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Psst... Europe's outlook is good and many investors aren't looking

The region is playing catch-up with the vaccine which bodes well for economic and corporate earnings expansion

Investors concerned about US markets potentially getting ahead of themselves may instead want to look at Europe. It is approaching an inflection point with the vaccine rollout, such as the expectation that one third of France's population will have received their first jab by mid-May.

From experience in the UK, that's the point at which the most vulnerable in society are being protected and therefore infection rates should go down. It bodes well for the reopening of the economy and raises confidence for a strong second half to the year.

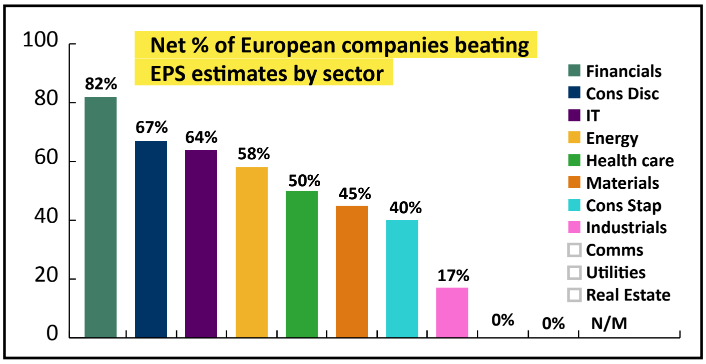
At the same time, the news flow from many European companies is very encouraging, with many reporting a pick-up in earnings.

Nearly two thirds (62%) of European companies have beaten earnings per share estimates by 5% or more for their first quarter 2021 numbers, while 13% have missed, giving a strong 'net beat' of 49% of companies – a record breadth of beats on data back to 2007, says investment bank Morgan Stanley.

Names like logistics group Deutsche Post, car maker Volkswagen and luxury goods group LMVH are just some of the names surprising the market with better-than-expected figures in recent weeks. Deutsche Bank even reported its best quarterly profit for seven years.

Europe has outperformed the All-Country World index since February, yet there is little evidence of love for the region in a global context, says Morgan Stanley. History suggests it can pay to put money into unloved places.

'While global equities have seen record inflows over the last three months, Europe's relative flows remain at the low end of historical ranges. Relative valuations are close to 10-year lows, and even adjusting for sector composition Europe still looks cheap vs the All-Country World index,' says Morgan Stanley



Source: MSCI, Bloomberg, Morgan Stanley Research
Note: EPS beat / miss defined as +/-5% from consensus estimates

Fund manager Francesco Conte, who runs the **JPMorgan European Smaller Companies Trust (JESC)**, says he has been picking stocks in this region for nearly 25 years and Europe has always been out of favour during that time.

'Throughout that period, we had all sorts of disasters in Europe like the Greek crisis and election crises. Despite that, the European index for smaller companies has been one of the best indices in the world. It is full of entrepreneurs and innovation.'

Most of the big European stocks can be bought by investors on mainstream UK investment platforms and companies of all sizes can be accessed by the multitude of Europe-focused funds on the market, such as **BlackRock European Dynamic Fund (BCZRNN3)** which has delivered 18.2% annualised returns over the past five years versus 11.7% from the MSCI Europe Ex-UK benchmark, according to Morningstar.

Ultimately, investors need to sit up and take notice of the good news flow coming out of Europe, rather than simply fixating on what is happening on the UK and US markets. There are good investment opportunities out there and some are still cheap in relative terms.

By **Daniel Coatsworth** Editor

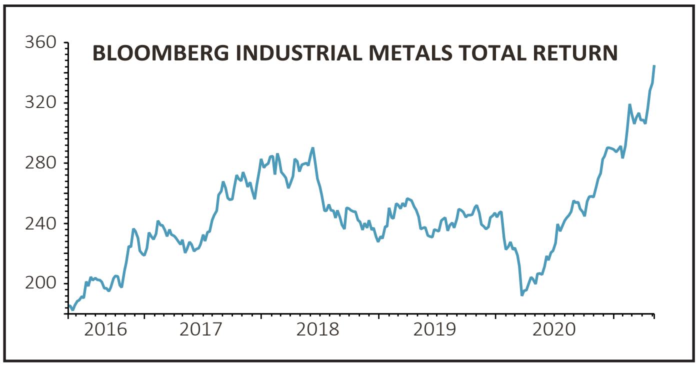
Why the market is fretting about inflation again

Big sell-off comes just days after a weak US jobs report had eased fears of rising rates

Inflation fears are back to haunt the market resulting in renewed volatility in tech stocks and leading to a wider sell-off in global equities.

As *Shares* went to press the latest US inflation numbers were set to be announced (12 May), which could dampen or exacerbate concerns over rising prices depending on what level they come in at.

However, this is not about one month's reading of consumer price inflation. This is an issue for the medium-term. Investors are worried about the evidence of an economy running hot – particularly in the commodity markets where the Biden administration's large infrastructure spending plans in the US are likely to push up demand for industrial metals.



In another sign things could be overheating amid the stimulus-fuelled recovery from Covid, so-called factory gate prices in China were up 6.8% in April – the fastest pace in three years.

Technology stocks are particularly sensitive to inflation expectations and interest rates. This is because expectations of higher inflation and ultimately higher rates negatively impact the level at which the anticipated fast-growing cash flow from these firms is valued at today.

For example, ARK Innovation ETF – a fund tracking a basket of tech-themed companies with disruptive innovation – has fallen by a third in value since mid-February. Tesla is down 29% since the end of January.

The US Federal Reserve has stressed on several occasions that it has no intention of raising rates any time soon and is prepared to let the market run hot for a time in the expectation that any inflation will be transitory.

However, the market clearly still feels this position could be overtaken by events. The picture looked quite different on 7 May when the key US non-farm payrolls release saw its biggest miss relative to the consensus forecast since 1998.

Around 1 million jobs were expected to be added for April compared with the actual number of just 266,000. Equities reacted positively to this news – employment is a key factor in the decision making of the Fed so this weak reading led investors to conclude the central bank would maintain low rates and stimulus for longer.

This led to a slump in bond yields and saw growth-orientated tech stocks trade higher on the day. However, even this release contained a hint of inflationary pressures as many speculated the disappointing number had as more to do with a lack of available (or willing) labour rather than a lack of employment opportunities.

Were this trend to persist it would likely lead to wage increases and add to the mounting concern about inflation. [TS]

Retail sector is red hot from strong earnings updates

Better times are undoubtedly ahead for retailers, but is the reopening good news already baked in?

Shares in numerous retailers are flying high after upgrading earnings guidance or on relief they have come through the other side of the Covid crisis.

Sector optimism centres on the successful vaccine rollout, easing unemployment concerns, and a strong housing market, but has the market now priced in too much good news?

Yes, many people have built up cash savings during lockdowns, so there is capacity to spend in shops, yet others face post-pandemic employment uncertainty, particularly within the younger cohort, which could rein in spending.

Retailer **Next (NXT)** is at an all-time high of £83.20 after upgrading annual profit guidance following a post-lockdown sales surge, while **Greggs (GRG)** hit a record £25.91 after it reported a strong recovery in sales since the easing of restrictions.

Greggs believes 2021 profits are likely to be materially higher than its previous expectation and could be around 2019 levels of £114.2 million in the absence of further restrictions.

Other rallying retailers include reopening beneficiaries such as arts, crafts and book seller **The Works (WRKS)** and greetings cards retailer **Card Factory (CARD)**, whose post-reopening performance exceeded expectations.

One of the most eye-catching movers is **Superdry (SDRY)**, up 76% year-to-date. Its shares surged on news of a very strong end to its financial year and an upbeat outlook.

Adding to the feel-good factor have been material earnings upgrades for posh chocolates seller **Hotel Chocolat (HOTC:AIM)** and fashion brand **Joules (JOUL:AIM)**.

While the flurry of upgrades is welcome, investors shouldn't ignore the caution expressed by some of the sector's savviest management teams.

Retail: best performers year to date

Lookers	226%
Card Factory	119%
French Connection	98%
TheWorks.co.uk	76%
Superdry	76%
Safestyle	63%
Joules	58%
UP Global Sourcing	55%
Quiz	48%
Halfords	47%

Retail: worst performers year to date

AO World	-39%
THG	-13%
Stanley Gibbons	-12%

Source: SharePad, 11 May 2021

Greggs warned that 'considerable uncertainty remains', while Next cautioned that recent strong sales growth was due to pent-up demand built up over the last three months and is unlikely to be indicative of demand for the rest of 2021, adding that 'evidence from last year suggests that this post lockdown surge will be short lived'.

All eyes now turn to results from high street stalwart **Marks & Spencer (MKS)** on 26 May to see how its clothing sales have fared in recent weeks.

An update from **Kingfisher (KGF)** will be keenly watched on 20 May given how DIY demand appears to be holding up very well, albeit product shortages could be an issue. On the same day will be an update from **Watches of Switzerland (WOSG)** where investors will be hoping it follows other luxury goods sellers in reporting strong sales. [JC]

Travel stocks only suffer mild sell-off from reopening setback

There is optimism that favourite holiday destinations will soon be on the green list

Shares in low-cost short-haul airlines and holiday companies fell by up to 3% on 10 May as investors reacted to the reopening of international travel from 17 May.

The Government's traffic light system didn't include the popular holiday destinations of France, Greece and Spain under the 'green list' category where travellers can visit and return without the need to quarantine.

The share price reaction wasn't as damaging as some investors might have expected.

Firstly, there is hope that the downward slope of Covid-19 infections and increasing vaccinations in France and Spain will soon lead to them being reclassified as green list countries.

Secondly, airlines and travel companies have been quick to increase capacity to Portugal, as demonstrated by **Ryanair (RYA)** which announced an extra 175,000 seats to Portuguese airports from 17 May.

Passengers to amber list countries will need to self-isolate for 10 days on their return and take PCR tests on day two and day eight and an option to take an additional 'test to release' after five days, adding significant costs for families.

The Government has also warned of increased delays at airports amid the closure of electronic passport gates. This allows Border Force offices to manually check incoming passengers entering the country which can take up to 10 minutes instead of 30 seconds for the automated system. [MG]

Two stock market entrants offering high dividend yields

Cash generative business models underpin ambitious yield targets at Taylor Maritime and Kitwave

AMONG THE STOCK market hopefuls lining up to test investors' appetites are two companies offering high yields backed by cash generative business models.

Shipping trust **Taylor Maritime Investments (TMIP)** should debut on 27 May, targeting an 7% dividend yield. The trust's objective is to provide an attractive level of 'regular, stable and growing' income and the potential for capital growth through investing in vessels employed on fixed period charters.

Taylor Maritime has agreed to acquire a seed portfolio of 23 dry bulk ships and offers a play on global economic recovery. Shipping remains the most cost-effective and efficient means of transportation given distances and essential commodities volumes, while second-hand ships are currently undervalued, giving Taylor Maritime the opportunity to acquire vessels at potentially attractive valuations.

Food and drink wholesaler **Kitwave (KITW:AIM)** is an reopening play which comes to market on 24 May offering a 4.5% dividend yield. It delivers sweets, soft drinks, frozen and chilled foods, alcohol, groceries and tobacco to a diverse 38,000-strong customer base spanning convenience stores, pubs, vending machine operators and foodservice providers.

Growth has been achieved organically and by gobbling up smaller, family-owned businesses and CEO Paul Young insists Kitwave has further growth opportunities in the fragmented grocery and foodservice wholesale market. [JC]

Expect big demand for Liontrust's debut investment trust

The shares could quickly trade at a premium to net asset value

Potentially high demand for Liontrust's first investment trust could see it quickly trade at a premium to net asset value once it starts trading in June.

Liontrust has a reputation for being one of the best asset managers in the ethical and environmental investment space. Its £1.4 billion **Liontrust Sustainable Future Global Growth Fund (3003006)** has been a top quartile performer over the past five years, returning 145% versus 97% from the IA Global sector, according to FE Fundinfo.

Investors will no doubt be hoping for a similar strong performance when **Liontrust ESG Trust** hits the market, yet *Shares* believes that investors may not be able to get as much as stock as they like in the launch offer. That could lead to big demand for the stock once it starts trading as investors seek to top up their positions.

Allocations in the share offer could be scaled back given Liontrust is understood to be targeting a mere £250 million maximum at launch. *Shares* understands that retail investors will be given the opportunity to apply for shares in the listing offer, creating an even bigger pool of people trying to obtain stock.

Liontrust is unlikely to want too much money on day one as it is partially targeting the small cap space for the new trust and won't want to end up owning too big a stake in portfolio companies. It will have a concentrated portfolio of between 25 and 35 holdings.

The trust will be managed by Peter Michaelis, Simon Clements and Chris Foster, members of the firm's sustainable investment team.

The decision to launch its first investment trust rather than another open-ended fund was driven by the permanent nature of the capital structure.

When an investor in an investment trust wants to get out, they simply sell the shares to another investor and the fund manager is theoretically unaffected.

In contrast, with open-ended products the fund manager must return cash to the investor when they exit, which in an extreme situation can mean having to sell some of the investment holdings.

Liontrust ESG Trust will invest in companies from around the world which help create 'a cleaner, safer and healthier world' through the more efficient use of resources, greater safety and resilience and improved health.

By including small-cap stocks, Liontrust ESG Trust will be competing for ideas with the recently revamped **Jupiter Green Investment Trust (JGC)**, which under new lead manager Jon Wallace has shifted its focus to smaller, innovative companies in 'difficult to tackle' sectors.

Liontrust ESG Trust's annual management fee has been set at 0.65% of net assets. Up to 10% of the fees from the trust will be used to fund research to identify and develop financial instruments covering UN Sustainable Development Goals that are currently uninvestable. [IC]

A great way to play growth in the digital economy and collect income

Cordiant Digital Infrastructure is relatively new to the stock market but has a lot going for it

Cordiant Digital Infrastructure (CORD) is looking to capitalise on the surging growth in data consumption and traffic which it claims will provide an economic tailwind for the next decade or more.

By focusing on the mid-market, the investment trust believes it can execute a 'buy-and-build' strategy by acquiring assets at a significant discount to the large cap listed companies.

The manager's thesis is predicated on the discount narrowing as the smaller platforms grow organically through targeted investment and by bolt-on acquisitions, eventually piquing the interest of strategic buyers.

Cordiant Digital is targeting 9% a year growth in net asset value when fully invested. The trust has an ongoing charge of 1.4% and currently trades at an approximate 7% premium to net asset value, about half the premium at which the London-listed infrastructure investment trust sector trades, according to Winterflood data.

Sustainable growth drivers and a progressive dividend policy initially targeting a 3% yield provide an attractive combination for investors looking for growth and income.

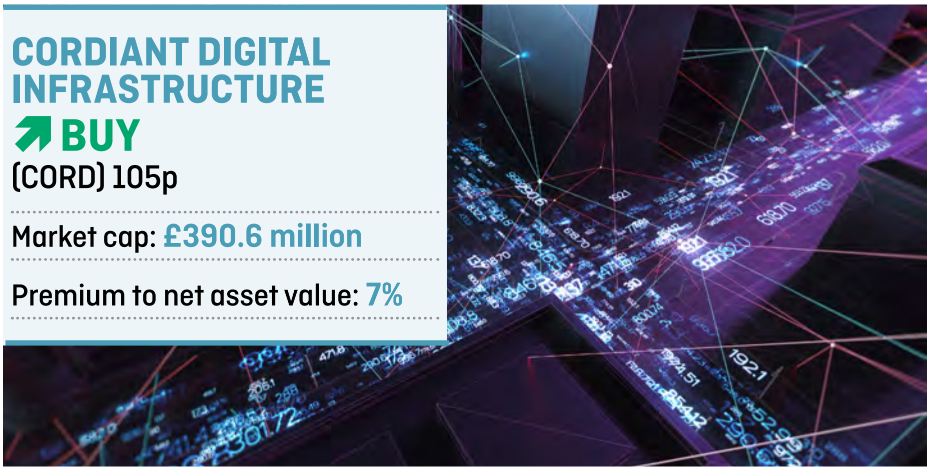
CORDIANT DIGITAL INFRASTRUCTURE

BUY

(CORD) 105p

Market cap: **£390.6 million**

Premium to net asset value: **7%**



SECTOR EXPERTISE

Cordiant Digital invests in data centres, mobile communications and broadcast towers, and fibre optic networks, primarily in the UK, Europe, the US and Canada.

The company sees itself as an attractive acquirer due to the expertise in the asset class and longer-term investment horizon of the investment manager, Cordiant Capital. The latter has decades of investment experience in the digital infrastructure sector and advises on funds worth around $2 billion.

Executive chairman Steve Marshall was previously president of American Towers' US towers division and pioneered the network neutral telecommunications infrastructure model whereby owners lease infrastructure to multiple operators.

This structural shift means that today around two thirds of mobile towers in the US and Canada are owned by third party independent tower companies.

Co-chief executive and head of investments Ben Mikula was a top ranked analyst in the technology and communications sector whilst working at RBC Capital Markets and has over 30 years of investment experience.

He advised on billions of dollars of capital raising, capital structure optimisation and mergers and acquisitions in the US and Europe. The wider investment team at Cordiant Capital is comprised of 40 investment professionals.

STRUCTURAL GROWTH DRIVERS

Digital infrastructure refers to the

critical networks needed to run the internet, ranging from fibre-optics to data centres and towers that wirelessly carry the data traffic to end users.

A key growth driver is the global rollout of the next generation 5G spectrum which will provide greater data transmission, lower latency and enhanced user experience. This is expected to drive demand for and growth of digital infrastructure. It is expected to represent around 20% of global connections by 2026 according to Investec.

Swedish mobile infrastructure company Ericsson recently said there were around 7.9 billion mobile subscriptions which are expected to grow to 8.8 billion by 2026. Smart phones represent around 75% of all mobile subscriptions and penetration is expected to rise to 85% by 2026.

The key factor driving the growth of data centres is the demand for cloud computing and the 'internet of things' with the trends likely to endure as more devices become connected and provide real-time access to products and services.

The fibre market is split between long-distance backbone networks and the last mile to the home or business premises.

Cordiant Digital is not involved in assets which require the signing up of customers. Instead, the focus is on housing associations, towns and cities and corporate customers. Greater amounts of data usage and government mandated access to higher speed networks outside of large cities remain strong drivers of growth.

Investec points out that

the growth of fibre assets is inextricably linked to the growth of data centres and mobile towers. There is a greater need to invest in backbone density and similarly there is a need to upgrade copper wire connections to fibre as 5G is rolled out.

CREDIBLE ESG CREDENTIALS

Cordiant Digital highlights that it has embedded the principles of environmental, social and governance into its investment model.

For instance, the increase in virtual meetings reduces the pollution generated by driving or using public transport. Employing efficiency measures in the data centres cuts absolute power consumption and developing centres in areas with abundant renewable energy reduces emissions.

QUICK DEPLOYMENT OF CASH

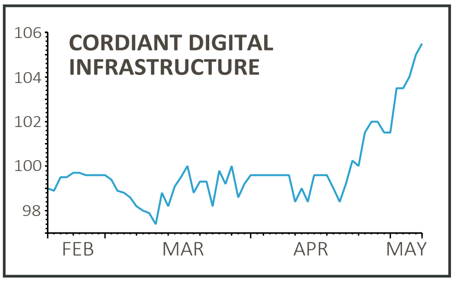
The investment trust has identified a large pipeline of opportunities, valued at over £900 million, an upgrade on its initial estimates when it came to market in February 2021. This implies it could come back to the market to raise more money in time.

A common risk for investors in infrastructure companies is that it can take a long time to deploy the capital that they raise, diluting returns, but Cordiant Digital has been fast in deploying its money.

Following the 4 May purchases of digital platforms in the Czech Republic and Norway for a combined £451 million, undeployed cash sits at around £43 million, representing 12% of net asset value.

These acquisitions will provide the company with a base of stable, cash generative assets with long term contracts as well as attractive opportunities to deploy accretive capital investment.

We believe Cordiant provides investors with exposure to an interesting asset class with attractive growth and income opportunities, and access to an experienced management team. [MG]




THE SCOTTISH
Investment Trust
We invest in ugly ducklings…
Unloved and underappreciated, our contrarian opportunities have the potential to flourish during the economic recovery and thrive over the long term.
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Buy Zoo Digital to play TV streaming growth

Its cloud platform gives content owners the tools to take shows around the world

How we watch TV has changed massively in recent years and it is now as common to talk about the latest Netflix shows as anything on BBC or **ITV (ITV)**. One way to tap in to the explosion of on-demand streaming services is a little-known AIM-quoted business **Zoo Digital (ZOO:AIM)**.

This is a small growth company with an up and down track record, so may not suit every investor, but we believe it is ripe for strong profitable growth over the coming years.

The Sheffield and Los Angeles-based business runs an in-house designed, multi-tools technology platform in the cloud that allows media owners to repackage their TV and film content for different geographies, languages, formats and technologies.

This typically means providing subtitling and dubbing services although the platform can also be used for more niche localisation services, such as changing on-screen advertising for example.

Users include many of the big names across the global entertainment and media industry, including some of the big Hollywood studios, Netflix, Amazon, Apple, Google and Hulu, plus other large online retailers, broadcasters, independent distributors and brand agencies.

ZOO DIGITAL
BUY
(ZOO:AIM) 121p

Market cap: £98.5 million

The pandemic shut down TV and film production everywhere but Zoo Digital was not idle, helping clients to repurpose large back catalogues to help streaming services maintain subscriber stickiness through a period when new content was thin on the ground.

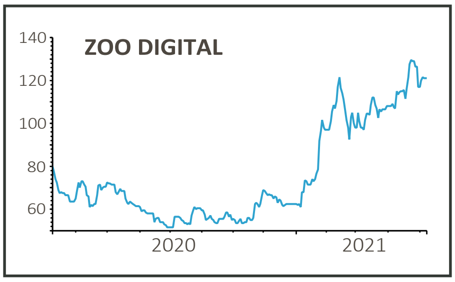
Now, with production springing back to life, prospects look even better for the company.

Zoo recently upgraded revenue guidance for the year to 31 March 2021, noting that revenues are now expected to be $39.5 million, representing year-on-year growth of 33%. This compares to prior guidance of $38 million from January, which was already ahead of market expectations of $36.1 million.

This means a much better level of profitability too, with earnings before interest, tax, depreciation and amortisation now expected to more than double from $2.14 million in the year to March 2020 to $4.7 million.

Investors should be aware that Zoo Digital plans to continue investing in the business to take advantage of the opportunity before it. This could limit short-term earnings upside and may involve raising fresh growth funding down the line. At the end of March 2021 the company raised £7.4 million via a share placing priced at 100p, a cash call that was oversubscribed.

A March 2022 price to earnings multiple of 50 based on Stifel's $0.034 of earnings may look pricey now, but Zoo Digital aims to more than double revenue to over $100 million over the coming few years. Presuming earnings enjoy the same upwards trajectory, the stock looks ripe for further gains over the next 12 to 18 months. [SF]



ITV

(ITV) 125.4p

Gain to date: 65%

Original entry point:

Buy at 76p, 30 April 2020

WHILE THE momentum behind **ITV's (ITV)** shares may have stalled a little after a strong run around the turn of the year, there are catalysts which suggest there could be further upside in the near term.

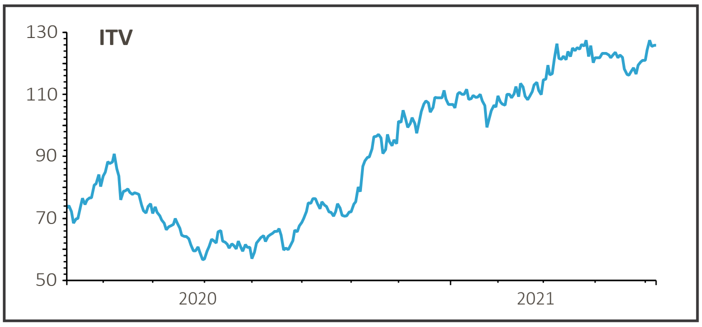
In an encouraging first quarter update (5 May) the free-to-air broadcaster said it expected stronger growth in the second half of the year after reporting a 2% uptick in first quarter revenue amid an ongoing rebound in the advertising market.

Advertising revenue was up 68% in April year-on-year, and the company expects further gains for May and June of 85% or more.

This is underpinned by the return of the popular *Love Island* reality series and the delayed Euros football tournament.

Numis analyst Steve Liechti suggested that the shares are a good play on the improved macroeconomic backdrop through exposure to TV advertising, particularly as numbers are likely to look very strong versus a pandemic-disrupted 2020.

While Liechti sees 'mid-term structural linear TV challenges that look tough to offset' for the time being we would expect the market to reward the company's recovery.



SHARES SAYS: ↗

Still a buy for now. [TS]

SOMERO ENTERPRISES

(SOM:AIM) 459.49P

Gain to date: 76.7%

Original entry point:

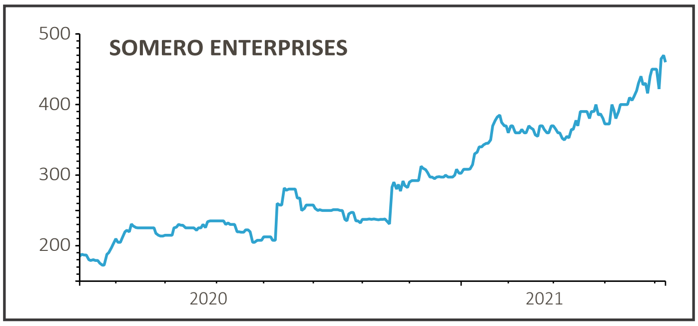
Buy at 260p, 24 September 2020

ONLINE SHOPPING has boomed during the Covid-19 pandemic and that success has manifested itself in some surprising ways, such as the soaring share price of concrete floor flattening equipment maker **Somero Enterprises (SOM:AIM)**.

Demand has improved across the construction industry, but the real engine for improving trading conditions is the rampant need for more warehouse space as businesses embrace digital commerce.

Large modern warehouses and fulfilment centres increasingly use automation and robotics. To work they need to move swiftly and smoothly around the property, and that means level flooring to the nth degree, which is exactly where Somero comes in.

The company has hiked its 2021 growth guidance thanks to surging demand in its key US market as the economy bounces back. That was responsible for the stock's latest lift, but the share price has been doing well for months, up nearly 80% since we said to buy last September.



SHARES SAYS: ↗

Somero's superior margins (around 30%), strong cash generation and a near-20% price to earnings discount to peers is attractive. The company looks increasingly like a buyout target to us, so keep buying. [SF]

VIRGIN WINES
(VINO:AIM) 246P

Gain to date: 9.8%
Original entry point:
Buy at 224p, 22 April 2021

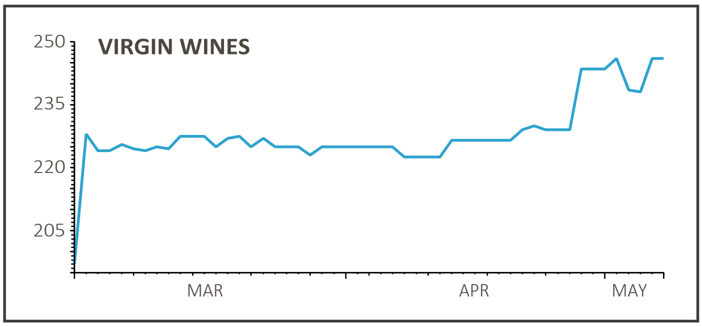
OUR BULLISH CALL on stock market newcomer **Virgin Wines (VINO:AIM)** is 9.8% in the money and we are encouraged by an upgraded outlook (6 May) from the online wine retailer, which now sees year to June 2021 sales and profitability coming in ahead of its previous expectations.

The strong sales momentum experienced in the first half has continued into the second half to date, with Virgin Wines benefiting from 'pleasing order frequency among existing customers and good levels of new customer acquisitions' and enjoying growth in its new range of beers and spirits too.

Management now expects turnover for the year to be 'no less than £73 million', 4% ahead of broker Liberum's previous estimates, with an improvement in EBITDA margin.

Admittedly, the easing of lockdown restrictions could impact on consumer spending patterns over the months to come, yet Virgin Wines remains confident that the underlying growth drivers alongside the accelerated shift in consumer behaviour towards online retailing will continue.

Liberum has increased its 2021 sales and pre-tax profit estimates from £70.3 million to £73 million and from £4.6 million to £5 million respectively.



SHARES SAYS: ↗
Keep buying Virgin Wines. [JC]

Raising the standards of **ESG in private equity**

Recent global events have shone a spotlight on the ethical behaviours and sustainability of businesses around the world. There is sometimes a misapprehension that environmental, social and governance ("ESG") factors are not regarded as important in private equity investment. However, this could not be further from the truth. Even before the COVID-19 crisis, it was clear that private equity managers can play an important role in integrating sound ESG factors into business conduct, and that doing so goes hand in hand with generating continuously attractive long-term financial performance. Pantheon places great importance on these qualities when investing on behalf of Pantheon International Plc ("PIP").

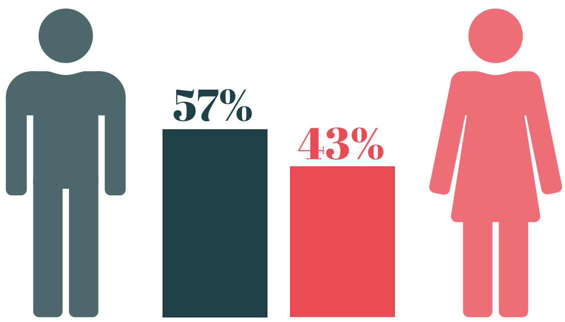
Helen Steers, Partner at Pantheon and manager of PIP

Private equity managers are well-positioned to assess the risks related to ESG effectively and to manage potential issues and opportunities at both the portfolio level and the underlying companies. The interests of the ultimate investors, the private equity manager and the business' management are well aligned and the tight governance in private equity ensures that action can be taken if a portfolio company is not achieving its plan.

As one of the first private equity signatories to the United Nations-backed Principles for Responsible Investment (UNPRI) in 2007, the core principles of responsible investment are embedded in Pantheon's due diligence processes. When considering a new fund commitment for PIP, each private equity manager is rated green, amber or red, based upon an assessment of their ESG policies and processes. If a private equity manager is rated red for ESG risks, it is highly unlikely that PIP will make the investment. When assessing a co-investment opportunity, our due diligence takes account of potential ESG risks to which the company may be exposed, the private equity manager's plan for mitigating these risks and how this has been achieved with prior investments with similar characteristics. Many private equity managers have found the engagement through the ESG rating process to be valuable and, as time passes, most private equity managers migrate to the green rating.

Passionate about improving diversity and inclusion in employee culture

Pantheon is also a champion of promoting diversity and inclusion both within our own business and those of our private equity managers. We believe that this is not only ethical but also makes good business sense; our strong belief is that more diverse private equity firms make better investment decisions, which leads to better performance. Diversity also helps when private equity firms originate deals and work with their portfolio companies. In an increasingly competitive world, companies have a choice of who they work with and private equity managers need to be able to relate to a more broadly diversified group of senior executives. As a result, consideration of diversity and inclusion is fully integrated into our investment due diligence and monitoring processes. This ethos is also reflected on PIP's Board which once again exceeded the Hampton-Alexander Review which set a target for boards to consist of 33% women by 2020: PIP's Board is 43% female, consisting of seven Non-executive Directors of which three are women.



Maintaining oversight and accountability after an investment is made

We understand that our responsibility and influence extend far beyond the point of investment, which is why we actively undertake extensive ongoing portfolio monitoring on PIP's behalf after an investment is made, including a continuous assessment of ESG risks. One of the ways this is managed is through RepRisk, a third-party news information service and highly effective tool which delivers excellent coverage on issues affecting the underlying portfolio companies. This allows Pantheon to follow up on material issues with the relevant manager to understand more about the background, assess the accuracy and reporting of an ESG incident and to find out how the private equity manager plans to address the issue or what steps might already have been taken. More generally, Pantheon actively engages with private equity managers on ESG policy and issues on a continuous basis through its participation on over 470 fund advisory boards[1] and through the regular portfolio monitoring meetings held with managers. This engagement extends from our initial commitment to an investment, all the way though to divestiture.

Forming part of the solution and having a positive impact on the communities around us

Like many people around the world, private equity managers have been touched on a personal level by the pandemic, and they have responded in practical ways to the crisis. We have been pleased to observe that many of PIP's underlying private equity managers and their portfolio companies have donated products, services and expertise to the relief effort, and that they continue to support their local communities.

As attention turns to rebuilding economies and restoring growth once the crisis ends, private equity has the credentials to contribute positively to the recovery effort. Research has shown that historically private equity has played an instrumental role in creating jobs, promoting innovation and driving economic growth, particularly in the developed markets. For example, according to a recent study, private equity supported 10.5 million jobs in Europe through its company ownership in 2018[2] and was a major employer in most industry sectors. In that same year, employment levels at private equity-backed firms increased by 5.5%, with jobs created within all stages of investment from venture through to buyouts, which compared to overall growth of 1.1% in the European job market[2]. In the USA, which has the deepest and most established private equity market in the world, private equity invests half a trillion dollars in American businesses each year[3]. Furthermore, private equity has demonstrated its commitment to supporting smaller businesses through the pandemic with nearly half of all private equity investments being channelled into companies with fewer than 500 employees[3] in the USA.

As we look towards the future, there will undoubtedly be a different focus on many aspects of our lives not to mention the challenges of living with the economic aftermath. Our private equity managers have an enlarged opportunity to use their knowledge, experience and networks to help the companies in PIP's portfolio to not only build value but to also bring long-lasting benefits to societies around the world. We will continue to engage and encourage the private equity managers in PIP's portfolio to use the active ownership model as a force for responsible investment. We are convinced that companies which have a strong emphasis on behaving responsibly towards their stakeholders, are better managed and produce attractive long-term performance.

[1]As at 31 March 2021
[2]Source: Invest Europe "Private equity at work" report, published September 2020
[3]Source: American Investment Council (https://www.investmentcouncil.org/)

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Why heavy metal continues to strike a chord with investors

Inflationary pressures are helping mining stocks to outperform

The Federal Reserve continues to insist that inflation is only transitory and will quickly fade as the base for comparison gets tougher from now onwards, especially when it comes to important inputs such as oil.

Yet not everyone is convinced. Central banks in Brazil and Russia are now hiking interest rates, the Norwegian one is promising higher borrowing costs in the second half, the Bank of England is gently slowing the rate at which it is buying gilts under its quantitative easing (QE) scheme and the Bank of Canada is actively reducing the scope of its equivalent programme.

Economists are starting to fret. Usually, price rises start with commodity prices first, then they seep into factory gate (or producer) prices are companies see their input costs rise and then you get those very same firms jacking up their prices to preserve margins and that's when consumers start to feel the pinch.

Raw material prices and factory gate prices are already rising sharply

Source: Refinitiv data

It is not hard to make case that the first two phases may already be underway, even if headline consumer price indices remain relatively subdued.

Stock markets are beginning to take note. The Industrial Metals and Mining sector is the top performer within the FTSE 350 this year and even Precious Metals and Mining ranks ninth out of forty, even if gold and silver seem to be out in the cold right now.

Industrial Metals and Mining is also the leading sector on a one and five-year view. That may lead some investors to wonder if they have missed the boat. If the Fed is right then the answer may be 'yes'.

But if inflation grabs hold, or we simply get a rip-roaring economic recovery, or commodities are in the early stages of a new 'super-cycle,' as some are suggesting, then miners could yet offer some of the treasure that portfolio builders are seeking.

TURNING POINT

For all that miners' share prices are motoring, analysts' earnings estimates look pretty conservative compared to the sector's cyclical peaks of 2006-07 and 2011-12, at least if you use aggregate consensus forecast for the seven miners which currently reside within the FTSE 100 – **Anglo American (AAL)**, **Antofagasta (ANTO)**, **BHP (BHP)**, **Fresnillo (FRES)**, **Glencore (GLEN)**, **Polymetal (POLY)** and **Rio Tinto (RIO)**.

Their aggregate operating profit peaked at $65 billion in 2011, although return on sales peaked at 36% in 2010.

Yet analysts seem to think that the mining sector's operating margin will peak this year at just 23%, despite years of cost control and the current boom

RUSS MOULD
AJ Bell Investment Director

FTSE 350 sector indices, top 10 performers by capital return

2021 to date	
Industrial Metals & Mining	43.7%
Industrial Transportation	36.3%
Banks	22.8%
Telecoms Services	20.4%
Life Insurance	17.0%
1 year	
Industrial Metals & Mining	166.0%
Industrial Transportation	143.0%
Leisure Goods	81.0%
Autos & Parts	72.2%
Precious Metals & Mining	67.1%
3 years	
Leisure Goods	341.0%
Technology Hardware	86.9%
Electronic & Electrical Equipment	54.9%
Industrial Metals & Mining	47.5%
Support Services	36.7%
5 years	
Industrial Metals & Mining	541.0%
Leisure Goods	381.0%
Precious Metals & Mining	179.0%
Electronic & Electrical Equipment	151.0%
Industrial Engineering	103.0%

Source: Sharepad, data to 10 May 2021.

in prices. Granted, that equates to $88 billion of operating profit, a new all-time high, but analysts expect that to ebb to $71 billion in 2022 and $61 billion in 2023, in the view that the initial post-pandemic surge of activity runs out of steam.

SUPPLY-SIDE SQUEEZE

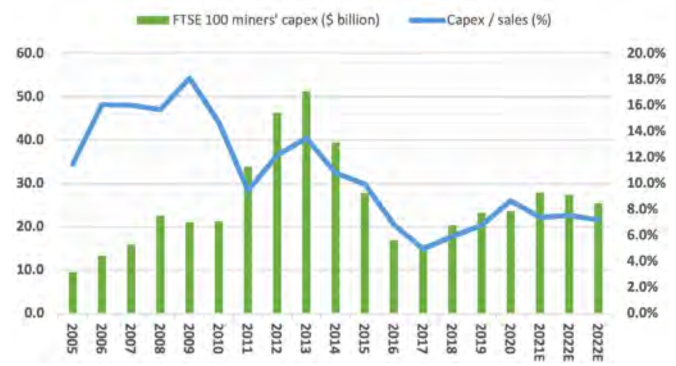
In the event of an inflationary recovery, or maybe even stagflation, that could yet look conservative, especially as sustained increases in raw materials do not always require rampant demand growth. In fact, quite the opposite.

Commodity bull markets often result from supply-side constraints that are the result of the bust (and hangover) that followed the preceding boom, as miners cancel projects and rein in capital investment to shake off the excesses of the last upcycle.

THIS BUILDING BLOCK IS IN PLACE.

The FTSE 100 miners' capital investment peaked at 18% of sales in 2009, two years before the profit peak, and at $51 billion in 2013, no less than two years after it, as a dash to increase output undid the very boom it was looking to support. Investment subsequently slumped to just 5% of sales, or $16 billion, in 2017.

Spending is ticking up but to nothing like the highs seen in 2009-11 and nor are miners splashing the cash on big acquisitions. Largesse is out and fiscal probity is (still) in. Mines cannot just be switched on in a flash.



Source: Company accounts, Marketscreener, consensus analysts' forecasts

If demand really does pick up and prices start to run, it could take some while for supply to catch up, especially as government spending plans for infrastructure around the globe suggest that demand for commodities could be strong.

A 'green' future based on renewable energy may also lean heavily on copper, cobalt, rare earths, platinum, palladium and other metals and resources (wind turbines are made of steel and the manufacturing process needs iron ore). A debt-laden slump may snuff out the bull case, but heavy metal could continue to strike a chord with investors if we get a strong recovery, inflation, or both.

What are dividends and why do they matter?

Why they are paid, how often and the tax treatments to consider

When you buy a share in a company you are literally buying a share in its future earnings. As an ordinary shareholder, you are entitled to vote at the company's annual general meeting and any extraordinary meetings that are called, to buy more shares when the company has a pre-emptive rights issue, and most importantly you own a share of the dividends.

Dividends are cash payments to shareholders from the company's earnings after accounting for operating costs, interest costs, taxes and essential investment in the business.

Dividend payments are not guaranteed, and some companies pay no dividends at all. Some can't afford to pay them; others prefer to keep spare cash to help grow their business. For those who do pay dividends, each company has the discretion to pay as much or as little as it likes.

HOW OFTEN ARE DIVIDENDS PAID?

Companies tend to pay dividends half-yearly, or some quarterly, as a way of compensating shareholders for the risk of holding their shares. After all, you could invest in government bonds and get a guaranteed income instead.

Most of the time, as long as companies are growing their earnings per share, shareholders can look forward to a steadily rising stream of dividends year after year.

Some shareholders will want to reinvest their dividends in the company and allow their holding to compound, while others will want to take the cash to pay some of their outgoings.

The latter is typical of people who are retired and don't want to eat into their capital, so they collect their regular dividend cheques and use them to pay some of their bills.

As well as ordinary shares, some companies issue preference shares. Unlike ordinary shares, preference shares come with no voting rights, but they pay a fixed rate of interest, similar to a bond. Also, the owners of preference shares receive their dividends before holders of the ordinary shares.

PROS AND CONS OF DIVIDENDS

There are differing views among investors on the importance of dividends as a source of income. Terry Smith, the founder of asset manager Fundsmith, prefers companies he invests in to plough as much of their retained earnings back into the business as possible to keep generating high returns. When he wants to raise cash, he simply sells a small number of shares from different holdings instead.

Berkshire Hathaway – the investment company run by famous investors Warren Buffett and Charlie Munger – hasn't paid a dividend since it was founded. Instead, it has looked for attractive investment opportunities and, failing that, it has bought its own shares back as a way of enhancing shareholder returns.

The drawback with taking income in the form of dividends is there is a tax on payments over the personal allowance, which is currently £2,000. To work out your tax band, add your total dividend income to your other income. You may pay tax at more than one rate.

A WORKING EXAMPLE

You get £3,000 in dividends and earn £29,570 in wages in the 2021 to 2022 tax year.

This gives you a total income of £32,570.

You have a personal allowance of £12,570, which is the amount of income you do not have to pay tax on. Take this off your total income to leave a taxable income of £20,000.

This is in the basic rate tax band, so you would pay:

- 20% tax on £17,000 of wages;
- no tax on £2,000 of dividends, because of the dividend allowance;
- 7.5% tax on £1,000 of dividends.

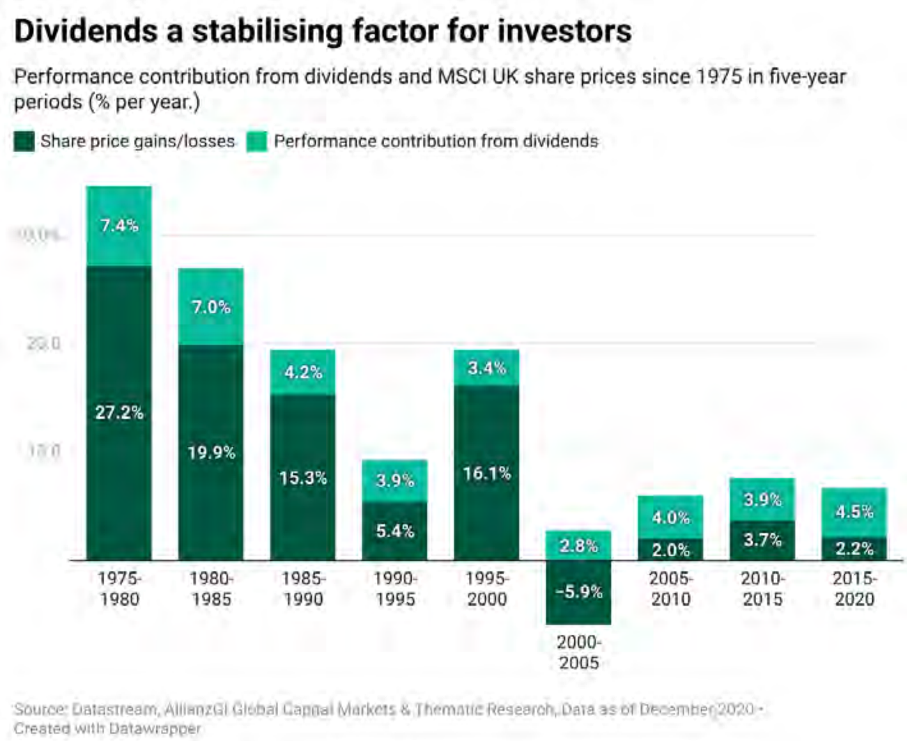
For higher rate taxpayers the rate is 32.5% on dividend income over £2,000, and for additional rate taxpayers the rate is 38.1%.

If you regularly receive more than the personal allowance of £2,000 in dividends, the advice is to contact HMRC and ask to have your tax code changed so that tax is withheld at source from your salary or pension.

If the shares are held in a tax-efficient wrapper, such as an ISA, Junior ISA or SIPP, there is no UK income tax to pay on the dividends.

WATCH OUT FOR OVERSEAS-DOMICILED COMPANIES

Several UK-listed companies are domiciled in other countries for tax reasons, which has different tax implications. For example, mining firm **Ferrexpo (FXPO)** is domiciled in Switzerland and pays dividends in US dollars,



although UK investors can opt to receive payment in sterling. Either way, a Swiss withholding tax of 35% applies on dividends and is deducted at source.

Confusingly, rival miner **Glencore (GLEN)**, which is also based in Switzerland and pays dividends in dollars, euros, sterling and South African rand, has got around the withholding tax by treating distributions as a reduction of the company's 'capital contribution reserves'.

A STABILISING INFLUENCE

Dividends are an important part of the UK retail investor landscape and the strength of demand can be shown by the size of the equity income sector of the UK's investment trust industry.

According to the Association of Investment Companies, there is almost £19 billion allocated to income funds, with £12 billion invested in UK-specific trusts alone.

These include **Finsbury Growth & Income [FGT)**, managed by Lindsell Train, and **City of London (CTY)**, managed by Janus Henderson, with each accounting for over £1.7 billion of assets.

Moreover, as Simon Gergel, manager of **The Merchants Trust (MRCH)** points out, in the last 20 years dividends have played a crucial role in stabilising the returns on UK stocks.

In the period from 1975 to 2000, share price gains were far and away the biggest contributor to total returns. However, since 2000, in each of the four five-year periods to 2020, dividends have contributed most of the overall returns investors have enjoyed in UK stocks.

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

By **Ian Conway**
Senior Reporter

HOW TO GENERATE £30,000 A YEAR IN RETIREMENT:

We offer various ways to manage a pension pot and six investment ideas

By **Martin Gamble**
Senior Reporter

For people approaching retirement it can be daunting to plan for a change of pace in lifestyle, while the financial side of things can even be more scary. It is, therefore, always worth getting some form of financial guidance or advice around such life-changing events. If you're not sure, you should seek help from a financial adviser.

In this article, we highlight some of the financial options available and the important issues to consider. We then explore six fund ideas aligned with the goal of generating an income from investments to be taken together with money from the state pension.

For the purposes of illustration, we have created a fictional character called Roy who is aged 61 and is starting the process of winding down from work. He's now moved to working part-time before planning to retire completely at 66 when he will start to draw his state pension.

Roy has paid off his mortgage and debts and from age 66 is looking to live off an effective salary from investments and the state pension combined of £30,000 a year before tax. This would produce an after-tax pay of £25,615 a year.

He wants to generate an equivalent income for the period from 61 to when he fully retires. Roy's new three-day working week pays a salary of £20,000 (£17,264 after tax and national insurance). This leaves him £8,351 short of his goal.

Roy already has £300,000 in a self-invested personal pension pot which generates around £10,000 in dividends every year.

DRAWDOWN OPTIONS

Roy will want to consider which retirement income option is the most tax efficient. In general, taking tax-free lump sums rather than taxable income when someone is a taxpayer makes sense.

Roy plans to take out enough income each year from his self-invested personal pension to make up the total to £25,615 after tax.

There are three options under pension drawdown rules to consider. The first option is to crystallise the whole £300,000 pension pot and take 25% or £75,000 out as a tax-free lump sum, and move the remaining £225,000 into drawdown. Roy can then use up his tax-free lump sum gradually to top up his salaried income. He will need to add £8,351 to his salary income of £17,264 to give him his target net income of £25,615. This equals a total of £41,755 over five years.

It's worth noting that once he has 'crystallised' his pension pot any future growth from the pension portfolio cannot earn future tax-free lump sums.

This is probably not the ideal option for the 61-year-old because he only needs access to £41,755 of the tax-free portion over the next five years, not the whole £75,000. Roy will need to decide how to invest the remaining lump sum.

It would make more sense to just release the tax-free cash needed now rather than the whole entitlement.

This would allow the remaining fund, including the unused tax-free portion, to continue growing over the long-term with some tax benefits. For Roy's purposes the best way to achieve this goal is to opt for a partial drawdown.

Under this option he could elect to take £8,351 every year for five years tax free. So, he needs to do some reverse maths.

The 25% tax free element required each year is £8,351. That means crystallising £33,404 a year, paying out £8,351 as a tax-free lump sum and moving £25,053 into drawdown. This can be left invested until needed.

A third option is to take an ad-hoc lump sum which in pension industry jargon is called an uncrystallised fund pension lump sum, or UFPLS for short.

Under this option 25% of the lump sum is tax free, and 75% is taxed as income. To give Roy a combined lump sum of £8,351 (after tax), he would have to take £9,825 each year as a UFPLS.

To recap, our 61-year-old can enjoy the benefits of their previous income while working part time. The next step is to make sure the portfolio of investments is fit for retirement.

By the point at which Roy retires his pension pot might have seen enough capital growth from his remaining investments to take the total value back to £300,000, even after the withdrawals when he was working part-time.

We are assuming that retiring at the state pension age is necessary to enjoy a comfortable retirement, but in a seperate box we also discuss the financial benefits of delaying taking the state pension.

ADVANTAGES OF DEFERRING THE STATE PENSION

It is possible to defer your state pension in return for an uplift in the weekly amount paid.

For anyone who reached state pension age on or after 6 April 2016, the deferral rate is 1% for every nine weeks they defer, or just under 5.8% for every 52 weeks.

That works out at an extra £10.42 a week for people on the full flat-rate pension of £179.60 a week for the 2021/22 tax year or around £542 a year.

The state pension rises every year under current policy at a minimum of 2.5% a year.

For someone with a state pension age of 66, the point at which they might reap rewards from deferring the state pension could be around age 81.

This suggests that, provided you are in good health, delaying receiving your state pension could pay off financially.

One way to manage pension drawdown

Capital Draw (%)	4%	Reset cap draw year 8	5%
Starting Capital	£300,000	Reset cap draw year 12	6%
Growth (%)	5%	Reset cap draw year 15	7%
Dividend Yield (%)	3%	Reset cap draw year 17	9%
		Reset cap draw year 19	10%

Starting point: £300,000

	Value (£)	Div Income (£)	Capital draw (£)	Total Income (£)	End Year*
Year 1	315,000	9,450	12,600	22,050	292,950
Year 2	307,598	9,228	12,304	21,532	286,066
Year 3	300,369	9,011	12,015	21,026	279,343
Year 4	293,310	8,799	11,732	20,532	272,779
Year 5	286,417	8,593	11,457	20,049	266,368
Year 6	279,687	8,391	11,187	19,578	260,109
Year 7	273,114	8,193	10,925	19,118	253,996
Year 8	266,696	8,001	13,335	21,336	245,360
Year 9	257,628	7,729	12,881	20,610	237,018
Year 10	248,869	7,466	12,443	19,910	228,959
Year 11	240,407	7,212	12,020	19,233	221,175
Year 12	232,233	6,967	13,934	20,901	211,332
Year 13	221,899	6,657	13,314	19,971	201,928
Year 14	212,025	6,361	12,721	19,082	192,942
Year 15	202,589	6,078	14,181	20,259	182,331
Year 16	191,447	5,743	13,401	19,145	172,302
Year 17	180,917	5,428	16,283	21,710	159,207
Year 18	167,168	5,015	15,045	20,060	147,108
Year 19	154,463	4,634	15,446	20,080	134,383
Year 20	141,102	4,233	14,110	18,343	122,759
Year 21	128,897	3,867	12,890	16,757	112,140

Source: Shares Magazine for illustration purposes only.
Note: Assumed income and capital withdrawn at end of each year. *Once capital and dividend income deducted.

INVESTING IN RETIREMENT

Historically most of us would have used our pension pots to purchase an annuity, offering a guaranteed income through the course of our retirement.

However, with annuity rates extremely low and greater flexibility now available, many are taking control of their own destiny and remaining invested in retirement.

The new full state pension for the 2021/22 financial year provides £179.60 a week or £9,339 a year. For many people that will be an important component of their overall income in retirement.

For the second part of this article, we will look at how a 66-year-old might want to structure their retirement portfolio and manage withdrawals at retirement. We have assumed a starting pension pot of £300,000 and a target of earning approximately £30,000 a year before tax from investments and the state pension.

A 66-year-old could take £5,000 as a tax-free lump sum and £15,000 of taxed income a year via the partial drawdown or UFPLS routes. As a reminder, the state pension could provide £9,339 a year – and most likely more in the future thanks to annual increases by the Government.

MANAGING THE PORTFOLIO

We have produced a table that shows how a £300,000 portfolio might be managed in order to meet the desired annual income level. It assumes 5% capital growth and 3% dividend yield each year.

As the table shows, the dividend income of the portfolio is £9,450 for the first year and £12,600 of capital is withdrawn from the pension to achieve a pre-tax income of £22,050.

Over time the percentages taken as capital change to offset the fact that a shrinking pot of money will produce a smaller stream of income. By doing this, one could still maintain roughly the same level of overall income a year from the pension pot (capital taken and dividends).

The growth rate of the portfolio partially offsets the money drawn from the fund via dividends and capital, resulting in the value of the fund falling around 2% a year.

It really comes down to individual risk appetite and financial needs later in life that determine the amount of capital that you draw from the pension and how much is left for future generations.

It's worth remembering that when you die your remaining pension can be passed on to named beneficiaries usually free from inheritance taxes. If you die before the age of 75, no income tax is paid by your beneficiaries, but remember that the majority of people die after the age of 75.

FIVE INVESTMENT IDEAS FOR A DRAWDOWN PENSION

For this feature we are focusing on actively managed funds and investment trusts, but future articles will consider passive investments and individual shares that might suit a drawdown portfolio.

Although security of income and low risk are the watch words for a portfolio serving someone in retirement, according to ONS data in September 2020 life expectancy at age 65 years was 18.8 years for males and 21.1 years for females.

This means that some growth element is also desirable in a portfolio if only to maintain values in real terms. Even with inflation running at current low levels of sub-2%, over long periods it can eat into the spending power of your investments.

Growth and reliability of income is therefore just as important as the level of income. We have chosen a mixture of funds which reflect these characteristics.

The following funds specialise in aiming to provide income, defensiveness, inflation protection as well as growth, which could help to achieve good overall diversification.

TB EVENLODE GLOBAL INCOME FUND (BF1QNC4)

The £1.2 billion fund invests globally in large cap names with an emphasis on providing income. Lead manager Ben Peters has managed the fund since inception in 2017 and has also worked on the Evenlode UK Income fund since 2009 which follows the same investment process.

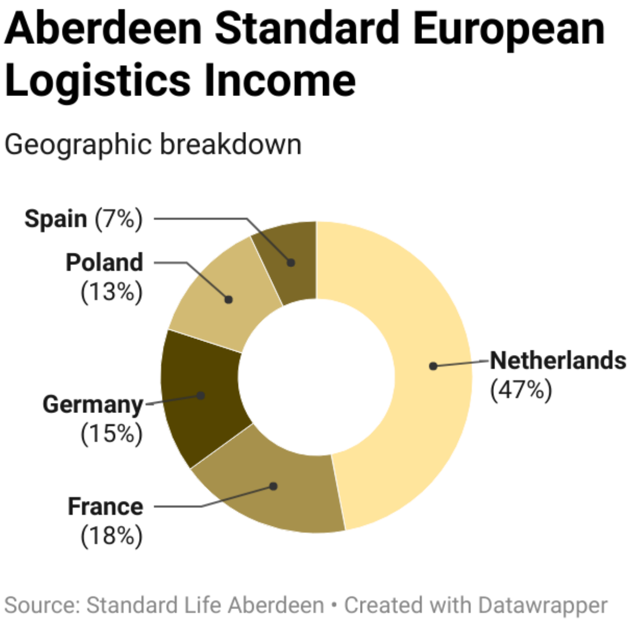
Chris Elliott joined Evenlode in 2015 and became co-manager of the fund in 2017. The team seeks to buy companies with high profitability, low financial gearing and low capital intensity.

The idea is that this process leads to a portfolio composed of quality stocks which can benefit from compounding of earnings as well as paying a growing dividend.

The fund has delivered a three-year compound annual growth rate of 12.9% a year, just below the MSCI World Index return of 13.4% a year, but above the peer group return of 9% a year. Recent underperformance can be explained by its quality-focused investment style being out of favour.

The fund has an ongoing annual charge of 0.85% a year and trailing annual dividend yield of 1.97%.

ABERDEEN STANDARD EUROPEAN LOGISTICS INCOME (ASLI) 116.5P



Yielding 4.3% and trading at a modest 1.1% discount to net asset value, **Aberdeen Standard European Logistics Income (ASLI)** might appeal to someone in retirement.

It invests in European warehouses – a space which is benefiting from the shift to online shopping which has been accelerated by the pandemic.

While this market is quite mature in the UK, in mainland Europe the growth of e-commerce is at an earlier stage which should have positive implications for valuations and growth of related property investments.

The investment trust's rents are inflation-linked, providing protection against rising prices and the company completes most of its deals off-market, supported by having teams on the ground and strong relationships with potential tenants.

While one of its more significant tenants, Office Depot in France, recently entered administration, it continues to pay rent and the trust is confident about re-letting the space should it need to.

THE MERCHANTS TRUST (MRCH) 513.1P

With a history stretching back to 1886, this £630 million trust has navigated through most market conditions, from wild booms to crushing busts, all while sticking to its value-oriented approach.

Manager Simon Gergel strives to provide investors with a higher-than-average level of income and income growth through investing in higher yielding UK companies.

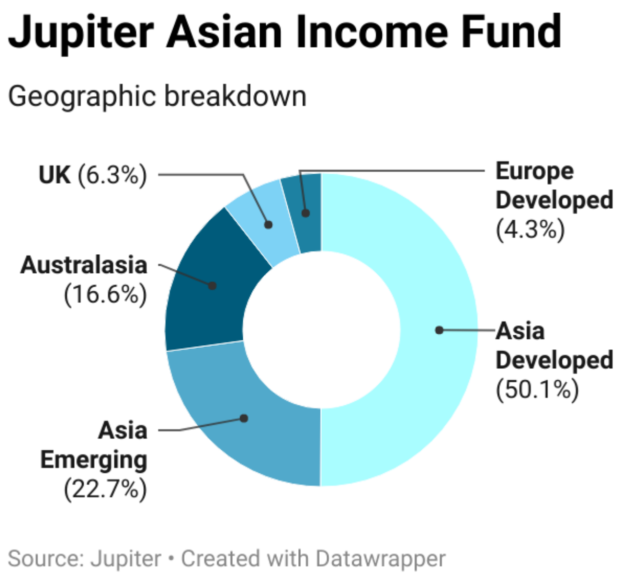
Over the past five years the trust has delivered an compound annual growth rate in net asset value of 10.7%, slightly above the Morningstar UK Large Cap category return of 9%.

The biggest holdings include pharmaceutical firm **GlaxoSmithKline (GSK)**, tobacco stocks **Imperial Brands (IMB)** and **British American Tobacco (BATS)** which make up around 17% of the trust's assets.

Oil companies **Royal Dutch Shell (RDSB)** and **BP (BP.)**, and financials **St. James's Place (SJP)** and **IG Group (IGG)** are other big holdings.

The trust has a trailing dividend yield of 5.3% and an unbroken 38-year record of increasing the payout. The ongoing charge is 0.61% a year.

JUPITER ASIAN INCOME FUND (BZ2YMT7) 153.6P



The £813 million fund aims to beat the FTSE All World Asia Pacific Ex-Japan Index with a focus on income and income growth over the long-term.

The fund is looking to deliver 120% of the benchmark dividend yield. Manager Jason Pidcock believes dividend yield is an underappreciated element of shareholder valuation. The trailing 12-month yield is 3% and dividends are paid quarterly.

Pidcock is looking for companies with strong management and a sustainable advantage, allowing them to generate cash and fund dividend payouts.

Top holdings include Taiwan-based Hon Hai Precision Industry which is engaged in the provision of connectors to the communications industry. Korean electronics giant Samsung Electronics as well as UK miner **BHP (BHP)** also feature in the portfolio.

Over the past five years the fund has delivered a compound annual growth rate of 12.7% a year compared with 10.4% for the benchmark. The ongoing charge is 0.98% a year.

ALLIANZ STRATEGIC BOND FUND (BYT2QW8) 130P

The rationale for considering this £3.1 billion strategic bond fund is the flexible mandate which allows the managers to dial up risk when economic conditions are attractive and preserve capital during more difficult times.

Managed by Mike Riddell and supported by the deep bench of analysts at Allianz Global Investors, the fund is run to ensure that it behaves as a counterweight to riskier equities by attempting to provide safety when volatility rises and markets fall.

The fund has a trailing dividend yield of 4.2%, with dividends paid twice a year. It seeks to outperform the Bloomberg Barclays Global Aggregate Index.

Over the past three years the fund has delivered a compound annual return of 13.1% compared with 3.1% for the benchmark according to Morningstar data.

The fund has 56% of its assets in the highest quality companies compared with just 20% for the index. The annual ongoing charge is 0.42%.

FIRST SENTIER GLOBAL LISTED INFRASTRUCTURE FUND (B24HK55) 216.7P

The huge boost to infrastructure spending outlined by US president Joe Biden and similar initiatives across the world bodes well for funds focused on this specialist sector.

The £1.7 billion First Sentier fund seeks to outperform the FTSE Global Core Infrastructure 50/50 index by investing with capital preservation at its heart to find high quality mispriced companies.

The experienced team of Peter Meany and Andrew Greenup have managed the fund since inception in 2007 and are supported by a wider team of portfolio managers and analysts possessing dedicated sector knowledge.

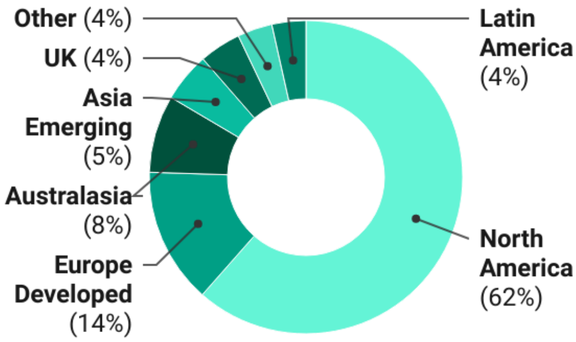
The fund has delivered a five-year compound annual growth rate of 8.6%, just ahead of the benchmark return of 8.5% according to Morningstar data. The trailing 12-month dividend yield is 2.5%.

The largest holdings include American Tower, which is a US specialist in operating communication towers, as well Australian toll-road operator Transurban Group and US energy group Dominion Energy.

The fund has an ongoing charge of 0.8%.

First Sentier Global Listed Infrastructure Fund

Geographic breakdown



Source: First Sentier • Created with Datawrapper

DISCLAIMER: Shares' editor Daniel Coatsworth has a personal investment in Allianz Strategic Bond, Evenlode Global Income and First Sentier Global Listed Infrastructure Fund referenced in this article.

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

Where the experts find income on the UK market

Royal London's Richard Marwood explains his choices and future yield expectations

Pharmaceuticals, insurance, tobacco and financials are good places to find income on the UK market, says Richard Marwood, co-manager of the £1.7 billion **Royal London UK Equity Income Fund (B3M9JJ7)**.

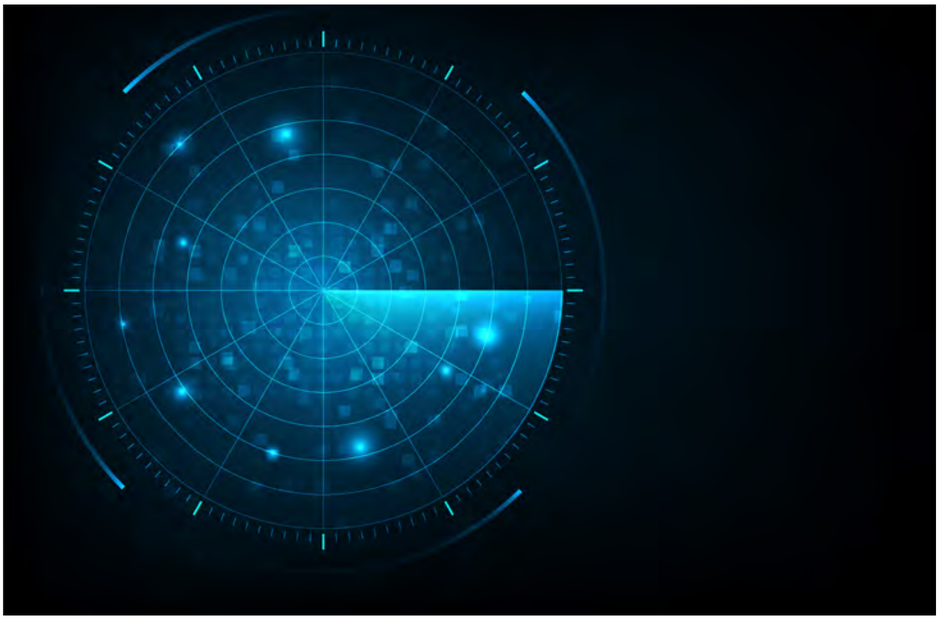
He believes the prospects for dividends from UK stocks are improving, which should be good news for any investor seeking to generate an income from their portfolio.

Many companies had to cut or suspend dividends in 2020 to preserve cash during the pandemic. Given the vaccine rollout and improved economic prospects in 2021, a lot of these companies are now restarting dividends, and many others who kept paying during the health crisis are now expected to pay even higher dividends.

FUTURE YIELD EXPECTATIONS

The FTSE All-Share yields 2.4% based on payouts for the past 12 months and the index is forecast to yield 2.8% this year, according to Stockopedia. The Royal London fund has a 12-month historic yield of 2.9%.

'In the last century, a typical yield on the UK market was 5%,' says Marwood. 'It's been a little bit lower since the millennium in part because interest rates have been so low, but I think 3% to 4% seems a reasonable level to expect going forward.'

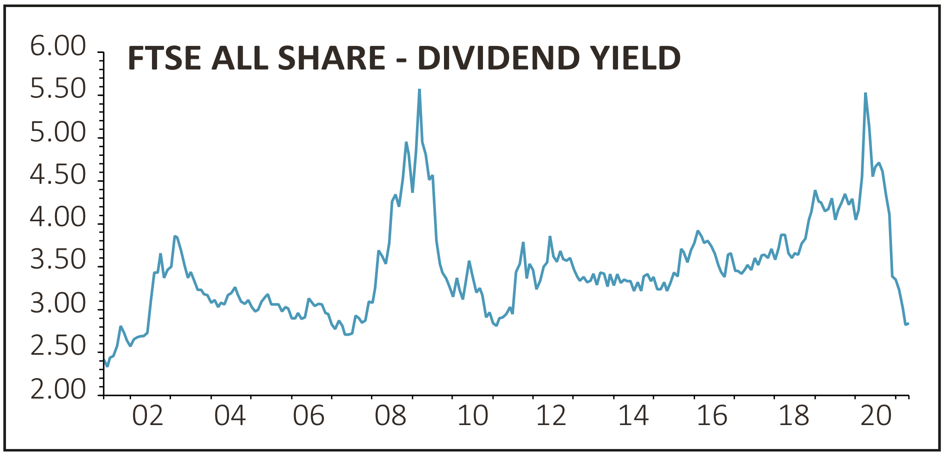


INVESTMENT GOALS

Marwood's goal for the Royal London fund is to produce an income greater than the yield on the FTSE All-Share total return index over rolling three-year periods, and to beat the performance of that index. Over the past 10 years, the fund has returned 131.9% versus 82.1% from the FTSE All-Share, according to FE Fundinfo.

Stocks in his portfolio that currently yield more than the market include utilities **Severn Trent (SVT)** and **National Grid (NG.)**, offering 4.1% and 5.4% prospective yields, based on analyst forecasts.

'National Grid owns all the pylons that send electricity around the country and it owns



the gas distribution network,' says Marwood, who believes the company will benefit as the UK gradually transitions to reduce the carbon intensity of the energy system.

DIVIDEND SUSTAINABILITY

Sustainability of dividend payments is very important to anyone who relies on income from their investments to pay the bills. Ideally you want a little bit more each year, but certainly not a dividend cut.

Therefore, it is important to pick companies with strong enough finances to keep paying dividends and not have that cash gobbled up by other factors such as ballooning debt repayments or expensive and potentially unrewarding acquisitions.

If you're not comfortable studying a company's balance sheet to look at the cash and debt positions, then it might be worth relying on investment funds rather than individual stocks for income as a fund manager would spend time assessing dividend sustainability.

HIGH YIELD DANGERS

Quite often you'll see a stock where the market doesn't believe the dividend is sustainable. Investors sell, pulling down the share price and in doing so the dividend yield goes up. For example, if a business is forecast to pay 5p per share in dividends and it trades at 100p then its yield will be 5%. If the market doesn't believe it can keep paying dividends at that level and the share price falls to 50p, then the yield becomes 10%.

'Eight out of 10 times a stock on a high yield such as 10% can be a warning sign,' says Marwood. He believes one exception is **British American Tobacco (BATS)**, currently yielding 8% as the market is worried about its sector coming under regulatory and political pressure and how expectations for sales growth from vaping and other next generation products have been too high.

'In the case of British American Tobacco, I believe the dividend is sustainable. It is a very cash generative business, paying down its debt quite quickly and it should be able to continue paying (those levels of) dividends,' says the fund manager.

Marwood says the time to move on from an income-generating stock is when you lose confidence that the business cannot generate enough cash.

'A good example in the past is property group Intu. We always looked at how much rent it was collecting. This was stable for a while, but Intu saw problems with retail businesses failing and rent started to fall, so we sold.' Intu subsequently cut its dividend and ultimately went into administration when its debt burden got out of control.

INCOME OPPORTUNITIES

Royal Dutch Shell (RDSB) is one of Marwood's biggest holdings in the Royal London fund. The oil producer cut its dividend last year as a way of redirecting cash to help pay for its transition to a greener energy world and because of low oil prices at the time. Even after this cut, at 4.1% it still yields greater than the market and dividends are forecast to grow from here.

He also invests in accounting software provider **Sage (SGE)**. The tech sector is a not a natural place to find income as many tech firms have historically not paid dividends, yet times are changing. 'I like to spread my sources of income broadly across the market. Sage yields nearly 3% and has a strong balance sheet and repeatable income from subscriptions.'

Another holding which may not initially seem like an income play is spread betting provider **IG (IGG)**, yielding 4.8%. It was a big winner during the pandemic as volatile market conditions drove growth in customer numbers and activity. Analyst forecasts for 2021 and 2022 would suggest ongoing generous dividends, even though revenue is expected to moderate in the latter year.

By **Daniel Coatsworth**
Editor

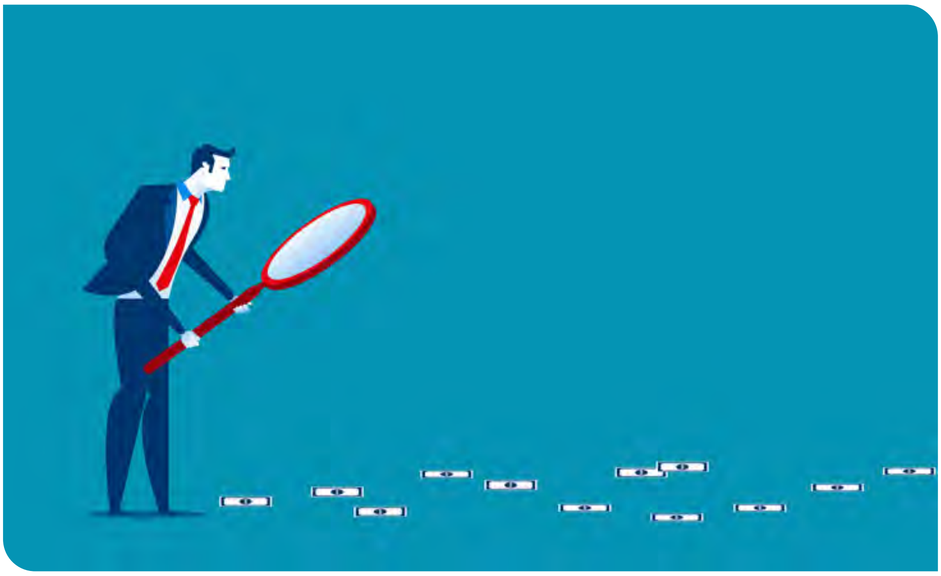
Big dividends from small caps

Investors can find smaller cash generative companies with strong dividend growth

The pandemic had a significant impact on the UK income space, with many companies forced to slash and cancel dividends to ensure they survived the crisis. It was the traditional large dividend paying sectors and companies that suffered some of the biggest cuts, with many larger companies using the crisis as an opportunity to reset excessive payouts at more sustainable levels.

This means income managers are looking outside of their 'usual suspects' for dividend income and should mean small and mid cap income stocks will be highly prized.

These under the radar dividend payers could also be a good hunting ground for individual investors and we have run a screen targeting this part of the market. From the resulting list we have identified two smaller company income plays to buy.



SMALL CAP INCOME 'UNDERAPPRECIATED'

Gervais Williams and Martin Turner manage **The Diverse Income Trust (DIVI)**, a multi-cap portfolio able to select 'the best stocks from an income and income growth perspective from across the UK market'.

They say the small cap income universe is 'absolutely' still underappreciated by investors. 'The merits of smaller companies remain overlooked. This is reflected in low company valuations relative to prospects where Brexit has had a lagged impact.

'We see this changing, helped by the resilience of many of the companies through Covid and renewed interest in the UK prompted vaccine progress. Collectively, smaller companies also remain overlooked for the stock and sector diversification benefits they bring a portfolio, avoiding income concentration and associated risk common in mainstream indices.'

'Our process considers the prospects for underlying growth in revenue and cash flows and where the market has undervalued this potential. We look for strong balance sheets that provide optionality for growth and can withstand economic shocks.'

Also scouting for income further down the cap scale are Fraser Mackersie and Simon Moon, co-managers of the **Unicorn UK Income (B9XQFY6)** and **Unicorn UK Ethical Income (BYQCS25)** funds. Mackersie looks for 'profitability, cash generation, low levels of debt' and likes companies that are 'in a very strong market position. They will be the biggest and the best in their space, even if it is might be quite an obscure, niche market'.

Unicorn UK Income's holdings range from larger companies such as retailer **B&M (BME)**, savings and retirement group **Phoenix Holdings (PHNX)** and property play **LondonMetric (LMP)** to much smaller dividend paying companies such as construction industry equipment maker **Somero (SOM:AIM)**), gifting and reward products company **Appreciate (APP:AIM)** and legal services consolidator **Gateley (GTLY:AIM)**.

'MISPRICED OPPORTUNITIES'

Mackersie insists the attractions of fishing for income in the small cap pond include the fact that 'analysts' coverage is lighter, so there are more mispriced opportunities. And from an income perspective, we think the quality of income is very good further down the market cap scale as well,' he adds.

'You see high levels of cover and very good long-term dividend track records.'

Brendan Gulston, co-manager of the **LF Gresham House UK Multi Cap Income Fund (BYXVGS7)**, anticipates 'a meaningful dividend recovery across the market, particularly for those with the flexibility to look across the market cap spectrum.

'Among small and mid-cap companies, there are areas of the market that have strong visibility of earnings, which can underpin robust and resilient dividends.'

He looks for a combination of 'long-term sustainable income streams and structural capital growth opportunities across the market cap spectrum.

'We implement disciplined risk mitigation processes and use qualitative and quantitative criteria to appraise companies, as well as leverage our proprietary network of independent experts to drive conviction in investment opportunities,' he says.

PUTTING IT INTO PRACTICE

To help discover some lesser-known dividend payers for itself, *Shares* screened the market for stocks with a market value of £300 million or less, a forecast dividend yield of 3% or more and dividend cover (the ratio of earnings per share to dividend per share) of at least 1.5.

As a rule of thumb dividends should be covered at the very least 1.5 times by earnings if they are to be sustainable.

While dividend growth figures are affected by the pandemic – with many payouts suspended in 2020 – we also stripped out firms which are forecast to cut their dividend.

We ignored stocks with double-digit forecast yields on the basis the market is either telling you the dividend is under threat, or the numbers are wrong. The resulting table has an interesting mix of companies from a variety of

Company	Forecast dividend yield (%)	Forecast dividend cover
Raven Property	8.6	1.6
Trans-Siberian Gold*	7.2	2.0
Hargreaves Services	5.8	1.7
Vector Capital	5.7	1.9
STM	5.6	2.1
First Property	5.2	2.3
Premier Miton	4.8	1.6
Secure Trust Bank	4.2	2.6
Costain	4.2	3.0
Alumasc	4.0	2.4
Smiths News	3.9	6.1
Robinson	3.7	2.6
Curtis Banks	3.6	1.8
TClarke	3.6	3.1
Marshall Motor	3.6	3.0
Warpaint London	3.4	1.7
Nucleus Financial*	3.3	1.7
FRP Advisory	3.3	1.7
RBG	3.3	1.6
Caledonia Mining	3.3	5.1
Carr's	3.3	2.4
Wynnstay	3.3	2.2
NWF	3.3	2.4
Air Partner	3.1	5.5
H&T	3.1	2.2
Augean	3.1	2.6
Gateley	3.1	1.8
UP Global Sourcing	3.0	2.0
Appreciate	3.0	1.6

Source: SharePad, 5 May 2021. *in a takeover situation different sectors, from mining to cosmetics, legal services and car retailing.

The most generous yield on offer is from **Raven Property (RAV)** at 8.6%. The shares have been weak for a while and that could have pushed up the yield.

Raven invests in logistics assets, which have been boosted by the acceleration of the growth in online shopping during the pandemic, but also derives its rent in rubles and reports in sterling. This makes its results highly sensitive to a Russian economy and exchange rate which, in turn, is affected by movements in the oil price and economic sanctions imposed on Russia by the West.

This demonstrates that you need to look underneath the numbers themselves to get a fuller picture of the risks facing the company and the income stream. This is arguably even more important with less mature businesses which can be more prone to volatile trading.

SMALL CAP INCOME PICKS

ALUMASC (ALU) 218.6P • DIVIDEND YIELD: 4%

Despite a strong rally for the shares, recently boosted dividend expectations at building materials firm **Alumasc (ALU)** mean it continues to offer an attractive looking yield of 4% based on consensus forecasts. As broker FinnCap observed at the time of the company's first half results (4 Feb) the business is enjoying 'good sales momentum, improving quality of earnings, stronger balance sheet and longer visibility of forecasts'. Formerly a conglomerate of engineering businesses, the company has narrowed its focus in recent years to focus on niche construction-related products including sustainable products which help conserve energy and water and solutions which help constructors meet building regulations. The company is also investing in innovation to broaden its product range. One of the growth opportunities for the group is to expand its export business which currently accounts for 13% of overall revenue.

CARR'S (CARR) 155P • DIVIDEND YIELD: 3.3%

Having demonstrated resilience during Brexit uncertainty and the pandemic, a first half profit uplift leaves **Carr's (CARR)** on course for a return to full year growth. This time last year, the company deferred the payment of an interim dividend until the full effects of the pandemic were clearer, then paid a flat dividend for the full year. In a sign of new CEO Hugh Pelham's confidence, Carr's recently declared an initial interim dividend of 1.175p for the year to August 2021 (it typically pays two interim dividends). A continued positive performance across the agricultural divisions is forecast and Pelham sees an improved second half to come from the engineering division as Covid recedes and the order book strengthens. For the year to August 2021, Investec forecasts a dividend increase from 4.8p to 5p, a payment covered almost 2.5 times by estimated earnings of 12.3p, with the distribution predicted to rise to 5.2p and 5.5p in 2022 and 2023.

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

New way to access the next generation of US tech leaders

Invesco has launched an ETF tracking a second tier of stocks on the US Nasdaq index

A new exchange-traded fund has been launched by investment group Invesco that aims to unearth the next generation of winners in the US stock market. Investors might want to view it as the US equivalent of the FTSE 250 mid cap index, containing established companies with material cash flows that potentially offer greater growth prospects that their larger cap peers.

Invesco Nasdaq Next Gen 100 (EQJS) follows the Nasdaq Next Generation 100 index, which tracks the next 100 companies below the top 100 of the Nasdaq – the latter considered to be the key benchmark for US tech stocks. Constituents of the Next Gen index include cybersecurity firm Crowdstrike, GPS tech and watch maker Garmin and online travel platform Expedia.

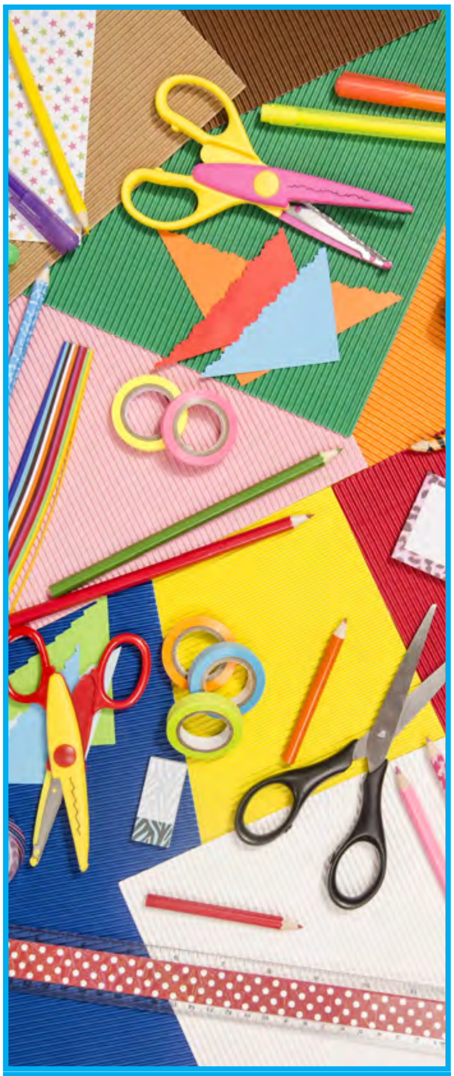
When the index was launched last August, Nasdaq said back-tested data showed the Next Gen index would have generated a 271% return over 10 years. While not as good as the 507% generated by the Nasdaq 100, it was still ahead of the 106% return generated by the S&P 400 Mid Cap index and 209% from the Russell Mid Cap Growth index over the same period.

The FTSE 250 has outperformed the FTSE 100 over the past decade. On a total return basis to 10 May 2021, the FTSE 250 has returned 149% according to FE Analytics, compared to 74% from the FTSE 100.

Potential candidates to graduate from the Nasdaq Next Gen index in the coming years to the top Nasdaq 100 index include streaming platform Roku, which in the first quarter of 2021 recorded year-on-year revenue growth of 79%, and arts and crafts website Etsy which recorded 141% revenue growth in the same period.

While both Roku and Etsy are viewed as mid-caps in America, both would be considered large caps in the UK with market caps of $43 billion and $20 billion respectively. FTSE 100 stock AstraZeneca also features in the Nasdaq Nex Gen index thanks to having a secondary US listing.

By **Yoosof Farah**
Reporter



Top holdings in Nasdaq Next Generation 100 ETF

1	Crowdstrike
2	Fortinet
3	Trade Desk
4	Zebra Technologies
5	Zscaler
6	Western Digital
7	Seagate Technology
8	Teradyne
9	Qorvo
10	Trimble
11	Logitech
12	SS&C Technologies
13	Datadog
14	Akamai Technologies
15	NetApp

Source: Invesco, 7 May 2021

FEATURE

Dialling down risk in your portfolio too soon could be a mistake

Latest life expectancy data shows that your money will need to last a lot longer than you might think

John has just turned 50 and is concerned that his investment portfolio may be too growth focused and may need repositioning as he moves closer to considering retirement. The logistics manager from Sussex is not a novice investor and has a SIPP (self-invested personal pension), which his employer pays into, plus a couple of ISAs (individual savings accounts).

But John has lacked the time to be very hands-on with running his portfolio so has restricted himself to researching and investing in trackers and a handful of actively managed growth funds and investment trusts, where he can benefit from the expertise of specialist managers to do the detailed equities analysis on his behalf.

Growth investing has been very good to John over the 17 years that he has been investing, having put money into popular growth funds including **Fundsmith Equity (B41YBW7), Baillie Gifford Global Discovery**

Fund (0605933), Jupiter UK Special Situations (B4KL9F8) and investment trust **Scottish Mortgage (SMT)**. These active funds have returned an average 17.4% a year between them over 10 years.

His collection of low-cost ETFs, such as **Invesco EQQQ NASDAQ-100 (EQQQ), Vanguard FTSE All-World ETF (VWRL)** and **iShares Core S&P 500 ETF (IUSA)** have also made excellent returns.

IS IT TIME TO DERISK?

John is now worried that, after hitting the half century age landmark, his portfolio may be too aggressive and too high risk and that now might be a sensible time to start reeling back on growth investments and taking a much more cautious approach.

He has read about the '100 minus age' approach, a common rule of thumb used to decide how much of an investor's portfolio should be in equities, and how much in supposedly safer assets such as fixed-income bonds, gold or even cash.

The rule says that you subtract your age from 100 to arrive at the ideal asset allocation for your investments. So, if you are 30, then 100-30 would give 70, which is the percentage of equity you should have in your portfolio, with the rest in safer assets. In John's case, now aged 50, the rule implies that only half of his investment portfolio should be in equities, the other half in more reliable investments.

Put simply, the rule aims to help investors decide how to position their portfolio as they

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

get older and the end of their working life, and the salary they have been earning, inches closer.

There are a few things John should consider before making a decision. The first point to make is that '100 minus age' is only a rule of thumb, albeit a well-intentioned one, but it is not hard and fast advice.

One major problem with the rule is that it simply assumes that age alone should decide an investor's asset allocation, and this is not the case. Factors such as an individual's risk appetite, goal timelines and return requirements are major factors which should also inform how you allocate your investments.

Another significant factor is how long you anticipate living in retirement and in need of private income, because it may be much longer than you think. Thirty-five years ago, an average 60-year-old man could have expected to live an extra 18 years, to age 78.

Today, the average 60-year-old man should expect to live to 85, according to an easy-to-use life expectancy calculator provided by the UK's Office for National Statistics. A 60-year-old woman should expect to live longer, to 88.

YOU COULD LIVE TO 100

Since 1982, life expectancy at birth has increased by 8.4 years for men and 6.1 years for women. Most of us will know that we are collectively living longer but what is less well appreciated is that we all have a pretty good chance of living longer than these averages, a lot longer if you are healthier or wealthier than average.

For example, a 60-year-old man now has a 1-in-4 chance of living to 93 and a 1-in-10 chance of reaching 98. Your parents may have bid farewell before clocking 80 but you have a pretty good chance of getting close to 100.

AFFORDING TO LIVE LONGER

Increases in life expectancy mean your money has to last a lot longer than you might have thought.

For John, who is not even in retirement yet, switching out of equities, even growth stocks, could be an overly cautious approach that increases the chances of his money running out while he is still alive. Maintaining more exposure to riskier investments, like the stock market, for longer could ease the threat of him running low on cash in retirement, even if it may make him feel uncomfortable at times.

One thing John could do is to spread his investments across a wider number funds to include lower-risk options, perhaps including bond funds, a low-cost gold ETF and capital preservation equity, where some options have a very good track record of protecting investors against losses.

A great example of capital preservation is the Morningstar gold-rated **Personal Assets Trust (PNL)**, a UK-listed investment trust which has delivered a benchmark-beating 7.7% increase in annualised net asset value over the past three years, a period that includes the impact of the pandemic.

Gold has safe-haven credentials, particularly when measured over months or years. You can get low cost exposure from **iShares Physical Gold ETF (SGLN)** which has an ongoing charge of 0.15%.

The **Allianz Strategic Bond Fund (B06T936)**, which leans on the significant expertise and resources in fixed-income investing, has returned 13.2% each year on average over the past three years and has a 0.63% ongoing charge.

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

By **Steven Frazer**
News Editor

Everything you need to know about the state pension

When can you take it, how much should you expect and can and should you delay?

Over the next eight months *Shares* will be publishing eight in-depth guides on topics you've asked our resident pensions agony uncle, Tom Selby, questions about.

To kick off, Tom looks at the foundation most people's retirement plans are built on – the state pension.

WHAT IS THE UK STATE PENSION AGE?

The current UK state pension age is 66 for both men and women. It used to be the case that women received the state pension at age 60 and men at 65, but this was viewed as discriminatory and so successive Governments legislated to equalise the state pension ages of the sexes.

This happened in 2018, at which point the state pension age for men and women was slowly increased to 66 by 2020.

The current state pension age is 66

The state pension age is scheduled to rise again to 67 between 2026 and 2028. As with the increase to age 66, there will be a two-year transition where some people will have a state pension age somewhere between 66 and 67.

After 2028 the next intended increase in the state pension age is to 68 between 2044 and 2046. However, the Government has stated it wants to accelerate this move so it happens seven years earlier, between 2037 and 2039.

I RETIRED BEFORE 6 APRIL 2016 - HOW MUCH STATE PENSION WILL I RECEIVE?

For those who reached state pension age before 6 April 2016, there were two primary components: the basic state pension and additional state pension. This additional element consisted of:

- Graduated Retirement Benefit built up between 6 April 1961 and 5 April 1975;
- State Earnings Related Pension Scheme built up between 6 April 1978 and 5 April 2002;
- State Second Pension built up between 6 April 2002 and 5 April 2016.

The full basic state pension is worth £137.60 a week in 2021/22 and rises each year in line with the highest of average earnings, inflation or 2.5% (the 'triple-lock'). You needed at least 30 years' National Insurance contributions to qualify for the full amount – for those with less than this, a deduction would have been made.

The triple-lock does not apply to any additional state pension entitlements you have, which instead increase each year in line with CPI (consumer prices index) inflation.

I RETIRED ON OR AFTER 6 APRIL 2016 – HOW MUCH STATE PENSION WILL I RECEIVE?

The Government decided the state pension system was too complicated and so, for those who reached state pension age on or after 6 April 2016, a reformed system was introduced.

Rather than having two tiers of state pension – the basic and additional state pension - people now build up entitlements to a flat-rate amount. In 2021/22 the full flat-rate state pension is worth £179.60 a week and also increases in line with the triple-lock.

You need to have at least a 10-year National Insurance contribution record to qualify for any state pension under the reformed system, and a 35-year National Insurance contribution record to qualify for the full amount.

Those who had built up state pension entitlements under the old system and had not reached their state pension age before 6 April 2016 had a 'foundation amount' calculated. This foundation amount was the higher of:

- Total benefits built up under the basic state pension and additional state pension, with a deduction made to take account of any years the individual was 'contracted-out';
- Total benefits the individual would have built up had the reformed state pension been in place at the start of their working life, with a reduction applied where the individual was contracted-out.

The idea behind this was to ensure those who had built up entitlements under the old system which were more valuable than the reformed state pension would not lose out.

Anyone with a foundation amount equal to the full flat-rate state pension at 5 April 2016 would not have been able to build up any extra state pension – even if they add more qualifying years to their National Insurance contributions record.

Those with a foundation amount below the full flat-rate state pension could continue to build up qualifying years via National Insurance contributions and boost their state pension entitlement.

People with a foundation amount worth more than the flat-rate state pension would receive the full flat-rate amount plus a 'protected payment' to reflect the extra entitlement built up under the old system. They would not gain any extra pension for further qualifying years they accrue.

While the flat-rate element of this pension will rise in line with the triple-lock, the protected payment increases by CPI inflation only.

> **You need to have at least a 10-year National Insurance contribution record to qualify for any state pension under the reformed system, and a 35-year National Insurance contribution record to qualify for the full amount**

WHAT IS 'CONTRACTING-OUT' AND HOW COULD IT AFFECT MY STATE PENSION ENTITLEMENT?

'Contracting-out' was an option previously open to people whereby, in exchange for lower National Insurance payments, employees agreed to opt-out of the additional state pension, meaning they would not build up an entitlement towards it.

For those reaching state pension age after 5 April 2016, any years they contracted-out will be deducted when figuring out your foundation amount.

You can check if you were contracted-out by contacting your pension provider or reviewing an old payslip. If you don't have either, try the Government's pension tracing service here.

CAN I DEFER TAKING THE STATE PENSION?

It is up to you to claim your state pension from the Department for Work and Pensions. However, it is also

Recommended reading

If you are a woman and think you might have been underpaid your state pension, this page from Lane, Clarke & Peacock is really useful.

If you want more information on your retirement options click here.

More information on claiming the state pension can be found here.

possible to defer taking your state pension – and you'll receive an uplift for doing so. The level of this uplift will depend on when you reached state pension age.

For those who reached state pension age before 6 April 2016, the rate of uplift is 1% for every five weeks you defer, subject to a minimum deferral period of five weeks. This works out at a 10.4% increase in your state pension if you defer for 52 weeks.

Based on the 2021/22 basic state pension of £137.60 per week, this works out at an extra £14.71 per week if you deferred for one year.

For anyone who reached state pension age on or after 6 April 2016, the deferral rate is 1% for every 9 weeks they defer, or just under 5.8% for every 52 weeks.

This increase is applied to the flat-rate state pension. Based on someone receiving the full flat-rate state pension for 2021/22 of £179.20 a week, a person who deferred for 52 weeks would get an extra £10.42 a week.

Both of these examples assume there is no annual increase in the value of the state pension. If there is an annual increase, the amount you receive could be larger.

SHOULD I DEFER TAKING THE STATE PENSION?

Whether or not state pension deferral is the right option will depend on your personal circumstances.

For some it simply won't be possible as they need the state pension income as soon as possible, while for others it might depend on their health and lifestyle. But if you are in good health then it could be worth considering.

Take someone who reaches age 66 in 2021/22 and is entitled to the full flat-rate state pension of £179.60 a week in 2021/22. If they defer taking this income for one year they will forgo £9,339.20 in return for an extra £10.42 a week for the rest of their life.

SO THE KEY QUESTION IS: AFTER HOW LONG COULD YOU 'BREAK EVEN'?

Based on the state pension increasing by 2.5% each year, it could take 15 years to take as much total income via deferral as you could have done by taking the state pension at age 66.

For someone with a state pension age of 66, this implies the point at which they might be in 'profit' from deferring the state pension could be around age 81.

Given average life expectancy for a 66-year-old man is 85 and a 66-year-old woman is 87, this suggests that, provided you are in good health, delaying receiving your state pension could pay off financially.

By **Tom Selby**
AJ Bell
Senior Analyst

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

14 May: Gulf Marine Services. **17 May:** Petropavlovsk. **18 May:** McKay Securities, Sanderson Design, Homeserve, Vodafone, Land Securities, First Derivatives, Assura. **19 May:** Great Portland Estates, Premier Foods, Experian, Ninety One. **20 May:** Qinetiq, National Grid.

Half-year results

17 May: Diploma, Hollywood Bowl, Cerillion. **18 May:** UDG Healthcare, Watkin Jones, Hyve, Tritax Eurobox, Benchmark, Sureserve, Imperial Brands. **19 May:** Future. **20 May:** EasyJet, Euromoney, Nexus Infrastructure.

Trading statements

18 May: DP Eurasia. **20 May:** Watches of Switzerland.

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