STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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# SHARES

WE MAKE INVESTING EASIER

# REOPENING RALLY: IS THERE MORE TO GO?

## The stocks to buy now and the ones to avoid

**PLUS**

**OIL PRICE COULD SURGE** ONE MORE TIME ON EXPLORATION CLAMPDOWN

REDDIT'S WALLSTREETBETS FORUM FOUR MONTHS ON: **HAS ANYTHING CHANGED?**

THE STOCKS AFFECTED BY THE **UK RAIL SYSTEM SHAKE-UP**

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CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

# Popular investment trust trading strategy hits a wall

## Discounts to net asset value start to evaporate, but there are still some exceptions

Buying investment trusts when they trade on a discount to net asset value and selling when that gap has narrowed has been a popular investment strategy for many people. Unfortunately, the rebound in the stock market since the Covid-inspired crash in early 2020 has rendered that strategy much harder to execute.

Numerous investment trust sectors have seen their discounts almost disappear. For example, the UK All Companies sector now trades on a 1.7% discount to net asset value versus a 7.3% average discount for the past 12 months, says Winterflood.

Renewed interest in UK stocks has seen **JPMorgan Mid-Cap (JMF)** go from a 12-month average discount of 9.6% to now trade at a mere 1.7% discount.

The commodities sector trades on a 3.3% discount versus a 12-month average of 11.8%; and Japanese trusts trade on a 1% discount compared to a 12-month average of 4.5%.

Interestingly, a few technology-focused investment trusts have gone the other way, such as **Polar Capital Technology (PCT)** which is trading on a 7.6% discount versus a 12-month average discount of 4.4%. **Scottish Mortgage (SMT)** is trading on a 2.9% discount compared with an average discount of 0.7% over the past 12 months. That could be explained by tech stocks losing favour with investors this year.

Some investment trusts deploy a discount control mechanism, buying back shares when they trade below NAV or issuing new shares when existing ones trade at a premium. Others leave it to the mercy of the markets, with large discounts often seen with private equity and small cap trusts due to concerns about liquidity – namely the ability to sell assets quickly if required. Some trusts trade at a premium if demand for the investment focus is high, such as in the infrastructure space.

Investors can use z-scores to see how far an investment trust premium or discount is above or below its 12-month average. A z-score of -2 or below is significantly below its one-year average and could be considered cheap. A z-score of +2 or more could be considered expensive.

Just remember that investment trusts trade on a stock market and prices can move up and down each day, so discounts/premiums and z-scores can change quickly. It is also worth considering that picking a trust based on a good track record and manager expertise could ultimately provide greater rewards than trying to make a quick buck by trading any trust simply in hope of the NAV discount narrowing.

**EXAMPLES OF HIGH Z-SCORES:**
**i.e. Dear vs 12-month average**

| | Price (p) | Discount now (%) | 12m av. (%) | Z-score |
|---|---|---|---|---|
| Aberdeen Standard Equity Income | 375 | -1.8 | -9.5 | 2.6 |
| Templeton Emerging Markets | 1002 | -4.3 | -9.0 | 2.6 |
| Brown Advisory US Smaller Companies | 1348 | -3.7 | -11.4 | 2.4 |
| Brunner | 974 | -9.0 | -14.3 | 2.4 |
| CQS Natural Resources Growth & Income | 174 | -2.9 | -14.4 | 2.4 |

**EXAMPLES OF LOW Z-SCORES:**
**i.e. Cheap vs 12-month average**

| | Price (p) | Discount/ premium now (%) | 12m av. (%) | Z-score |
|---|---|---|---|---|
| JPM Global Core Real Assets | 87 | -5.5 | 7.8 | -2.4 |
| Smithson | 1660 | 1.1 | 2.4 | -2.1 |
| Invesco Select Trust | 174 | -7.2 | -3.4 | -2.0 |
| Allianz Technology | 264 | -5.4 | -0.3 | -2.0 |
| JLEN Environmental Assets | 105 | 15.8 | 23.6 | -2.0 |

Source: Winterflood, 21 May 2021

***Disclaimer: The author owns shares in Smithson (referenced in table).***

By **Daniel Coatsworth** Editor

# Oil price could surge one more time on exploration clampdown

The reduction in oil and gas investment envisioned in a new report could lead to much tighter near-term supply

A bombshell report from the US-based International Energy Agency has effectively set the clock on the end of fossil fuels but the implications of its forecasts could include a last hurrah for the oil price.

In the starkest terms the IEA has said exploitation of new oil, gas and coal projects must stop in 2021 if the world is to address the climate change challenge and meet a goal of net zero emissions by 2050.

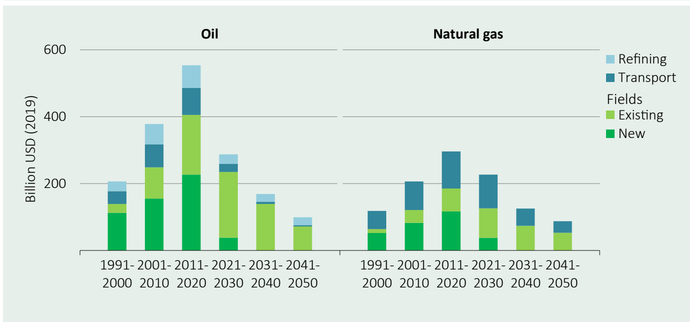
This means the only money spent on oil and gas would be on fields already in development or production.

The reality is that this is very unlikely to happen, however the report nonetheless offers an indication of the direction of travel.

Longer-term the implications of a shift into other energy sources are highly negative for oil prices. The IEA predicts oil prices will be around half their current level by 2030 at $35 per barrel and drift lower to $25 per barrel by 2050.

The IEA projects oil and gas spending to remain at depressed 2020 levels of around $350 billion in the next five years and fall thereafter.

### INVESTMENT IN OIL AND NATURAL GAS




Source: IEA

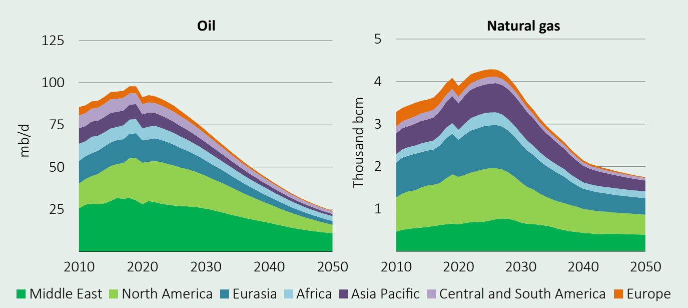
In the short-term a significant reduction in investment in new sources of oil and gas raises the prospect of a supply crunch, particularly if the rollout of electric vehicles and a transition to renewable energy sources takes longer than expected – which is not an unreasonable assumption.

This could drive oil prices sharply higher, adding to inflationary pressures and effectively acting as a tax on global growth as higher crude oil prices feed into more expensive transportation and energy costs for businesses and consumers.

This creates a conundrum for the large oil and gas companies like **BP (BP.)** and **Royal Dutch Shell (RDSB)**. Will they really retreat entirely from new oil and gas developments in a high oil price environment?

The optimistic view for these businesses is that the extra cash flow they could generate in such a scenario would help fund the investment in a transition away from fossil fuels while enabling them to maintain their dividends.

## OIL AND NATURAL GAS PRODUCTION




Source: IEA

Francisco Blanch, a commodity and derivatives strategist at Bank of America, notes a shift away from public transport in the wake of the pandemic could act as a further catalyst for prices to rise.

'A post-Covid scenario marked by a permanent reduction in mass transit use could quickly translate into a major worldwide oil demand rationing exercise. Even if electric vehicle sales reach 34% by 2030, an acceleration in miles driven of 20% could push peak oil demand levels to 109 million barrels per day by 2027.

'On the supply side, oil field decline rates have accelerated sharply in 2020 and in early 2021. Plus, energy capex has come down sharply in the past year and now the IEA is calling for further investment reductions to meet climate goals. Reflecting a tighter market ahead, Brent (for delivery) in 2026 recently traded above $59 per barrel… up from a 2020 low of $47 per barrel.'

In Blanch's view long-dated oil prices, or in other words the price paid for oil for delivery years into the future, could increase by $10 to $15 per barrel.

While a new nuclear deal with Iran could be a bump in the recovery of oil prices, producers' cartel OPEC would 'likely act to accommodate the comeback one of its largest members,' adds Blanch. [TS]

## COPPER AND IRON ORE TO BE HIT BY CHINESE CRACKDOWN

**Commodities could fall markedly as China vows to put a lid on rising prices, but mining shares have seen limited impact for now.**

Metal prices could see significant falls as recent actions by the Chinese and US governments look set to put a lid on demand amid skyrocketing prices.

One bellwether metal, iron ore, saw its price drop around 7% to $163 per tonne after China's National Development and Reform Commission urged commodity companies in the country to maintain 'normal market orders' amid warnings over 'excessive speculation', vowing 'severe punishment' against 'speculators and hoarders'.

China is the world's biggest consumer of iron ore, and other metals like copper.

The price of the latter didn't react as severely as iron ore to the comments from the Chinese authorities, but copper could also be impacted if, as some fear, price caps are brought in to control what China calls 'unreasonable' price increases in such commodities.

Analysts say these are the toughest comments yet from China regarding commodity prices.

Another potential impact on these industrial metals could come from suggestions the Biden administration could be prepared to compromise on its infrastructure spending plans.

A reduction in expenditure from $2.25 trillion to $1.7 trillion has been mooted, with spending on roads, bridges and broadband – three areas which need copper and iron ore – set to be scaled back.

Despite what could well be significant near-term headwinds, shares in most of the major London-listed miners barely moved on the news, with a pullback in commodities perhaps expected by the market after such a stunning run this year [YF].

# Potential shift by US central bank could be bad for stocks

The Federal Reserve is walking an increasingly wobbly tightrope between maintaining economic recovery and appeasing investors' inflation worries

Investors should watch the US Federal Reserve very closely as the central bank is showing signs of a shift in thinking. This could have major implications for the direction of stocks.

The US economy grew at an annual rate of 6.4% in the first quarter of 2021, the second fastest since 2003 while initial jobless claims dropped to a post-pandemic low in the period.

Even so, the US Federal Reserve, which sets monetary policy, has vowed to keep interest rates close to zero until it sees clear evidence of sustained growth and the jobs lost during the pandemic regained.

The Fed interprets increasing inflation as a temporary phenomenon caused by the base effect from last year's lockdowns and supply chain disruptions. That was the consensus view until the 19 May release of minutes from April's policy making committee meeting.

It now seems a greater number of committee members are beginning to think about slowing the pace of asset purchases which have been running at $120 billion a month since June 2020.

The asset purchase programme is designed to support the economy and smooth the path back to growth after the pandemic.

Historically, reducing asset purchases, which is called 'tapering', has had a big impact on financial markets, creating heightened volatility in so-called 'taper tantrums'. In 2013 when Fed chairman Ben Bernanke attempted to taper asset purchases, markets panicked, and bond yields spiked higher.

The risk to the Fed's policy of waiting for more evidence is that the markets perceive the central bank to be behind the inflation curve which could lead to an even bigger shock when it eventually changes policy.

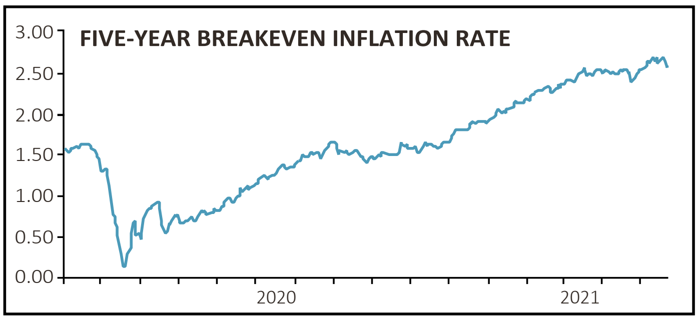
Judging by the Bank of America's latest fund manager survey, investors are already ahead of the central bank with around two thirds of respondents saying they expect global inflation and growth to remain above trend. More than a third of fund managers think inflation is now the biggest threat to the global economy.

Lawrence Summers, former US Treasury Secretary and Harvard University economist, has criticised the Fed for creating a 'dangerous complacency' in financial markets and misreading the economy.

Even the Federal Reserve's own Financial Stability Report warned (7 May) that 'asset prices may be vulnerable to significant declines should risk appetite fall'. It noted 'a number of nonprice measures suggest that investor appetite for equity risk is elevated relative to history'.

For example, it highlighted the pace of new companies listing on the stock market was at its highest since the late 1990s.

The increasing probability of inflation shocks and elevated risk-taking suggests investors should heed Warren Buffett's advice to be fearful when others are greedy. [MG]




Source: Federal Reserve Bank of St. Louis

# The stocks affected by the UK rail system shake-up

Trainline is at risk but not much will change for train operators, while FirstGroup has another issue to face


The biggest shake-up to railways in a generation could have a huge impact on one London-listed transport stock and a limited effect on others.

Flexible season tickets, more e-tickets and a simpler way of buying them have all been promised by the Government with the formation of a new state-owned body called Great British Railways.

The plan is that from 2023 onwards it will sell tickets as well as setting prices and timetables in England and managing rail infrastructure.

In theory the impact on train operators could be significant given the new reforms will signal the end of the current franchise model. But shares in the train operators have barely reacted to the news, as it was already known for some time the franchise system was changing.

In addition, the new model will still see trains run by private companies under new passenger service contracts, with operators paid to run trains and incentivised to increase passenger numbers and provide high quality services.

One stock which could be hit significantly is online travel platform **Trainline (TRN)**, which continues to trade around 30% lower in the wake of the announcement amid ongoing concerns its business model could be at risk.

The potential threat is two-fold. First it will face a state-backed competitor for the ticket sales from which it derives its revenue (based on a 5% commission) and second, its value-add revolves around making the process of buying tickets simpler.

Analysts at broker Peel Hunt say the new system could also have some positive implications for the company. They argue that flexi-tickets for hybrid commuters could actually represent a 'significant opportunity' for Trainline, as it currently has low exposure to commuters.

New flexible monthly tickets will be digital only, which Peel Hunt says will leave Trainline well placed to cater to demand considering some 30% of UK industry sales are e-tickets, of which Trainline's consumer business makes up around 70%.

Another transport stock on the move in recent weeks is **FirstGroup (FGP)**, which has gained around 15% since the middle of May.

However, this is unrelated to the new railway plans and centres around the firm's decision to sell its US bus business, its most profitable division, to private equity group EQT for £3.3 billion.

Activist investor Coast Capital, which is FirstGroup's largest shareholder with a 14% stake, has threatened to take legal action to renegotiate, delay or call off the transaction, calling it a 'terrible deal'.

Coast's stance has been backed by the second-largest shareholder, fund manager Schroders, as well as proxy adviser Glass Lewis which recommends voting against the deal due to 'poor transaction timing and inadequate valuation'. However the third-largest shareholder, fund giant Columbia Threadneedle, has voiced support for the sale, along with three proxy adviser agencies. [YF]

# Supreme is a super-charged growth and income play


The profitable batteries, vaping and vitamin supplier has a long growth runway ahead of it

Investors seeking an entrepreneurial smaller company with big growth ambitions should buy shares in **Supreme (SUP:AIM)**, the fast-moving consumer products supplier which joined AIM in February. The stock offers a 3.6% prospective dividend yield and is trading on an undemanding 14 times forecast earnings for the year to March 2022.

Steered by founder and chief executive Sandy Chadha, Supreme has a strong track record of introducing new brands and categories to a retail customer base.

It should be able to scale in the years ahead, with its focus on high growth categories such as vaping and sports nutrition set to drive earnings.

**SUPREME**
**BUY**
(SUP:AIM) 187.5p

Market cap: £216 million

### BUSINESS OVERVIEW

Supreme owns, licenses and distributes a variety of consumer brands across the vaping, sports nutrition, lighting, batteries and household segments.

It distributes globally recognised brands such as Duracell, Energizer and Panasonic and also boasts the in-house developed 88Vape brand, which has become the UK's vaping e-liquids leader.

Supreme originally wanted to float in May 2018, yet its stock market listing was postponed, with management blaming market conditions. Though disappointing at the time, the delay was no bad thing as it enabled Supreme to build on its track record and eventually arrive on AIM via an oversubscribed offering, priced at 134p earlier this year.

Georgina Brittain, manager of investment trust **JPMorgan Smaller Companies (JMI)**, looked at the business in 2018 and declined to invest at the time as she didn't think the business was mature enough, but she subsequently invested the second time around.

'We thought it had some interesting areas (in 2018),' remarked Brittain recently, 'but it (Supreme) didn't feel sturdy enough so we couldn't trust the numbers. When it announced plans to float again, we could look at the forecasts that had been in the market, how they had done, where they had done better or worse, and what was changing.'

Another backer of the company when it came to market earlier this year was

**Supreme: Financials, valuation and yield overview**

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| **Sales (£m)** | 123 | 131 | 139 |
| **EPS (p)** | 11.5 | 13.3 | 15.1 |
| **DPS (p)** | 5.7 | 6.7 | 7.5 |
| **PE** | 16.3 | 14.1 | 12.4 |
| **Yield** | 3% | 3.6% | 4% |

Source: Berenberg sales, earnings and dividend forecasts. March year end


Melwin Mehta, manager of the **MI Sterling Select Companies Fund (0270892)**. He said: 'With ample opportunities to both grow sales from its existing product portfolio and expand into new product categories, in our view, this company has a long runway ahead of it.'

## CHARGED FOR GROWTH

Although bears might argue Supreme sells commoditised products, bulls would counter that the company has design and manufacturing skills, an extensive retail distribution network and direct to consumer capabilities that provide a good route to market for brands and products.

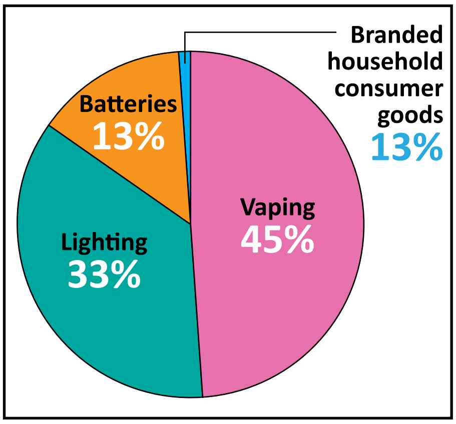
Supreme has amassed a retail customer base ranging from local convenience stores to major discounters and grocers such as B&M, Poundland, Asda, Iceland and Sports Direct.

Investment bank Berenberg says the group generates strong returns on invested capital, 59% in the year to March 2020, due to the asset-light nature of its distribution business and the efficiency with which Supreme has set up its own manufacturing capabilities in vaping and sports nutrition.

Cash-generative Supreme came to the stock market with a 50% dividend payout ratio and Berenberg believes special dividends could feature going forwards too.

It is forecast to pay 6.67p per share in dividends for the current financial year, rising to 7.52p in the following year.

**Supreme: Gross profit by division, FY2020**




Source: Berenberg, Supreme

## LATEST TRADING

In a trading update on 4 May, Supreme said that thanks to a strong performance across key growth categories including vaping, sports nutrition and wellness, adjusted earnings before interest, tax, depreciation and amortisation for the year to March 2021 would beat expectations, achieving at least £19 million (2020: £16.2 million), and sales would hit at least £121 million (2020: £92.3 million).

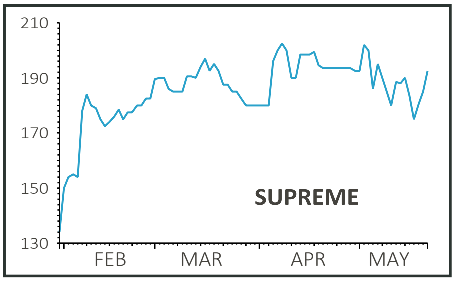
Supreme has seen notable demand across sports nutrition and wellness and tasty sales of meal replacement powders, protein snack bars, as well as early success with private label vitamins.

A brand with a strong competitive moat due to regulation, its competitive pricing and the fact that vapers rarely switch brands, 88Vape is also seeing strong customer traction and is now being sold in around 1,200 McColl's convenience stores.

Berenberg thinks there is more consolidation to come in the fragmented vaping market, and with Supreme's 88Vape brand the leading one by volume share, 'it looks well placed to continue growing nicely in the years ahead,' adds the bank.

It says Supreme's strong balance sheet leaves 'plenty of optionality' for earnings enhancing bolt-on acquisitions and additional cash returns to shareholders.


Berenberg forecasts earnings per share growth from 11.5p in the year to March 2021 to 13.3p in 2022, rising to 15.1p in 2023. [JC]



# Why it is not too late to profit from the SDI growth story

Science kit maker's stock should push ahead on earnings growth

AIM-traded **SDI (SDI:AIM)** represents a multi-year growth story with the potential to add substantial value to retail investor portfolios.

It is a collection of multiple subsidiaries that design and manufacture digital imaging, sensing and control equipment used in life sciences, healthcare, astronomy, manufacturing, precision optics and art conservation applications.

SDI operates a model closely resembling that of health, safety and environmental kit maker **Halma (HLMA)**, a constituent of the FTSE 100, buying good value businesses that add consistent cash flow and profits to the overall group.

Some readers may have become aware of SDI under its former guise – it used to be called Scientific Digital Imaging until changing its name about 18 months ago.

SDI has built a loyal investor fanbase over the years, much like its larger contemporary **Judges Scientific (JDG:AIM)**, the £380 million company that pursues a comparable acquisition-led strategy in the science and technology field.

Its share price jumped 33% on 10 February after telling the market that it would smash forecasts. The company secured material follow-on orders for its Atik cameras business, proving kit for real-time PCR DNA amplifiers, clever medical kit that allows us to test for Covid infection by studying genetic code.

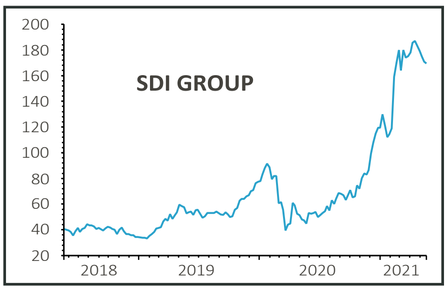
**SDI**
**BUY**
(SDI:AIM) 174.5p
Market cap: £177 million

Given that the Covid-19 strain is stubbornly sticking around, and may do for some time, there could be plenty more PCR test-based orders over the coming months, but SDI has plenty of other opportunities beyond the pandemic.

For example, the near-£7 million acquisition of Monmouth Scientific last year provides a range of clean air solutions to healthcare and science customers, such as clean rooms, which could take SDI into the booming semiconductors space.

SDI had previously admitted that the pandemic had hurt many of its businesses, due to enforced shutdowns and sales teams not getting out on the road. But industries in the UK and elsewhere are starting to reopen, which should ensure that business opportunities closed to SDI over the past year or so start coming back.

The company guides for £7.4 million pre-tax profit for the year to 30 April 2021, rising to £8.7 million in 2022. The stock trades on approximately 25 times forecast earnings for the current year, a rough 16% discount to Judges Scientific. We see this gap narrowing and mid-teens earnings growth to keep pushing SDI's share price higher. [SF]



## FORD MOTOR
(F:NYSE) $13.06

### Gain to date: 86.8%
**Original entry point:**
**Buy at $6.99,** 13 August 2020

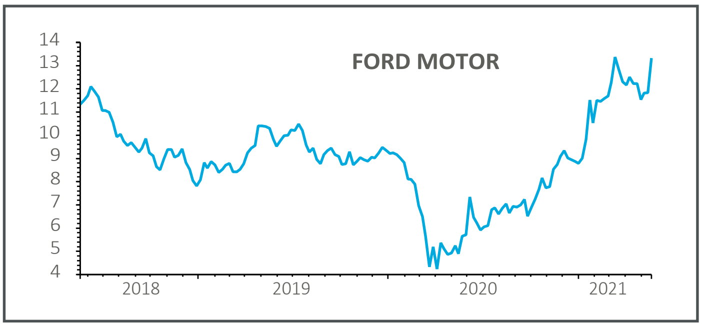

SHARES IN US car maker Ford continue to gain since we said to buy last August as the company reaffirms its commitment to electric vehicles.

As part of his $2.3 trillion infrastructure package for the US economy, President Biden has promised $174 billion of investment in electric vehicles, which provides a strong tailwind.

On 20 May, during the President's visit to Ford's factory in Dearborn, Michigan, the car maker announced it would establish a battery joint venture in the US with Korea's SK Innovation. The total investment is expected to top $5 billion and production is expected to begin mid-decade.

The company also unveiled its latest version of the iconic F-150 pickup truck, with permanent four-wheel drive and an all-electric power train.

Within 12 hours of the news, the company had 20,000 reservations for the vehicle, a resounding endorsement of its electric vehicle strategy according to chairman and chief executive Jim Farley.




**SHARES SAYS:** ↗
**We expect investors to remain enthusiastic about Ford's expansion into electric vehicles. Keep buying. [IC]**

## PREMIER FOODS
(PFD) 112P

### Gain to date: 170%
**Original entry point:**
**Buy at 41.45p,** 23 April 2020

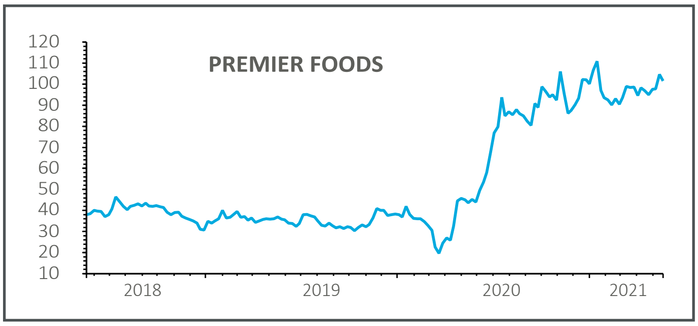
Mr Kipling cakes-to-Sharwood's sauces maker **Premier Foods (PFD)** continues to stage an impressive recovery and we think there could soon be revived bid interest in the stock.

Premier Foods spurned multiple bids from US spices giant McCormick & Co back in 2016. It is now in better financial and operational shape, meaning a bidder could pick up a much stronger business.

The latest round of profit upgrades for Premier Foods followed an increased bond issue that reduces Premier Foods' finance costs, as well as good full-year results (19 May) that included a welcome return to paying dividends, a clear sign of the group's dramatically improved financial health.

Once over-indebted, Premier Foods has reduced its leverage to its lowest-ever level, which will allow it to invest in its brands and new product categories.

Shore Capital believes Premier Foods remains undervalued, even after the strong share price performance over the past year, given its 'ongoing focus upon supporting its brand portfolio in the UK and now a little more further afield, plus the scope for complementary bolt-on acquisitions and the return to the dividend roster'.




**SHARES SAYS:** ↗
**Keep buying Premier Foods for its strengthened balance sheet, improving profit performance and the potential rekindling of bid interest. [JC]**

# WALMART

## (WMT:NYSE) $141.76

**Loss to date: 2.8%**

**Original entry point:**

**Buy at $145.80,** 11 February 2021

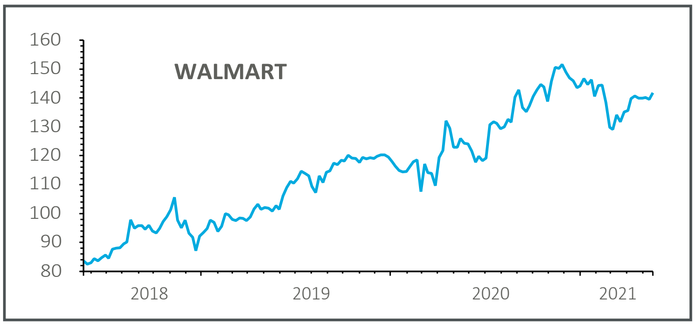

US SUPERMARKET GIANT Walmart posted first quarter results which breezed past analysts' forecasts and the company raised its second quarter and full year guidance.

Sales of $138.3 billion were comfortably ahead of consensus estimates of $132 billion, while earnings per share of $1.69 easily topped estimates of $1.21 as the firm cashed in on stimulus spending by US consumers.

President and chief executive Doug McMillon said he was 'encouraged by traffic and grocery market share trends' and was more optimistic about the business than he had been at the start of the year.

While stimulus spending is expected to slow, analysts believe Walmart can continue to gain market share on the back of its low prices, its well-developed delivery service and free collection options. In particular, it is seen benefiting from faster growth in online grocery spending by lower-income consumers.

For the second quarter, the firm now expects its US operating income to grow by high single digits instead of growing 'slightly' and for earnings to grow by low double digits excluding divestitures rather than being 'flat to up slightly' as previously forecast.




**SHARES SAYS:** ↗

**A decent update and we remain confident that the shares will reward investors in time. [IC]**

# GAMMA COMMUNICATIONS

## (GAMA:AIM) £19.40

**Gain to date: 30%**

**Original entry point:**

**Buy at £14.95,** 9 July 2020

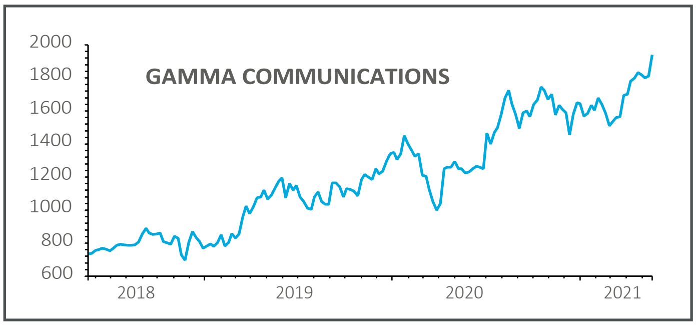
COMMUNICATIONS TECHNOLOGY DEVELOPER **Gamma Communications (GAMA:AIM)** continues to cement its reputation as a sleep easy investment for shareholders to own.

Its share price has stayed impressively resilient in the face of volatility hitting markets this year.

Gamma's latest trading update (20 May) highlighted continued growth and, assuming no further lockdowns, that full year to 31 December 2021 results will be at the higher end of market forecasts.

The forecast range is £442 million to £461 million of revenue on earnings before interest, tax, depreciation and amortisation of £86 million to £94 million. This implies approximately 14% growth on both metrics at the mid points. For context, Gamma did £393.8 million sales and £79 million earnings before interest, tax, depreciation and amortisation in 2020.

Progressive Equity Research has left its forecasts untouched, but comments: 'Gamma continues to exhibit its resilience in the current operating environment as its bad debts remain at low levels, and it retains a range of growth opportunities in both the UK and European unified communications markets.'




**SHARES SAYS:** ↗

**A quality business still worth buying for the long run. [SF]**

# Where to shop in **retail real estate**

**Retail real estate has had a tough time, but we think has been unfairly written off by many investors explains Jeff O'Dwyer, portfolio manager, Schroder European Real Estate Investment Trust.**

Online sales have put enormous pressure on physical, "bricks and mortar" retail in recent years. In 2015 only around 5% of retail sales in the EU were generated online. By the end of 2019, this had almost doubled to 9.5%.

Covid-19 has only exacerbated things. The closures of almost all physical retail – through several lockdowns – has accelerated the shift to online.

In 2020, it is estimated that almost 15% of all retail sales in the EU were generated online. And while some consumers will come back to the physical stores when the pandemic is over, a fair share of spending will have moved online permanently. By 2025, the share of online sales in the EU is estimated to grow to over 20%.

However, we think this generalisation of retail under pressure is not justified. Not all retail is the same; the sector is highly differentiated. For income driven investors, we think there are sustainable returns to be had, if you focus on the most resilient part of the sector.

**Where are the opportunities?**

The online shift is undeniable, and indeed some retailers are – often aggressively – reducing their physical footprint and negotiating for lower rents (and turnover rents) to "optimise" real estate portfolios. Vacancy for shopping centres and high-street units is increasing.

As a consequence, retail investment has fallen out of favour with many real estate investors. According to data from Real Capital Analytics, retail investments regularly accounted for between 20-25% of investment volumes in Western Europe between 2007-2016. That share dropped to just 12-15% in 2017-2020.

We think investors writing off all retail are missing out. Two formats in particular have shown excellent resilience and growth in recent years and in the current crisis.

- **Supermarkets**
- **Retail warehouses**

A closer look at online sales reveals huge differences in products consumers buy online and those they do not. On the one end, there is

fashion and consumer electronics, these have very high rates of online penetration. On the other end of the spectrum however, are groceries, drug store items and DIY & gardening.

That is not to say that both, retail warehouses and groceries are not free from the pressures of online. However, the nature of the goods they are selling and consumer preferences (i.e. self selection) continue to make them highly robust. Many grocery retailers have also successfully integrated online in their businesses by e.g. click & collect options or online sales for selected products.

Online grocery retail (with home delivery in particular) remains in its infancy in major continental European countries such as France and Germany. This is even more true in southern Europe, where consumers still favour physical shops and where building a comprehensive delivery network is extremely costly for retailers.

In Germany, where consumers remain extremely brand and price sensitive and grocery margins are low, establishing a profitable home delivery model remains challenging. And in France, where the online penetration in grocery retail reached 5.0% in 2020, the "click & drive" model still requires physical stores as points where consumers pick up their online shopping from designated bays in the car park.

Even so, many grocery retailers continue to adapt and embrace new technologies. Many have introduced apps and are experimenting with new in-store technology like digital price labels and – hand-scanners that allow shoppers to avoid tills. Real time data analytics allow sales monitoring and stock level optimisation, making supply chains more efficient. They are also starting to open smaller, city-centre formats to capture a larger share of convenience demand.

Grocery retailers and especially discounters have also continued to adopt to customer demand, making their stores more attractive with regards to e.g. the interior and lighting as well as offering more organic food or fresh products like bakery counters.

**Preferred formats**

In terms of formats, there have been two obvious winners through the pandemic. The first is grocery retailing in urban locations. The second is retail warehouses.

While almost all other retail formats had to close, supermarkets, DIY and to a lesser extent large retail warehouses, were allowed to stay open or enjoy significantly lower downtimes. Supermarkets saw sales increasing, often absorbing spending that would have normally occurred in restaurants, cafes and bars. Retailers in DIY, gardening and sports benefitted from people renovating their homes, improving their gardens or exercising at home or outside.

The stark difference in the threat from online and the resilience in face of the current pandemic is also reflected in rent collection statistics and real estate yields. Rent collection for shopping centres has been challenging given closures and or restrictions on trading hours. Investment demand and yields for supermarkets and retail warehouses actually improved across most of Europe in 2020.

Most real estate asset classes saw a decline in the number and overall volume of transactions in 2020. But while shopping centres have been out of favour, supermarkets and retail warehouses witnessed slight increases compared to 2019. Another big plus from an investor's point of view is, that many supermarket and retail warehouse occupiers are still happy to commit to longer leases, in stark contrast to sectors like fashion or gastronomy.

**Sustainable rents**

Ultimately, we are very focused on retailers that are paying sustainable rents. Good quality supermarkets and retail warehouses, with internet-resilient occupiers, located in large or growing catchment areas that are leased affordably remain attractive investments.

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Please remember that the value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

# Reddit's WallStreetBets forum four months on: has anything changed?

We explore what people are now saying on the social media network which was behind January's GameStop frenzy


The hype around the wild swings in the shares of US video game retailer GameStop earlier this year threw a spotlight on the world of investing and raised the profile of social media network Reddit as a community to talk stocks.

It shone a spotlight on hedge funds and how they operate. It also led to calls for regulators to enforce greater transparency in stock markets, with a growing number claiming the finance world is 'stacked against the little guy'.

The ruckus caused by the frenzied dealing in GameStop shares, as well as others like cinema chain AMC and even commodities like silver, can be laid squarely at the door of a Reddit forum called WallStreetBets. Since the GameStop saga the forum has gained more prominence and now has over 10 million users subscribed to it.

Four months since the Reddit boom hit the evening news, *Shares* explores WallStreetBets to see if anything has changed.

## DIFFERENT OBJECTIVES

For those who have been inspired to invest after seeing what happened with GameStop, it's important to know who these Reddit investors are, as it could well be the case that they have very different backgrounds, goals and objectives when it comes to investing.

Most people on the WallStreetBets forum are not what you would call long-term investors. The majority appear go in and out of stocks in a matter of days, waiting to see if the share prices of certain companies hit a specific level before deciding to cash out.

The analysis on stocks in the forum tends to be less about classic equity valuation metrics such as price to earnings or price to book ratios, and more about the market's sentiment towards a particular stock and how many days it could take to reach a certain price target.

The majority on the forum tend to be momentum investors. They post an array of charts to speculate when a stock or even sometimes an exchange-traded fund will break out of a certain price range.

Some do talk about a company's fundamentals – for example, comparing Ford's price to earnings ratio to that of Tesla's, analysing cash positions and debt levels and debating competition in the electric vehicle market. But most are mainly concerned about share price swings in the likes of Tesla and others like space company Virgin Galactic, and whether their share prices are 'going to the moon'.

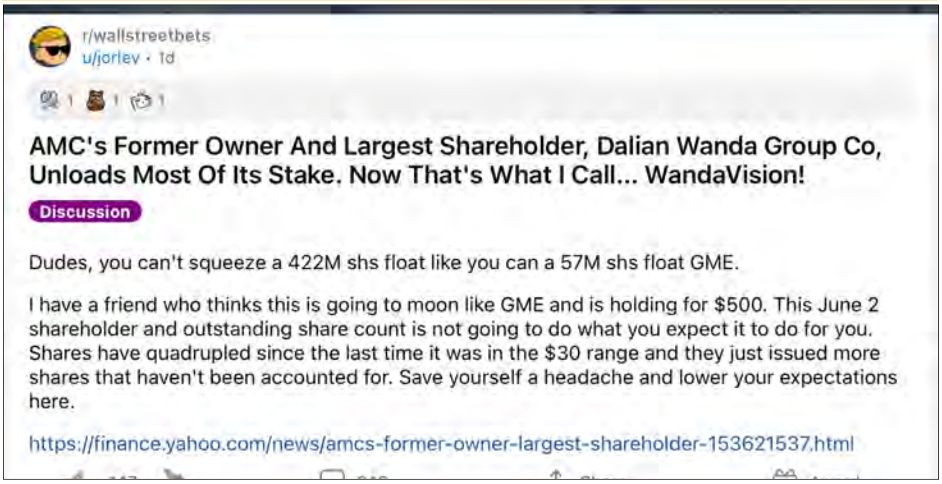
## APPETITE FOR RISK

Most users on the forum appear to have a high tolerance for risk. Those who post about their portfolios on the forum appear to have around 70% to 80% of their money in shares, and the rest in cryptocurrency, judging by their comments.

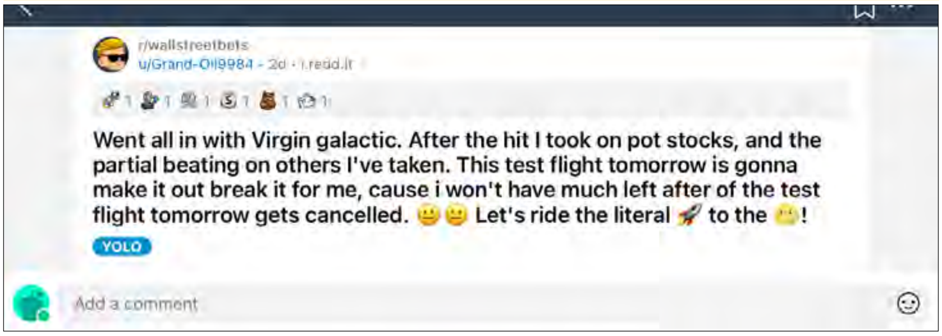
Their attitude to the wild swings associated with stocks like GameStop can be seen in the general tone of the forum – losses are almost glorified.

One example of a popular post on the forum involves a gif of a woman shaking a coke bottle before throwing it hard at the ground and it then bouncing back and hitting her. As the woman shakes the bottle, the caption on the gif reads 'Me doing my DD (due diligence)' before reading 'Going all-in on my YOLO (you only live once) stocks' as the

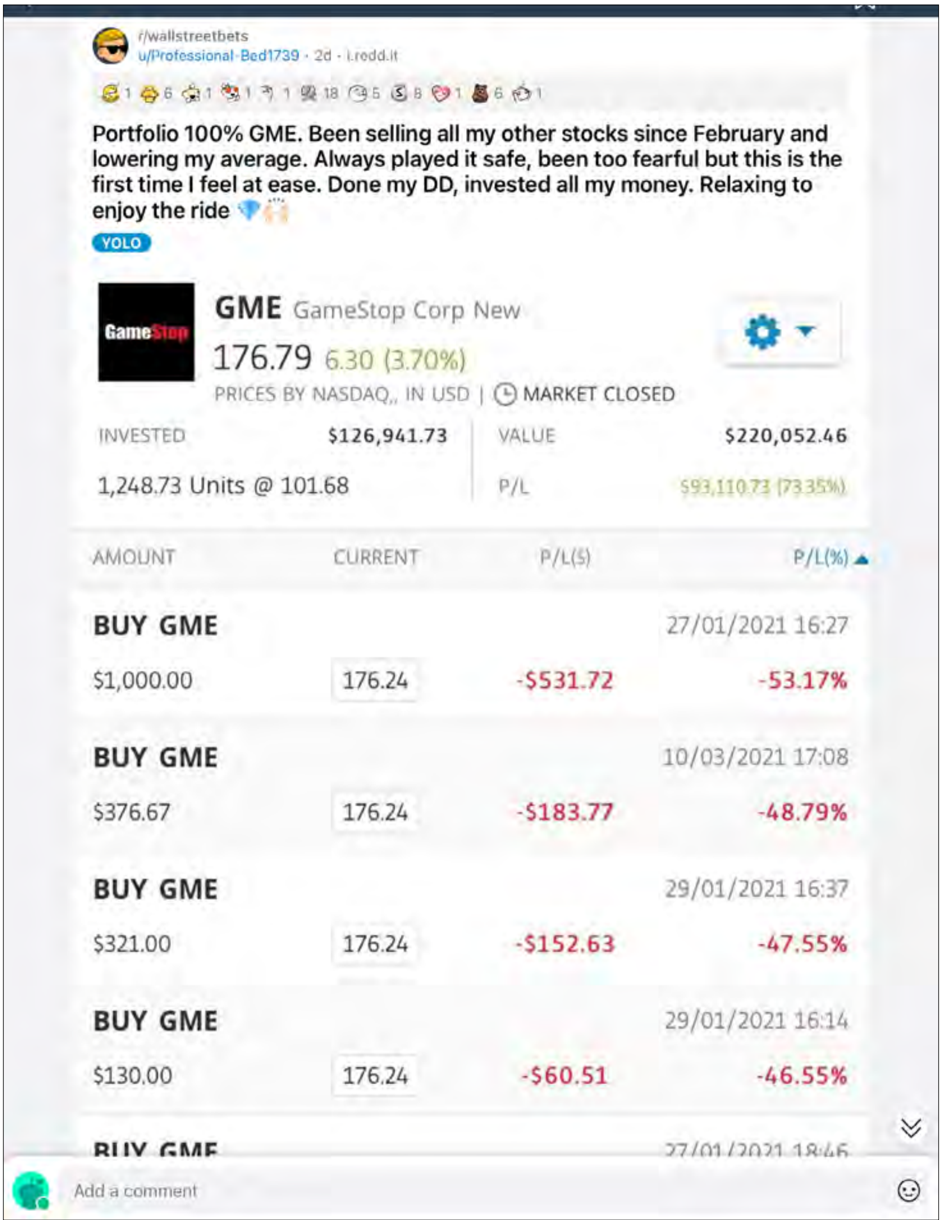
**Examples of posts on Reddit's WallStreetBets forum**




**Forum users love the rocket and moon emojis**




A screenshot from Reddit's WallStreetBets forum




bottle hits the ground and then finishing with '-69% return' as it bounces back in her face.

There are hundreds of comments on such posts, most of which involve users also making jokes about heavy losses they've made, and with a significant number posting screenshots of their brokerage accounts and some showing losses as high as 80% to 90%.

Meanwhile stocks which continue to draw the most attention on the forum are GameStop, with the push to get its share price higher still ongoing, as well as struggling cinema chain AMC and mobile phone company Nokia – companies which Americans in their 20s to early 40s, seemingly the age range of the vast majority of Reddit users on the forum, remember with fondness from their childhood and teenage years.

## TALKING UP PALANTIR

Other stocks that have caught the attention of users on WallStreetBets include Palantir, the US data analytics software company which works with governments and local authorities, as well as firms in financial services and healthcare.

Having more than doubled in price since its stock market float in October 2020, Palantir is exactly the sort of company that attracts users of Reddit's WallStreetBets forum. It is a high-growth tech stock that the forum users believe to have a niche in large addressable market, in this case helping authorities turn big chunks of data into useful insights and helping companies turn such data into profitable ones.

Their attitude to Palantir, and others from mega-caps like Apple, Microsoft and Tesla to smaller names like GameStop, AMC and Nokia, are often the same. Users on WallStreetBets appear content to swallow losses for as long as it takes, because in their eyes, these stocks are 'going to the moon'.

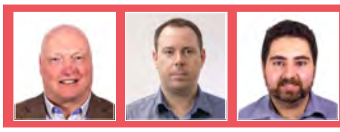
*Shares* welcomes the idea of a community forum to bring together like-minded individuals trying to explore the world of investing. However, it appears that anyone who wants to learn from Reddit will need to understand that recklessly chasing any stock is not a guaranteed ticket to success. By all means, explore the threads, but don't copy what others are doing without proper research.

**The opinions contained in the screenshots are from Reddit users and not Shares' journalists**

By **Yoosof Farah**
Reporter

# REOPENING RALLY: IS THERE MORE TO GO?

## The stocks to buy now and the ones to avoid



By **Martin Gamble, James Crux** and **Yoosof Farah**

The opening of indoor hospitality on 17 May was the penultimate step on the Government's roadmap towards the complete removal of restrictions on 21 June, notwithstanding the threat of new variants.

The UK's successful vaccination programme and falling hospitalisations over recent months has spurred hopes for a strong second half economic rebound, with the Bank of England upgrading its 2021 growth forecast to 7.5% from 5% in February.

With the mid-cap FTSE 250 index hitting a new all-time high in early May investors are rightly asking if there is more to come, especially for the sectors worse hit by the pandemic, which have outperformed the market year to date.

A lot of stocks linked to the reopening trade have already rallied hard, implying that a lot of future good fortune is already priced in. That means you can no longer buy anything linked to the reopening and expect to profit.

In this article, we piece together recent trends and identify the stocks that could still see their share prices rise in the short term as well as the stocks to avoid.

### HOT SUMMER FOR HOSPITALITY?

If the enthusiasm shown by consumers braving the cold April temperatures is any guide, pubs and restaurants could be in for a hot summer.

According to data consultancy CGA like-for-like drink sales were only down 21% in the first two weeks after opening outdoors on 12 April compared with the corresponding weeks in 2019,

which represented a tough comparator given it included Easter.

Premium bar operator **Revolution Bars (RBG:AIM)** said that despite operating from only 15% of capacity and shorter than normal hours, sales hit 48% of the comparative four week period before the pandemic.

Managed pubs group **Young's & Co (YNGA:AIM)** said it achieved 85% of normal trade for the 144 of its pubs with outdoor spaces in the five weeks since reopening.

Throw in the potential for a successful European football championship in June and it is easy to imagine exceptional summer trading for Young's and the pub sector in general.

Speaking on *Shares' Money & Markets* podcast, Young's chief executive Patrick Dardis said: 'It could be the best summer we've ever had.'

Numerous retail stocks have seen their share prices bounce on the first trading update after reopening measures as sales have exceeded expectation. *Shares* believes there is a good chance that we could see the same result for several companies that haven't yet had a chance to enjoy a bump in trading, such as some of the holiday and airline companies.

By taking a position now when there is still some uncertainty, you're in position to benefit at the next trading update. However, you also run the risk that the update disappoints, so pick stocks carefully.

## HAVE SHARES ALREADY PRICED IN GOOD NEWS?

### Leisure and hospitality share price performance

| Stock | Year to Date (%) |
|---|---|
| Restaurant Group | 82.9 |
| Cineworld | 31.9 |
| Rank | 29.4 |
| Ten Entertainment | 26.6 |
| Mitchells & Butlers | 22.6 |
| Young's & Co | 20.8 |
| Marston's | 18.9 |
| Wetherspoon | 15.9 |
| Hollywood Bowl | 13.8 |
| Fuller Smith & Turner | 13.6 |
| The Gym Group | 11.6 |
| **FTSE 350 Index** | **7.7** |

Source: Sharepad. Data to 20 May 2021.

The big question is how much of the potential good news has already been priced into shares, given how numerous leisure, retail and hospitality stocks have risen considerably year to date.

Shore Capital believes the risks and rewards are no longer favourable with several stocks already appearing to be pricing in a recovery in profitability back to pre-Covid levels.

For example, shares in cinema operator **Cineworld (CINE)** are up 32% year to date, despite an uninspiring near-term film release roster and increased streaming competition. Having run too far relative to the fundamentals, we would steer clear of its shares.

# Pubs, restaurants and café companies

Around 7.5% of capacity has been removed from the pubs and restaurants industry since December 2019 according to Shore Capital, which means the supply-demand balance is favourable for the first time in decades. This may have the effect of creating a stronger pricing and margin environment.

A recent survey from the *Morning Advertiser* suggested that 58% of operators had increased prices while only 18% had no plans to increase prices.

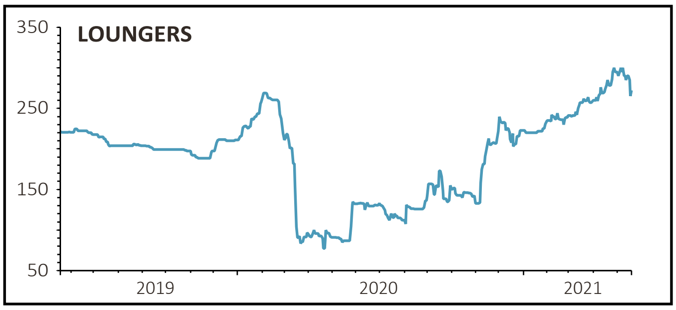
In addition, a more 'tenant friendly' rental landscape could mean the survivors getting cheaper access to prime locations, particularly relevant to café and restaurant operators.

Higher margins and returns on capital could imply higher than historical valuations for the best positioned firms, suggesting more share price gains.

## Loungers (LGRS:AIM)

**Price:** 270.2p
**Market Cap:** £293 million

BUY




All-day café and bar operator Loungers is well positioned for the post-pandemic world due to the position of its sites which are predominately located in small town centres and suburban high streets.

Chief executive Nick Collins told *Shares* that the company 'felt more relevant' to the communities it serves than ever before, suggesting its strategy has a long runway ahead.

The company's flexible format provides a cheap workspace, a meeting spot for the local community and a place for friends to hang out from dawn to late, which seems to be a winning formula and a long-term solution to challenged high streets.

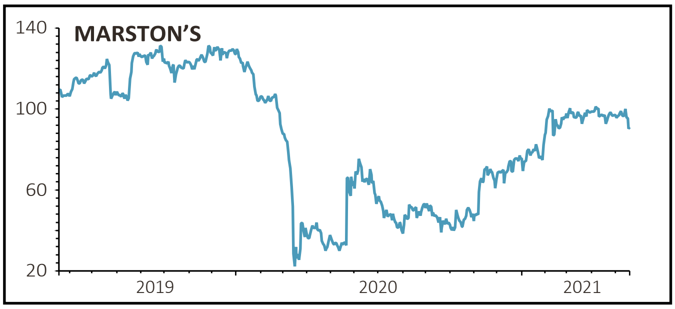
Spurred on by strong like-for-like trading last summer and an £8.3 million fundraise last spring, Loungers has upgraded its growth ambitions to open 25 sites a year.

The company already had one of the lowest rent expenses among peers, running around 5% of revenues, so the opportunity to open new sites on even more attractive rents suggests the business can eventually earn higher returns.

## Marston's (MARS)

**Price:** 91.1p
**Market Cap:** £604 million

BUY




Pubs operator Marston's could perform well in the new post-pandemic world with its wet-led community and suburban pub exposure enabling it to exploit more flexible working patterns.

This positioning and investments made during lockdown in outdoor spaces allowed the company to open an impressive 80% of its estate in April, while pent-up demand drove trading to 80% of pre-Covid levels, despite indoor spaces remaining closed until very recently.

Last year's brewing joint venture with Carlsberg netted the company approximately £230 million in cash and a 40% share of the enlarged beer company which is expected to generate £24 million of synergies.

Marston's is now set on a path to providing the best customer experience and simplifying the business.

Reaching its goal of reducing net debt to below £1 billion by 2025 remains the financial priority. Dividends should be reinstated in due course and increased progressively as deleveraging continues.

The business is also a takeover target, as illustrated by an approach last year from US private equity firm Platinum Equity Advisors. Marston's fought off that takeover interest, saying the various proposals undervalued the business. We wouldn't be surprised to see someone else sniffing around.

# Retailers and drinks companies

A slew of retail and beverage businesses have upgraded guidance as the world reopens.

For instance, **Next (NXT)**, **Greggs (GRG)** and **Dunelm (DNLM)** have scaled fresh share price highs after seeing strong trading post the reopening of non-essential stores (12 April).

Shares in **Diageo (DGE)** and **Britvic (BVIC)** have also fizzed up on signs of encouraging trading as the on-trade (pubs, restaurants and hotels) and other out-of-home channels spring back into life.

**Retail and beverage share price performance**

| Stock | Year to Date (%) |
|---|---|
| Card Factory | 92.2 |
| Superdry | 74.5 |
| Halfords | 41.7 |
| Kingfisher | 38.5 |
| C&C | 35.9 |
| Topps Tiles | 29.7 |
| Dunelm | 28.4 |
| Frasers | 27.0 |
| Diageo | 16.0 |
| Britvic | 14.6 |
| Howden Joinery | 14.1 |
| Next | 13.6 |
| Dixons Carphone | 12.9 |
| Marks & Spencer | 11.3 |
| B&M | 9.6 |
| WH Smith | 8.9 |
| Coca-Cola HBC | 5.0 |
| Studio Retail | 4.3 |
| JD Sports Fashion | 3.0 |
| AG Barr | 2.8 |
| Stock Spirits | 1.1 |
| AO World | -39.1 |
| **FTSE 350 Index** | **7.7** |

Source: Sharepad.

As the table shows, the likes of greetings card retailer **Card Factory (CARD)** and fashion brand **Superdry (SDRY)** are among the names to have served up spectacular year-to-date returns, leaving shares at levels which leave little room for disappointment if the reopening boom falls flat, and earnings come in shy of estimates.

Cards-to-gifts seller Card Factory says customers are spending more as they frequent its now-reopened shops but are visiting less often. We would urge caution over buying its shares given ongoing worries over high levels of debt and the fact it has flagged the need to raise more money.

Despite its rip-roaring rebound from the March 2020 lows, B&Q-to-Screwfix owner Kingfisher remains good value, based on around 14 times prospective earnings for the years to January 2022 and 2023.

The home improvement specialist reported bumper first quarter sales and raised first half earnings guidance as it continues to ride the DIY boom. Yet risk-averse investors should be aware of the demanding sales comparatives to come as well as the fact Kingfisher is now feeling the impact of supply chain challenges and inflationary pressures. We think the shares are due a pullback, so wait for a better entry point.

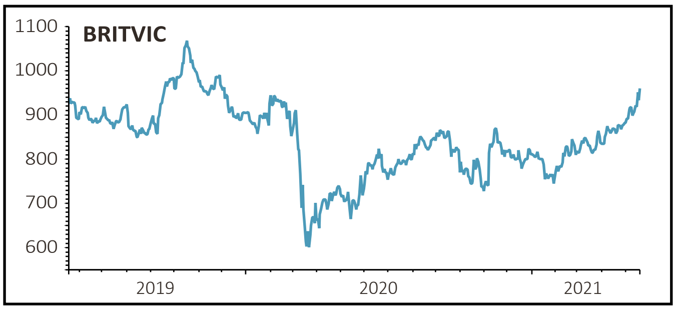
The same applies to bakery retailer Greggs. It is a fantastic business, but its stunning rally leaves the shares swapping hands for roughly 33 times forecast 2021 earnings. That's too high, so put it on your watch list. We think investors stand a better chance of making money this year by buying another retailer – furniture specialist **ScS (SCS)**, which we discuss in detail later in this article.

As for the beverage sector, the reopening of the on-trade across major markets is providing a major earnings tailwind for the likes of premium mixers brand **Fevertree Drinks (FEVR:AIM)**, soft drinks groups **Britvic (BVIC)**, **A.G. Barr (BAG)** and **Coca-Cola HBC (CCH)**, and alcoholic drinks giant **Diageo (DGE)**.

## Britvic (BVIC)

BUY

**Share price:** **956p**
**Market Cap:** **£2.5 billion**



Though the shares are up 18% year-to-date, we expect further upside from soft drinks group **Britvic (BVIC)** now that the on-trade has reopened, and the easing of restrictions is helping other out-of-home channels to rebound.

The maker of Britvic mixers as well as Robinsons, R Whites and Tango reported 'encouraging' trading in the first weeks of its second half as UK lockdown measures begin to ease. In a show of confidence, it reinstated the interim dividend.

Britvic, which also produces and sells Pepsi and 7UP in Britain and Ireland under a franchise bottling deal with PepsiCo, is optimistic as it enters the second half of its financial year and the key summer period, with vaccines being rolled out in the UK and across the European Union.

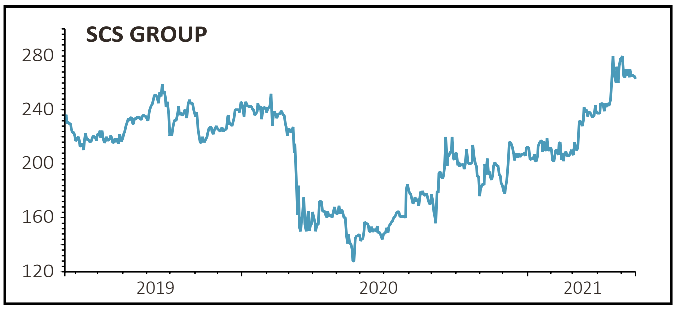
For the year to September 2021, J.P. Morgan Cazenove forecasts earnings per share of 46.8p, bubbling up to 56.9p for 2022.

J.P. Morgan Cazenove regards Britvic as 'a relatively defensive play within beverages at an attractive valuation'. Based on next year's estimate, Britvic trades on a forward multiple of 16.8 times.

### ScS (ScS)

**Price:** 265p
**Market Cap:** £101 million

BUY




Demand for UK houses is buoyant post-pandemic and many consumers won't be taking a foreign holiday this summer, which means demand for home-related big-ticket items such as sofas and carpets could prove stronger and more sustained than previously thought.

That augurs well for ScS, the purveyor of competitively priced upholstered furniture and floorings which reopened stores in April and should prove a beneficiary as pent-up demand is released over the months ahead.

Since ScS' sofas offer good value, its stores and website should appeal to consumers on a budget. And alongside rival **DFS Furniture (DFS)**, ScS has market share to chase following the demise of rival Harveys, and with Oak Furnitureland having emerged from administration last summer with a diminished store estate.

Blessed with a strong balance sheet and a cash generative business model, ScS is also committed to restarting dividends when appropriate in the future.

## Travel and holiday companies

The to-ing and fro-ing over whether summer holidays abroad will be allowed and where people will be able to travel have dominated media headlines.

When the pandemic first hit and companies scrambled to raise cash, the consensus was that one lost summer is bad but not a disaster. Two lost summers was deemed unthinkable.

With most of Europe's population now vaccinated and the vaccines seeming to hold up well against variants, it appears that 2021 may not be another lost summer after all.

Consensus analyst forecasts compiled by Refinitiv show most airlines staging a near full recovery by the end of 2023, with a modest bounce back in revenue and earnings this year before a meaningful jump next year, with sales and profit getting back to pre-pandemic levels during 2023.

However, there are some stocks which analysts think will exceed pre-pandemic earnings levels by then, one of which is budget airline **Wizz Air (WIZZ)**.

In the year to 31 March 2020, before the impact of the pandemic was really felt, Wizz Air recorded revenue of £2.7 billion, but by 2023 analysts see this heading to £3.3 billion, with earnings before interest, tax, depreciation, and amortisation rising from £783 million in 2020 to over £1 billion by 2023.

This strong earnings outlook has already been reflected by a jump in its share price above pre-pandemic levels to reach all-time highs, but the company is seen as considerably more resilient than its competitors with €1.6 billion in cash as of 31 March, and quarterly cash burn of €87 million.

In theory it is in a strong position to hoover up market share from failed competitors once travel recovers. Unlike its London-listed peers it also has a much bigger focus on Central and Eastern Europe, seen as a higher growth market than Western Europe.

Not all stocks have fully recovered however, with Wizz Air's rival **EasyJet (EZJ)** still a third below its pre-pandemic level.

British Airways owner **International Consolidated Airlines (IAG)** is still more than 50% down, with analysts only expecting the firm to recover 40% of its 2019 revenue in 2021.

The firm is more exposed than its rivals to some of the structural changes that could occur post-pandemic, with its lucrative 'billion-dollar route' between London and New York for example under threat from what could be a permanent decline in business travel. However, with its shares depressed analysts at Berenberg see a buying opportunity now.

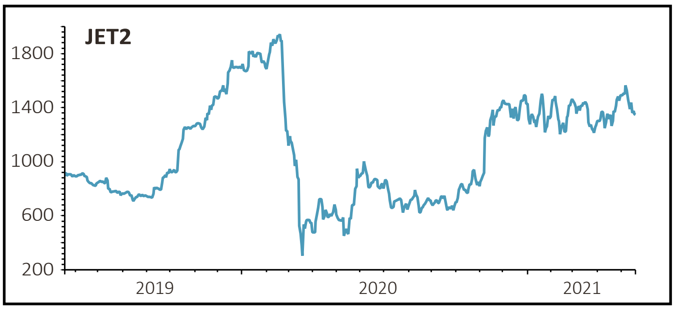
There are reasons that stocks like IAG and EasyJet have been left behind by the market, such as their higher debt levels which could hinder growth once the sector recovers. Berenberg says EasyJet's cash breakeven 'still appears a distant goal' as bookings remain volatile and at low levels.

We believe **Jet2 (JET2:AIM)** could be a good stock to own, as it has a stronger balance sheet and could be primed for significant growth as travel recovers. We also see merit in backing holiday seller **On The Beach (OTB)**. Read on to discover why.

## JET2 (JET2:AIM)

BUY

**Price:** **£14.46**
**Market Cap:** **£2.9 billion**




With a prudent approach to ramping up capacity, a stronger balance sheet than most of its rivals and plenty of growth ahead of it, now could be the time to buy Jet2.

Unlike its peers, Jet2 has postponed restarting flights and holidays until 24 June, noting ongoing uncertainty and weaker demand for summer 2021 bookings.

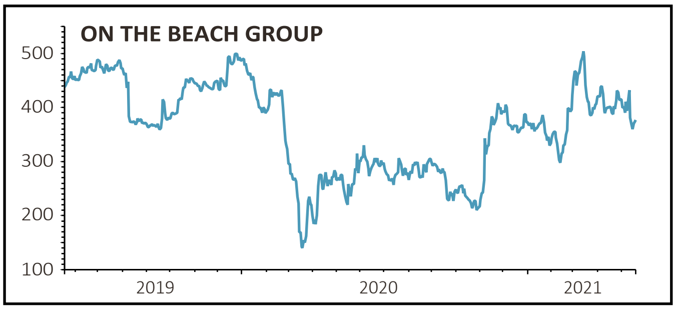
But with £1 billion in cash and half-yearly net operating expenses of £411 million, the firm is in a much better position than a lot of rivals and doesn't need to take the risk of unprofitable flying, unlike others such as **EasyJet (EZJ)** and **TUI (TUI)**.

With the ability to sit tight until it can focus on cash generative flying, the good reputation it enjoys among consumers thanks to its approach to refunds, and the extra capacity it already has after the failure of Thomas Cook, Jet2 is in a better position than most for when holidays really get going again.

## ON THE BEACH (OTB)

BUY

**Price:** **377p**
**Market Cap:** **£588 million**




Seemingly unrewarded by the market for its prudent approach, now is the time to buy holiday provider **On The Beach (OTB)**.

The firm has extended the off-sale period for its holidays from 30 June to 31 August. The decision is based upon booking/search reaction to the small green list, as well as the likely risk to customer goodwill for holidays that might be cancelled or rearranged.

While this could impact the firm's 2021 financial forecasts, analysts covering the stock are confident its earnings will quickly recover and ultimately be in a better relative position than pre-Covid.

Analysts at Numis highlight its strong balance sheet with £2 million monthly cash burn yet £115 million in available cash, allowing it to sit tight before 'tailwinds aplenty' in 2022. Next year is likely to see very strong demand for going abroad and more confidence among consumers to book well in advance.

Numis says: 'We would use the recent share price correction (-25% versus recent highs) as an attractive entry point.'

# The infrastructure of everything

**Investing in technology is no longer about a niche set of businesses – it's universal...**

The last year confirmed and consolidated one of the most significant trends in human history. As individual households across the world were forced to physically distance from one another, technology became the means by which they connected.

In 2020, 99% of people aged 16 to 44 used the internet regularly in the UK. Technology, from access to online grocery shopping through to video consultations with personal physicians, has gone from being a nice-to-have to a need-to-have. From an investment perspective, it is hard to simply class technology as a sector when it forms a vital part of so much of our lives.

As our use of technology has widened and deepened, so too has the diversity of businesses meeting our technological needs and innovating to create future solutions. As such, a comprehensive technology allocation cannot be achieved through a handful of big-name stocks, but instead encompasses a staggering array of subsectors, which are whole industries in themselves.

## STRENGTH IN BREADTH

Of course, not all the technology subsectors are on the same trajectory. Indeed, as different needs become more pertinent at different times, the respective subsectors become both more relevant and more innovative.

An archetypal example is the collaboration in work and work from anywhere theme. While many companies were slowly introducing a more flexible working culture ahead of 2020, the adoption of this theme was catalysed by the global pandemic, introducing a pattern of work that most sociologists and economists agree will not be reversed once conditions 'normalise'. Those investors with exposure to the market leaders in this theme – notably Zoom – benefited significantly from this shift.

A less widely discussed example, but one that was equally accelerated by the global pandemic, is retail-related technologies. These take the form of targeted advertising and improved payment systems, solutions which enabled businesses beleaguered by the closing of physical locations to both improve service to online customers and efficiently identify and sell to new customers.

## INVESTING IN TECHNOLOGY TRENDS

Allianz Technology Trust (ATT) applies the expertise of a team of Silicon Valley-based technology investors to seeking out the current and future leaders in subsectors like these. The trust's management team believes that technology is fundamentally a 'winner's game', due to the sector's ongoing innovation and resulting creation of new sub-sectors.

Their ability to identify the leaders of different subsectors, and to nimbly add to positions in these when relevant, was demonstrated by the two case studies above. In the early months of the pandemic, as the world adapted to new ways of living, the team had Zoom Communications and PayPal Inc in their top ten holdings, each a leader in the respective themes discussed here.

Further, as the vaccine rollout has progressed in the US, UK and, to a lesser extent, Europe, the likelihood of us travelling further afield has increased. To reflect this, the managers of ATT have built a significant position in Expedia, a market leader when it comes to online travel shopping. Meanwhile, they have reduced down their positions in Zoom and PayPal, taking the profits from their share price surges in 2020.

## LOOKING TO THE FUTURE

While spotting these shorter-term trends is key to successfully tapping into the opportunity in technology, investors with expertise in this area, like the team behind ATT, seek to be ahead of the curve when it comes to the uptake of technology.

For many of us, certain technologies seem to have reached their maturity. Cloud technology is an example, as our employers, networks and suppliers have largely adopted cloud-based storage, suggesting the technology is near full scale.

In reality, there is room to run in terms of both transfer of increasing amounts of data to the cloud and then innovations that could be applied to that data once it is there. It is estimated that at present less than 20% of applicable workloads have transferred to the cloud. A key focus for the managers of ATT is cloud '2.0', which primarily refers to applying artificial intelligence (AI) to cloud-based data. This allows end users of the cloud to not just store their data, but also to extract valuable information from it.

Although many potential applications for cloud 2.0 have already been identified, the technology itself is still in an early phase of development, with venture capitalists in particular focused on this area. However, by identifying an innovation like this early on, the team behind ATT are more likely to capture it within the portfolio ahead of its mainstream adoption.

Click **here** to read our research on ATT and the process employed to identify the next tech

# The Vanguard active fund giving Fundsmith a run for its money

Part powered by Baillie Gifford, Vanguard Global Equity is rapidly building assets

In the five years since its launch, **Vanguard Global Equity (BZ82ZT6)** has achieved nearly the same returns as popular funds **Fundsmith Equity (B41YBW7)** and **Lindsell Train Global Equity (B644PG0)**, and significantly outperformed two well-known global investment trusts, **Alliance Trust (ATST)** and **Witan (WTAN)**.

Vanguard is best known in the UK for passive tracker funds, yet Vanguard Global Equity is an actively managed fund and proof that the product provider can compete against some of the highest profile funds on the market.

Assets under management for Vanguard Global Equity have significantly picked up in the past 12 months, growing from £100 million to £322 million. 'It's taken a while for the penny to drop that we're strong in active and passive,' says Andy Surrey, senior national development manager at Vanguard.

The fund portfolio is managed on an equal basis by Baillie Gifford and Wellington. One might ask why bother investing in the Vanguard product when many of Baillie Gifford's own products are readily available. These include the **Baillie Gifford Global Alpha Growth (B61DJ02)** which has returned 147% in the past five years versus 119% from the Vanguard fund.


The answer is that Baillie Gifford's investment style of backing fast-growth technology businesses may not continue to be the outright winner that it has been in recent years.

In fact, Vanguard Global Equity has delivered nearly double the return of Baillie Gifford Global Alpha Growth over the past six months (8.9% versus 4.6% respectively, according to FE Fundinfo). That could be because the former gives investors the best of both worlds – growth and value, whereas the Baillie Gifford fund is mainly growth.

| Fund/Investment Trust | Performance |
|---|---|
| Baillie Gifford Global Alpha Growth | 147% |
| Fundsmith Equity | 131% |
| Lindsell Train Global Equity | 122% |
| **Vanguard Global Equity** | **119%** |
| Alliance Trust | 106% |
| Witan Investment Trust | 77% |

Source: FE Fundinfo. 25 May 2016 (Launch date of Vanguard Global Equity) to 18 May 2021. Total return in sterling. Rounded to nearest whole number.

## VALUE COMEBACK

The value investment style has been in favour since November 2020 as the development of Covid vaccines has driven investor confidence that economies can recover rapidly, therefore you no longer need to pay high ratings to access growing companies. You can pay lower prices for businesses which now have better growth prospects due to the vaccine rollout.

Vanguard Global Equity maintains exposure to growth, in case the investment style comes back into fashion thanks to the stocks in its portfolio picked by Baillie Gifford, but it also offers value thanks to the segment of the portfolio run by Wellington.

'The past five years have been growth orientated, but what you really want is balance,' says Surrey. 'That's why we have blended a value manager and a growth manager (for Vanguard Global Equity) – the best of the best in an enduring fund.'

Surrey adds: 'We've constructed a portfolio where they don't have to worry about whether it is going to be value or growth (in fashion) this year.

> ***'The starting point for our investment is usually others' endpoint'***
>
> *David Palm, Wellington portfolio manager*


**VANGUARD GLOBAL EQUITY**

| Biggest holdings picked by Baillie Gifford | Biggest holdings picked by Wellington |
|---|---|
| Naspers | Airbus |
| Amazon.com | T-Mobile US |
| Moody's | American Tower |
| Prudential | Nexity |
| Microsoft | Chubb |
| Taiwan Semiconductor Manufacturing | Cisco Systems |
| Ryanair | Samsung Electronics |
| Mastercard | Compass |
| Alphabet | VICI Properties |
| Anthem | Cognizant Technology Solutions |

Source: Vanguard, as of 31 March 2021

Have exposure to both and let the market do the heavy lifting and let the talent we've selected add incremental value on top.'

## BEATING FUNDSMITH

Fundsmith has returned 131% since the Vanguard fund launched, equating to 12% outperformance across those five years. But Fundsmith has underperformed in the past six months as value returned to favour, returning 5.1% versus 8.9% from Vanguard's fund. Six months is a short period in which to judge a fund, but these statistics do illustrate the benefits in the current market of having a blended approach.You could argue that Fundsmith does take valuation into consideration, given it is part of its motto: 'Buy good companies, don't overpay, do nothing'. However, what it considers to be good value isn't necessarily what other investors deem to be reasonable, with many stocks in its portfolio trading on high ratings.

Wellington is described by Surrey as being a 'broad church' when it comes to the type of stocks it would consider, but he says its selections do provide a value tilt.

Its 'opportunistic value' team manage half of the Vanguard fund portfolio. They take the traditional element of the value investment style – identifying deeply mispriced companies with moderate risk expectations – and blend it with strategies designed to exploit inefficiencies in the market, such as those created by behavioural biases.

'The starting point for our investment is usually others' endpoint,' says Wellington portfolio manager David Palmer in a blog entry on Vanguard's website. 'You need to find a time when smart people are not making smart decisions, and that is usually when people become emotional, frustrated or disappointed with their results. That is where we come in to engage on the other side.'

### PORTFOLIO NAMES

Some of the names Wellington has picked for the Vanguard portfolio include Airbus whose earnings have been hit by Covid-related disruption to the aviation industry, real estate investor VICI Properties and Chubb, a property and casualty insurer.

Baillie Gifford's selection includes technology investor Naspers, Google's parent company Alphabet and retail giant Amazon.

'The best tennis players, even when they think they've hit an ace, still move into the middle of the court,' says Surrey. 'Investors in growth orientated securities in the middle of last year had absolutely hit an ace. But the best investors move back into the middle and create some more balance in their portfolio, sell high and stay in the middle.

'That is where a lot of our flow has come from; investors thinking "I'm feeling uncomfortable with how well growth has done, so I'm going to move into the middle".'

**DISCLAIMER: The author has a personal investment in Vanguard Global Equity and Fundsmith Equity referenced in this article.**

By **Daniel Coatsworth**
Editor

# Expert Investor: Why you should look at free cash flow when assessing stocks

We explain the role of enterprise value to free cash flow

It's often said that profits are an opinion, only cash is fact. Plenty of businesses that have appeared healthy on standard accounting measures have ended up failing due to a lack of cash flow, as documented by Terry Smith three decades ago in his book *Accounting For Growth* and more recently by Tim Steer in *The Signs Were There*.

Many investors, especially those like Smith who favour high-quality companies, look for businesses which can produce sustainably high cash flows year after year, which can be reinvested in the business to create future value for shareholders.

Cash flow is the operating cash a company generates in a given period. It is calculated as the operating profit after non-cash items such as depreciation and the investment made in working capital such as inventory, creditors and debtors.

Put simply, it measures how much money is coming into the business, where it's coming from, and how much is going out again. When a company ends the year with more cash from operations than it had at the start of the year, it has generated positive free cash flow.


A simple way to calculate a free cash flow yield is to divide the cash generated from operations by the company's market capitalisation. If a firm makes £100 million of cash flow and has a market value of £1 billion, its free cash flow yield is 10%.

In reality, few firms can consistently generate a 10% free cash flow yield based on their market cap let alone based on enterprise value.

For Terry Smith, who calls free cash flow yield his 'primary valuation yardstick', a yield close to 6% is normal and still represents a significant cushion over government bonds, which is important because the coupon on government bonds doesn't grow over time whereas the free cash flow from his companies does.

'If we can buy them with a higher free cash flow yield

**FTSE 100: Lowest EV/Free cash flow**

| | |
|---|---|
| Sainsbury's | 6.4 |
| Kingfisher | 6.8 |
| Imperial Brands | 7.6 |
| WPP | 8.3 |
| Johnson Matthey | 8.8 |
| Barratt Developments | 10.0 |
| B&M | 10.9 |
| Vodafone | 11.2 |
| DCC | 11.2 |
| Persimmon | 11.4 |
| JD Sports | 11.4 |
| British American Tobacco | 11.5 |
| Bunzl | 12.6 |
| Evraz | 13.3 |
| Rio Tinto | 14.8 |
| CRH | 15.6 |
| Avast | 16.3 |
| BHP | 16.7 |
| GlaxoSmithKline | 17.3 |
| Reckitt Benckiser | 17.9 |

Source: Stockopedia, 20 May 2021

than the bond yield, then we have probably created value,' says Smith.

The downside of using free cash flow yield is that the calculation uses a company's market value which doesn't account for debt. Therefore, a better way is to divide the cash flow figure by the enterprise value, which is the market value of a business plus long-term debt plus minority interests and preferred capital (typically preference shares) minus cash.

This gives a more accurate picture of the actual capital employed in generating the cash flows. It also helps when comparing stocks in different sectors with different capital structures.

Enterprise value to free cash flow is the inverse of the free cash flow yield. The lower the ratio, the faster a company can pay back the cost of an acquisition or generate cash to reinvest in its business.

The accompanying table shows the FTSE 100 stocks with the lowest enterprise value to free cash flow ratio – remember, the lower the number the better.

When we screened for the data, the list was dominated at the lower end by financial companies, such as banks and insurers. These have been stripped out because enterprise value is not appropriate for this sector. Financials need to hold a lot of capital and it is hard to get an accurate picture of net debt with these firms.

By **Ian Conway**
Senior Reporter


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

# Discover the largest emerging market companies

Businesses in the developing world can be global leaders

Emerging markets companies are no longer provincial, purely domestic-facing businesses. Increasingly they are global leaders with significant technological expertise.

Comparing the MSCI Emerging Markets index with the developed markets equivalent, a respectable three of the top 10 would make the MSCI World top 10 based on their current market values.

Investors may be familiar with the Chinese tech names – particularly Tencent and Alibaba – as well as South Korean consumer electronics giant Samsung. We also looked at China's technology sector in more detail in this article. However, some of the other biggest names may be less familiar.

Topping the list is Taiwan Semiconductors – whose valuation has been boosted by the current strong dynamics in the global microchip market as supply has struggled to keep up with demand.

It is the world's largest dedicated semiconductor foundry, producing chips based on other companies' designs.

Another cutting edge businesses in the list of largest emerging market firms is South African consumer internet firm Naspers. Its activities span online advertising, fintech, payments and food delivery.

The other names which dominate MSCI Emerging Markets are more typical of the historical profile of businesses from developing countries.

China Construction Bank is a fairly traditional banking outfit with a large number of branches in China. India's Reliance Industries is the kind of conglomerate business which is quite common in emerging markets – doing everything from drilling for oil and gas to providing telecom services and operating a chain of shops. Brazil's Vale is a big mining company focused on iron ore and nickel.

**MSCI Emerging Markets top 10**

| |
|---|
| Taiwan Semiconductor |
| Tencent |
| Alibaba |
| Samsung Electronics |
| Meituan |
| Naspers |
| Reliance Industries |
| China Construction Bank |
| Vale |
| JD.com |

Source: MSCI, 30 April 2021

# Emerging markets: Views from the experts

Three things the Franklin Templeton Emerging Markets Equity team are thinking about today

**1.** Although **environmental, social and governance best practices in China** have been improving, China generally lags developed markets in this area. Chinese companies operate according to local norms and requirements from local regulators, but we have found many are doing more than what is required in numerous areas. Many companies already have very robust reporting, where investors can see exactly how sustainability fits in their overall strategy, and how the company and management teams take account of ESG risks. While China's capital market has opened up and the barriers are coming down for international investors, Chinese regulators are set to improve ESG reporting processes further through mandatory disclosures for listed companies by the end of 2021. We believe these steps will pave the way for Chinese companies to truly be in line with their Western counterparts.

**2.** A second wave of Covid-19 infections in **India** led to the implementation of new restrictions including lockdowns (at a regional state level rather than nationwide) to contain the outbreak. While this second wave is expected to impact the country's economic recovery in the short term, we expect the economy to bounce back as the government accelerates its vaccine rollout and lockdowns are lifted. In the longer-term, we expect India's economic recovery to continue as economic activity gradually improves. The overarching drivers underpinning the Indian market also include low interest rates, high liquidity and fiscal incentives, all of which currently remain intact. However, we are mindful of the risks, including the ongoing virus pandemic, regional and global geopolitical relations and the path of the recovery and infection rates in other regions globally.

**3.** The Covid-19 pandemic has accelerated the **evolution of globally leading emerging market companies**. Taiwanese and South Korean semiconductor firms dominate the global industry with their strong manufacturing capabilities, allowing them to ramp up investments and widen their competitive advantages amid booming demand for chips from high-performance computing, automobile and other businesses. In China, biotechnology firms are developing innovative treatments for cancer and other major diseases and have won the confidence of global pharmaceutical groups in licensing these new drugs. India's internet space also offers huge potential, in our view. Taken together, evidence of EM companies scaling the value chain has increased, and we see durable growth characteristics in many of these firms.

**TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)**

**Porfolio Managers**

**Chetan Sehgal**
Singapore

**Andrew Ness**
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

**RUSS MOULD**
AJ Bell Investment Director

# Rising pay could be a threat to US equities

Wage inflation could put pressure on companies' profitability

The news that Amazon is looking to hire 75,000 more workers in the US and Canada is eye-catching enough, even for a firm that employs 1.3 million around the globe, according to its website.

But it is the offer of an average $17 an hour starting salary, plus a potential signing-on bonus of $1,000, and benefits such as health and dental care, that really stands out.

While the average American worker now earns around $30 an hour, this proposed Amazon package easily exceeds the current US federal minimum wage of $7.25 and therefore potentially informs the case that wages are going up.

If so, investors need to consider three potential implications:

- Wage inflation may be upon us;

- That in could turn drive wider inflation and even force central banks to tighten monetary policy;

- Higher wages mean higher costs – and potentially lower profit and margins for companies.

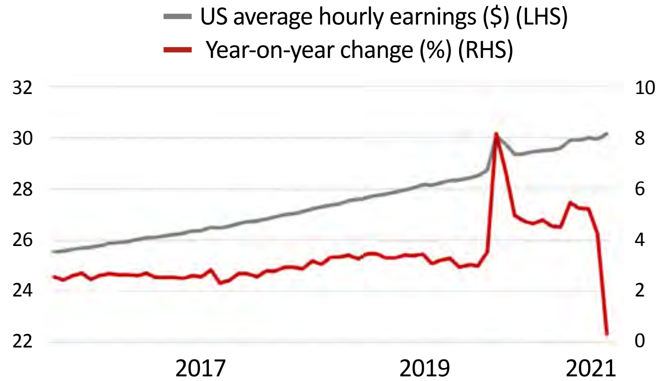
Pressure on profit and margins, could come at an inconvenient time for the US stock market, where headline indices trade at or near to record highs and valuations are, on some metrics, potentially looking stretched.

### HIGHER PAY GRADE

The US downturn of 2020 looks unusual in many respects, but one of them is how wages look relatively unaffected, despite a surge in unemployment.

Even now the jobless rate stands at 6.1%

**US wages are rising even as unemployment remain high**




Source: FRED – St. Louis Federal Reserve database, US Bureau for Labor Statistics

according to the headline U3 rate and 10.4% on the basis of the U6, which includes discouraged and part-time workers who would like full-time jobs, as well as those who are seeking a new post. Wage growth looks to be cooling but only after an unusual spike last year and pay is still marching higher.

This may be a legacy effect of the Trump administration's desire to bring jobs back onshore in the US and reverse outsourcing and globalisation.

It could also be the result of welfare and labour support programmes, as well as stimulus cheques, during the pandemic. Despite the virus, the economic slump and an initial spike in the jobless rate, US personal income hardly missed a beat and has since shot higher.

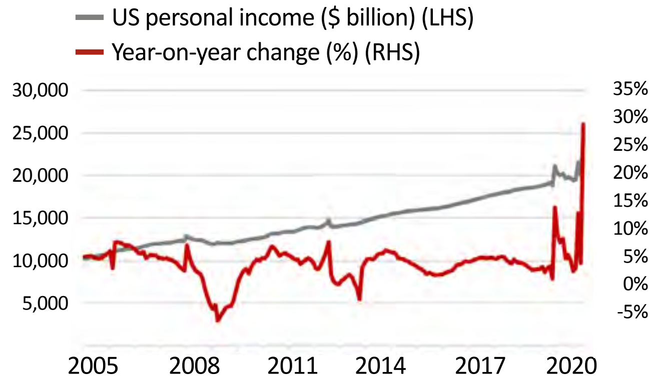
It took two years for US personal income to recover after the 2007/8 financial crisis. This time it took eight months. Are companies therefore finding themselves having to offer better terms, with higher pay one key part of that, to tempt Americans back to work?

# RUSS MOULD

AJ Bell Investment Director

Insightful commentary on market issues

**Rising US personal income may be driving wages higher**




Source: FRED – St. Louis Federal Reserve database

## POWER SHIFT

If so, workers and their families may well be thinking 'about time, too'. Since 1947, Americans' pay has fallen by five percentage points as a portion of GDP. American corporate profits have increased by almost exactly the same amount.

Intriguingly pay bottomed at 42% of US GDP in late 2011, more than two years after the financial crisis had ostensibly come to an end. It has since slowly crept back to 44%, while corporate profits have slipped from 10.6% to 9.1%, on a pre-tax basis, according to Federal data.

Lower taxes and share buybacks, among other things, have continued to boost post-tax income and earnings per share, but the Biden administration is now pushing for higher taxes.

Any slowdown in profit growth, or even a drop in corporate earnings thanks to higher wages and higher taxes, could leave lofty US equity valuations looking exposed on the downside.

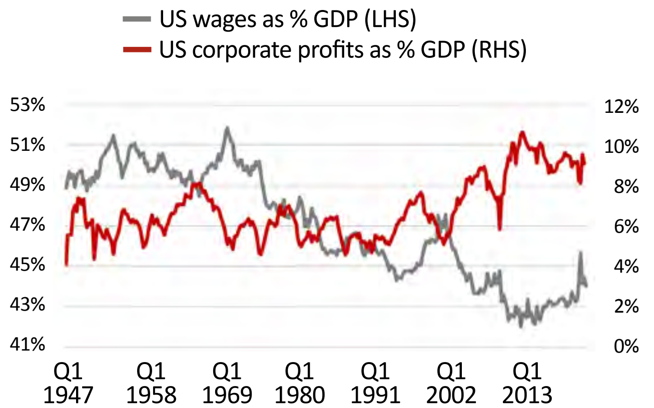
Professor Robert Shiller's cyclically adjusted price to earnings CAPE ratio suggests that US stocks are trading on 37 times earnings, the second-highest multiple ever. Only during the final stages of the technology boom did US stocks trade on a higher valuation and investors may remember how that episode ended very badly.

Bulls will snort at the CAPE analysis and point out such arguments about the overvaluation of US equities go back for a good few years.

They would be right to say that CAPE is not a tool for timing the market. But an analysis of the compound annual growth rates in the S&P 500 index over the next decade from any point in time against the Shiller CAPE shows that anyone who has bought at multiples in excess of 25 times has nearly always locked in negative returns for the next 10 years.

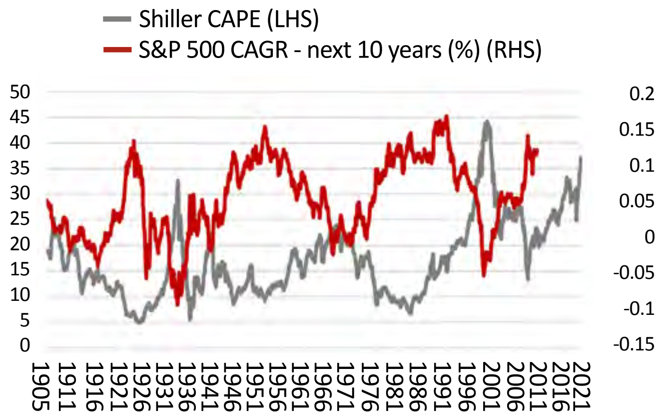
The one exception is the past decade, with central bank intervention one possible explanation. But if inflation does move higher on a sustained basis, the monetary authorities' scope for keeping interest rates low and doling out more quantitative easing could be limited, and this is why wage inflation could be so important going forward, for consumers and investors alike.

**American workers are starting to claim a bigger slice of the economic pie**




Source: FRED – St. Louis Federal Reserve database

**US equities are richly valued on some metrics**




Source: http://www.econ.yale.edu/~shiller/data.htm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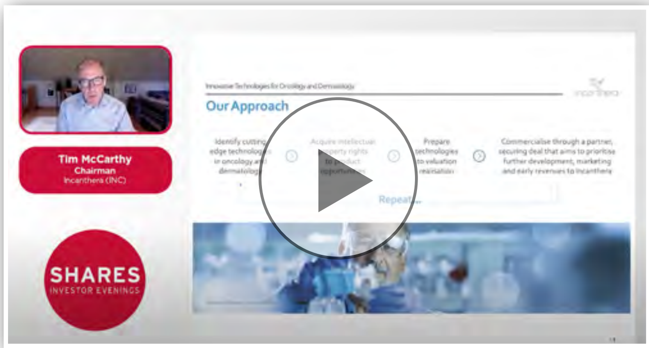


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# Inherited money? Here's how to avoid paying tax

A growing number of people are receiving large amounts of money from family and friends

Inheritances are growing as a share of national income, according to a report by the Institute for Fiscal Studies.

For those born in the 1960s, their inheritance is estimated to make up 9% of their lifetime income, but that is projected to rise to 16% for those born in the 1980s.

Much of this increase can be attributed to how well assets like shares and property have performed of late, compared to salaries. Bigger inheritances spell potentially bigger inheritance tax bills too.

## HOW MUCH COULD YOU PAY?

A relatively small number of estates pay inheritance tax, but at 40%, the tax rate is high, and penalises the natural inclination for parents to pass on what they can to their children and grandchildren.

Inheritance tax is currently payable on the value of estates in excess of an allowance of £325,000 per individual.

You can also leave assets to your spouse with no inheritance tax charge, and indeed pass on any unused allowance too.

In addition, an extra £175,000 allowance is provided per person for passing on the family home, which therefore potentially allows a couple to pass on an estate worth £1 million between them. However, the property allowance is tapered for estates worth more than £2 million. Above these thresholds, inheritance tax is payable. There are ways to mitigate the tax, but they do require a bit of forethought.

## GIFTING BENEFITS

Gifting is probably the most straightforward way to pass assets onto younger generations and remove them from your estate, but there is a rule which means that if you die within seven years of making a gift, inheritance tax is potentially payable on a sliding scale.

This creates a bit of a dilemma for parents who might not want to gift away their assets too early, as they may well need to draw on them to fund their own expenditure.

There are some exemptions from the sever year rule – in particular, the taxman allows you to gift up to £3,000 each year with no inheritance tax to pay, so if you think the tax might be an issue, it makes sense to use that allowance.

### SETTING UP A TRUST

Another option is to consider setting up a trust, though this is a very complex area which should be navigated with the help of a financial adviser.

The benefit of setting up a trust is that you, or whomever you appoint as trustees, can keep control of the assets without paying the money over right away.

This might be useful if you are looking to pass money onto young children for instance. However, you need to be careful that the trust is set up in such a way as to mitigate inheritance tax.

You must also be willing to bear the cost of running the trust and any associated tax charges too. Importantly, money you pay into the trust is usually subject to the seven-year rule, which means if you die shortly after setting the trust up, your heirs might face an inheritance tax charge.

### SIPP BENEFITS

A SIPP (self-invested personal pension) might be a useful tool for you to use to pass wealth onto younger generations, though its primary purpose is usually to provide you with a retirement income.

***The taxman allows you to gift up to £3,000 each year with no inheritance tax to pay, so if you think the tax might be an issue, it makes sense to use that allowance.***

You can nominate beneficiaries for your SIPP in the event of your death, and inheritance tax is not generally payable.

However, if you die after the age of 75, your beneficiaries will have to pay income tax on withdrawals, which could be 40% if they are a higher rate taxpayer, or even more if they are a big earner. They can take the money as an income rather than one lump sum, which might help them to minimise the tax burden.

### USING AIM SHARES TO REDUCE IHT

You can also reduce inheritance tax by investing in some AIM shares, specifically ones that qualify for business property relief if held for a minimum of two years. Not all AIM shares will qualify, and while HMRC lays out the ground rules for what sort of companies do and don't fit the bill, they don't publish an approved list.

If you don't wish to pick AIM shares yourself, there are some professionally managed AIM portfolio services out there which do it for you, though they do tend to be quite expensive in terms of charges. Unfortunately, you cannot buy an off the shelf investment fund that invests in qualifying AIM stocks. More information on which stocks might or might not qualify can be found in this article.

### IMPORTANCE OF PLANNING

Whichever way you cut it, mitigating inheritance tax requires significant planning, and that's a problem because it's often a sensitive area to discuss with family members.

However, if you shelve the problem, it could cause financial stress for your loved ones, at a time when they will probably be least able to bear it. Whatever you choose to do, it's a good idea to have a plan, and communicate it to all concerned.

By **Laith Khalaf**
Financial Analyst

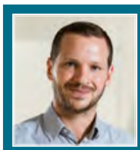
# I've got multiple pensions: how will lifetime allowance charges impact me?

AJ Bell pension expert Tom Selby examines the case of a reader who has already paid some lifetime allowance tax charges

*I am age 60 and retired. I have a self-invested personal pension which I crystallised fully in 2017. The pension was valued at £2.2 million, and I had a lifetime allowance of £1.8 million. I paid a lifetime allowance charge of around £100,000 and took a £450,000 tax-free lump sum, which left around £1.65 million in the SIPP in drawdown funds.*

*This is now worth £1.7 million, and I have taken £50,000 in income from it. What will be the lifetime allowance charge at age 75?*

*I also have another SIPP worth £850,000 which I haven't touched. What will be the lifetime allowance impact at age 75 for this part of my retirement savings? Are the two SIPP values independent or amalgamated?*
***Andy***



**Tom Selby**
AJ Bell
Senior Analyst says:

While the pensions lifetime allowance is currently set at £1,073,100 – and will remain at this level for the next few years at least – it was previously as high as £1.8 million.

Anyone who had already saved into a pension under the previous higher allowances were able to lock in the higher allowance by applying for 'protection', which I suspect is what you have done. More details on protection can be found here.

These events include taking your 25% tax-free cash, turning your pension into a retirement income (e.g. by entering drawdown or buying an annuity) and reaching your 75th birthday. If you use up all your lifetime allowance, the excess over the lifetime allowance will be subject to a charge of either 55% (if it is taken as a lump sum) or 25% (if it is left in the pension).

When you reach age 75, there will be a test against your drawdown funds, and another test against your uncrystallised SIPP pension – the pension you have not touched.

For the drawdown pension the scheme will simply compare the value at your 75th birthday to the value when you entered drawdown.

If the value has increased since you crystallised it – as it appears is the case with your fund – the excess will be subject to a lifetime allowance charge of 25%. It is possible to take withdrawals before your 75th birthday to reduce or eliminate the impact of this charge, although these withdrawals will be subject to income tax at your marginal rate.

As mentioned above, your uncrystallised funds pension will also be subject to a lifetime allowance test at age 75.

Given you have already used your entire £1.8 million lifetime allowance, the full £850,000 held within the untouched SIPP will be subject to a lifetime allowance charge of 25%.

Both the pension scheme member and the scheme administrator are responsible for ensuring any lifetime allowance charges due are paid to HMRC. Each pension provider will independently carry out the test at age 75 on the funds they administer.

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

# KEY ANNOUNCEMENTS OVER THE NEXT WEEK

**Full-year results**

**28 May:** Harbourvest Global Private Equity, Edinburgh Investment Trust, Odyssean Investment Trust, Volvere. **1 June:** DeepMatter. **2 June:** Bloomsbury Publishing, Schroder REIT, Wizz Air. **3 June:** Braemar Shipping, DiscoverIE, NewRiver REIT, Pennon, Workspace.

**Half-year results**

**1 June:** Gooch & Housego, Tekmar.

**Trading statements**

**1 June:** CentralNic.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THIS WEEK: 20 PAGES OF BONUS CONTENT

# SHARES SPOTLIGHT

## *Growth & Innovation*

ANGLE

DIURNAL

EQUALS

INCANTHERA

SAMARKAND

SOURCEBIO INTERNATIONAL

TRACKWISE

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

MAY 2021

ISSN 2632-5748

# Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor webinars where you get to hear from management first hand.

Click [here] for details of upcoming webinars and how to register for free tickets.

Previous issues of Spotlight are available on [our website].

## DISCLAIMER

IMPORTANT

*Shares Spotlight* is a mix of articles, written by *Shares* magazine's team of journalists, and company profiles. The latter are commercial presentations and, as such, are written by the companies in question and reproduced in good faith.

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# Small cap stars of 2021

## Larger firms have been left in the shade by their smaller company counterparts this year

It has been a volatile start to 2021 for global stock markets as the Covid-19 recovery has been complicated by fears over inflation and a fluctuating picture with regards the pandemic.

However, one feature of the UK market year-to-date has been the outperformance of smaller companies relative to their larger counterparts.

**SMALL CAPS OUTPERFORM**

The FTSE 100 is up 7.8% over that timeframe but this pales in comparison to the FTSE Fledging and FTSE Small Cap indices, which are up 19.2% and 14.4% respectively.

Richard Penny, manager of **TM CRUX UK Special Situations (BG5Q5X2)**, suggested this trend has further to run.

'The UK stock market seems to be going through a "textbook" recovery progression,' he said. 'After a strong period of performance some of the larger, more obvious recovery stocks now have less upside and the outperformance may well come from smaller and micro-cap companies.'

**STANDOUT PERFORMERS**

To identify some of the small cap stars of the year so far, *Shares* has identified the best performing UK stocks with market caps between £10 million and £300 million.

Looking at the spread of sectors, the resources space is well represented – with a third of the top 30 featuring mining and oil and gas companies. This is unsurprising given the recovery in commodity prices year-to-date.

Performance over a relatively short period doesn't tell the whole story – guarantor loans firm **Amigo (AMGO)** may be up 179% but at 23.6p the shares are worth just a fraction of the 275p issue price from their 2018 stock market listing.

**RIDING THE BITCOIN WAVE**

At the top of the table is blockchain play **GSTechologies (GST)**. The company's core activity is its EMS Wiring Systems subsidiary which supplies data centre and intelligent buildings solutions, but it's the blockchain activities – the infrastructure underpinning bitcoin – which have supercharged the stock.

However, the shares have more than halved from the highs above 3p seen in February 2021 as the cryptocurrency has recently sold off. **Quantum Blockchain technologies (QBT:AIM)** is another micro-cap stock in this space which has ridden the bitcoin wave.

A more established business which has roared higher year-to-date is car retailer **Lookers (LOOK)**. The company has trebled since a suspension was lifted on its shares after finally sorting out a protracted accounting saga and saying full-year results would be materially above expectations thanks to a strong first quarter 2021 performance.

Drug development minnow **Futura Medical (FUM:AIM)** has seen strong gains after its MED3000 erectile dysfunction treatment produced positive trial data and secured EU approval.

Liberum commented: 'We expect the start of the US study, regulatory approvals in other regions and commercial deals over the coming six to 12 months to crystallise further value and drive a re-rating.'

Helium specialist **Helium One Global (HE1:AIM)** has built on its strong market debut in December 2020 to chalk up an impressive 2021 showing. The company holds 3,590 square kilometres of acreage in Tanzania and expects to commence drilling in June 2021 to test its helium potential.

Helium, used in MRI scanners and computer components, faces increasingly constrained supply after the US Federal Helium Reserve, a stockpile built up by the US during the Cold War and depleted over the last 15 years, ceased sales to industrial customers in 2019 having previously provided between 20% and 25% of global supply.

**ESG ATTRACTIONS**

Sustainable polymers group **Itaconix (ITX)** has been helped by the growing prominence of the ESG theme – recently receiving the London Stock Exchange's Green Economy Mark.

The company generated 96% of its revenue in 2020 from plant-based products. Its polymers are used for a wide range of products, including paints, make up and hand wash. For the 12 months to 31 December the company posted a 155.6% growth in revenue to $3.29 million and narrowed its losses to less than $1 million.

A little further down the table is micro-cap electronics play **Windar Photonics (WPHO:AIM)**. The company makes remote sensing systems for wind turbines. Its WindEYE product is designed to withstand the harsh environment faced by turbines.

After a few years of struggling to gain much traction, the company has started 2021 on the front foot, buoyed by £400,000 of new funding secured in December 2020 and an update which revealed 2020 revenue was up 21% year-on-year.

| Company | Sector | Year-to-date performance (%) |
|---|---|---|
| GSTechnologies | Software and Computer Services | 952 |
| Quantum Blockchain Technologies | Investment Banking and Brokerage Services | 457 |
| One Heritage | Real Estate Investment and Services | 389 |
| AssetCo | Industrial Support Services | 374 |
| Petroneft Resources | Oil, Gas and Coal | 369 |
| Itaconix | General Industrials | 333 |
| Kanabo | Personal Care, Drug and Grocery Stores | 330 |
| Comptoir | Travel and Leisure | 296 |
| Predator Oil & Gas | Oil, Gas and Coal | 295 |
| Carclo | General Industrials | 274 |
| ADVFN | Finance and Credit Services | 266 |
| Zephyr Energy | Industrial Metals and Mining | 237 |
| Premier African Minerals | Industrial Metals and Mining | 222 |
| Tern | Software and Computer Services | 220 |
| Oilex | Oil, Gas and Coal | 213 |
| Lookers | Retailers | 209 |
| Futura Medical | Pharmaceuticals, Biotechnology and Cannabis Producers | 205 |
| Ferro-Alloys Resources | Industrial Metals and Mining | 202 |
| MobilityOne | Industrial Support Services | 195 |
| Alpha Growth | Investment Banking and Brokerage Services | 183 |
| 88 Energy | Oil, Gas and Coal | 183 |
| Amigo | Finance and Credit Services | 179 |
| Xtract Resources | Precious Metals and Mining | 179 |
| Helium One Global | Industrial Metals and Mining | 174 |
| SkinBioTherapeutics | Pharmaceuticals, Biotechnology and Cannabis Producers | 174 |
| Angle | Pharmaceuticals, Biotechnology and Cannabis Producers | 173 |
| Windar Photonics | Electronic and Electrical Equipment | 172 |
| Ebiquity | Media | 171 |
| Kodal Minerals | Industrial Metals and Mining | 169 |
| Altitude | Software and Computer Services | 168 |

Source: Sharepad, 20 May 2021

# ANGLE – transforming cancer care with a liquid biopsy from a simple blood test

## www.angleplc.com

**ANGLE (AIM:AGL)** is a world-leading liquid biopsy company that has developed pioneering products and services in cancer diagnostics using a simple blood test.

ANGLE's patent protected platforms include the Parsortix system, a marker independent circulating tumour cell (CTC) technology that captures and harvests cancer cells shed by the tumour into the blood, and HyCEAD a downstream analysis system for highly sensitive analysis of DNA, RNA and proteins.

ANGLE believes that analysis of CTCs allows the complete picture of the cancer to be understood as it captures intact living cells that can provide DNA, RNA or protein information.

It is estimated that as many as one in two people will get cancer during their lifetime (CRUK), with cancer responsible for an estimated 10 million deaths globally in 2020. The number of cancer cases is growing rapidly with a 50% increase in cases expected over the next two decades.

ANGLE is building a differentiated position as a global leader in the emerging liquid biopsy market offering a unique product-based solution in addition to the traditional laboratory service-based approach, accelerating the widespread adoption of the Parsortix system. Frost & Sullivan and Cowen have estimated that the liquid biopsy market will be worth $100 billion and up to $130 billion per annum respectively in the US alone.

### COVID-19 AND CANCER – THE URGENT NEED FOR LIQUID BIOPSY

Covid-19 has caused an unprecedented crisis in cancer diagnosis and care with implications for years to come. Ending delays and addressing backlogs, particularly cancer diagnostic tests and treatment, is an urgent priority for healthcare systems.

The standard test for identifying and understanding cancer is to undertake a solid tissue biopsy. However, tissue biopsy is invasive, costly, time-consuming, and potentially harmful. These factors make solid tissue biopsy unsuitable for repeat, longitudinal monitoring required to ensure the right drug for the right patient at the right time.

The information provided by liquid biopsy could help clinicians diagnose, treat and monitor cancer more effectively. Liquid biopsy is non-invasive, repeatable and can be undertaken in the community to provide patients with a rapid diagnosis and timely treatment with targeted therapies. Liquid biopsy may also help to safely monitor cancer patients in remission to provide early warning of recurrence.

The adverse impact of Covid-19 on cancer diagnosis and care has shown that it is essential to have a diagnostic tool which is quick, easy and alleviates the burden of conducting hospital-based surgical tissue biopsies or radiological imaging. ANGLE believes its Parsortix system can help to meet that urgent need.

## ACCELERATING WIDESPREAD ADOPTION OF THE PARSORTIX SYSTEM

ANGLE made significant progress towards achieving widespread adoption of the Parsortix system in 2020 and momentum has gathered pace in 2021. Achievements include:

Regulatory submission to the FDA for clearance of the Parsortix system in metastatic breast cancer was made in September 2020. This submission included results from over 15,000 samples and 400 reports. The submission cleared Administrative Review and is now under Substantive Review with approval anticipated in H2, 2021. FDA clearance would be the first of its kind for the intended use and position the Parsortix system as the gold standard in CTC harvesting.

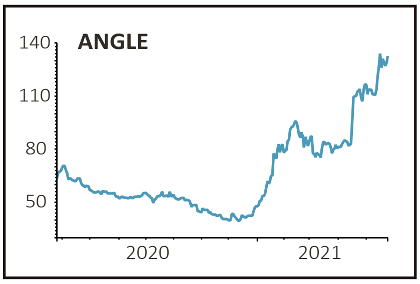
Clinical Services Laboratories were launched in the US and UK. The laboratories allow ANGLE to accelerate the commercial deployment of the Parsortix system by offering services to pharmaceutical and biotech customers for use in cancer drug clinical trials and through the provision of Laboratory Developed Tests (LDTs) for patient care.

ANGLE secured its first large-scale pharma services contract valued at up to $1.2 million over 18 months with potential for further contracts from this customer. The customer, a pharma company with numerous cancer drugs under development and forecast revenues exceeding US$1 billion per annum, has selected ANGLE to undertake longitudinal monitoring (i.e. before, during and after drug intervention) of patients in a prostate cancer Phase III global clinical trial. The same customer has engaged ANGLE in two smaller Phase I studies.

ANGLE's Ovarian Clinical Verification study, being run out of a leading US cancer centre, has completed patient enrolment. Assuming positive results this will allow for the launch of its first LDT for detection of ovarian cancer for pelvic mass triage towards the end of CY 2021.

## BUILDING ON A LEADING POSITION IN THE LIQUID BIOPSY MARKET

Led by an experienced management team, ANGLE has a track record of delivering on its strategic objectives and is well positioned to capitalise on its strong position as it moves from intensive product development into commercialisation. In 2021, ANGLE will continue to deliver on its strategic aims to position itself as a leader in the liquid biopsy market which will revolutionise cancer diagnosis and care for millions of patients worldwide, an unmet need which the Covid-19 pandemic has intensified.



# Diurnal
# a revenue generating biotech

## www.diurnal.co.uk

**Diurnal Group (DNL:AIM)** believes that it can become one of the few UK biotechnology companies to successfully take multiple products from concept to commercialisation.

Diurnal's vision of becoming a world-leading endocrinology specialty pharma company is underpinned by the development of a strong commercial business in Europe, initially focused on delivery of its lead products, Efmody (hydrocortisone modified-release hard capsules; development name Chronocort) and Alkindi (hydrocortisone granules in capsules for opening), for patients suffering from the orphan diseases congenital adrenal hyperplasia (CAH) and adrenal insufficiency (AI), a potential market of $2.3 billion.

Diurnal is also seeking to maximise the value of its products in the rest of the world, in particular to address large opportunities for CAH and AI in the US (around $1.1 billion) and Japan (around $400 million), as well as other valuable markets around the globe.

Diurnal's product pipeline has been further strengthened following the successful completion of the first clinical study with DITEST (native oral testosterone), its native oral testosterone replacement product, a potential market of approximately $5.1bn.

### ALKINDI: ESTABLISHING A GLOBAL PRODUCT PRESENCE

Alkindi is the first product specifically designed for young children suffering from paediatric AI, and the related condition CAH. Alkindi is approved in Europe, US (as

Alkindi Sprinkle), Israel and Australia.

Diurnal's long-term strategy is underpinned by its commercialisation infrastructure in key European markets, where it has built one of the few dedicated endocrinology-focused commercial teams focused on building awareness of its products within the concentrated prescribing community of endocrinologists. Diurnal has launched the product directly in the UK, Germany, Austria and Italy, and has signed distribution agreements in Sweden, Denmark, Norway, Iceland, the Benelux countries, Turkey and China.

Diurnal received approval from the US Food and Drug Administration (FDA) for Alkindi Sprinkle at the end of September 2020 for children aged under 17 years of age. In order to plan for this important launch, in March 2020 Diurnal entered an exclusive licence agreement in the US with Eton Pharmaceuticals. Diurnal received a non-refundable upfront payment of $5 million ($3.5 million in cash and $1.5 million in Eton shares). In November 2020, less than two months after approval, Eton Pharmaceuticals, announced the launch of Alkindi Sprinkle. Diurnal will also receive a tiered royalty on sales and is due a further milestone payment of $2.5m upon confirmation of Orphan Drug Status in the US and tiered sales-based milestone payments of up to $45 million.

Alkindi revenues for the six months ended 31 December 2020 were £1.2 million, representing year-on-year growth of 4%, with revenues growing by over 20% in the UK and Germany. Although growth was affected by the impact of Covid-19 on physicians prescribing Alkindi, Diurnal expects future Alkindi revenue growth will be accelerated once the Covid-19 pandemic restrictions begin to lift and through further country launches.

**IN MARCH 2021, DIURNAL ANNOUNCED THAT THE COMMITTEE FOR MEDICINAL PRODUCTS FOR HUMAN USE HAD ISSUED A POSITIVE OPINION TO THE EUROPEAN COMMISSION RECOMMENDING EFMODY AS A TREATMENT FOR CAH**

### EFMODY: EXPANDING THE CORTISOL DEFICIENCY FRANCHISE IN EUROPE WITH A CLEAR REGULATORY PATH IN THE US

Diurnal's second product candidate, Efmody, provides a drug release profile designed to mimic the body's natural cortisol circadian rhythm, which current therapies are unable to replicate, and so offer an improved disease treatment for adults with CAH.

In March 2021, Diurnal announced that the Committee for Medicinal Products for Human Use (CHMP), an advisory committee of the European Medicine Agency (EMA), had issued a positive opinion to the European Commission (EC) recommending Efmody be authorised as a treatment for CAH, with formal approval of the marketing authorisation from the EC anticipated in June 2021.

This decision followed completion of a Phase 3 study conducted in a total of 122 patients enrolled across 11 clinical sites, the largest ever interventional clinical trial completed in CAH. To facilitate a timely commercial launch, Diurnal has commenced market access activities in its target European markets, with the first commercial launch scheduled for Q3 2021.

In the US, Diurnal has designed a Phase 3 registration package for Efmody, intended to recruit up to 150 patients with CAH. Diurnal is seeking formal agreement of the Phase 3 protocol with the FDA through a Special Protocol Assessment (SPA). Following a positive Type A meeting with the FDA, as part of the SPA


process, the Phase 3 protocol has now been finalised and Diurnal will seek confirmation of the SPA from the FDA during 2021 with the study scheduled to commence towards the end of 2021.

## EARLY STAGE PIPELINE: TARGETING FURTHER UNMET NEEDS IN ENDOCRINE DISEASES

Diurnal aspires to be a significant participant in the endocrinology field with a pipeline of therapies targeting multiple endocrine disorders where patient and clinical needs are underserved. Its long-term plan is to expand into endocrine disease areas such as those associated with the thyroid, gonads and pituitary, representing multi-billion-dollar market opportunities.

In 2019, Diurnal announced positive headline results from its DITEST-001 Phase 1 proof-of-concept clinical trial. In this single centre, single dose study in 24 hypogonadal men, DITEST was shown to achieve testosterone levels within the healthy young male adult normal range after oral administration, with levels that were less variable than testosterone undecanoate (a modified oral testosterone treatment) and that there was no impact on the absorption of testosterone from DITEST whether taken with either food or in the fasted state, representing a major difference with testosterone undecanoate.

Following these results, the FDA confirmed that DITEST could progress to a New Drug Application (NDA) via the abbreviated 505(b)(2) route, which can significantly accelerate the time to approval. Diurnal is currently completing non-clinical activities requested by the FDA in order to submit an Investigational New Drug (IND) submission around the middle of 2021, with a view to commencing a multiple ascending dose study in male patients with low testosterone shortly thereafter. Assuming this study is successful, the FDA has indicated that a single Phase 3 study should be sufficient to obtain approval for DITEST in the US.

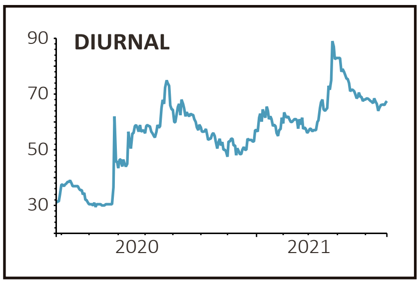
## WELL-FUNDED FOR FUTURE GROWTH

Reflecting the strong progress across its portfolio, Diurnal was able to complete a £20 million fundraise in April 2021 in order to progress the pivotal Phase 3 trial for Efmody in the US. Diurnal believes that the company has enough cash to take it through to profitability based upon current plans and assumptions, including expectations regarding the timing of product approvals and sales projections.

## POSITIVE OUTLOOK DRIVEN BY LATE-STAGE PIPELINE

Once Diurnal has received approval by the EC for Efmody, it will provide the Company's commercial cortisol replacement therapy franchise with critical mass, enabling Diurnal to build a strong and profitable European business through penetration of the combined addressable market for the treatment of CAH and paediatric AI (Alkindi), which is estimated to be worth over $300 million in Europe alone.

The group is well positioned to build on its Alkindi success to become a fast growing, independent, international specialty pharmaceutical company focusing on creating products that address unmet patient needs in endocrinology.



EQUALS

# Big growth on the cards for Equals

## www.equalsplc.com

**Equals (EQLS:AIM)** is an established payments fintech that automates and simplifies business finances, primarily for SMEs. The platform provides expense management via virtual and physical cards, domestic, bulk and international payments and banking functionality. The group has an enviable 14-year track record of continuous growth through a combination of organic and proven acquisition strategies.

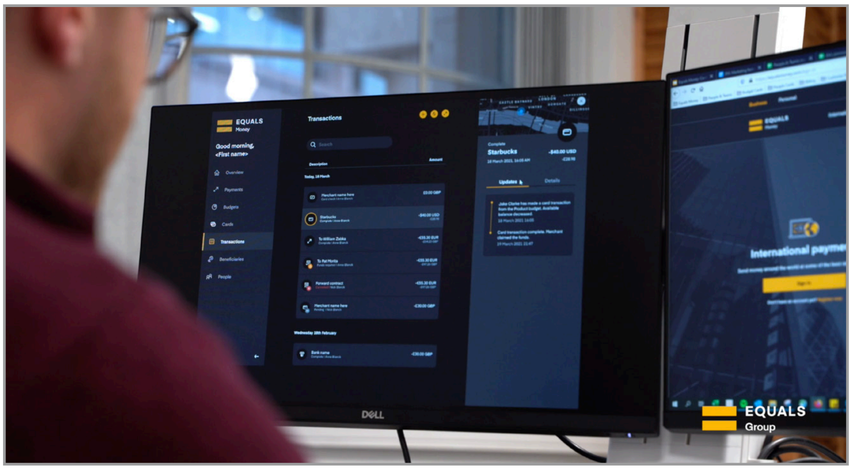
The group wins on combining cutting-edge technology with personalised support, providing bank-grade security and connections to payment networks – all whilst retaining a strong compliance culture. The Equals Money platform provides a money management layer without the requirement to change from your existing bank.

### WHY EQUALS?

Equals differentiates itself through its 14-year heritage, its extensive suite of licenses and connectivity, and bespoke customer support. 'Trust is vital,' said CEO Ian Strafford-Taylor at the group's recent capital markets day.

Equals is a direct member of the Bank of England Faster Payments Scheme, holds a partnership with CitiGroup to gain access to domestic clearance around the world, has an eMoney license, is FCA regulated and is a long-held Mastercard partner.

The team boasts a skilled and nimble card delivery team, UK-based customer support and a team of currency experts - with the majority of the business working in client development and marketing, in order to accelerate the growth trajectory.



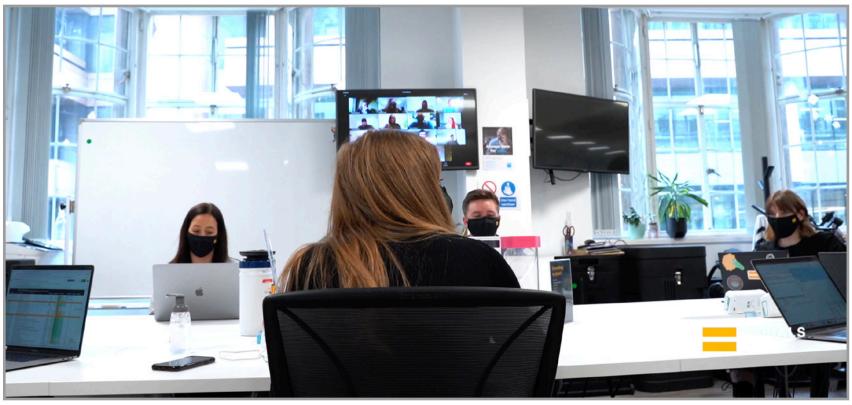

THE GROUP WINS ON COMBINING CUTTING-EDGE TECHNOLOGY WITH PERSONALISED SUPPORT

### HISTORY

Having been founded in 2007, the business was one of the first fintechs – prior to the wave of neobanks – when pre-loaded FairFX currency cards disrupted the B2C travel cash market, a product suite the group retains to this day. Indeed, over the last year, the group relaunched it's B2C offering, with multi-currency capabilities and the launch of Linked Cards, enabling customers to share funds on cards with multiple people, in multiple currencies.

### STRATEGY

Equals made the strategic decision to pivot from a B2C to B2B focus in 2017, and has successfully made the rapid transition to become a payments company focused on the SME marketplace.



75% of SMEs continue to use high street banks for this service, so there is a large - and rapidly growing - addressable market.

Strafford-Taylor says, 'we've done the hard yards in terms of pivoting from B2C to B2B. We have assembled an enviable collection of connectivity, status and partnerships with payment institutions and our regulatory, compliance and operations are top-notch', adding 'what we are planning to do in the future has hopefully got investors excited'.

Also in 2017, the company gained an eMoney licence, allowing it to hold client funds and bringing the ability for customers to receive third-party payments to the group's offering. Equals holds £170m of customer money in off-balance sheet customer funds, correct as at 31st March 2021.

## LAST YEAR

In 2020, the group became leaner and more agile, reducing its cost base while retaining growth resources. The lower capitalisation of software from £8.3m in 2019 to £4.5m in 2020, with guidance given for further reductions, signals that the company is leaving the transition phase and entering a growth phase. The group has £9 million free cash at bank, including a £2 million Coronavirus Business Interruption Loan Scheme (CBILS) funding yet to be utilised, providing flexibility for working capital-backed growth.

Last year, £3.5 billion in transactions flowed through the platform, significantly higher than in 2019. Despite the pandemic, the group's B2B revenue grew, with an emphasis on international payments, reflected in volumes growing by 60% in 2020.

## OPERATIONAL OPTIMISATION

In 2021, Equals began the process of consolidating its systems, processes and teams to ensure maximum efficiency, having recently implemented a new CRM, providing a single source of truth for every customer across the group's products.

Other operational highlights include issuance of named multi-currency International Bank Account Numbers (IBANs), straight-through onboarding with automated verification checks and the implementation of a machine-learning based transaction monitoring system.

Equals has recently released its first ESG report, demonstrating its commitment to scaling quickly, but also responsibly.

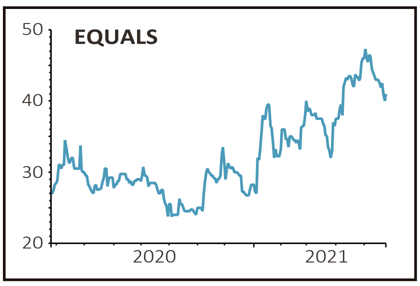
'People are at the heart of absolutely everything we do here', said Strafford-Taylor at the group's capital markets day, 'the people we have here really are super committed, and are what should give investors confidence in the company: the strength and quality of the people we have'.

## EQUALS MONEY

The group's main focus is the enhancement and roll out of its hero platform, Equals Money, a single solution that addresses business customers' payments and expenses needs. This product will utilise all of the existing technology and experience across the group, creating a unified business finance solution for SMEs.

The offering allows customers to transact in 140 currencies for outbound payments, enabling customers to receive 41 currencies on inbound payments and up to 21 currencies held on a single physical, virtual or device-based card, as well as crypto capabilities.

The Equals Money platform has bank-grade connectivity, best-in-class payments and expenses technology, combined with the ability to speak to an expert for support. Strafford-Taylor says: 'Now the focus is to grow and sell more, and we have a coherent strategy for that too. I am confident that we will continue to deliver.'



# Incanthera is developing innovative technologies for oncology and dermatology

## www.incanthera.com

**Incanthera (INC:AQSE)** is dedicated to improving treatment options with innovative technologies in oncology and dermatology.

Inspirational therapeutics, combined with uniquely targeted delivery technologies show the potential to transform the future of health care.

The company was founded in 2010, as a spin out from the Institute of Cancer Therapeutics (ICT) at the University of Bradford with the aim of bringing innovative novel technologies to patients.

### RICH PIPELINE

The ICT has created and continues to offer a rich pipeline of tumour-targeting drug delivery systems and technologies and Incanthera's portfolio includes technologies both from the ICT and from commercial licensing and acquisition partnerships.

Today, with an established oncology pipeline and a successful first year as a publicly listed company, the company marks the success of another unique technological approach, with skin cancer formulation, Sol.

Sol combines oncology and dermatology, through the application of modern formulation capabilities and delivery mechanisms that surpass expectations.

TODAY... THE COMPANY MARKS THE SUCCESS OF ANOTHER UNIQUE TECHNOLOGICAL APPROACH, WITH SKIN CANCER FORMULATION, SOL.

Discussions with two global cosmetics companies for a potential licensing partnership progress and the company looks forward to updating the market when further able.

Incanthera's business model is to acquire the best technologies, prepare them using Incanthera's expertise, partnerships and relationships and commercialise at the earliest opportunity, whilst ultimately delivering enhanced treatment options to patients.

This unique model is intended to deliver: better, faster therapies to patients; faster; de-risked returns to investors.

Incanthera floated on the Aquis Exchange in February 2020, raising £1.4 million to progress its lead asset Sol, an innovative topical product developed for the treatment of solar keratosis and the prevention of skin cancers.

### STRATEGIC PROGRESS

The investment received at the IPO allowed progression and refinement of Sol's formulation to deliver exceptional permeation and sensitisation study results, as reported in September 2020.

The study results proved beyond doubt that Sol has a unique capability to permeate the skin barrier and deliver effective treatment at the site of pre-cancerous and cancerous conditions in a formulation that is as non-irritant as some currently marketed baby sun protection products.

This is breakthrough news for skin cancer patients, offering a targeted and safe approach and an opportunity to prevent development of skin cancer.

## PROVEN EFFICACY

The combined package of proven efficacy and safety delivers an even stronger commercial profile, which has concentrated discussions towards a potential licensing partnership. This is further enhanced by the filing in July 2020 which will protect Sol's technology until 2040.

Discussions with global cosmetics companies for a potential licensing partnership progress and the company looks forward to updating the market when further able.

Incanthera published its full year results to 31 March 2021 in May 2021, with the emphasis on operational success.

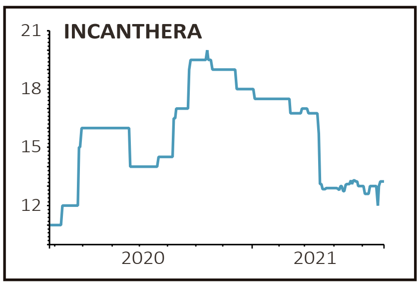
The public listing on AQSE last year provided a platform to engage long-term shareholders in opportunities for the future, but also to bring in new investment, which has been further enhanced by a recently oversubscribed placing from new and institutional investors to raise £1.14 million.

Incanthera's operational successes and delivery of returns to shareholders resulted in the successful placing, putting the company in an excellent position to conclude Sol discussions and to look at the promise that the technologies and delivery mechanisms can bring to future commercial success. The Incanthera team led by Simon Ward, chief executive officer and chairman Tim McCarthy, possesses a broad range of skills and talent, which has produced successful results.

The continued support of shareholders and the new investment in the company is testament to the achievements and enormous potential in the existing portfolio and the opportunities for the future.

Incanthera looks forward to continuing to enhance and build its expertise and ability to bring novel medicines to patients.

THIS IS BREAKTHROUGH NEWS FOR SKIN CANCER PATIENTS, OFFERING A TARGETED AND SAFE APPROACH AND AN OPPORTUNITY TO PREVENT DEVELOPMENT OF SKIN CANCER.



SAMARKAND GROUP plc.

# Samarkand is empowering access to the world's largest e-commerce market

## www.samarkand.global

**Samarkand Group (SMK:AQSE)** listed on the Apex segment of the AQSE Growth Market in March 2021 after a highly over-subscribed IPO.

Samarkand has developed a proprietary technology software platform with commerce, distribution, logistics, payments and analytics capabilities which provides international brands with access to the extensive but complex e-commerce market in China. Already larger than the next 10 e-commerce markets combined, this year China is set to become the first country where more retail transactions will happen online than offline. According to eMarketer, 52% of the country's retail sales will be via e-commerce.

Samarkand was founded in 2016 and is headquartered in London with an office in Shanghai. Samarkand's 100-person strong team has grown rapidly since 2017 by providing a route to market for Western brands, solving the complexities through a combination of its proprietary nomad technology platform and teams in the UK and China providing sales, marketing, and operational services.

The revenue numbers released as part of the IPO were for the eight months audited accounts from April 2020 to November 2020 and show an increase of £16 million from £3.8 million for the comparable period in the prior year.

### A LARGE BUT CHALLENGING MARKET

An unfamiliar digital eco-system means brands face a unique set of challenges when it comes to selling in China. There is no Google, Facebook, Instagram or Twitter. Instead of Amazon, Chinese platforms reign supreme such as Alibaba's TMall, JD and PDD.

Chinese consumers use an entirely different set of payment technologies, Visa and Mastercard have almost no penetration and instead AliPay, WeChat Pay are ubiquitous.

Parcel delivery is dominated by local companies like SF Express who are trusted by Chinese consumers but relatively unknown to Western brands. Adding to this, tightly controlled and well-enforced customs make China the largest and most challenging market for many international brands. The level of complexity, high costs and the need to work with local distribution partners means China has typically been the preserve of larger brands and retailers, but Samarkand is changing that.

### NICHE IS THE NEW NORMAL

The explosion of digitally native "niche" brands that having been a driving force in Western e-commerce over recent years have huge potential in China as consumerism rapidly evolves. TMall Global has done an excellent job of bringing international brands to Chinese consumers and they list almost 30,000 brands on the platform. However, there are some 1.7 million merchants with stores on Shopify, almost 4 million with stores on WooCommerce and millions more using other e-commerce software platforms prevalent in the West. This means Chinese consumers currently have a very limited selection of interesting and innovative Western brands which creates a huge addressable market in China for these brands.

Amongst Samarkand's suite of solutions is a SaaS technology product, Nomad Checkout, that allows the full spectrum of international brands to access this market utilising their own e-commerce infrastructure by breaking down the barrier's brands face at a fraction of the costs associated with the traditional model.

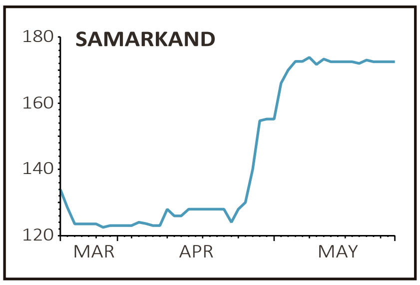
Website speed and performance is significantly improved for a Chinese visitor and the dominant payment methods, AliPay and WeChat Pay, are made available. Orders are delivered by SF Express, the most trusted and efficient Chinese delivery company and pre-cleared through Chinese customs. Nomad Checkout can be easily installed and configured by SME merchants using platforms such as Shopify, WooCommerce and Magento and for enterprise clients, a direct integration is also available.

### LEADERSHIP AND PARTNERSHIPS FOR SUCCESS

The founders have been business partners for over a decade and are supported by an experienced and relevant board including Keith Higgins who has almost 20 years' experience in e-commerce for P&G and **Unilever (ULVR)** as vice president of e-commerce and chief customer development officer and Tanith Dodge, former group HR director for **Marks and Spencer (MKS)** and Bicester Village Collection.

In addition to the strong shareholder base of institutional investors, such as **Schroders (SDR)**, there are strategic shareholders that significantly enhance Samarkand's capability. Smollan Group, one of the world's largest retail service companies with clients that include 70% of the top consumer goods brands, has been a shareholder and strategic partner since 2019.

In May 2021 SF Express, China's number one delivery company, which employs some 130,000 people globally also invested in Samarkand Global having recognised the power and potential of the combined technology of Samarkand and SF Express leading delivery and logistics network and global coverage.



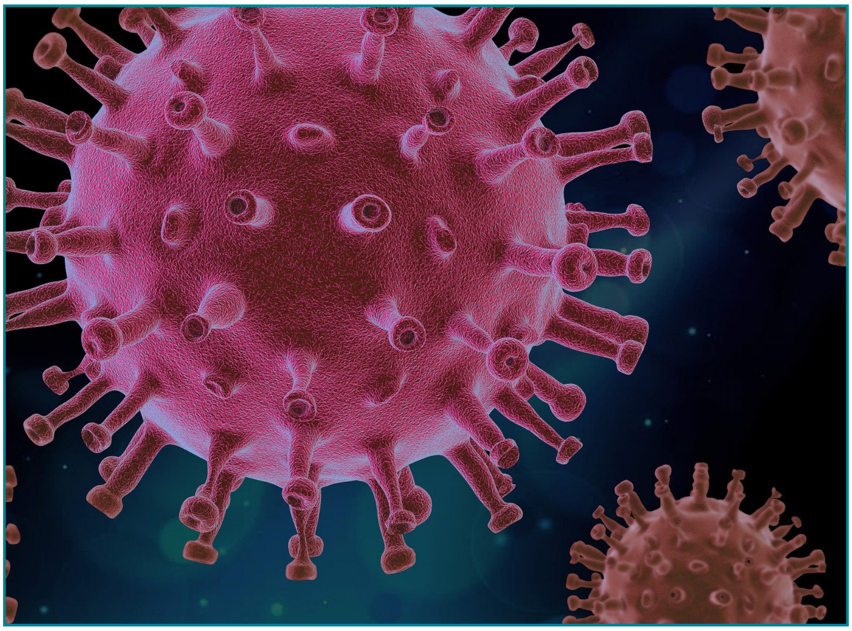
# A leading provider of laboratory services and products to blue chip pharma, NHS and private hospitals

## www.sourcebiointernational.com

**SourceBio International plc (SourceBio) (AIM: SBI)** is a leading international provider of integrated state-of-the-art laboratory services and products to clients in the healthcare, clinical, life science research and biopharma industries, with a focus on improving patient diagnosis, management and care. The group has its main office in Nottingham, UK with additional facilities in the UK, Ireland and the USA.

The company responded swiftly in response to the global Covid-19 pandemic, and quickly leveraged its scientific capabilities and existing accreditations with the NHS for pathology services. Also, it reconfigured its laboratory space and capitalised on its staff expertise to set up a Covid-19 Antigen RT-PCR testing capability, which launched in May 2020.

The testing capacity was grown in modular steps through the year to a targeted 10,500 tests per day capacity ahead of the year-end date. The group performed over 758,000 tests by the end of 2020 (and exceeded one million tests in the first quarter of 2021).



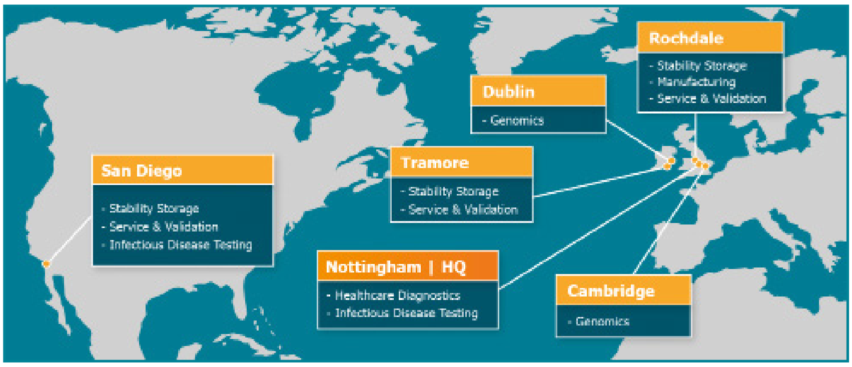
Test volumes were initially dominated by the demand from the Department of Health and Social Care (DHSC) but, as their requirements have become more variable, the customer mix has become less polarised. The customer base in the year comprised the DHSC, NHS trusts and other NHS constituents, as well as private healthcare groups and commercial clients.

High volume Covid-19 Antigen RT-PCR laboratory-based tests constituted the majority of revenues for 2020 but it is anticipated that whilst PCR based testing will remain the gold standard test, the group will offer additional testing capabilities during 2021.

These aforementioned services generated revenues totalling £34.5 million (2019: £nil) and a gross profit of £13.7 million (2019: £nil), equating to a gross margin of 39.6%.

The business provides a diverse offering and comprises four business units:

**Infectious Disease Testing** – Covid-19 Antigen RT-PCR testing services to the NHS,




private healthcare providers and private industry. It is expected that the group's Covid-19 testing focus in 2021 will transition to a wider portfolio of offerings.

**Healthcare Diagnostics** – histopathology and clinical diagnostic services for the NHS and private healthcare across the UK and Ireland.

**Genomics** – DNA sequencing services for pharmaceutical and biotechnology companies, academia, contract research organisations and other research groups in the UK, Europe and North America.

**Stability Storage** – shelf-life testing and equipment for pharmaceutical and biotechnology companies, contract manufacturers and analytical testing companies from around the world but primarily in the UK, Ireland and the USA.

## STRATEGY AND BUSINESS MODEL

SourceBio's strategy is to grow each of its divisions through a combination of organic and inorganic initiatives. Specifically, the Directors have identified clear strategic initiatives to generate shareholder value:

- Maximise Covid-19 Antigen RT-PCR testing capacity and explore other testing technologies, offerings and routes to market based on demand;
- Target organic growth by capitalising on the market and growth opportunities identified in all three of the well-established business units, Healthcare Diagnostics, Genomics and Stability Storage;
- Selectively execute on attractive and relevant acquisition opportunities; and
- Increase its international presence through a combination of organic and acquisitive growth.

## ACQUISITION MODEL

As well as the focus on organic growth, SourceBio will consider suitable attractive acquisition opportunities in due course. Areas may include Cellular Pathology laboratories to give better access to healthcare in London, additional oncology specialities, further expansion within the USA into Cellular Pathology and Healthcare Diagnostics, and further Infectious Disease Testing services. In any event, a robust filtering process will be deployed to screen and analyse potential prospects.

## OUTLOOK

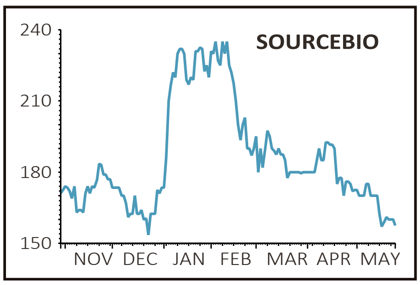
The group has been through a transformational year in 2020. It has started the new year with a strong cash balance, no borrowings, and a business that is rapidly growing whilst generating substantial earnings and cash. Trading in the early months of 2021 has been solid and in line with the board's expectation.

The group is working hard in all the Covid-19 testing initiatives described above, and the board believes the group is well placed to capture attractive new business opportunities.

The board also believes that its long-standing three business units offer both near-term and longer-term sustained growth potential. Whilst elective surgeries continue to be significantly and quite publicly delayed, the backlog of potential work for its Cellular Pathology teams appears to be growing very substantially.

Whilst the timing of a return to substantial volumes of work cannot be accurately predicted, the board believes that the volumes will be very high when they do return. The teams have prepared plans to cope with the significant volume growth expected in due course.

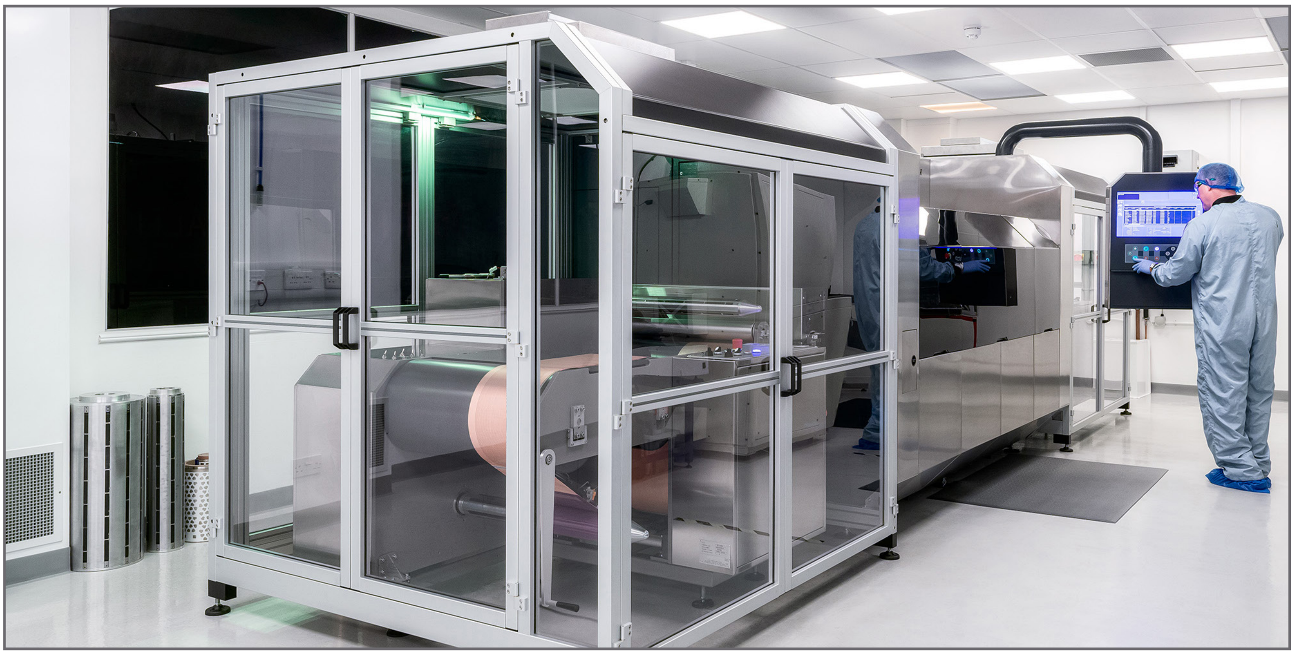
Given the current macro environment, the board believes that SourceBio is well-positioned to deliver further substantial growth in revenue, earnings and cash generation in 2021. It will also continue to consider potential acquisition opportunities.



TRACKWISE
CONNECTING TECHNOLOGY

# Trackwise targets electric vehicle opportunity

## www.trackwise.co.uk



**Trackwise Designs (TWD:AIM)** is a UK manufacturer of innovative, specialist printed circuits. For the past 30 years, Trackwise has earned a global reputation for delivery of high-quality technology.

Trackwise's products have a global reach, serving customers across Europe, North America, Asia and Australia. Following the acquisition of Stevenage Circuits Ltd (SCL) in April 2020, Trackwise has just over 115 employees across two sites at Stevenage and Tewkesbury.

### EXTENSIVE INVOLVEMENT WITH PCB TECHNOLOGY

Founded in 1989, Trackwise has a strong track record of manufacturing printed circuit board (PCB) technology.

Its RF products form part of the antennae on the mobile telephone base station towers you see regularly around the country. As mobile technology has developed to 2G, 3G, 4G and the evolving 5G, Trackwise has developed its own manufacturing technology to keep pace.

RF's product range now serves an array of communications technologies and bandwidths, and it is well positioned to gain from the expected roll-out of 5G, which will require the type of antenna developed in Trackwise's Advanced PCBs division. There is significant potential for Trackwise in the rollout of 5G, including massive MIMO (multiple-input and multiple-output).

With the acquisition of SCL, Trackwise has brought into the business a wider range of capability including short flex, flex rigid and rigid multi-layer and a significant expansion of customers. The RF manufacturing, originally developed in Tewkesbury, has now been transferred to Stevenage.

## IMPROVED HARNESS TECHNOLOGY (IHT): PROVIDING SPACE AND COST-SAVING BENEFITS TO A RANGE OF INDUSTRIES

While the Advanced PCBs division provides Trackwise with a solid and profitable foundation, it is the IHT division that is emerging as the higher margin growth engine in the business.

Trackwise's proprietary IHT is a replacement for conventional wire harness with innovative flexible printed circuit board technology. Flexible printed circuits (FPCs) were first developed as a weight and space saving alternative to conventional wire harness in the 1950s and since then have grown into multibillion-dollar global industry.

However, their application has historically been constrained by size, as only shorter product lengths (typically 610mm) were able to be manufactured. This meant that market take-up of FPCs has been limited to smaller devices and equipment, for example a mobile phone.

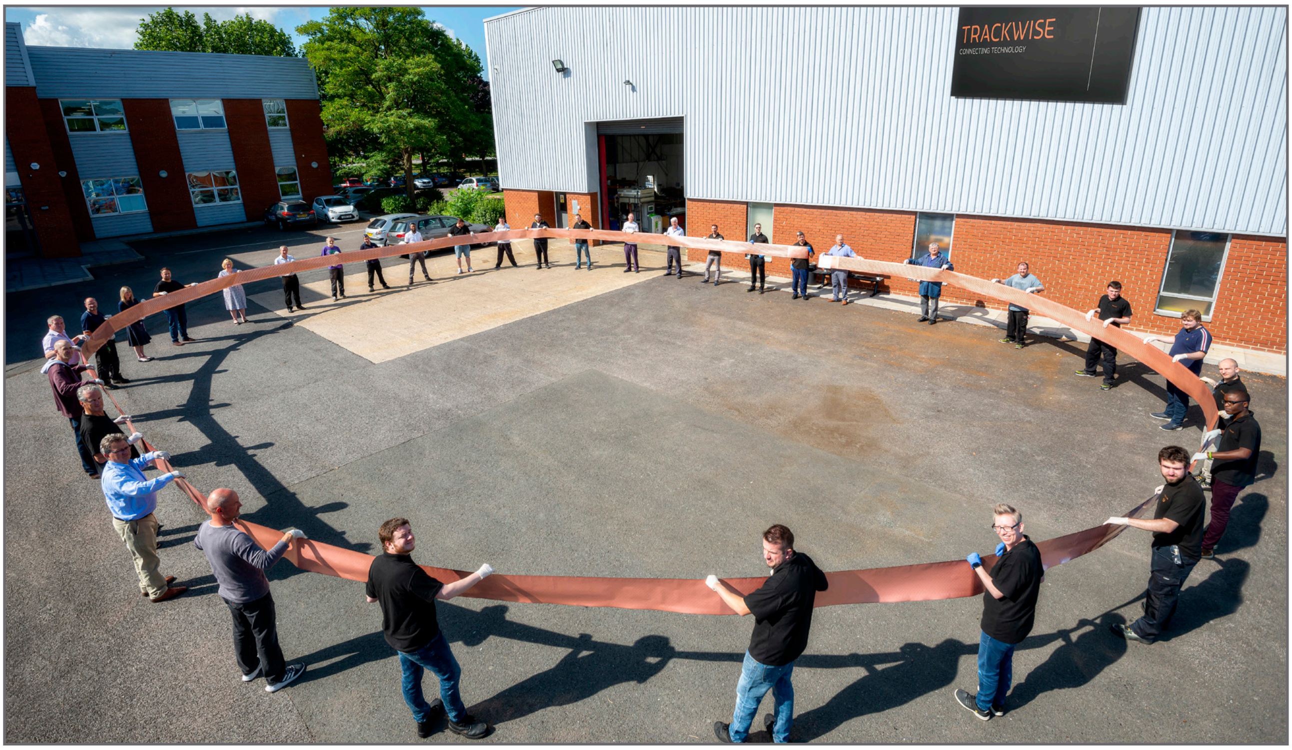
Trackwise's patented Improved Harness Technology has solved that problem, allowing the production of multilayer FPCs of any length to replace conventional wire harness in demanding applications such as aircraft, industrial, or automotive wiring, as well as medical devices, scientific instruments, and consumer products. The potential benefits are huge – IHT can be deployed wherever wire is used.

Improved Harness Technology is currently providing some of the world's leading organisations with lighter, smaller, and more efficient interconnect technology to power their products and equipment, and it was this huge potential which supported the company's IPO in 2018. Since then the company has been developing its core IHT offering to four principal verticals, aerospace, EV, Medical and Science.

## INCREASING ADOPTION OF IHT IN KEY GROWTH MARKETS

Electric vehicles have emerged as one of the primary scale up opportunity for IHT. In February 2020, Trackwise announced its first IHT production order from a multi-billion-dollar-valued, UK-based maker of electric vehicles to use the technology in its battery modules and battery packs.

The rapid development of growing social and political pressure to move to more sustainable technologies, has spurred Trackwise to expedite ways in which it can broaden and deepen its relationship with the electric vehicle manufacturer, while speaking to other key players in the industry.



Elsewhere, the adoption of IHT as a key element in the manufacture of medical catheters has gathered pace. The company recently announced a development contract with Cathprint AB, a Stockholm-based company with expertise in the development and manufacturing of medical device products. Trackwise is working with a number of other Catheter manufacturers and this market which is worth $15 billion has the potential to become a significant revenue generator for Trackwise.

Aerospace is the market that gave rise to the initial IHT innovation some years ago and remains an important growth area for Trackwise.

In August 2019, Trackwise reported a collaboration agreement with GKN Aerospace for the industrialisation of the GKN Aerospace Type 8 Ice Protection System; a significant milestone in taking the company a step closer to aerospace production at scale. While aerospace qualification is a lengthy process, the size of the potential end markets means that the future revenue potential for the technology is significant.

Aerospace is traditionally conservative when it comes to adoption of new technology but there is no doubt the impact of Covid-19 has accelerated a move away from older, less efficient and sustainable aircraft. The industry is still in recovery, but Trackwise is optimistic that demand will increase, and more aircraft need to be built to support it, acting as a pull-through for IHT.

The light-weighting and space saving potential of IHT are key enablers for aerospace

and Trackwise is working on several collaborations with companies developing sustainable flight, which will form a significant contribution to revenues in the future.

## NEXT STEPS: POST FUNDING DEVELOPMENT OF ENHANCED IHT PRODUCTION FACILITIES

Following the acquisition of Stevenage Circuits Ltd (SCL), in April 2020 the company has invested in its capacity and has transferred its legacy RF business from Tewkesbury and this has enabled the Ashvale site to be ready to meet increased demand for IHT. This facility will remain as an R&D powerhouse for new IHT business.

In 2021, the company has focused closely on establishing the facilities it will need to meet the EV contract demands, including the recently announced acquisition of a facility in Stonehouse Gloucestershire, a short distance from its Tewkesbury site. This new facility has 75,000 sq ft of space, more than sufficient for the EV contact production demands and provided the most favourable cost structure available in the locality. The next six months will see the capital equipment installed and made ready to meet the ramp up in EV volumes expected at the end of the year in Q4.

To prepare further for this increase in activity, Trackwise has appointed an experienced Chief Operating Officer to lead the installation as well as the operating facilities of the whole company. Steve Hudson has over 20 years' experience in the automotive and aerospace industry. He started his career at Rover Group, before moving onto operational, quality and programme leadership roles at Bentley Motors, Rolls Royce Aerospace and Williams Advanced Engineering.

Looking ahead, IHT, Trackwise's growth opportunity, continues to gain significant commercial traction and make tangible progress towards large scale production particular in EV and Medical Catheters.

As with all UK manufacturers, Covid-19 has had an impact on trading conditions and visibility over customer decision-making. However, with the company's proven technology, the right operational infrastructure in place, and structural trends moving in its favour, the company's longer-term value proposition is stronger than ever.

Trackwise continues to develop strong structures for future growth, and as more normal trading conditions return, its growing pipeline should steadily begin convert into increased sales.