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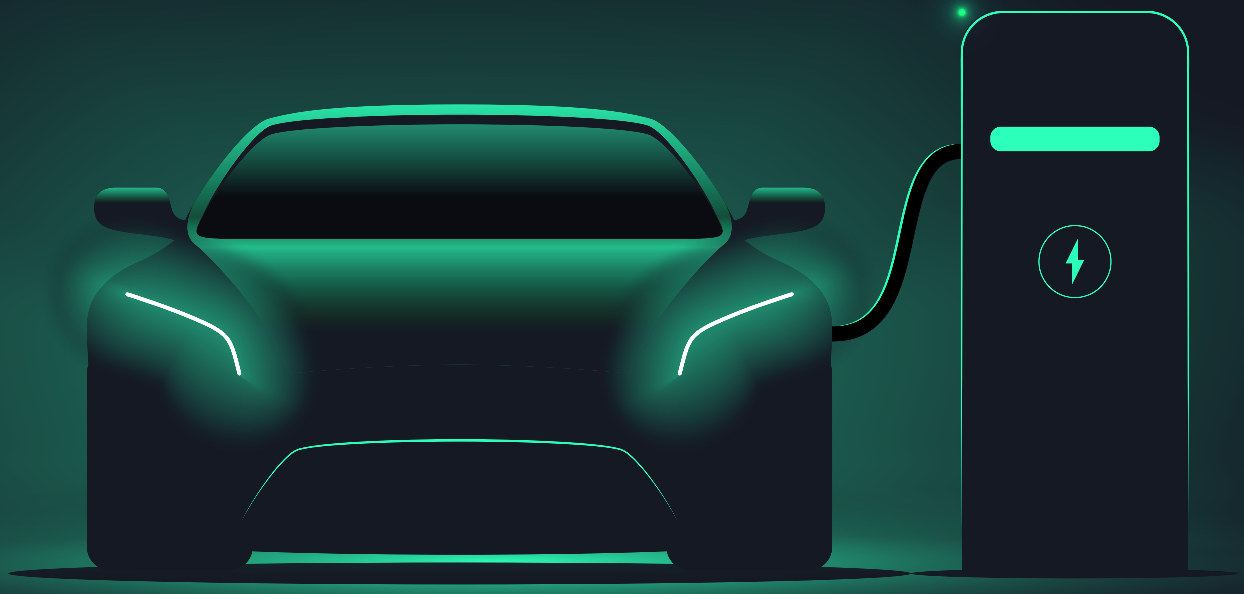

STOCKS AND FUNDS TO PLAY THE ELECTRIC VEHICLE REVOLUTION

PLUS

TECH STOCKS FIGHT BACK AFTER BIG EARNINGS SEASON

BOOM TIME FOR **'BEER, BANKS AND BRICKS'** IN THE UK

HOW **4.4% YIELDING DRAX** KICKED OUT COAL AND WENT GREEN


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Smithson is known for quality, so why the appetite for chicken and pizza?

It's just invested in Wingstop and already has stakes in two Domino's Pizza groups

Investment trust **Smithson (SSON)** has built a reputation for investing in quality companies and its performance has been good since launch in October 2018, up 65.8% versus 33.4% from the MSCI World SMID index benchmark to 31 March 2021. Investors may therefore wonder why it is backing chicken and pizza businesses.

These are highly competitive, commoditised parts of the fast-food industry with no barriers to entry and limited brand loyalty. One would normally associate a quality business as having loyal customers, operating in a sector with large barriers to entry and having a market niche.

Smithson owns stakes in two different Domino's Pizza master franchise owners and it recently took a position in Wingstop, a US business that sells chicken and chips.

In 2020, its holding in the UK-listed **Domino's Pizza (DOM)** was one of the top five detractors to performance for the investment trust, partially blamed on a weak showing from international interests which are now being exited.

At Smithson's latest annual shareholder meeting, assistant portfolio manager Will Morgan said about this company: 'In recent years it hasn't necessarily been run in the optimal way and it got to the stage where some large franchisees controlled too much of the network in our view. That led to some dispute with management.'

Morgan also said franchisee relationships were strained when Smithson first invested in Domino's Pizza Enterprises, yet this Australian-listed business has since made good progress. Smithson's patience has paid off, with the company being among the top five contributors to the trust's performance in 2020.

'The UK version of Domino's has now seen a big overhaul of directors and we believe the prospects for the company should be pretty strong from here as a result. It's about taking a fundamentally strong business and optimising what it delivers,' added Morgan.

Perhaps the key attraction to Smithson for the two Domino's companies and Wingstop is the fact they are all master franchise owners. Companies with franchise business models have often been good investments over the years. Many have been able to pay generous dividends as well as deliver capital growth for shareholders.

Franchise models can take various forms, but what connects them all is their 'capital light' characteristics. Each franchisee is expected to provide the capital investment and manage the operations in return for the legal right to use a brand or business process.

The main advantage of such an arrangement is that the master franchise owner can expand quickly and without the need to raise equity or bank debt to facilitate growth.

Wingstop beat expectations with its first quarter 2021 earnings (28 Apr) and announced plans to expand into Canada. During the period it opened 41 net new Wingstop restaurants, a record first quarter that translated to year-on-year unit growth of 11.7%.

Refinitiv scores Wingstop 96 out of 100 for earnings quality, based on components such as cash flow and operating efficiency.

While chicken and pizza may not initially seem like good investments, Smithson is clearly taking the view there is good money to be made if you pick the right franchise owners.

DISCLAIMER: The author owns shares in Smithson

By **Daniel Coatsworth** Editor

Tech stocks fight back after big earnings season

Surging sales are likely to remain post-pandemic for Apple and Amazon, but Facebook's revenue could slow

Tech stocks have been catching investors' attention again with Amazon, Apple and Facebook the latest US tech titans to report earnings that have been going through the roof.

The share prices of all three have risen markedly after their latest quarterly figures to the end of March, which round out a blowout quarter for the US tech titans after superb figures from Microsoft and Google-owner Alphabet.

Amazon smashed expectations with profit of $8.1 billion for the three months to the end of March, compared to $2.5 billion a year ago. Earnings per share came in at $15.79 compared to the $9.54 expected.

Fears business could slow for Amazon as lockdowns are eased have been quelled with the company expecting revenue between $110 billion and $116 billion in the quarter to the end of June, surpassing Wall Street's projection of $108.6 billion.

Apple also significantly beat expectations with quarterly revenue up 53.7% year-on-year to $89.58 billion, compared to $77.36 billion estimated. EPS came in at $1.40 compared to $0.99 expected.

The iPhone maker defied expectations across most metrics with its smartphone, iPad, Mac, services and other product sales all beating forecasts.

Concerns this is temporarily accelerated growth due to the pandemic have been tempered by a strong showing in China, which hasn't been in lockdown for months and where Apple reported almost 100% growth in sales.

Mac sales in particular, up 70% year-on-year at $9.1 billion compared to $6.86 billion expected, could continue to provide strong growth for Apple.

RETURN OF THE MAC

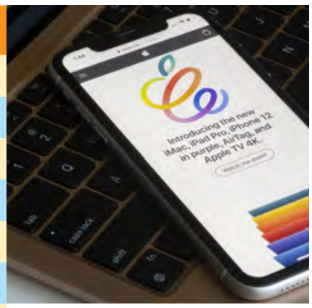
Chief executive Tim Cook told broadcaster *CNBC*: 'We're seeing strong first-time buyers on the Mac … it continues to run just south of 50%. In China it's even higher than that … it's more around two-thirds. And that speaks to people preferring to work on the Mac.'

Meanwhile Facebook beat on both earnings and revenue in its first quarter as it attributed its 48% year-on-year growth in revenue to $26.17 billion – ahead of $23.67 billion expected – to a big jump in advertising spend following a 30% increase in the average price per advertisement and a 12% rise in the number of advertisements shown. EPS came in at $3.30 compared to $2.37 forecast.

Unlike Amazon and Apple, Facebook's sales are almost entirely reliant on advertising. The time consumers have spent at home and online contributed to the revenue surge, though despite the ongoing shift to digital advertising it remains to be seen how much more growth Facebook can achieve in the coming months as it expects revenue to remain stable next quarter. [YF]

Earnings beat vs consensus for latest quarterly figures

	EPS	Consensus estimate	Share price YTD
Alphabet	$26.29	$15.82	33.7%
Facebook	$3.30	$2.37	18.1%
Microsoft	$1.95	$1.78	13.2%
Amazon	$15.79	$9.54	4%
Apple	$1.40	$0.99	-0.1%
Tesla	$0.93	$0.79	-3%
Netflix	$3.75	$2.97	-5.8%



Source: Refinitiv, SharePad

Warren Buffett dismisses push for greater ESG disclosure

The famous investor also gave a warning to the flood of new people investing in the stock market

Berkshire Hathaway's annual shareholder meeting on 1 May brought the two nonagenarians Warren Buffett and Charlie Munger (chairman/CEO and vice chairman respectively) back together onstage after Munger's absence last year. They were also joined by Ajit Jain and Greg Abel who run the insurance and non-insurance operating businesses respectively. Abel is expected to become the next CEO of Berkshire.

The most controversial part of the meeting was the board voting against two investor proposals calling for Berkshire to provide more disclosures on how it was tackling climate change and diversity.

The proposals won around a quarter of the vote signalling that a growing number of institutional investors including BlackRock, CalPEERS (California Public Employees' Retirement System) and Federated Hermes were becoming an active force in promoting adherence to environmental, social and governance issues.

It's not that Buffett disagreed the two issues were very important considerations, but he argued that the company was unusually decentralised, with its many subsidiaries having autonomy to run their own affairs. Its head office is staffed only by a dozen people.

He accused the institutions behind the climate proposal of not reading the annual report and fully appreciating Berkshire's actions on climate change.

Abel pointed out that the utility operations under Berkshire Energy had been decarbonising since 2004 and it was early to sign up to the Paris climate accord to reduce emissions.

It is one of the largest renewable energy companies in the US having spent billions of dollars on building the infrastructure required to support green energy.

Noting the large number of new investors who had entered the stock market over the last year, Buffett provided a cautionary tale of trying to pick the best stocks even in industries with fabulous growth prospects.

Buffett pointed out that in the early 1900s there were around 2,000 auto manufacturers, but by 2009 there were only three left and two of them went into bankruptcy.

On the theme of extraordinary things that can happen, Buffett noted that even the brilliant economist and Nobel prize winner Paul Samuelson failed to anticipate negative interest rates.

While Munger and Buffett conceded that the world economy seemed to be working just fine with negative rates and higher debt to GDP ratios they also cautioned that it could end in disaster.

Despite low interest rates Buffett said the US economy was 'running hot' with price rises sticking and consumers seemingly happy to pay more for goods.

When you hear Buffett say, 'this is one of the most interesting movies we have ever seen', you know investors are in for a few more surprises yet. [MG]

Boom time for 'beer, banks and bricks' in the UK

Domestic-facing UK stocks look attractive on a global basis according to BMO chief economist

Barclays (BARC) boss Jes Staley recently outlined his bank's prediction that the UK is about to enjoy its biggest economic boom since the aftermath of the Second World War as vaccines provide a route out of lockdown and pent-up demand, backed by cash saved in lockdown, is unleashed.

While this is leading to concern about inflation in the medium term, in the short term it may well see small and mid-cap domestic-facing stocks outperform the more overseas-focused FTSE 100 and other major global markets.

The FTSE 250 has already marked all-time highs in 2021 off the back of the UK's success with its vaccine rollout. The list of top performing mid cap stocks since the start of the year is dominated by names which are in line to benefit from a reopening of the economy, including Wagamama-owner **Restaurant Group (RTN)** and cinema operator **Cineworld (CINE)**.

Despite already enjoying a strong run, BMO chief economist Steven Bell still believes this part of the market looks attractive in relative terms.

'Beer, banks and bricks we think are three themes to put into a UK portfolio,' he says – implying a positive outlook for the financial sector, alongside pubs groups and the property market.

Noting that BMO was negative on the UK from the Brexit vote in 2016 before becoming positive in 2020, Bell observes that the UK economy has been 'quite impressive' in its resilience to the pandemic with much less damaging impact on employment and lower than expected bankruptcy levels.

'We like the UK fundamentals, it is still the favourite underweight position for international investors and so it should benefit as that unwinds,' Bell adds.

A more positive UK economic outlook is likely to see sterling outperform other major currencies, and this is typically bad news for the FTSE 100 as it hits the relative value of overseas earnings. Around 70% of its constituents' earnings are derived abroad. [TS]

Top-performing UK-listed mid caps in 2021

Company	YTD performance (%)
Tullow Oil	86.4
Restaurant Group	84.7
Gamesys	69.7
Hammerson	58.7
Investec	54.4
Ferrexpo	53.5
Mitie	50.7
Just Group	54.2
Cineworld	49.9
Morgan Sindall	49.0
Virgin Money	47.5

Source: Sharepad, 30 April 2021

As the table shows all three UK-focused investment trusts with a bias towards the mid cap end of the market trade at discounts to net asset value (NAV).

The top performer on a five-year view is **Mercantile (MRC)**, managed by Guy Anderson and Anthony Lynch at JPMorgan Asset Management, with a total return in share price terms of 90%.

Trust Discount to NAV

Company	YTD performance (%)
JPMorgan MidCap	-4.5%
Mercantile	-5.1%
Schroder UK Mid Cap	-5.4%

FTSE 350 stocks face Scottish independence risk

A poll north of the border could have implications for a potential referendum and spook markets

Across the UK voters go to the polls today (6 May) with investors' attention likely to be focused on voting for the Scottish parliament – with the SNP looking to secure the majority it can claim as a mandate for a new independence referendum.

Polling suggests the outcome is on a knife edge. The SNP could remain in power but having staked so much on getting a majority, the market is likely to sit up and take notice if it does.

Once seats won by the Green Party and, potentially, former SNP leader Alex Salmond's newly launched Alba Party are counted there could be more pro-independence MSPs in the chamber than not, regardless of whether the SNP itself gets to a majority.

The Conservatives at Westminster have suggested they would resist any calls for a new independence vote, but they may come under significant political pressure to revisit this position, particularly if the SNP secures its mandate.

The impact this might have on the UK stock market can be judged by looking back at the run-up to the 2014 independence referendum.

WHAT HAPPENED LAST TIME?

At the time, a potential break-up of the union, with a shock poll showing support for 'yes' causing jitters on the eve of the referendum, triggered a significant slump in the pound.

Arguably a split now would be even more disruptive thanks to Brexit. This is because Scotland hopes to be a member of the EU, raising the prospect of a hard border between Scotland and England.

The SNP might hold an unsanctioned vote or push for a referendum in 2021 so questions around the ownership of UK's natural resources, plus the administration of UK pensions and the NHS would likely be ones for the longer term.

Even if a poll was held and a 'yes' vote was secured, full independence would likely be some way off.

However, the uncertainty created by an SNP majority might well have an immediate impact on sterling as well as those companies with headquarters or significant business operations in Scotland.

Banking group **NatWest (NWG)** has already said it will relocate its base from Edinburgh to London in the event Scotland voted to be independent.

Utility companies might face the loss of state support for renewable energy projects in the event Scotland exits the UK, while defence contractors **BAE Systems (BA.)** and **Babcock (BAB)** both have operations on the Clyde which could be impacted by Scottish political turmoil. [TS]

FTSE 350 stocks facing Scottish independence risks

Company
Babcock
BAE Systems
Lloyds
Natwest
SSE
Standard Life Aberdeen

Source: Shares

Google parent Alphabet is a class investment right under your nose

New stock market listings are grabbing investors' attention but you should not overlook this proven value creator

A juggernaut in its field yet still growing fast, Google-parent **Alphabet (GOOG)** remains an outstanding investment opportunity with large technological moats and very attractive operating profit margins of 30%.

Investors have been offered some exciting prospects over the past year or so with those companies coming to the stock market grabbing a lot of attention. Yet sometimes investors are in danger of missing what is right in front of their nose, namely companies with a long track record of being a listed business and still delivering growth such as Alphabet.

Relative newcomers to the stock market like cloud computing analytics business Snowflake, delivery platform DoorDash, bitcoin broker Coinbase, online retail firm **THG (THG)** and others may have their own relative merits but few have the growth scale and profits power of Alphabet, which processes around 90% of all online searches in the US and owns the YouTube video platform.

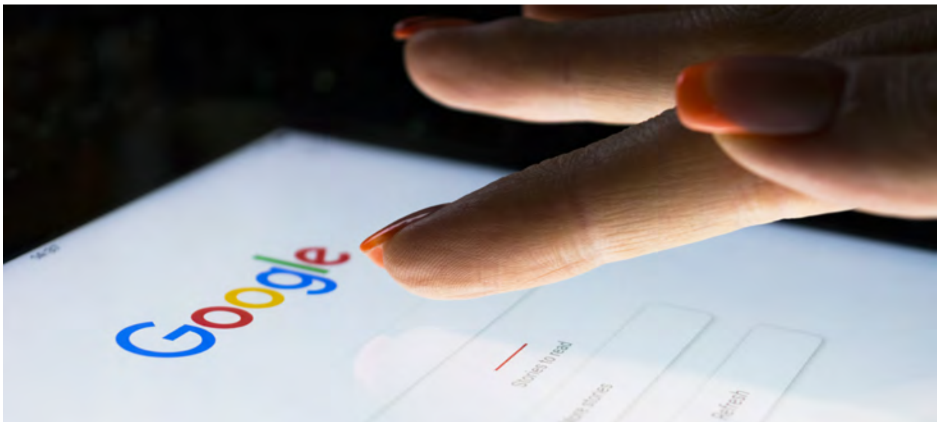
ALPHABET
BUY
(GOOG) $2,395.17

Market cap: **$1,587 billion**

MEGA TECH GROWTH

In the three months to 31 March 2021, Alphabet saw quarterly sales surge 34% year-on-year to $55.3 billion on bumper digital advertising spend by businesses looking to expand during the pandemic reopening. This was an acceleration on the previous quarter's 23% revenue growth and 7% ahead of expectations, according to analysts.

Google Services, the dominant part of the business, saw sales rise 34% to $51.2 billion, within which Google Search and other advertising revenues grew 30% to $31.9 billion. YouTube advertising revenues soared 49% to $6 billion, led by direct response marketing and a shift of TV advertising budgets towards YouTube as consumer brands look for better ways to connect with a more fragmented audience spending more time on their phones and less in front of the TV.



This is not new; TV has been losing advertising spend share for years. For example, since 2012 TV's advertising share has gone from 34% to about 25%, according to data from researcher Group M, and is expected to continue drifting lower out to 2024. It's the same story for radio, billboards, direct mail and other traditional forms of advertising.

The contrast with online advertising spend could hardly be more stark. Its share of the global advertising pot has increased from 16% in 2012 to about 50%, with projections of 60%-plus share by 2024. Online advertising is also widely believed to have held up far better during the pandemic, when marketing budgets were unsurprisingly cut across the board. This was evidenced when Alphabet revenue grew by nearly 13% during 2020 to $182.5 billion.

Operating profit in 2020 grew by more than 20% to $41.2 billion, metrics that have also accelerated in the first quarter this year. Operating profit growth was 106% in the three months to 31 March 2021 to $16.4 billion, beating expectations by 39% and lifting the profit margin from 19% to 30% year-on-year.

Some analysts may still wonder if Alphabet's income streams are diverse enough, so heavily dependent on advertising as it is, yet any predictions of an end to the glory days of online search and advertising look premature. That said, Alphabet has other growth levers to pull, Google Cloud the main one.

This part of the business is the world number three supplier

behind Amazon's AWS and Microsoft's Azure, providing the hosting infrastructure and software tools and applications that allow organisations to migrate to cheaper and more flexible cloud operations.

Google Cloud is currently loss-making but is growing fast, with first quarter revenues up 46% to $4 billion and operating losses almost halving to $974 million.

ANTITRUST CHALLENGES

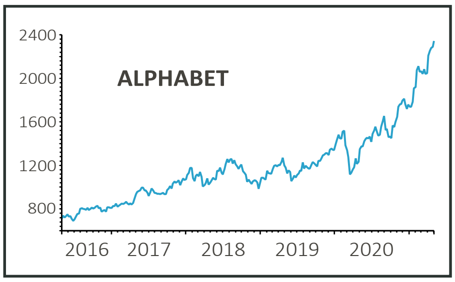
You don't grow to the size of a small nation's GDP without locking horns with regulators, and Alphabet does face antitrust challenges ahead.

Alphabet has been accused of hurting competitors by giving priority in its search results to its own products, like shopping advertisements or local business listings, while its complex ecosystem also makes it difficult for alternative operators.

The tech giant also owns the world's dominant smartphone operating system, Android, which runs close on nine out of every 10 phones worldwide, and critics complain that it uses this dominance to strong-arm partners to bundle Google apps, like its search engine and map service, into their offerings. Two years ago, the EU's executive arm fined Google a record $5 billion for unfair business practices around Android.

If the worst came to pass Alphabet could possibly restructure itself under regulatory pressure but it would likely fight tooth and nail and a legal battle could drag on for years. Most analysts don't see that happening, instead believing some form of deal would be struck that would suit all parties to some degree, albeit with possible financial penalties.

We can say with confidence that Alphabet remains a financially strong business with a $121 billion net cash position. It has the tech expertise, a talented workforce and the financial resources to back emerging developments and opportunities. On a next 12-months price to earnings multiple of 25.8, based on Refinitiv data, we firmly believe that Alphabet is an investment worth backing for the medium and long-term. [SF]



Jupiter Green: small caps are the best place to make money with the 'E' of ESG

A change in fund manager has shifted the focus from larger to smaller firms at this investment trust

Shares believes it is worth paying a moderate premium to access the compelling growth prospects of the **Jupiter Green Investment Trust (JGC)**, a nimble £57.5 million cap fund that invests globally in companies delivering solutions to climate change and other sustainability challenges.

Launched in 2006, the trust has lived in the shadow of larger open-ended sister fund **Jupiter Ecology (B4KLC26)**, but new lead fund manager Jon Wallace, who also manages the open-ended fund, has upped the emphasis on growth and the trust should attract more interest from ESG-minded investors if it fares well versus its benchmark, the MSCI World Small Cap Index.

The backdrop for Jupiter Green is favourable, as climate change is one of the globe's most pressing long-term challenges and governments are spending gargantuan amounts on green initiatives as the world seeks to 'build back better' from the pandemic.

JUPITER GREEN INVESTMENT TRUST

BUY

(JGC) 268.85p

Premium to NAV: 1.25%

Market cap: £57.5 million

This is positive for a portfolio with allocations to the US, where Joe Biden's election has brought the world's biggest economy back to the table when it comes to international efforts to address climate change, as well as the UK, Europe and Japan.

Investors are buying exposure to companies such as Vestas Wind Systems, offshore wind farms firm Orsted and energy and water metering systems specialist Itron.

Jupiter Green: sector allocation

Electronic & Electrical Equipment	18.1%
Chemicals	9.6%
Alternative Energy	9.3%
Electricity	8.1%
Waste & Disposal Services	7.8%
Food Producers	7.0%
Construction & Materials	7.0%
Industrial Engineering	6.3%
General Industrials	4.5%

Source: Jupiter Asset Management, 31 March 2021

SHIFTING THE FOCUS

The trust seeks growth across seven sustainability themes which have been accelerated by the pandemic: clean energy, energy efficiency, circular economy, mobility, sustainable agriculture, nutrition and

health, plus water and environmental services.

Having recently taken over as sole manager following the departure of Charlie Thomas from Jupiter, Wallace is shifting the focus towards the mid and small cap companies which he believes will profit from these multi-decade growth trends.

'Coming out of Covid and into the process of recovery, we're seeing a lot of opportunities for smaller companies that have something innovative where they are addressing sustainability issues with an environmental focus,' Wallace recently told *Shares*. 'We want companies addressing markets that haven't made much progress in terms of environmental sustainability. So, what we would call "difficult to tackle" sectors.

'It is in those areas that you are seeing innovation coming typically from small cap companies. The size of the trust means that we can access those companies quite readily.'

Larger 'established leaders', such as high-energy efficiency boilers business AO Smith for example, will remain a proportion of the portfolio at a reduced weighting than historically, but there is now a bias towards 'accelerators' and 'innovators' that should make Jupiter Green Trust more exciting for growth-oriented investors.

It should be noted that the increasing bias towards smaller, innovative companies provides the potential for higher capital growth, but it may also lower the level of income available for distribution to shareholders as dividends.

INNOVATORS AND ACCELERATORS

These higher growth 'innovator' and 'accelerator' stocks are younger companies in the environmental solutions space which have the potential to deliver high rates of return from disruptive new products and solutions to tackle the green challenge of our time.

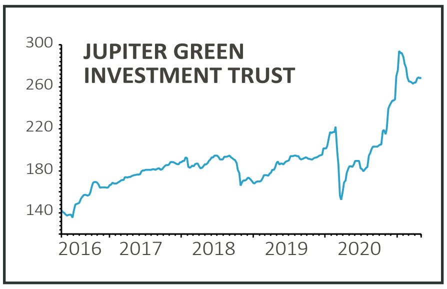
Often smaller in size than established leaders, the accelerators are companies which are gaining traction with proven and scalable products and services. They can have a medium-term growth trajectory which is greater than that of the overall market, given that they are expected to take market share.

One example is Tomra, the maker of reverse vending machines that collect bottles, cans and plastic from the public in return for credits and vouchers.

The innovators are smaller still. They have new and potentially disruptive products which have big potential but are yet to achieve a significant market share. Examples include fuel cell technology company **Ceres Power (CWR:AIM)**, and Hoffmann Green Cement, a French company which is producing low carbon cement which could have a big impact on the construction industry.

Another innovator holding is Renewcell, a Swedish company part owned by retail giant H&M and which dissolves fabrics and recycles them into new textiles. This is a potential game changer for the clothing industry and fast fashion.

Jupiter Green Investment Trust has return 96.7% over the past five years, slightly less than the 104.1% from its MSCI World Small Cap benchmark, according to data from FE Fundinfo. However, it has outperformed on a three-year basis at 49.1% versus 39.6% from the benchmark. [JC]



THE PANOPLY HOLDINGS
(TPX:AIM) 273P

Gain to date: 203%
Original entry point:
Buy at 90p, 6 August 2020

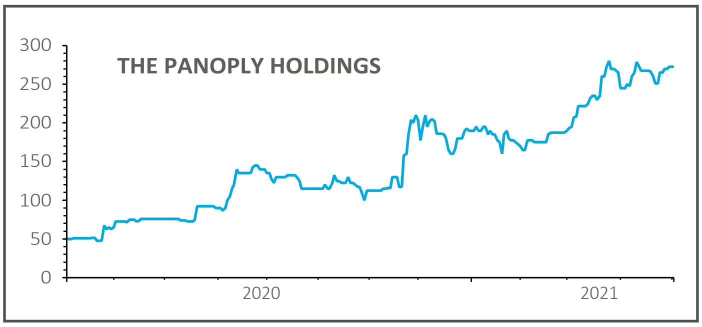
ANALYSTS AT LIBERUM recently called **The Panoply Holdings (TPX:AIM)** 'the best way to play public sector digitisation' and coming just days after another upbeat trading update, they have a point.

Back in August 2020 we said that the company had 'substantial promise to become an investment star right at the heart of this trend'. Since then business has boomed and the share price has soared.

Its most recent update (26 Mar) revealed that revenue and adjusted earnings before interest, tax, depreciation and amortisation would be 'not less than' £51 million and £6.9 million respectively for the year to 31 March 2021.

Stifel, one of the brokers that provides forecasts, had previously pencilled in £48.5 million and £6.6 million, but bear in mind that the broker had already upgraded its estimates as recently as early March, following the £26 million Keep It Simple acquisition.

'As one year ends positively, another starts positively,' Stifel said in its note to clients, flagging Panoply's £39 million workload backlog for the current year and a 'strong pipeline that supports further organic growth in full year 2022'.



SHARES SAYS:
Even after the stock's stunning run, we think there is more to come. Still a buy. [SF]

CONVATEC
(CTEC) 223.8P

TOP STOCKS FOR 2021

Gain to date: 9.3%
Original entry point:
Buy at 204.6p, 23 December 2020

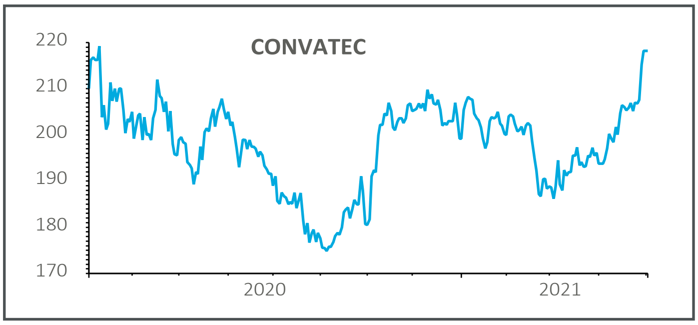
SHARES IN MEDICAL products firm **Convatec (CTEC)** are finally picking up, having been a laggard earlier this year thanks to a mix of sentiment shifting in favour of value stocks and concerns around pandemic-related disruption to the business.

Its latest update (29 Apr) seems to have won back the market's attention. The company reported an 8.7% rise in revenue in the first quarter to $500 million, led by growth in its advanced wound care and infusion care business.

Advanced wound care revenue was up 8.8% on a reported basis, while ostomy care, its second largest business was up by 6.7%. Infusion care revenue increased by 13.9%, and continence and critical care revenue was up by 7.4%.

The company has maintained its full year outlook, citing ongoing macro uncertainties. For 2021, organic revenue growth is expected to be between 3% and 4.5%.

Numis analyst Paul Cudden says the numbers 'provide further evidence that the turnaround has stuck', adding that guidance looks 'very conservative'.



SHARES SAYS:
Convatec should benefit through the remainder of 2021 as elective surgeries delayed by Covid proceed. As a result, there's a good chance of earnings upgrades. Buy. [TS]

INSPECS

(SPEC:AIM) 404P

Gain to date: 49%

Original entry point:

Buy at 271p, 23 December 2020

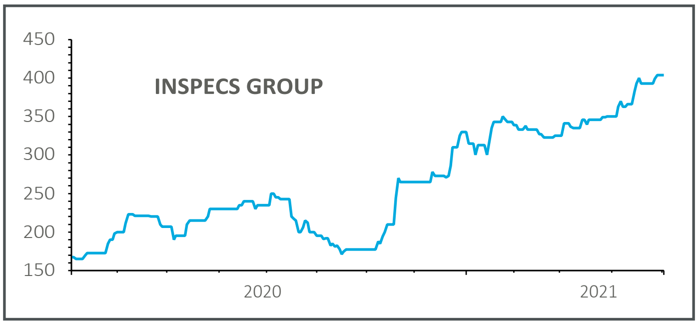
SHARES IN EYEWEAR frames designer-to-optically advanced spectacle lenses maker **Inspecs (SPEC:AIM)** are up the best part of 50% since we originally highlighted the group's global growth potential and the scale benefits and synergies to come from the acquisition of eyewear supplier Eschenbach.

The Bath-based group's reassuring first-quarter trading update (29 April) flagged a strong start to the year despite nationwide lockdowns in the UK, Germany and France and a variety of state lockdowns in the US.

The enlarged group delivered revenues of $67 million, which Peel Hunt estimates marked growth of 5% and leaves Inspecs on track to meet the broker's $241 million sales forecast for 2021.

'Whilst this performance marks a positive start to the year, the board remains cautious on 2021 as Covid-19 remains prevalent across the world,' said Inspecs, also assuring the integration of Eschenbach is 'progressing to plan and the benefits of the enlarged group working together are starting to be realised, with a number of joint projects underway'.

Peel Hunt estimates that pre-tax profit will rise from $3.6 million to $19.5 million in 2021, ahead of $24.9 million pre-tax profit and $256.5 million in sales for 2022.



SHARES SAYS:

Inspecs is trading robustly and will benefit from market recovery and pent-up demand. Keep buying. [JC]

YAMANA GOLD

(AUY) 344P

Loss to date: 25.2%

Original entry point:

Buy at 460p, 22 October 2020

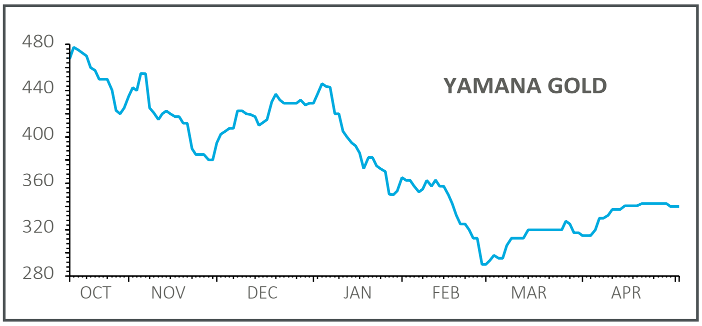
THE FIRST THREE months of 2021 have been strong in operational terms for gold miner **Yamana Gold (AUY)**, but that hasn't been reflected in its share price as the reopening of society leads investors to ditch the safe haven of gold in favour of riskier assets.

Miners are leveraged plays on the commodities they produce and this works both upwards and downwards, with the 25% fall in the share price since we said to buy – shortly before the first Covid vaccines received authorisation – exceding a 6.5% drop in the gold price in that timeframe.

Importantly the firm reported decent first quarter growth with net earnings of $54.7 million compared to $45 million a year earlier, with net free cash flow of $123.5 million, up from $91.1 million in the same quarter a year ago. Net debt also decreased by $26.6 million in the period.

The assets analysts are most focused on, its Canadian Malartic mine and its Jacobina mine in Brazil, both had standout quarters with production ahead of expectations, along with its Minera Florida mine.

Yamana Gold continues to increase production and free cash flow, and bring down its debt. As such, we remain positive on the stock.

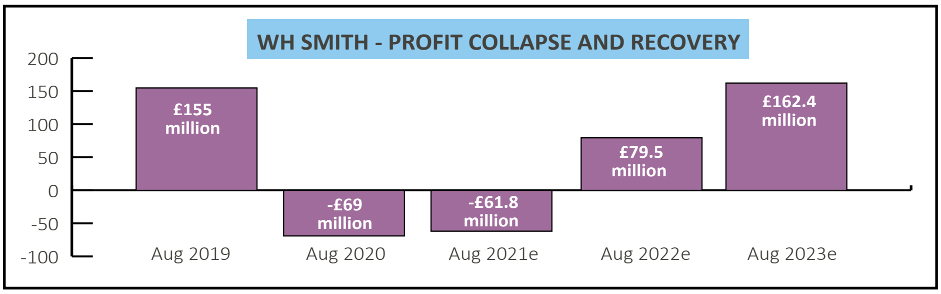


SHARES SAYS:

Focus on the long-term and use the dip as a buying opportunity. [YF]

Big turning point for WH Smith as it reignites growth plan

After a period of unprecedented turbulence the company is turning on the investment taps again



Source: WH Smith, Peel Hunt estimates

Among the consumer-facing businesses affected by the pandemic, few have been as challenged as **WH Smith (SMWH)**.

For years, the bastion of the UK high street had pursued a successful strategy built on one thing: travel. By securing sites in train stations and airports across the globe, WH Smith has been able to target a captive audience, allowing it to charge top dollar for consumer electronics, newspapers and magazines, snacks and confectionery.

The travel arm was clearly the growth arm for the business while the high street operation was effectively run for cash with a focus on efficiency and keeping costs low.

Covid-19 restrictions meant that the captive audience which WH Smith relied upon virtually disappeared overnight as transport hubs became ghostly versions of their former selves. Sites in hospitals remained the one area of resilience in this side of the business.

Importantly, alongside a predictably dire set of first half results (28 Apr) WH Smith announced new funding to help get it through the next phase of the pandemic and to support the rollout of 100 new travel stores over the next three years.

A new £250 million lending facility and £327 million bond offer is significant with Peel Hunt analysts Jonathan Pritchard and John Stevenson noting it provides the liquidity required to expand, even if it will dilute earnings in the short-term as these bonds covert into shares.

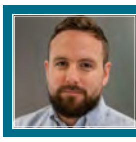
The pace of recovery on the travel side is hard to predict with any certainty, and a return to pre-Covid levels may be a long way off, but there are at least a couple of factors in WH Smith's favour.

One is that it is well used to battening down the hatches and keeping a tight rein on cash from years of managing a high street operation in structural decline. Peel Hunt notes cash burn only totalled £7 million a month in the latest lockdown.

The other is the weakness of rivals and the decision of some companies to exit the travel retail space including **Dixons Carphone (DC.)**. This could see WH Smith gain a greater share even if the size of the overall market is shrinking.

Near-term the company looks set to remain loss-making but if we look ahead to Peel Hunt's earnings forecast for the August 2023 financial year then the shares trade at a price-to-earnings ratio of 18.2 at the current price of £18.17.

Added to the mix, the recent stock market listing of **Moonpig (MOON)** shines a light on WH Smith's ownership of rival online greetings card retailer Funky Pigeon which Peel Hunt values at £300 million.



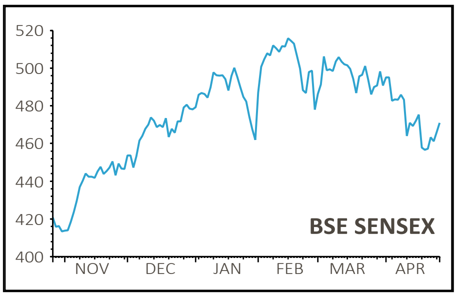
By **Tom Sieber**
Deputy Editor

Indian stocks push ahead on recovery hopes despite Covid crisis

Even if the long-term picture is positive investors may be underestimating the impact of the latest wave of the pandemic

A fresh wave of Covid-19 is having a devastating impact on India, with the country's health system overwhelmed amid the worst second wave seen anywhere in the world during the pandemic. Despite this tragic and apparently worsening situation Indian stocks have recently resumed an upward path after a shaky month or so.

One of India's major stock market indices is the BSE Sensex which has increased by 5% in value over the five days to 28 April and is up 52% over the past 12 months.



Investors are forward looking and while the country currently faces a dire situation there is optimism about the earnings outlook for Indian companies in 2022.

This optimism has been founded on a strong company reporting season for the first quarter of 2021. While it is understandable that investors are looking beyond the current awful backdrop there is a chance the negative impact on the economy is being underestimated, particularly given the widespread suspicion that the true number of Covid cases and level of mortality is being under-reported.

Most Indian investment trusts trade at a discount

Trust	Premium discount/ to NAV (%)
Ashoka India Equity	1.3
Aberdeen New India	-12.8
JPMorgan Indian	-13.9
India Capital Growth	-15.9

Source: AIC, data taken 23 April 2021

DOWNSIDE RISKS

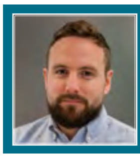
Ratings agency Standard & Poor's has warned of downside risks to the economy and possible business disruption linked to the resurgence of the virus. S&P's domestic counterpart Brickwork Ratings has already revised down its forecast growth in India's 2022 GDP from 11% to 9%.

There is also some potential for the fallout from the crisis to affect what has been a fairly stable political backdrop going back to the election of incumbent prime minister Narendra Modi in 2014.

Longer term India does enjoy considerable drivers for economic growth. Chief among them is demographics. According to the CIA's World Factbook the median age in the country is just 28.7 years. For comparison the equivalent figure for the UK is 40.6 years.

Ageing populations in the West are likely to constrain growth as the working age population shrinks and must support a large elderly cohort. India faces no such problem, and its workforce should grow rapidly.

There are several London-listed investment trusts with an Indian focus and all but one of them trade at significant discounts to net asset value. The exception is **Ashoka India Equity (AIE)** which is at a modest premium to NAV having outperformed its rival trusts since its launch in July 2018.



By **Tom Sieber**
Deputy Editor

RIVER AND MERCANTILE

POSITIONING FOR A LONG-AWAITED RECOVERY

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

OVER THE LAST few weeks, we have explained our view that the UK and, more specifically, value and recovery stocks offer excellent investment opportunities today. We are moving into a period of recovery underpinned by interest rate policy, money supply growth, fiscal spending and green investment, along with consumer spending, corporate spending and bank lending. To conclude this short series of articles, we give a brief overview of how in the **ES R&M UK Recovery Fund**, we are positioning our portfolio to take advantage of these market forces.

Overall, unsurprisingly we have strong tilts in the portfolio towards value, with overweights in the traditional type of value stocks which will likely benefit from reflation, such as banks, financials and energy. Also, we are heavily invested in recovery stocks, which we believe are six months into what would normally be a 3 year positive cycle of profits recovering to pre-recession levels.

At a more granular level, we wanted to give you a little more detail on just one of the many sectors we are investing in and we've chosen one where readers may be familiar with some of the investments.

The consumer discretionary sector is the part of the stock market that is mainly driven by consumer demand for goods that are perhaps life-enhancing rather than life sustaining, so for example, hospitality, luxury goods or automobiles. To a great degree prior to the pandemic, this sector suffered from later-cycle, relatively muted demand dynamics and often too much competition, so that despite a couple of periods of strong performance since the November vaccine news, in aggregate it remains well below where it was at the beginning of 2020. Two factors should bring about better fortunes: first, strongly recovering consumer demand after a long period of enforced savings, and second, decreased levels of supply, as sadly, many (particularly smaller) competitors have fallen away. We have made some purchases here of names including Whitbread and Restaurant Group.

We hope this short series of articles has given you a flavour of how we allocate investors' money to produce strong returns. To re-visit previous articles, please see below:

UK poised for post brexit and covid economic growth

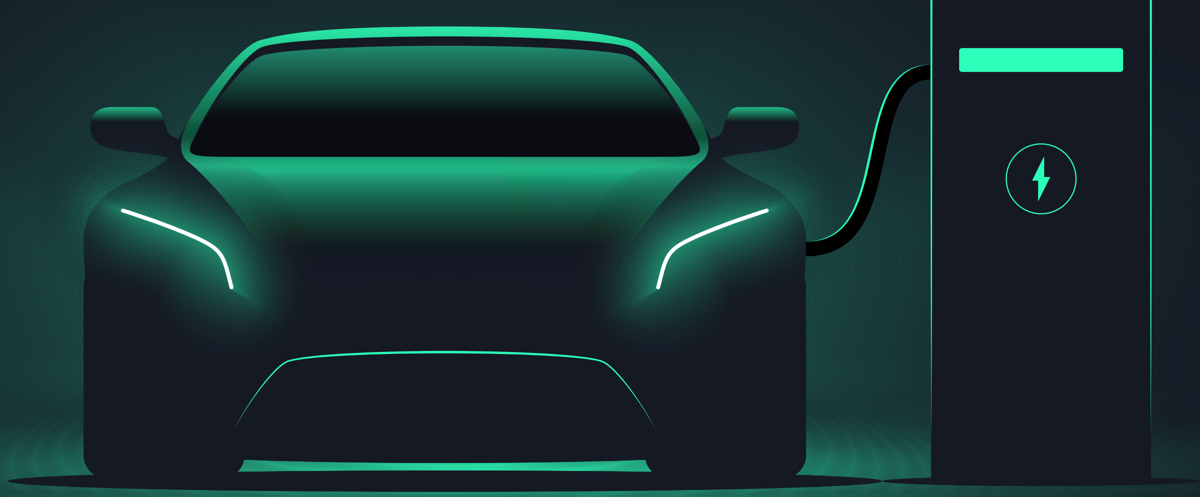
Time to invest in Value

What is reflation?

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.

FULL SPEED AHEAD

STOCKS AND FUNDS TO PLAY THE ELECTRIC VEHICLE REVOLUTION



By **Yoosof Farah** Reporter

Very little in the investment world has captured the imagination quite like the exponential growth potential of electric vehicles.

From car makers and battery firms to chemicals companies and miners, and even energy storage firms, seemingly everyone in the financial world is trying to find a way to make some serious profit as we all start to bin our petrol and diesel cars and buy electric ones that we charge at home in the evening.

The growth potential is clearly there. From now until 2030, Deloitte predicts the electric car market will grow at an annual compound growth rate of 29%, meaning that in 10 years' time almost one in every three new car sales will be electric.

There's also a school of thought – one that has excited many investors – that all these projections could turn out to be a massive underestimate.

This theory is backed by the need of all developed nations to meet tough carbon targets, the growing awareness among us all that we need to do more to protect our planet, and the rapidly falling costs of EVs (as well as sleek new designs and longer battery lives to reduce range anxiety). These factors are making them ever more attractive to consumers, particularly as the big carmakers advertise their new EVs with more advertising campaigns.

In this article, we lay out where investors can find the opportunities to profit from this promised electric vehicle revolution and suggest five stocks and funds to buy.

GROWTH SET TO ACCELERATE

First of all, to be clear EVs haven't 'arrived' yet. They only accounted for around 3.2% of global car sales in 2020. But this is a figure that is set to grow substantially, possibly exponentially, in the coming decade, largely due to falling EV battery costs.

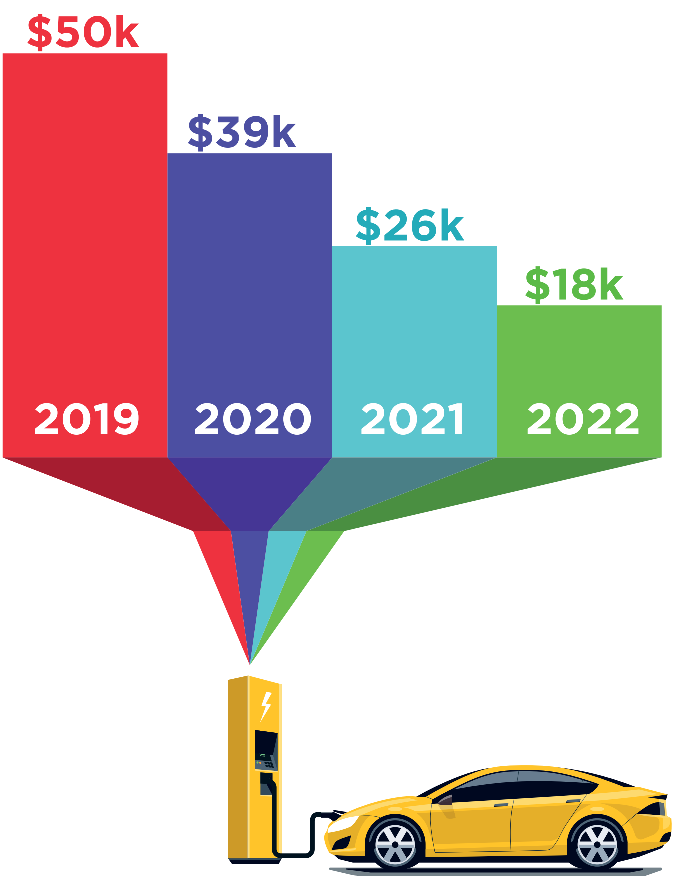
There are various forecasts used in this article, but two examples of the past show how hard it can be to accurately predict trends when demand growth turned out to be exponential compared to what was projected.

In the 1980s, American telecoms giant AT&T asked consultant McKinsey to predict how many mobile phone users there would be by 2000. Noting all the problems with portable handheld phones at the time – too heavy, batteries that kept running out, patchy coverage and exorbitant costs per minute – they confidently predicted there would be 900,000 mobile phone users by the turn of millennium. As it turned out, there were 109 million.

That same year, when there was talk of a way to harvest energy from the sun, i.e. solar power. The International Energy Association tempered the excitement of solar enthusiasts by asserting that by 2020 there would be just 18GW of electricity – enough to power around 5.4 million homes – generated by solar power in a grand total of 20 years, again noting the costs and limits of the technology at the time.

In fact, 142GW of solar capacity was added just last year alone, enough for 42.6 million homes.

DECLINING COST OF EVS



Source: Ark Investment Management, Big Ideas 2021

UNKNOWN UNKNOWNS

These examples show that while we can make predictions on the future based on what we know today, as well as 'known unknowns', there are still many 'unknown unknowns' (a global pandemic, for example) which limit the degree to which we can accurately predict the future.

But in the here and now for investors looking to take advantage of the opportunity EVs provide, however big it may turn out to be, there are many questions and aspects to consider when assessing the opportunity.

Do you buy shares in car manufacturers who are transitioning to EVs, or are companies making the components better investment opportunities?

Another big question regards the carmakers themselves – should you buy Tesla, or another manufacturer such as Volkswagen for example?

While Tesla would seem the obvious beneficiary from a rapid rise in the use of electric vehicles, in March Volkswagen unveiled grand plans for an EV push.

Compared to the other incumbent carmakers, VW is arguably the most advanced with its EV plans and though its lags behind the joint venture of Renault, Nissan and Mitsubishi in terms of EV sales at the moment given the popularity of the Nissan Leaf and Renault Zoe models, the amount it plans to invest in EVs and the number of electric models it plans to produce far outweigh its peers.

The Renault Zoe is Europe's biggest selling electric car.
Source: Association auxiliaire de l'automobile.

'VOLTS'WAGEN A THREAT TO TESLA

One investor that has plumped for Volkswagen is **Polar Capital Technology (PCT)** manager Ben Rogoff, who added the German giant to get more EV exposure – 'not something even we envisaged a year ago,' he says.

Rogoff views VW as a 'key potential threat' to Tesla due to its innovations around electric

vehicles, batteries and due to an 'R&D budget that dwarfs Tesla's', as well as most other carmakers.

In his monthly fund commentary for March Rogoff says: 'What changed for us is that VW has materially accelerated its push into EV, announcing its intention to invest $86 billion over the next five years (it was already one of the most credible competitors with the launch of the ID.3).'

According to Credit Suisse, VW has already comfortably surpassed Tesla in Europe with 24% of the EV market in 2020, compared to 13% the previous year while Tesla's market share has fallen to 13% from 29%.

Now, VW and various partners are investing more aggressively in software and batteries to drive down the cost and improve efficiency, with six plants expected in Europe alone.

Rogoff adds that VW is 'coming from behind' but is currently 'outspending Tesla almost 10 to one on R&D', though says a large portion of this is not currently spent on EV and the gap is narrower when capex is considered.

He says: 'This is not so much a negative call on Tesla, which remains the clear leader in EV today (albeit a lot is clearly priced in with a market cap of $645 billion); rather, we feel that if VW succeeds and ends up being a substantially bigger player than Tesla, there is substantial potential for a re-rating of the business over time (market cap $165 billion).'

Despite the potential of carmakers like VW, there's also a view that the component makers for electric vehicles could in fact be better investment opportunities than the carmakers themselves.

PICKS AND SHOVELS

Zehrid Osmani, head of global long-term unconstrained equities at fund manager Martin Currie, thinks the 'attractive returns' from EVs won't come from the carmakers themselves, but rather 'mission critical' companies further up the value chain that have high barriers to entry, strong pricing power, attractive return on invested capital and 'good upside potential'.

He explains: 'In the 1840s gold rush, it was the sellers of picks and shovels, not the miners that made the best returns. Similarly, for investors seeking the best returns from this monumental shift to EV, we think most OEMs could be no more than an unnecessary distraction, and at worst could be at risk of sucking in vast amounts of capital that will not generate the required returns to cover their cost of capital.

'The real value is more likely to be found further up the value chain, in niche sub-segments where competitive pressures are lesser, barriers to entry are higher, and therefore pricing power is stronger, leading to higher return profiles.'

Such a scenario has already played out in the past year in the renewable energy space, where the solar panel and wind turbine makers rather than the operators saw their share prices soar, particularly after Joe Biden was elected US President and vowed to spend trillions on renewable energy.

The Invesco Solar ETF in the US for example become a five-bagger in less than a year, bouncing back from its March 2020 lows as investors looked to profit from the panel and battery makers that made up the ETF.

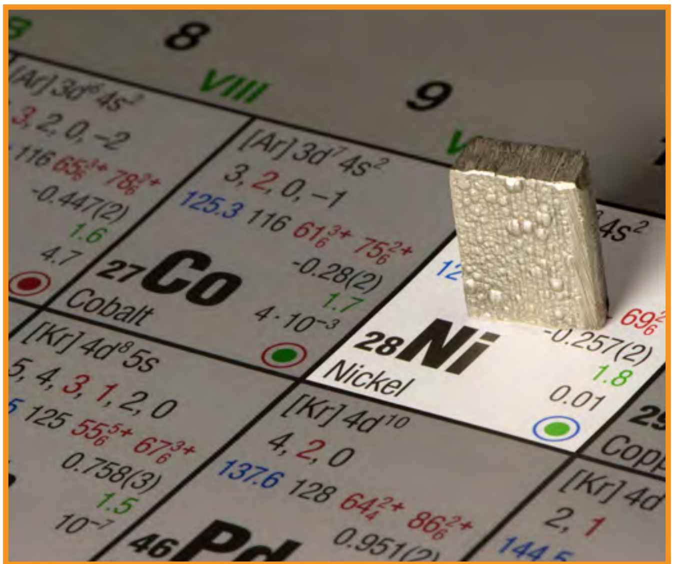
Osmani cites as examples of component makers big tech firms like L&G, Samsung and Panasonic, which have the battery technology and knowhow to profit most from the growth

Battery assembly for electric vehicles at Volvo Cars' plant in Ghent, Belgium.

in EV batteries in his view. He says they, along with Chinese firm CATL, are forming an 'oligopolistic structure'.

PEDAL TO THE METAL

The other main aspect to consider with electric vehicles is the metals which go into making them and their batteries.



Expected demand growth increase from 2019 to 2030 in the EV industry

Metal	Expected increase
Nickel	14x
Aluminium	14x
Phosphorus	13x
Iron	13x
Copper	10x
Graphite	10x
Lithium	9x
Cobalt	3x
Manganese	3x

Source: BloombergNEF

At the moment, the main metals which seem irreplaceable are copper and lithium. Copper as it is a current conductor for the electricity, and lithium as the main component because of its lightness and durability.

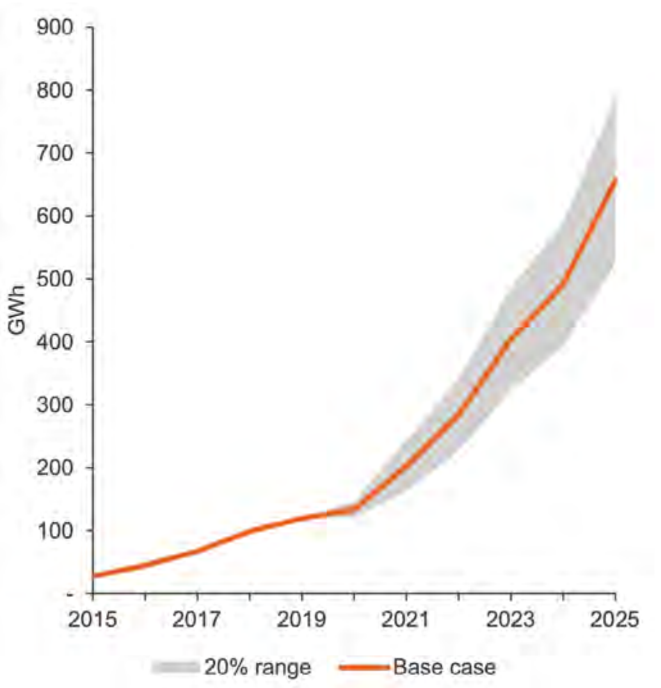
Cobalt was considered key to manufacturing EVs, but the view on this has advanced as technology has changed, highlighting the importance not to get swept up in the hype that can accompany certain commodities.

Adam Davidson, who runs mining royalty company **Trident Royalties (TRR:AIM)**, is keen on lithium but steers clear of metals in EV batteries that can potentially be designed out because they're too expensive, such as cobalt.

He says: 'We don't pretend to know where this is all going to go, but we're confident on lithium. There's been no material push to remove lithium [from EV batteries], but cobalt we're more nervous about. When the cobalt price spiked there was a move to design out cobalt, and in the next generation of EVs the amount used has been cut in half. In solid state batteries they've managed to completely remove cobalt.'

Another important metal highlighted by Davidson, and one which has been proven as key for EVs is nickel, so much so that Tesla founder and chief executive Elon Musk last year told Vale, the world's largest nickel miner, to 'give us all the nickel you have'.

EV battery demand



Source: Savannah Resources Corporate Presentation April 2021

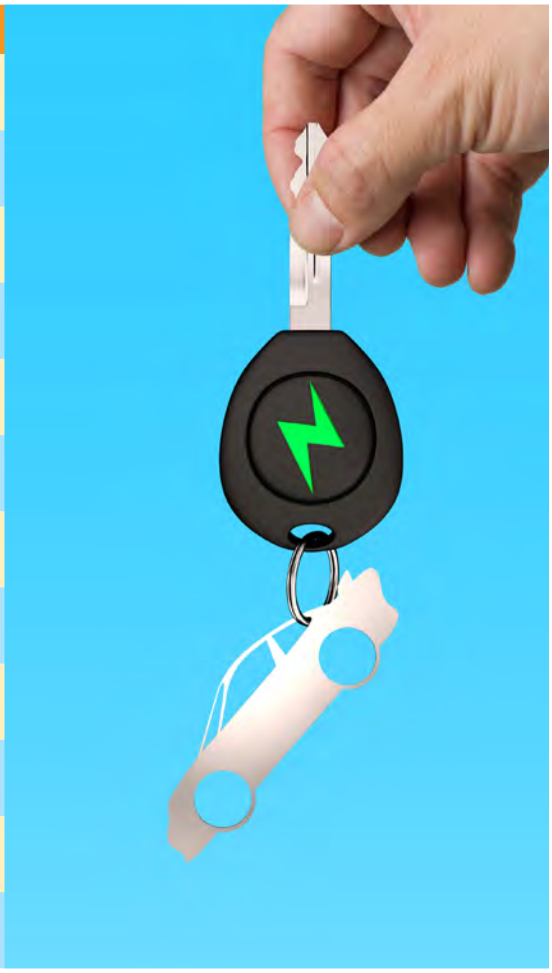
Many industry watchers have long shared the view that nickel prices should be significantly higher in the medium term, and according to Shore Capital 'the billion-dollar question being exactly how much higher'.

TWO-SPEED MARKET

Shore Capital has long been of the belief that electric vehicle battery demand will result in the nickel market diverging into a two-speed one,

Car manufacturers by market cap

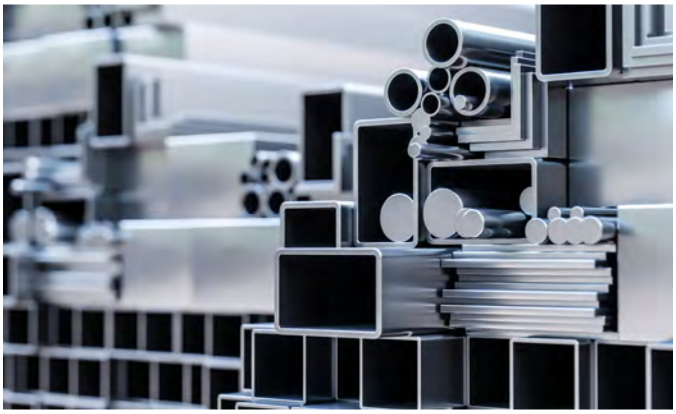
Manufacturer	Market cap
Tesla	$667 billion
Toyota	$211.7 billion
Volkswagen	$126.7 billion
General Motors	$84.4 billion
Daimler	$79.3 billion
BYD	$68.4 billion
NIO	$67.5 billion
BMW	$55.7 billion
Hyundai	$49.6 billion
Honda	$46 billion
Stellantis (Peugeot)	$44.2 billion
Ferrari	$34.7 billion



Source: Google Finance, data taken 29 April 2021

with premiums for 'battery nickel'.

That said, it adds steelmaking nickel prices should also benefit, as it expects undersupply to stainless steel manufacturers as a result of Class I nickel (which accounts for just under half of overall nickel production) being diverted to the battery sector. The broker's expectation is that average nickel prices will trend towards $25,000 per tonne (excluding any battery premiums) by the mid-2020s. It currently trades at $17,265 per tonne.



EV STOCKS TO BUY

BUY

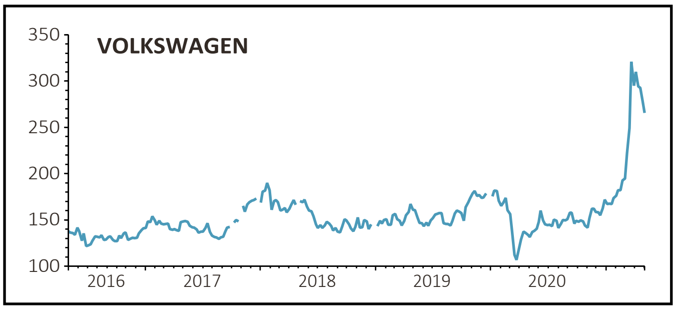
THE CAR MANUFACTURER

VOLKSWAGEN €219.30

BUY

In August 2020, we flagged Volkswagen as a value/recovery story rather than a growth story, and the share price has since gone up by 62%.

Following its Tesla-like 'Power Day' where it unveiled grand plans to push into the EV market, we now think VW has a lot of growth ahead of it.



The firm aims to generate close to half of its sales from electric vehicles within 10 years, and on top of the billions it has already spent developing the e-Golf, e-Up and the yet-to-be-released ID.3 full electric car, it is spending €60 billion over the next four years on 75 new models using electric and hybrid technologies, as well as spending on 'digitising' vehicles, betting on its scale as the world's second-largest carmaker as well as its reputation for quality and reliability.

Given the disparity in valuation compared to Tesla, the stock could see a re-rating as it delivers on its EV plans.

In VW's favour is that it is also a play on the rising Chinese middle class, as it manufactures vehicles in the country both under its own brand and through joint ventures.

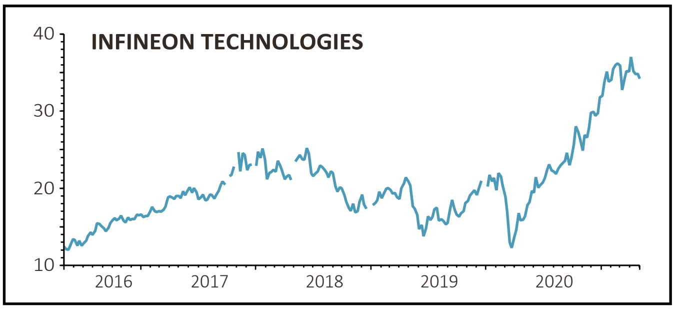
BUY

THE COMPONENTS PLAY

INFINEON €34.08

BUY

Ask a fund manager what EV stock they would pick apart from Tesla and the chances are they would say Infineon.



The German giant is a top 10 holding in many European, tech and green-focused funds and for good reason given its products – semiconductors – have been hailed as the 'building blocks of modern society'.

The firm makes power semiconductors with four broad uses – automotive, industrial, consumer and security – and is a notable beneficiary of the transition towards EV, hybrid and self-driving cars, given their increased use of semiconductors.

Over 40% of Infineon's sales come from the auto industry, and the company estimates that on average there's $834 worth of semiconductors in each EV, versus $434 per carbon-powered vehicle. If we get fully self-driving cars, the company thinks a fully autonomous vehicle could require as much as $1,250-worth of semiconductor material.

The world's top automotive semiconductor maker with a 13% market share, if anyone's going to benefit from the rise in EVs it will be Infineon, which is why the firm is so coveted.

Admittedly the shares aren't cheap on a 2022 price-to-earnings ratio of 33, but among other things this only takes into account the current estimates for the growth in EVs, and could turn out to be much fairer value if the growth rate for EVs turns out to be larger than expected.

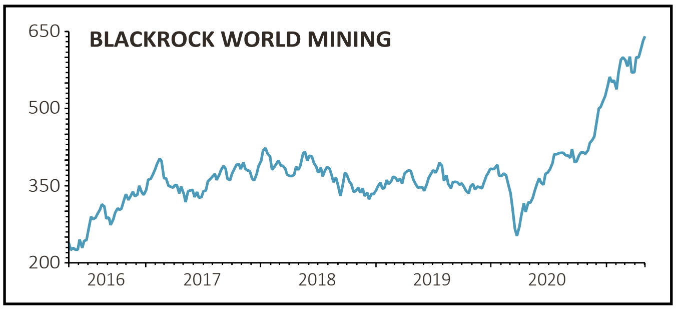
EV FUNDS TO BUY

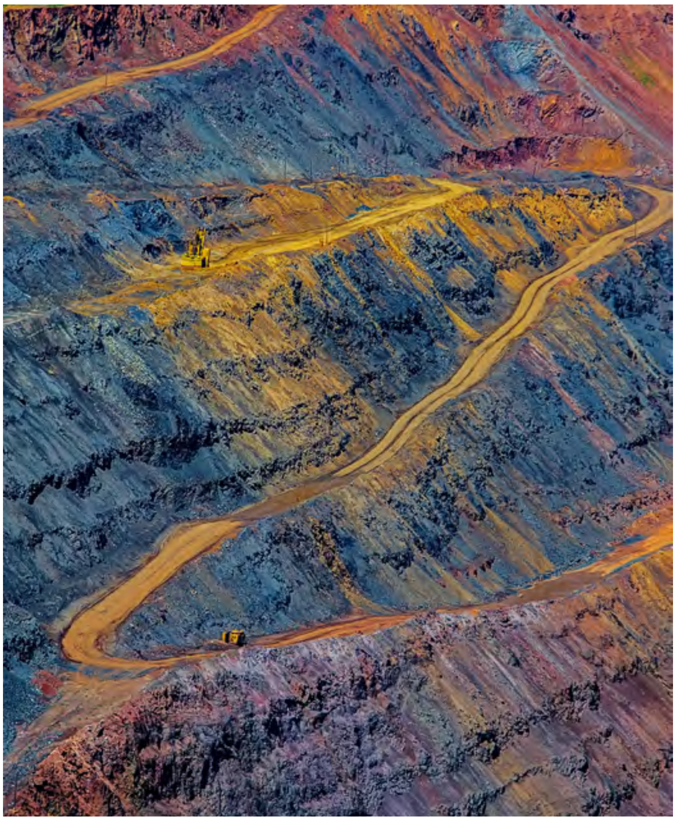
BUY

BLACKROCK WORLD MINING TRUST (BRWM) 639.1p

BUY

A range of metals are expected to be in demand as more electric vehicles and their batteries are manufactured, chief among them the likes of nickel, aluminum, iron, copper and manganese to varying extents.





The best way to get exposure to what could be significantly rising metal prices is through the miners that dig the metals out of the ground, rather than for example an ETF which tracks the commodities' price, given that miners are leveraged plays on the commodities they produce.

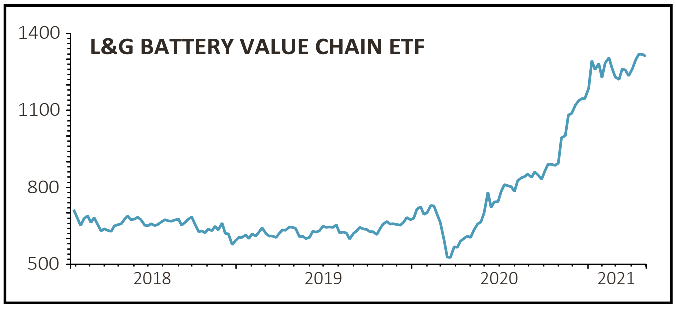
Not all London-listed miners have exposure to all areas that could benefit from the growth in electric vehicles, so while stocks like **Anglo American (AAL)** and **BHP (BHP)** are well-positioned to benefit from the growth in EVs, holding a basket of such stocks which also includes overseas giants like Vale and Freeport could be the better option to capture more of the upside.

That's where **BlackRock World Mining Trust (BRWM)** comes in. It holds the aforementioned miners and others, thereby providing diversified, leveraged exposure to all the commodities expected to do well in the coming years as a result of the growth in EVs.

L&G BATTERY VALUE CHAIN ETF (BATG) £13.20

BUY

Designed to track stocks that provide electro-chemical energy storage technologies, and mining companies that produce metals used to manufacture batteries, **L&G Battery Value-Chain (BATG)** is arguably one of the best ways to get diversified exposure to the rise of EV batteries.



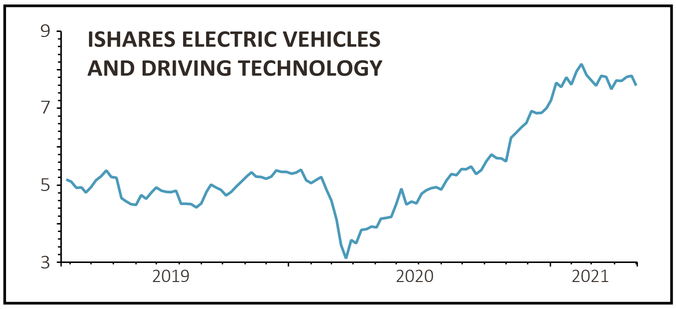
The index it tracks uses a screening approach that picks battery providers mapped according to their technology type (lead-based, lithium-based, nickel-based and sodium-based), as well as lithium miners that currently produce the metal. Lithium is the one metal that's deemed too critical to really be designed out of EV batteries by engineers.

The ETF has already gone up a lot, it must be said, with a 75% gain in 2020 and another 12.6% gain year-to-date. Investors shouldn't expect such outsized returns every year, but the scope for strong future growth is still certainly there and at a total expense ratio of 0.49% a year, the ETF provides good value access to a sector that's only really just getting started.

ISHARES ELECTRIC VEHICLES AND DRIVING TECHNOLOGY (ECAR) $7.78

BUY

For the most direct exposure to EVs, **iShares Electric Vehicles & Driving Technology ETF (ECAR)** does exactly what it says on the tin.



Containing the likes of Tesla, Kia, General Motors and Ford, the ETF provides investors with exposure to all the carmakers either transitioning to EVs or already selling EVs, and also contains stocks involved in the technology behind the scenes like South Korean tech giant Samsung and Infineon.

Given it contains a number of tech and growth names, as well as previously beaten down carmakers which have jumped thanks to the value rally, the ETF looks like it could provide steady, rather than stellar, returns over time with its mix of value and growth stocks as the world shifts to EVs, meaning it perhaps might not capture all of the upside, but could well provide a layer of downside protection for a more cautious investor who still wants exposure to the EV theme. It is also decent value with a 0.4% annual charge.

There is more to come from Japan despite a big rally

Fund managers highlight the trends which are supporting country's equity market

Japan's Nikkei 225 stock market index achieved a huge landmark in early 2021 as it returned to levels not seen in three decades.

Japanese stocks have joined the global market recovery rally, rising 76% from March 2020's 16,552.83 point Covid-inflicted trough to trade at 29,053.97.

This move has been supported by fiscal stimulus and a huge influx of capital into the market from Japan's central bank.

WHY INVEST IN JAPAN?

Despite its barnstorming equity market comeback, Japan remains overlooked by many UK investors yet it is blessed with a deep stock market that is home to many best-in-class innovative companies growing domestically and overseas.

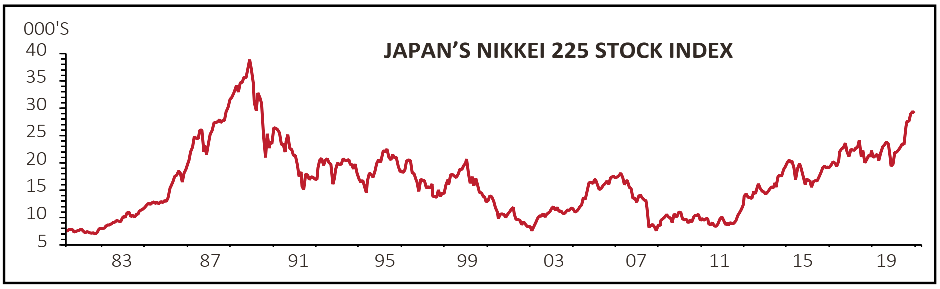
Japan has contained Covid better than many other nations, its lower infection rates and fatalities helped by strict compliance with masks and social distancing, although a relatively slow vaccine rollout may hamper the domestic recovery in the coming months.

This summer's rearranged and scaled down Olympics may prove a rather muted affair without foreign visitors, their absence a blow to sectors such as advertising and hotels, but the impact of this has probably been priced in by investors.

The key thing to remember is that the global economy's vaccine-led recovery is the key driver for Japan's relatively cyclical stock market, which is the domain of numerous exporters.

Hisashi Arakawa, investment manager of **Aberdeen Japan Investment Trust (AJIT)**, concedes the market had a strong rebound in 2020 and strength has continued this year.

'A lot of the stock market strength has come from earnings per share revision, so improvement for the outlook for Japanese corporates, rather than the re-rating of stocks,' he says.



Arakawa insists there is still earnings upside for Japanese companies, many of which are geared into the global supply chain. 'We are seeing strong recovery or even growth in goods such as cars, smartphones, laptops, semiconductors and machinery.

'A lot of players have leading positions in these spaces and are well positioned to benefit from the continued cyclical recovery which we see around the world.'

Nicholas Weindling, manager of **JPMorgan Japanese Investment Trust (JFJ)**, is similarly bullish on Japan. It is 'an incredibly rich and vibrant market with over 4,000 listed companies and many new companies coming to the market each year,' he says.

SUGA BOOST WELCOMED

Nicholas Price, manager of **Fidelity Japan Trust (FJV)**, stresses that (relatively) new prime minister Yoshihide Suga brought 'continuity in terms of macroeconomic and foreign policies, but also a focus on domestic issues that raised the possibility of accelerated reform and deregulation'.

One policy that stands out is the modernising of government apparatus by digitalising the public sector, explains Price. 'Suga's digitalisation drive is also creating opportunities in the private sector, as the pandemic highlights the need for companies to enhance their digital capabilities after years of underinvestment in their technology infrastructure.'

Many investors perceive Japan to be highly technologically advanced, whereas in many areas it is actually lagging; JPMorgan's Weindling explains that Japan is only just starting to embrace electronic signatures and cashless payments, for example.

Fidelity Japan expert Price also highlights Suga's commitment to reduce the country's overall greenhouse gas emissions to zero by 2050, which could generate opportunities in areas such as renewables and infrastructure.

CORPORATE GOVERNANCE 'SEA CHANGE'

Weindling flags a sea change in attitudes towards corporate governance.

'We still think it is at a very early stage and this is the single most important thing to understand when thinking about what kind of valuations investors might ascribe to Japanese companies in three or five years' time.'

More than half of Japanese firms have net cash on their balance sheets. In the past, companies would hoard cash out of an abundance of caution, but attitudes are changing with dividends and buybacks increasing each year in Japan.

Japan investment trusts	3yr (%)	5yr (%)	10yr (%)
Baillie Gifford Japan Trust	32.6	128.0	480.5
JPMorgan Japanese Investment Trust	53.6	132.3	340.8
Fidelity Japan Trust	50.5	155.7	322.5
Schroder Japan Growth	6.4	67.7	193.8
Aberdeen Japan Investment Trust	25.0	65.5	172.7
CC Japan Income & Growth Trust	1.4	54.0	n/a

Source: FE Fundinfo. Data to 28 April 2021. Total return

At the height of the crisis, markets such as the UK saw a lot of dividends being paused or buybacks being halted, but this wasn't the case in increasingly shareholder-friendly Japan.

JOURNEY TO JAPAN VIA FUNDS

Rather than picking individual stocks, UK investors might be better served by tapping into the expertise of professional fund managers with experience of investing in Japan and/or with support from research teams with boots on the ground.

In the investment trust Japan sector, the three best 10-year total return performers are **Baillie Gifford Japan Trust (BGFD)**, which has returned 480% according to Fe Fundinfo, followed by the aforementioned JPMorgan Japanese with a 341% return.

Fidelity Japan has returned 323% whose portfolio includes online freelancers' market Coconala, diversified chemicals company NOF and Mitsui High-Tec, which comprises almost 70% of the global motor-core market, an essential component of power-train motors in electric and hybrid vehicles.

According to FE Fundinfo, the top-performing open-ended fund over the past decade by some stretch is **Legg Mason IF Japan Equity (B8JYLC7)**, with a return approaching 730%, for ahead of open-ended Japan funds from the JPMorgan, Baillie Gifford, T. Rowe Price and Axa Framlington stables.

Investors who prefer lower cost passive funds should note that the **iShares Nikkei 225 UCITS ETF JPY (CNKY)** has generated 207% in sterling terms over 10 years.

Japanese funds and ETFs	3yr (%)	5yr (%)	10yr (%)
Legg Mason IF Japan Equity X in GB	36.6	100.4	726.6
JPM Japan C Acc in GB	41.1	104.7	291.6
Baillie Gifford Japanese B Acc in GB	25.9	107.3	270.5
T. Rowe Price Japanese Equity Q EUR in GB	35.4	103.7	238.9
AXA Framlington Japan Z Inc TR in GB	18.5	70.8	218.7
Lindsell Train Japanese Equity B Sterling Quoted GBP TR in GB	5.8	80.3	215.6
Fidelity Japan Smaller Companies W Acc in GB	15.1	78.3	208.3
iShares Nikkei 225 UCITS ETF JPY in GB	34.8	92.7	207.0
Barings Japan Growth Trust I Acc GBP in GB	31.8	96.2	205.0
Janus Henderson Japan Opportunities I Acc in GB	28.9	90.6	201.3

Source: Fe Fundinfo. Data to 28 April 2021. Total return.

Three Japan-focused funds and trusts to buy

JPMORGAN JAPANESE INVESTMENT TRUST

653p

Discount to NAV: 2.8%

Yield: 0.78%

A year-to-date pullback at **JPMorgan Japanese (JFJ)** presents a fresh buying opportunity in this capital growth-focused country specialist with a five-star Morningstar rating and strong long-run record. The net asset value discount has narrowed from a 12-month average of 6% to 2.8%, with investors increasingly recognising the trust's merits and sentiment towards Japan turning more positive. We remain confident managers Nicholas Weindling and Miyako Urabe will continue to find the most attractively valued Japanese investment themes and companies in an under-researched market. They focus on market leaders with high levels of profitability, strong free cash flow and excellent balance sheets. The portfolio includes factory automation business Keyence, gaming giant Nintendo, Uniqlo clothing brand owner Fast Retailing and Hoya, which has a 100% market share in the glass substrate used in hard disk drives for data centres.

ABERDEEN JAPAN INVESTMENT TRUST

722.5p

Discount to NAV: 9.4%

Yield: 1.5%

Investors seeking a less well-known trust with potential for a valuation uplift might consider **Aberdeen Japan Investment Trust (AJIT)**, which trades on the second widest NAV discount across the Association of Investment Companies' Japan and Japanese Smaller Companies sectors. An all-cap strategy with a capital growth focus, we like Aberdeen Japan's emphasis on quality companies with differentiated business models, wide economic moats, strong balance sheets and good ESG and stewardship. 2020 proved a strong year for performance with quality growth names in vogue, but the trust has lagged the benchmark year-to-date amid the rotation towards value stocks and profit taking in names that did well during the pandemic last year. Among the high conviction portfolio's holdings are the likes of Toyota Motor, electronics giant Sony, Nippon Paint, furniture retailer Nitori and a relatively new addition in beer maker Asahi.

LEGG MASON IF JAPAN EQUITY (B8JYLC7)

595p

Yield: n/a

Managed by experienced Japanese equity investor Hideo Shiozumi, **Legg Mason IF Japan Equity (B8JYLC7)** is the stand-out performer in the IA Japan sector. It has generated total returns of 726.6% and 100.4% over the past 10 and five years respectively, according to FE Fundinfo. The £1.3 billion fund's manager Shiozumi Investments seeks to exploit structural changes in Japan. The focus of the investment process is to identify high growth companies by looking at attractively managed businesses with annual earnings growth in excess of 20%. Relatively concentrated with 44 holdings at last count, the fund offers investors exposure to the likes of online medical-related services company M3, consoles giant Nintendo, digital cameras-to-x-ray imaging systems developer Fujifilm and GMO Payment Gateway, an online payment platform.

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

The benefits of flexibility in a topsy turvy year

As markets fell into disarray over the course of 2020, the case for investing in a variety of styles was demonstrated. Trusts like Majedie Investments offer a broad perspective in a single package...

For global funds that had an overweight allocation to the UK, the last few years have been a somewhat bleak time. Save for brief moments of clarity amongst the Brexit-related political chaos, the UK market has largely underperformed the rest of the world, particularly the US, despite sitting at a comparatively attractive valuation.

However, in the last year or so, the tide has begun to turn. Starting with the decisive election of Boris Johnson in a Conservative landslide, alongside a relatively clear Brexit outcome, the UK has become politically significantly more stable. And since vaccine rollouts began to slowly gather pace in the closing weeks of 2020, hopes for a reopening of the global economy have turned markets away from the US technology giants and towards previously unloved market segments, such as UK stocks.

With this shift, managers who had held firm in their belief that the UK market was due a resurgence have been rewarded. And with the outlook for the UK remaining strong due to several factors, the story is far from over for the best companies the UK has to offer.

A STEADY PERSPECTIVE

One fund that has maintained a positive view on the UK is **Majedie Investments (MAJE)**, which we have recently published new research on. The board believed that there were UK companies of similar quality to those available in other markets, but at considerably better valuations. As a result, the trust, which has a global mandate, has been overweight to the UK for much of the last seven years.

The trust invests in several sub-mandates, run by managers from Majedie Asset Management. Two of these underlying mandates – the MAM UK Equity Fund and the Tortoise Fund – are responsible for most of the UK allocation.

The UK Equity Fund is invested across the market-cap spectrum, remaining relatively style-agnostic, reflecting the team's focus on stock selection rather than a top-down allocation. This flexibility has enabled them to benefit from a flourishing UK growth market in 2020, followed by a resurgence in UK value in 2021. Meanwhile, the Tortoise Fund has focused on value opportunities in the UK for the last few years, although it has a global mandate and has found opportunities elsewhere too.

GOOD NEWS, POSITIVE OUTLOOK

Nonetheless, both teams agree that the case for the UK remains compelling. The current market rally has been driven in large part by the UK's status as a world-leader in terms of its vaccine rollout, a tailwind that will not subside for several months yet. Further, a relatively straightforward Brexit outcome and the election of a clear majority Conservative parliament has removed much of the uncertainty that has plagued the UK over the last five years.

A further catalyst for the UK market was outlined by MAM's chief investment officer, James de Uphaugh, in a presentation he gave earlier this year. He explained that the combination of Brexit and the pandemic meant that UK companies had been subject to significantly more stress than at other points in the cycle. As a result, the companies that have flourished and made operational improvements amid this turmoil are by their nature the strongest and highest quality names, arguably more resilient than some of their less-tested international peers. At the same time, he said that UK companies remain on attractive valuations.

FURTHER AFIELD

While the MAJE board has maintained its overweight to the UK, the fund still has a considerable allocation elsewhere. In particular, the board chose to remove a US fund from the list of sub-mandates. Instead, it chose to allocate additional capital to the MAM International Equity Fund, which has a limited allocation to the US, and the MAM Global Equity Fund. Both began 2020 with marked overweight allocations to technology stocks, before rotating out of these as the year progressed, reflecting the managers' focus on stock specifics rather than style. These allocations proved shrewd in the early 2021 technology sell-off.

Both funds have had a strong twelve months, due in part to decisive stock selection and remaining flexible in the face of a rapidly-evolving market environment. For example, the Global Equity Fund benefited significantly from a position in Barrick Gold in the first half of 2020, when gold prices were bolstered by the significant monetary injection by the world's central banks in response to the pandemic. The manager initially invested due to the renewed discipline of the company's management, a reflection of his preference for companies with strong fundamentals. He subsequently reduced that allocation as global confidence grew in the latter half of the year.

DECISIVELY DIFFERENT

As each of these case studies show, the underlying funds behind Majedie Investments are unique in their own ways. Their managers are unafraid to take decisive views that go against the grain, selecting what they believe are the best stocks regardless of style or sector. Combined together, these funds offer investors a distinctive approach to global equity investing, differentiating the trust from its competition. Combined with MAJE's track record of delivering sector-beating income, this approach provides investors with an attractive and unusual blend.

Click **here** to read our latest research on Majedie Investments...

RUSS MOULD
AJ Bell Investment Director

How to test the market mood

Despite technology stocks shining again there are signs of a shift in sentiment

In many ways right now, it looks like business as usual for the financial markets.

Blow-out quarterly numbers from Google's parent Alphabet, Apple and Facebook are taking their share prices to new highs and carrying the Nasdaq index along with it. The FTSE 100 is having another crack at breaking through the 7,000 barrier and central banks seem in no rush to switch off the hose of cheap liquidity with which they are dowsing markets (unintentionally or otherwise).

And yet, as discussed in the previous iteration of this column, bonds are trying to rally, as is gold. This move in haven assets seems at odds with the prevailing optimism regarding global vaccination programmes, an economic upturn and higher corporate profits and dividends.

It can be easy to read too much into such short-term moves, as nothing goes up or down in a straight line. Instead, one way to test the market mood is to check out what is going on at the periphery, as that is where investors are taking the most risk and therefore the asset classes and holdings they are most likely to liquidate first in the event that bullish sentiment starts to ebb.

Another is to look at the market darlings, the areas that are doing or have done best and are garnering the most coverage, from analysts, press and commentators alike. If they are keeping on running, then all may still be well. If not, this may be the first inkling of trouble ahead, or at least a shift in the market mood.

CRYPTIC MESSAGE

Markets have done a good job of shrugging off the failures of Greensill Capital and hedge fund Archegos in March, and experienced investors will remember markets kept rising after the first two Bear Stearns property funds collapsed in June 2008. However, it did not take long for deeper problems to appear, so investors must remain vigilant, especially as there are some signs that some of the hottest areas are starting to cool.

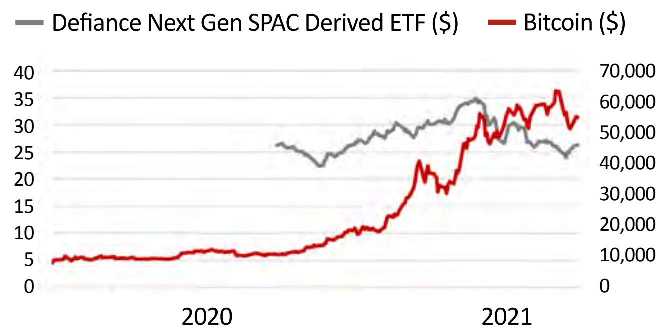
This can, for example, be seen in the fortunes of both bitcoin and special purpose acquisition companies, a phenomenon that has gripped the US market in particular. The Next Gen Defiance SPAC Derived ETF, which tracks a basket of over 200 SPACs is down by more than a third from its high.

This is perhaps less of a surprise when you consider the data from SPACinsider.com which shows how 308 SPACs are looking for a target even though 263 have already floated. In the end, supply may be outstripping demand.

Setbacks in bitcoin are nothing new and cryptocurrency supporters will be unperturbed but the way the performance of IPOs (initial public offerings) is tailing off around the world is worthy of note.

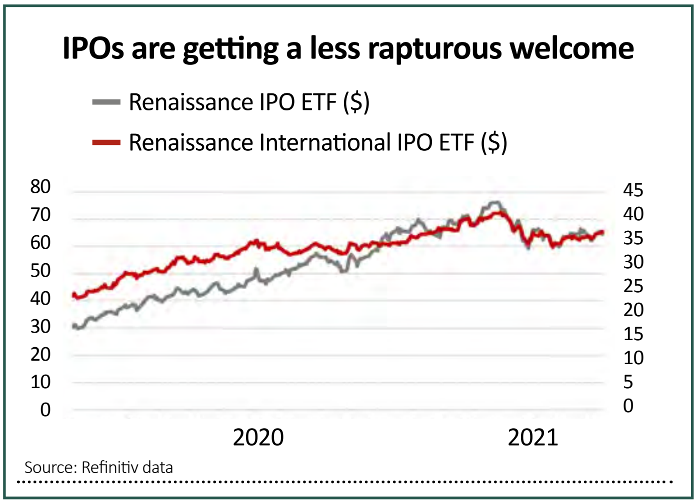
Perhaps the quality of deals is going down as the prices are going up, or, again, supply is starting to catch up with demand although **Darktrace (DARK)** is

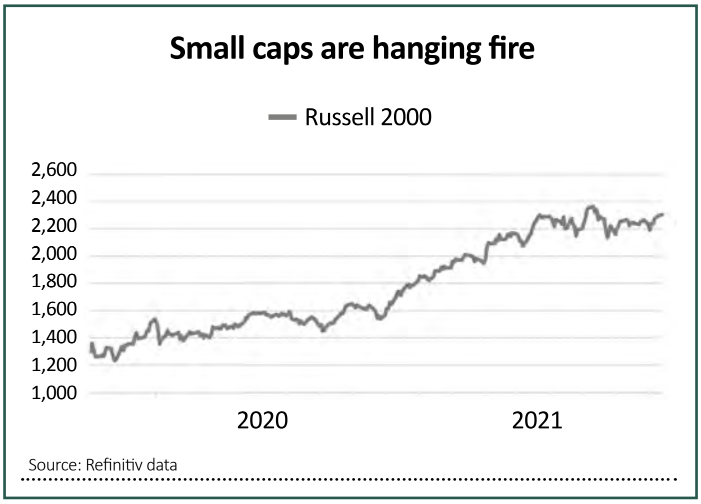
SPACs are sliding and Bitcoin is stumbling



Source: Refinitiv data

RUSS MOULD
AJ Bell Investment Director





off to a good start, at least.

ELECTRIC SHOCK

There can be no better proxy for the current bull market that Tesla. Yet even Elon Musk's charge is losing a bit of its power to impress and that is weighing on another momentum favourite, Cathie Wood's ARK Innovation ETF, a $22 billion tracker fund which aims to deliver the performance of 58 tech and growth stocks.

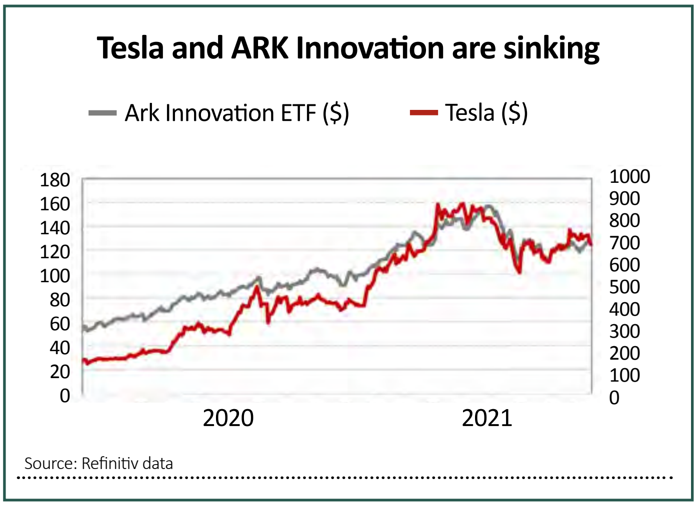
Even that classic gauge of both market sentiment and economic activity, small-cap stocks, are pausing for breath, although America's Russell 2000 is yet to roll over.

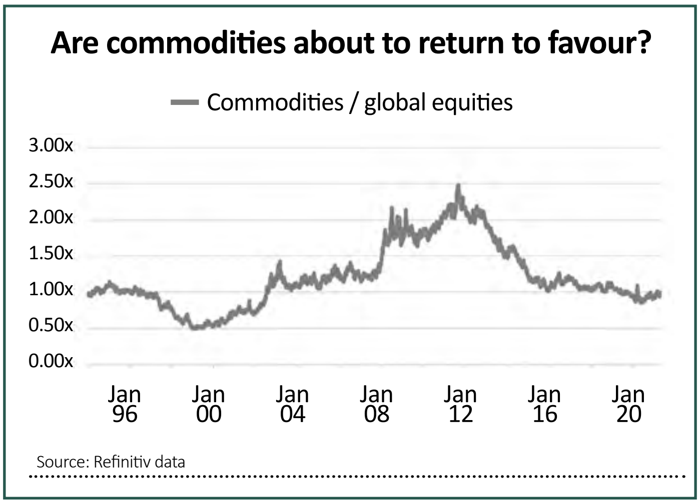
All of this could be healthy. Again, nothing goes up in a straight line and some of these assets and securities were looking bubbly, at least in the eyes of some. A cooling off may be no bad thing.

Equally, it could be a sign that markets are moving on. Frontier and emerging markets still look to be showing upward momentum, a trend that would fit with the narrative of a global economic recovery and bullish investor sentiment – few areas are more peripheral than frontier arenas such as Vietnam, Morocco, Kenya and Romania.

As such, we could just be seeing the next leg of the switch from defensives and growth to cyclicals and value. And if the upturn does prove inflationary, then there is a further trend to watch, one to which this column will return.

This final chart shows the relative performance of commodities, as benchmarked by the Bloomberg index, against the FTSE All-World equities index. Maybe real assets are on the verge of ending a decade's worth of underperformance relative to paper assets, or at least paper claims on them?





Exciting unquoted companies on offer through investment trusts

Early access to great start-up businesses is possible but value generation may not always be rapid

The problem many investors have with IPOs (initial public offerings) is that much of the big value creation has already been had as a private company. Take **THG (THG)**, for example, a stock investors piled into in their thousands once it hit public markets.

Launched in 2004 by founder Matthew Moulding, the online retail business was backed by US private equity firm KKR 10 years later, reportedly taking a 19.2% stake for less than £100 million. THG listed in London in September 2020 at £4.5 billion, and it is now worth more than £6 billion. That's a 12-fold increase in value in less than seven years.

Retail investors, understandably, want in on this action, with access to young, emerging and exciting businesses long before they are ready to list on a stock market.

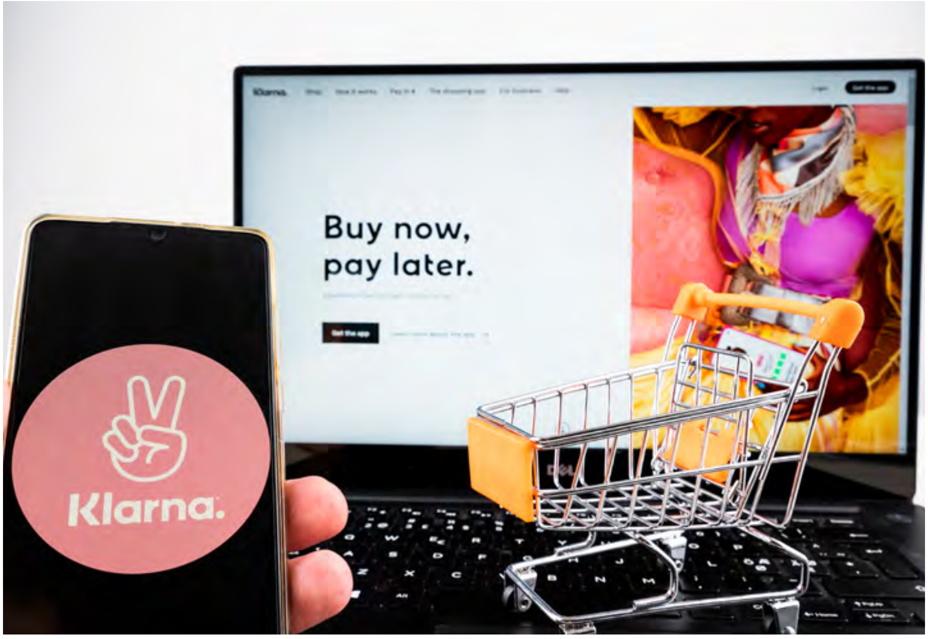
TAKING THE FUND APPROACH

Investment trusts are one option. A number of them already invest in private companies. **Scottish Mortgage (SMT)**, the UK's biggest, can allocate up to 30% of its assets in unquoted holdings. Its unquoted holdings include Stripe, the digital payments firm set up by the Irish Collison brothers that was valued at $96 billion in March.

The UK is awash with creative entrepreneurs with brilliant ideas, and the UK's private equity industry is the largest and most dynamic in Europe, turning innovative ideas into successful businesses and driving superior investor returns.

In a recent research note, Stifel's analysts suggested that many private equity investment trusts have significant exposure to healthcare and technology sectors which have been strong performers.

Chrysalis Investment (CHRY) is one of the higher-rated private equity investment specialists, having almost doubled its NAV (net asset value) since launch



in late 2018. It supports tech disruptors with later stage and pre-IPO funding, many in the 'fintech' space, such as Starling Bank, Klarna and Wise, the money transfers business that is eying a UK IPO this summer.

Starling was set up in 2014 by the veteran banker Anne Boden with a vision of a digital bank for the 21st Century, giving low-cost basic banking to anyone with a smartphone. It has shown exceptionally strong growth with deposits increasing from around £1 billion in February 2020 to £5.4 billion, while lending has exceeded £2 billion.

Klarna plays in a similar digital world, allowing shoppers to pay for stuff in easy instalments. The company now claims to process 2 million transactions a day from 90 million active users across 250 million merchants.

Atom Bank, backed by **Schroder UK Public Private Trust (SUPP)**, is another digital banking hopeful, alongside Monzo, Revolut and plenty of others. Visma and Iris, for example, provide a different take on the fintech theme, providing payroll, tax and other packages for employers, while CaseWare develops cutting edge audit solutions for organisations, potentially an area ripe for disruption given the controversies surrounding the Big Four audit giants.

TECH & HEALTH

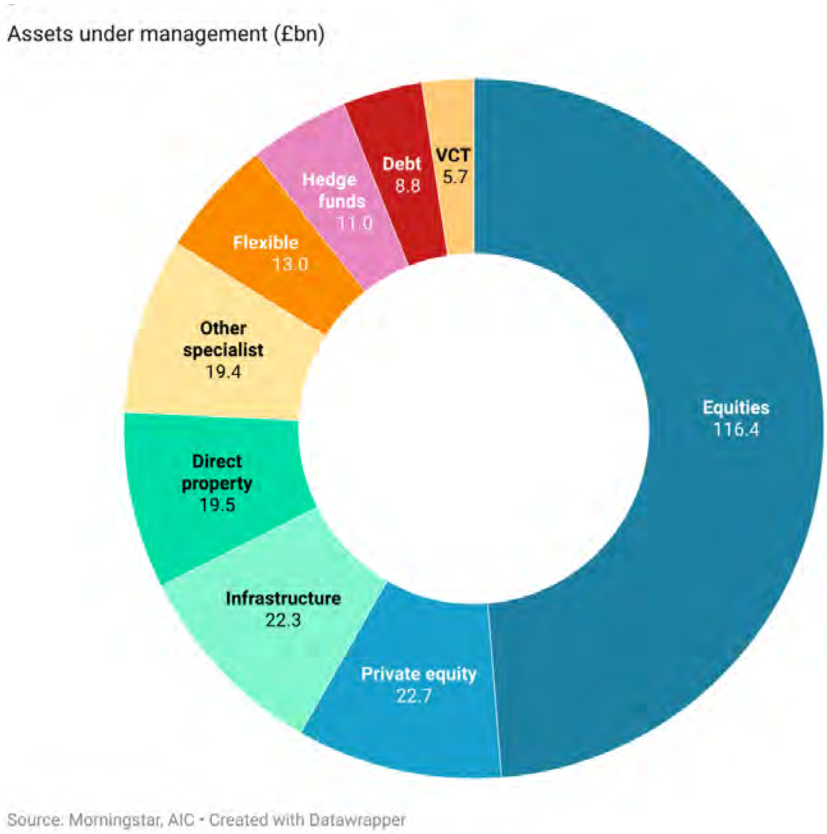
Investing in Visma, Iris and CaseWare is made possible through **HgCapital Trust (HGT)**, a major software investor across Europe.

HgCapital Trust is also a backer of FE Fundinfo, a company many investors may know first hand from its stock market newswire and fund tools.

The pandemic and lockdowns saw many consumer-facing app type businesses emerge and win private equity backing.

Others have potentially grown stronger, such as online printing company Photobox, a portfolio company for **Standard Life Private Equity Trust (SLPE)**. Turning favourite snaps into albums, mugs or wall art could

Private equity's £22.7 billion slice of the investment trust pie



become more than a short-lived diversion for creative kids and adults, in theory.

Elsewhere, a data-driven platform for scientists to share information and plan work collaboratively may sound like a promising premise. **BMO Private Equity Trust (BPET)** clearly believes so, as Dotmatics which has developed such a platform and is the trust's largest single stake worth 9.6% of assets, almost three times the size of the next biggest holding.

The potential IPO of Oxford Nanopore Technologies later in 2021 is a key development for **IP Group (IPO)**.

Though not an investment trust it owns a 14.5% stake in the DNA sequencing process designer, having backed the business since its 2005 Oxford University spin-out.

Oxford Nanopore is mooted to fetch a near-£4 billion valuation if it gets the London listing away.

There are risks with private equity-style investing given the inherently illiquid nature of the investments and the need to lock up capital for several years. But for those investors who understand these risks, investment trusts can be a good way in which to obtain exposure to unquoted companies.

DISCLAIMER: The author owns shares in Scottish Mortgage

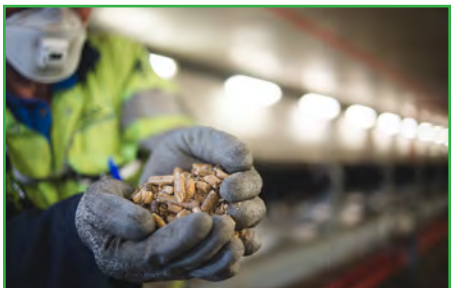
By **Steven Frazer**
News Editor

How 4.4% yielding Drax kicked out coal and went green

It has built one of the world's largest biomass supply chains

North Yorkshire-based **Drax (DRX)** is the UK's largest single source renewable energy company, supplying around a tenth of the UK's energy needs. It is playing a key role in helping the country reach its goal of becoming net carbon neutral by 2050.

Drax has transitioned from a traditional coal and gas-fired energy supplier into 100% biomass, utilising wood pellets.



Drax Group (DRX)

Price: 414.6p
Market Cap: £2.5 billion
Enterprise Value: £4.2 billion

WHAT IS BIOMASS?

Biomass is plant or animal material used as fuel to produce electricity or heat, such as wood, energy crops and waste from forests, yards or farms.

It is considered a low carbon source by the UK and the EU because a key source of material is commercially managed forests.

Academic work has shown that biomass can achieve carbon payback periods as low as wind and solar. Carbon payback refers to the amount of time it takes before the system can produce as much electricity as it consumes including construction and environmental impacts.

The company ended commercial coal-fired energy production in March 2021 and completed the sale of existing gas generation in January 2021.

It gets paid subsidies to burn biomass which end in 2027. By scaling up its biomass supply chain and reducing costs Drax expects to be profitable without the subsidy by the time it is removed.

The long-term goal is to become carbon negative by 2030 by deploying proven bioenergy carbon capture and storage technology to remove the carbon dioxide produced when burning the biomass.

BUSINESS MODEL

Drax is vertically integrated and sells over 90% of its own energy supply through two business-to-business suppliers, Haven and Opus.

The former targets large industrial and commercial clients while the later focuses on small

ESG CREDENTIALS

Biomass for climate mitigation has been recognised as sustainable by the European Union and the UK and is deemed a low carbon form of electricity generation.

Norway's $1 trillion sovereign wealth fund now recognises Drax as a low carbon energy producer having initially put the company on its blacklist due to the (now former) coal generation business.

SEEING THE WOOD FROM THE TREES

A growing tree consumes carbon dioxide from the atmosphere and converts it into carbon in the wood via photosynthesis.

When Drax burns biomass, it releases carbon dioxide back into the atmosphere. By using material from forests that are in a continual state of growth and consuming CO2, the burnt biomass is replaced, creating a neutral outcome.

Longspur Research analyst Adam Forsyth cites the example of the southeast of the US where only 2% of the forest is harvested in any year which means that 98% is kept in various stages of regrowth.

This results in a net increase in the amount of carbon stored in the forest every year as more carbon dioxide is removed from the atmosphere by growing trees than mature trees.

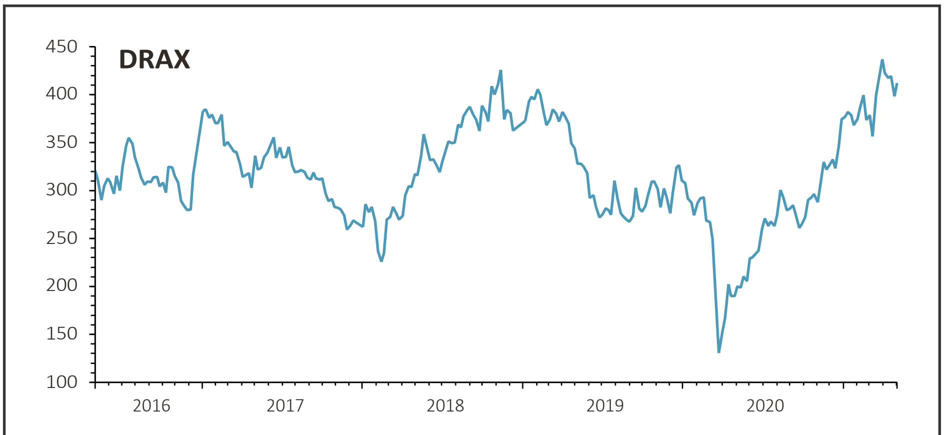
In addition, most of the mature wood in the forest is used for construction which means it keeps the carbon stored for longer. Drax only uses sawmill residues, low grade roundwood, branches and bark for its pellet production.

The US has over 750 million acres of forest land which equates to 35% of its landmass. Inventories have increased by at least 50% since 1950 and they are protected by regulation. Forsyth believes Drax's needs out to 2030 would only represent around 6% of total supply.

and medium sized businesses.

Drax also has overseas operations. It operates a waste wood and dust business based in Louisiana, and it recently acquired Canadian wood pellet producer Pinnacle Renewable Energy.

The acquisition adds 2.9 million tonnes of biomass production capacity and significantly reduces its cost of production. The enlarged supply chain will have access to 4.9 million tonnes of capacity by 2022.



The company's bioenergy business comprises 13 manufacturing sites in the US and Canada which produce compressed wood pellets for customers in Europe and Asia as well as for its own use.

PROVIDING FLEXIBLE ENERGY

The UK energy grid is required to run at a specific frequency (50 Hz) and any deviation larger than 1% could spark cascading failure resulting in partial or full failure of the network.

The increased use of renewable energy in the UK has created more volatility of supply because of the intermittent nature of wind and solar and limited energy storage options.

Because of their volatile supply, which could push the frequency out of the desired range, renewables are not able to have a synchronous connection to the grid.

Traditionally, steam-driven generators of the coal and gas power stations maintained the network's frequency by dampening down interruptions. This is sometimes called providing inertia.

Renewables cannot supply inertia and this limitation provides an opportunity for Drax and other operators.

ADVANTAGE: DRAX

Drax's assets provide flexible generation which provide support to the network so that it can handle the volatile supply of renewable energy as well as inertia.

A good example is the company's Cruachan pumped storage scheme in Scotland which provides energy when the wind doesn't blow, or the sun doesn't shine.

The scheme is effectively a giant battery produced by two reservoirs which sit between a hanging valley.

A compressed air system in its turbines allows a fast response in under 30 seconds which means Cruachan is highly responsive, while it can store energy for up to 16 hours.

Drax: Earnings Estimates

	2021	2022
Sales (£m)	4,287	4,648
EBITDA (£m)	346	416
Pre-tax Profit (£m)	118	172
EPS (p)	25.8	37.4
DPS (p)	18.4	19.8

Source: Longspur Research

Drax also owns two hydroelectric schemes at Lanark on the river Clyde with two generating plants and in Galloway which has six plants.

Most of the energy produced by Drax is from biomass burnt at its power station in Selby, Yorkshire near the Humber estuary.

HOW DOES DRAX MAKE MONEY?

Drax generates three separate sources of income: power generation, energy supply and pellet production.

The UK energy market is comprised of three different segments which include the wholesale market, which is what people think of as the supply market; the capacity market which effectively is insurance to keep the lights on; and the ancillary markets which are a range of services that help to keep the system running.

Drax also runs a trading operation where the company trades its own contracted output. This is an important asset as it allows the company to take advantage of its positions across the market, but it doesn't disclose the profits of this segment separately.

The lion's share of EBITDA (earnings before interest, tax, depreciation, and amortisation) comes from energy generation.

For the year to 31 December

2020 adjusted EBITDA was £420 million including the gas generation assets which have been sold.

Power generation EBITDA was £446 million underpinned by a 5% increase in output. Strong trading from ancillary services and the trading operation offset outage times related to implementing social distancing measures.

The Cruachan pumped storage and hydro assets in Scotland contributed significantly (£118 million) to the overall gross margin from system support activities.

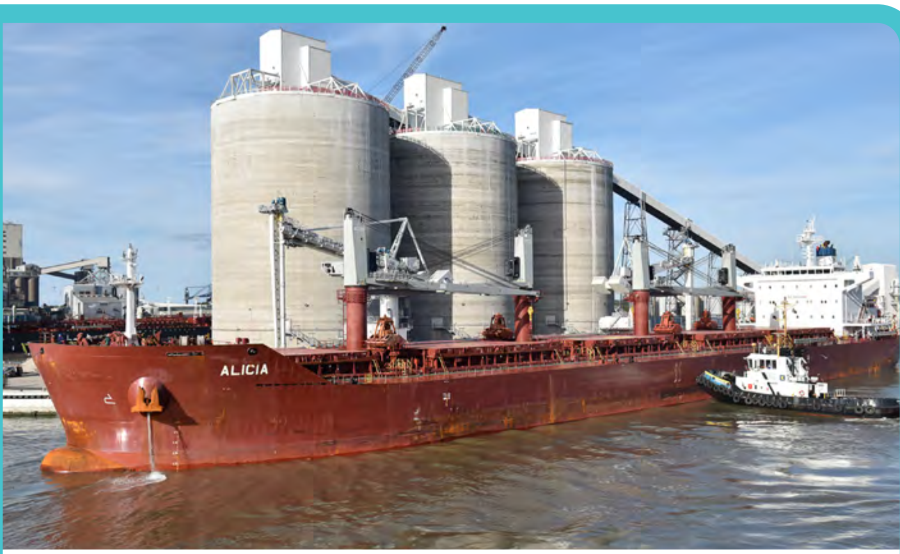
Pellet production contributed EBITDA of £52 million, up 63% on the year reflecting a record period for output with 1.5 million tonnes produced.

Finally, the pandemic impacted the energy supply businesses resulting in an EBITDA loss of £39 million.

Drax has a very clear capital allocation policy. The priority is to maintain a strong credit rating which in practice means keeping net debt to EBITDA below two times. Adjusting for discontinued assets, the ratio was 1.6 at the end of 2020.

The other priorities are to continue investing in the core business and to pay a sustainable and growing dividend. Any surplus capital will be paid back to shareholders.

Drax has grown its dividend by a compound annual growth rate of 25% a year since 2015 according to Stockopedia and the prospective dividend of 18.4p per share provides a yield of 4.4%.



DRAX'S ROLE IN IMPROVING CARBON STORAGE

In theory, taking carbon dioxide produced from burning biomass and storing it underground means that every tonne captured by growing trees is permanently removed from the atmosphere.

This is one reason why the UK's committee on climate change has backed bioenergy carbon capture and storage to help deliver a net zero carbon economy.

Drax will play a key part in the process partly due to the location of its power plant in the Humber, where it is a member of the Zero Carbon Humber initiative.

The idea is to build CO2 transportation infrastructure to carry the gas into storage facilities under the North Sea.

The technology already exists and has been proven in the oil industry, but it is expensive. Drax is exploring solutions which have the potential to reduce the overall cost.

It is likely that the Government will provide subsidies for companies building the infrastructure and operating bioenergy carbon capture and storage technology to attract the necessary investments.

SHARES SAYS: ↗ BUY

Drax ticks a lot of boxes for income and growth investors looking for a play on the transition to a green economy.

Biomass is widely regarded as a sustainable low carbon resource and Drax's plans to capture and store the carbon from burning biomass will turn it into a negative emissions company.

We like the optionality that the company has created through building an independent biomass supply chain.

While there are execution and political risks, these are more than reflected in the undemanding rating of the shares, trading on 16 times 2021 earnings.

By **Martin Gamble**
Senior Reporter

I might hit the pension lifetime allowance: what are my alternatives?

We look at the range of tax-efficient savings vehicles

I'm 37 years old and have a pension worth £500,000. The decision by the Government to freeze the lifetime allowance means I'll be hitting the limit even sooner than I previously thought. What are the alternative savings options open to me?
Paul

Tom Selby
AJ Bell
Senior Analyst says:

For those who are eligible and concerned about the impact of the lifetime allowance freeze at £1,073,100, Lifetime ISAs offer a useful retirement saving alternative. Subscriptions are limited to £4,000 a year, with the Government adding a 25% top-up to money paid in (up to a maximum of £1,000 a year). Once opened, you can keep receiving this 25% bonus on new money deposited in a Lifetime ISA until your 50th birthday.

Although this bonus isn't as generous as higher or additional-rate pension tax relief, it is clearly better than having no upfront savings incentive at all.

Furthermore, withdrawals are tax-free from age 60 or if the money is used towards the deposit on a first home worth £450,000 or less, although withdrawals in any other circumstances (apart from terminal illness) will be hit with a 25% Government charge.

As you are below age 40, you might want to consider opening a Lifetime ISA – even if it's just with a notional amount – so you have the flexibility to benefit from the 25% bonus until age 50.

Stocks and shares ISAs are another tax-efficient vehicle to consider, offering tax-free investment growth and withdrawals. Subscriptions across all ISAs (including the maximum £4,000 put into Lifetime ISAs) are capped at £20,000 a year.

General investment accounts are also worth considering. While they don't allow tax-free investment growth, they do allow you to invest in similar assets to ISAs and SIPPs and take advantage of things like your annual capital gains tax and dividend allowances.

Beyond these mainstream vehicles, there are other products designed to encourage people to invest in certain types of companies.

Individuals aged 18 or over can receive income tax relief at 30% on investments of up to £200,000 a year in newly issued ordinary shares in venture capital trusts, with relief given via a reduction in your income tax liability.

For example, if you had an income tax liability of £10,000 and invested £20,000 in VCT shares, the tax relief of £6,000 (30% of £20,000) would be deducted from the tax bill, leaving you with £4,000 to pay. These shares need to be held for at least five years to qualify for income tax relief.

Dividends from VCTs are also tax-free (as long as the original investment was made within the permitted maximum of £200,000) and there is no capital gains tax to pay when you dispose of your shares, regardless of how long you owned them.

Enterprise Investment Scheme products also offer tax relief of up to 30% on qualifying investments, with a significantly higher limit on investments of £1 million in a tax year.

Income tax relief is applied in the same way as for VCTs. Any disposal of shares at a profit is usually exempt from capital gains tax, provided the shares have been held for three years. Income tax or capital gains tax relief may also be available for losses on disposals.

A third alternative, Seed Enterprise Investment Scheme operates in a similar way to EIS,

but with income tax relief given at 50% on qualifying investments up to £100,000 in a tax year. Again, there may be no capital gains tax payable when you sell the shares as long as you have held them for at least three years.

Both SEIS and EIS investments allow investors to defer chargeable gains on any assets by reinvesting the gains in shares in qualifying companies, potentially allowing people to reduce their overall tax liability.

These tax incentives – for VCTs, EISs and SEISs – are specifically in place to encourage people to invest in smaller, early-stage, and therefore potentially riskier, companies. As a result, only certain companies can qualify.

Any investor considering going down this route should be mindful of the fact companies that qualify for these reliefs are likely to be high risk. You should also do your own homework or speak to a regulated adviser to check the impact investing in schemes like these will have on your overall tax position.

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.

Five things UK investors can learn from Warren Buffett

Diversification, fees, cryptos, dividends and investment styles are all in focus

'Woodstock for capitalists', aka the Berkshire Hathaway annual shareholder meeting, took place on 1 May, and tens of thousands of investors across the globe tuned into the livestream to hear some pearls of wisdom from Berkshire's chairman and chief executive, Warren Buffett. He is well known for a focus on value investing, for the long term, in businesses with wide economic moats. But as you might expect for the world's most famous investor, there are other nuggets of wisdom that have been dropped along the way which UK investors can use to their advantage.

1 DON'T 'DIWORSIFY'

Buffett says, 'Diversification is protection against ignorance' and 'makes little sense for those who know what they're doing.'

It's clear that Buffett does practice diversification to some extent, but he also invests with conviction.

UK investors should be wary of 'diworsification' in their portfolios, particularly from closet tracker funds which hug an index and charge active fees for doing so.

These funds are long term destroyers of wealth and should be weeded out in favour of low-cost tracker funds or truly active funds.

Buffett's point is that if you are going to invest selectively, you should know enough to do it with conviction, and that is something UK investors should demand from their active funds.

If your fund is diversified across most stocks in the market and is charging fees for active management, it's probably time to vote with your feet.

2 BEWARE CRYPTOCURRENCIES

Buffett doesn't like cryptocurrencies, and believes bitcoin has no intrinsic value. He has reportedly called bitcoin 'rat poison squared' and stated in 2018 that cryptocurrencies 'will come to a bad ending'. This is an extreme view, but such is the nature of investing in cryptocurrency that extremes, both bad and good, must be counted as distinctly possible outcomes.

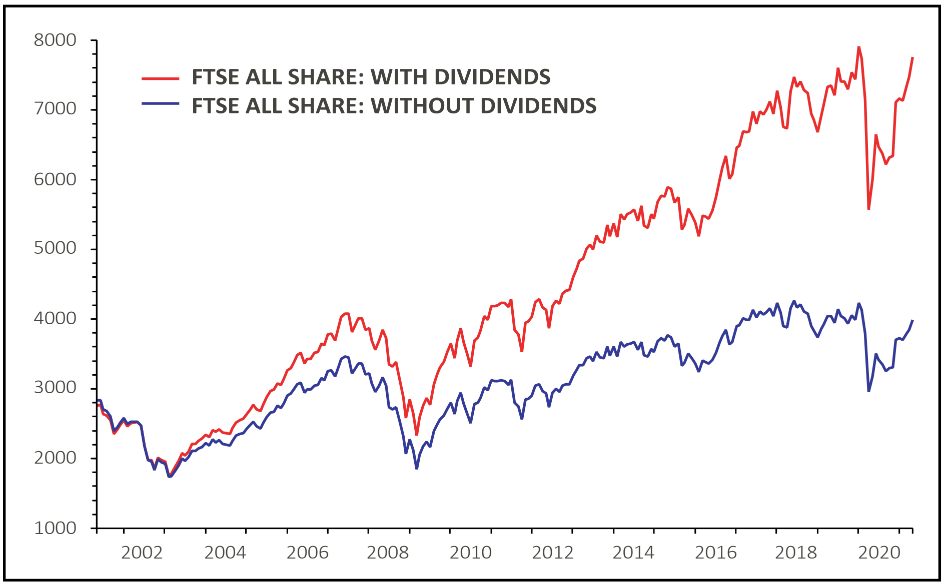
Investors who do decide to invest in cryptocurrency should therefore only do so with a small part of their overall portfolio they are willing to lose.

3 USE TRACKERS

Buffett's advocacy of tracker funds is another curiosity and doesn't on the face of it make a lot of sense for a man who's made a fortune through active money management.

In the 2016 Berkshire Hathaway report Buffett wrote 'when trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsize profits, not the clients. Both large and small investors should stick with low-cost index funds.'

The point is well made, albeit by an active manager, and UK investors today have a wealth of low-cost passive funds which can serve as the basic building blocks



of a portfolio.

In general, active managers might not be able to beat the market, but there are some exceptional fund managers who have demonstrated an ability to outperform over the long term.

UK investors don't need to choose exclusively between active and passive approaches, and it would generally be sensible to have a mix of both in their portfolios.

4 ROLL UP DIVIDENDS

Buffett likes to receive dividends, but Berkshire Hathaway doesn't pay one. As he wrote in 2013: 'A number of Berkshire shareholders…. would like Berkshire to pay a cash dividend. It puzzles them that we relish the dividends we receive from most of the stocks that Berkshire owns, but pay out nothing ourselves.'

Part of the rationale is that Buffett has plenty of opportunities to reinvest the dividends he receives within his portfolio, unlike the companies paying the dividend, which are generally limited to the industries they operate in.

UK investors are in the same boat as Buffett on this one. The dividends they receive from their holdings can be reinvested in the same funds and companies that generate them, or reallocated elsewhere in the portfolio, to top up existing positions, or establish new ones.

The long-term benefits of rolling up dividends is clear, particularly when investing in a market as high yielding as the UK. Over the past 20 years, the FTSE All-Share has returned 39% without dividends included, and 178% with dividends reinvested.

5 GROWTH AND VALUE ARE 'JOINED AT THE HIP'

Buffett is well known for being a value investor, a style that has been out of favour for the last 10 years (until recently), and which is commonly contrasted with growth investing.

But as Buffett remarks in his 1992 chairman's letter, 'the two approaches are joined at the hip. Growth is always a component in the calculation of value.'

This explains how a so-called value investor like Buffett comes to own a large chunk of Apple, a tech stock more commonly associated with a growth investment style. Buffett's point is that to arrive at an estimate of the intrinsic value of a company, you need to understand its growth prospects.

Buffett's perspective suggests that value and growth are not mutually exclusive at a stock level, and extrapolating somewhat, nor are they at a fund manager level.

There is a spectrum, with some stocks exhibiting higher levels of value characteristics, and others more growth characteristics. Likewise, most fund managers incorporate both value and growth considerations to different extents, though they ultimately end up being characterised as growth or value investors.

Growth investor Terry Smith follows the mantra 'buy good companies, don't overpay, do nothing'. The Fundsmith principle of not overpaying clearly speaks to some consideration of value, alongside an analysis of the quality of the underlying business.

Growth and value factors can each be expected to have their day in the sun, and indeed, the outperformance of one compared to the other can last for a long time. Investors should have a blend of styles along the value and growth spectrum, so that whichever way the wind is blowing, their portfolio is making ground.

By **Laith Khalaf**
Financial Analyst

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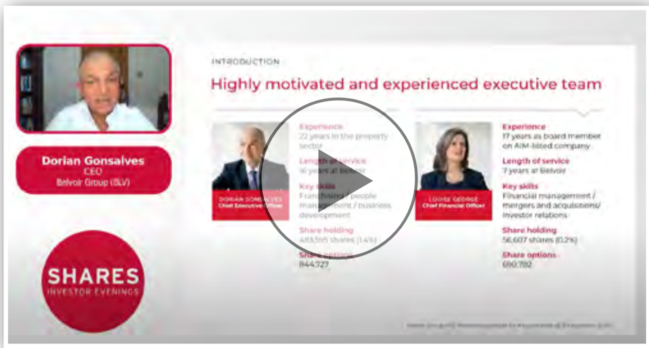

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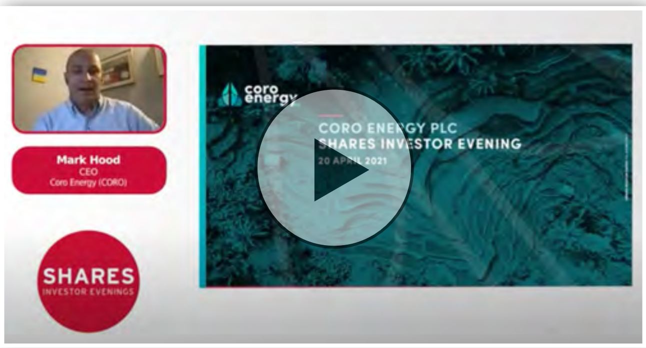

Coro Energy (CORO) – Mark Hood, CEO & Pete Christie, FD

Coro Energy is a South East Asian focused energy company with a regional strategy of investing in low carbon energy assets including renewables and energy storage, supported by an existing platform of gas assets.

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

11 May: Angling Direct. **12 May:** Investec, Mears, Vertu Motors. **13 May:** Burberry.

Half-year results

7 May: Numis. **11 May:** Treatt. **12 May:** Compass, Saga. **13 May:** Brewin Dolphin, Grainger, Ten Lifestyle.

Trading statements

7 May: InterContinental Hotels. **10 May:** HG Capital Trust. **11 May:** WM Morrison, Renishaw. **12 May:** Coca-Cola HBC. **13 May:** Beazley, ContourGlobal, Hargreaves Lansdown.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg; Ian Conway @SharesMagIan

REPORTER: Yoosof Farah @YoosofShares

CONTRIBUTORS Laith Khalaf, Russ Mould, Tom Selby

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

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

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