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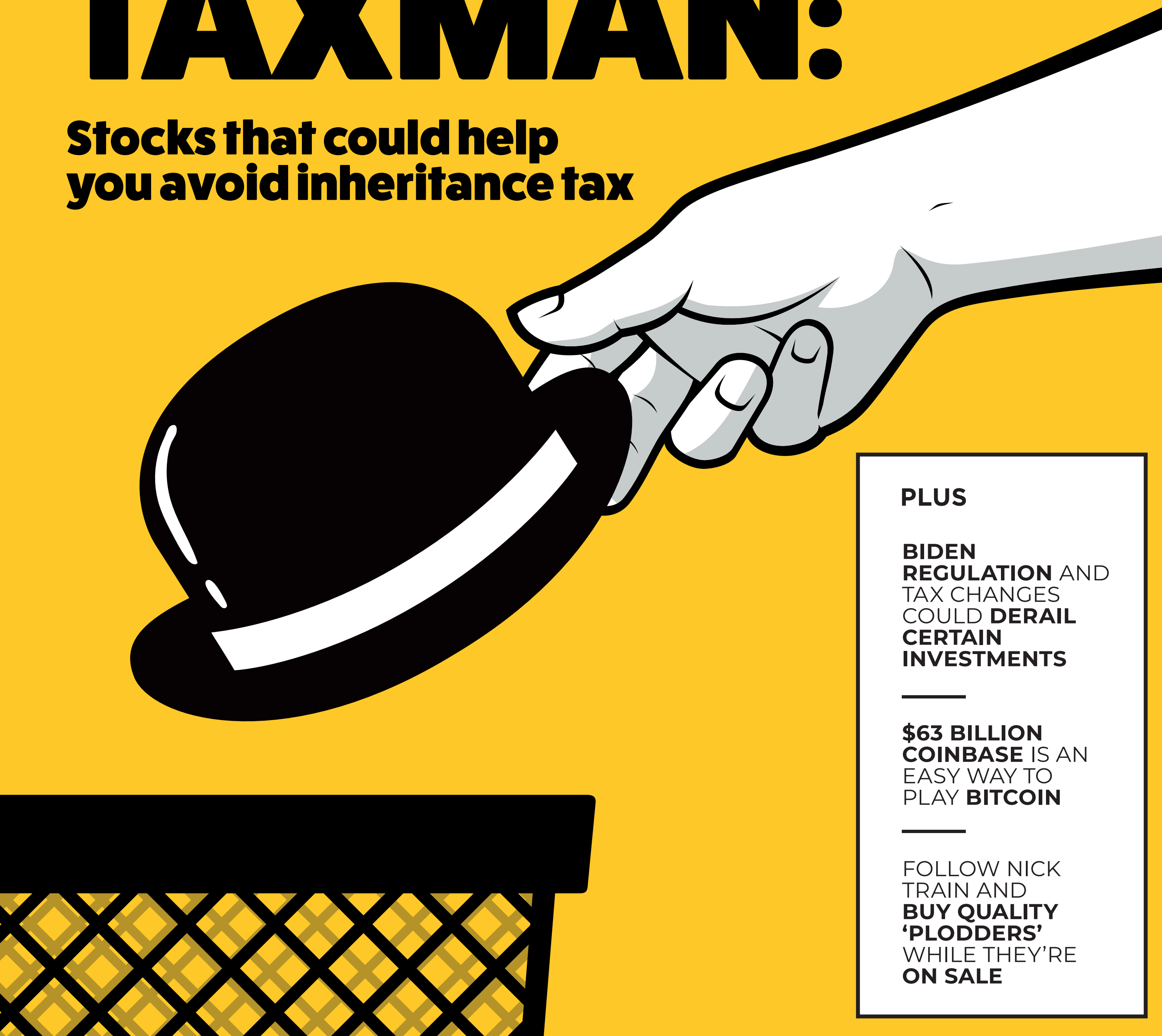

PLUS

BIDEN REGULATION AND TAX CHANGES COULD **DERAIL CERTAIN INVESTMENTS**

$63 BILLION COINBASE IS AN EASY WAY TO PLAY **BITCOIN**

FOLLOW NICK TRAIN AND **BUY QUALITY 'PLODDERS'** WHILE THEY'RE **ON SALE**

The value rally is being powered by ratings change not earnings

We've reached the point where the rising tide may no longer lift all boats

Another week, another push forward for the UK stock market. We've waited for a long time for this to happen and it's very satisfying to see the FTSE 100 and FTSE 250 finally get some winds in their sails.

The key question is whether the rally has legs. Some companies look like they've already priced in a significant amount of potential future growth so that they a) no longer look good value and b) stand to experience a big share price correction if the earnings growth doesn't materialise.

There are stocks still priced attractively versus their prospects, four of which we featured in this recent article. However, it does feel as if we are approaching the stage where parts of the market may find it harder to keep rising without stronger earnings upgrades.

Shares has looked at the performance data since 1 November 2020 which is roughly when the market rotated towards value-style shares. In theory, the vaccine rollout has improved value stocks' chance of growing earnings and investors suddenly found they no longer needed to pay top price to access growth.

For the past five months, these value stocks have principally risen because investors have been prepared to pay a higher rating for them. For example, if a company was trading on 10 times forecast earnings for 2021 and enjoyed a 50% rise in its share price, it would be trading on 15 times – assuming no change to earnings estimates.

Cleaning provider **Mitie (MTO)** has seen its 2022 earnings per share forecast increase by 5% since the start of November 2020, according to Stockopedia data. Its share price has risen by 129% over that period, meaning the gains are almost entirely down to the rating change.

Mitie now trades on 13.1 times 2022's expected earnings. Investors need to ask – is that now a fair

rating, whereas previously it was on a depressed rating? Or is that rating too high for this type of low margin business?

Wagamama owner **Restaurant Group (RTN)** has risen by 204% since 1 November yet its 2022 earnings per share forecasts have fallen by 28% over that period, putting it on a price to earnings ratio of 24.9 – not the sort of rating you'd associate with a leisure company.

Since 1 November, 315 stocks from the FTSE 350 – which combines both the FTSE 100 and FTSE 250 indices – have increased in price, 16 of which by more than 100% and 97 delivering more than 50% return, according to SharePad. The ones delivering negative returns have seen an average share price decline of 4.2% over that period.

Shares is certainly not calling the top of the value rally, merely highlighting the need to be more selective with stock picking at this stage.

It's also worth looking at the ones that haven't rallied as there could be some decent companies trading on lower ratings than their historical average.

This group is likely to include some quality names with a long track record of delivering good returns, but which are temporarily out of favour because investors can find potential growth stories on a cheaper rating. As we explain in this article, now could be a good time to load up on quality names.

By **Daniel Coatsworth** Editor

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London-listed banks should report strong first quarter but challenges remain

Key points to expect from Barclays, HSBC, Lloyds, NatWest and more

With the major UK banks due to report their first quarter results in the next couple of weeks, we believe the rally in the sector which began last autumn has staying power based on valuation grounds.

However, this is only a sector to trade short-term and we would be wary of brokers pushing an overly bullish narrative.

WHAT TO EXPECT

The reporting season starts with **HSBC (HSBA)** on 27 April, followed by **Lloyds (LLOY)** and **Metro Bank (MTRO)** on 28 April, **NatWest Group (NWG)** on 29 April and **Barclays (BARC)** on 30 April.

Key numbers important to the market are net interest income and the net interest margin. The first is the amount the banks are making on money they have lent out minus the income paid on deposits. The second is the same thing but expressed in percentage points as a margin on total loans and deposits.

Net interest income and margins have been whittled away by low base rates over the last couple of years, so the banks have had to try to grow their loan books faster than their deposits. However, during the pandemic people and companies ended up borrowing less and saving more so there's unlikely to be great news on that front.

The news on bad loans should be better though. The banks have put aside billions of pounds for expected credit losses which have so far failed to materialise, so the market is expecting them to announce – or at least hint at – special dividends and share buybacks later this year.

INVESTMENT BANKS COME GOOD

For a change, the two firms with big investment banking businesses – Barclays and HSBC – should report bumper earnings from these divisions if the US investment banks are any yardstick.

Of the two, Barclays is generally acknowledged to have the better investment banking business and has taken market share from its Wall Street rivals in certain markets in recent quarters.

HSBC and emerging markets rival **Standard Chartered (STAN)**, which reports on 29 April, are likely to have seen strong growth in the Asia Pacific region, although both are likely to warn that year-on-year growth will slow in 2021 as the region was the first to recover from the initial impact of Covid and performed well from the second quarter onward.

Finally, with India struggling to control a new wave of the virus, Standard Chartered in particular is likely to stay cautious on its full year guidance and the message will be one of 'controlling the controllable', i.e. costs. [IC]

UK BANKS: DIVIDEND YIELDS

	FY21 Div Yield Est	FY22 Div Yield Est
Barclays	3.0%	4.2%
HSBC	3.7%	4.8%
Lloyds	4.0%	5.6%
NatWest	5.0%	6.8%
Standard Chartered	2.6%	3.6%

Source: Shares, based on market prices 20 April

Biden regulation and tax changes could derail certain investments

The new administration could make life harder for many companies

The latest signs that the Biden administration is getting tough on corporate regulation and tax have put the tobacco sector under pressure.

Shares in **British American Tobacco (BATS)** and **Imperial Brands (IMB)** fell between 5% and 6% on 20 April, mirroring similar moves for their US-listed counterparts, on reports the Biden team is considering plans to cap nicotine levels in cigarettes.

This could make tobacco companies' core product less addictive and undermine sales. If these reports are correct, it's another reason why the new president is turning out to be less than friendly to the business world, with tax increases clearly on the table.

There is talk of a global minimum tax rate, agreed by the world's biggest economies. Biden's administration might also force big companies to pay taxes where their revenues are earned, not where the profits can be shifted to.

Biden needs to pay for his stimulus and infrastructure spending plans, and it looks like this will encompass a big hike in the US corporation tax rate to 25% or even 28% from the current 21%. Such a change would hit businesses like Google and Facebook which have their international headquarters in Dublin to take advantage of Ireland's 12.5% rate.

The Biden administration is looking at expanding the 'global intangible low-tax income' tax which was introduced under Donald Trump to make it harder to shelter intangible profit – i.e. that secured from intellectual property, copyrights and trademarks – overseas.

There are also proposals to levy a 15% minimum rate on book income to effectively ensure that all businesses pay something.

The key question is whether these changes are being factored into analysts' earnings estimates and market valuations.

The impact of Trump's corporation tax cut in late 2017 was significant, helping to drive big upgrades to earnings forecasts and provided a significant catalyst for the US stock market.

① **2 Nov 2017**
Trump tax cut introduced in the House of Representatives

② **22 Dec 2017**
Tax cut signed into law

This only came through once the Trump tax cut had been introduced to Congress and signed into law, suggesting it may take some time for the negative impact of Biden's tax increases to feed through to markets.

These new tax plans are still in their early stages and may be diluted as the administration looks to get them approved by US lawmakers. However, these issues are likely to garner increasing attention as we move through 2021.

Industries like healthcare and technology which derive a significant chunk of their profit overseas and pay limited tax on this profit look most vulnerable to any changes and this could reinforce the current rotation out of these sectors and into value stocks. [TS]

Pressure builds on GlaxoSmithKline as activist enters the fray

The arrival of Elliott Investment Management on the share register could galvanise management

Shares in **GlaxoSmithKline (GSK)** are on an upward path after the *Financial Times* reported that activist US investor Elliott Investment Management had taken a 'significant' multi-billion-pound stake.

The $42 billion fund, known for active campaigns at miner **BHP (BHP)** and Premier Inn owner **Whitbread (WTB)**, is expected to heap pressure on Glaxo chief executive Emma Walmsley.

Although we don't know the precise reasons for Elliott's actions, we can construct a possible narrative. The shares have lagged the sector and the company is in the middle of one of the biggest transformations in its history which will see the consumer healthcare division demerged in 2022.

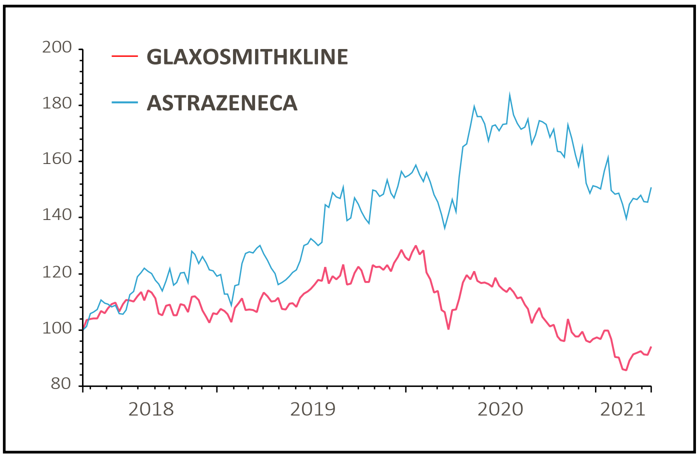
Given the huge amounts of investment in research and development needed to build a drug pipeline it could be argued that the full sale of the consumer health division would serve long term shareholders better than a demerger.

The deal with Pfizer in 2019 to combine respective consumer health businesses has created one of the best quality consumer franchises boasting such iconic brands as Panadol, Sensodyne and Advil. Such a high-quality asset might command a high multiple should it be sold in its entirety.

BUILDING THE PIPELINE

At the same time Glaxo is in the process of beefing up its biopharma division. It takes a long time to build a pipeline of new drugs, but Glaxo has arguably made good progress and expects to launch more than 20 new products over the next five years.

The biggest drivers of value over the coming decade are expected to be the cancer and vaccine franchises according to Liberum.



One of Walmsley's first actions in 2018 was the $5.1 billion purchase of US biotech company Tesaro, which spearheaded the relaunch of the cancer franchise.

Although small today, Liberum expects the cancer franchise to generate sales of $2.7 billion by 2030, driven by Zejula (ovarian cancer) and Blenrep (multiple myeloma).

In vaccines, Shingrix, which is used to treat the chicken-pox related disease shingles, has shown good efficacy and is expected to remain an important driver of growth until the end of the decade.

Liberum estimates the cancer and vaccines franchises could add around $7bn to revenues over the decade which will more than compensate for stagnant sales elsewhere.

Liberum analyst Alistair Campbell commented: 'Our detailed work shows that contrary to market scepticism GSK's biopharma business will deliver above sector sales growth and high single digit earnings per share growth to 2025. In fact, even in a bear case GSK will still deliver sales growth to 2030, in our view.' [MG]

Get the inside track on new float MusicMagpie

The smartphones, consoles and computers reseller has a clear ESG angle

Smartphones-to-computers recycler and reseller **MusicMagpie (MMAG:AIM)** is set to swoop onto AIM (22 April) today through a flotation valuing the 're-commerce' business at £208 million.

That market valuation equates to roughly 1.4 times historic sales and 15 times historic earnings.

Trading as musicMagpie in the UK and Decluttr in the US, MusicMagpie is a specialist online reseller of used electronic products, games, CDs and DVDs.

A 'comfortably' oversubscribed placing at 193p raised £15 million of new money for the company, though selling shareholders took £95 million off the table.

Chief executive Steve Oliver tells *Shares* that investments in proprietary technology and the trust it has built with consumers give MusicMagpie an edge in the market, with competition coming from peoples' propensity to leave old tech in drawers.

MusicMagpie estimates that in the UK alone, 'people are sitting on around £16.5 billion worth of technology that they no longer use, and that only a small percentage of consumer technology items are currently recycled'.

The company takes these unwanted products and uses proprietary technology to optimise the sales price for every item, simultaneously listing them across multiple sales sites, including the musicMagpie and Decluttr websites and applications, as well as Amazon and eBay.

The group has the highest number of seller reviews on both Amazon and eBay, where it consistently achieves positive feedback scores.

MusicMagpie resold over 400,000 consumer technology products to consumers in the year to November 2020 and Oliver estimates the company resells around 2,500 tonnes of books and disc media each year that could have ended up as waste.

MusicMagpie's sales increased from roughly £115.5 million in the year to November 2018 to about £153.4 million in the year to November 2020, a compound annual growth rate of about 15.2%.

Over the same period, earnings before interest, tax, depreciation and amortisation sparked up from £2.6 million to approximately £13.9 million for a CAGR of approximately 132%, demonstrating the operational leverage in the business.

The new money raised at the stock market listing will repay debt and fund the expansion of MusicMagpie's smartphone rental proposition as well as the roll-out of its SMARTDrop kiosk concept, which is a way for sellers to recycle phones for cash, with kiosks now being rolled out in Asda and Co-op branches.

MusicMagpie also expects to qualify for the London Stock Exchange's Green Economy Mark when it arrives on the stock market. This recognises companies that derive 50% or more of their total annual revenue from products and services that contribute to the global 'Green Economy' and could make the shares more attractive to ESG-minded investors in the future. [JC]

TIME FOR VALUE?

Temple Bar Investment Trust Plc is a well-established investment company, with a new portfolio management team at the helm. RWC's UK Equity Income team, was appointed to manage the trust in November 2020. Led by Nick Purves and Ian Lance, the team employs a disciplined, value-oriented investment approach.

Value investing has a very long history of outperformance, but it has struggled in the growth-dominated markets of the last decade. Recent market behaviour suggests this may be beginning to change.

The Temple Bar Investment Trust is well placed to benefit should this rotation into UK value stocks continue.

For further information, please visit templebarinvestments.co.uk

"In my 30-year career as a fund manager, there have been two occasions in which a market dislocation has created an opportunity for investors to potentially make very attractive, outsized returns. The 2000 dotcom boom, and in 2009 following the global financial crisis. I believe we are now witnessing a third."

Ian Lance, Portfolio Manager

Temple Bar Investment Trust PLC | RWC

No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment. Investments can go up and down in value and you may not get back the full amount invested. RWC Asset Management LLP is the appointed portfolio manager to the Temple Bar Investment Trust Plc and this is issued by RWC Partners Limited. Both firms are authorised and regulated by the Financial Conduct Authority.

It's a great time to feast on McDonald's shares

Growth and decent income are on the menu at the fast-food chain

On 29 April McDonald's will release its first quarter earnings and if analysts are right, the numbers will be good.

Earnings of about $1.80 per share is predicted, based on Refinitiv forecast data, which would smash the same period in 2020 where it reported $1.47 per share and put the burger giant back on its pre-pandemic track.

Like restaurants everywhere, McDonald's was happy to see the back of 2020 as Covid-19 ripped across the world and saw us all at home for months at a time. McDonald's saw revenue decline 9% in 2020 to $19.2 billion, while earnings per share fell to $6.35 from $7.95 in 2019.

McDonald's growing dividends

Year	Dividends
2023*	$5.81
2022*	$5.52
2021*	$5.25
2020	$5.04
2019	$4.73
2018	$4.19
2017	$4.04
2016	$3.61
2015	$3.44
2014	$3.28
2013	$3.12
2012	$2.87
2011	$2.53

Source: McDonald's, *Refinitiv forecast

MCDONALD'S
BUY
(MCD:NYSE) $231.81
Market cap: **$173 billion**

Despite this setback, as an investment McDonald's did remarkably well last year. The share price ended 2020 at nearly the same level as just before the pandemic broke, at around $215.

With most of the world now in reopening mode and people rediscovering the freedom to get out and about, see friends and family, visit shops and leisure outlets and so on, investors can begin to look ahead with far more confidence. McDonald's is a prime beneficiary of greater movement of people as it is a popular choice for 'food on the go'.

Analysts at US broker Trefis forecast McDonald's revenues to grow by around 11% to $21.2 billion in 2021. They said: 'Net income is likely to grow to $5.5 billion as recovery post Covid-19 gains pace, increasing its earnings per share to $7.48.'

ANALYSTS ARE LOVIN' IT

The Trefis analysts err on the cautious side with their calculations. The consensus earnings per share estimate for this year is $8.43, rising to $9.30 for 2022 and $10.26 for 2023, according to Refinitiv. Interestingly, of the 39 analysts that follow McDonald's, 30 rate the stock as a buy, 10 with very high conviction. Not one single analyst calls the stock a sell.

The potential for increasing market share is a key reason why analysts are bullish. Thousands of restaurants have been forced to close their doors since the onset of the pandemic, and many of them will never reopen.

Their loss is McDonald's opportunity. With its powerful and pervasive global brand and infrastructure, McDonald's could become stronger as the weaker players pull out of the market.

It has more than 38,000 restaurants in 120 countries worldwide and it is said in some marketing circles that the chain's 'Golden Arches' are more widely recognised than the Christian cross.

Last year Forbes ranked McDonald's as the tenth most valuable corporate brand in the world, worth $46.1 billion, and the fourth most prized non-technology business. McDonald's owns and runs around 2,600 outlets itself. The remainder are franchises, where the company licences its operating model to franchisees in a profit share arrangement.

In recent years restaurants have been refitted, brightened up and dragged into the 21st Century, with free customer wi-fi, phone charging points, self-order kiosks and curb-side pick-up through mobile app ordering.

McDonald's has been providing home delivery in many markets for some time through deals with Uber Eats and **Just Eat Takeaway (JET)** in the UK. It is also testing meat-alternative products, which could bolster its social cachet with healthier-eating and ecology-mindful millennials, one of the chain's longer-run challenges, according to critics.

It is also embracing technology and data analytics to improve efficiency and customer experience while lowering running costs, such as automated, multi-language robotics ordering.

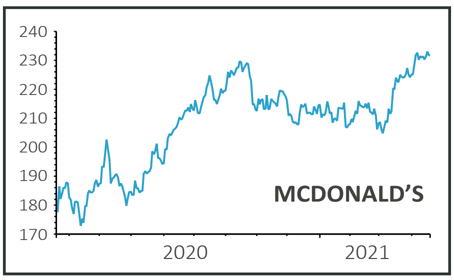
GROWTH AND INCOME

While there is a long-run growth story, income seekers will also be pleased. The company has an unbroken 40-year-plus record for growing its dividend stretching back to 1976, even during Covid, where it increased the 2020 dividend by 6.5% to $5.04. A $5.25 per share award is expected this year.

That's not a huge income yield, about 2.3%, but it knocks the socks off the 0.625% on five-year UK government bonds or 0.75% from five-year US government bonds. The income stream also looks very secure, with the payout ratio returning to fairly typical 60% levels after inflating to 80% last year. The dividend itself has more than doubled over the past decade.

Measured versus its peer group McDonald's stands on an enterprise value to earnings before interest, tax, depreciation and amortisation, or EV/EBITDA, of 18.2 versus the average of 17.3; a price to cash flow of 20.1 against its industry average of 13.9; and the peer group's dividend yield of 1.15%. Yet McDonald's price to earnings ratio of 26.5 is just an 8% premium, based on a next 12-months basis. That's not excessive, in our view.

McDonald's shares aren't going to be a multi-bagger, but the stock could make good gains through 2021 as reopening continues. Beyond this year, the shares should continue to offer the sort of sleep-easy steady progress year after year that helps built wealth through solid capital gains and ever-increasing dividends. [SF]



Virgin Wines' shares are cheap for an online retailer and it is profitable

The premium wines purveyor should flourish long after lockdown restrictions ease

If you missed out on the pandemic-driven share price gains at **Naked Wines (WINE:AIM)** fear not, for another listed online wine retailer offers a tasty proposition and fruitful growth prospects.

Open a position in **Virgin Wines (VINO:AIM)** at 224p, where the stock market newcomer trades at a steep discount to online peers.

Based on estimates for the year to June 2022, Virgin Wines trades on 19.1 times forward earnings, considerably less than many other online-focused companies on the UK stock market.

For example, fashion retailer **ASOS (ASC:AIM)** trades on 33 times forward earnings and sector peer **Boohoo (BOO:AIM)** trades on almost 32 times. Online musical instruments retailer **Gear4Music (GFM:AIM)** trades on 38 times forward earnings.

Virgin Wines is cash generative and profitable, whereas rival Naked Wines is forecast to remain loss-making as it invests heavily to acquire customers and build stock levels.

VIRGIN WINES
BUY
(VINO:AIM) 224p
Market cap: **£126.5 million**

THIRSTY CUSTOMERS

A lot of people ordered wine via the internet during the pandemic as they couldn't get out to bars, pubs and restaurants, benefiting the likes of Virgin Wines. While the sector is now lapping tough comparative sales figures, investors should look at the longer-term prospects rather than focus on whether 2020's big growth spike can be repeated.

Virgin Wines offers exposure to direct-to-consumer digital growth, driven by increased investment in new customers and underpinned by predictable subscription revenues.

The near-term outlook for consumer spending is positive and Virgin Wines' exposure to trends including premiumisation in the alcoholic drinks market, the shift to online and the growth of subscription models mean outer year earnings forecasts could prove conservative.

Customers signed up to Virgin Wines' WineBank club

As of	Numbers
Jun-17	66,000
Jun-18	72,000
Jun-19	75,000
Feb-20	86,000
Jun-20	96,000
Oct-20	102,000
Dec-20	118,000

Source: Virgin Wines

PREMIUM FOCUS

AIM-traded Virgin Wines is one of the UK's largest direct-to-consumer online wine retailers and the exclusive licensee of the Virgin Wines brand in the UK and Ireland from Virgin Enterprises, an arm of Richard Branson's Virgin empire.

Firmly focused on the premium wine market, the company has a reputation for supplying high-quality wines curated to customers' tastes and good customer service.

The company has been profitable in every year since Jay Wright's appointment as CEO in 2008. It is highly cash generative, and it is benefiting from the structural shift in how people buy more through digital channels. The pandemic has further entrenched delivery as a more viable and convenient option for wine drinkers.

UNCORKING THE POTENTIAL

Liberum Capital says the group has 'a more disciplined and targeted approach to growth' than rival Naked Wines, offering more choice in terms of its subscription schemes.

Its wine clubs include something called WineBank whereby a customer deposits a set amount of money into their account each month and then buys wine when they are ready. For every £5 a customer saves into their account, Virgin Wines gives them £1 extra to spend on wine.

Liberum says: 'Stability of management and track record, consistent delivery of profits, stronger sales retention and paybacks, better cash flow generation from high stock

turn and much higher margin structure all point to Virgin Wines scoring as the premium investment case on offer.'

Virgin Wines' business model is ideally suited for a digital age; it uses a wealth of customer data and an open source buying model which ensures the company can source the best product at the best prices while also creating a range of wines suited for the tastes and stylistic preferences of its customers. By selling exclusive products, Virgin Wines maintains premium prices and benefits from minimal returns.

TASTY OPPORTUNITY

Management estimates the current UK addressable retail wine market, defined as households who buy more than three bottles of wine per month with price points of over £6 per bottle, is around £2.4 billion.

Around £780 million of that figure is through direct-to-consumer online retail channels, with Virgin Wines speaking for just 9%, so there is still a big growth opportunity.

Furthermore, the market for wine specialists is expected to grow by circa 3% per year with the online segment growing by roughly 11% to 12% per year from 2021 to 2025.

Growing its craft beers and spirits range, Virgin Wines also sees opportunities to expand in overseas territories such as the US, Europe and Australia over the long term.

SALES PROFILE

Virgin Wines generated 33% sales growth to £56.5 million in the year to June 2020, and then reported £40.6 million sales in the first half of its current financial year. Liberum is looking for £70.3 million sales for the full year, which implies second-half sales of £29.7 million.

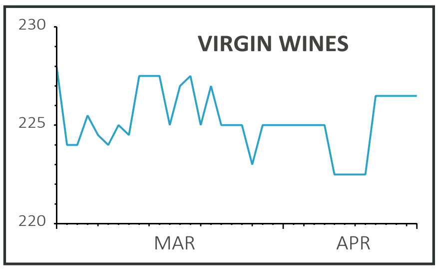
While that second-half figure would be slightly lower than the £30.3 million recorded in the same period in 2020, Liberum believes its estimates are 'prudent considering the positive momentum across unit economics and key performance indicators'.

For fiscal 2021, it forecasts £4.6 million pre-tax profit (2020: £2.8 million), rising to £6.5 million in 2022 and £8.1 million in 2023. [JC]

Virgin Wines: Earnings and valuation

	PBT	EPS	PE
2020a	£2.8m	4.7p	47.7
2021e	£4.6m	8.3p	27.0
2022e	£6.5m	11.7p	19.1
2023e	£8.1m	13.2p	17.0

Source: Liberum Capital, Virgin Wines. June year end
PBT = Profit before tax, EPS = Earnings per share, PE = Price to earnings ratio
A = Actual, E = Estimate



RIVER AND MERCANTILE

WHAT IS **REFLATION** AND WHY IT IS PARTICULARLY **BENEFICIAL** TO **VALUE AND RECOVERY STOCKS**?

Hugh Sergeant*, Head of Value and Recovery at River and Mercantile.*

REFLATION CAN BE broadly defined as expansion in the level of output of an economy, by increasing government stimulus, using fiscal or monetary policy. This is intended to stimulate corporate and consumer spending, so benefits value and in particular, cyclical recovery stocks, which by their nature are geared towards an uptick in the economy.

There is also what is known as the 'duration' effect – how sensitive a company's valuation is to changes in interest rates. Duration refers to how long it takes for an investor to be paid back by a future stream of cash flows. Much of a high growth stock's value is derived from earnings which will be delivered quite a long time into the future, so they are known as long duration stocks. Value stocks on the other hand, tend to have their value based on more imminent earnings, making them shorter duration. Changes in interest rates affect the valuations of the longer duration stocks more than they do those of the shorter duration ones. Therefore, in an inflationary environment, where interest rates are rising, these shorter duration value stocks become relatively more attractive.

At a stock and sector specific level, there are many cheaply valued stocks in sectors which are more financially geared to interest rates moving upwards. Perhaps the most obvious of these is financials. Banks, for example, have struggled in the context of the very low interest rates we have seen for several years now, as it's difficult to make much margin between what you charge to lend money and your cost of borrowing when both are near zero! As rates rise, this will support a better environment for banks' revenues and profitability.

Given the benefit that a reflationary environment can bring to certain stocks and sectors, it is interesting to look at how we position a portfolio to take advantage of this. We will be looking in more detail at this in our next article.

The ES R&M UK Recovery Fund enables investors to have targeted exposure to those companies that R&M believe to have particularly strong potential to create value, following a period of depressed profits that could enable significant recovery. To find out more, visit here.

ELEMENTIS

(ELM) 137p

Gain to date: 8.8%

Original entry point:

Buy at 125.9p, 18 February 2021

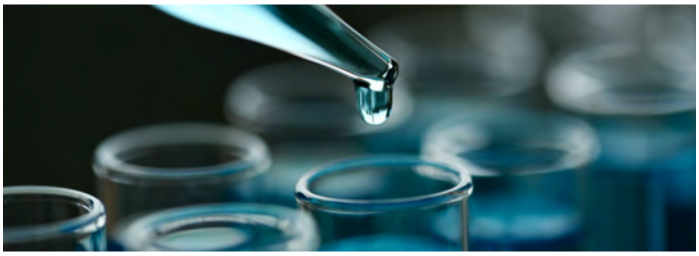
REPORTS THAT chemicals group **Elementis (ELM)** had been the subject of a takeover deal that could value it at over 200p per share proved unfounded.

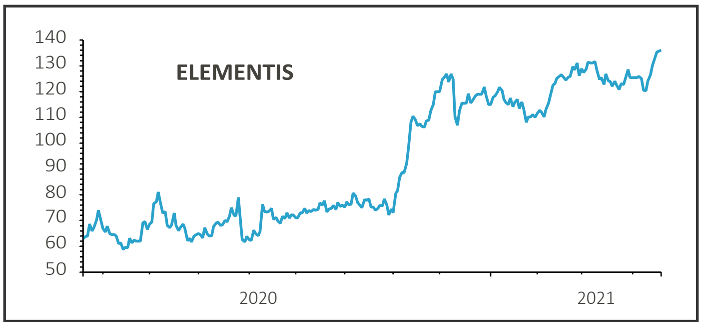
Late on 20 April its US-listed rival Innospec revealed it had made a cash and shares bid of 160p but that this offer had been rebuffed and a deal was no longer under active consideration.

Analysts at Jefferies say that while they 'expect the market to be disappointed by this news, the ongoing takeover interest in Elementis implies that its shares have been cheap'.

These latest developments came after Elementis rejected three takeover bids last year from another US firm, Mineral Technologies, the highest of which valued Elementis at 130p per share.

The stock is still trading significantly below the 200p mark, which is the level at which the company has long since argued it should be valued, and we think shareholders should be patient until the shares reach this level.





SHARES SAYS: ↗
We still think there is considerable unrealised value in Elementis. [TS]

DISCOVERIE

(DSCV) 797p

Gain to date: 32.8%

Original entry point:

Buy at 600p, 10 December 2020

ELECTRONICS ENGINEER **DiscoverIE (DSCV)** is riding high after its latest trading update drove material upgrades to analysts' earnings forecasts.

The company designs and manufactures bespoke kit for highly regulated industries including healthcare, renewables, transport and aerospace.

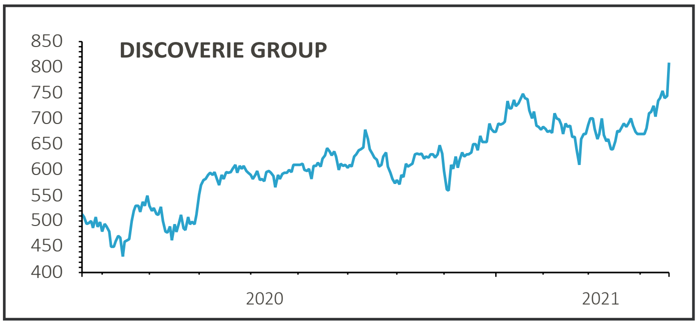
On 20 April the company said it expected underlying earnings for the 12 months to 31 March 2021 to be above the upper end of market expectations as trading momentum in the final two months of the year continued to strengthen.

Group sales in the second half were 9% ahead of the first half with a return to organic growth of 1% in the last two months of the year, with overall group sales for the full year 3% lower.

'The strong order book and momentum provide a solid base for sustained organic sales growth whilst further investing in growth initiatives,' the company said.

Broker Peel Hunt upgraded its March 2021 and March 2022 pre-tax profit forecasts by 8% apiece to £29.6 million and £32.3 million respectively.

Based on the upgraded forecasts for March 2022, the shares trade on a price to earnings ratio of 29.9.



SHARES SAYS: ↗
While the shares trade on a rich rating, we're happy to stick with them while there is positive earnings momentum. [TS]

TRACSIS

(TRCS:AIM) 820p

TOP STOCKS FOR 2021

Gain to date: 30.2%

Original entry point:

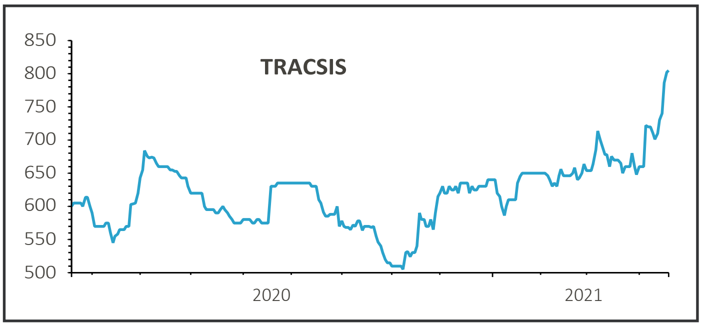
Buy at 630p, 23 December 2020

INVESTORS ARE getting far more confident that big events will get back going again this summer as the UK's vaccine rollout filters through the population, and investors have been snapping up **Tracsis (TRCS:AIM)** stock in anticipation. About half of the Leeds-based transport infrastructure and analytics software company's business comes from planning and running music festivals, motor races and other major events that attract people in their thousands.

Reopening came too late to save Glastonbury this year but there is optimism that events later in the summer will go ahead, such as the world-renowned Isle of Wight Festival, pencilled in for mid-September.

Tracsis management remain understandably cautious given the difficulty of predicting the Covid virus impact over the coming weeks and months, yet the company remains convinced of hitting its own 10% organic revenue growth target this year to 31 July 2021.

With a little luck and sensible precautions, getting some 'live' shows going this summer could push performance beyond that, and importantly, spark a series of upgrades for fiscal 2022, helped by roughly £2.5 million of costs permanently stripped out of the business.



SHARES SAYS:
The stock is up 25% since the end of March, and this could be the start of a run of positive news events. [SF]

TOUCHSTONE EXPLORATION

(TXP:AIM) 101.6p

Gain to date: 95.4%

Original entry point:

Buy at 52p, 25 June 2020

IT HAS been a volatile few weeks for small cap oil and gas play **Touchstone Exploration (TXP:AIM)** as it announced mixed news from its Ortoire block in Trinidad & Tobago.

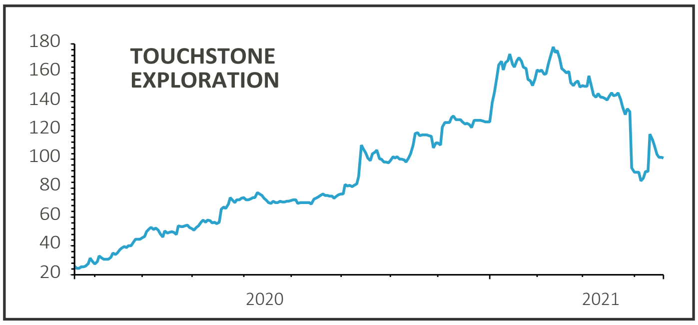
However, confirmation that the Cascadura Deep-1 well had yielded a significant natural gas discovery (12 Apr) helped set the shares on the right path.

Touchstone had been knocked off course by news that another well – Chinook-1 – contained oil rather than gas as investors had hoped and expected (31 Mar).

Natural gas is particularly in demand in Trinidad thanks to its large industrial sector and Touchstone's apparent bias towards gas had also insulated it from volatility in the oil price.

The company has a large inventory of prospects to drill on Ortoire with a well on its Royston prospect expected to be in focus soon.

Shore Capital analyst Craig Howie says the latest announcement provides 'a robust basis for upgrades – which we would expect to process following discussions with management to firm up our expectations regarding commercial deliverability, timing and follow-on development plans.'



SHARES SAYS:
We see scope for further upside in Touchstone. [TS]

TREATT

(TET) £11.45

Gain to date: 88.6%

Original entry point:

Buy at 607p, 29 October 2020

OUR BELIEF that it would be premature to take profit in extracts and ingredients manufacturer **Treatt (TET)** in January has been vindicated with the shares extending their recent gains off the back of another strong trading update (12 Apr).

The company said it expected to grow its first-half revenue by 14%, while also achieving an improvement in margins.

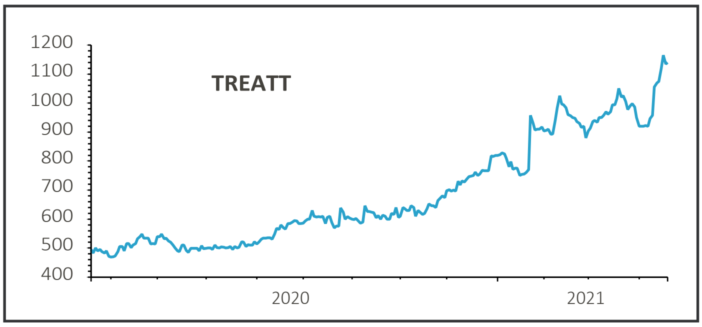
Revenue for the six months to 31 March was seen rising to around £60.8 million.

Growth was particularly strong in the tea, health and wellness, and fruit and vegetables categories, 'meeting growing global consumer demand for healthier living,' Treatt said.

The company said gross margin improvements reflected the growth in those categories and the transition into 'more sophisticated, solution-driven' products in citrus.

The company is also in the process of a moving to a new headquarters in Bury St Edmunds which should boost efficiency and capacity.

Investec analyst Nicola Mallard commented: 'Despite the pandemic's obvious impact on the global beverage trade, Treatt continues to deliver strong momentum. The move to cleaner, healthier foods and beverages is increasing the size of Treatt's addressable market.'



SHARES SAYS: ↗

We continue to see Treatt as a buy. [TS]

The stars align for UK equities

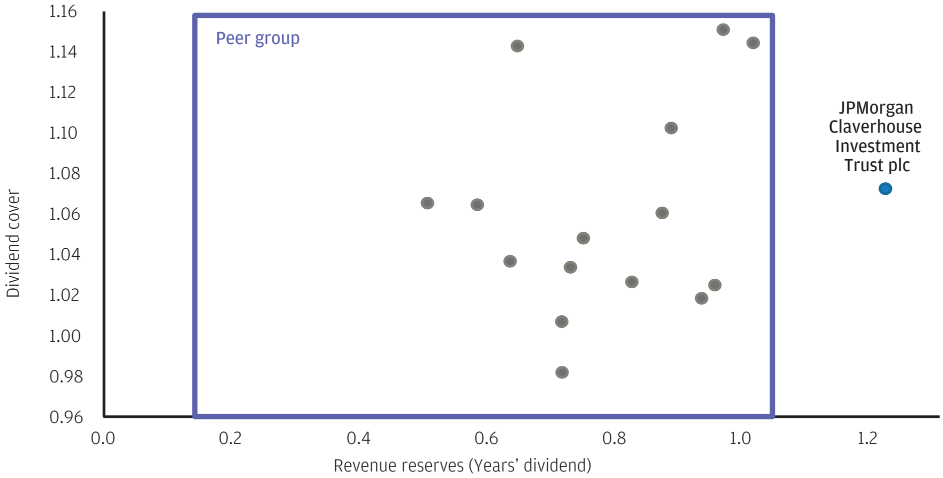
We believe a rare set of events have combined to make the UK equity market a highly attractive prospect right now - and Claverhouse Investment Trust could provide an attractive vehicle to capitalise on it.

The income outcome

The Mercantile's portfolio of medium and smaller-Investors around the world have grown accustomed to dark times. The effects of the pandemic continue to crush income hopes. In the UK, dividend values fell by 44% in the course of 2020, hitting their lowest level since 2011.[1] Against this backdrop, rare chinks of good news shine even more brightly - notably the announcement in January by JP Morgan's Claverhouse Investment Trust that it was increasing its dividend by 1.7%.

This remarkable achievement speaks to the in-built advantage of investment trusts. Unlike 'open-ended' funds, they can draw on a fixed pool of capital that allows them to plan for the long term, since they can retain 15% of their income. And Claverhouse's enjoys especially strong reserves. In fact, the trust has now increased its dividend 48 years in a row. That's among the longest record of unbroken rises of any UK equity-focused trust.

EXHIBIT A - UK EQUITY INCOME INVESTMENT COMPANIES



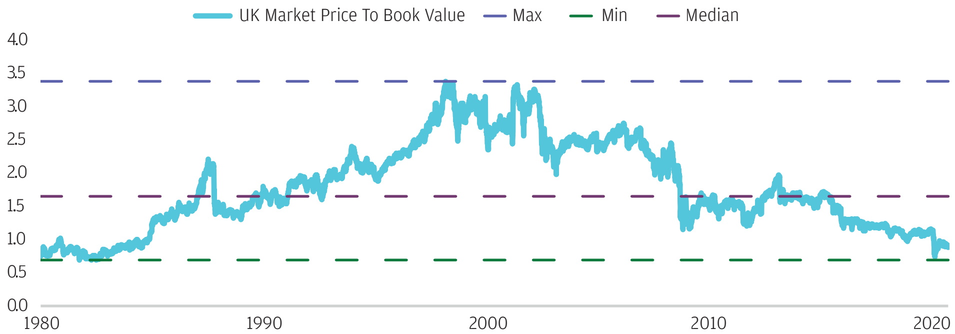
Source: Numis Securities Research, Datastream, Company Data, Bloomberg, as at 19 May 2020.

The case for UK equities

Claverhouse managers firmly believe that having a UK focus will give investors a positive advantage in the market of early 2021. With Covid-19 vaccine programmes rolling out, recovery is tangible. The investment skies are clearing. Given the heavy fiscal support delivered by governments to bridge the pandemic, interest rates are likely to be suppressed for some time. But the US election and the long-awaited resolution of Brexit have bolstered political stability on either side of the Atlantic.

> *At this pivotal point of the pandemic, UK stocks offer a tantalising prospect.*
>
> ***WILL MEADON, CLAVERHOUSE PORTFOLIO DIRECTOR.***

EXHIBIT B - UK EQUITIES CHEAP VS. OWN HISTORY (UK MARKET PRICE TO BOOK (X)



Source: Datastream, Morgan Stanley Research. Data from 1 January 1980 to 27 October 2020. Past performance is not a reliable indicator of current and future results

UK equity prices are currently trailing well below recent performance: a glance at the records shows them hovering near the lows of the 1980s. "They are not only historically cheap, but attractively valued compared to overseas markets - notably the US, which is dominated by sky-high tech valuations," Meadon says.

1 https://www.linkgroup.eu/insights/publications/uk-dividend-monitor-q4-2020/

Under-performance in recent years has led many investors to avoid UK stocks. Yet the coming recovery might be their chance to shine. In particular, it could lift the currently unfashionable 'value' stocks – long-established sectors that appear to be undervalued compared to their performance and potential – such as construction, oil and gas and financial services. Claverhouse is well placed to capitalise on such a development: its portfolio includes a range of both blue-chip and mid-cap value stocks.

Buy UK, buy global

Investing in UK equities doesn't mean turning your back on the rest of the world; quite the reverse. AstraZeneca's UK-Swedish base and its international vaccine rollout is currently the most prominent example of the worldwide footprint of nominally UK companies. Like BP, Unilever or GlaxoSmithKline, it's a global firm that happens to be UK-listed.

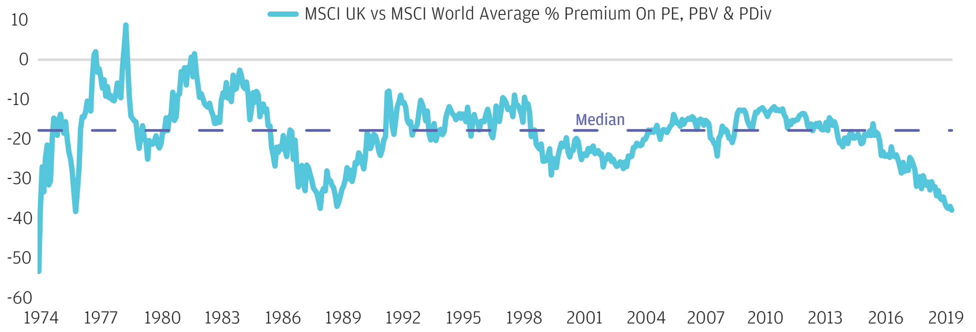
"In fact, 70% of the revenues of the UK's top 100 stocks originate from overseas," Meadon points out. "The UK economy is not the UK stock market, and the UK stock market is not the UK economy.

> *"So investing in UK equities is a way of buying into some of the best global companies without having to pay the inflated valuations you see in other equity markets. By opting for an investment trust, investors can exploit this anomaly in a diversified way, while benefiting from increased income.*

The case for investing now

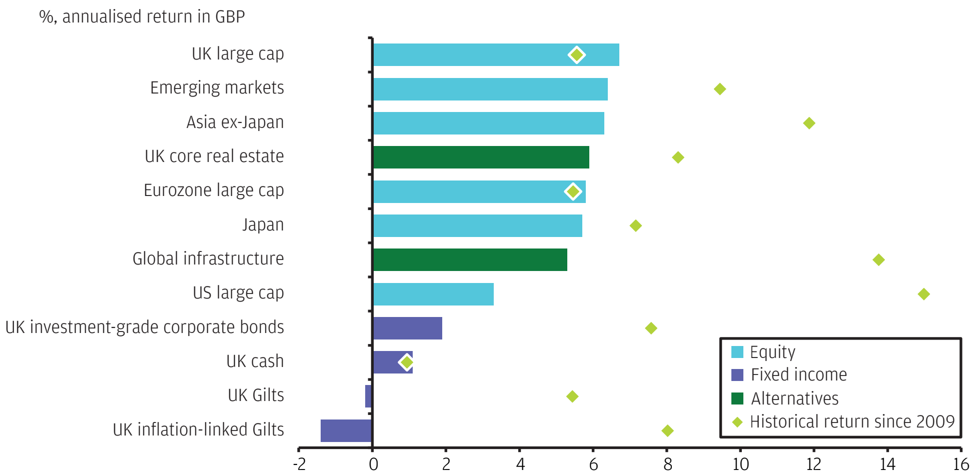
Given the twists of the past year, the course of the recovery remains uncertain. We believe this underlines the case for investing in a structure such as Claverhouse, where future income is supported by a strong revenue reserve base. But a market that's historically and globally cheap, and simultaneously well placed for recovery, is a singular event.

EXHIBIT C – UK MARKET CHEAP VS OTHER EQUITY MARKETS – THE >30% DISCOUNT FOR MSCI UK VS. MSCI WORLD IS AT OVER 40 YEAR LOW



Source: Source: J.P. Morgan Asset Management using data from MSCI, I/B/E/S, Morgan Stanley Research. Based on PE (Price to Earnings),PBV (Price to Book Value) and PD (Price to Dividend). Average relative valuations use 12 month forward data where available. Data from 31 December 1974 to 31 May 2020. Past performance is not a reliable indicator of current and future results.

EXHIBIT C – LONG-TERM CAPITAL MARKET ASSUMPTION EXPECTED RETURNS IN COMING 10-15 YEARS



Past performance is not a reliable indicator of current and future results

Even Meadon, who has spent much of his 38-year industry experience at JP Morgan, has rarely witnessed such an auspicious moment for UK equities. "This is a very unusual confluence of events: those stars don't align very often," he declares.

Like any heavenly collision, however, the opportunity to get involved is brief – and narrowing. "Investors globally are, for the first time in 10 years at least, starting to show interest in value stocks," Meadon warns. In our view, that means there's a limited time for informed investors to jump on board the UK equities craft before it takes off.

Find out more about JPMorgan Claverhouse Investment Trust

J.P.Morgan
Asset Management

Evenlode to rival Fundsmith with new global growth fund

The fund manager is best known for its income funds but is now looking at growth to accommodate its investment ideas

Best known for its UK and global income funds, asset manager Evenlode is to launch a growth-themed global equity fund after its research unearthed many strong investment ideas which don't pay much in the way of dividends and therefore wouldn't feature in its other funds.

TB Evenlode Global Equity (BMFX289) will invest in companies with attractive structural growth opportunities, sustainable competitive advantages, and sustainable reinvestment that safeguards and extends their businesses.

It will follow the same principles of other Evenlode funds in looking for stocks with high return on capital and strong free cash flow and will aim to have low portfolio turnover with long-term holding periods.

That puts it in direct competition for investors' money with **Fundsmith Equity (B4MR8G8)** which follows a similar investment approach.

PORTFOLIO NAMES

According to the March factsheet, Evenlode's new portfolio includes US tech firms Accenture, Microsoft and Google owner Alphabet, as well as payment giants Visa and Mastercard, UK names including **Relx (REL)** and **Unilever (ULVR)**, and others like Heineken, Nestlé, Booking Holdings, L'Oreal and LVMH.

Now might be a good time to launch a fund aimed at quality and growth stocks, with the market rotation into value and small caps creating a buying opportunity for bigger names that have seen their share price weaken in the past few months. It means Evenlode can pick up certain stocks potentially at a discount to their historical average.

But co-manager Chris Elliott says that didn't come into the team's thinking in launching the fund, rather that after testing the

Evenlode income funds: Track record

	3 years	5 years	10 years
EVENLODE INCOME	26.9%	57.3%	188.6%
IA UK EQUITY INCOME	10.4%	29.0%	92.6%

Source: FE Fundinfo, 19 April 2021. Total return

	1 year	3 years
EVENLODE GLOBAL INCOME	28.0%	49.6%
MSCI WORLD (IN GBP)	37.2%	53.5%

Source: FE Fundinfo, 19 April 2021. Total return
Evenlode Global Income launched in November 2017, so there is no 5 or 10 year data

portfolio for over nine months they now feel ready to open it up to external investors.

Elliott tells *Shares*: 'We found many companies we like but that don't pay much in the way of yield. So, we asked ourselves, is there room for another product? We tested that for half a year or so, and now we are at this point where we can [launch the fund].'

However, Elliott highlights that he and fellow co-manager James Knoedler are valuation-aware, and that recent share price volatility in quality and growth stocks 'continues to provide us with opportunities to redeploy capital at a better risk-adjusted rate of return'.

PATIENT APPROACH

The new Evenlode fund will be available to retail investors from 4 May and will have an ongoing annual charge of 0.85% a year. The managers concede it won't be 'the most exciting fund in the world' but that it will suit a patient investor looking for growth and will aim to have less drawdown than the wider market.

Like a lot of global funds, it includes a significant amount of North American stocks, which make up almost half of the 35 holdings at the end of March, but the managers insist it's not a case of looking to get involved in US tech or following its MSCI World benchmark, which has a 66.4% weighting to the US.

Knoedler explains: 'We take a bottom-up approach and look at individual stocks rather than any sectors or geographies. We simply follow where our research leads us and that's to companies that have sustainable competitive advantages and can compound their businesses over time.'

He adds that the fund may be biased towards developed markets like the US, UK and Europe when it comes to where the stocks are listed, but that when looking at the underlying revenues they have much more exposure to emerging markets.

Knoedler highlights Unilever as an example, with 60% of its revenues coming from emerging markets and Asia in particular. The Evenlode managers believe it has a sustainable competitive advantage with its brands, structural market growth with the premiumisation of consumer products in emerging markets, and it's 'reinvesting for success' with its advertising and promotion campaigns.

It's also one of several names starting to look more reasonably valued as the market rotates away from quality defensive stocks like consumer staples.

VALUATION APPROACH

The managers say they don't value stocks on a price to earnings or price to book ratio, but rather using a discounted cash flow model and on a redemption yield basis.

Knoedler says: 'We don't try to value stocks on a one year out multiple, because you'll find companies with the same multiple, but which have very different profiles in terms of their competitive advantages and structural growth.'

That said, the managers are keen not to pay over the odds for a stock and pick out the example of American tech conglomerate Cisco, whose shares soared in the late 1990s as the internet took off and all things computer-related were very much in demand.

At the height of the tech bubble, it was valued at over $500 billion as unchecked optimism about the growth of the internet prompted the company to ramp up production, with market expectations rising to rather unreasonable levels. When the bubble burst, its shares went from an all-time high of $77 to under $15 and have failed to reach those heights ever since.

Elliott explains: 'We're not saying Cisco wasn't and isn't a great company, but you have to be aware that even the greatest growth company can be a bad investment at the wrong price.'

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Income, Evenlode Global Income and Fundsmith Equity referenced in this article

By **Yoosof Farah**
Reporter

Asia: Finding the winners of tomorrow

Nitin Bajaj
Fidelity Asian Values PLC

2020 may have been challenging for small-cap value stocks, but this has left a once-in-a-generation opportunity to invest, says Fidelity Asian Values PLC portfolio manager Nitin Bajaj.

Nitin Bajaj has a simple investment philosophy which is to own good businesses, run by competent management teams and to buy them at a reasonable price - essentially the 'winners of tomorrow', before they become well-known. Unloved smaller companies with high-quality underlying business have always been a lucrative hunting ground for this philosophy.

But this value-investing style has been disproportionately impacted as a result of the market volatility due to the Covid-19 pandemic. However, over the last six months, the strategy's performance has been improving - mainly due to the portfolio manager's focus on picking the right stocks rather than a change in stylistic market leadership.

Unique buying opportunity

As a fundamental investor, Nitin believes the primary anchor for valuing any business must be earnings and cash flows. "This has always been the case and it is no different now." he says.

"Despite the outsized performance of growth stocks over the past few years, the most interesting fact for me is

that over time, value companies, especially in Asia, grow earnings faster than growth companies. We believe value stocks not only offer a higher margin of safety, but these businesses are also able to grow earnings faster."

"Since the last quarter of 2020, we have seen investors rotate out of growth stocks and into value names on expectations that value will benefit from an economic recovery. However, this trend has not gained a huge amount of traction - at least not in the Asian small cap space."

"Whether this is the start of a sustained rally in value stocks, only time will tell. Until then, the market environment is offering an unprecedent opportunity to invest in high quality value companies in the Asian small-cap space that are available at attractive valuations."

Important information

The value of investments can go down as well as up, so you may get back less than you invest. Past performance is not a reliable indicator of future returns. Investors should note that the views expressed may no longer be current and may have already been acted upon. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Overseas investments will be affected by movements in currency exchange rates. The Fidelity Asian Values Investment Trust invests in emerging markets which can be more volatile than other more developed markets. This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid. This trust uses financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The latest annual reports, key information documents (KID) and factsheets can be obtained from our website at www.fidelity.co.uk/its or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. Fidelity Investment Trusts are managed by FIL Investments International. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. **UKM0421/SSO/34251/0521**

$63 billion Coinbase is an easy way to play bitcoin

The cryptocurrency exchange has potential, but there are issues to address

Evangelists believe that we have just witnessed the 'big bang' of mainstream cryptocurrency acceptance with the triumphant US stock market debut of Coinbase Global.

Coinbase is the largest cryptocurrency exchange in the US, providing a platform for investors to buy, sell and store bitcoin and about 50 other cryptos, including ethereum, litecoin and dash.

It lets investors store cryptocurrencies in its wallet service for free, but charges dealing and margin fees. There are several other lines of business in the pipeline, such as trialling a crypto debit card with partner Visa.

Perhaps more compelling to *Shares* readers is that Coinbase is one way to land exposure to the potential growth of cryptocurrencies without having to buy the real thing.

The company didn't go public with a normal IPO (initial public offering), instead using the direct listing format favoured by Spotify and Airbnb.

This meant that instead of relying on brokers to pull in institutional investors to underpin a valuation ahead of the listing, selling shareholders sold stock straight to buyers on day one. This allowed the price to find its own market level as trades were logged, while also letting retail investors buy right from the start just like the financial establishment.

From a reference price of $250, the stock soared to more than $400 before ending its first day at $381.

The timing of the stock market listing was either very astute or very fortunate, coinciding with bitcoin's record run.

Bitcoin's surge beyond $63,000 for the first time (13 April) reignited intense discussion about the best-known cryptocurrency. Its meteoric rise in recent months has lured in thousands of Millennial investors with dreams of fast profits thanks to Coinbase's mobile app which makes buying bitcoin fairly simple.

COINBASE'S EARNINGS STATUS

Investors got a flavour of Coinbase's financial clout with the publication of its estimated 2021 first quarter earnings. Highlights included:

- An estimated $1.8 billion Q1 revenue, a near 10-fold jump from last year's $191 million
- Approximately $730 million to $800 million net income, versus $32 million in Q1 2020
- $335 billion in trading volume
- 6.1 million monthly transactions from 56 million verified customers

ISSUES TO ADDRESS

It is easy to see why the stock market listing captured enormous attention but investing in Coinbase's shares come with substantial risks, not least that the whole cryptocurrency phenomenon blows up.

There is huge volatility in

bitcoin and other cryptos. In late 2017 bitcoin traded close to $20,000 yet a year later it was worth less than $3,500, staying below $5,000 for months.

More recently, bitcoin ended 2020 worth $28,990, topped $63,000 in early April and, at the time of writing, trades at $60,775. In those three and a bit months bitcoin fell more than 15% three times.

Coinbase has admitted that monthly transacting users, trading volumes, and therefore transaction revenue fluctuate, 'potentially materially' with bitcoin and crypto asset volatility. This revenue unpredictability in turn 'impacts our profitability on a quarter-to-quarter basis,' it adds.

Another major talking point going forward will be institutional adoption. Dan Ives, an analyst with US broker Wedbush, said the stock listing is a reflection of cryptos' mainstream evolution as they become increasingly embedded in the global financial system.

Coinbase itself has noted, 'meaningful growth in 2021 driven by transaction and custody revenue given the increased institutional interest in the crypto asset class' is expected, but only if banks, payment platforms and other large financial institutions continue to accumulate crypto assets in the coming quarters. If that plays out as Coinbase hopes, the company will be a major beneficiary.

TIGHTENING REGULATION

Investors will need to brace for a lot more regulation around cryptocurrencies. 'Governments, central banks and regulators will be keen to protect the currency status quo,' says Nigel Green, founder of financial adviser DeVere. 'We should expect considerably higher levels of regulation in the crypto market; I believe it is inevitable.'

In the meantime, Coinbase plans to spend heavily to scale its platform and drive marketing in 2021 and beyond, which will cap financial performance.

The shares traded at $326.96 as of 16 April, valuing Coinbase at $63.5 billion. That represents a near-10% premium to the value of the **London Stock Exchange (LSE)**, which has a longer history, a more diversified business model and arguably faces less competition and less regulatory risk.

As for now, Coinbase's shares offer investors brave enough to enter the bitcoin and cryptocurrency world a way to invest beyond buying cryptos themselves, for good or bad.

Bitcoin (BTC) | Ethereum (ETH) | Cardano (ADA) | Tether (USDT) | Binance Coin (BNB) | Polkadot (DOT) | XRP (XRP) | Litecoin (LTC)

Chainlink (LINK) | Bitcoin Cash (BCH) | Stellar (XLM) | USD Coin (USDC) | Dogecoin (DOGE) | THETA (THETA) | Wrapped Bitcoin (WBTC) | NEM (XEM)

Profitable Coinbase ($m)

	2019	2020	2021*	2022*	2023*
Revenue	533.7	1,277.5	5,163	5,817	7,316
Net income	-30.4	322.3	1,725	1,776	1,828

Source: Refinitiv. *consensus forecast

By **Steven Frazer**
News Editor

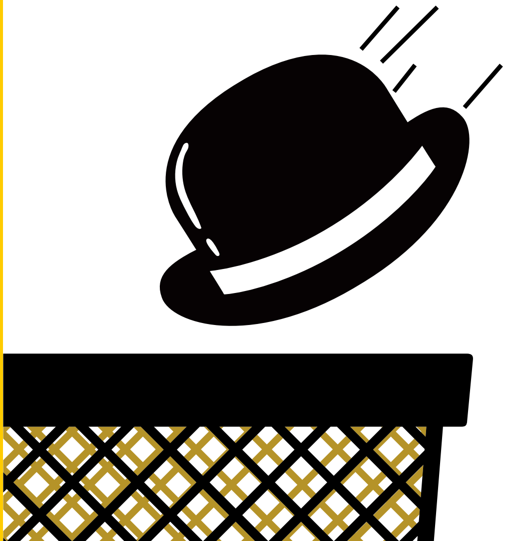
BIN THE TAXMAN:

Stocks that could help you avoid inheritance tax

By **Martin Gamble** Senior Reporter

Individuals looking to shield wealth from inheritance tax should consider London's AIM stock market as investing in certain shares can help keep the taxman at bay. The standard rate of inheritance tax is 40% which is a meaningful amount.

AIM shares that qualify for business property relief and held for at least two years do not form part of the estate for inheritance tax purposes and can be passed on after death tax-free. There are some other conditions to meet which we discuss these later in this article.



In 2013 the Government allowed AIM shares to be held within ISA accounts, which means qualifying business property relief shares can be held within a tax-efficient wrapper.

That's the good news, the bad news is that neither HMRC nor the London Stock Exchange publish a list of qualifying stocks.

This leaves investors with the choice of doing the leg work themselves, taking on the risk that HMRC challenges their decisions, or alternatively using an AIM IHT portfolio provider and paying them a fee to make the investment decisions and to check the underlying stocks qualify for the relief.

The latter route would involve the use of a portfolio service rather than buying an off-the-shelf AIM IHT fund via an investment platform provider because they don't exist.

WHAT IS BUSINESS PROPERTY RELIEF?

First introduced in the 1976 Finance Act, business property relief was originally meant to ensure that after the death of the owner, a family-owned business could survive as a trading entity without having to be sold or broken up to pay an inheritance tax liability.

Over time, successive governments recognised the value of encouraging people to invest in trading businesses regardless of whether they run the business themselves.

Readers who want to pick the stocks themselves could look at the holdings that feature in AIM portfolio services, as providers may publish some positions on their website. We also discuss various stocks that currently fit the bill later in this article.

It's worth emphasising that it's not just about working out which stocks might qualify for inheritance tax relief, but also making sure they are good long-term investments. Holdings also need to be constantly monitored to make sure they remain eligible for the relief.

In general, it is worth getting tax advice from a qualified professional when dealing with complicated financial matters.

WHAT ARE THE RULES?

- A qualifying investment needs to be held for at least two years.
- The clock starts ticking from the time you make an investment in qualifying shares.
- Subsequent investments start a new clock ticking so accurate records must be kept on different durations.
- If you sell after two years, you have three years to reinvest the cash.
- You must be invested at the point of death.
- It is worth speaking to a tax expert to get full clarification of the rules.

One of the advantages of paying a fund manager to pick the stocks via a portfolio service is that they tend to speak with companies relatively frequently enabling them to stay on top of the latest developments.

For example, when AIM-traded life science tools supplier **Abcam (ABC:AIM)** was considering dual listing shares on the US Nasdaq exchange, the company canvassed opinions from institutional investors.

Richard Power, who heads up the AIM portfolios at Octopus Investments, told *Shares* that once he became aware of the dual listing, Abcam shares held across his inheritance tax portfolios were sold because the company would no longer qualify.

The Government treats shares only dealt on AIM as being 'unquoted' for the purposes of business property relief. Once they are also listed on a recognised stock exchange as defined by HMRC, such as Nasdaq, they are no longer 'unquoted' and will not qualify for business property relief.

WHY AREN'T THERE AIM INHERITANCE FUNDS?

It is not possible under the rules to manage funds that invest solely in companies qualifying for business property relief. That explains why the alternative route for DIY investors is to use portfolio services where each client's portfolio must be constructed individually, adding costs.

For example, Octopus Investments is one of the largest and established players investing in AIM stocks and caters to over 14,000 clients, offering each their own bespoke portfolio.

All the firm's portfolios are assessed quarterly for compliance with HMRC rules by consultant PwC, adding further costs. Octopus charges 1.5% annual management fee plus a 1% dealing fee.

That may seem high compared with funds and investment trusts, but clients receive a higher level of service, bespoke portfolios, risk management and peace of mind that portfolios can be passed on free of inheritance tax.

The median Octopus AIM inheritance tax service portfolio has delivered a total return of 227.8% over the last 10 years compared with 38.8% return for the FTSE AIM total return index, according to Lipper and Octopus data.

This highlights that fees should always be assessed alongside the returns achieved, especially in the more complex field of AIM inheritance tax investing.

EXAMPLES OF STOCKS THAT SHOULD QUALIFY FOR THE AIM INHERITANCE TAX STRATEGY

- Wound care company **Advanced Medical Solutions (AMS:AIM)** should see higher earnings as elective procedures restart post-pandemic.

- Software provider to the hospital sector, **Craneware (CRW:AIM)** has strong revenue visibility as it migrates existing and new clients to its cloud-based offering.

- Software as a service digital marketing platform provider **DotDigital (DOTD:AIM)** has clear growth opportunities as it expands overseas.

INVESTMENT CASE STILL IMPORTANT

The mangers interviewed by *Shares* were keen to emphasise that investment merit remained an important consideration for constructing these AIM portfolios.

Ian Wooley, head of AIM services at boutique fund manager Hawksmoor Fund Managers, said it was imperative that each investment narrative stood up on its own for inclusion in its portfolios.

Wooley looks to invest in high quality companies with strong balance sheets and clear growth drivers. Unlike Octopus the company conducts all its own due diligence in-house on the eligibility of AIM stocks.

Hawksmoor doesn't have the same liquidity constraints as some of the larger players which means it can fish in the smaller end of the market. It reckons the sweet spot is between £100 million and £250 million market cap.

Wooley believes these companies are less researched, and therefore there is a greater chance of finding under-priced growth.

The larger fund managers are often restricted to the £1 billion plus end of the market, resulting in those firms trading at a premium to the smaller firms.

Richard Power says Octopus has been following the same fundamentally based investment approach for the past 16 years, looking for established, profitable businesses which have reliable, recurring revenues and have attained global leadership.

The companies should have clear growth opportunities and the potential to deliver sustainable double-digit earnings growth over the next few years.

Language translation company **RWS (RWS:AIM)** has been an Octopus portfolio holding since 2005. An all-share merger with SDL was announced last August and provides a step change for the combined businesses.

Another long-term Octopus position is engineering company **Renew Holdings (RNWH:AIM)** which specialises in non-discretionary infrastructure maintenance projects.

Hawksmoor's portfolios include **SDI Group (SDI:AM)** which manufactures niche scientific equipment, and media group **Next Fifteen Communications (NFC:AIM)**.

While most of the advertising world has struggled during Covid-19, Next Fifteen is a specialist to technology sectors, where there hasn't been such a sprint to cut discretionary spending. Its client list includes Google, Facebook, Amazon, IBM, Deliveroo and American Express.

Growth in the company's digital services has been boosted further by lockdowns as more people use the online channel.

THE QUALIFICATION RULES

According to the HMRC website full relief from inheritance tax is available on:

- A business or interest in a business
- Shares in an unlisted company

WHAT DOESN'T QUALIFY?

- A company that mainly deals in securities, stocks or shares, land or buildings, or in making or holding investments
- A not for profit organisation
- A company that is being sold unless the sale is to a company that will carry on the business and the estate is mainly paid in shares of that company
- A company that is being wound-up, unless it is part of a process to allow the business of the company to carry on

DIY APPROACH

There is merit in using third parties to manage AIM inheritance tax portfolios, but how might investors go about doing it themselves?

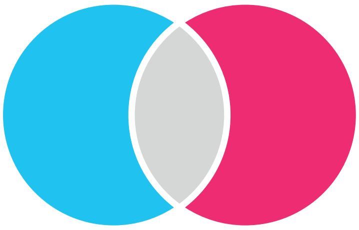
It is possible to manage your own affairs, with the caveat that each individual investor is responsible for keeping adequate records and staying on top of the source of earnings to ensure stock selections remain compliant with HMRC rules.

One source of information to see if a specific stock qualifies for inheritance tax relief is Investor's Champion. It conducts extensive due diligence into the qualifying status of all AIM companies, and its search tool clarifies the qualifying status of all AIM companies for a small fee per company search.

The company doesn't guarantee that its selections comply with HMRC rules, merely that they are based on its interpretation of the rules. This isn't unusual and in line with most AIM portfolio services in the space.

According to Investor's Champion, 628 companies (76% of the total) qualified for the valuable inheritance tax relief at the end of March 2021.

There was significant ambiguity surrounding the qualification of a further 85 companies where activities may qualify but the relief might be restricted.



GREY AREAS

Chris Boxall from Investor's Champion and founder of Fundamental Asset Management highlights some of the grey areas to spot when trying to assess whether a company qualifies for inheritance tax relief.

At first sight you might be forgiven for thinking that companies involved in securities trading would breach the rules and not qualify for the relief but Boxall believes that stockbroking company **Jarvis Securities (JIM:AIM)** does qualify.

The reason, explains Boxall, is that Jarvis undertakes administrative and processing services and does not deal as principal for its own account.

It also receives a substantial part of its total income from interest as well as fees and commissions. The balance sheet does not show it as having any investments and it derives no income from investing activity.

Another potential banana skin is so-called 'excepted assets' which are those assets not being used mainly for business purposes or are not required for future use in the business.

Specialist asset manager **Gresham House (GHE:AIM)** announced in December 2017 that it had received positive indications that it qualified for inheritance tax relief.

But Investor's Champion still has concerns on the passive investments retained by the company which could be considered excepted assets and restrict the available relief.

SIPP administrator **Curtis Banks (CBP:AIM)** revealed it had investment property of £1.2 billion and investments of £2 billion at 31 December 2020, suggesting it would likely be considered an investment company and therefore not qualify for inheritance tax relief.

However, Investor's Champion believes that because the items relate to one of Curtis Banks' insurance subsidiaries and the company bears no insurance risk, it does qualify.

OTHER WAYS OF SHIELDING ASSETS FROM THE TAXMAN

Make sure you utilise your ISA allowances which can be passed on to your spouse after death tax-free. Your spouse will benefit from an additional one-off allowance equal to the amount in your ISA at death. Adult investors can deposit up to £20,000 across all types of ISAs each year, apart from the Lifetime ISA which is capped at £4,000. Someone investing £4,000 in an Lifetime ISA would still be free to invest a further £16,000 across other types of ISAs in a tax year.

Reducing your estate by gifting can lower your tax bill. More information can be found in this article.

According to Jessica Franks, head of tax at Octopus Investments, people usually set up trusts to make sure assets are kept in the family over generations.

They can be tailored to personal wishes, which gives much greater control over how money is used after it has been given away than making lifetime gifts.

However, higher values settled into trust during a person's lifetime also take seven years before becoming exempt from inheritance tax.

If someone dies before then, the amounts settled into trust will be included in their estate, and inheritance tax will be payable if the estate is valued at more than the nil-rate band.

There are other charges to consider too, which can make trusts an expensive option and means they may not appeal to everyone.

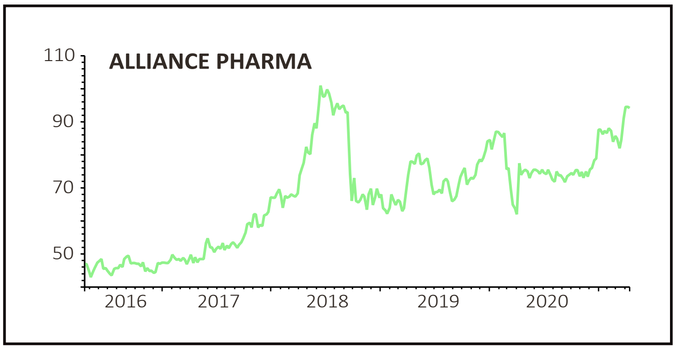
FOUR AIM STOCKS TO BUY FOR THE INHERITANCE TAX STRATEGY

Shares has taken the same approach as the managers with whom we spoke and screened the AIM market for companies which are profitable, have stable finances and clear growth opportunities.

Chris Boxall at Investor's Champion has vetted the companies and is comfortable that they currently comply with HMRC rules for inheritance tax relief.

Alliance Pharma (APH:AIM)

Price: 93.5p
Market Cap: £499 million



Unlike traditional pharmaceutical businesses **Alliance Pharma (APH:AIM)** isn't exposed to research and development risk because its products are already established. The company outsources capital intensive activities like manufacturing, storage and logistics.

Alliance Pharma has built a portfolio of leading international consumer health brands which have good growth potential supported by scientific efficacy and excellent safety.

Key products include scar treatment product Kelo-cote which is one of the company's fastest growing products, driven by strong demand from China.

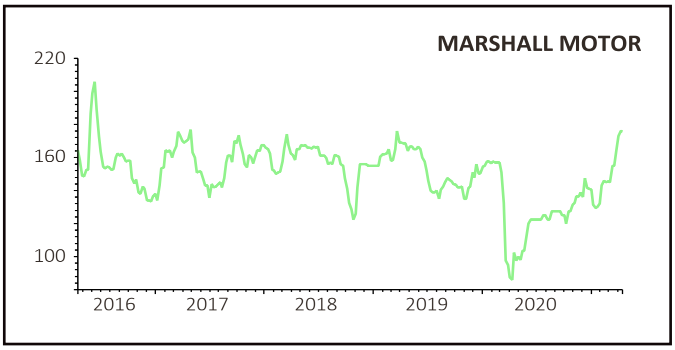
The global medicated anti-dandruff shampoo market is a valued at over $18 billion and demand for the company's Nizoral product is supported by increasing disposable incomes in China and India.

The company recently entered the US menopausal relief market with the purchase of Amberen which owns the number two brand.

Alliance Pharma is targeting double-digit revenue and profit growth over the next three to five years.

Marshall Motor (MMH:AIM)

Price: 178.7p
Market Cap: £137 million



Marshall Motor (MMH:AIM) is the UK's seventh largest car retailer and one of only six dealerships that represent each of the top five volume and premium brands.

With a strong presence in southern and eastern England the company is growing market share organically and using its balance sheet resources to acquire dealerships to boost brand presence and regional coverage.

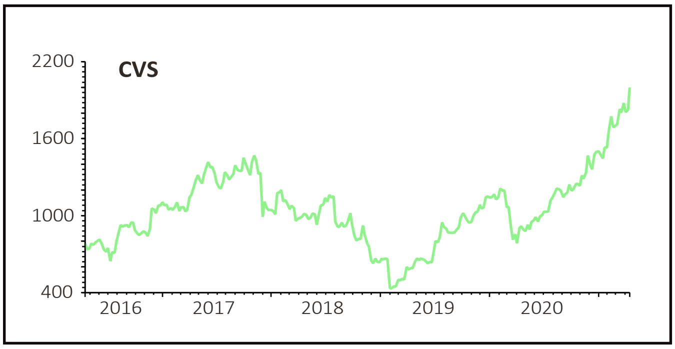
Since joining AIM in 2015 the motor retailer has established a track record of meeting or beating market expectations, no mean feat in a sector which has faced headwinds.

Management puts the performance down to a strong culture, brand partnerships, an in-house technology platform and online presence.

With its scalable platform the group is well positioned to continue to take advantage of a consolidating UK motor retail market. This is not the most liquid share so investors may not be able to buy or sell in the amounts they wish and when they wish.

CVS (CVSG:AIM)

Price: **£20.02**
Market Cap: **£1.38 billion**



An operator of animal veterinary practices, **CVS (CVSG:AIM)** is active in a market with favourable consumer trends which were accentuated during lockdown by increased demand to have a pet.

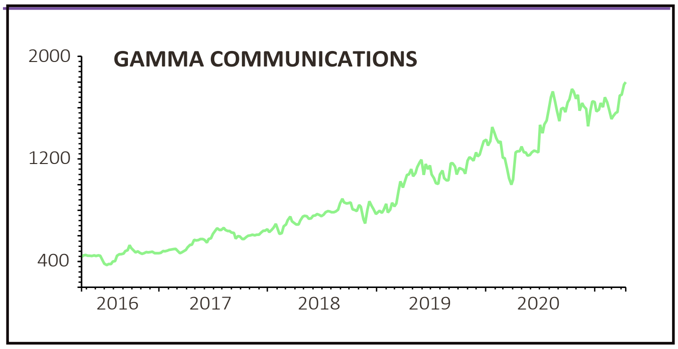
While the UK population has been broadly stable for the past decade, spending on pets has grown by 7% annually according to investment bank Liberum.

However, Liberum believes the pandemic has created a swathe of new pet owners that otherwise wouldn't have entered the market, while the change towards working from home could result in higher growth in future years.

As a result, the veterinary practices market could see double the historical growth rates over the next few years. The high barriers to entry and scale advantages enjoyed by CVS puts it in a good position to exploit the growth opportunity.

Gamma Communications (GAMA:AIM)

Price: **£18.10**
Market cap: **£1.7 billion**



Cloud-based technology company **Gamma Communications (GAMA:AIM)** has developed a good reputation for positively surprising investors. In March analysts were compelled to nudge forecasts up in the wake of another stellar year, and that was after upgrades were already pushed through in January.

Outcompeting both large and small rivals for years, Gamma has emerged as something of an AIM star on a strong growth trend, and the Covid-19 pandemic merely hastened the shift of organisations to embrace the cloud flexibility and cost efficiency of the unified communications-as-a-service the company provides.

More than 90% of last year's record £393.8 million revenue is recurring, and both sales and earnings before interest, tax, depreciation and amortisation increased by 20%-plus. Traditionally UK-only, Gamma has expanded into Europe through sensibly priced acquisitions, accessing markets in Spain, Holland and Germany. Cloud computing penetration is much lower in Europe than the UK and several years behind in technology adoption, meaning there is still a lot of potential growth.

With a strong track record for developing communication solutions, we would expect the company to continue expanding its suite, creating an increasingly compelling value and service-based proposition.

Follow Nick Train and buy quality 'plodders' while they're on sale

Finsbury Growth & Income and Troy Income & Growth provide access to steady, predictable growth stocks

For investors in quality growth companies, the first quarter of 2021 has been one of mixed fortunes. Some stocks have performed well, but many have drifted as investors have chased the rally in cheaper, more cyclically exposed stocks which fall under the value umbrella.

Whether the rally in value stocks is set to continue, and for how long, we honestly can't say. What is needed is patience and the resolve not to give in to the daily gyrations of the market.

As Benjamin Graham, author of *Security Analysis* and *The Intelligent Investor*, observed, 'the investor's chief problem – and even his worst enemy – is likely to be himself'.

Selling after a period of underperformance could just serve to lock in losses when, assuming the investment case hasn't deteriorated, the smart thing to do could be to buy more.

While the market may be efficient at discounting trends in the long term, in the short term it can be narrowly focused and even myopic, only able to concentrate on one thing at a time.

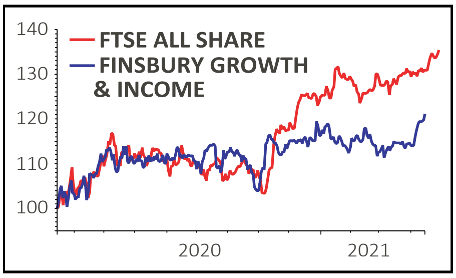
SHORT-TERMISM

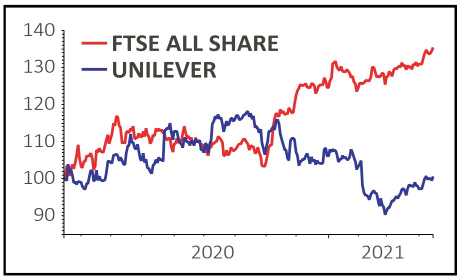
Investors are currently transfixed by the prospect of a recovery in the global economy and in corporate earnings, which has led to a rising tide lifting cyclical stocks even though many are in industries facing long-term secular decline.

In contrast, quality growth stocks which were prized for the predictability of their earnings during the pandemic have been kicked to the curb and have lagged the indices.

'Simply stated, having held up during the worst of 2020, our returns have lagged as economic and investor confidence soared,' says fund manager Nick Train about his investment trust **Finsbury Growth & Income (FGT)**.

A useful way to illustrate





the situation is to look at the performance of the **Unilever's (ULVR)** share price, says Train. 'During 2020 Unilever's business held up reasonably well – selling staple food and personal products all around the world. As a result, Unilever's share price was something of a safe haven in the context of the UK stock market, actually delivering a modest capital gain in 2020.

'During the first quarter of 2021, though, Unilever's share price has fallen 7%, while the

UK stock market is up over 5%. Suddenly its "defensive" qualities seem unattractive, when there are "recovery" stories to chase.'

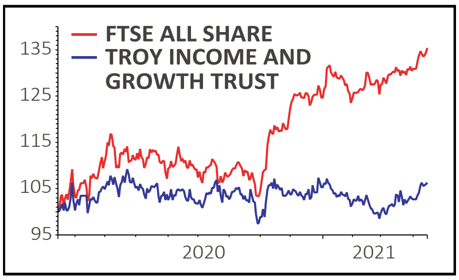
A COMMON PROBLEM

It's been a similar story for other 'steady-Eddie' stocks in the Finsbury Growth & Income portfolio such as **Diageo (DGE)**, Heineken and Modelez. Others in the trust have fared worse still. **London Stock Exchange (LSE)**, which was the biggest position at the start of 2021, hit a high of £99 per share in mid-February but recently traded as low as £69, or almost 30% below its peak.

Admittedly the cost and the execution risk of integrating recently acquired data group Refinitiv into the existing business isn't minor, and the shares had had a good run, but given its unique mix of data and market exposure Train expects London Stock Exchange to 'occupy a vital role in the global financial sector' and for its share price and rating to more than recover the lost ground.

Train isn't alone in bemoaning the market's short-sightedness. The **Troy Income and Growth Trust (TIGT)** has also suffered negative returns on quality stocks such as **Experian (EXPN)**, **RELX (REL)** and Unilever during first quarter 2021.

'The strong share price moves in many of the stocks and sectors



most damaged by pandemic lockdowns were mirrored by the sharp de-ratings of more dependable franchises such as consumer staples, which had weathered the crisis relatively well,' say the managers.

DEJA VU

It may be cold comfort for investors, but this isn't the first time that quality growth stocks have been through a period of tough relative performance. You only need to think back to Donald Trump's surprise victory in 2016 and the sharp rally in economically sensitive stocks, which also resulted in a de-rating for consistent earners.

The Troy team's response is to look through these periods of relative weakness and treat them as 'an opportunity for the trust to add new holdings in those companies that are temporarily depressed and increase holdings in the types of company which we favour'.

By buying on weakness the managers can 'continue to improve the quality of the overall portfolio along with its resilience to the business cycle', they claim.

As well as consumer stocks such as Diageo and Unilever, the trust has top 10 holdings in pharmaceutical giants **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)**, which ironically in helping provide a Covid vaccine to shorten the pandemic have seen their shares de-rated for their efforts.

Investors cast these pharma stocks aside after realising the vaccines would help to reopen the economy, thus there were suddenly a big group of companies (aka value stocks) that stood a better chance of earnings growth, thus they flocked to that space.

However, healthcare is clearly a secular growth business due to the combination of ageing populations in developed markets and rising incomes in developing markets, which together are driving increased demand for products.

While Nick Train's fund has regained its pre-pandemic highs in share price terms, the Troy fund is still some way below its previous peak.

For investors who appreciate quality companies, with above-average visibility of earnings and returns on capital together with lower-than-average volatility and an attractive dividend yield, the current price for Troy looks like an attractive entry point. We also continue to rate Finsbury Growth & Income as a good investment trust to own.

DISCLAIMER: The author owns shares in Finsbury Growth & Income.

By **Ian Conway**
Senior Reporter

Don't miss PZ Cussons' big turnaround effort as the shares are moving up

The Carex-to-Imperial Leather group is fixing problems caused by previous management

One of *Shares*' key stock selections for 2021, branded consumer goods group **PZ Cussons (PZC)** is making progress against a multi-year turnaround under new chief executive Jonathan Myers.

We believe there is extraordinary value in its portfolio of personal care, home care and beauty brands which the new and strengthened management team can unlock.

The market is coming round to our way of thinking, with the shares up almost 20% year to date to 275.5p. This means PZ Cussons has outperformed consumer goods peers including **Unilever (ULVR)** and **Reckitt Benckiser (RKT)**.

We are encouraged that the transformation is well underway, with results for the six months to 30 November 2020 revealing revenue and profit growth in all regions and net debt dropping from £137.7 million to £18.2 million year-on-year.

PZ Cussons: earnings and dividends

Year to May	Sales (£m)	PBT (£m)	EPS (p)	DPS (p)	Yield
2020 (A)	587.2	62	12.2	5.8	2.1%
2021 (F)	629.8	64	11.5	5.85	2.1%
2022 (F)	647	70.8	12.7	6.34	2.3%
2023 (F)	666.6	77.6	13.9	6.95	2.5%

Source: Numis Securities (forecasts). Yield based on 275.5p share price.
PBT = profit before tax, EPS = earnings per share, DPS = dividend per share, Yield refers to the dividend yield

Yet there remains much work to do, particularly in reducing the complexity of its Nigerian business, while PZ Cussons also faces near-term uncertainties linked to the pandemic, such as shifting consumer behaviour and rising cost pressures.

PZ Cussons: Key figures in its first-half results

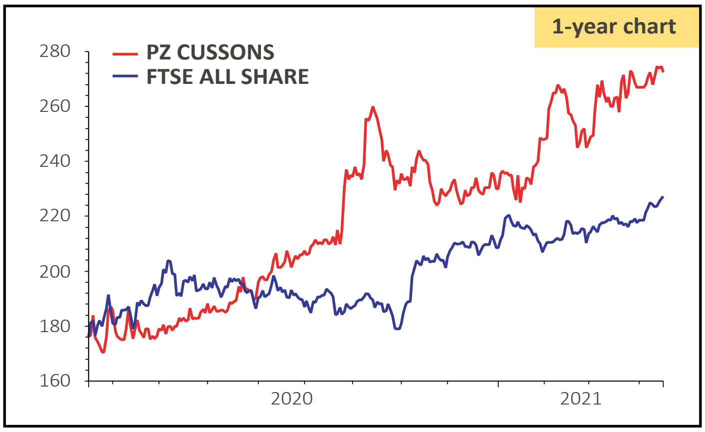
Item	H1 2020	H1 2021	% change
Revenue (£m)	284	313	15
Adjusted pre-tax profit (£m)	30	35	19
Net debt (£m)	138	18	-87

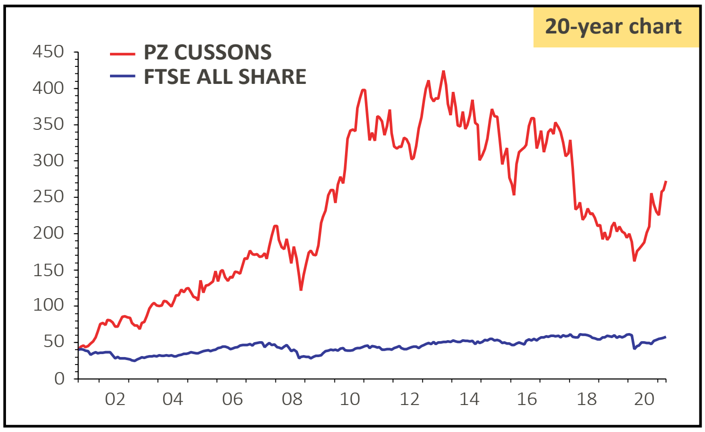
Source: PZ Cussons

CLEARLY COMMUNCATED STRATEGY

PZ Cussons' competitive advantages include an enviable portfolio of personal care and beauty brands. These include Carex, the UK's number one hand wash brand bought by half the UK population last year as Covid brought hand hygiene issues to the fore. It also owns Imperial Leather soap-to-shower gel and tanning brand St. Tropez.

At PZ Cussons' investor day on 25 March 2021, Myers explained how the company had declined





in recent years under previous management. He identified past failings ranging from underinvestment in the brands to spreading limited resources too thinly and taking its eyes off the consumer.

Put simply, the issues facing PZ Cussons today were years in the making and will therefore take time to recover.

Myers' strategy is to reignite the pioneering spirit of a company with more than 130 years of heritage. The £1.17 billion business now aims to serve consumers better, beating the competition across its three core categories of hygiene, baby and beauty, and deliver low to mid-single digit sustainable profitable revenue growth.

'MUST WIN' BRANDS

There are eight priority brands across the hygiene, baby and beauty categories in the company's four key markets, which are Indonesia, Nigeria, the UK and Australia. These eight names – Carex, St. Tropez, Sanctuary Spa, Premier, Joy, Cussons Baby, Morning Fresh and Original Source – contribute half of the company's sales, two thirds of gross profit and receive 75% of the marketing spend.

Going forward, they will receive the bulk of investment in marketing, innovation and management time with the aim of driving an acceleration in group-level growth.

PZ Cussons plans to grow these ahead of the remaining 42 brands, which still have a role to play, ranging from incubation to becoming the priority brands of the future, or simply as cash cows to fund investment in other parts of the group. None of them have been put up for sale, although some duplicated brands could be rationalised.

The company has created the 'Growth Wheel', a systematic way for PZ Cussons to drive sustainable, profitable growth by meeting consumers' needs and desires, getting the price positioning and price mix right, communicating the brand equity and ensuring products are available wherever and whenever the consumer needs, including online. 'Put simply but holistically, it is brand building,' enthused Myers.

LAND OF OPPORTUNITY

The current profile of PZ Cussons' revenue generation is fairly balanced, split 55:45 in favour of developed markets versus emerging markets.

In recent years, there has been much investor debate over the merits of Nigeria in the portfolio, but management are committed to this African market with favourable long-term demographics.

Myers describes Nigeria as 'a land of opportunity for consumer brands', boasting a population of 209 million which is forecast to double by 2050.

With no plans to exit Nigeria, management's focus is on reducing complexity and boosting cash generation from the business, pulling self-help levers now rather than waiting for economic recovery to ride to the rescue.

In this country, PZ Cussons will aim to drive growth in its priority brands – namely Premier, Joy, Cussons Baby and Morning Fresh, and restore profit in its large electrical business. A lot of people don't realise it sells fridges, freezers and washing machines under the Haier Thermocool brand.

Management also confirmed its belief in edible oils brands Devon Kings and Mamador, which have broad national distribution in Nigeria. 'Strong brands and a proven route to market represent the foundation for our return to profitable growth in the country,' insisted Myers.

CLEAR TARGETS

The final stage of the company's turnaround is likely to take several years but there is an ambition to have significant progress over the next three to five years.

There are three clear financial targets for the company; to deliver low to mid-single digit profitable sales growth, a mid-single digit operating margin for Nigeria, and a mid-teens group operating margin.

Myers also has an ambition for PZ Cussons to achieve B-Corporation certification, which no other listed UK company has yet to do, by 31 May 2026. This is a big commitment that will see PZ Cussons balance purpose and profit, working towards carbon neutrality, building on its plastics and palm oil promises.

Funds with PZ Cussons in their top 10 holdings

Fund	% of portfolio
Crux UK Core	4.4%
Crux UK Special Situations	3.4%
JOHCM UK Opportunities	3.1%
Barclays UK Opportunities	2.4%

Source: FE Fundinfo, 16 April 2021

Management made the case that sustainability is 'already in our DNA', highlighting past successes such as the removal of plastics and building classrooms in Nigeria and working with retail customers and suppliers to drive improvements across the entire supply chain.

'We're putting sustainability at the heart of everything we do as part of the new strategy,' stressed Myers, adding that 'doing the right thing has the potential to create value'.

THE ANALYST VIEW

Broker Numis believes the application of a more rigorous approach to brand management and reduced complexity should help the business achieve its financial goals. It says: 'If the company delivers growth at the upper end of its range and achieves mid-teens margins, we calculate a potential valuation of 474p per share.' That compares with a 272.5p share price at the time of writing.

Numis forecasts pre-tax profit improvement to £64 million for the financial year to May 2021, building to £70.8 million in 2022 and £77.6 million by 2023.

SHARES SAYS: Based on estimated earnings for this year, PZ Cussons trades on 24 times earnings, falling to 21.7 on next year's numbers.

The shares have started to rise in anticipation of an exciting turnaround that is only just getting started under Myers and his new, strengthened senior management team. The Carex maker is in caring hands, so buy the shares.

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

THE UK POST-PANDEMIC REVIVAL

BLACKROCK INCOME AND GROWTH INVESTMENT TRUST PLC

The UK is back on its feet after a tough pandemic and protracted Brexit negotiations, says David Goldman, Co-Manager of the BlackRock Income and Growth Investment Trust plc.

David Goldman

Co-Manager
BlackRock Income and Growth Investment Trust plc

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

UK has been a tough place to invest in recent years, but a skeleton Brexit deal and a successful vaccine rollout are drawing investors back to the market. For the BlackRock Income and Growth Investment Trust, the key is to find those companies with long-term, sustainable cash flows and pricing power, that can invest for the future but still pay dividends to shareholders. It's a tall order, but there are plenty of opportunities.

After the profound economic hit from the pandemic, green shoots are emerging. There has been huge central bank and government support for the economy. Money supply has hit a peace-time record. These measures have helped keep the economy on its feet in spite of the difficulties of the pandemic and put it in a good position for recovery.

Equally, the partial resolution of Brexit means companies can begin long-term planning. In the recent budget, the Chancellor tried to give a longer term framework around corporate taxation. He helped companies plan for future investments and put incentives in place for those investments. Visibility for corporates is steadily improving as economies recover and progress is made politically and in the fight against the pandemic.

UK SHAKE-OUT

The pandemic also provided a much-needed shake-out of UK companies. The UK has historically been one of the highest-yielding markets in the developed world, but too

many companies were paying dividends at the expense of investing in their businesses. Companies that were over-distributing on dividends have been 'found out' during this crisis and forced to rethink their payouts. This means that dividends in the UK market are now far healthier and more sustainable than they have been for many years.

We can find plenty of businesses for our portfolio that generate sufficient cash to invest in their businesses but are also sufficiently cash generative that they can pay a growing dividend as well. We have businesses in the Trust that have grown their dividends for over 50 years. This compounding effect is a valuable contributor to total return over time.

Valuations still look appealing in the UK market, even after some recent recovery in UK shares. The UK has been out of favour for some time and remains an attractive market relative to its international peers and relative to its history. We invest selectively outside the UK as well, allowing us to introduce themes – such as payment systems or renewable energy – that aren't represented in the UK market.

OUR PORTFOLIO

The economic recovery is building momentum globally. As such, we have been tilting the emphasis in the Trust towards those shares we expect to benefit from that recovery and from the reopening of societies. These include companies in the more economically sensitive areas of financials, support services and consumer discretionary companies.

That said, the risks are finely balanced, so we retain holdings in the healthcare and consumer staples space, where we find companies with strong free cash flow and dividend growth potential at attractive valuations. As always, our greatest focus is on the individual companies, finding cash generative businesses that are rewarding shareholders and reinvesting in the business.

At BlackRock, we have significant analytical resources at our fingertips, and this has proved particularly important when assessing the environmental, social and governance (ESG) risks for companies. We believe that companies need to operate within healthy ecosystems if they are to thrive over the long term. That means developing sustainable relationships with all stakeholders including suppliers, customers, employees and shareholders. When we talk to companies, we seek those demonstrating the right behaviours. For us, this is not separate to the investment case, but integral to it.

We believe this is a fertile time to be investing in the UK. The economy is emerging from a difficult time, but UK companies should emerge stronger and more resilient.

For more information on this Trust and how to access the opportunities presented by the income and growth sector, please visit: www.blackrock.com/uk/brig

TO INVEST IN THIS TRUST
CLICK HERE

Risk Warnings: Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Trust Specific Risks

Liquidity risk: The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Where are we in the market cycle?

Applying the thinking of a fund management legend to the current landscape

As regular readers will know, one of this column's favourite market sayings comes from fund management legend Sir John Templeton, who once asserted that: 'Bull markets are founded on pessimism, grow on scepticism, mature on optimism and die on euphoria.'

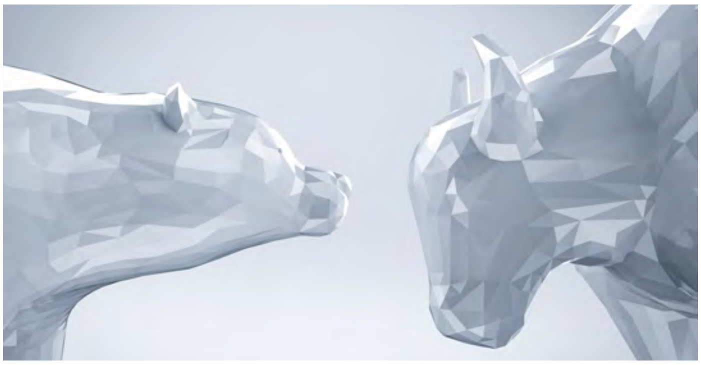
Applying this test can potentially help investors spot where value and future upside opportunities can be found. It can also help avoid areas which are so popular they could be overvalued and capable of doing damage to portfolios.

It is hard to avoid investments everyone is talking about with great excitement and resist 'fear of missing out'. Yet history suggests looking at assets, stocks or funds no one is interested in is the best way to make premium long-term returns.

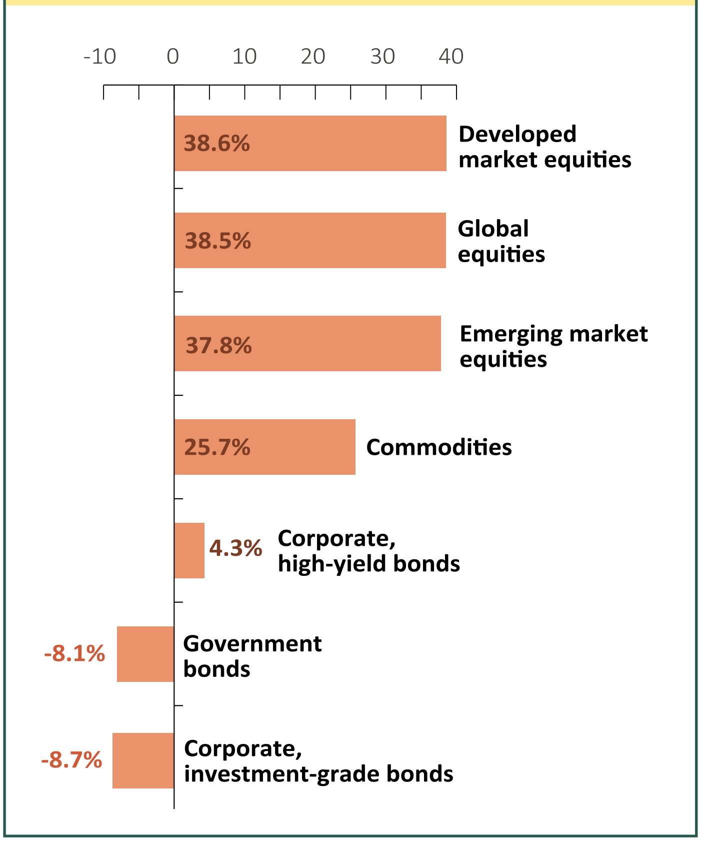
The last 12 months are a fine example of how some careful, but not wilful, contrarian research could have yielded rich rewards. As the pandemic began to make its presence felt, share prices plunged, oil collapsed into negative territory and government bonds' haven status meant their prices rose and yields fell. Cryptocurrencies were tossed aside amid the general panic, too.

Yet wind on a year, and equities have beaten bonds hands down, with commodities not far behind. Technology is no longer the leading equity sector and defensive areas such as healthcare are relatively out of favour. Commodities (with the notable exception of precious metals) are doing well and cryptocurrencies are going bananas, as evidenced by the flotation of America's leading crypto exchange just last week, namely Coinbase.

Studious analysis of these trends may therefore help investors to spot value and dodge the traps that the coming 12 months and beyond may offer.



'Risk' assets are handily outperforming 'haven' ones

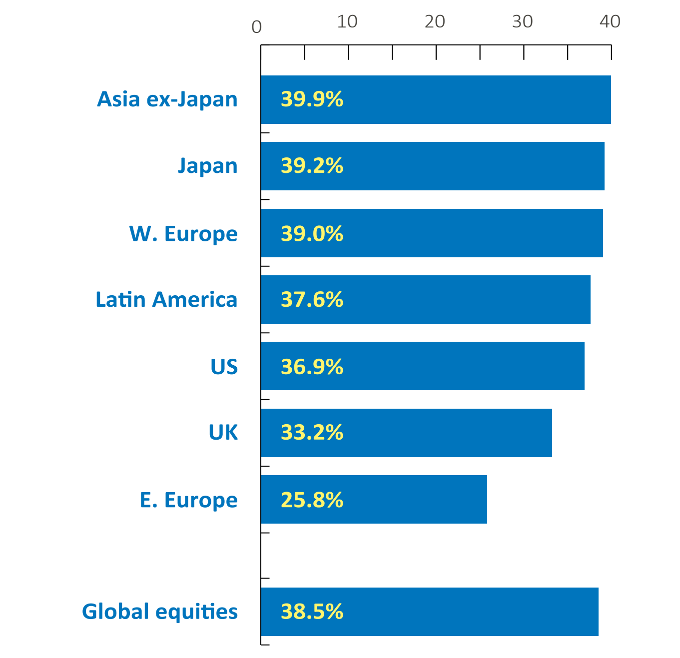


Source: Refinitiv data. Covers period 16 April 2020 to 16 April 2021

Insightful commentary on market issues

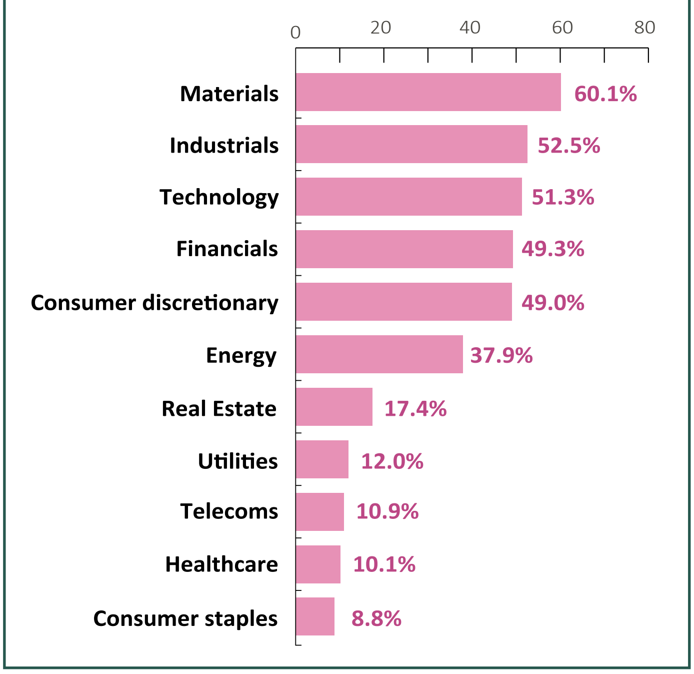
RUSS MOULD
AJ Bell Investment Director

Asia and Japan are doing best of the major geographic options



Source: Refinitiv data. Covers period 16 April 2020 to 16 April 2021

Cyclicals are outperforming growth-oriented and defensive sectors



Source: Refinitiv data. Based on the S&P Global 1200 indices. Covers period 16 April 2020 to 16 April 2021

UP, UP AND AWAY

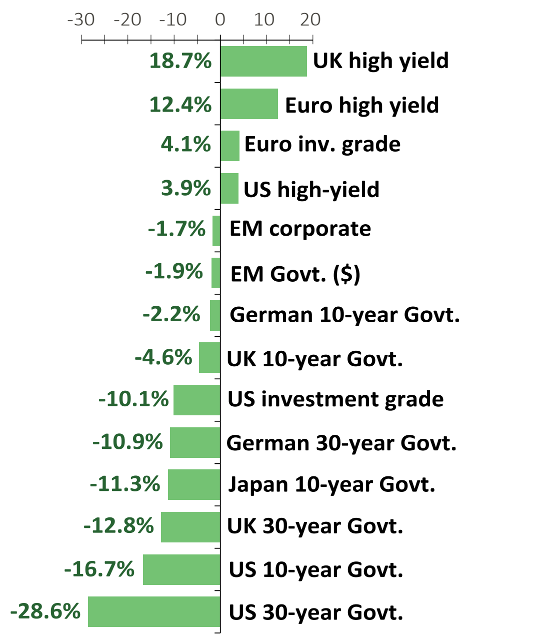
Incredible as this would have seemed a year ago, 'risk' assets are showing the best total returns in sterling-denominated terms over the 12 months, as equities and commodities easily outpace bonds. Within fixed income, the riskiest option – high-yield corporate paper – continues to lead government and investment-grade corporate debt.

Within equities, Asia and Japan are doing best, perhaps owing to the relatively limited impact of Covid-19 upon their populations' health and their economy.

Emerging markets overall are coming in from the cold (in another win for contrarians), and America's dominance of the geographic performance tables is waning a little, too.

By equity sector, it felt like technology was the only game in town a year ago, with defensive areas like healthcare also proving popular. Yet cyclical, turnaround sectors now lead the way, with defensives and income-generating bond proxies lagging badly.

High yield debt is benefiting from hopes for an economic upturn



Source: Refinitiv data. Covers period 16 April 2020 to 16 April 2021

RUSS MOULD

AJ Bell Investment Director

All of this fits the prevailing narrative that the combination of vaccination programmes, government fiscal stimulus and ultra-loose monetary policy from central banks will see the economy through the pandemic and provide a firm base for a robust economic recovery.

So too do the losses on long-duration government bonds and the outperformance of high yield debt. The latter tends to correlate more closely to equities than it does fixed income. A strong economic recovery would help to bring financially stretched firms back from the brink and leave them better placed to meet their obligations.

NEXT STEPS

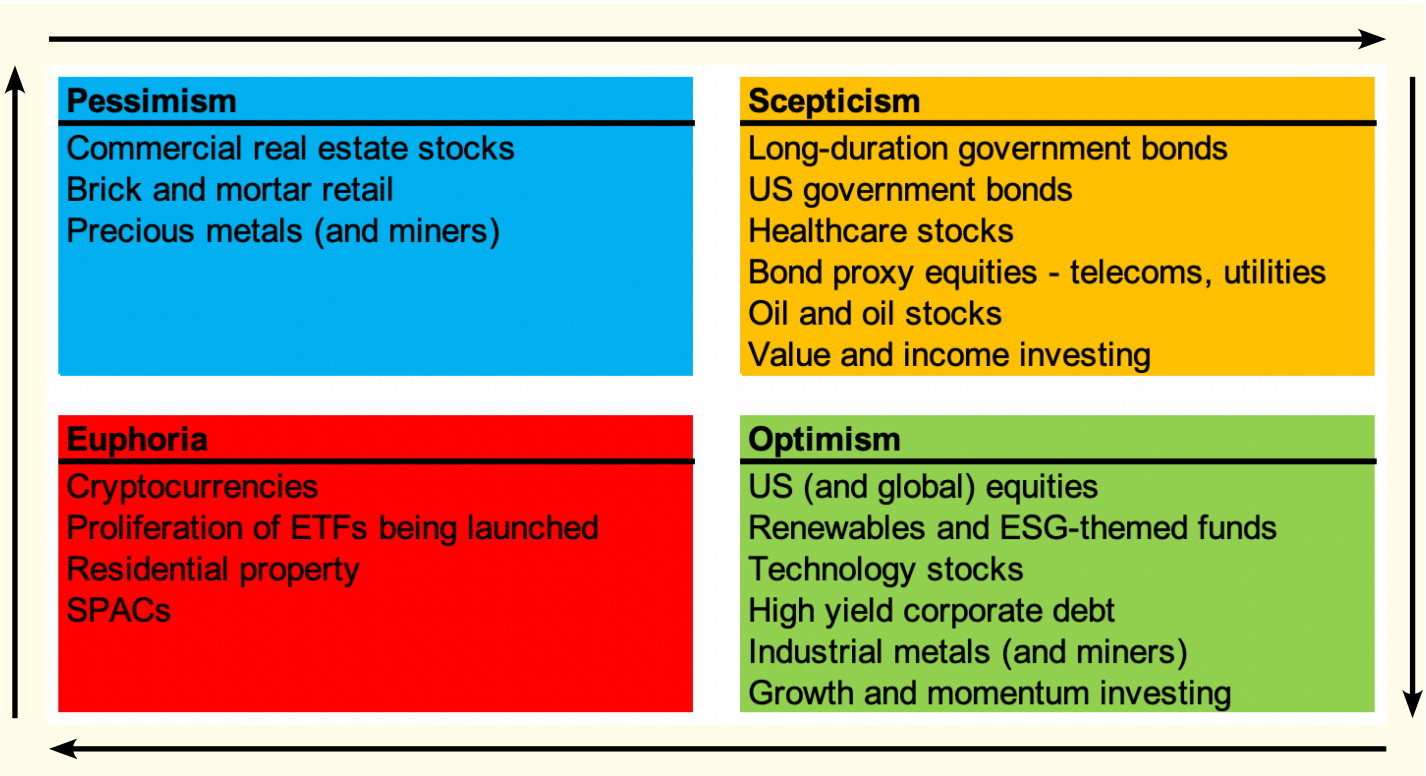
Analysis of those performance statistics means this column currently sees the major asset classes like this as we head into summer 2021, using Sir John Templeton's four phases as a framework.

Euphoria – and optimism – are a lot easier to find than they were a year ago. This is not to say that markets are primed for a collapse, but it may not take much to shake them up a bit as a result.

Scepticism pervades fixed income and government debt, so anyone who fears disinflation or deflation more than inflation could take this as a cue to top up allocations.

Conversely, anyone who sees the world returning to normal pretty quickly could seek out value on commercial property stocks or funds, especially those with exposure to office space, while those portfolio builders who are wary of a market wobble – and suspect that central banks will respond with every greater monetary largesse – may note with interest the underperformance of gold and miners of precious metals.

Sir John Templeton's four market phases as seen today



ETF demand to rise as funds added to popular comparison tool

It is now easier to compare performance which could lead to greater take-up

Exchange-traded funds have taken another big step in their journey into the mainstream. As of this month, more than 500 ETFs are included in the Investment Association fund sectors.

This may sound like an arcane, technical development, and in a way, it is. But it will also make ETFs more visible and comparable with other funds, and they will now sit alongside some of the big names of fund investing, like Fundsmith, Baillie Gifford and M&G.

This will likely lead to more investors joining the growing throng of ETF converts.

WHAT ARE ETFS?

ETFs come in lots of shapes and sizes, and while in theory they are passive investments, some are only suitable for experienced investors with plenty of risk appetite.

Plain vanilla ETFs are very similar to tracker funds, in that they follow the performance of a broad market index, and do so at extremely low cost, in some cases just 0.1% or so per year.

They can also be held in ISAs and SIPPs just like traditional funds, and so have their gains and income sheltered from tax if held in these wrappers.

WHAT IS THE INVESTMENT ASSOCIATION DOING?

Savers and financial advisers will now be able to compare over 530 exchange-traded funds from the UK's largest ETF providers within the Investment Association's sectors. These include products from Amundi, BlackRock, Legal & General and Vanguard.

The IA sectors are widely used by investment platforms and financial advisers. They enable savers to easily navigate the open-ended fund market by dividing them into groups of similar funds.

ETF ATTRACTIONS

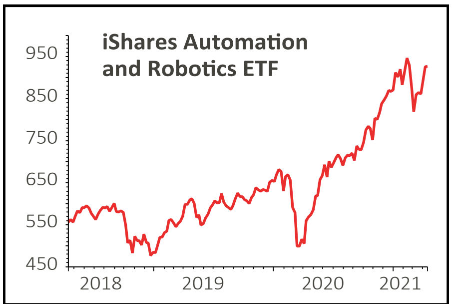
It is very hard for a fund manager to consistently beat the market on a long-term basis. Yes, they may have some very good years, but few can consistently sustain this outperformance during the career. Therefore, many investors see merit in simply tracking the market for a low fee, rather than paying more (in general) for someone to try and beat it.

ETFs are one of the easiest ways for you to be able to track markets. They can be traded throughout the day, giving investors greater scope to buy on market dips. By contrast, traditional tracker funds typically offered by banks and insurance companies work on a forward pricing basis, so you never know exactly what price you will pay.

Over the long term this isn't likely to make a huge difference, but some investors like to invest part of their portfolio more tactically, and some simply want to know they can buy and sell immediately, as they can with listed shares.

ACCESSING THEMES

ETFs can also be useful to give investors specialised exposure to specific themes in the market. For instance, the **iShares Automation and Robotics ETF (RBTX)** tracks an index of companies involved in the robotics and automation industry.



This is where ETF investing starts to become more active than passive, because these thematic ETFs do carry higher charges than plain vanilla ETFs that simply track a broad market index.

THINGS TO CONSIDER

Investors need to pay attention to the construction of the underlying index followed by thematic ETFs, to make sure it fits their expectations.

Most investors know what the FTSE 100 is, but once you start moving away from the big market indices, you need to have a closer look under the bonnet of the ETF you're considering.

While thematic ETFs are passive in that they track a prescribed index, the choice and construction of that index is, in a way, a bit active. By narrowing down to a certain theme, it is excluding large parts of the market.

Thematic ETFs also tend to be riskier for this reason; they won't be as diversified in terms of stocks and sectors as ETFs tracking broad markets, like the FTSE All-Share or S&P 500. They therefore function best as satellite investments around a more diversified core, used to tilt your portfolio in a particular direction.

It's also worth noting the availability of exchange-traded products or ETPs which are only for the most sophisticated investors, particularly those which use derivatives and leverage, which tend to add cost, complexity and risk.

MOST POPULAR ETFS

The most popular ETFs on the AJ Bell Youinvest platform over the last couple of years show that DIY investors are predominantly using ETFs to gain exposure to major markets, just as they would an index tracker fund.

Investing in gold has also been made a lot easier by products such as **iShares Physical Gold (SGLN)**, which has been a popular pick by investors looking for a bit of ballast during distressed markets.

Clearly ETFs can perform lots of different functions, and as they rise in profile, we can expect increasing numbers of investors to take notice.

DISCLAIMER: AJ Bell is the owner and publisher of Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell.

By **Laith Khalaf**
Financial Analyst

Most popular ETFs on AJ Bell Youinvest

April 2019 - April 2020	April 2020 - April 2021
iShares Core FTSE 100	iShares Core FTSE 100
Vanguard FTSE 250	iShares Global Clean Energy
Vanguard S&P 500	Vanguard S&P 500
Vanguard FTSE 100	Vanguard FTSE 250
Vanguard FTSE All-World	Vanguard FTSE 100
iShares S&P 500	Vanguard FTSE All-World
iShares Core MSCI World	iShares S&P 500
iShares UK Dividend	iShares Physical Gold
Vanguard FTSE Dev Europe Ex UK	iShares Core Emerging Markets IMI
iShares UK Equity	iShares Core MSCI World

Source: AJ Bell Youinvest between 01/04/2019-01/04/2020 and 01/04/2020-01/04/2021

Can you help with pension crystallising?

AJ Bell pensions expert Tom Selby responds to a reader trying to understand the rules around tax on retirement pot withdrawals

My pension is fully crystallised, but I only took around 12% tax free at the time I crystallised it. Can I still take a further 13% tax free?
Alex

Tom Selby
AJ Bell
Senior Analyst says:

The term 'crystallised' is one that comes up often in questions about pensions, and just means choosing a retirement income option, which you can do once you reach the 'normal minimum pension age' of 55.

This is the earliest point someone with a defined contribution scheme, such as a SIPP, can access their fund. The Government is currently consulting on raising the normal minimum pension age to 57 by 2028.

In most cases crystallising will take one of three forms:

• **Buying an annuity from an insurance company.** This will pay a guaranteed income for life, with up to 25% of the fund available tax-free at the point the annuity is purchased. The income you receive might be higher if you have a life-limiting illness or lifestyle factors which might mean they expect you to live less long, such as smoking.

• **Entering drawdown.** Under this option, your fund remains invested, and you are in charge of managing your retirement income strategy and withdrawals. This has the benefits of extra flexibility and the possibility of long-term investment growth, although your fund may go up and down and you will have responsibility for ensuring your income is sustainable. At the point you enter drawdown, up to 25% of your fund will be available tax-free, with any other withdrawals taxed in the same way as income.

• **Taking ad-hoc lump sums.** This avenue of crystallising your fund allows you to take individual lump sums from your retirement pot, with a quarter of each lump sum tax-free and the rest taxed in the same way as income.

Lots of people will also opt for a combination of the above options. Crystallisation is important because, as you allude to in your question, this is when you become entitled to your 25% tax-free cash.

Once someone has crystallised their entire fund, unfortunately there is no going back – so anyone wanting to take their full 25% tax-free cash entitlement needs to do so at this point.

For anyone who doesn't want to crystallise their entire pension, partial crystallisation could be an attractive alternative. This simply involves picking a retirement income route for some, but not all, of your pension.

This is probably easiest to illustrate with an example. Take someone with a £100,000 pension who wants to access £5,000 tax-free cash to renovate their kitchen. Rather than crystallising their entire fund in drawdown – generating £25,000 tax-free cash – they could choose to crystallise just a £20,000 portion.

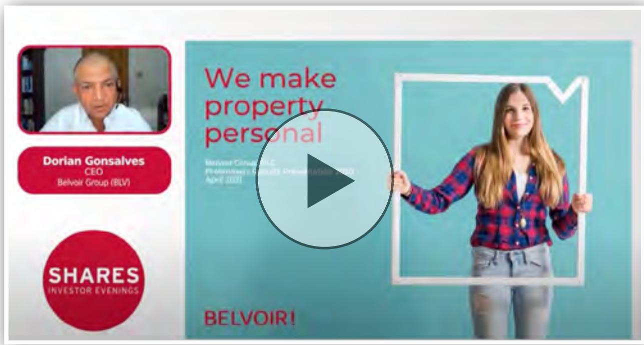
This would generate the £5,000 of tax-free cash they need, with £15,000 going into drawdown and the remaining £80,000 left untouched. They would then be entitled to 25% tax-free cash from that part of their fund once they decide to crystallise it.

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.

WATCH RECENT PRESENTATION WEBINARS

Argentex Group (AGFX) – Harry Adams, Co-CEO & Jo Stent, CFO

Argentex Group is a United Kingdom based foreign exchange service provider. The company operates as a Riskless Principal broker for non-speculative, spot and forward foreign exchange and structured financial derivative contracts.



Belvoir Group (BLV) – Dorian Gonsalves, CEO

Belvoir Group is a UK-based property franchise group delivering residential lettings and sales, and property-related financial services to the individual businesses nationwide.

Tharisa (THS) – Phoevos Pouroulis, CEO

Tharisa is an investment holding company. Along with its subsidiaries, the company is engaged in mining, producing, selling, and distributing platinum group metals and chrome concentrates at a low cost. The company's operating segments include PGM; Chrome; Agency and trading and Manufacturing.

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

26 April: United Oil & Gas. **27 April:** Anexo, Gaming Realms, Inspiration Healthcare, Nostrum Oil & Gas, Xaar. **28 April:** French Connection, HeiQ, LSL Property Services, Pennant International, The Property Franchise Group, Sainsbury's, Tissue Regenix. **29 April:** Angle, Woodbois, Xeros Technology.

Half-year results

26 April: Lok'n Store. **27 April:** Focusrite. **28 April:** AB Dynamics, Home REIT. **29 April:** Proactis Holdings, WH Smith.

Trading statements

23 April: Digitalbox, XPS Pensions. **27 April:** BP. **28 April:** 1Spatial, GlaxoSmithKline, Lloyds, Persimmon. **29 April:** ConvaTec, Evraz, Flutter Entertainment, Howden Joinery, Inchcape, Indivior, Lancashire Holdings, Meggitt, NatWest, Royal Dutch Shell, Schroders, Smith & Nephew, Unilever.

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