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TIME *to* BUY

4 value stocks that won't stay cheap for long

PLUS

SHUNNED FUND MANAGER **MARK BARNETT** TRIES AGAIN

NOVACYT SHOCK MEANS INVESTORS SHOULD GET OUT NOW

LEISURE SECTOR REOPENING: THE STOCKS TO BUY AND AVOID

Markets are rallying: should I dump a fund that's been left behind?

Investors should not expect everything in their portfolio to go up in unison

Two major stock market indices in the UK and US have just hit new record highs, the FTSE 250 and S&P 500 respectively, and the FTSE 100 is at its highest level since February 2020. Investors are likely to be in a good mood as portfolios could be looking flush.

Looking at my own portfolio, nearly everything has recovered from the losses caused by the pandemic-driven market sell-off in early 2020. The outlier is an infrastructure fund which is still trading lower than my December 2019 entry price.

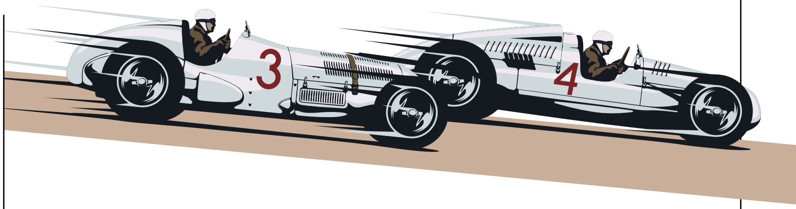
It's frustrating to see red figures on the screen when I look at my portfolio. In this situation, one's instinct might be to cut the losses and move on. However, the benefits of being patient with investments must not be forgotten.

I bought the infrastructure fund to help diversify my portfolio and its role hasn't changed. A truly diversified portfolio would not see all its holdings move in tandem. Ideally, you should expect them to move differently and not be influenced by the same factors.

It's important for investors to remember this point, even when markets in the UK and US are in bullish mode such as we are now experiencing.

Faced with a similar situation, I'm sure there would be some readers who would sell their underperforming investments and use the proceeds to buy more of their winners. After all, if something is doing well, why not own more of it? In doing so, there is a risk you would crystalise losses that may only be temporary and buy something else where all the good news has already been priced in.

The infrastructure fund in my portfolio generates an income for its investors, so I'm effectively being paid to wait for its valuation to increase. I do not currently need this income and instead I reinvest all the dividends by owning the accumulation version



of the fund. That means my holding slowly increases in size without me having to put my hand in my pocket to buy more fund units.

A considerable amount of infrastructure work is defensive in nature and doesn't disappear when the economy weakens. For example, many infrastructure funds invest in projects or companies doing the work on electric, gas and water networks, or road and rail improvements. When markets are weak, earnings should continue to hold up from infrastructure work and therefore share or fund unit prices should also be resilient.

It's easy to focus on the positive parts of the stock market and celebrate shares or funds going up in value. However, a good investor should take a broader view of the world and note areas of weakness as well as strength.

For example, China's SSE index has been a miserable performer this year relative to the UK and US, down 1.5% year to date. That may have negatively impacted an investor with an emerging market fund in their portfolio. However, it's not a reason to panic.

There will normally be strong and weak parts of your investment portfolio and the trick is not to keep fiddling with it – unless the investment case for a stock or fund has changed dramatically. Patience is the key to successful portfolio management.

By **Daniel Coatsworth** Editor

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Shunned fund manager Mark Barnett tries again

The former Neil Woodford protégé hopes for a fresh start despite disappointing track record in recent years

Neil Woodford's former right-hand man, Mark Barnett is back with a new job less than a year after he left Invesco following several years of poor performance from the two high profile income funds he ran.

Barnett is joining Tellworth Investments, founded by ex-Schroders fund managers Paul Marriage and John Warren, to launch an income fund, capitalising on UK companies restarting dividends after disruption to shareholder payouts during the pandemic.

The fund manager started his investment career at Mercury Asset Management in 1992, joining Invesco in 1996 where he spent 24 years, rising to the role of head of UK equities.

He successfully employed a contrarian approach, looking for areas of the market which were mispriced or unloved, with a focus on sustainable cash flows and dividends.

He took over the management of the Invesco Income and Invesco High Income funds when Woodford left Invesco in 2014. Unfortunately, he immediately had to deal with investors cashing out as they followed Woodford to his new fund venture.

Barnett also suffered from market concerns over liquidity as the portfolios ended up with a greater percentage of small and mid-cap stocks.

Tellworth will no doubt be hoping that Barnett does better if he builds a new portfolio from scratch, rather than having to reshape an inherited one, such as he encountered when Woodford left Invesco.

The asset manager last year tried to launch the Tellworth Recovery & Growth Trust, with the aim of investing in large, mid and small cap stocks which are either UK businesses and global leaders in their respective niche, good British businesses on distressed valuations because of Covid-19, or

British companies with promising technology. Unfortunately, it failed to generate enough interest.

A spokesperson for Tellworth says there won't be another attempt to launch this product. However, they did say the company would 'definitely have a conversation' with any investment trust seeking a new manager.

Just under half of Tellworth's £800 million of assets under management are in the **Tellworth UK Smaller Companies Fund (BDTM8B4)** which returned 46.7% in the six months to 12 April versus 32.1% from the IA UK Smaller Companies sector, according to FE Fundinfo.

Writing in its latest factsheet for the fund, Tellworth says: 'Our decent start to the year feels like more hard-earned payback for our faithful investors who sat tight while we bleated about how much upside the UK could see on a Brexit deal and a reopening UK economy.

'The reason why we feel that this portfolio remains well set despite the decent run is the breadth of its exposures across the small cap market and inherent lack of style bias.' [IC]

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Tellworth UK Smaller Companies Fund.

Anglo American investors to get free shares in new coal miner

The FTSE 100 natural resources group is demerging its thermal coal assets as it targets commodities for a 'low carbon economy'

Investors in **Anglo American (AAL)** will get free shares in another mining company after the FTSE 100 group decided to spin off its thermal coal assets.

Anglo's coal assets will be transferred to a separate company called Thungela, which will be listed on both the London and Johannesburg stock exchanges. If approved by shareholders, the demerger will become effective on 4 June and the new shares will begin trading on 7 June.

Anglo American shareholders will be awarded one new Thungela share for every 10 Anglo shares they currently hold. Chief executive Mark Cutifani says the move is part of the miner's 'transition away from thermal coal', which has been in place for years as the world 'transitions towards a low carbon economy'.

The market greeted the news from Anglo with a 3% rise in its share price, with the demerger a big plus point for investors from an environmental, social and governance perspective.

Jefferies analyst Chris LaFemina says the move is positive for the miner 'as it is a clear, albeit phased, path to an improved ESG performance for Anglo.'

Most of the big, diversified miners like Anglo are moving away from being contributors to climate change to playing a crucial role in sourcing the metals – like copper, cobalt, nickel and lithium – and other materials required for renewables and electric vehicle infrastructure.

LaFemina adds that with the yield curve steepening and multi-year deficits projected in key commodity markets, 'investor preference in mining will likely shift from free cash flow and dividend yield to growth and net present value', with investors focusing on the quality of growth in commodities with structural upward

trajectories like those involved in electric vehicles and renewables.

Certain mining stocks are likely to be in demand with investors this coming decade for that reason, and so the more of their fossil fuel assets they can dispose of, the better from their point of view.

However, it's not always that easy and Anglo's move to spin off its coal assets into a new company is likely to be because it couldn't find a buyer at an economically viable price.

The outlook for the new business doesn't immediately sound great but Cutifani has defended the prospects for the new company, arguing the move will allow Thungela to expand production to meet demand from customers in Asia, and in particular India, who still rely on coal-fired power. 'You can't just walk away from billions of people across the globe,' he told the *Financial Times*.

Thungela, which produced 16.5 million tonnes of coal last year and has assets worth around $1.3 billion, will pay out at least 30% of its free cash flow to investors in the form of dividends. [YF]

Novacyt shock means investors should get out now

A key concern is that Novacyt's legal dispute with the DHSC reduces its chances of becoming a strategic supplier in the long run

A profit warning on 9 April from specialist clinical diagnostics firm **Novacyt (NCYT:AIM)** is a major turning point for how we view the stock. The investment case has materially changed which means investors should sell, even at a loss.

The investment case case was largely based on Novacyt becoming a strategic supplier of diagnostic services to the Department of Health and Social Care. This is now questionable given the parties are in legal dispute.

There are risks with dealing with government departments as highlighted by the apparent change of tactics in favour of lateral flow testing in the UK, despite their lower accuracy, which could provide a more challenging backdrop for polymerase chain reaction testing offered by Novacyt.

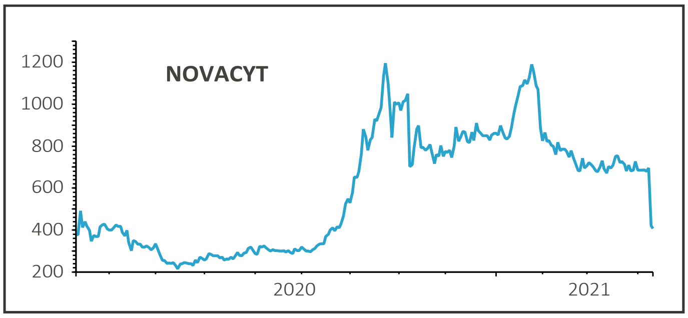
Furthermore, lower than expected revenues and cash flow means the revenue decline following peak Covid-related testing could be steeper than anticipated, which increases financial risks.

The source of the profit warning is related to a Covid-19 testing kit supply contract with the DHSC which was not extended into the second phase as hoped.

The initial term ran roughly to the middle of January 2021 and had a minimum contract value of £150 million. The second part of the contract was due to run for a further 10 weeks and was expected to generate a minimum £100 million of revenues.

Novacyt said the failure to extend may have a material impact on fourth quarter 2020 revenues while 2021 revenues and profit may be lower than current market expectations.

The company said it had supplied its diagnostic testing kits in accordance with DHSC demand, and having taken legal advice, believes it has 'strong grounds' to assert its contractual rights.



A 'material impact' to Q4 2020 revenues raises the possibility of an exceptional charge against already reported 2020 revenues (€311.6 million).

Analyst Stefan Hamill at Numis hasn't reflected this possibility in his new estimates, suggesting he sees it as a small probability, even though it is dependent on the outcome of legal proceedings.

Hamill has lowered his forecast for 2021 revenues by 44% to €179 million and his earnings per share forecast by 54% to €1.07.

The company reported first quarter 2021 revenues of €83 million, half of which came from the DHSC and the directors believe the kits supplied so far may be enough to satisfy DHSC's 2021 full rollout plans.

At 440.8p, the shares are trading below the 632p level at which we said to buy on 8 October 2020. It is prudent to act when the facts no longer support the investment case and there are clear red flags, so sell. [MG]

Big shareholder wants fee-spat hedge funds to merge

Investec wants BH Macro and BH Global to create a larger, more liquid vehicle

Two listed hedge funds that significantly beat the broader UK stock market in 2020 could merge.

BH Macro (BHMG) and **BH Global (BHGG)** are under pressure from Investec, which is a shareholder in both vehicles, to combine into a single entity.

The proposal is on the grounds that the two hedge funds have significant portfolio overlap and they could become smaller and less liquid in the wake of upcoming tender offers implemented following a rumpus over management fees which hit the ratings of both trusts.

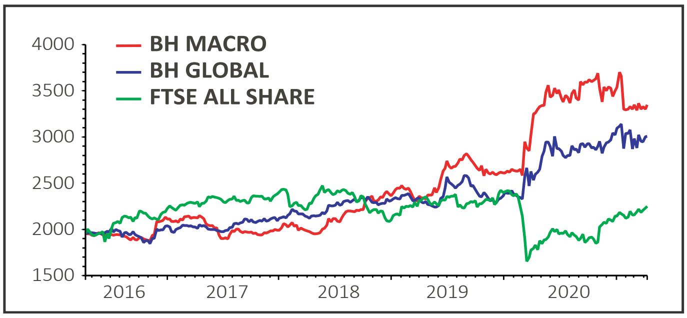
Investec has requested that merger talks take place before both funds make a tender offer for up to 40% of each share class. This follows the approval of increases to the funds' fees after shareholders were presented with a controversial ultimatum by manager Brevan Howard, which warned it would resign and redeem the listed funds' holdings unless fees were increased.

BH Macro is a feeder into the Brevan Howard Master Fund, whereas BH Global invests in the Brevan Howard Multi-Strategy Master Fund and can allocate capital directly to underlying traders.

In 2020, the sterling dominated version of BH Macro generated a 35% total return for investors and BH Global returned 27% versus a 10% decline from the FTSE All-Share.

BH Global is open to discussions yet appears slightly miffed that until now its largest shareholders have either 'voiced continuing support for a vehicle specifically designed to invest in the Brevan Howard Multi-Strategy Fund or at the very least shown no strong desire for a combination of the two companies to be effected'.

To date, notes BH Global, Brevan Howard has also 'emphasised its support for two separate funds pursuing discrete investment mandates'.



Liberum Capital believes a merger makes sense given the crossover in strategies and shareholder register and for liquidity reasons. The broker says: 'The high fee structure will still remain, and we believe the funds will struggle to attract a material number of new investors as a result.'

The investment trust team at Stifel welcome the merger proposal, having previously questioned why BH Global exists 'as it is not sufficiently differentiated from BH Macro, while historical performance is lower'.

Stifel adds: 'Its only value to date is as a relative value play when the spread between the funds is large. In our opinion, we would take the opportunity to merge the product with BH Macro thereby reducing overall expenses and increasing liquidity.'

Numis says that assuming full take up of the 40% tender offers, BH Global would have a market cap of £260 million, aggregating the two share classes, and BH Macro £332 million, 'both of significant scale, however a combined vehicle with a market cap of circa £592m is likelier to appeal to a broader range of investors.' [JC]

Morgan Sindall is a cheap economic recovery play with momentum

The construction and regeneration specialist has a refreshing no-nonsense strategy backed by a strong balance sheet

Construction and regeneration specialist **Morgan Sindall (MGNS)** has significant share price momentum but remains an inexpensive way to play economic recovery boosted by an internally driven increase in profitability and exposure to bumper infrastructure spending.

The shares trade on a 2021 price to earnings ratio of 11.7 and yield 3.4%. That's still a very reasonable valuation ratio and the dividend yield is much greater than you'd get on cash in the bank.

We are also attracted by the company's straightforward focus on organic growth, a habit of being conservative with guidance, and the transparency of its numbers with very few if any exceptional items in its published results.

Apart from the fit-out business which has relatively limited visibility, the other parts of the group benefit from long-term contractual relationships which make their revenue streams fairly predictable.

Morgan Sindall's secured workload increased 5% from £7.9 billion at the end of September 2020 to £8.3 billion by the year end.

MORGAN SINDALL
BUY
(MGNS) £19.06

Market cap: £884 million

The company should be well positioned to take market share coming out of the pandemic as its strong balance sheet – Liberum forecasts a 2021 year-end net cash position of £189 million – separates it from more financially strained rivals. Clients want to know the firm they contract for a project will be around to complete the work.

Morgan Sindall is targeting an improvement in its margins in the Partnership Housing unit – driven by more mixed tenure work (such as developments with owner-occupiers as well as shared ownership and rental properties), increased efficiency in operations and close control of costs.

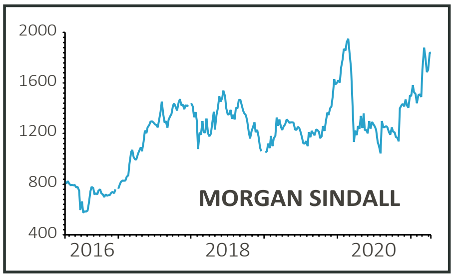
The company is also targeting an improvement in return on capital employed from an already high margin Urban Regeneration business, from around 14% to 20%.

In November 2020 the Government committed to investing £27 billion in infrastructure and Morgan Sindall looks well placed to take advantage, particularly on the road and rail side of things.

The main risks look to be significant exposure to private sector clients, where contract awards could be lumpy and volatile depending on economic conditions and pressure on the fit-out business thanks to the work from home trend.

However, the track record and a solid management team gives us confidence any risks can be successfully navigated.

Analysts forecast approximately 3.6% revenue growth each year for the next three years. An increase in margins means pre-tax profit growth should be much greater. Pre-tax profit is expected to recover strongly this year to £93 million (2020: £65 million, 2019: £90 million), rising to £102 million in 2022 and £113 million in 2023, according to Refinitiv data. [TS]



Fidelity Asian Values is in a sweet spot so buy now

The trust is primed to deliver as the market rotates to value and small caps

After several years of returns in Asian stock markets being driven by large-cap growth stocks, emerging markets in Asia are showing signs of a rotation towards value and small caps, something which has put investment trust **Fidelity Asian Values (FAS)** in a sweet spot.

With its value style and small cap focus, the trust now looks primed to deliver. Performance hasn't exactly been stellar over the past three to four years as the value investing style has been out of fashion for much of that period. Despite such pressure manager Nitin Bajaj has stayed true to his value philosophy and the style is now in demand.

FIDELITY ASIAN VALUES
BUY
(FAS)

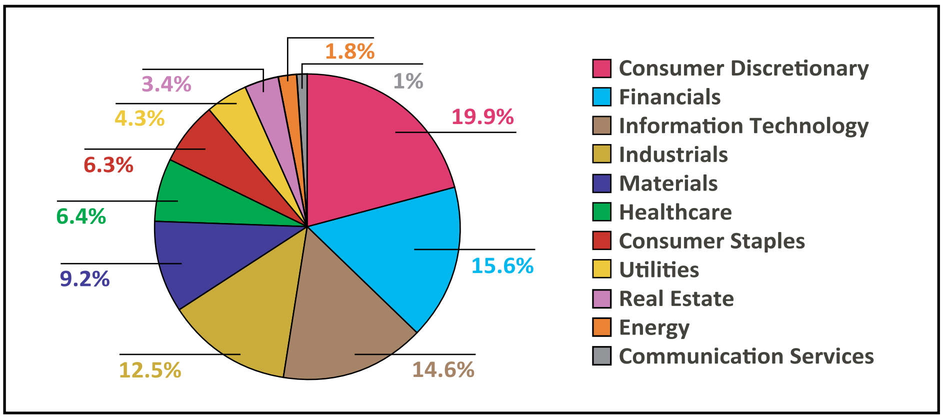
TRADING BELOW VALUE OF ASSETS

The fund's performance has improved significantly in recent months. Despite this achievement, the shares, which initially re-rated to trade at net asset value after the value rally began last November, are now back on a discount (1.2%), creating a buying opportunity.

Analysts at broker Stifel say that this 'seems strange as the fund's performance since the start of the market rotation remains strong'. They point out that value funds in other sectors have sustained their positive re-rating, continuing to trade close to NAV post the November market rotation.

At the end of February, the look-through price to earnings ratio for the portfolio was 11 times compared with 16 for its MSCI AC Asia ex-Japan Small Cap benchmark, which makes the investment trust look very attractive.

Fidelity Asian Values sector breakdown



Source: Fidelity Asian Values factsheet, 28 February 2021

GOOD QUALITY COMPANIES

The Stifel analysts say the portfolio looks cheap despite being invested in companies which are arguably better quality than the benchmark.

One example is KEI Industries, which makes electrical cables for homes and to connect with the grid. Among the attractions of the stock highlighted by Bajaj are cash on the balance sheet, around 15% annual revenue growth over the last decade and over 20% return on invested capital.

Despite that, KEI stands on around 12 times earnings, while its main listed competitors Havells and Polycab trade at close to 50 and 35 times respectively.

BENEFICIARY OF ECONOMIC RECOVERY

Among the top holdings in Fidelity Asian Values' portfolio are Indian banks Axis Bank and HDFC, both of which have surged since the value rally gripped global markets five months ago.

After a 7.1% contraction last year, the International Monetary Fund forecasts that India's gross domestic product could soar by 12.5% in 2021 as its economy bounces back, something which should act as a strong earnings tailwind for both banks and other holdings in the investment trust's portfolio such as lender Shriram City Union Finance.

The trust has 24.5% exposure to India overall. Indian analysts

have predicted 2021 could end up being the year for small and mid-cap stocks in the country, fuelled by the economy's revival, strong retail investor interest and a number of smaller companies recently beating market expectations.

The anticipated return of inflation in Asia should also act as a tailwind for the value stocks in the portfolio, while its high exposure to financials – making up 15.6% of the portfolio – should also see it benefit should interest rates move higher during the year, something which is seen as likely to happen.

CHINESE OPPORTUNITIES

The second highest allocation in the trust is to China, which makes up 20% of the portfolio.

Although rather volatile, Chinese small caps have been stellar performers in the past year and a half if the MSCI China Small Cap index is anything to go by, having generated a 12.3% return year-to-date and a 64.6% return in the year to 31 March 2021.

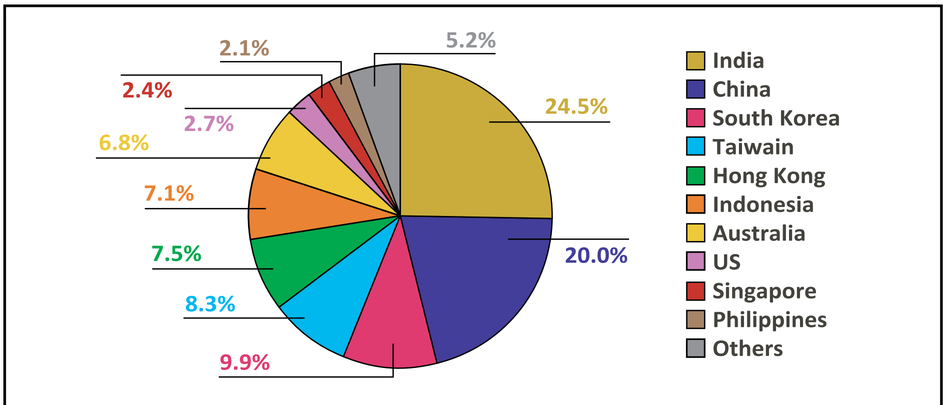
Many China equity fund managers have touted the potential of smaller and lesser-known Chinese stocks, arguing that they're the ones driving innovation in the country and are a key part of its economic shift away from manufacturing into more high-tech sectors.

NO GEARING

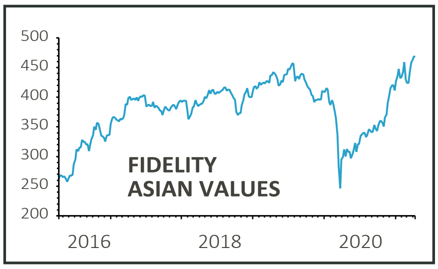
The trust doesn't employ any gearing which means it isn't borrowing cash to have extra money to deploy in the markets. Manager Bajaj has avoided leverage as he does not have a clear forecast of the repercussions of a severe economic downturn brought about by the pandemic, something which heightens his caution.

There are risks with the trust and Asian small caps in general, particularly if countries like India go back into extended lockdowns again. But overall, as the global market looks towards the inevitable economic recovery and the clear outperformance of small caps at the moment, particularly in emerging markets, Fidelity Asian Values is an almost perfect place to capture that upside. [YF]

Fidelity Asian Values Geographic Breakdown



Source: Fidelity Asian Values factsheet, 28 February 2021



ASOS

(ASC:AIM) £53.80

Gain to date: 10.3%

Original entry point:

Buy at £48.79, 28 January 2021

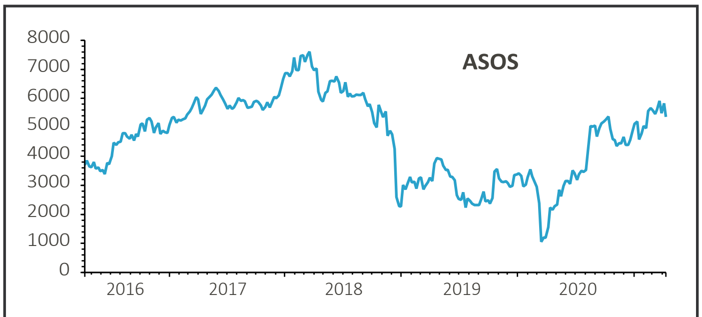
OUR BULLISH CALL on online fashion retailer **ASOS (ASC:AIM)** is 10.3% in the money and record first-half results (8 April) only boosted our confidence in the web-based company's long-term global growth potential.

For the six months to 28 February 2021, ASOS' total sales grew 25% to approaching £2 billion driven by 'exceptional' growth in the UK with progress overseas. Adjusted pre-tax profits surged 275% higher to £113 million as youthful fashionistas starved of the opportunity to shop on the high street turned to the web instead.

Admittedly, there was mild disappointment as ASOS increased its full-year expectations only 'in line' with the superb first-half performance. A beneficiary of the consumer shifts accelerated by Covid, ASOS left its second-half outlook unchanged, citing the uncertain economic prospects of its core 20-something customer base and with restrictions easing.

Growth may slow now brick and mortar shops are reopening, but the online shift accelerated by the pandemic is here to stay and ASOS is well placed to capture demand for dresses and other going out garments once social life resumes in full.

We were also pleased to learn that the integration of the Topshop, Topman, Miss Selfridge and HIIT brands acquired from the administrators of Philip Green's collapsed Arcadia empire is 'progressing to plan'.



SHARES SAYS: ↗
Keep buying ASOS for long-term growth. [JC]

ALIBABA

(BABA) $244.01

TOP STOCKS FOR 2021

Loss to date: 4.8%

Original entry point:

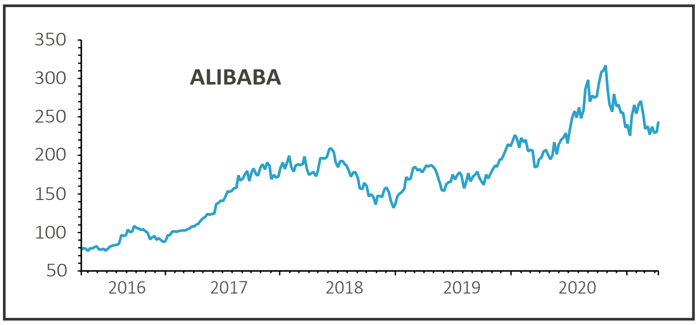
Buy at $256.22, 23 December 2020

A $2.8 BILLION antitrust fine by the Chinese authorities may look punishing for **Alibaba (BABA:NYSE)** but it effectively draws a line under an issue that has been dogging the shares for month. It represents barely 10% of the company's annual free cash flow so is unlikely to hurt the company in the long run.

This point was reflected by the stock's 9% rally earlier in the week. With the probe now closed, it was interesting that the regulator made a point of flagging how Alibaba as a business has largely been very positive for China and its people, nipping in the bud fears that the e-commerce platform was the target of a regulatory witch hunt.

Longer-term policy objectives designed to seed greater digital competition creates some debate about any impact on Alibaba's future earnings, but the underlying growth story seems largely unchanged. We have seen no recent cuts to forecasts that imply 20%-plus earnings growth this year to March 2022.

On a 12-month forward price to earnings multiple of 21 versus 25 for its industry, Alibaba still trades at a near 20% discount to its peer group.



SHARES SAYS: ↗
Removing uncertainty around Alibaba is great news for investors and we expect the stock to kick on higher through the rest of 2021. Still a 'buy'. [SF]

TIME *to* BUY

4 value stocks that won't stay cheap for long

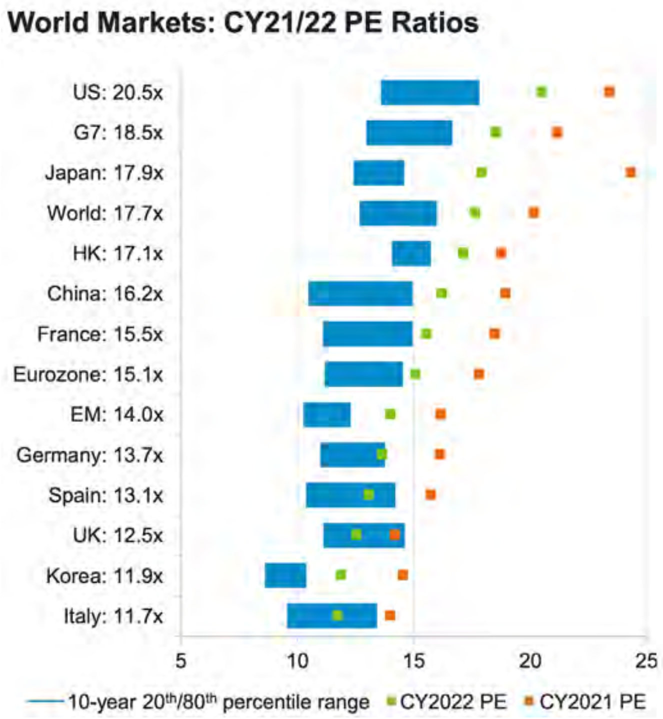
By **Ian Conway** Senior Reporter

With 'value' investing still in the ascendancy in global markets, and with UK stocks still trading at a hefty discount to their international peers, we have screened the FTSE All-Share index for cheap stocks which we believe offer significant upside potential.

As well as looking at straightforward price to earnings ratios for the next 12 months, we have included returns on capital – in order to weed out stocks which make perpetually low returns – and gearing, or net debt to earnings, to make sure that we aren't including stocks which may look cheap on earnings but have lots of debt (and debt servicing costs) hanging over them.

UK 'HISTORICALLY CHEAP'

By way of background, according to data compiled by Fidelity from MSCI and IBES, the UK is not only outstandingly cheap relative to other markets using forward price to earnings multiples but it is well within its 10-year range whereas global stocks are trading at a significant premium and US stocks are trading at one of their highest premiums in history.



Source: Fidelity, Peel Hunt, Refinitiv Datastream, 5 March 2021. MSCI Indices, IBES consensus

In our last scan for value stocks in mid-February – when global markets were hitting all-time highs, as they are again this month – we flagged the worst-performing stocks and sectors and picked three companies we thought were being mispriced by the markets, **Beazley (BEZ)**, **Bellway (BWY)** and **Micro Focus (MCRO)**.

So far two of those ideas, Bellway and Micro Focus – which we put at the more 'risky' end of the spectrum – have played out well, gaining 22% and 19% respectively compared with a rise of just 3.5% in the FTSE All-Share index. Ironically our 'safe' recommendation at the time, insurer Beazley, has lagged the index, which says a great deal about the market's mood.

With investors seemingly in 'risk-on' mode therefore, we have steered clear of traditional large-cap value stocks like tobacco-maker **Imperial Brands (IMB)** and grocery chain **Morrisons (MRW)**, which are cheap on our measures but lack a clear catalyst for a re-rating. Moreover, in the case of Imperial there are obvious ESG concerns and we would rather choose a stock with tailwinds than one with headwinds.

The importance of a catalyst is key – without a reason for other investors to change their mind about a stock it could remain undervalued almost indefinitely.

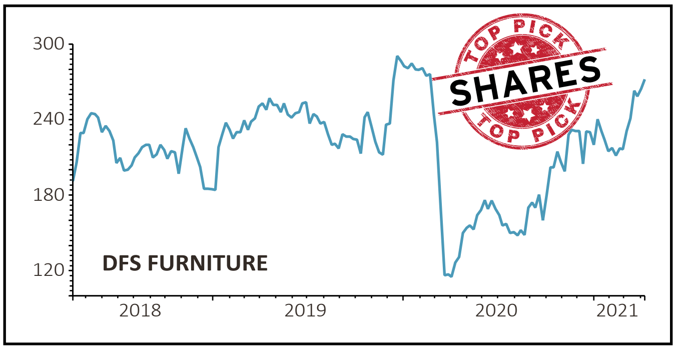
What follows is a selection of names which genuinely look ready to re-rate but which come with varying degrees of execution risk.

FOUR TOP VALUE PICKS TO BUY TODAY

DFS Furniture (DFS) 270.5p

While shares in **DFS Furniture (DFS)** have rallied from their pandemic lows, the cash-generative sofa seller is inexpensive on a forward price to earnings ratio of eight times with a 6.3% yield based on broker Numis' current year estimates.

The key re-rating catalyst for the UK's clear living room furniture leader is the reopening of non-essential retail in England (12 April), which should see sofa buyers return to its showrooms in droves, as well as a hoped-for pick-up in orders deferred by extended lockdowns.



DFS did enjoy a surge in online sales during the pandemic, yet management also observed strong levels of pent-up demand on reopening stores after previous lockdowns and expects to benefit from the release of pent-up demand once showrooms reopen.

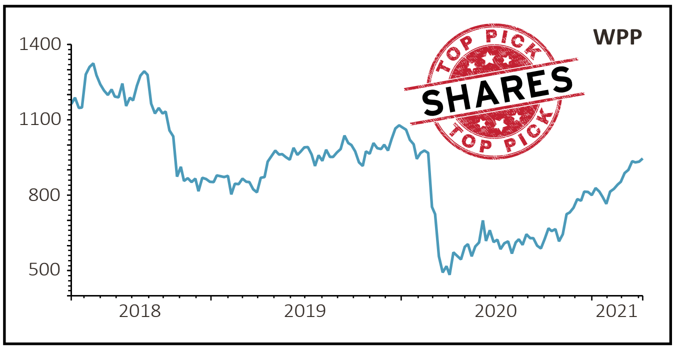
DFS should also profit from positive market conditions during the rest of 2021 thanks to the continued shift to spending on the home caused by the pandemic. Numis forecasts a swing from losses to pre-tax profit of £110 million in the year to July 2021 for earnings of 33.9p and a near-17p dividend, with profit of £80 million, earnings per share of 24.4p and a 20.7p dividend pencilled in for 2022. (JC)

WPP (WPP) 943.8p

Advertising giant **WPP (WPP)** may have recovered the majority of its pandemic losses but the shares still look inexpensive as chief executive Mark Read continues the turnaround of a business he took over in 2018 following the acrimonious departure of founder Martin Sorrell.

Based on consensus forecasts the shares trade on a price to earnings ratio of 13.6 for 2021, falling to 11.8 for 2022 and it yields 3%.

The catalyst to unlock this value is continuing self-help and the reopening of the global economy which should be accompanied by an uptick in advertising spend. Structural challenges, whereby the big social media giants like Google and Facebook cut out the middlemen agencies like WPP, will likely be tempered by the importance of issues such as ensuring advertisements don't appear alongside extremist or offensive content.



The focus has been on simplifying what had become a rather unwieldy business with lots of moving parts, improving co-operation between different bits of the wider group as well as reducing debt and investing in technology. (TS)

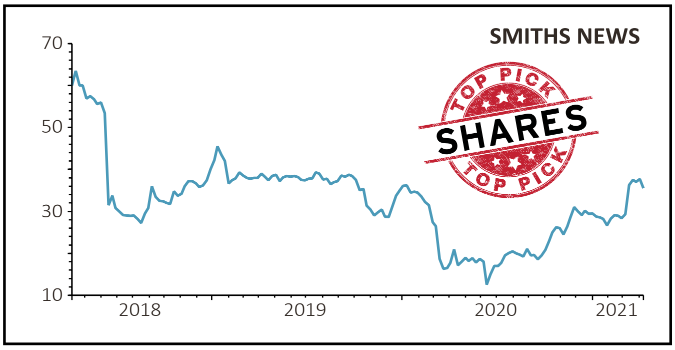
Smiths News (SNWS) 36.5p

Smiths News (SNWS) is the UK's largest wholesale distributor of newspapers and magazines, with 24,000 customers nationally and a 55% market share.

The firm maintained a full service during the second lockdown in November, and has operated without a hitch in the recent UK-wide restrictions as its markets haven't experienced the same big drop in demand as during the first wave of the virus.

Therefore, the company expects earnings before interest, tax, depreciation and amortisation for the first half to the end of February to be around £20.5 million, and the board is even contemplating reinstating dividends. This doesn't look to be reflected in a forward price-to-earnings ratio of just 4.1.

As footfall returns to high streets and people start travelling again, sales should see a significant increase, coupled with publishers planning to raise prices to make up for lost sales, which feeds through to Smiths' revenues.



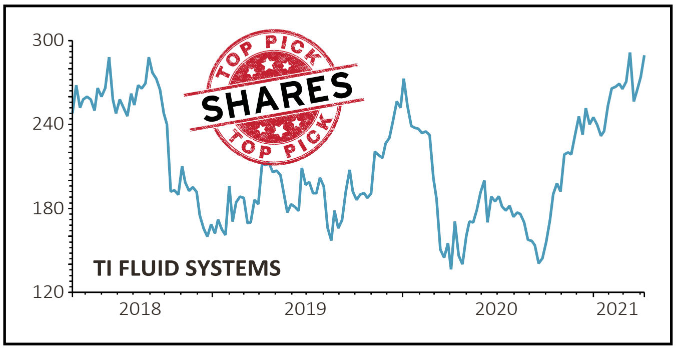
Meanwhile, the firm is a bona fide 'green' story since as well as delivering supplies, Smiths collects and recycles returns making it part of the 'circular economy'. (IC)

TI Fluid Systems (TIFS) 290.5p

This automotive industry supplier has seen its stock jump nearly 20% in 2021 as investors bet on a rapid Covid recovery for car makers and their supply chain partners.

Providing crucial components for vehicle fuel systems, **TI Fluid Systems (TIFS)** is held in high regard across the industry and is widely considered to be among the leaders in its field, with customers reading like a who's who of global vehicle manufacturers, including Ford, Volkswagen, BMW, Mercedes-Benz, Toyota and more.

Its shares trade at an unfair discount to the wider sector on many metrics, such as price to cash flow, price to book and price to earnings. The latter's rolling 12-month figure of 12.7 stands against the sector's 13.2, according to Refinitiv data, while the five-times enterprise value to earnings before interest, tax, depreciation and amortisation is less than half its peers.



We believe these valuation ratings will play catch-up as TI Fluid continues to spell out its move into electric vehicles, which represented half of new contracts wins in 2020. (SF)

WHERE ARE FUND MANAGERS FINDING VALUE?

Alex Wright, lead manager of **Fidelity Special Values (FSV)**, is a self-confessed contrarian who likes finding unloved companies with potential for positive change.

'Positive change is key, otherwise cheap stocks will stay cheap,' says Wright, citing telecoms, utilities and oil as sectors where valuations are undemanding but the long-term growth outlook is at best for zero growth or at worst for negative growth.

Meanwhile, where others might argue mining and personal goods are attractive, Wright finds no value in either sector and is underweight both relative to the benchmark.

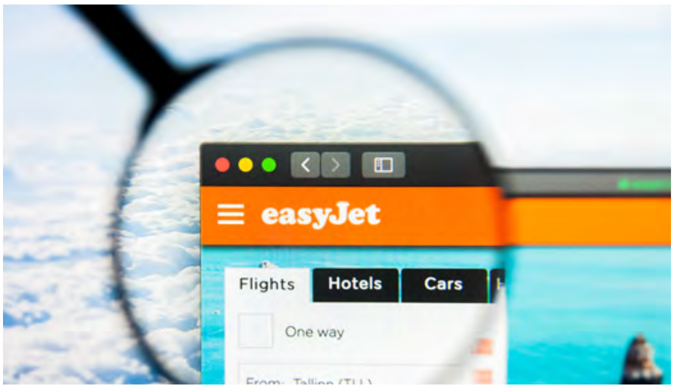
Included in his portfolio are insurers **Aviva (AV.)** and **Legal & General (LGEN)**, support services firms such as **Serco (SRP)** and **DCC (DCC)** and specialty retailers such as **Dixons Carphone (DC.)** and **Inchcape (INCH)**.

Signs of change are already clear at Aviva, under new chief executive Amanda Blanc, but Wright believes the market has yet to appreciate the changes under way at Dixons Carphone and Inchcape.

Nick Purves and Ian Lance of RWC Partners, who recently took over the management of **Temple Bar Investment Trust (TMPL)**, are firm believers in the excess returns value investing can produce over the long term and look for good-quality companies with strong cash flows which are temporarily mispriced by the market.

As of the end of February the fund's top 10 holdings included energy stocks **BP (BP.A)** and **Royal Dutch Shell (RDSB)**, banks **NatWest (NWG)** and **Standard Chartered (STAN)**, media firm **ITV (ITV)** and general retailer **Marks & Spencer (MKS)**.

Parcel delivery group **Royal Mail (RMG)** is the largest holding at 6.6%, almost double the size of the 10th largest stock, budget airline operator **EasyJet (EZJ)**.



Simon Gergel, manager of **The Merchants Trust (MRCH)**, says he is finding value in general financials, certain industrials, media, tobacco and companies linked to the home environment such as housebuilders and furniture suppliers.

'We're trying to buy good businesses that are lowly rated for their own prospects, so we're not totally dependent on the whole value/growth cycle turning,' he adds.

While the portfolio also includes the oil and gas majors in its top 10 holdings, Gergel admits the value case for energy stocks is 'not as compelling as it was a few month ago'.

Leisure sector reopening: the stocks to buy and avoid

There is significant pent-up demand to get out of the house and start enjoying life as we used to know it

We're getting a distinct feeling of déjà vu as the hospitality sector starts to reopen. Indeed, just 10 months ago we were doing more or less the same thing, although this time round the economy looks in much better shape and the rollout of vaccinations has given consumer confidence a shot in the arm.

After a third lockdown, there is no doubt a large part of the population is ready – not to say desperate – to get out and enjoy themselves. Last month's GfK consumer confidence survey beat expectations, and even though the reading is still negative the trend is clearly positive, which bodes well for growth.

STRONG DEMAND, LIMITED SUPPLY

Research from Money.co.uk suggests nearly a quarter of over-18s surveyed expect to hit the pub by the end of this week with a total of nearly £450 million being spent in the first four days – equivalent to more than £50 per person surveyed.

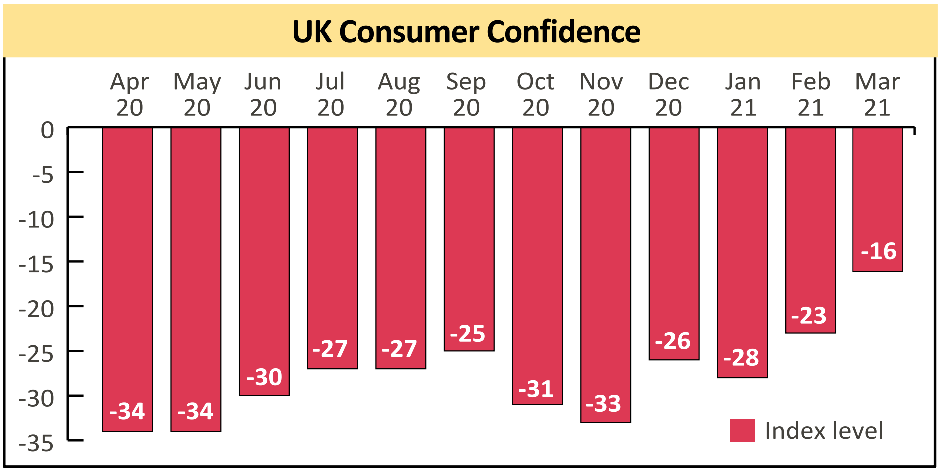
Anecdotal evidence gathered by *Shares* suggests spaces at some of the more popular outdoor venues are already booked up for weeks to come and weekend slots have been pre-booked well into the summer.

All of which bodes well for a pub sector which has been decimated by the pandemic. According to industry analysts CGA, January and February were the toughest two months that the hospitality industry has seen.

In just the first two months of the year, the UK lost over 2,700 licensed premises, taking the total number of premises shut in the last year to 7,600, with an attendant loss in jobs.

It is also worth noting that only 40% of pubs have outside areas, according to the British Beer & Pub Association, so a big chunk of the sector won't be reopening their doors this week.

However, in CGA's Business Leaders survey those at the top of the industry are more bullish now than at any point during



Source: GfK Consumer Confidence Barometer, March 2021.
Gfk Consumer Confidence index measures the level of consumer confidence in the UK. A reading above zero indicates optimism; below indicates pessimism

the crisis and for the first time some are planning new openings rather than more closures.

In fact, some savvy operators believe this is the ideal time to invest. RedCat Pub Company, headed by former Greene King chief executive Rooney Anand and backed by Howard Marks's Oaktree Capital Management to the tune of more than £200 million, has just acquired an estate of 42 premises from Stonegate.

Anand described the deal as 'the first step in our plan to build a differentiated pub company, to serve the local community and add value to the neighbourhoods that we invest in, as we play our part in rebuilding the sector'.

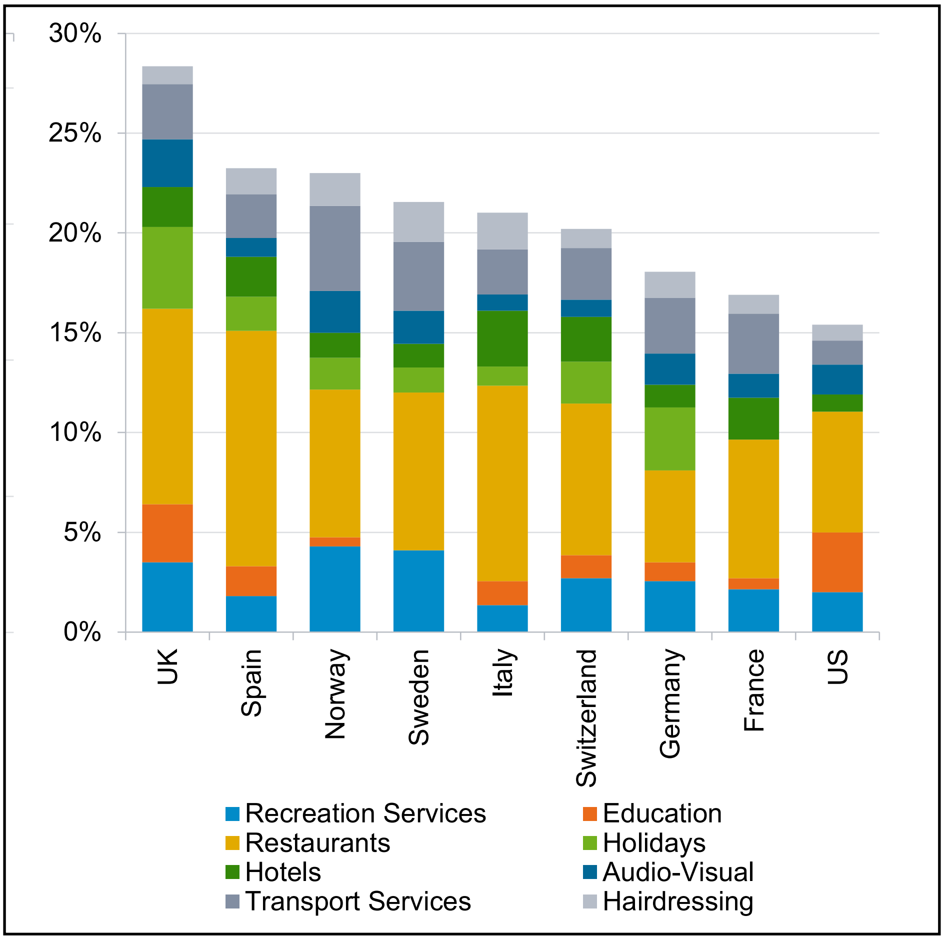
DINING OUT

In the restaurant sector, which was already in trouble before the pandemic with well-known brands such as Carluccio's and Jamie's Italian shutting down, there has been as much as a 30% contraction in capacity in the last year according to some accounts.

That has encouraged old hands such as Hugh Osmond, founder of **Various Eateries (VARE:AIM)** and Punch Taverns, to have another swing of the bat. Floated last September, Various Eateries owns the Southern England-focused restaurant brand Coppa Club and Italian restaurant Tavolino in London.

Having raised £25 million to accompany its stock market debut in September 2020, the firm says it is ready to take advantage of the current market backdrop, which offers increased availability of good sites and reduced competition.

Share of consumption basket vulnerable to social distancing



Source: Haver Analytics/Goldman Sachs, October 2020.

WHAT ABOUT EARNINGS?

While pubs, and restaurants to a lesser extent, are likely to be mobbed in the first few weeks of reopening, with only outdoor spaces open and with a reduced 'take', profits are likely to be some way off as the sector remains in 'cash burn' mode for a while.

In addition, many hospitality firms have taken on debt to get through the crisis, and most have taken advantage of the Government's deferred business rates and VAT schemes, which means at some point they are eventually going to have to cough up what they owe for last year as well as this year.

Yet, as analyst Greg Johnson at Shore Capital points out, valuation metrics for many hospitality stocks 'have moved beyond historic metrics, implying the market is discounting a rapid recovery in profitability to at least pre-Covid levels, if not beyond, and/or that higher valuation metrics can be supported following the return to normality', which seems unlikely to us.

While the unleashing of pent-up demand and the lack of competition could support margins initially, the long-term winners are likely to be those firms which are well-capitalised and are able to 'stay in the game' while assessing the various options to grow their market share.

BUY SHARES IN THESE REOPENING WINNERS

The reduction of capacity and more attractive rental terms have created an opportunity for some hospitality firms to accelerate their growth plans.

Gym Group (GYM)

Price: 246.5p
Market Cap: £407 million

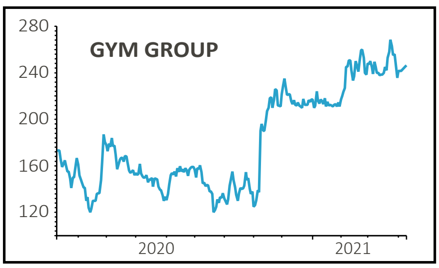
Low-cost fitness firm **Gym Group (GYM)** believes retail closures have increased the availability of high-quality sites which were out of reach pre-pandemic.

For example, the company plans to open gyms in Oxford, York and Cambridge, attractive locations it has targeted for years without finding suitable sites at acceptable rents.

The company has a strong pipeline of new openings for 2021 and beyond as it continues to execute its growth strategy.

A study by consultancy PwC estimates there is plenty of headroom for low-cost gyms to increase their market share with the 10 largest brands only accounting for around 16% of the market compared with 68% in Germany.

A survey last year by Sport England found 87% of gym members were likely to resume their memberships while interestingly, 27% of people who were not members said they were likely to join.



Loungers (LGRS:AIM)

Price: 272.99p
Market Cap: £279 million

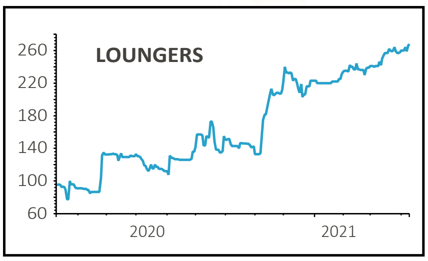
All-day trading operator **Loungers (LGRS:AIM)** experienced strong like-for-like growth, 45% ahead of the pub and restaurant sector, when its sites were allowed to open temporarily last year.

This highlights the popularity of the company's hybrid café/bar/restaurant format and its relevance to local neighbourhoods in suburban and market towns.

As well as food and drink, the company's flexible format offers an alternative workspace and a meeting spot for friends and family in a convivial, friendly atmosphere.

Like Gym Group, Loungers sees more opportunities to open sites in prime locations on great rental terms in the aftermath of the pandemic.

The 'tenant-friendly' property market will allow the company to open sites that generate higher levels of revenue and profit. The company recently extended its banking facilities, allowing it to resume its pre-Covid plan to roll out 25 new sites per year.



The Fulham Shore (FUL:AIM)

Price: 15p
Market Cap: £92 million

Franco Manca and The Real Greek owner **The Fulham Shore (FUL:AIM)** said in a recent trading update that difficulties in the property and restaurant sectors were providing the group with opportunities to acquire new sites at much reduced rents and lower capital costs per site.

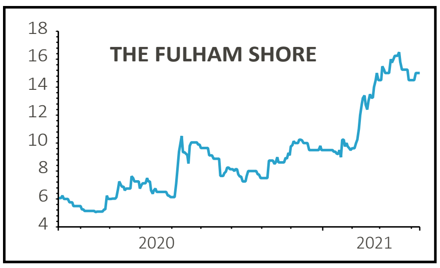
The company recently opened two restaurants which cost less than half what they would have a year ago, meaning it should enjoy higher returns on capital than achieved historically.

The firm is agreeing terms on further sites due to open in 2021 for both of its brands, in London and around the UK.

The Fulham Shore operates a differentiated business model whereby it directly sources food and drinks from suppliers in Italy and Greece, guaranteeing authenticity and quality of ingredients.

Cost savings from cutting out wholesalers are passed directly onto customers providing them with a high-quality yet value-for-money proposition.

Provenance and sustainability are increasingly important considerations for diners which makes the company's restaurants attractive places to visit.



STEER CLEAR OF THESE STOCKS

The pandemic presents long-term challenges for some parts of the leisure sector. Cinema groups could find it harder to attract audiences in the future as film studios have changed their marketing strategies during lockdown.

In July 2020, Universal Studios signed a deal with cinema group AMC enabling it to release movies to streaming platforms within 17 days of theatre release compared with the historical norm of 75 days.

In December, Warner Brothers said it would release all its 2021 movies simultaneously at the cinema and streaming channel HBO Max which includes *The Suicide Squad*, *Matrix 4* and *Godzilla vs. Kong*. The latter has been a big hit at the cinema, at least in relative terms for the pandemic, suggesting that the silver screen isn't entirely dead.

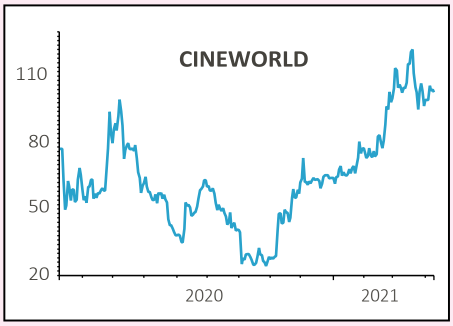
Meanwhile, Disney released *Mulan* exclusively on Disney Plus for $30 in September 2020. Even before the pandemic, theatre attendance was flagging with 2019 showing the fewest visits since 2002 according to Bloomberg.

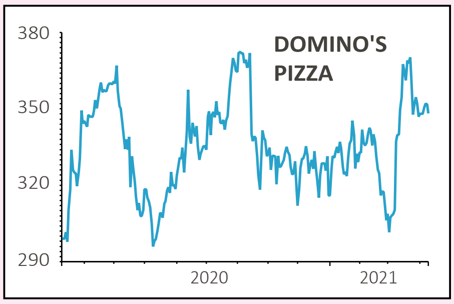
We are not suggesting blockbuster movies won't continue to play in theatres once allowed, but we think there is a real risk that competition from better quality home cinema equipment and earlier (or simultaneous) releases via streaming platforms might have permanently lessened the attractions of going to the cinema.

For these reasons we would avoid investing in **Cineworld (CINE)**, especially given the 282% gain in the shares over the last six months while its theatres have been closed and given its heavy debt load which raises its risk profile.

On the other hand, food delivery has seen a huge boost during lockdown and while long-term attractions remain, in the short term we think that horse has run its race.

We would steer clear of





Domino's Pizza (DOM) on the basis that the pent-up demand for visiting restaurants and bars will result in fewer people ordering in pizzas.

As the weather improves, normal patterns of behaviour such as people visiting pub gardens or barbecuing in their own gardens are likely to be re-established quickly, presenting a more challenging backdrop for Domino's.

In addition, the long running spat with its franchisees is still unresolved with the cost of any new agreement unknown. The new strategic direction to increase the UK footprint by over 200 stores and double the firm's share of the collection market remain key risks for now.

By **Ian Conway** and **Martin Gamble**

Have investors lost their appetite for IPOs after Deliveroo?

The fast-food app got off to a terrible start but that doesn't mean other UK listings will disappoint

Many UK retail investors have been left bruised by the disastrous stock market flotation of food-delivery app **Deliveroo (ROO)**, which has continued to fall in price since joining the market.

Only time will tell if Deliveroo can deliver on heady expectations, but investors should resist any temptation to shun all new stock market listings simply because buying shares in the fast-food app didn't work out in the short-term.

In fact, the UK stock market could see some new additions in the coming weeks and months including cyber security software company Darktrace and money transfer group Wise. Both have the scope to grow sales rapidly.

Other names in the frame include biotech Oxford Nanopore, Zoom and Microsoft video calls rival StarLeaf, music resale website Music Magpie, and digital finance companies AvaTrade and PensionBee.

Darktrace is perhaps the most important UK stock market flotation near-term in terms of convincing the market that London is still an attractive place for companies to list, and that Deliveroo hasn't ruined the appeal of IPOs. The latter is a term to describe the first time the public can invest in a business.

Demand is clearly strong for Darktrace's services, yet some potential investors may not like the fact its largest shareholder is Invoke Capital, an investment vehicle owned by Mike Lynch who is facing fraud charges in the US related to the sale of his firm Autonomy in 2011 to computer group Hewlett-Packard.

Questions are being asked about the extent to which Lynch has worked with the company beyond simply being a financial backer.

Another issue to consider is that Lord Hill's recent proposals to relax the UK stock market listing rules to encourage technology growth businesses to float in London now look less attractive given how Deliveroo was meant to be the poster child for this reform.

The proposals included:

- Allowing dual class share companies in the premium listing segment of the London Stock Exchange
- Lowering the free float requirement from 25% to 15%, which refers to the percentage of shares that are freely available for trading in public hands and not held by strategic investors or directors
- Making it easier for retail investors to get involved with IPOs

There is something inherently democratic about attempts to level the investment playing field, such as giving retail investors the ability to pay the same price as fund managers when a company first joins the stock market.

The flip side is that loosening regulation could make it even easier for investing novices to make costly mistakes that could scare them off for years. Perhaps the best lesson is not to rush in and buy an IPO just because it sounds exciting. It's never been more important to pay attention to valuation and the risks to investing.

By **Steven Frazer**
News Editor

ADVERTORIAL

NUTRITION: INVESTING IN THE FUTURE OF FOOD

PICTET
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Asset Management

The Pictet-Nutrition fund invests in companies that are developing solutions to help secure the world's future food supply.

These solutions include:

1. **Farming:** Innovations to improve productivity in farming.
2. **Transformation and distribution:** Increase efficiency in food transportation and processing.
3. **Food:** Maximise the nutritional content of the food we eat.

Food for thought

The Pictet-Nutrition fund takes a wholly positive approach, aiming to benefit from solutions, not problems – we do not invest in commodities or speculate in shortages in food. Rather, we focus on companies involved in helping to secure the world's future food supply and that therefore represent sustainable long-term opportunities for investors.

Pictet-Nutrition is a compartment of the Luxembourg SICAV Pictet. The latest version of the fund's prospectus, KIID (Key Investor Information Document), regulations, annual and semi-annual reports are available free of charge on assetmanagement.pictet or at the fund's management company, Pictet Asset Management (Europe) S.A., 15, avenue J. F. Kennedy, L-1855 Luxembourg. Before making any investment decision, these documents must be read and potential investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Any investment incurs risks, including the risk of capital loss. All risk factors are detailed in the prospectus.

Looking to boost a pension and buy a boat with house sale proceeds

55-year-old Glenda wants to top up her modest pension and fulfil her sailing dream

Having sold her house in Stroud for £375,000, 55-year-old Glenda has downsized to a smaller property by the sea in Eastbourne. The property set her back £300,000 and is where she intends to stay put.

With decades working in the automotive sector Glenda has wasted no time in securing a job for a company that restores old cars and hopes she'll be able to keep working for the next 10 years. She has £40,000 left from the house sale, after accounting for various bits and bobs such as estate agent fees, removal costs and cash she has set aside to fix up her new abode.

Hard-working Glenda has 30 years' worth of National Insurance contributions under her belt and hopes she will have enough to get the full state pension by the time she hits retirement age. That money will help pay the bills, but it won't be anywhere near enough to fund her desired lifestyle.

Glenda loves sailing and would like to buy her own boat, albeit an affordable one rather than a super yacht. She has £5,000 on a credit card with an interest rate of 18% and a £4,000 personal loan with a 6% interest rate left to pay over the next four years.

She admits to being more of a spender than a saver, yet Glenda realises that in the next 10 years the money left from her house sale could be used to build up a bigger retirement pot.

WHAT SHOULD GLENDA DO?

The first thing Glenda needs to consider is curbing her spending and focusing on paying off her expensive debt; after all it would be very difficult for her to find an investment which offered a return which could match the interest she is paying off on her credit card debt in particular.

She could download a money app, which would be helpful in terms of creating a plan and a budget that she can stick to.

Glenda has amassed a pension pot worth £30,000, which is relatively small but provides a solid base from which to build up her retirement savings by staying invested in the market for the next decade. She intends to draw down on her pension pot when she eventually retires, rather than purchase an annuity (a guaranteed income for life)

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.

WE ARE SAILING

Once she has paid down her expensive debt, Glenda can look to realise her boat ownership goal. In the dream scenario she would buy a second hand sailing boat of 22-26 foot, which would set her back between £4,000 and £5,000, and moor the boat at Eastbourne Harbour, which costs £2,500 per year. She'll also need to factor in servicing costs on top as she will need an engine to get in and out of the marina.

A more realistic alternative would be to look at a smaller boat such as a 'Topper' or 'Laser', then joining a local sailing club would be a great idea.

This option would give Glenda access to helping hands if she encounters any problems with her boat, and to a vibrant social scene with lots of barbecues on the beach, UK weather permitting. The cost of a local sailing club is £115 per year for membership and then £200 per year for boat storage. A Laser costs around £500 for a second-hand one, versus £3,000 or more for a new boat.

which at current rates would offer a pretty limited income.

At a still-sprightly age, Glenda has at least another decade of work ahead of her. This means she has time to put money to work in, and ride the ups and downs of, the equity market.

Targeting an annual return of 6%, Glenda is happy to take on some risk, although high-octane assets like individual resources stocks, small cap equities or cryptocurrencies such as bitcoin aren't for Glenda at this stage of her life.

Given her risk appetite, she might consider investing in a diversified mid cap fund such as **AXA Framlington UK Mid Cap (B3SYV56)** or a FTSE 250-focused investment trust, such as **JPMorgan Mid Cap (JMF)** or **Schroder UK Mid Cap (SCP)**.

Typically growing their sales and profits at a faster rate than large cap companies, mid caps are also more established businesses than small cap firms, which generally speaking means they are less risky.

Mid caps could provide Glenda with an attractive combination of growth with an income stream she can reinvest, thereby benefiting from compound return. She might also look to purchase an ETF (exchange traded fund) such as **iShares Core MSCI World (SWDA)**.

These passive vehicles typically have lower costs than active funds and will allow Glenda to keep a greater portion of her investment returns while achieving diversified exposure to the markets.

As Glenda knows the car industry inside out, she might consider having an individual investment in a robustly-financed dealership; examples listed on the London Stock Exchange include **Marshall Motor (MMH:AIM)**, **Vertu Motors (VTU:AIM)** and second hand car specialist **Motorpoint (MOTR)**.

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 **James Crux**
Funds and Investment Trusts Editor


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HOW I INVEST:

Switching to funds after mistakes with individual stocks

Alan from Fife has switched from stock picking to choosing funds and trusts to access the areas he thinks offer the best growth

Picking individual shares can be a good investment strategy for an experienced investor who has a strong understanding of the stock market and has the time to do their own research.

But none of us can get it right all the time and even investors like Alan from Fife, who has been investing since the 1970s, can sometimes make mistakes.

He has been able to pick some winning shares with pharmaceutical giant **AstraZeneca (AZN)** and ethical fund manager **Impax Asset Management (IPX:AIM)** generating returns for Alan of 71% and 69% respectively, but there also have been shares which have lost him money, including over 50s insurer and cruise operator **Saga (SAGA)** with an 87% loss.

Around three years ago Alan decided to switch his investments from stocks to funds, which he says has 'greatly improved' his returns.

On why he decided to make the switch, Alan says: 'I was making too many mistakes when investing in single UK stocks. Government regulation, poor governance and management, profit warnings from previously well performing companies are pretty much not on the radar of the smaller investor.'

FOCUS ON TOP QUARTILE PERFORMING FUNDS

His strategy now is to invest in funds which have provided top quartile returns over periods of three, five and 10 years.

After a career as an IT analyst and outsourcing service delivery manager, Alan has been retired for nine years, owns his own home, is debt free and now able to start off investment portfolios for his grandchildren from surplus income. His main investment goals are to 'not lose money' and be 'as tax efficient as possible'.

Alan holds investments in a SIPP, ISA and Capital Investment Bond. He says, 'The tax relief in pensions investing alone gets any investment off to a great start. My initial aim was to make sure our children could go through their early life free of further education debts and help them with starting up their own adult life. I'm fortunate now in being able to contribute to our grandchildren's future.'

Tracking the top performing funds and investment trusts has 'transformed' growth in his ISA and SIPP funds, Alan says, with his best performers being **Baillie Gifford US Growth (USA)** and the SL Baillie Gifford American

Life Fund, followed by **Smithson Investment Trust (SSON)**.

Over the last three years Alan had taken note of several US growth stocks but for a UK investor to invest in these stocks directly requires US regulatory paperwork to be completed, but Alan viewed a number of US-focused funds and investment trusts as a 'no fuss' way to gain exposure to these stocks.

BIG GAINS FROM US TECH

At the beginning of 2020 Alan says it was clear to him that the 'Big Tech' companies were likely to experience 'exceptional growth' during the pandemic and lockdown.

After spending time on investment trust and fund ranking tables, he found most of the top performers were predominately invested in North America, covering a large number of the North American companies he had previously wanted to invest in directly.

Making sure the fund and its managers had 'good long term track records' before investing, Alan says some of his North American funds have consistently made 20% to 30% average annual gains over three, five and in some cases 10 years.

However, he feels now is the time to diversify the North American and 'Big Tech' tilt to his investments and has sold the rest of his single stocks that 'at best had mediocre gains (if any)', with a move to Asia – albeit also in 'Big Tech' – given the region looks like 'coming out of the pandemic quickly' and included biotech and sustainable sector investments.

He has recently bought into **Pacific Horizon (PHI)** and **Baillie Gifford China Growth (BGCG)**, as well as **The Biotech Growth Trust (BIOG)** and **iShares Global Clean Energy ETF (INRG)**.

SEEKING DIVERSIFICATION AND KEEPING ON TOP OF PERFORMANCE

Alan thinks Asia looks to be 'well ahead on managing its way out of the Covid-19 pandemic' which in his view should 'result in strong economic growth 12 to 18 months ahead of the UK, Europe and North America.' He also says it was 'high time to diversify the geographic split of my investments and reduce risk.'

Alan spends a lot of time when managing his investments looking at the ranking tables for his funds. He suggests any investor, 'especially those who pay people to look after their investments', check where their funds appear in the ranking tables and adds, 'Why would anyone have money in a fund that has had negative returns, consistently, over the last 10 years?'

DISCLAIMER: Please note, we do not provide financial advice in case study articles and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term.

By **Yoosof Farah**
Reporter

WOULD YOU LIKE TO FEATURE AS A CASE STUDY IN SHARES?

We are looking for individuals or couples who can discuss their experience with investing and some details about their portfolios.

Anyone interested should email editorial@sharesmagazine.co.uk **with 'case study' in the subject line.**

DISCLAIMER: Editor Daniel Coatsworth owns shares in Smithson Investment Trust referenced in this article.

momentum
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April 2021

Momentum Multi-Asset Value Trust

Looking to broaden your investment horizons?

If you are thinking about broadening your investment portfolio the Momentum Multi-Asset Value Trust could be a positive consideration.

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- Multi-Asset highly diversified approach
- Combining direct investments with talented external managers
- Accessing a wide range of well researched alternative investments
- Balancing income generation and capital growth

Momentum Multi-Asset Value Trust is formally known as the Seneca Global Income & Growth Trust plc

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Buffett-backed Snowflake: great company, completely the wrong price

Hottest tech IPO of 2020 remains years away from profits or positive cash flow

As one of the hottest names to join the stock market in 2020, investors have bet big on US-listed cloud data analytics business Snowflake.

Its software allows organisations to manage and analyse large quantities and diverse types of data across the cloud in a single, easy to use platform. Think of it as a layer of tools that sit on top of the cloud infrastructure provided by Amazon's AWS, Google Cloud and Microsoft's Azure.

We are living through an exponential explosion of data, with 40 times more bytes in the digital macrocosm than stars in the observable universe. Finding ways to crunch these vast numbers and package them into useful insights is Snowflake's opportunity.

BUSINESS HISTORY

Set up in 2012, and launching its data warehousing platform three years later, Snowflake has been growing at an astonishing clip even by tech sector standards.

Revenue for the three months to 31 January 2021 (its fourth quarter) hit $190.5 million, representing 117% year-on-year growth.

But analysts believe the true indicator of Snowflake's growth potential is contracted future commitments from customers, or what the company calls remaining performance obligations. This jumped 213% in its fourth quarter to $1.3 billion.

Snowflake is not only adding new customers at a rapid clip, but it is also better monetising its existing users. Snowflake's net revenue retention rate, which is the percentage of revenue retained from the prior year after factoring for upgrades, downgrade and churn, stood at 168%. This indicates that its 4,100-plus existing customers continue to spend more.

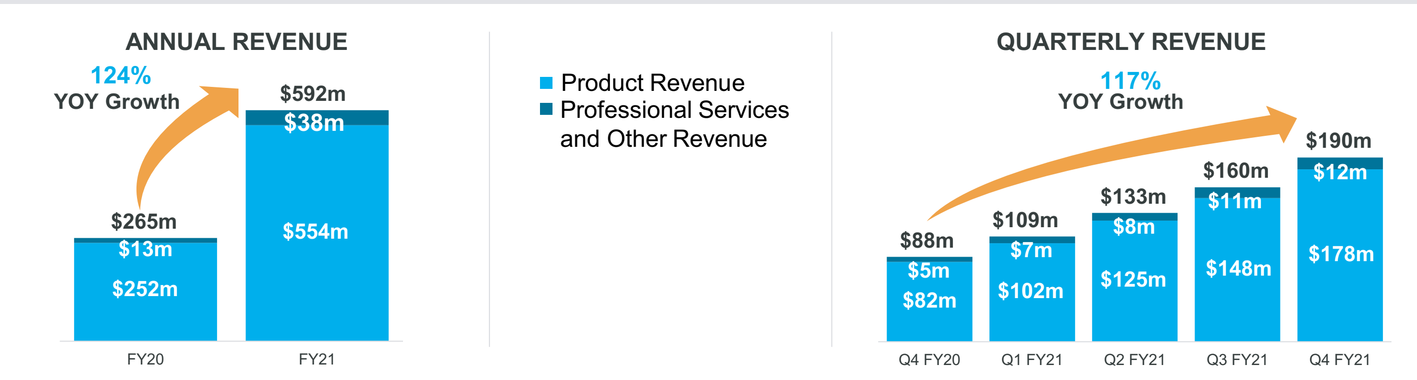
Seventy-seven customers spend more than $1 million a year with Snowflake, up from 65 in October.

BEST OF FRENEMIES

There is fierce competition from the likes of US-listed peers Oracle, MongoDB, Teradata and privately-owned Databricks, for example, but also from the cloud platforms it uses; Amazon's Redshift, Microsoft's Azure Synapse, and Google's Big Query, creating a 'frenemy' relationship, as investment bank UBS calls it.

Snowflake acknowledges the

SNOWFLAKE'S STRONG GROWTH



Source: Snowflake. 31 January financial year end.

risk that Amazon, Microsoft and Google could use control of their public clouds to embed innovations or privileged capabilities for their competing offerings or bundle their competing products.

Yet this 'frenemy' relationship is not unique. Importantly, UBS says the cloud platforms get far more from Snowflake spending on compute and storage infrastructure resources than they lose in the form of lost data warehousing revenues.

Snowflake has the advantage of being platform agnostic, more flexible by separating storage from computing and is seen as easier for customers to use.

$81 BILLION OPPORTUNITY

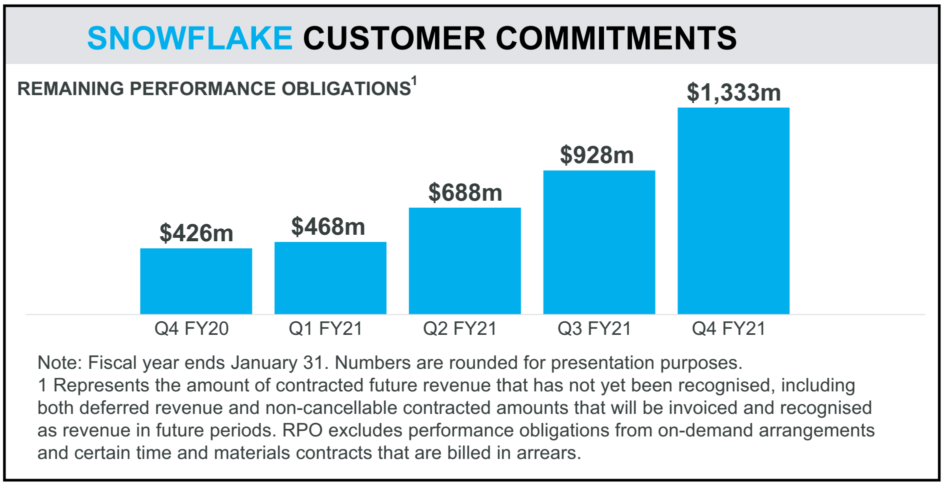
The company's addressable market has been estimated at $81 billion, which is just as well since Snowflake is a stock that will be driven exclusively by red hot growth for the foreseeable future because normal valuation metrics are all but redundant.

In a research note by analysts at UBS in March, price to earnings, EBITDA (earnings before interest, tax, depreciation and amortisation) margins, return on invested capital and return on equity were all rated 'not meaningful' for this year, nor will they be until around 2025/6. Operating cash flow will be negative until 2026, UBS forecasts.

That makes valuing Snowflake very tricky.

WARREN BUFFETT IS A FAN

The stock listed at $120 in September 2020 after Snowflake raised $3.4 billion of growth funding.



Source: Snowflake. 31 January financial year end.

The business was valued at $33 billion upon joining the stock market, making it one of the largest software IPOs (initial public offerings) ever and almost three times its February 2020 valuation.

Investors chased the stock regardless, including world-famous Warren Buffett, who saw enough to buy a 12% stake worth $570 million in a huge departure from his normal cash and profits-first investment strategy.

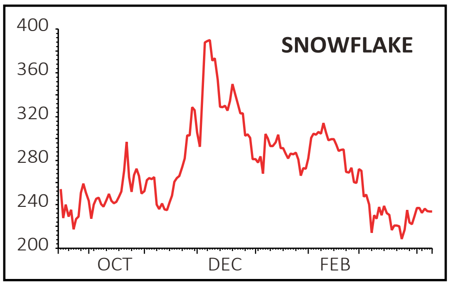
By the end of its first day of trading the stock had jumped 110%, and by December it had hit $390, more than three times its listing price.

Various factors have since served to pull the stock down from those lofty peaks to $233.75, still nearly twice the IPO price. Yet even now Snowflake trades on almost 62 times the $1.09 billion of sales it is forecast to make in the financial year ending 31 January 2022. If that doesn't knock your socks off, the fact Snowflake isn't forecast to make a net profit until January 2025 just might.

A sky-high stock rating leaves Snowflake vulnerable to a big share price decline if it cannot meet growth forecasts or on any other negative news. UBS has a 12-month price target of $275, implying a January 2023 enterprise value to sales multiple of 49, about twice its high-growth software peers.

Ten years from now, we might look back and realise Snowflake's share price in April 2021 was a bargain, but it's impossible to say.

Still years away from profits and positive cash flows, and at the mercy of wild market mood swings, we side with the view of Randall Dishmon, manager of the **Invesco Global Focus Fund (BJ04HD6)**, that Snowflake is a potentially great company but on a valuation that is too rich to warrant buying now.



By **Steven Frazer**
News Editor

RUSS MOULD
AJ Bell Investment Director

Why FTSE 100 is warming to economic upturn

A strong economic recovery would have a major positive influence on the UK's blue chip stock index

As the UK starts to emerge from its latest lockdown, the FTSE 100 already trades above the levels reached just before the pandemic first made its presence felt in China and Southern Europe in early 2020.

There can be no finer example of how financial markets are forward-looking, discounting mechanisms which seek to price in future events before they happen.

Yet they are not right all the time. No-one owns a crystal ball and if markets really were that prescient then there would never be major selloffs or upward surges, as no-one would ever be surprised by anything.

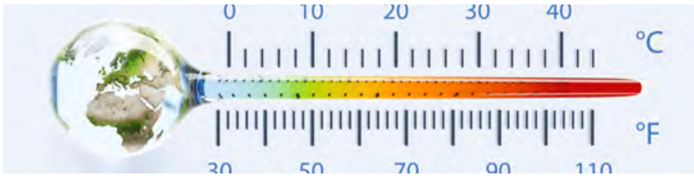
Investors need to assess the facts as they are known, determine the current consensus about what will happen and – by looking at valuation – decide whether the risks are to the upside or downside.

They must look at the broad range of possibilities concerning what may happen, what could be the biggest surprises and their potential impact so they can decide whether the potential upside rewards outweigh the downside risks over their preferred time horizon.

The best long-term investors are not trying to guess the future. They are experts at probabilities and act according to the cold maths of valuation, be that measured by earnings, cash flow or yield.

It may not take much good news to boost a market that has fallen sharply to price in negative events, while it may not take much bad news to jolt a market if it has made big gains.

The FTSE 100 bottomed in late March 2020 at 4,994, long before the worst news about the pandemic and its toll on lives and the economy



became known.

After a near-40% gain in the UK's headline index over the past year, investors must once more assess the balance of probabilities so they can decide whether the index has further to run or not and a good place to start is earnings forecasts.

NEW HIGHS

At face value, it does seem odd that the FTSE 100 is trading above its pre-pandemic levels, even if the number of daily new Covid-19 cases are back to where they were last March and last September and the vaccination programme continues apace.

The economic outlook is still uncertain, the effects upon the behaviour of corporations and consumers alike are yet to reveal themselves, and other parts of the globe are less advanced in their race to inoculate their populations.

But it does make sense if you think that the consensus earnings forecasts for the FTSE 100 are going to be accurate. An aggregate of the estimates made for each member of the index suggests that the FTSE 100's total pre-tax profit will be £178 billion in 2021 and £205 billion in 2022.

Those figures exceed the £166 billion made in 2019, before the pandemic hit home. Moreover, if the 2022 forecast is attained, then that would represent a new all-time high for annual earnings, surpassing the £199 billion made in 2011.

In this context, it is not to hard to see why the FTSE 100 is trading where it is, or even make a case

RUSS MOULD
AJ Bell Investment Director

FTSE 100 is forecast to make a record pre-tax profit in 2022

Source: Refinitiv data

for further gains, since the index trades below its May 2018 zenith of 7,779 even though record profits are expected for 2022.

Investors must therefore decide whether the forecasts are reliable, too optimistic or too pessimistic and what must happen for analysts to be on the wrong track.

HEAVY METAL

To do this, investors need to parse the FTSE 100's earnings mix. Roughly 60% of forecast profits come from just three sectors: mining (now the single biggest earner), financials and energy (oil and gas).

In some ways, this makes it easy for investors to judge the upside and downside potential: in crude terms, the stronger the economic recovery the better, so far as the FTSE 100 is concerned as the index's key industries offer huge gearing into GDP growth.

The opposite also applies. A weak recovery would be a nasty surprise.

A breakdown of forecast earnings growth makes this picture clearer still. Analysts think that the FTSE 100's aggregate pre-tax profit will rise by £75.1 billion this year and by a further £27.1 billion in 2022.

Miners and oils are expected to generate two thirds of that amount between them in 2021. Consumer discretionary, oils and financials are forecast to provide four fifths of the expected profit uplift in 2022.

Just three sectors are expected to generate around 60% of FTSE 100 earnings in 2021 and 2022

Percentage of FTSE 100 pre-tax profits	2021 E	2022 E
Mining	29%	21%
Financials	22%	23%
Consumer Staples	16%	15%
Oil & Gas	10%	13%
Industrial Goods & Services	8%	8%
Health Care	6%	7%
Consumer Discretionary	4%	6%
Telecoms	3%	3%
Utilities	3%	2%
Technology	1%	1%
Real Estate	1%	1%

Source: Consensus analysts' forecasts, Marketscreener. Rounded to nearest whole number

Rising commodity prices and steepening yield curves would therefore be a good sign, falling and flattening ones would not.

Investors who buy into the narrative that inflation is coming, after being largely dormant for 40 years, will therefore feel right at home in the UK. Those who still fear debt-ridden deflation may be tempted to steer clear and seek their fortunes elsewhere.

Just three sectors are expected to generate more than 75% of forecast FTSE 100 earnings growth in 2021 and 2022

Percentage of forecast FTSE 100 pre-tax profit growth	2021 E	2022 E
Oil & Gas	37%	28%
Mining	30%	-25%
Consumer Discretionary	11%	23%
Financials	9%	31%
Industrial Goods & Services	8%	10%
Consumer Staples	4%	11%
Real Estate	3%	3%
Utilities	1%	2%
Telecoms	0%	3%
Technology	0%	1%
Health Care	-2%	13%

Source: Consensus analysts' forecasts, Marketscreener. Rounded to nearest whole number

ADVERTORIAL

Like Monty Python's parrot, **are UK equities dead or just resting?**

With many investors seemingly ready to write off the UK stock market, we address four common misconceptions about UK shares.

By Matt Bennison, Deputy Fund Manager of Schroder Income Growth Fund plc

Like many people, I have found myself down a few YouTube rabbit holes recently.

One of these ended up at the famous "dead parrot" sketch from the British comedy troupe Monty Python. In it, a customer debates with a pet shop owner whether or not his recently purchased "Norwegian blue" parrot is dead, or just resting.

I thought it seemed to have a lot of parallels with the UK equity market. Like the parrot, the UK stock market has shown few signs of life lately but can we claim it is resting and not dead? Let's look at the evidence.

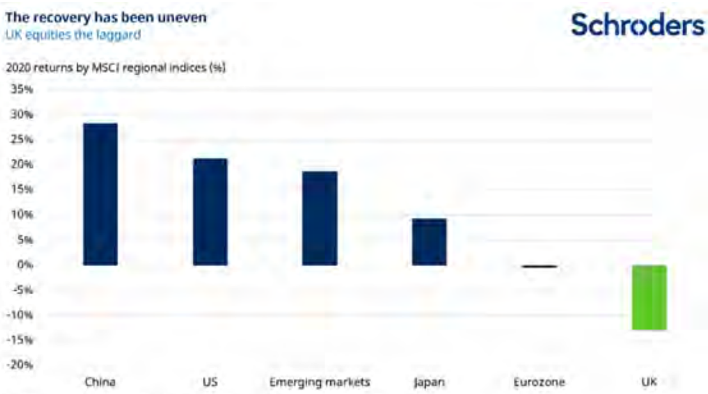
The Bank of America fund manager survey shows just how poor sentiment towards UK equities has been. Fund managers have had a net underweight to the region since 2014.

Source: BoAML Global Fund Manager Survey as at January 2021. 600688.

In recent years that has been a fairly good call. A glance at the performance of the UK market relative to others over the last three and five years in particular would lead many to give up hope. 2020 was no exception, as the chart opposite shows.

But as investors, we know that the past is not necessarily an indicator of future performance.

So instead of looking back, let's start to look forward.



Past performance is not a guide to future performance and may not be repeated.
Source: Refinitiv, Schroders. Data based on MSCI equity indices, in local currency terms. Data covers 31 December 2019 to 31 December 2020. 600688.

The level of disinterest in UK equities has left the market trading at a c.40% discount to global equities, around a 30-year low.

I don't want to get dragged into a value vs growth debate, as I am fully aware that it is not the case that every stock with a low 'price-to-

earnings' ratio is destined to outperform.

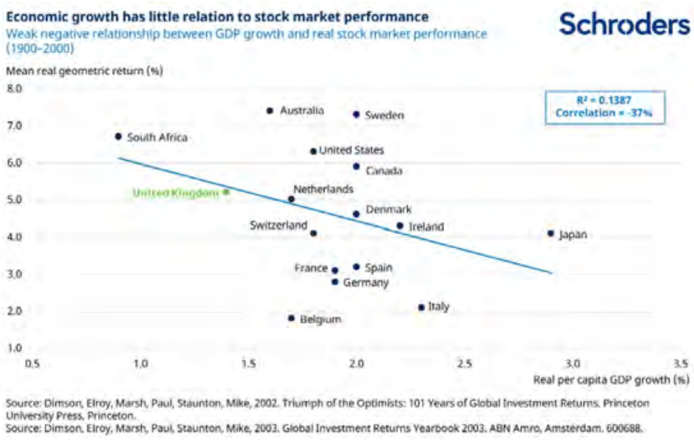
In the Prime UK Equity team here at Schroders, we are also not committed to any particular style. We are not 'growth' investors, nor 'value' investors. We spend our days looking for 'mis-pricings'- stocks where the characteristics of a business are not reflected in the share price.

But this aggregate de-rating of the market has led to many mis-pricings across the sector and style spectrum.

Let's look at the opportunity and address a few of the misconceptions about UK equities.

Misconception 1: Even with a Brexit trade deal, the UK economy is worse off than before - so it can't be an attractive place to invest.

Firstly, while economists and market strategists like to discuss stock markets as if they are economies, they are not. The below chart shows the long-term (lack of) correlation between the stock market and GDP growth.



Why is this the case? Businesses listed on the UK stock market do not generate all of their revenues in the UK. In fact, over 70% of the sales from UK businesses come from overseas.

While the UK stock market does host some purely domestic businesses, it is much more heavily weighted towards international franchises that generate sales across the globe. `

Misconception 2: There's no growth! All the businesses in the UK are old economy duds whose best days are behind them.

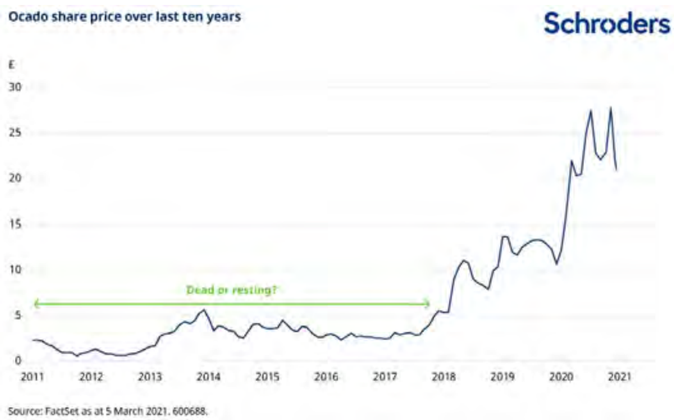
Are they? Excluding investment trusts there are over 400 companies in the FTSE All Share index. Can they really all be busted flushes?

Admittedly, some of the larger constituents of the market have been poorly performing, 'value' stocks, such as those in oil & gas, banking, tobacco and telecommunications. It is fair to say that these have weighed on the performance of the market overall in recent years.

But remember that active managers are not investing in the overall market. When we look beyond these large laggards, we find many global, market-leading businesses with good long-term growth potential, often trading at big discounts to their global peers.

Sometimes world leading tech giants are languishing in plain sight, masquerading as failing food retailers. Take Ocado. For years its investment in online grocery technology was dismissed as a valiant effort, doomed to eventually go up in a puff of cash-consuming smoke. But in June 2017, Amazon acquired Whole Foods, and the whole picture changed.

Suddenly, the food retail industry, which for years had dismissed the prospect of online food delivery, had to wake up to the realisation that it may not be a 'fad' after all. Cue a scrum of traditional food retailers around the world looking to catch up by licensing Ocado's world-leading technology.

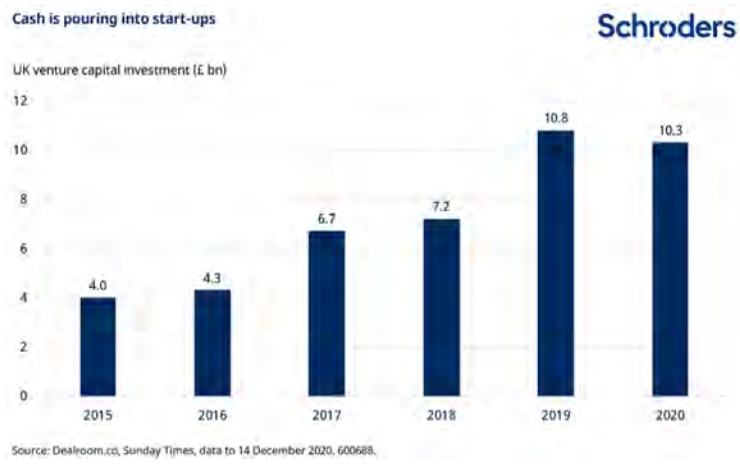


Instead of being viewed as a cash-guzzling project doomed to failure, Ocado now is viewed as a global leading online grocery technology business. And in share price terms, the rest is history.

In addition, with the stock market constantly being refreshed through initial public offerings, new opportunities regularly present themselves. Given the cash that has been pouring into venture capital start-ups in the UK in the last few years, we are likely to see some of these list on the stock market as they mature.

Recently there has been a healthy pipeline of businesses looking to list in the UK, many of them technology-enabled market leaders, such as Trainline, the world's leading independent rail and coach digital travel platform. We have also seen Hut Group, Trustpilot, Moonpig, but also 'old economy' businesses thriving in the current economic conditions, such as Dr Martens.

By the end of Monty Python's sketch it



becomes clear (spoiler alert) that the Norwegian blue parrot is indeed "bereft of life". For UK equities, the debate goes on. Dead or resting? You decide....

For more information on investment trusts at Schroders, subscribe to our Investment Trust Newsletter

DEFINITIONS - VALUATION METRICS:

Forward P/E

A common valuation measure is the forward price-to-earnings multiple or forward P/E. We divide a stock market's value or price by the earnings per share of all the companies over the next 12 months. A low number represents better value.

Trailing P/E

This is perhaps an even more common measure. It works similarly to forward P/E but takes the past 12 months' earnings instead.

Price-to-book

The price-to-book multiple compares the price with the book value or net asset value of the stock market. A high value means a company is expensive relative to the value of assets expressed in its accounts. This could be because higher growth is expected in future.

A low value suggests that the market is valuing it at little more (or possibly even less, if the number is below one) than its accounting value.

Dividend yield

The dividend yield is the income paid to investors as a percentage of the price.

FTSE 250 hits new record high: why mid caps are winners

History shows that medium sized companies have rewarded investors handsomely

The FTSE 250 index of medium-sized UK-listed companies hit a record high in early April, after a strong bounce back from the pandemic crash, a recovery which started as far back as March of last year.

The strong performance has been credited to a resurgence in the UK economy thanks to a successful vaccine rollout, and that's certainly part of the story, when you consider that FTSE 250 companies like **JD Wetherspoon (JDW)**, **Greggs (GRG)** and **EasyJet (EZJ)** will heartily benefit from the UK reopening once again.

However, there are plenty of international businesses on the FTSE 250 that have done their share of the heavy lifting too. The likes of the cruise operator **Carnival (CCL)**, and the travel firm **TUI (TUI)**, which report their earnings in dollars and euros respectively, have also enjoyed a strong rebound. This demonstrates that the reopening trade is not just restricted to these shores, it's a global phenomenon.

The strong performance of the FTSE 250 isn't just a flash in the pan though, and the long-term performance figures suggest there's something more going on here than simply animal spirits.

Over the past 20 years, a £10,000 investment in the FTSE 250 would be worth £62,859 today. That compares with £25,181 from the FTSE 100, and £49,389 from the S&P 500 index of US-listed companies.

So why have medium sized companies been such a successful place to be invested? The answer probably lies in the fact that these companies are large enough to be established businesses, but small enough to still have significant growth left in the tank. The numbers strongly suggest the mid cap market is the sweet spot for share price performance.

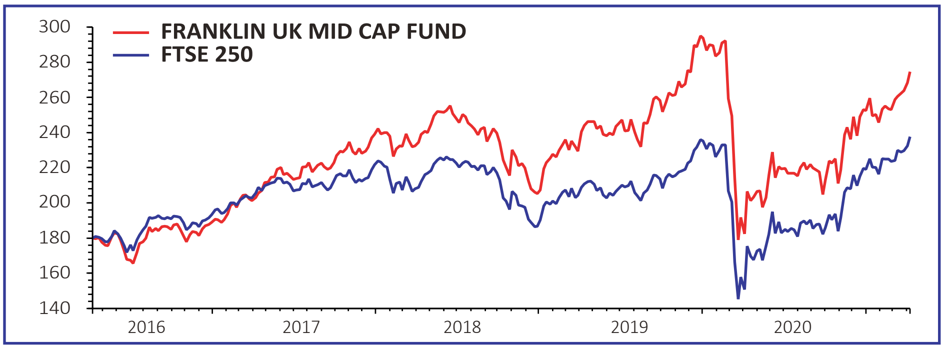
The FTSE Small Cap index has also performed well of late, marking new record highs since December 2020.

Small caps have significantly outperformed the big blue chips over the long term too, but not by as much as the FTSE 250.

How a £10,000 investment has grown in value

	10 years	20 years
FTSE 250	£24,382	£62,859
S&P 500	£41,443	£49,389
FTSE Small Cap	£27,801	£41,395
FTSE All Share	£17,828	£28,956
FTSE 100	£16,536	£25,181

Source: FE, Total Return to 06/04/2020 in GBP



While these smaller companies have growth potential, as a group they are perhaps let down by those which never reach critical mass, or indeed, those which simply fail.

Successful smaller companies grow, and then themselves often make it into the FTSE 250, and perhaps even beyond into the FTSE 100. The numbers would suggest this is where the journey slows down somewhat, as revenue growth becomes harder to come by, and cost bases harder to control.

Mid and small cap stocks can exhibit higher levels of volatility, reflecting lower levels of liquidity and the potential for business performance to surprise the market, both on the upside and the downside.

But long-term investors should take notice of the strong performance of mid-caps, and small caps too, and considering how to gain exposure in their portfolios.

These can be areas where active managers really earn their crust by delivering outperformance too, because these companies are less widely analysed, and that gives fund managers a greater chance of unearthing hidden gems.

There aren't too many funds which offer exposure dedicated to medium sized companies, but two funds which do are **Franklin UK Mid Cap (B7BXT54)** and the **Vanguard FTSE 250 ETF (VMID)**.

The latter is a fund which very much does what it says on the tin. With an annual charge of just 0.1%, this exchange-traded fund offers investors a cheap and cheerful way to gain exposure to the UK-listed

Smaller company funds are more plentiful, meriting their own fund and investment trust sectors.

medium-sized companies, though it is a tracker so won't ever outperform the market.

The Franklin fund is managed by the experienced mid cap investor Richard Bullas, who runs a concentrated portfolio of 30 to 40 medium-sized companies he's identified as having good qualities, but which are trading at attractive valuations, with a particular emphasis on cash flows. The fund has outperformed the benchmark mid cap index by 6% over the last five years.

Smaller company funds are more plentiful, meriting their own fund and investment trust sectors. One example is the **TB Amati UK Smaller Companies Fund (B2NG4R3)**.

Paul Jourdan has been running this fund for over 20 years, and the whole team is steeped in experience when it comes to small cap investing. They look for high quality companies with competitive advantages. They have an emphasis on the AIM market, but they can invest in stocks all the way up to the FTSE 250.

It's worth maintaining some balance in your portfolio, so that you have exposure to companies at all stages of the stock market journey, from minnow to behemoth. For many investors naturally lured towards the glitzy lights of the FTSE 100, this may well mean topping up on some small and mid-cap opportunities.

DISCLAIMER: Editor Daniel Coatsworth owns shares in Vanguard FTSE 250 ETF.

By **Laith Khalaf**
Financial Analyst

Can my employer's pension contribution be paid to my wife?

A reader has been offered a new job with generous pension contributions but receiving the money would create some issues

I have a job offer from a public sector organisation and have agreed the salary for the role. It is a permanent job and entitles me to join the civil service pension.

I have for an extended period worked in the private sector and diligently set aside money in a stakeholder pension scheme. I have opted to apply for Fixed Protection 2016 which increases my lifetime allowance to £1.25 million but also means I can no longer contribute to a pension.

The value of the employer contribution at my new role will be approximately £10,000 per year (as I am 57 and the salary is high), and so with likely another eight years working the total value could exceed £100,000 before I retire.

In previous private enterprise roles, the employer contribution was paid instead as taxable income. The public sector organisation has stakeholder pension provision but are indicating that they cannot pay the employer contribution in the same way as private enterprise.

I want to understand if there is any way I could receive this pension within the current rules. Could the employer contribution be paid to my wife?

Ross

Tom Selby
AJ Bell
Senior Analyst says:

The lifetime allowance is currently set at £1,073,100 and will be frozen at this level up to and including 2025/26. If an individual takes benefits which are in excess of the lifetime allowance then they have to pay a lifetime allowance charge on the excess amount.

Since 2006 a range of lifetime allowance 'protections' have been introduced to ensure cuts to the headline figure didn't unfairly penalise savers.

Two of those protections – Fixed Protection 2016 and Individual Protection 2016 – are still open for applications, although there are strings attached with both.

Fixed Protection 2016 allows you to lock in a £1.25 million lifetime allowance but prevents you from making further contributions or setting up new arrangements from 6 April 2016. If you do, the protection is void.

Individual Protection 2016, on the other hand, protects the value of your fund at 5 April 2016, provided that fund was worth more than £1 million and less than £1.25 million, and the person doesn't hold Primary Protection or Individual Protection 2014 (two older forms of lifetime allowance protection).

Crucially, you can continue making contributions to your pension if you have Individual Protection 2016. While you will be subject to a lifetime allowance tax charge on any excess above your protected amount, it is possible this will be worthwhile given the value of your employer contribution.

You can read more about how lifetime allowance protections work here.

You mention your new employer is not prepared to offer you an alternative form of remuneration in lieu of your pension contributions. You may therefore have a decision to make about whether to break Fixed Protection, and instead take out Individual Protection 2016 and accept your new employer's pension contributions.

Whether you do or not will depend upon many factors, including the benefits available from the scheme and what they are worth to you, the value of any Individual Protection, what lifetime allowance charge you may have to pay, your tax status at retirement, and how long you intend to continue working with your new employer.

I'd strongly recommend discussing your situation with a regulated financial adviser before making any decisions as this is a complicated affair.

It could be possible, in theory, for an employer contribution to be paid into a spouse's pension as part of someone's remuneration package. An arrangement would be at the discretion of the employer, and it is unlikely that the individual could receive tax relief. But this option seems unlikely in your situation if your new employer is unwilling to pay the value of the pension contributions as salary.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

19 April: Churchill China, Gaming Realms. **20 April:** Filta, Flowtech Fluidpower. **21 April:** Pennant International, Wentworth Resources.

Half-year results

20 April: Associated British Foods. **21 April:** Carrs.

Trading statements

16 April: Ashmore, Essentra. **20 April:** Avast, City of London Investment Group, Petra Diamonds. **21 April:** Antofagasta, BHP, Quilter, Rio Tinto. **22 April:** AJ Bell, Anglo American, Rentokil Initial, Segro, Taylor Wimpey.

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