million into the company.

NEW MEDIA VENTURES

Cazoo is just one of the assets in DMGT's dmg ventures arm which invests in companies with disruptive consumer propositions.

Other noteworthy holdings include Kortext, which is supplies digital textbook and learning solutions to UK universities, and Farewill which is an online platform which helps deal with all the paperwork when someone dies.

DMGT also has a 45% stake in UK hybrid estate agent Yopa and historically the company netted a significant gain from its holding in online property site Zoopla – now owned by private equity.

One way the DMGT has secured access to start-ups is to offer advertising in its publications, both print and online, in return for an equity stake.

This model looks to be one free-to-air broadcaster **ITV (ITV)** is keen to follow. The company recently launched the Media for Equity programme to take minority positions in direct-to-consumer and digital ventures in return for advertising airtime on its flagship channels and its ITV Hub video-on-demand service.

The first investment under this scheme, for a relatively modest £2 million, was recently announced in location identification service What3words. It is used by emergency services to reduce search times and by delivery companies.

Investors should keep tabs on this investment strategy to see if it could, as for DMGT, make a more significant contribution to ITV's fortunes in the future.

By **Tom Sieber** Deputy Editor

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

TEMPLETON EMERGING MARKETS INVESTMENT TRUST

30+ YEARS YOUNG
EMERGING MARKETS PIONEERS

BE A PART OF TOMORROW'S SOLUTIONS, TODAY

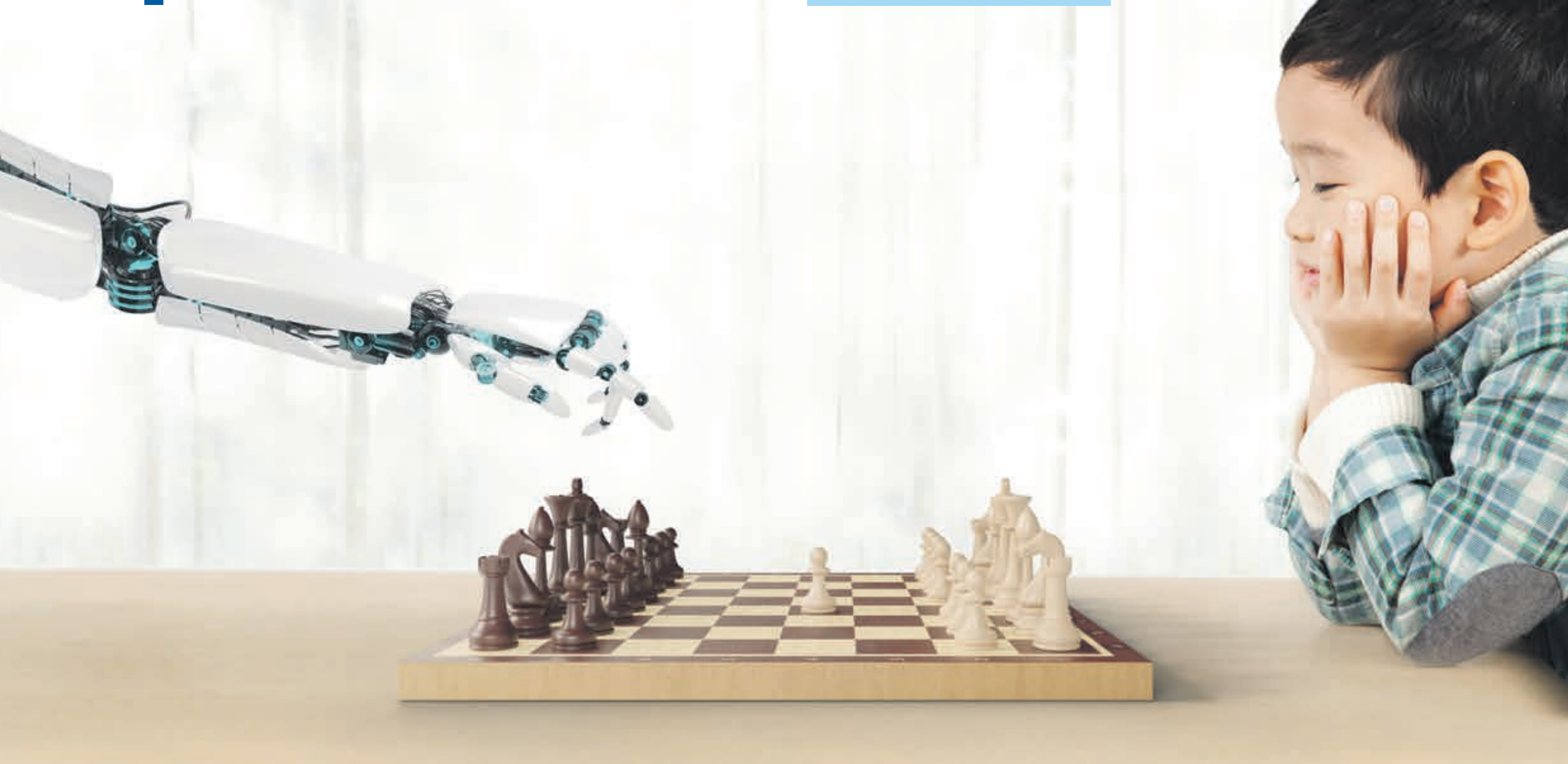
The world is changing at an unprecedented pace. Businesses are going through a profound transformation and moving the heart of their operations online. The Templeton Emerging Markets Investment Trust embraces change and targets companies at the forefront of innovation. These pioneers in 5G and AI are leading the way with next generation technology such as e-commerce, virtual healthcare and remote education.

We're moving forward, and we're taking you with us.

Visit our website to find out more: www.temit.co.uk

FRANKLIN TEMPLETON

REACH FOR BETTER™



The value of shares in the Templeton Emerging Markets Investment Trust PLC (TEMIT) and any income received from it can go down as well as up and investors may not get back the full amount invested. There is no guarantee that TEMIT will meet its objective.

TEMIT invests in the equity securities of emerging markets companies. Emerging markets have historically been subject to significant price movements, often to a greater extent than more established equity markets. As a result, the share price and net asset value of TEMIT can fluctuate significantly over relatively short time periods. Other significant risks include borrowing risk and share price discount to NAV risk. For more details of all the risks applicable to TEMIT, please refer to the Key Information Document, Investor Disclosure Document and the risk section in TEMIT's Annual Report, which can be downloaded from our website www.temit.co.uk. Issued by Franklin Templeton Investment Management Limited (FTIML), Cannon Place, 78 Cannon Street, London EC4N 6HL. FTIML is authorised and regulated by the Financial Conduct Authority.

Deliveroo off to ugly start as stock plunges

Early investors face large paper losses as institutions shun UK's biggest IPO in a decade

Takeaway platform **Deliveroo's (ROO)** much-hyped stock market debut was a disaster as the stock plunged as trading in its shares began (31 Mar).

Having priced the IPO (initial public offering) at 390p per share, the stock opened at 330p and it only got worse from there as Deliveroo briefly dipped below 300p.

The initial reaction of investors will raise questions about the about the state of the broader stock market, investor appetite for new listings and the health of the UK economy.

It also leaves thousands of Deliveroo customers with app accounts and retail investors nursing heavy paper losses, having been offered the chance to invest up to £1,000 in the IPO.

Most readers that invested following our recent feature were probably playing a long-term game and should not panic even if we, wrongly as it turned out, didn't anticipate such a negative response to Deliveroo's debut.

This initial sell-off in the shares is though a hard lesson for those who hoped to achieve a quick profit by getting in at the issue price.

The company had raised £1 billion of growth funding from investors at a final valuation of £7.6 billion, London's largest IPO in a decade, but several institutions, such as Legal & General, Aberdeen and M&G, had avoided the IPO because of questions about Deliveroo's working practices and governance.

Among the chief concerns are the rights of its gig economy delivery riders and drivers, who are treated as private contractors and get none of the protections of employed workers, such as sick or holiday pay.

A key risk facing the business is that these arrangements would change as a result of regulation or public pressure, with material implications for its profitability.

Investors may also have been put off by the dual-class share structure that gives co-founder and chief executive Will Shu greater control over the company.

Twin-stock structures are rare in the UK but they are popular with founder-owned businesses in the US and particularly with many of the big tech IPOs in recent years.

Deliveroo is fighting for market share in a hotly contested food delivery space, with the company recently announcing expansion plans that will see its delivery riders and drivers operate in 100 more UK towns and cities this year as demand continues to surge during the various lockdowns.

Yet it continues to rack up huge losses. Deliveroo reported an underlying loss for 2020 of £223.7 million, down from £317.3 million of red ink in 2019.

There may be fears that if the company couldn't turn a profit in the very helpful market conditions created by the pandemic then it has little chance of doing so once there is a return to some form of normality. [SF]

Online used car retailer Cazoo revs up for US float

London's quoted used car dealerships will be watching Cazoo's move with interest

London's listed car dealers could soon face stiffer competition from an online disruptor with a souped-up balance sheet and increased brand awareness as used car website Cazoo motors onto the New York Stock Exchange.

Founded as recently as 2018 by tech tycoon Alex Chesterman, Cazoo plans to go public across the pond via a merger with a special-purpose acquisition company or SPAC that will value the digital disruptor at around $8.1 billion.

Cazoo is set to merge with billionaire US investor Dan Och's Ajax I Spac. Once the deal completes in the third quarter, the combined company will be named Cazoo and listed on the New York Stock Exchange under the 'CZOO' ticker symbol.

Used car website Cazoo has a fast-growing presence in Europe. Car sales have shunted online at pace during the pandemic, with physical sales showrooms shuttered during lockdowns.

Wary of contracting the virus, many customers have become increasingly comfortable with purchasing cars at the click of a mouse rather than a vehicle showroom visit.

That has played into the hands of Cazoo, which has a similar business model to high-flying US-listed outfit Carvana. Chesterman's charge operates an online showroom and delivers used cars straight to customers' homes in the UK and continental Europe.

CAZOO GROWTH AHEAD OF CARVANA AT SAME PERIOD SINCE INCEPTION

Source: Cazoo

LONG WAIT FOR PROFIT

Cazoo expects to achieve revenue approaching $1 billion in 2021, a growth rate of more than 300% in its second full year of operations, although the company doesn't expect to be profitable at the earnings before interest, taxation, depreciation and amortisation (EBITDA) level until 2024.

The US listing will provide Cazoo with almost $1 billion of further funds to fuel its growth and **Daily Mail & General Trust (DMGT)**, which has seen a bumper return on its £117 million initial investment in the firm, insists Cazoo is 'well positioned to take advantage of the shift to online car-buying and disrupt the highly fragmented circa $700 billion European used car market'.

Given the growth Cazoo is seeing, it could represent a long-term competitive threat to second hand car specialist **Motorpoint (MOTR)** as well as auto dealers including **Pendragon (PDG)**, **Lookers (LOOK)**, **Vertu Motors (VTU:AIM)** and **Marshall Motor (MMH:AIM)**.

That said, it is worth noting that the majority of consumers continue to opt for a showroom experience as part of the car buying process. And the incumbent players have established sales showrooms and won't surrender market share without a fight.

They've been investing in accelerating their digital capabilities with click and collect and home delivery options too and won't be unduly spooked by Cazoo's public market arrival. [JC]

Chinese stocks battered by storm of negative news

China equity funds hit as stocks undergo a correction on mounting risk

When it rains, it pours seems to be an appropriate adage for Chinese stocks at the moment with investors in the country hit by a cornucopia of bad news including increased regulation, rising tensions with the Biden administration in the US and a crackdown on Chinese firms listed in New York.

Big tech names like Alibaba and Tencent, two major holdings in many Chinese equity funds, have taken a hit on increasing regulatory oversight by the Chinese government.

Sentiment towards the stocks has not been helped by reports that Chinese officials are considering a joint venture with dominant Chinese internet platforms such as Alibaba, Tencent, and Bytedance so it can monitor user data.

And a new rule from US financial regular the Securities and Exchange Commission aimed at Chinese stocks listed in the US, which requires firms to submit documents to establish that they are not owned or controlled by a governmental entity in a foreign jurisdiction, has exacerbated the decline in big Chinese tech stocks.

Since Chinese markets peaked on 17 February, Alibaba and Tencent shares have fallen around 20%. JD.com, the e-commerce giant which is also widely held by China funds, has lost around 25% of its value in that timeframe while online shopping platform Meituan Dianping – another investor favourite – tumbled even further with a whopping 38% fall.

The wider Hang Seng index in Hong Kong has fallen 9% since 17 February, with China's Shanghai Composite down 7%.

Falls in both China's big tech giants and the stock market as a whole has invariably had an impact on Chinese equity funds, as many have seen big gains in January wiped out and are now trading down year-to-date, with **Allianz China A-Shares (BMG9ZY3)** the biggest faller with a 9.5% loss.

Also not helping Chinese domestic stocks is the fact other economies around the world are starting to recover from coronavirus, leading regional and global investors to look elsewhere for growth.

CHINA EQUITY FUND PERFORMANCE YEAR-TO-DATE

Fidelity China Focus	5.9%
GAM Multistock China Evolution Equity	5.1%
FSSA All China	2.0%
Wells Fargo Worldwide China A Focus	2.0%
Comgest Growth China	-0.1%
Allianz China Equity	-0.8%
Fidelity China Consumer	-2.7%
Invesco PRC Equity	-3.3%
Baillie Gifford China	-4.7%
Aberdeen Standard SICAV All China Equity	-4.9%
HSBC GIF Chinese Equity	-5.1%
Baring China A-Share	-7.2%
Allianz China A-Shares Equity	-9.6%

Source: FE Fundinfo, data taken 29 March 2021

Despite this short-term market noise, longer term the growth opportunity for Chinese firms is clearly still there, and analysts at investment bank Jefferies point out that China economic forecasts for 2021 are actually being revised up and companies' 2022 earnings are 'holding up well'.

The analysts say one lesson learnt from the current sell-off in Chinese stocks is to 'avoid crowded trades and to pare back stocks that get gripped by the momentum fever', and add that the Chinese authorities have a 'proactive stance' in 'pre-emptively pricking asset bubbles'. [YF]

Call for investment trust dividend cover transparency

Providing explicit commentary in this area would be a step in the right direction

Given the extraordinary events over the last year which resulted in UK dividends falling an unprecedented 44.1%, research group Stifel argues more transparency is needed on reported dividend cover at investment trusts.

One of the advantages that investment trusts have over open-ended funds is their ability to 'dip into' revenue reserves in rainy day years to top-up any shortfalls in income from their investee companies.

So despite the carnage wrought on company dividends by the pandemic, data from Link Asset Services shows investment trust dividends rose by 4.2% overall with the biggest percentage cuts coming from relatively smaller trusts.

While that is good news for investors in investment trusts, it only tells part of the story because dividend cover is just as important for sustaining future dividends.

Continuing to pay dividends which are uncovered by underlying income from their holdings is not sustainable for trusts over the long term. But finding the information in the accounts to enable investors to calculate dividend cover is often not easy.

For example, Stifel highlights **Alliance Trust (ATST)** where the board stated it had increased the dividend for 54 consecutive years, 'partly assisted by using reserves'.

It continued: 'Even in the extremely unlikely event that the company receives no dividends at all from its portfolio over the next two years, it could continue to pay an increasing dividend from its revenue reserves alone.'

While this is comforting, it fails to specify the actual level of dividend cover.

> ***Continuing to pay dividends which are uncovered by underlying income from their holdings is not sustainable for trusts over the long term.***

MORE DETAIL REQUIRED

Stifel argues that boards should provide clearer information on dividend cover as well as guidance on expected dividend pay-outs from stocks they hold.

For example, it would be useful to differentiate between the impact from companies which have suspended their dividends from those that have cut or rebased.

It would be reasonable to expect those companies which have suspended their dividends to quickly restore them post crisis, while those companies that have permanently cut or rebased the dividend are likely to take longer to reach pre-crisis levels.

Providing investors with a clearer picture of how a trust's revenues from investee companies might change over the coming year will give them an insight into how likely the trust is to dip into future revenue reserves.

This is important because as Stifel notes, dipping into revenue reserves to maintain dividend payments reduces an investment trust's net asset value, which affects the discount or premium.

One suggestion is to present accounts with capital and income shown separately so that investors can calculate the cover for themselves or alternatively that investment trust boards provide explicit comment on the level of dividend cover.

Investment trusts have provided an oasis of income during the dividend drought of 2020, so it would be a shame if trusts undermined this through a lack of communication. [MG]

Specialist lender Arbuthnot plots course to higher returns

Low-cost deposit base gives it the scope to find winning investments

For a private bank which made its name financing foreign trade in the 19th century and coming up for its 190th anniversary, **Arbuthnot Banking (ARBB:AIM)** has a very up-to-date approach.

Thanks to a major investment in technology in 2017, the entire workforce was able to work from home seamlessly when the pandemic struck last year, allowing the bank to remain fully operational and averting the need to lay off staff.

The company also has a handy knack of picking up undervalued businesses in the aftermath of financial crises. In 2012 it bought Everyday Loans for just £1 and in less than four years it sold the business on to **Non-Standard Finance (NSF)** for a profit of £117 million.

Fearing contagion from the slowdown in the real economy and the potential for a liquidity squeeze, the bank focused on growing its deposits in 2020 with the result that customer balances increased 13% to £2.36 billion at a lower cost than the previous year.

At the same time the bank has been de-risking its balance sheet and reducing its exposure to the residential property market with the sale of a £55 million portfolio of home loans, which it bought in 2014 with a yield of 4%, to **OSB Group (OSB)** for a yield of less than 3%.

ARBUTHNOT BANKING
BUY
(ARBB:AIM) 862p
Market cap: **£130 million**

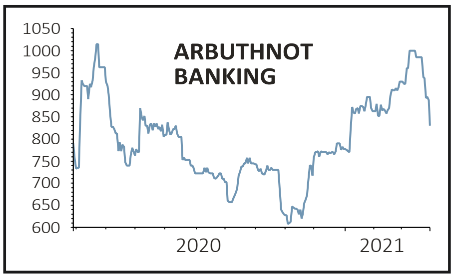
Thanks to its low-cost retail deposit base, Arbuthnot was able to continue searching for high-yielding businesses even during the pandemic, and at the end of 2020 it agreed the £1 million purchase of Asset Alliance, a leading truck leasing business which adds to its specialist commercial banking business.

NEW STRATEGIC PLAN

With its ability to find high yielding investments, the bank has set out a new strategic plan targeting a 15% pre-tax return on capital employed in three to four years, which makes its prospective 2022 price to earnings multiple of 12.7 times and price to net asset value of 0.8 times seem highly attractive.

For chief operating officer Andrew Salmon, the decision not to let people go and not to claim on the government's furlough scheme meant 'a pause in profitability' as tumbling bank rates ate into the firm's net interest margin, but it went down well with its private client customer base which still demanded a bespoke service.

Loan demand started briskly before reversing in March as the virus struck. Combined with a decision to tighten lending criteria, this meant 'a year of missed growth' as customer loan balances ended more or less flat at £1.59 billion.



Chemicals firm Croda has an exciting new growth strategy

The company is one of just a few firms globally providing a key material for mRNA treatments like vaccines, which could provide big returns

CRODA
BUY
(CRDA) £63.54
Market cap: £8.8 billion

Investors should buy chemicals firm Croda - a highly exciting stock which should provide substantial multi-year returns for investors.

What's firing our excitement is the new-found expertise in its healthcare division in so-called lipid nanoparticles or LNPs, which are fatty molecules used in drugs and vaccines to encase and protect the stuff in the drugs and vaccines that help people. Substances like these are sometimes known as excipients.

There are few companies in the world that can make LNPs, and Croda is one of them after it bought Avanti Polar Lipids in July 2020. Avanti is one of the world leaders in LNP technology, but it didn't have the expertise to find a way to be able to manufacture them in a commercially viable way and at scale. Croda has that expertise.

A CRITICAL ROLE IN MRNA TREATMENTS

Here's the exciting part. LNPs are crucial for mRNA treatments – like mRNA Covid-19 vaccines including the ones developed by Pfizer and Moderna.

These don't work without LNPs, because the messenger RNA delivered to the body via a vaccine for example needs protection from the body's T cells (provided by being encased in a fatty molecule) in order to deliver the message to the body's immune system to fight diseases like Covid and not get degraded and wiped out before it has the chance to trigger an immune response.

The growth potential here means investors should not get hung up on an apparently expensive valuation, with the shares trading on a 12-month forward price-to-earnings ratio of 31 times, and a price-to-book ratio of 5.6 times.

In November Croda signed a deal with Pfizer to provide LNPs for its mRNA vaccines, and for 2021 Croda said it expects

WHAT DOES CRODA DO?

The company manufactures a range of chemicals which are key to many products in a wide range of sectors including medicines, personal care, electronics and devices, building and construction, renewable energy, etc. These products in such diverse sectors provide stability to its revenue and earnings in a downturn.

to generate a minimum $125 million (£90 million) in sales from the contract with Pfizer alone.

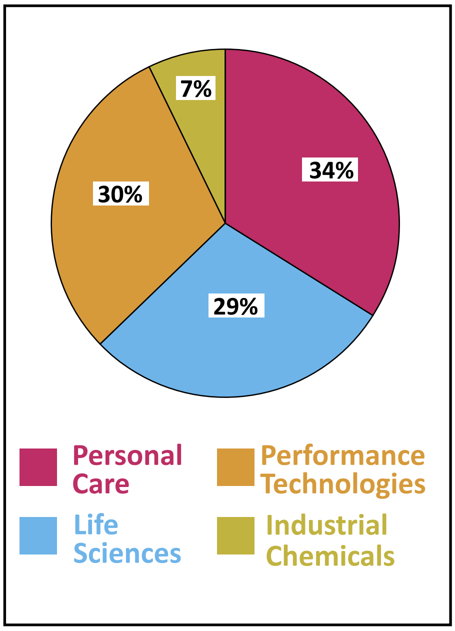
Croda's sales were £1.4 billion in 2020. A more typical customer contract size for Croda is somewhere between £1-£3 million according to analysts, who suggest the Pfizer deal could deliver EBIT (earnings before interest and tax) of around £23 million for Croda going by the EBIT margin of 30% in its life sciences division.

One risk to highlight with the stock at the moment is political risk, with reports suggesting exports of its LNPs to Pfizer's EU factories could be blocked amid a row over vaccines between the UK and EU. However, while there is potential for this to have a short-term impact on sentiment, this is unlikely to have any impact on the huge medium and long-term opportunity for the company.

APPLICATIONS BEYOND COVID VACCINES

The Pfizer contract is an entirely new revenue stream for Croda, and that's just from

Croda: revenue breakdown 2020



Source: Croda 2020 Annual Report

one vaccine. There's a lot more mRNA vaccines in development, as well as several mRNA treatments for other diseases.

Pfizer and Moderna's vaccines getting regulatory approval has given confirmation for mRNA technology and look like they could well open the floodgates for several more mRNA treatments to be successfully developed.

Messenger RNA technology is seen as a game-changer in the healthcare industry because it means treatments can be created a lot quicker, it has the potential to be used for many diseases, and it means mRNA vaccines can be given to people with compromised immune systems, unlike traditional vaccines. They can also be adapted quicker when mutations to a virus occur.

Croda definitely sees scope to benefit from mRNA outside of the immediate boost from Covid vaccines: 'While this was a proud moment for all at Croda, the vaccine marks an early use of innovative mRNA technology which is expected to drive future excipient growth well beyond Covid-19 in the prevention of other infectious diseases and treatments, including cancer.'

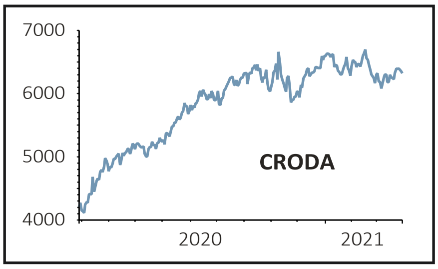
A 'MULTI-YEAR BLOCKBUSTER'

Liberum analyst Adam Collins thinks the 'mRNA platform could be a multi-year blockbuster for Croda'.

He adds: 'Some in Croda have compared the [Avanti] deal to the acquisition of Sederma in 1996 which has been the fastest-growing and most profitable part of its Personal Care division.'

Collins says it's quite likely 2021 will be the peak year for the Pfizer vaccine contract as vaccine rollouts across the world hopefully result in herd immunity in many countries later in the year. But he adds there will likely be the need for repeated programmes and potential for mRNA medicine to become bigger in many areas.

Berenberg analyst Sebastian Bray says Croda is working on 'many pre-clinical and clinical solutions in RNA applications including oncology', and that the firm also thinks its LNP technology could also play a role in gene therapy (inserting new genes into cells). [YF]



AVIVA
(AV.) 409.7p

Gain to date: 36.1%
Original entry point:
Buy at 301p, 17 September 2020

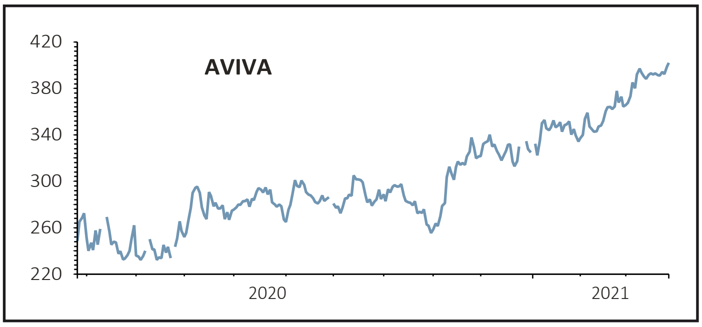
WITH THE SALE of the Polish business to Germany's Allianz for €2.5 billion, new chief executive Amanda Blanc has fully delivered on her promise to reshape insurer **Aviva (AV.)** as a focused business with significant shareholder returns.

The deal marks an eighth disposal in eight months, for a total cash inflow of €7.5bn, and has seen Aviva retreat from markets as diverse as Portugal, Turkey and Singapore.

With the shares trading at year-highs it's tempting to think that's it for now and lock in some gains, but given the speed and dexterity with which the non-core assets have been jettisoned we think it's worth sticking around to see what Blanc has planned in order to reinvigorate the core UK, Irish and Canadian franchises.

For income investors there is a 6.4% dividend yield, while share buybacks will increase the net asset value – which already stands at close to 500p – still further.

Investment bank Berenberg has pencilled in £1.5 billion of share repurchases for the next financial year and a further £1.5 billion for the year after, which equates to roughly 20% of Aviva's current market cap.



SHARES SAYS:
Buybacks and dividends mean the stock offers one of the most attractive total return upsides in the FTSE, which is a good reason to stick with it. [IC]

SOFTCAT
(SCT) £17.73

Gain to date: 84.8%
Original entry point:
Buy at 959.5p, 1 August 2019

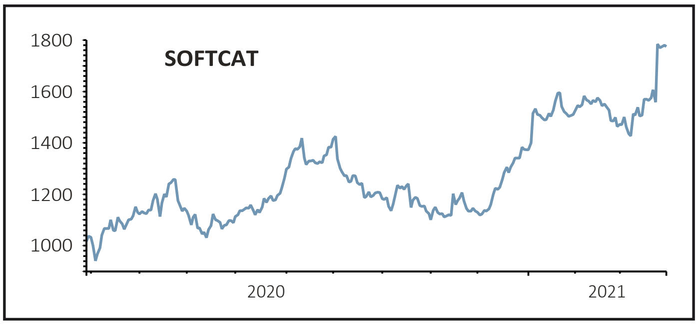
THERE IS STILL 'significant upside risk to gross profit' from software seller **Softcat (SCT)**, say analysts, and that should power the shares beyond £20 for the first time this year.

Analysts at Peel Hunt and Numis had to rip up profit forecasts after the company massively outstripped first-half operating profit expectations, making our buy the dip call in November hugely profitable. The stock had sunk to £11.53, creating an opportunity for investors to ride a 54% rally in four months.

In the six months to 31 January 2021 revenue jumped 10% to £577 million while operating profit jumped 41% to £57.1 million, helped by cost savings. The interim dividend was hiked 18.5% to 6.4p per share and will be paid in May.

Numis analyst Tintin Stormont has raised her earnings before interest and tax and gross profit estimates right out to full year 31 July 2023.

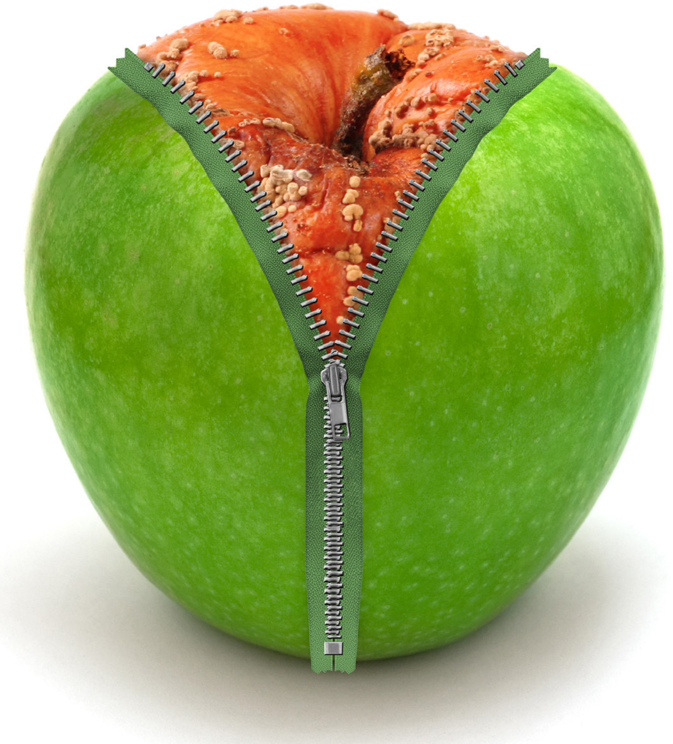
A backdated staff pay rise, delayed because of Covid, and a few other operating expenses will flow through later this year and next but, as Peel Hunt pointed out, the company has huge room to grow with an estimated wallet share (i.e, how much an existing customer spends with Softcat rather than competitors) of just 15% to 20% right now.



SHARES SAYS:
Still a great buy for the long term. [SF]

AVOIDING ESG FAKERS:

How to spot the best responsible investments



By **Ian Conway** Senior Reporter

If the 2010s represented the temperamental teenage years of sustainable and ethical investing, 2020 marked its 'rite of passage' to adulthood. During the first quarter of 2020, even as markets around the world nosedived and global fund outflows hit $385 billion, sustainable funds saw net inflows of $45.6 billion according to Morningstar.

As the industry matures there are those who can imagine a time when labels like sustainable and ethical are no longer needed, when doing the right thing by the environment and society in general are just seen as normal business behaviour.

However, that is still a long way off and the financial industry faces rising claims of 'greenwashing', or faking ESG credentials to secure investors' cash.

In this article we discuss the challenges of spotting genuinely sustainable investments and flag two ESG funds for investors to buy today.

GREEN IS GOOD

The charge of greenwashing has credibility because it is increasingly being levelled by seasoned insiders. A big issue here is a lack of consistency amongst those who set themselves up as the arbiters of sustainability – the ratings agencies, the investment banks and institutional investors themselves.

The incentive for being perceived as an ESG-friendly investment is increasingly clear. Being a sustainable businesses is a source of outperformance for companies. No longer does 'doing the right thing' carry a cost in terms of returns.

In exhaustive research in 2015 into more than 2,000 empirical studies of returns on sustainable investing ('ESG and financial performance'), German academics Alexander Bassen, Timo Busch and Gunnar Friede concluded that 90% of studies found a 'non-negative' (meaning equal or positive) correlation between ESG criteria and corporate financial performance, while a majority of studies found a positive correlation.

With green stocks more popular than ever among investors, launching new funds – or rebranding old funds – as sustainable, responsible, green or impact has also become a highly successful and lucrative way for institutions to gather assets.

Since the United Nations launched its Principles for Responsible Investment in 2006, the number of financial organisations which have signed up has risen from 734 in 2010 to 3,038 as of April 2020. These firms are responsible for total assets under management of $103 trillion against $21 trillion just over a decade ago.

The problem for investors is that the definition of what constitutes a sustainable business can vary wildly from one fund to another, so finding funds and managers which actually do what they say on the tin is getting harder.

TELLTALE SIGNS OF GREENWASHING

- Use of buzzwords like sustainable, green or ethical without any explanation in plain English of what they mean.
- Not discussing ESG investments in their proper context – i.e. highlighting an apparently eye-catching outlay on a sustainable project and ignoring the much larger sums spent on fossil fuel operations.
- Setting ambitious targets with open-ended or very distant cut-off points.
- Heavy use of carbon offset agreements to reduce emissions.

GROWING DISCONTENT

According to investment bank Morgan Stanley, 85% of individual investors are interested in sustainable investing, an increase of 10 percentage points in the last five years.

Even though many have faced unemployment, reduced working hours or a difficult financial situation over the past year, a large minority of younger people have found themselves with money to spare from not spending as much during the pandemic and have realised the need to invest for their long-term future.

This younger generation wants to use their money in a way which is aligned with their values and creates positive social and environmental change, as well as providing long-term financial security.

However, the lack of transparency and industry-wide standardisation in the sustainable and ethical fund industry means there is too much 'greenwashing' going on.

It isn't just the younger generation who are speaking out, either. The former chief investment officer of sustainable investing at BlackRock penned an op-ed in US newspaper *USA Today* claiming the financial services industry was 'duping' investors when it came to sustainability.

In the column, Tariq Fancy wrote: 'This multi trillion-dollar arena of socially conscious investing is being presented as something it's not. In essence, Wall Street is greenwashing the economic system and, in the process, creating a deadly distraction. I should know; I was at the heart of it. I believe we are doing irreversible harm by stalling and greenwashing. And all in the name of profits.'

Many mutual funds which were rebranded as 'green' had no discernible change to their underlying strategies, claimed Tariq, and the change in name or branding was simply for the sake of 'virtue signaling'.

BlackRock itself said the firm condemned 'greenwashing' but added that greater corporate reporting and increased regulations would be needed to enforce change.

PLAIN ENGLISH

Kate Capocci, lead ESG expert and fund manager at Smith & Williamson Investment Management, outlines the three approaches the fund industry typically takes as Exclusive, Inclusive and Impact.

Exclusive is the old approach to screening for sustainable investments, basically filtering out companies which 'do harm' such as oil, mining, defence, tobacco and gambling.

Inclusive is a more recent approach and uses positive screening to find best-in-class businesses and sustainable business practices, while the Impact approach uses money invested to generate a measurable positive impact on society or the environment.

Still, as Capocci points out, there are major issues in the disparity of data across geographies and among firms of different sizes, added to which some data is not readily available while other data can be inaccurate or of low quality.

Last month the European Union introduced what it hoped would be the 'silver bullet'. The Sustainable Finance Disclosure Regulation (SFDR), which applies at both an entity and product level, is aimed at stopping 'greenwashing' through the whole investment value chain, including advisers, asset managers, pension funds and insurers.

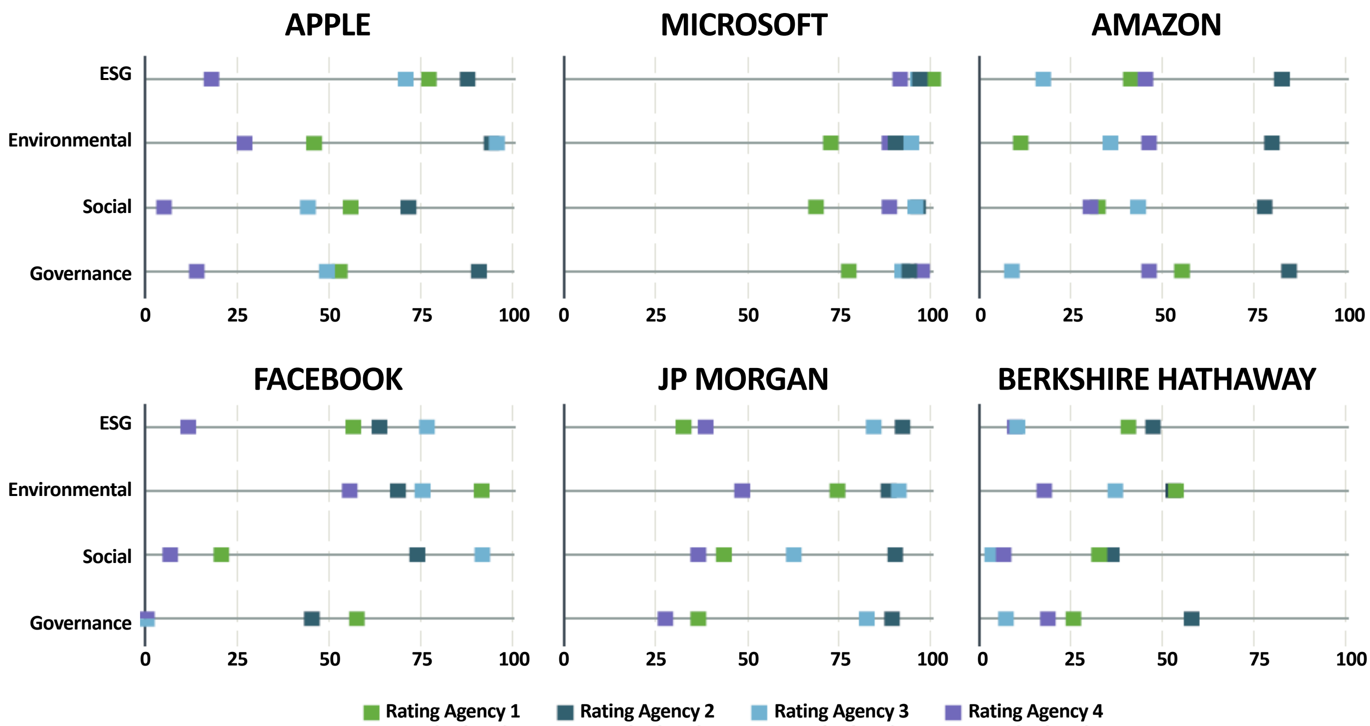
In a nutshell, products which take no account of ESG criteria will have to say so. Products that claim to promote an environmental or social agenda will need to state the extent to which those are met, and products with sustainable investment objectives will need to disclose precisely which objectives they contribute to and what percentage of their investments relate to those objectives.

This could have become a framework for global standardization, however, in a show of one-upmanship, the US Securities and Exchange Commission has just announced it is setting up its own task force to tackle 'greenwashing' and has hinted it plans to set out a standardized and mandatory set of ESG disclosures.

A FEW BAD APPLES

The ratings agencies are no better it seems when it comes to choosing their criteria for ranking companies according to ESG factors. In a 2019 research paper *The devil is in the details: the divergence in ESG data and implications for responsible investing*, researchers Mike LaBella, Josh Russell and Dmitry Novikov routinely found differences of as much as 50% between the ESG ratings of individual stocks among different agencies.

Divergence in ESG ratings across large, global companies



Source: MSCI, Sustainalytics, Robeco and Refinitiv, LaBella, M.J., Russell, J., Novikov, D. (2019). The devil is in the details: the divergence in ESG data and implications for responsible investing. Research paper QS Investor. Ratings as of February 2019. Note: Rating Agency 1 represents MSCI ESG ratings; Rating Agency 2 represents Thomson Reuters ESG ratings; Rating Agency 3 represents Sustainalytics ESG ratings; Rating Agency 4 represents Robeco ESG ratings.

Using data for six mega-cap US stocks – Amazon.com, Apple, Berkshire Hathaway, Facebook, JPMorgan and Microsoft – where in theory there should be enough accurate data to satisfy the most exacting criteria, the researchers found statistically significant variances in five of the six examples with only Microsoft displaying any kind of consistency between the agencies.

Digging into the data further, one of the agencies was consistently low with its scores and one was consistently high, making comparison all but useless.

As Matt Timmins, joint chief executive of business services firm **Fintel (FNTL)** points out, when it comes to ranking stocks on social criteria specifically, the difference between agencies is even more marked but less quantifiable, making comparison even more difficult.

For example, on the issue of birth control – relevant for Durex maker **Reckitt (RB.)** – 'house views can range from totally unacceptable on one hand to an inalienable human right on the other', says Timmins.

Similarly, on the impact of biofuel production, views range from positive (reducing carbon emissions) to deeply negative (loss of biodiversity, causes food poverty).

'The pinnacle of this confusion has to be Tesla', says Pan Andreas, head of insight and consulting at Defaqto, part of Fintel. 'One major agency rates Tesla very highly, simply on the basis its vehicles are emission-free, whereas another rates it extremely poorly because the life-cycle cost to the environment of producing battery-electric vehicles is so high.

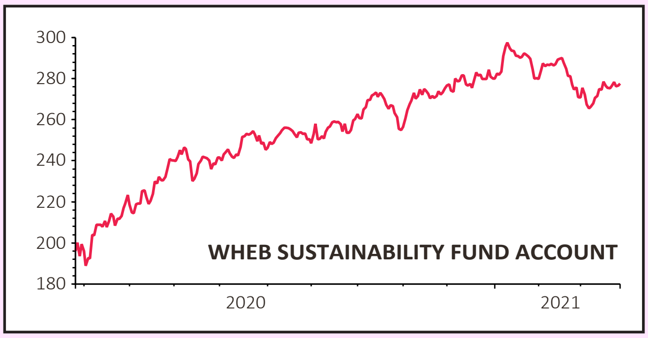
'Add in claims of poor working practices and a decision to accept payment in bitcoin – which is heating up the planet as it is being mined – and no wonder it scores badly. So how do you rate a fund with a big stake in the stock?', asks Andreas.

INVESTMENT IDEAS

For investors who want to buy funds with clearly established rules on what they will and won't need invest in, which share their values and genuinely aim for sustainability, we recommend the following open-ended and closed-end options.

WHEB Sustainability Fund Acc (B8HPRW4) 276p

Net assets: £810 million



WHEB is a specialist asset management firm with a single global equity strategy focused on solutions to sustainability challenges. The fund invests in stocks which produce cleaner energy, provide environmental services and resource efficiency, but it also owns stocks which promote health, well-being, safety and education, and it can quantify the positive impact of its investments.

Manager Ted Franks takes an uncompromising approach, only selecting companies which already have sustainable growth qualities and not engaging with companies which are 'in transition' like most funds. As a result, his holdings tend to be higher-growth and higher-return than many supposedly sustainable funds.

Schroder BSC Social Impact Trust (SBSI) 103.5p

Market cap: £78 million

The Social Impact Trust is a collaboration between fund management giant **Schroders (SDR)** and dedicated social impact investor Big Society Capital which gives individual investors access to a portfolio of high-impact private market sustainable solutions.

The trust, which launched in December, targets sustainable returns with a demonstrable social impact and a low correlation with traditional financial and public markets.

So far the fund has invested just over £39 million, or 55% of the capital it raised at its IPO, across social housing, charity bonds and green bonds, and has undrawn banking commitments of just under £20 million in the event that it becomes fully invested and then finds further opportunities.

SHOULD YOU BUY THE FUND OR THE MANAGER?

Another dilemma for investors is should they invest directly in a sustainable or green fund, or should they invest in the management company? While buying the fund might be 'doing the right thing', in some cases the management company makes for a better investment.

Take **Impax Environmental Markets (IEM)** and **Impax Asset Management (IPX:AIM)**. The £1.2 billion fund grew its net asset value by an impressive 41% in the 12 months to the end of February, while its shares gained 45.2% compared with a 19% gain for the MSCI All Countries World Index in sterling, demonstrating the considerable returns which can be achieved by investing in sustainable assets.

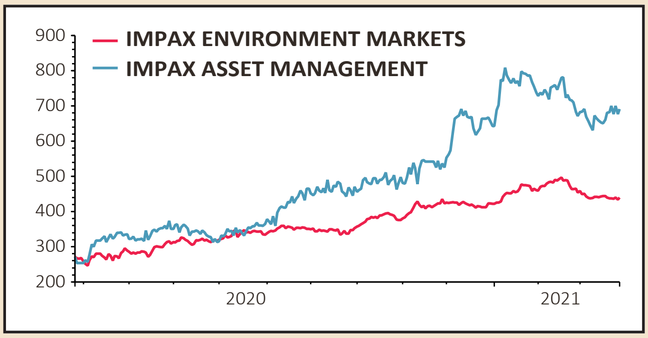
However, the £950 million market-cap asset manager saw its shares gain 110% in the 12 months to the end of February or more than double the gain for its flagship fund.

In fact, this makes perfect sense. Impax has been increasing its assets under management, which by the end of December stood at a record £25.2 billion, through a combination of M&A, net inflows and good performance. The manager gets paid a flat-rate 'ongoing charge' or management fee on each of its funds, which rises with the volume of assets in the funds.

This isn't an isolated case, either. Investors in **Gresham House Energy Storage Fund (GRID)** have seen the value of their holding rise by just 6.7% in the year to February, during which time the fund has grown its capacity to 350 megawatts making it the UK's largest operational utility-scale battery storage fund.

Which is all well and good, until you discover that the same investment in parent company **Gresham House (GHE:AIM)** made nearly 40% over the same period as assets under management last year ballooned 40% to £3.9bn, earning the firm lots of lucrative fees.

Rather like during the California gold rush, it often pays to own shares in the firms selling picks and shovels rather than those doing the digging.



Three last minute stock ideas for your ISA

We look for companies that score well on quality metrics and where analysts have been upgrading earnings forecasts

The 5 April deadline for people to use up this year's £20,000 ISA allowance is fast approaching. To help investors who are looking for last-minute ideas, we've scanned the market for good opportunities that can be added to ISA portfolios. The beauty of ISAs is that any capital gains and dividends from investments inside the account will be tax-free.

Investors will struggle to get even 1% from a Cash ISA, but the stock market could do better so take advantage of a Stocks & Shares ISA. The caveat is that you need to understand that the value of investments can fall as well as rise.

The stock ideas in this article are sourced from a longer list of companies experiencing positive earnings momentum. In plain English, that means analysts have increased their future earnings estimates for these companies over the past three months.

Earnings upgrades have historically been one of the strongest catalysts for a share price to rise.

THREE STOCK PICKS

From our list, we believe **BHP (BHP)**, **Halfords (HFD)** and **Taylor Wimpey (TW)**, are standout options for investors to tuck away in an ISA.

Not only are these three stocks seeing rising earnings expectations, but they also have decent track records on quality metrics, such as return on capital employed and return on equity.

These measures track how well a company invests its cash to create value for shareholders, and how much profit investors get for their investment, respectively.

We have long considered BHP to be the pick of the UK mining sector, thanks to its operational excellence and large exposure to commodities like iron and copper, which are both seeing a demand surge as the global economy recovers from its pandemic hangover. BHP has averaged return on capital employed of 13% and return on equity of 12% over the past five years.

In February, BHP hiked its half-year dividend by 55% after profits in the six months to 31 December hit a seven-year high of $9.75 billion as iron ore prices soared amid signs of a new commodities super-cycle.

PEDDLE POWER

Bike and car parts retailer Halfords has been a lockdown winner as consumers found a new love of two-wheeled peddle power. Bike sales have been very strong, and we expect a repeat of this trend in 2021.

Fund manager Alex Wright, who runs the **Fidelity Special Values (FSV)** investment trust, is a big fan of Halfords and its near-12% average return on capital employed and return on equity over the past five years, and the stock is one of the fund's top 10 holdings.

PROPERTY PLAY

Housebuilders have been in vogue following the stamp duty holiday handed out by Rishi Sunak in 2020 and a Government guarantee on 95% mortgages more recently, playing into Taylor

Largest earnings upgrades over past three months

Name	EPS Upgrade current year (%)	ROCE 5y Avg (%)	ROE 5y Avg (%)
Mercia Asset Management	561.7	-2.2	-2.1
James Cropper	363.5	10.3	16.1
Spire Healthcare	222.3	1.7	-4.1
Royal Mail	215.2	3.8	4.7
John Menzies	176.4	1.2	-111.1
Renold	171.4	7.0	6.6
Batm Advanced Communications	107.7	4.0	2.4
Kape Technologies	83.7	0.1	1.6
Ferrexpo	82.8	42.4	55.1
Anglo American	56.9	10.8	12.4
IG Group	50.9	28.4	25.0
Rio Tinto	40.0	16.1	21.2
Antofagasta	33.0	9.9	6.5
Halfords	27.0	11.7	11.7
BHP	20.4	13.0	12.0
888	18.1	32.4	28.6
Netcall	15.6	5.2	4.1
Ocean Wilsons	15.0	7.6	8.0
Renewi	14.3	-2.1	-14.8
Volution	14.2	7.7	8.8
Norcros	14.0	9.8	16.2
Dignity	13.8	7.6	53.9
Draper Esprit	13.2	15.8	21.7
Science	12.4	7.0	8.0
Morgan Sindall	10.6	16.9	16.4
Solid State	10.1	15.1	14.7
Taylor Wimpey	9.8	17.4	17.3

Source: Stockopedia

Wimpey's hands.

Annual house price growth has been supportive, with average selling prices rising to 6.9% in February, according to Nationwide. That paved the way for a record high average UK property price of £231,061.

Taylor Wimpey's return on capital employed and return on equity have both averaged 17% over the past five years.

BE SELECTIVE

Some stocks with earnings forecast upgrades have weak track records on quality metrics.

Companies like **Netcall (NET:AIM)** and **Kape Technologies (KAPE:AIM)** score poorly on both metrics over the past five years.

Hefty borrowings are also a potential red flag and in some cases debt holders appear to be calling all the shots.

Private hospital group **Spire Healthcare (SPI)**, for example, has more than £1 billion of net debt at the end of 2020, and analysts still think debt will be 25% larger than shareholder equity by the end of 2021.

By **Steven Frazer**
News Editor


SIPPs | ISAs | Funds | Shares
AJBell
Youinvest
RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
youinvest.co.uk
Recommended Provider
Which?
Investment Platforms May 2020
Recommended Provider
Which?
Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

Computer games maker tinyBuild has big ambitions

Developing video games into multi-media franchises with multiple revenue streams is the company's mantra

Recently-listed **tinyBuild (TBLD:AIM)** is a computer games company with a difference.

The firm has created a partnership model which is designed to fully align developer and publisher interests and build long-term value by exploiting intellectual property.

A good example of the company's approach is the Hello Neighbour game franchise.

Hello Neighbour, is a stealth horror puzzle game based on sneaking into your neighbour's home to figure out what horrible secrets are hiding in the basement. The player is up against an advanced artificial intelligence algorithm that learns their moves and sets traps.

The original single player game has seen over 60 million downloads.

What followed was a multi-player spinoff called Secret Neighbour, a prequel, a book which has sold over 1.6 million copies, and an animated TV pilot which has had over 40 million views. Altogether the franchise has generated cumulative revenue of $94.6 million.

WHAT SETS TINYBUILD APART?

The company says it has built relationships with over 10,000 verified influencers which has created one of the largest social

media gaming audiences with 784,000 followers.

By locating development hubs in Eastern Europe, tinyBuild has a significant cost advantage of between over more expensive countries like the UK and the US.

tinyBuild is aiming to leverage existing intellectual property and has a pipeline of 23 games in development. It is also seeking to acquire new intellectual property, development studios and service providers.

The firm aims to capitalise on the most successful games by monetising them across different media while retaining full creative control.

tinyBuild's chief executive and founder Alex Nichiporchik tells *Shares* that the firm's priority is to build long term partnerships with developers rather than shorter term transactional based relationships.

It's not just about creating a successful game but building longer lasting content which can be monetised in multiple ways with spin-offs and sequels.

Revenue has grown at a compound annual growth rate of 53.1% since 2017 and hit $18.5 million in the first half to June 2020.

Despite significant investment in the pipeline to fund upcoming releases tinyBuild has converted on average, 99% of adjusted earnings before interest, taxes, depreciation, and amortisation into operating cash since 2017.

Operating margins, excluding amortisation of acquired intellectual property were 35.6% in the first half of 2020, generating $6.6 million.

Alex Nichiporchik and co-founder Luke Burtis own 38.2% and 7.1% of the company respectively.

In our view tinyBuild is an interesting growth business and one to keep an eye on, but having advanced materially from its 169p IPO price already at 226p and with no analysts forecasts available and 2020 full year numbers yet to be reported, it is one to watch from the sidelines for now.

By **Martin Gamble**
Senior Reporter

ADVERTORIAL

ICG ENTERPRISE TRUST

Broaden your horizons?

To achieve a balanced investment portfolio, we have a broad horizon.

Most of us encounter **private equity-owned businesses** in our everyday lives – including technology companies, food manufacturers and education providers. Private equity plays a key role in our society and economy.

BUT HOW MANY OF US INVEST IN PRIVATE EQUITY?

ICG Enterprise Trust, a constituent of the FTSE 250, is a leading private equity investor with a diversified investment portfolio. Our open-ended structure gives shareholders access to private equity investments with daily liquidity.

We look beyond the obvious to generate long-term returns for our shareholders by **investing in established, profitable and cash generative private companies** in Europe, the US and the UK, broadening the investment horizon.

It's worth keeping an open mind on Boohoo despite ESG failures

The online fashion seller is repairing its tattered reputation which means disgruntled investors might want to give it another look

Investors increasing use environmental, governance and social filters to screen out companies that seemingly do bad things. But what if a company can realise the error of its ways and change for the better? Someone who refused to invest in it based on past practices could miss out on future gains.

It's a dilemma that hangs over investors looking at clothing retailer **Boohoo (BOO:AIM)** which is repairing a reputation left in tatters following last year's modern slavery scandal. That caused many fund managers and retail investors to lose patience with the company and sell out.

Shares even recoiled from Boohoo, urging investors to steer clear on the grounds this retailer's name was mud.

Yet to its credit, Boohoo grasped the nettle and is now delivering on its promise to facilitate better standards in its supply chain and *if* it sustains this pace of progress, the company could become investable again.

There is an argument to suggest that investors who don't like a company's behaviour could do better by owning the shares and pushing for change, rather than simply avoiding the stock. In Boohoo's case, it has been subject to trial by the media instead of shareholder pressure. It had no choice but to make amends given it is a listed business and firmly under the spotlight.

Boohoo is now working with fewer suppliers and making efforts to have better oversight of its supply chain.

It has launched a new sustainability plan, one that establishes ambitious targets in terms of the smarter manufacture of clothing, better terms for its suppliers and actions to reduce its carbon footprint.

Since it sells easily discarded cheap clothing, Boohoo's business model facilitates waste, so it still fails on certain ESG grounds. The company also faces the possibility of a US import ban relating to labour issues in its supply chain. Until there is more clarity on that matter, it's a key risk investors should consider.

Fundamentally, Boohoo remains a structural growth winner and the recent purchase of brands from Debenhams and Arcadia provides it with an even bigger opportunity to grow market share across a broader demographic.

Analysts are starting to warm to the stock again including

Andrew Wade at Jefferies who says Boohoo's latest update is 'an important step in re-establishing momentum in the shares' and could see investor focus turn back to trading and valuation fundamentals.

Berenberg says the stock is 'not for the faint hearted' but it thinks the shares are now worth buying. It adds: 'The group has begun to make changes to the working practices in its supply chain, and we think it can make these changes while maintaining its sector-leading growth and margin profile.'

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

GameStop mania made me look at shares. How can I invest sensibly?

30-year-old Joe has been drawn in by GameStop mania but wants to take a sensible approach to the markets

Having been drawn in by the hype around GameStop, 30-year old sales executive Joe wants to put some of the money he's saved in lockdown into the stock market and watch it grow.

Joe's heard all about bitcoin and knows a few people who have made big money from it. But he's spooked by the horror stories he's read online of other people losing cash after investing in the cryptocurrency, so he's decided he wants to stick to the stock market and not invest in anything he thinks might be too risky.

Joe's savvy enough to know stocks can go up and down. After looking at the wild swings in the share price of Texas computer games seller GameStop after the firm was targeted by a group of investors on the Reddit social media platform, he wonders whether putting the £1,000 he's saved in lockdown into its shares is really a good idea.

INVESTMENT COMMUNITY ON SOCIAL MEDIA

He's looked on Twitter to see what people are saying about stocks and also follows a couple of YouTube channels about investing that people on Reddit recommended, as well as some investment fans on TikTok.

In the past few months his WhatsApp groups have also been pinging constantly with his mates talking about the 'mad money' they've made from stocks. He feels like any time he's seen someone talk about a stock and put a rocket emoji next to it, next thing you know it's gone up and made some big gains.

One of his favourite YouTubers recently, Fat$tack$$$, was showing off his new Rolex after making a mint in Tesla shares. Fat$tack$$$ also talked about his three no-brainer stocks that will make you rich in 2021 with zero effort, but Joe had never heard of them.

Joe likes Tesla though and thinks electric vehicles are going to be the future of transport. He wants to put his money in stocks where the future opportunity for growth is clear.

Joe has also read the finance section of the newspapers a few times to see what they say about investing, but he doesn't understand why they keep suggesting things like investment

INVESTMENT CHECKLIST

Joe could do a lot worse than heed recent guidance from City regulator the Financial Conduct Authority, which says any would-be investor should always ask themselves the following questions before getting started:

- **Am I comfortable with the level of risk?**
- **Do I fully understand the investment being offered to me?**
- **Am I protected if things go wrong?**
- **Are my investments regulated?**
- **Should I get financial advice?**

This is the latest part in a regular series in which we will provide an investment clinic based on hypothetical scenarios. By doing so we aim to provide some insights which can help different types of investor from beginners all the way up to experienced market participants.

funds and tell you to reasonably expect a 5% return from your investments each year.

He knows loads of people who have made way more than 5% after investing in stocks like Tesla, Apple and Amazon. In Joe's view, why choose some 'fuddy duddy' fund investing in boring old companies nobody's heard of, when stocks like Tesla are returning a lot more? Joe's got time on his hands and is happy to keep his money invested for the next 10 years as technology develops and the world around him changes.

CHANNELING ENTHUSIASM INTO THE RIGHT AREAS

It is great Joe is thinking about investing, and understands the risks of shares going down as well as up in value. But it's important he channels his enthusiasm for investing into the right areas.

To start with, Joe should be wary about getting investment ideas from the people he follows on YouTube and TikTok, who most likely are not regulated to give financial advice and often fail to explain the risks about the stocks they mention. Past performance is not a guide to future returns, and that's particularly true after a stock has already doubled or more.

People in their early-30s like Joe are not alone in the investing world, and research from online trading platform Saxo Markets reveals a 12.5% drop in the average age of new investors in the UK at the beginning of 2021, with the average man taking up investing aged 35 and the average woman aged 38.

What Joe wants is growth stocks, and typically those involved in technological change. A possible route for him to invest would be to open a Stocks and Shares ISA and put a decent chunk of his £1,000 into a fund, or funds, which invests in a basket of relevant stocks and which provide important diversification in case one or two underlying investments go wrong.

INVESTMENT OPTIONS

One option could be **Scottish Mortgage (SMT)**, an investment trust run by Baillie Gifford, a fund management company which invests almost exclusively in growth stocks.

Scottish Mortgage has many names which would appeal to an investor like Joe who wants to invest in technology companies and is willing to keep his money invested for the next five-to-10 years.

Stocks in Scottish Mortgage's portfolio include Tesla and Amazon, as well as fast growing e-commerce platforms Meituan Dianping and Mercado Libre, which commentators have suggested are the Chinese and Latin American equivalents of Amazon respectively, as well as early-stage companies which are not yet listed on the stock market.

Another option for Joe if he's looking for potentially fast growth and is prepared for the risks that come with that, is an exchange-traded fund (ETF) which follows the tech-heavy Nasdaq index.

Constituents on the Nasdaq include many big names Joe is likely to know including Apple, Amazon and Google owner Alphabet. There would be some overlap with Scottish Mortgage given the amount of technology names in the index, but it would also be sufficiently different to provide exposure to other stocks that have the potential for growth.

Given the efficiency of large cap US stock markets, paying for an actively managed fund may not generate sufficiently outsized returns compared to the extra fees they charge, so buying a cheaper ETF which tracks the index and replicates its returns could be the way to go.

One example is **iShares Nasdaq 100 GBP (CNX1)**, which provides exposure to the top 100 companies in the Nasdaq index and includes the likes of Facebook and Microsoft. It has a relatively cheap annual cost of 0.33% a year.

If Joe sees a stock like Tesla that he thinks is exciting, it would be fine for him to allocate some of his portfolio to the stock, but he needs to be aware of the risks that the share price could fall as well as rise and that he may not get back all the money he invested.

It is also important he doesn't put all of his savings into just one share. Diversification is important to provide protection to his savings in case something goes wrong.

DISCLAIMER. This article is based on a fictional situation to provide an example of how someone might approach investing. It is not a personal recommendation. It is important to do your research and understand the risks before investing.

By **Yoosof Farah**
Reporter

MINING IN 2021: THE START OF A NEW CYCLE?

BLACKROCK WORLD MINING TRUST PLC

After a good year in 2020, the mining sector is only in the foothills of a new cycle, driven by economic recovery and green infrastructure investment, says Evy Hambro, Co-Manager of the BlackRock World Mining Trust plc.

Evy Hambro

Co-Manager
BlackRock World Mining Trust plc

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

After its initial shock, the mining sector benefitted from the rebound in global economic activity in 2020. The recovery has been led by China, but also by stimulus packages from governments and central banks. We believe the new mining cycle is still only in its infancy, with plenty to support it in the year ahead.

Supply for most commodities has remained tight, while demand has increased as stimulus programmes have favoured infrastructure spending leading to price increases for most commodities. It has also been a good period for mining companies, with low oil prices and wage pressures keeping costs low, allowing margins to expand as commodity prices rise.

We believe the mining cycle has further to run with four key elements likely to drive the performance of both commodities and the mining sector as a whole.

UNDERINVESTMENT

Global capital expenditure for the mining sector peaked in 2012 and has almost halved in the intervening years. It takes a long time to reverse the tide – it takes time to find economic deposits, finance the project and finally develop them into producing mines. In addition, the increased permitting burden has only added time to the development process for new supply.

It is worth noting that COVID-19 didn't just impact demand, but also impacted supply; mining assets couldn't operate at full capacity. This has meant low inventories and tight supply for most mining companies.

SYNCHRONISED GLOBAL INFRASTRUCTURE SPENDING

Infrastructure spending is a priority across most of the major economies including China, the US, UK and Europe. That creates a good backdrop for commodity demand in general, but this particular round of infrastructure spending is very 'green' oriented, targeting areas such as renewables and investment into the grid. This creates demand for key commodities, particularly in the metals sector.

INFLATION

While there remains a debate on whether we are entering a period of high inflation, in our view, the low interest rate environment and the willingness of the Fed to tolerate periods of higher average inflation makes it more likely than less. Inflation is a positive for commodities prices and mining equities more widely.

We have seen inflation expectations pick up since the end of May 2020 and commodity prices have largely matched them. We believe we are still early in this journey. Excess savings and low rates naturally create inflation.

NET ZERO TARGETS

One of the key announcements in 2020 was China's plan to become net zero by 2060[1]. This is likely to drive a key part of its fixed asset investment over the next few years with capital directed towards renewables, solar, electric vehicle and grid investment. Copper is one of the commodities likely to see a material pickup from the demand this creates. A lot of battery materials, such as nickel, cobalt, lithium and rare earths will

BlackRock.

also have strong tailwinds. In our view, this is an exciting part of the market and investors haven't paid much attention to date. Again, lack of supply growth is likely to drive up prices.

Of course, there are risks to this scenario. COVID-19 hasn't gone away, and global recovery is dependent on the success of the vaccine rollout. However, we believe any setbacks should be temporary and the commodities sector should be resilient even if there are short-term problems.

Any escalation in the trade war between the US and China would be a problem. When tensions have been high, it has had a dampening effect on global growth. There seems to be progress on this, and it is not as dominant for markets as it was. However, it is still a risk we are watching closely.

Another problem would be the mining sector itself – could it go back to a period of poor capital allocation? Mining companies have low levels of debt compared to other sectors. They are still focused on shareholder returns, maximising free cash flow and avoiding destructive merger and acquisition activity, but again, we are alert to the risk.

With this in mind, we believe the sector is poised for an exciting run. Coordinated infrastructure spending, a recovering global economy, and favourable supply and demand dynamics are combining with low valuations, higher dividends and capital discipline for the mining sector. This is a compelling backdrop for investors.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy. The opinions expressed are from BlackRock as of February 2021 and may change as subsequent conditions vary.

For more information on how to access the opportunities presented by mining, please visit www.blackrock.com/uk/brwm

[1] Forbes, September 2020

TO INVEST IN THIS TRUST CLICK HERE

Why sometimes it pays to 'rent' rather than own a stock

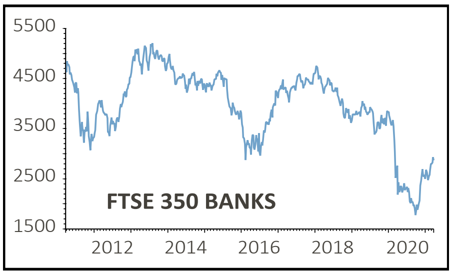
Playing the momentum game for short-term gains

While *Shares* isn't in the habit of saying to buy stocks for the short term, there are occasions when 'renting' a stock to benefit from an upswing in momentum makes more sense than owning it till death do you part.

The past year has seen a number of periods when different groups of stocks have taken a leading role, be it the switch from 'growth' into 'value' or the rotation from large caps to small caps.

In each case, formerly unloved stocks have been thrust into the limelight and enjoyed a surge in price momentum, followed sooner or later by an upturn in earnings momentum as analysts – who typically miss the turning point, waiting for a fundamental reason to change their forecasts – eventually twig that change is afoot.

A good example would UK banks, which bottomed in the third quarter of last year and have been rallying almost non-stop since.



Initially the rally was ascribed to the switch from growth into value. Subsequently, the rally has been put down to the potential reopening of the economy thanks to the UK's advanced vaccination programme and the possibility that as growth returns, interest rates could rise, helping to lift their net interest margins.

In recent weeks the narrative has changed again. The banks are once more being touted as a dividend story after they set aside lots of money for potential bad loans which may turn out to be too much, thus they could return the excess to shareholders.

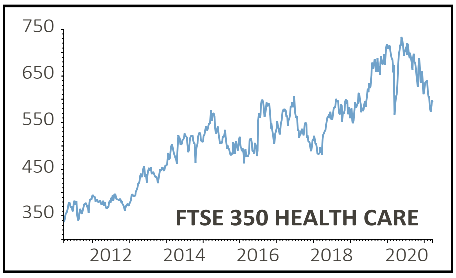
How far the bank rally could go is anybody's guess, but there have been two large rallies in the FTSE 350 Banks index in the last decade and if history is any guide there is more in the tank.

However, the trick is not to start believing 'this time it's different' – the most dangerous words an investor can use according to fund management legend John Templeton – and to buy into what will inevitably become an increasing bullish (and believable) narrative.

Banks, like any cyclical sector, are purely for 'renting' rather than buying and holding. This means owning them only for a short period.

If you want a sector to invest

in for the long term and not have to worry about a changing narrative, we suggest looking at healthcare stocks.



Over the long-term healthcare stocks have trounced the banks, albeit with periods of underperformance, thanks to their superior growth record. We believe their latest period of weakness won't last long and the long-term upward trend could soon resume, making this a good time for long-term investors to climb on board again.

By **Ian Conway**
Senior Reporter

RUSS MOULD
AJ Bell Investment Director

Lessons to learn from the Archegos drama

The wider implications as a US hedge fund turns forced seller of stocks

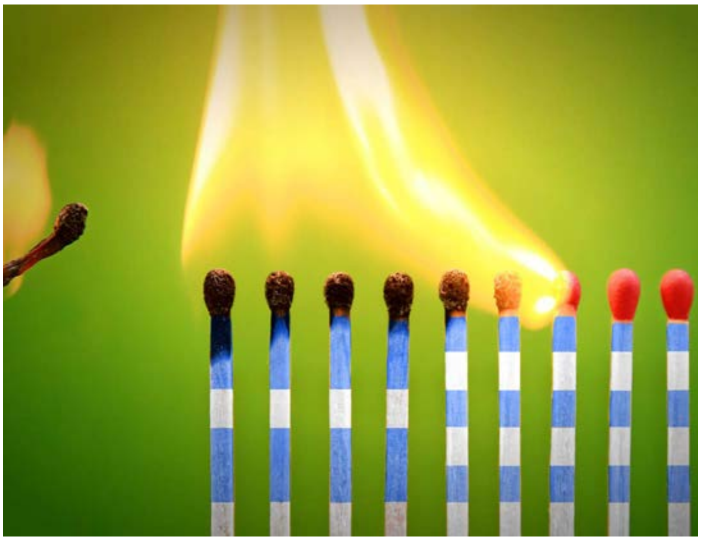
An American former colleague from my investment banking days was always tickled when he quoted a sketch from the comedy show *Saturday Night Live*, where the punchline was: 'And today on the New York Stock Exchange, no shares changed hands. Everyone finally has what they want.'

As a well as a smile, this witticism raises a serious issue and one that all investors must consider. What purpose does the perpetual wheeler-dealing on stock exchanges serve? And what dangers can it bring, especially if even this frenetic activity is not enough for some because they want *more* and use borrowed money – leverage – to try and get it by gearing up their returns?

The truly funny thing is that there plenty of examples of what can go wrong when leverage or complex trading strategies are deployed to try and goose profits. They include Barings in 1995 ($1 billion loss), LTCM in 1998 ($3.7 billion) and Amaranth in 2006 ($6 billion). As such, the only surprise with the latest such accident – Archegos Capital – is that anyone is surprised at all.

Even supposed 'hedging strategies', designed to dampen market risk have often only served to accentuate it. Examples here includes the 'portfolio insurance' programmes that contributed to the 1987 Crash, Metallgesellschaft losing its shirt in the oil market in 1992 and AIG's significant contribution to the Great Financial Crisis of 2007-09.

Frankly, we were overdue. The only question now is whether the damage is limited to the Archegos hedge fund, the US media and Chinese internet stocks which appear to have got it into trouble and those banks who acted as its prime broker – Nomura and Credit Suisse are the names in the frame here – or whether there is a wider, spill-over effect.



LIQUIDITY DRIVE

Such a knock-on effect can develop quickly. When an investment firm with lots of debt has large positions that are becoming stressed (and in the case of leveraged entities using margin, that can mean even small drops below the initial entry price), that institution may be forced to sell assets in order to meet margin calls and make good on its borrowing, according to the demands of its creditors.

Such selling leads the market to drop further, which prompts further loss of value of the collateral, which forces yet more selling – and so on. This also means that assets classes entirely unrelated to the initial problem position(s) can be caught up in the melee – which explains the old market saying about how 'all correlations go to one' in a bear market, as distressed sellers just liquidate anything for which they can find a buyer.

This is why Richard Bookstaber argues in his history of markets and hedge funds *A Demon of Our Own Design* that risk management models fail during crises, no matter how well designed they are.

RUSS MOULD
AJ Bell Investment Director

During a crisis, nothing else matters, other than who owns what, and who must sell even if they do not want to sell.

As highly-respected bond fund manager Howard Marks once noted in his blogs for Oaktree Capital Management, liquidity is best-defined as being able to buy or sell what you want, at the price you want, at the time you want and in the size you want.

STICK TO YOUR KNITTING

But these lessons do not apply to just professional traders and hedge fund managers. They apply to private investors too. If they wish to sell, then, with the help of their broker or platform, they must find a buyer, or vice-versa.

History tells us this is not always as easy as it sounds, as J.K. Galbraith's magisterial analysis *The Great Crash* shows. In his study of 1929's market catastrophe he notes: 'Of all the mysteries of the stock exchange there is none so impenetrable as why there should be a buyer for everyone who seeks to sell. October 24, 1929 showed that what is mysterious is not inevitable.

'Often there were no buyers and only after wide vertical declines could anyone be induced to bid. Repeatedly and in many instances, there was a plethora of selling and no buyers at all.'

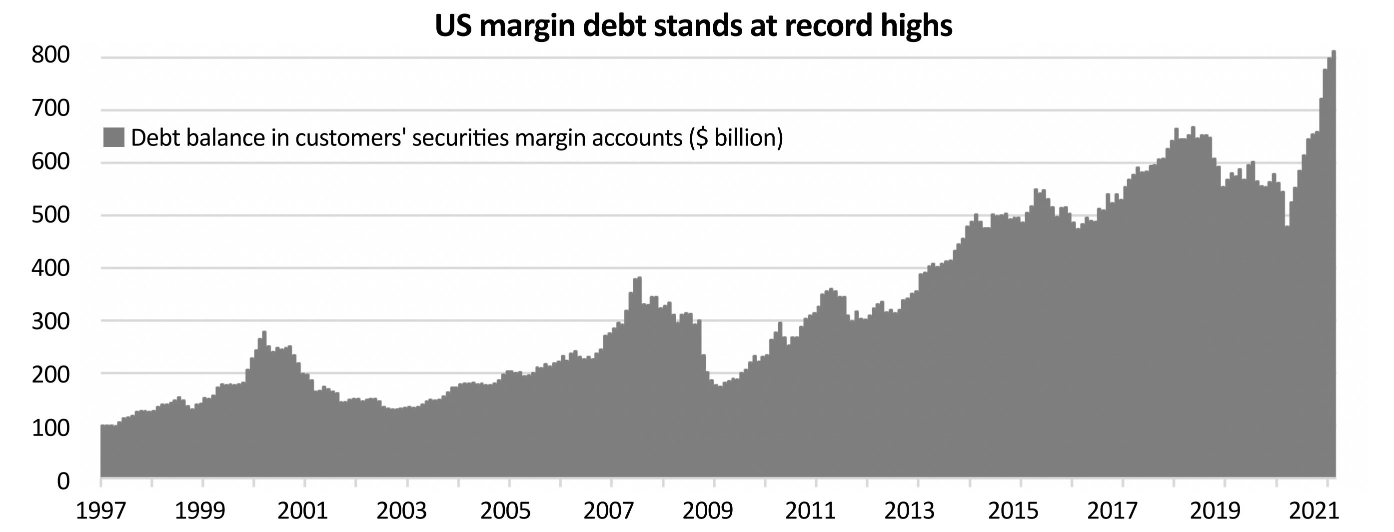
Galbraith cites White Sewing Machine stock as an example. It plunged from $48 to $11 and yet no buyers emerged. Eventually an enormous block of stock was sold for one dollar a share.

It is tempting to dismiss this as the follies of a 90 years ago. But FTSE 100 stocks were very hard to sell in size in 2008. There is every likelihood that the next market upset, if, as and when it comes, could see further distressed selling and not just by institutions. US retail investors, for example, have never borrowed as much to buy stock as they have today.

It is tempting to dismiss this, by saying that the numbers are not as lofty when presented as a percentage of US GDP or market capitalisation. But the 49% year-on-year growth rate is reminiscent of the market peaks in 2000 and 2007, to again show that risk-taking seems to be the order of the day. And it is that sort of risk-taking which makes market accidents worse as and when they happen.

The hard bit is no-one knows when that will be. The comedian Groucho Marx was cleaned out in 1929 as he bought stock on margin only to see prices collapse and force him to sell even at depressed prices. Goldman Sachs stock was one of his biggest blunders – bought solely on the basis of a tip from his agent.

At least Marx was earning enough on stage and celluloid to keep him in wisecracks, noting after the Crash things were so bad 'the pigeons started feeding the people in Central Park'.



Source: NYSE data to February 2010, FINRA data from February 2010

J.P.Morgan
Asset Management

SECURING A SUSTAINABLE FUTURE: **THE JPMORGAN EMERGING MARKETS INVESTMENT TRUST**

Securing a sustainable future for emerging markets investors

*Find out how the **JPMorgan Emerging Markets Investment Trust (JMG)** achieves benchmark-beating growth from a sustainable portfolio.*

THRIVING, AND SURVIVING?

In recent years, awareness of ESG (Environmental, Social and Governance) issues has gathered momentum, both in the corporate – and wider - world. While escalating climate change concerns drove the environmental part of the equation in the years leading up to 2020, the COVID-19 pandemic has brought the 'S' and 'G' of ESG to the fore. Perhaps the 'S' has seen the most notable change for good as corporations recognise their responsibilities not only to their customers and employees but to wider society.

As consumers' attitudes to ESG evolve, so must business models. It is increasingly evident that effective consideration of ESG factors will become an ever-more important differentiator on corporate reputations, outcomes and share prices. JPMorgan Emerging Markets Investment Trust lead portfolio manager Austin Forey, who has managed the trust for 27 years, believes that upholding ESG principles will be essential for corporate survival in the future. 'For the best companies, great opportunities abound; for the worst, irrelevance and extinction lie ahead.'

SUSTAINABLE RETURNS

Interest in ESG as an investment philosophy has likewise moved from the periphery of investor consciousness, through adoption by a cohort of climate-conscious Millennials, into the mainstream, as evidenced by the proliferation of ESG-themed funds to meet increased demand. Meanwhile, ESG factors are now increasingly woven into asset management practice. While moral rectitude to some extent drive these changes, it is the recognition that ESG is not an automatic detractor from performance. Indeed, a 2020 study of a sample of sustainable funds showed that the majority had performed better than non-ESG funds over one, three, five and 10 years.[1]

COMMITTED TO ESG

Successful long-term investors and asset managers have long understood the value of a sustainable philosophy. The JPMorgan Emerging Markets Investment Trust has embedded ESG into its approach for three decades. Its fundamental focus on the long-term growth potential of businesses has sustainability at its core.

Several factors have historically made ESG-focused investing in emerging markets challenging, such as less societal pressure on companies to act responsibly and a lack of clear regulation to define and enforce sustainable practices. However, in 2013 the trust implemented a sustainability checklist and has now fully integrated ESG factors into its research process with the development of a "materiality framework", which identifies the most important ESG factors in over 50 industry categories as chosen by the trust's research experts.

The trust's analysts and portfolio managers employ this framework both to assess potential stock picks - scoring companies on relevant sustainability factors - and also to engage, challenge and interrogate portfolio companies on specific issues. Having such a

[1] Majority of ESG funds outperform wider market over 10 years, Financial Times, June 13 2020. Past performance is not a reliable indicator of current and future results.

precise set of criteria allows a far sharper focus on how companies are performing in the areas that are most significant for their industry.

Forey explains that, for a beer company, for example: 'We might consider its water usage, its manufacturing process. We'll ask: How responsible is their advertising? How recyclable is the packaging?' The judgement criteria will be totally different for assessing a software company, for which the questions would focus on, for example: cyber security, data protection, and the treatment of the workforce.

LEAVING (LESS OF) A FOOTPRINT

Forey is proud of the fund's ESG measurable credentials. Its portfolio naturally tilts towards industries with a significantly better-than-average carbon footprint - to use a common environmental yardstick. In fact, the carbon emissions of the trust's investments amount to a mere one twentieth of that of the MSCI Emerging Markets Index. So, for every $1M of investment in the JMG portfolio, 8.2. tonnes of carbon emissions are generated per year. In stark contrast, if you simply bought an ETF passively tracking the EM equity index, the same million dollars invested would produce 225 tonnes – a radical difference.

To some extent, having a comparatively carbon-light emerging markets portfolio is simply down to JMG's natural investment preferences. The team inherently avoids capital and carbon-intensive industries. However, with increasing regulatory, corporate, and client attention paid to ESG barometers, companies' carbon emissions - and their ability and willingness to transition to sustainable energy sources – will be a critical gauge factor going forward.

TAKING RESPONSIBILITY

Forey firmly believes that the corporate sector should take responsibility for ESG issues not just for carbon emissions but for the necessary economic transition to a sustainable global economy. He remains optimistic both about the contribution that companies can make to this change, and about the investment opportunities this will bring.

Whilst past performance is not a reliable indicator of current or future results, the trust has brought investors emerging markets exposure through a portfolio of innovative, sustainable companies that has outperformed its MSCI benchmark for the last 10 calendar years. Forey is optimistic about the many exciting emerging markets companies with good ESG credentials who offer not only investment opportunities but that will contribute to securing a sustainable future for us all.

For more information visit www.jpmorgan.co.uk/JMG

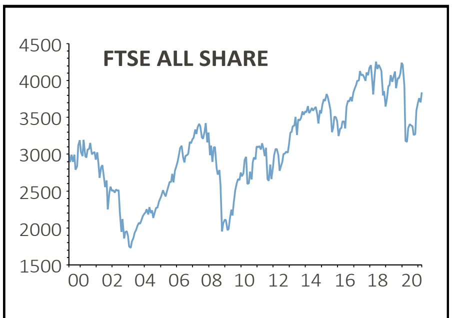
Doing the maths: benefits of using the ISA allowance immediately

History suggests getting started at the beginning of the tax year is better than waiting until the end of it

Right now, many investors will be rushing to make their ISA contribution for the current tax year before the 5 April deadline. But there is a breed of investor who always gets their ISA contributions in at the beginning of the tax year, and they will be calmly waiting for the 6 April to roll around, so they can make use of their ISA allowance for the next tax year as soon as possible.

Historical performance shows these 'early bird' ISA investors actually end up with more money than the 'late birds' who wait until the end of the tax year to use their allowance.

An early bird who started saving £3,000 a year when ISAs were introduced in 1999 would now have £135,611 if invested in the FTSE All Share.



That's £4,919 more than the £130,692 a late bird would have, assuming they started saving in the same tax year as the early bird, just at the end rather than the beginning.

You might be forgiven for thinking that's simply because the market rose in the first year of investment, which it did in this case, by 6.7%. It's true that a strong first year of investment helps the early birds get off to a flying start.

Looking at starting an ISA savings plan in the tax year 2009/10, the early bird would have benefited from a rise of more than 50% in the market between April 2009 and April 2010, as markets recovered sharply after the financial crisis, which the late bird would have missed out on completely. As a result, the early bird would now be sitting on £55,072, compared to £49,659 in the late bird's ISA.

What's more surprising though, is that in the long term, the early birds still tend to do better even when the market falls sharply just after they've contributed.

An early bird investor starting to save in April 2008 would have endured a 30% fall in the value of their initial investment by the time the late bird came along to make their ISA contribution in April 2009. This was the period when the financial crisis really hit equity markets.

PLAYING CATCH UP

In our example, at the end of the tax year in April 2009, the late bird would have the £3,000 they just put into the ISA, whereas the early bird would have only £2,093, because they had suffered a 30% fall in the value of their investment.

After that first year, the late bird was way ahead. But over the long term the early bird still comes up trumps, accumulating £61,108 today by investing

How much would £3,000 invested each year in the FTSE All-Share be worth today?

Starting contributions	Total contributions	Early bird	Late bird	Difference
Starting tax year 1999/2000	£66,000	£135,611	£130,692	£4,919
Starting tax year 2008/2009	£39,000	£61,108	£58,240	£2,868
Starting tax year 2009/2010	£36,000	£55,072	£49,659	£5,413

Source: AJ Bell, FE total return to 24 March 2021, £3,000 invested in an ISA each tax year. ISA contributions assumed to start 6 April for early birds and 5 April in the following calendar year for late birds.

£3,000 at the beginning of each tax year.

By comparison the late bird comes away with £58,240 by investing their £3,000 at the end of each tax year.

In fact, the stock market bounce-back in 2009 was so strong, that by the end of the second tax year, in April 2010, the early bird would already have been back ahead, and the late bird then continues to fall further behind.

Early birds will do better most of the time because they almost always have more invested in the market than the late birds, and over time, the market rises more than it falls.

If you're rushing to use this year's ISA allowance, give some thought to following on and becoming an early bird in the next tax year, which begins on 6 April. Whether you're early or late, you can still end up with a sizeable nest egg if you use your ISA allowance each year but going early definitely gives you a considerable edge.

WHAT IF I DON'T HAVE A SPARE £20,000?

If you don't have the money to hand, then a halfway house is a regular savings plan, which drip feeds money into the market throughout the year. This approach tends to produce results somewhere in between the early birds and the late birds.

Again, this simply comes down to how long your money is invested in the market compared to the other approaches.

Regular monthly investments also make for a smoother journey and take the faff out of saving, because they're taken directly from your bank account. In fact, you can even set up a regular saving ISA for 2021/22 at the same time as making your contribution for this tax year.

By **Laith Khalaf**
Financial Analyst

Why won't I qualify for the full state pension?

A reader asks why 47 years' worth of National Insurance contributions isn't enough to get the full rate

I'm 66 on 19 June 2021 and therefore will qualify to draw my state pension. Based on my National Insurance record up to 5 April 2020, my state pension is forecast to be £146.49 per week, while if I contribute until 5 April 2021 it will be £151.50 per week. I'm told I have 47 years' NI contributions.

I had some years when the company I worked for 'contracted-out' and I paid into a personal pension plan, but if as they tell me I have 47 years' NI contributions, why am I not entitled to the full state pension?
Stephen

Tom Selby
AJ Bell
Senior Analyst says:

The state pension age in the UK is currently 66, with a maximum flat-rate amount of £175.20 per week payable to those who qualify. However, not everyone will be entitled to the full flat-rate state pension.

You need to have a National Insurance contribution record of 35 years to qualify for the full amount, and at least a 10-year record to qualify for some state pension.

For each year below 35 years' NI contributions you have, the Department for Work and Pensions will make a deduction to the amount of state pension you will receive.

For example, someone with a 20-year NI record who became entitled to the state pension in 2020/21 would receive 20/35ths of £175.20, or £100.11 per week.

The most common way to build up an NI contributions record is through earning a salary. When you're working you pay NI and get a qualifying year if you're employed and earning over £183 a week from one employer, or you're self-employed and paying NI contributions.

You might not pay NI contributions if you're earning less than £183 a week, but you may still get a qualifying year if you earn between £120 and £183 a week from one employer.

You can also get NI credits in a variety of circumstances, including if you claim child benefit for a child under 12, get jobseeker allowance or employment and support allowance, or get carer allowance.

Before the introduction of the 'new' flat rate in April 2016, the state pension was made up of two parts – the 'basic' state pension and 'additional' state pension.

It was possible to 'contract-out' of the additional state pension, which meant you paid a lower rate of NI and in turn received private pension provision in place of some or all of your entitlement to the additional state pension.

For each year someone was contracted-out, a deduction would be made to their state pension entitlement. It is possible this is what has happened in your case.

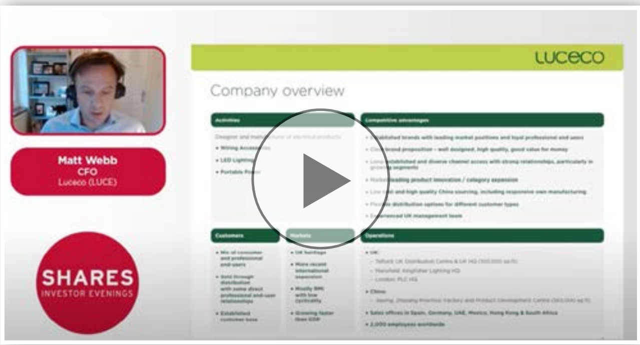
You can find out if you were contracted-out by speaking to the pension scheme of your previous employer. If you don't know your scheme's contact details, this Government tool could help.

It is possible the state pension forecast you checked has made a mistake. Once you've armed yourself with details of your NI record, it's worth calling DWP directly to explain your situation and make sure they have calculated your entitlement correctly.

WATCH RECENT PRESENTATION WEBINARS

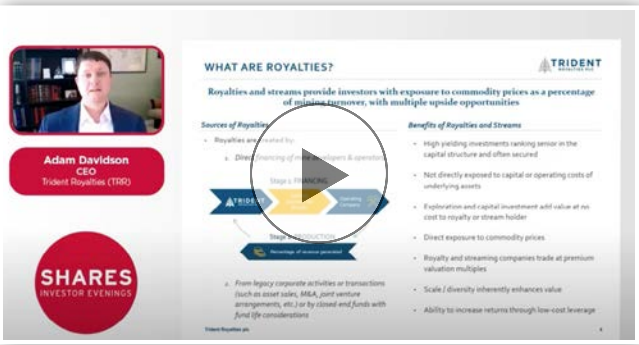
Ergomed (ERGO) – Richard Barfield, CFO

Ergomed is a company focused on providing specialised services to the pharmaceutical industry. Ergomed's fast-growing services business includes an industry-leading suite of specialist pharmacovigilance solutions and a full range of high-quality clinical research and trial management services.



Luceco (LUCE) – Matt Webb, CFO & John Hornby, CEO

Luceco is engaged in the manufacturing of and supply of LED lighting, wiring accessories, portable power equipment, and ross. The company generates most of its revenue from wiring accessories.



Trident Royalties (TRR) – Adam Davidson, CEO

Trident Royalties plan to rapidly establish itself as a diversified mining royalty and streaming company, providing investors with exposure to base and precious metals, bulk materials (excluding thermal coal) and battery metals.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

7 April: Hilton Food, IGas Energy, Pharos Energy.
8 April: Equals Group, M Winkworth, OSB Group, Sportech.

Half-year results

8 April: Tracsis.

Trading statements

8 April: CMC Markets, Dunelm, Entain, Ferrexpo.

WHO WE ARE

EDITOR:
Daniel Coatsworth
@Dan_Coatsworth

DEPUTY EDITOR:
Tom Sieber
@SharesMagTom

NEWS EDITOR:
Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:
James Crux
@SharesMagJames

SENIOR REPORTERS:
Martin Gamble
@Chilligg

Ian Conway
@SharesMagIan

REPORTER:
Yoosof Farah
@YoosofShares

CONTRIBUTORS
Laith Khalaf
Russ Mould
Tom Selby

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

PRODUCTION
Head of Design
Darren Rapley

Designer
Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.