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5 STOCKS THAT COULD WIN BIG

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ACTIVE VERSUS **PASSIVE** FUNDS PERFORMANCE

WHY **GOLD** IS **SHINING** AGAIN

GLAXOSMITHKLINE PLAYING THE LONG GAME ON **VACCINES**

Asset Value Investors (AVI) has managed the c.£1.1 bn AVI Global Trust since 1985. The strategy over that period has been to buy quality companies held through unconventional structures and trading at a discount; the strategy is global in scope and we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.

The companies we invest in include family-controlled holding companies, property companies, closed-end funds and, most recently, cash-rich Japanese companies. The approach is benchmark-agnostic, with no preference for a particular geography or sector.

AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation. A concentrated portfolio of c. 37* investments allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship with the managers, directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies–for the benefit of all.

AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever, and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

DISCOVER AGT AT WWW.AVIGLOBAL.CO.UK

*One investment is the Japan Special Situations basket of 13 Japanese stocks as at 31 January 2020.

AVI
Asset Value Investors

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


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CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

The clues in everyday life that give you an investing edge

Keep your eyes and ears open for information that could help you make better informed investment decisions

It's easy to fall into a trap of seeing your shareholdings as numbers on a screen rather than part-ownership of a real business.

However, this would be a mistake and one way which can help you stay in touch with the tangible nature of your investments is to look out for things you can spot yourself.

And while you should never invest on anecdotal evidence alone, keeping your ears to the ground can help give you clues on what to look for in a company's performance.

For example, both this author and a colleague had conversations with the people cutting our hair (after long overdue trips to the barbers) and we essentially had the same conversation – i.e. they were really busy just after non-essential shops were allowed to reopen in April but have subsequently had a quiet spell.

While this lull probably reflected the three or four weeks for people to need another trim, there could be a takeaway on the nature of the pent-up consumer demand we're currently seeing.

Perhaps appetite for dining and drinking out will also wane after the initial frenzy. It's worth at least thinking about what this might mean for any hospitality stocks in your portfolio, should you hold any, and monitoring upcoming trading statements for any signs the recovery in demand is slowing.

Alternatively, let's say you hold shares in a retailer and you went to visit one of their stores. If you saw that there was limited stock on the shelves and the shop floor was both deathly quiet and looking tired and shabby, next time they updated on trading you would be switched on to the possibility of a weak performance.

You could scrutinise the annual report to see how much they were investing in the business and look for commentary on the level of footfall and issues with getting fresh products ordered in.

Any visitors to a **Halfords (HFD)** store last spring

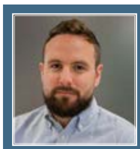
would probably already have been aware that the unprecedented levels of demand for bikes in the initial stages of the pandemic had created supply pressures which the company itself acknowledged in July 2020.

More recently anyone who has received a quote for home renovations would have some idea of the squeeze on the supply of a range of different types of building material and the implications this has for the costs of a project.

While housebuilders have more purchasing power than your local joiner, it would be fair to assume they are having to assume at least some of this extra cost as they look to maintain the volume of new homes being built.

When the next round of updates from the sector comes out it will certainly be worth looking for comment on the level of cost inflation.

Finally, let's assume you both subscribe to Netflix and own its shares, and you recently spent a fruitless half hour looking for something appealing to watch as the platform seems to have more focus on quantity over quality of content. Chances are others might be feeling the same and this could be a good signal to reassess the investment case.

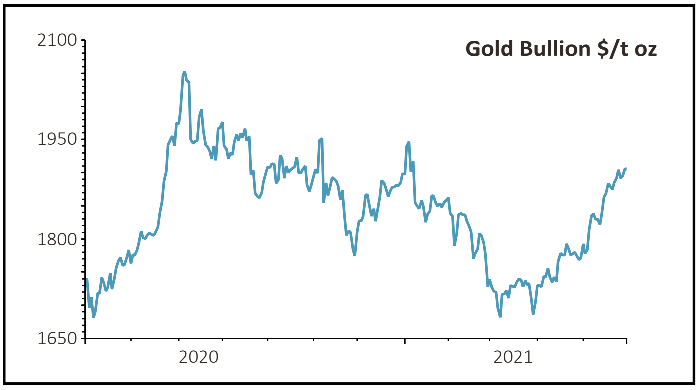


By **Tom Sieber** Deputy Editor

Gold tops $1,900 again as it regains its haven credentials

Miners rally as investors pile into the precious metal, but Centamin falls behind after rare 'sell' note

After retreating from its all-time highs as markets started rallying from November 2020 onwards, gold is starting to make a comeback having topped $1,900 an ounce for the first time since the start of January.



Data from Bank of America at the end of May shows gold has seen in its largest inflows in 16 weeks with $16 billion of investors' money piling into the commodity.

One of the hottest questions in the finance world in 2021 has been whether the inflationary pressures markets are currently seeing are just going to be temporary or persist for longer than central banks are expecting.

Parts of the bond market are signalling it could be the latter with long-term inflation expectations rising to their highest since 2013 and yields on another safe have asset, 10-year US treasuries, falling. Gold and treasuries are negatively correlated, so when yields fall gold becomes more attractive because there is no benefit to holding bonds.

Also there are suggestions that the recent volatility in cryptocurrency bitcoin, which was being flagged as an alternative inflation hedge to the precious metal, has driven institutions back to gold.

The recent rally in gold has lifted mining stocks. The widely followed NYSE Arca Gold BUGS Index of gold mining companies has gained 22% since the start of March.

This performance, albeit to a lesser extent, has been replicated by gold miners on the London market, but there a few who have failed to keep up due to stock-specific issues.

One of the most notable examples is FTSE 250 gold miner **Centamin (CEY)**, with its shares wobbling after analysts at broker Liberum put a rare 'sell' rating on the stock in an initiation note.

Giving it a price target of 82p, compared to its current price of 110p, Liberum argues that while its 'strong' balance sheet gives it the resources to finance the turnaround of its flagship Sukari gold mine in Egypt, the shares are overvalued at present.

Using an 8% discount rate and assuming $46 per ounce of resource at its West Africa assets, at a market price for gold of $1,800 per ounce Liberum estimates Centamin's net asset value is 85p per share, giving 30% potential downside compared to its current share price.

In other gold-related news Canadian miner Endeavour Mining, which made a series of failed takeover bids for Centamin in 2019 and 2020, is set to list on the premium segment of the London Stock Exchange on 14 June, making it eligible for the FTSE indices.

The $6.1 billion market cap Toronto-listed miner has been eyeing up a London listing for around a year, with its management already based in London, as it looks to bolster its liquidity and appeal to more mainstream investors, with the company also wanting to get exposure to tracker funds that follow the FTSE 100 and FTSE 250. [YF]

Aveva eyes renewables as part of its digitisation growth strategy

UK's biggest listed software firm could be a key partner for oil majors' green shift

Industrial engineering software company **Aveva (AVV)** is confident that it will prosper from the mass move to renewable energy and environmental efficiency by driving digital transformation.

The UK's largest listed software company, worth £10.5 billion, Aveva provides engineering, design and enterprise software solutions primarily to the oil & gas, marine and power industries.

Following its merger with Schneider Electric in 2017, and the $5 billion acquisition of US-based data analytics provider OSIsoft, which completed in March this year, Aveva is bringing disruptive engineering technology to an energy industry which has found itself under a harsh spotlight as concerns over climate change increase across the world.

> **Oil & gas accounts for 40% of Aveva's revenue**

Oil majors have been writing down assets, financial institutions are turning away from oil investments, and plastics are likely to substantially underperform the industry's rosy projections.

All the while, customers, corporate partners, investors, shareholders, and activists are putting ever-increasing pressure on oil and gas companies to begin planning seriously for climate change.

The oil industry has responded to the scrutiny with a series of pledges, plans, and press releases addressing global warming. The big five oil giants – Exxon Mobil and Chevron in the US, the UK's **BP (BP.)**, Total or France, and Anglo-Dutch **Royal Dutch Shell (RDSB)** – have all promised, with varying degrees of ambition, to reduce their emissions.

But ratings agency Moody's recently observed (28 May) that the credit risk for major oil producers has increased after recent events. Shell was defeated in a Dutch climate lawsuit while both Exxon and Chevron have lost battles with shareholders, forcing them to cut emissions targets further.

Aveva's chief financial officer James Kidd told *Shares* last week that he believes that there is a large opportunity for his company to work with oil companies eyeing renewable energy projects as part of their own carbon-cutting plans.

HUGE OPPORTUNITY

A 2019 World Economic Forum report said digital transformation in the oil and gas industry could unlock approximately $1.6 trillion of value for the industry, its customers and wider society while creating around $1 trillion of value for the operators.

Aveva has extensive expertise in the renewables space, with a long history working in the nuclear industry, plus a growing presence in the planning and designing of solar and wind farms, and energy storage projects.

The industries that Aveva serves are making increasing use of technology to reduce costs against a backdrop of competitive pressures.

'This is being enabled by ongoing technological mega trends that are driving the digitalisation of the industrial world, notably the industrial internet of things, Cloud, data visualisation and Artificial Intelligence,' Aveva observed. [SF]

Competitive pressures face new listing Made.com

Furniture seller is millennials favourite but isn't profitable

High-end designer furniture site **Made.com** plans to float on London's Main Market with a £100 million funding that would reportedly value the online retailer at around £1 billion.

The company plans to capitalise on the online shift accelerated by the Covid crisis and gobble up share in a fragmented market, although risk-averse investors should note this is a competitive industry where players include e-commerce giant Wayfair and **DFS Furniture (DFS)**, the bricks and mortar rival with well-invested digital channels.

Made.com is currently loss-making and though the company aims to raise new equity in the float, existing investors will also cash out by offloading some shares.

Made.com remains loss-making

Expected ITF announcement, 25 May 2021
Source: Made.com • Created with Datawrapper

WHAT IS MADE?

Co-founded in 2010 by Lastminute.com founder Brent Hoberman and Li Ning, Julien Callede and Chloe Mcintosh, Made.com sells designer furniture and homeware products across the UK, Germany, Switzerland, Austria, France, Belgium Spain and the Netherlands via its e-commerce platform.

The London-based company partners with over 150 established and up-and-coming designers, artists and collaborators to create a product range that is popular with UK millennials. *MADE* is the most reviewed home brand on UK Trustpilot and as the bar chart shows, the retailer benefits from high and rising levels of repeat business.

The stock market hopeful had roughly 1.1 million active customers in 2020 and around 1.2 million active customers in the 12 months to the end of the first quarter of 2021.

IS MADE SITTING PRETTY?

IPO proceeds are earmarked to help Made expand in existing European markets, scale its complementary homeware range and improve service by reducing the lead-times offered to customers. The pandemic accelerated the shift to digital channels and as the Covid crisis recedes, there is a risk growth slows as shoppers elect to log off and instead troop down to a DFS or **ScS (SCS)**.

Yet Made.com's management insists the furniture and homeware market is 'at an inflection point of e-commerce adoption, with significant further upside potential given the secular shift to online'.

Structural drivers for Made.com include consolidation of this fragmented market, working from home, the consumer's increased focus on sustainability and the fact that millennials are entering their 'core home formation years'.

In terms of the financials, Made.com is highly cash generative and gross sales have grown at an impressive compound annual growth rate of 36% over the last five years. On the negative side of the ledger, the income statement shows pre-tax losses for the last three years despite rising revenue.

Management boasts medium-term ambitions to generate gross sales north of £1.2 billion per year by the end of 2025. [JC]

Spiralling housing demand causes price spikes in building materials

Home renovation boom could be knocked off course amid supply shortages

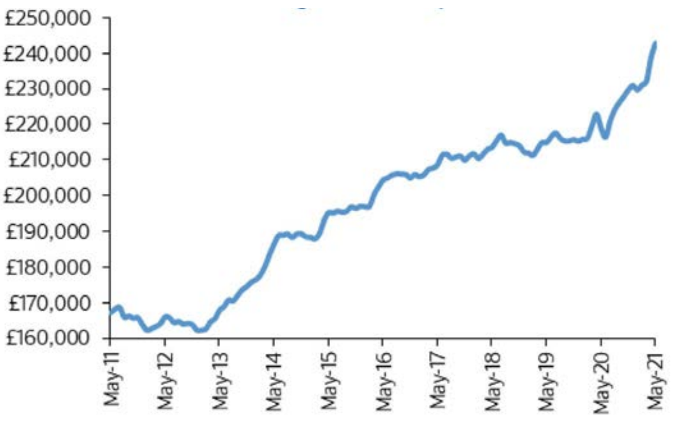
The associated impact of the surging housing market is a growing shortage of building products and raw materials, leading to cost inflation.

There is a risk this could undermine the current boom in the home renovation market and hit the housebuilders which are currently riding the wave of positive updates on property prices.

The Nationwide house price index recently registered its biggest jump in May for almost seven years.

Year on year, the Nationwide index posted an increase of 10.9% last month to take the national average house price to a new all-time record of £242,832. On a monthly basis, prices were up 1.8% after a 2.3% rise in April as demand for properties continues to outstrip demand.

Average UK house price



Source: Nationwide

While the spike in deals in March was partly driven by the original expiry of the stamp duty holiday, over two thirds of those moving home or thinking of moving who were surveyed by the building society at the end of April said they were doing so regardless of whether the tax holiday was extended, suggesting activity is being driven by a

shift in preferences, potentially for larger properties and in different locations.

At the heart of the issue is the fact that in a normal year only 5% of the country's housing stock changes hands, whereas 25% of homeowners surveyed say they are in the process of moving or are considering moving.

The squeeze in house prices has led others to stay put and improve their existing property, with nearly half of those surveyed looking to add or maximise space.

This in turn has driven the repair, maintenance and improvement (RMI) market which is starting to see serious signs of strain with shortages in raw materials and finished goods.

On 1 June DIY retailer **Wickes (WIX)** reported sales year to date up more than 45% on 2020 and up 23% on the same period in 2019, and raised its full year earnings expectations despite 'availability constraints and inflationary pressures' in some products.

At the same time, former parent company **Travis Perkins (TPK)** warned customers of 'considerable' price rises to come in basic building materials due to high demand and increasingly short supply.

Bagged cement prices are set to rise by 15%, chipboard by 10% and paint by 5%. The Office for National Statistics, in turn, expects building material prices to rise by up to 8% this year, with certain products such as timber more than doubling as the warmer winter affects production in Scandinavia. [IC]

SSE is a great way to play the green revolution

Company is aiming to treble renewable energy output by 2030

SSE
BUY
(SSE) £15.46

Market cap: £16 billion

Utility **SSE (SSE)** has established an ambitious programme to treble renewable output by 2030 and reach a run-rate of one gigawatt of new assets a year during the second half of the current decade. We think you should buy the shares to take advantage of what should be a profitable journey for investors.

The company plans to invest £7.5 billion in its infrastructure over the next five years enabling the electrification of heat and transport through building smart, flexible local energy grids. The goal is to accommodate 10 million electric cars by 2030.

Analysts at Morningstar estimate that the projects will earn a return on investment of 6.2% a year, above the company's cost of capital, providing investors with value added growth.

In addition, SSE has committed to paying an annual dividend of 80p per share which the company has said will rise in line with retail price inflation out to 2023, giving savers some inflation protection on top of a handsome yield of 5.2%.

Overall we believe SSE is attractively positioned to play a key role in the UK's move towards a net zero economy, with both growth and income attributes.

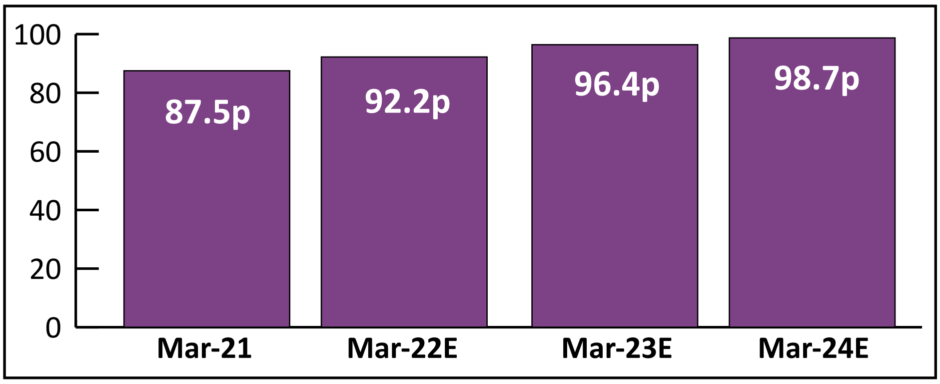
WHAT DOES SSE DO?

The company's core businesses are its regulated transmission and distribution businesses and the renewables arm which cumulatively contribute the bulk of the firm's operating profit.

The renewables division generates zero carbon electricity through the construction and operation of large scale onshore and offshore wind farms as well from hydroelectric and pumped-storage assets.

Pumped storage is one of the oldest forms of large hydroelectric energy storage and involves constructing two reservoirs at different heights with gravity providing the source of energy. The advantage of these assets is that they are

SSE earnings per share growth



Source: SSE, Refinitiv

capable of responding to large load changes (or changes in energy requirements) within seconds.

The firm is planning to develop the first new pumped storage facility in 30 years which, if granted government support should provide clean power for three million homes for up to 24 hours.

SSE gets paid through several mechanisms, including supplying electricity to the wholesale energy market, various ancillary services, power purchase agreements, the capacity market and state subsidies.

The regulator determines the rate of return that the company can earn on its investments. Additional earnings can be made through efficient delivery of investment and targeted, performance-related incentives.

SSEN Transmission owns, operates and maintains the electricity transmission network in the north of Scotland for large electricity demand customers and essentially all customers across the UK.

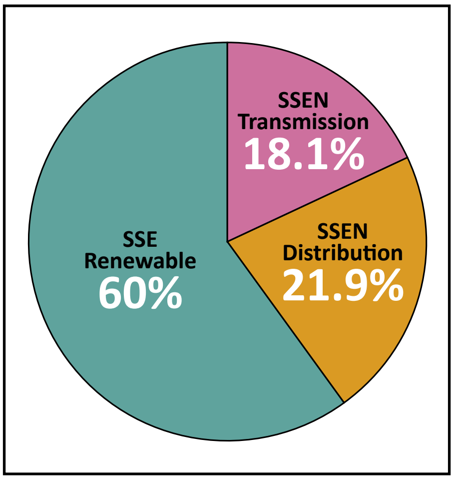
SSEN Distribution owns, operates and maintains the electricity networks in the north of Scotland and central southern England for homes, businesses and service providers that are connected to the network.

MORE FOCUSED GROUP

The company has made good progress on executing its plan to reduce the carbon footprint of the group by divesting non-core assets and reinvesting in renewable projects, so far exceeding its original expectations.

It is on track to raise £2 billion from asset sales after the sale of two energy-to-waste projects which raised £995 million in cash and the sale of a 25% stake in Walney Offshore Wind Farm and a one-third stake in meter asset provider MapleCo.

SSE operating profit from core businesses (Mar '21)



Source: SSE, financial year to 31 March 2021

Altogether the agreed disposals are expected to yield £1.5 billion in proceeds with more to come from the sale of the minority company's stake in SGN, the gas distribution company that serves homes and workplaces in Scotland, Northern Ireland and the south of England.

The proceeds will help shore up the balance sheet and allow the release of capital which can be deployed to create value from significant growth opportunities from renewable energy.

The company said at its recent results (26 May) that it is currently leading construction of more offshore wind than anyone in the world.

SSE has adopted a partnership model to developing new projects which it believes provides better returns than those achieved by purely financial backers, because it effectively de-risks the process.

The company reckons its partnership approach with large firms such as Norway's Equinor and French energy group Total allows developer premiums to be secured which typically yield higher values when stakes are sold down.

Developer profits of £226 million were made from the sale of a 51% stake in the Seagreen offshore windfarm and a 10% stake in Scotland's biggest offshore Dogger Bank.

As well as avoiding a large increase in net debt, the approach appeals to a range of partners with different risk appetites who prefer exposures to different stages of the project cycle.

Intriguingly, management is considering adopting the same approach for the transmission and distribution businesses, which will involve selling minority stakes.

SSE is well financed, and its key financial objective is to maintain net debt to EBITDA (earnings before interest, taxes, depreciation, and amortisation) in the range of between 4.5 and five times.

The company is due to provide an update on its renewable energy growth plans in November. Time to get aboard now before the opportunities are fully reflected in the shares. [MG]

Buy increasingly profitable safety and compliance firm Marlowe

Ambitious three-year targets could lead to significant uplift in firm's value

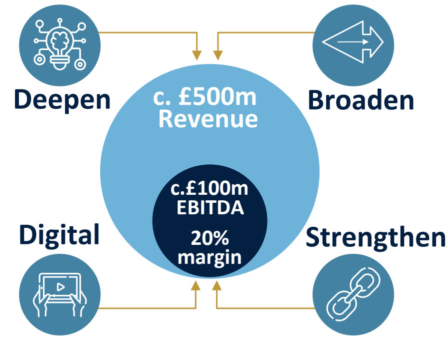
Business services outfit **Marlowe (MRL:AIM)** has momentum behind its share price and operational performance and a credible plan to increase profitability and market share.

It is therefore an excellent time to snap up the shares as it embarks on a period of significant growth.

The last two trading updates from the safety and compliance specialist have lit a fire under the shares, with the company raising its full year earnings guidance and setting out an ambitious growth target.

Marlowe, which provides health and safety services, fire and security services alongside support on water treatment and air hygiene, compliance software and employment and occupational health compliance, revealed in May 2021 that

What does Marlowe's three-year strategy deliver?



Source: Marlowe

MARLOWE BUY
(MRL:AIM) 790p
Market cap: £607.7 million

thanks to better than expected second-half trading, operating earnings would be 'in excess of £28 million' against a top market estimate of £26.5 million.

In addition, the firm noted it had made three small bolt-on acquisitions in the fire safety, occupational health and water treatment sectors, and this week it reported it had bought another fire safety and security firm.

Previously, at its capital markets day in February, the group presented a three-year plan to double its revenue from £245 million to £500 million and almost treble its earnings before interest, taxes, depreciation and amortization (EBITDA) from £37 million to around £100 million.

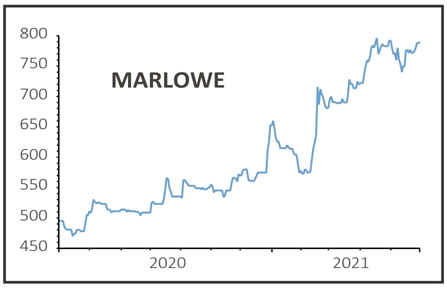
The firm sees organic revenues growing by 7% per year, which would add another £50 million to the total, with the rest of the increase coming from a 'step-change' in acquisitions to increase scale in existing and adjacent markets.

Meanwhile, part of the increase in EBITDA will be driven by the doubling of turnover, but part is also expected to come from raising the group margin to 20% against its current level of around 16% thanks to synergies from acquisitions and lower costs from its digital strategy.

The firm believes its target addressable market in the UK alone is worth £6.8 billion, led by the fire and safety sector which is estimated at £1.7 billion but is fairly low-growth. However, of more interest are the employment law, HR and occupational health sectors, which are worth a combined £1.8 billion and are growing at around 6% per year.

Analysts at Berenberg estimate Marlowe will generate £40 million of its three-year target of £100 million of EBITDA via acquisitions, which assuming the deals were struck at a multiple of 7.5 times would mean £300 million of spending, requiring £120 million of equity raises.

However, with £100 million already raised, 'the business has the majority of the necessary firepower to reach this target', they say. [IC]



BRUNNER INVESTMENT TRUST (BUT) 986P

Gain to date: 14.4%

Original entry point:

Buy at 862p, 28 January 2021

WITH ITS FOCUS on large, well-capitalised businesses which serve global markets and have pricing power, the trust has had a good start to the year, outpacing the FTSE World ex-UK index and the global investment trust sector.

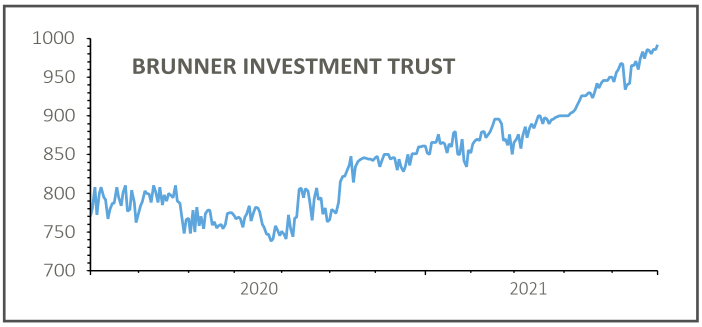
Over one month, three months and six months, the shares have returned 4.5%, 15.9% and 17.5% respectively, putting them in the top quartile for performance.

The shares trade at 986p but the net asset value is £10.87, meaning the shares are trading at a discount of more than 9% which is unusually large for a blue-chip investment trust.

Now that major investor **Aviva (AV.)** has finished selling down its holding – documents show it held just 0.2% of the shares in mid-April compared with 10.58% at the start of the year – the 'overhang' which had held the stock back has been removed.

Regarding the markets, manager Matthew Tillett observes that 'after a very substantial re-rating, equity markets have now largely priced in the near-term economic recovery'.

'We're focused on 2022 and beyond. Resilient business models that continue to deliver reliable growth will lead the market, even if many have been out of favour in recent months,' he adds.



SHARES SAYS:

The removal of the share overhang is a key milestone for the trust. We're pleased to see strong performance and believe Brunner should continue to reward investors. [IC]

ODYSSEAN INVESTMENT TRUST (OIT) 162.6P

Gain to date: 66.7%

Original entry point:

Buy at 97.5p, 10 September 2020

OUR 'BUY' CALL on **Odyssean Investment Trust (OIT)** is now 66.7% in the money, with the shares responding positively to the fund's strong performance and a string of takeover bids.

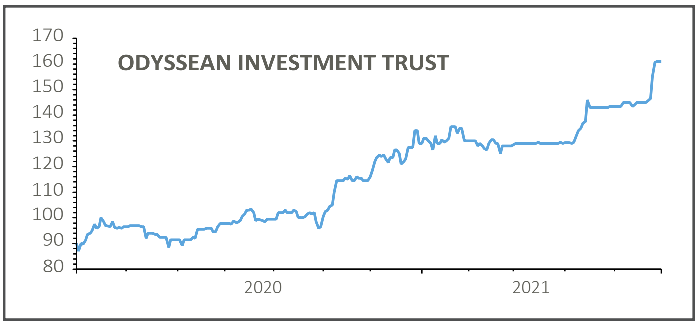
For the uninitiated, Odyssean is a concentrated portfolio of smaller companies whose managers Stuart Widdowson and Ed Wielechowski have proven expertise in picking takeover candidates.

Results (1 June) for the year to March 2021 showed a strong 53.4% net asset value (NAV) per share increase.

Since launch (May 2018) to March 2021, Odyssean's NAV per share has grown by 41.7%, more than double the return from the benchnark, a performance all the more impressive given it was delivered with an average net cash position in the portfolio of 25%.

This demonstrates the underlying strength of portfolio companies which are attractive to trade or private equity buyers. Takeover bids have driven a strong NAV performance since the start of the new financial year. Two recommended bids for **Spire Healthcare (SPI)** and **Vectura (VEC)** took the number of bid approaches for Odyssean's portfolio companies to six in the last 18 months, including completed deals for Consort Medical, Huntsworth and SDL.

Elementis (ELM) has recently rebuffed a bid approach, at a value reflecting 2.5 times the cost of Odyssean's initial investment.



SHARES SAYS:

Still a buy. [JC]

HILL & SMITH
(HILS) £15.34

Gain to date: 0.9%
Original entry point:
Buy at £15.20, 20 May 2021

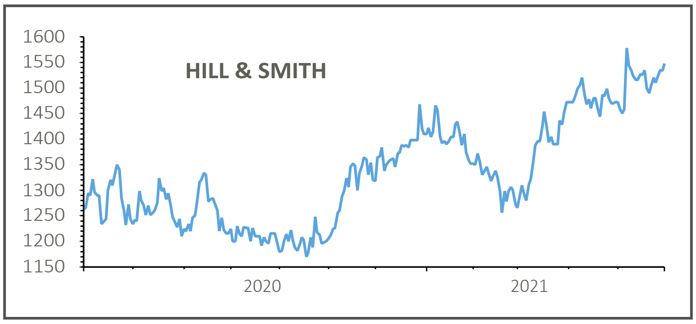
INFRASTRUCTURE EQUIPMENT FIRM **Hill & Smith (HILS)** revealed last week revenues in the first four months of the year were 10% above 2020 and were also ahead of 2019 levels.

The roads division was the main driver of the growth in turnover thanks to 'high levels of demand' in the US, a 'solid' performance in the UK and a 'robust' recovery in its international arm.

Meanwhile, the utilities division put in a strong performance, due to a 'good recovery' in demand for engineered pipe supports and reinforced composite products, and volumes in the galvanizing division were 'significantly higher' than 2020.

The firm also pointed to 'a strong recovery in operating profit', helped by the closure of a small loss-making unit in the UK, and said it had increased confidence in its full year earnings guidance.

Analysts at Jefferies believe the upbeat commentary and the prospect of major infrastructure spending to come in the US, could encourage a re-rating of the shares. 'The more we read the trading update, the more impressed we are', they add.



SHARES SAYS: ↗
There are signs the new chief executive has already begun the process of improving the quality of the portfolio, as investors had hoped. [IC]

Janus Henderson INVESTORS

LOWLAND: DOMESTIC UK MARKET UNDERVALUED AS HEADWINDS SUBSIDE

Laura Foll, co-fund manager, provides an update on the Lowland Investment Company. Laura explains the complete reversal in the detractors affecting the UK market and highlights how the portfolio's multi-cap approach affords the opportunity to take advantage of the undervalued UK domestic market.

Valuation - Metrics used to gauge a company's performance, financial health and expectations for future earnings e.g., price to earnings (P/E) ratio and return on equity (ROE).

Why GlaxoSmithKline could bid for Astra's vaccine

Glaxo's response to Covid has been one of the broadest in the industry with two potential treatments as well as multiple vaccine candidates

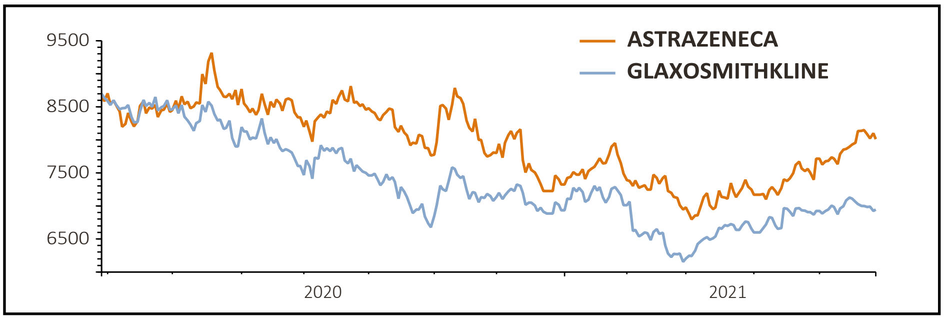
With **AstraZeneca (AZN)** grabbing all the Covid-19 headlines, sometimes for the wrong reasons, it's easy to forget that the UK's largest vaccine maker, **GlaxoSmithKline (GSK)** is also in the Covid vaccine race and has been collaborating with several companies.

And given AstraZeneca chief executive Pascal Soriot has said he hasn't decided what to do with its vaccine in the long term and that the company hasn't traditionally specialised in this area, the tantalising prospect of a blockbuster deal with Glaxo for its vaccines arm seems a realistic scenario.

In July 2020 the UK government secured access to 60 million doses of the Covid-19 vaccine GSK is already developing with French pharmaceutical firm Sanofi, which recently started the final phase III clinical trials.

Glaxo also agreed a $2.1 billion deal to produce 100 million doses for the US government. The results from the trial are expected by the fourth quarter of 2021. The two companies have said that if successful they will be able to produce more than a billion doses.

Glaxo is known for its adjuvant technology which enhances the immune response, potentially creating a stronger and longer lasting immunity.



It also means more doses can be produced from fewer ingredients and therefore the vaccine can be manufactured at scale. For its part Sanofi is contributing its S-protein Covid-19 antigen based on its recombinant DNA technology. (bringing together genetic material from different sources).

TECHNOLOGY PARTNERSHIPS

Glaxo's adjuvant technology is being used in partnerships with SK Bioscience of South Korea and Medicago of Canada, with the latter is now in late stage trials.

Glaxo has expanded its collaboration with CureVac of Germany to develop the next generation of mRNA Covid-19 vaccines which could address multiple variants in a single vaccine.

The Moderna and Pfizer vaccines are based on mRNA technology which creates the genetic blueprint of the virus, enabling the body to recognise the virus threat.

Glaxo is supporting the manufacture of up to a million doses of CureVac's first generation vaccine which is in late stage trials. In July 2020 Glaxo invested £130 million in CureVac, an investment which today is worth €1.38 billion, making Glaxo the third largest shareholder.

On 26 May Glaxo and Nasdaq listed Vir Biotechnology announced their Covid-19 antibody drug *sotrovimab* received emergency use approval from the US Food and Drug agency.

The treatment reduces the risk of hospitalisation and death by 85% in high risk adults and will be available in the US in coming weeks while the company is in discussions with other regulatory bodies.

Glaxo has fingers in many pies and could yet win the long game if its Covid-19 vaccine proves more effective against variants and provides longer lasting immunity.

By **Martin Gamble**
Senior Reporter

THE PRICE IS RIGHT

5 STOCKS THAT COULD WIN BIG

By **Martin Gamble** Senior Reporter

Everyone loves a bargain and in this article we have highlighted five shares that just look far too cheap relative to their prospects

There are many ways to define cheapness and so we have created five different screens using data provider Stockopedia designed to zero-in on the best candidates.

Contrary to popular perception, cheap shares aren't always boring mature businesses with zero growth prospects. In fact businesses in this category could represent 'value traps' with limited scope to shift the market's perception and thereby enjoy an uplift in valuation.

Investors looking for some growth excitement should check out our growth at a reasonable price screen and quality, growth, value and momentum screens in particular.

> ***'Contrary to popular perception, cheap shares aren't always boring mature businesses with zero growth prospects'***

VALUE AND MOMENTUM

TOP VALUE AND MOMENTUM SHARES

Name	Market cap (£ million)	Upgrade to next financial year's consensus forecast EPS in last month
Sylvania Platinum	314	34.1
Lsl Property Services	473	30.8
Vertu Motors	155	18.5
Ferrexpo	2691	16.3
Sureserve	**128**	**15.0**
Virgin Money Uk	2876	14.1
Royal Mail	5862	13.3
Marshall Motor Holdings	145	11.3
Glencore	40365	10.2
Drax	1764	8.5

Source: Stockopedia, Refinitiv. Data as at 26 May 2021.

Classically cheap shares are often out of favour and have poor price momentum, so by combining value and momentum, this screen reduces the risk of poor future performance.

It highlights those shares where investors have already started to appreciate the value on offer.

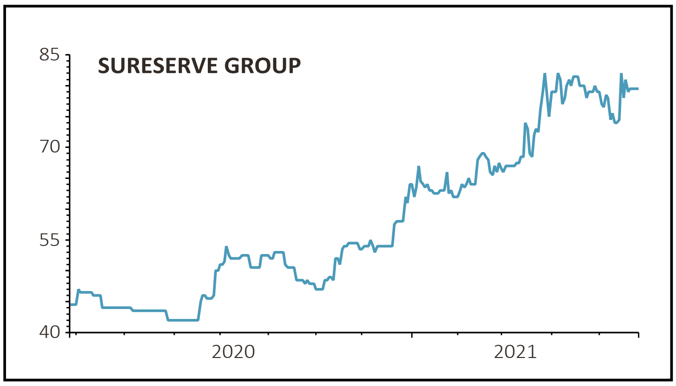
The value and momentum criteria are based on a composite of several metrics such as PE (price to earnings) ratio, dividend yield and the volume of analyst upgrades.

BUY

SURESERVE (SUR:AIM): 79P

If there is one thing investors have come to prize over the course of the last 12 months it is businesses with a high degree of earnings visibility.

Thanks to its status as a trusted supplier, and the non-discretionary nature of its compliance and energy services, **Sureserve (SUR:AIM)** has enjoyed a high level of regular, recurring income from its mainly public sector clients during the last year.



With regulatory drivers underpinning demand and customers extending their contracts as they emerge from lockdown, the firm now has an order book of over £370 million, meaning revenues are fully covered this year, more than 50% covered in 2022 and 25% covered in 2023, giving almost unparalleled medium-term visibility.

In the six months to the end of March, trading was well ahead of management expectations. 'We have more compliance tenders than ever before and we're winning half of them', says interim chief operating officer Peter Smith. Compliance accounts for over two thirds of Sureserve's revenues and represents planned and responsive maintenance, installation and repair services in the areas of gas, fire and electrical, water and air hygiene, and lifts.

Whereas early in the pandemic customers were tentatively adding one-year extensions, now they are asking for three or four-year contracts, and the firm is able to charge higher rates.

So, while revenues in compliance rose 7.6% in the first half, operating earnings jumped nearly 58% and the margin on sales was 7.4% against 5% a year earlier, a period which was barely impacted by Covid.

The energy services business, which accounts for less than a third of revenues, also won new contracts including a two-year extension of its existing smart metering deal with Scottish Power, but Covid restrictions meant the business did well to keep revenue flat.

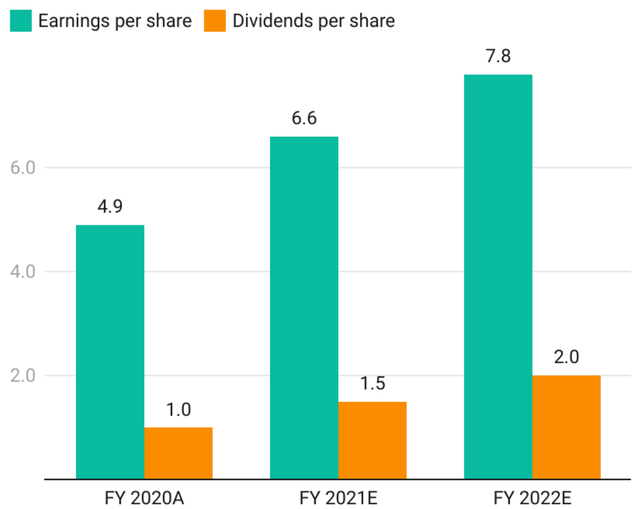
For Smith, energy services 'washed its face', and the work hasn't gone away, it's simply been deferred so the second half of the year should see an improvement in revenue and margins.

Thanks to the strength of its balance sheet and its cash flow generation, the firm is also on the look-out for growth opportunities, and it lucked out with the purchase of Derby-based gas services business Vinshire, which it picked up from administrators for just £200,000 and which has already generated half that amount in profit in the first half.

House broker Shore Capital has rushed through sales and earnings upgrades of 8% and 20% for the current year and 'significant' increases to forecasts for the following two years.

The analysts cite the firm's high revenue visibility thanks to long-term contracts, increased regulations on energy safety and government commitments to insulation, new energy sources such as heat pumps, and electric vehicle charging networks. (IC)

Sureserve strong earnings and dividend growth (p)



Source: Sureserve, Shore Capital • Created with Datawrapper

GROWTH AT REASONABLE PRICE

TOP GROWTH AT A REASONABLE PRICE SHARES

Name	Market cap (£ million)	Five-year compound annual growth rate in earnings per share (%)	Forecast PE
Sylvania Platinum	313	98.1	7.0
Acer Inc	2384	85.2	10.7
Ferrexpo	2606	74.1	5.8
Georgia Capital	301	59.8	3.5
Luceco	539	36.4	19.6
Rio Tinto	95600	36.1	12.0
Augean	261	23.1	16.7
Computacenter	**3271**	**22.1**	**19.8**
Md Medical Investments	449	19.7	11.8
Beximco Pharmaceuticals	364	18.3	9.5

Source: Stockopedia, Refinitiv. Data as at 26 May 2021.

The idea behind this approach is to find companies which are growing and have better than average returns on capital, but are still reasonably priced.

This leaves scope for investors to benefit from the double whammy of growth in the underlying business and an increase in the rating of the shares.

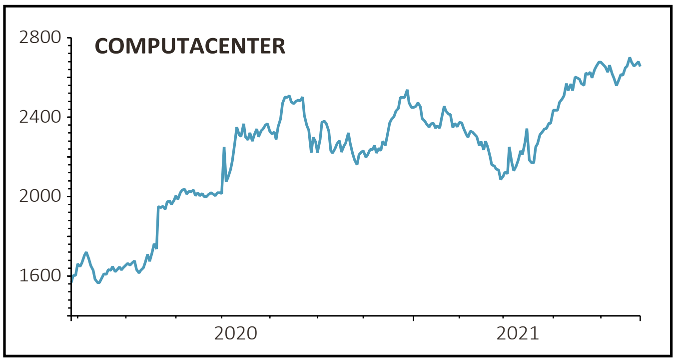
The metrics used include three and five-year earnings growth and PE ratios.

BUY

COMPUTACENTER (CCC) £26.80

In an era of unprecedented technological change there are thousands of organisations needing help with adaption and adoption, and **Computacenter (CCC)** is there to help.

This is a pan-European IT enterprise operator whose 16,000-odd staff annually ship more than 25 million products to something like 4.5 million end users, providing valuable advice, support and services before and after in 30 different languages.



The company has been part of the FTSE 250 index for most of the last 10 years and has been an astonishingly reliable investment for shareholders on both capital growth and income fronts. Brokers calculate that between 2006 and 2019 Computacenter handed back something like £350 million to shareholders in regular and special dividends, albeit having taken a short dividend break during the teeth of the Covid-19 outbreak.

This means that over the last decade the shares have provided investors with an average annual total return of 17.9%. That means that for every £1,000 invested in the shares in 2011, you would now have a little more than £4,400. By contrast, £1,000 put into a FTSE 100 tracker would today be worth approximately £1,752, according to our calculations based on Morningstar data.

Computacenter operates in three parts that help clients embrace technology to stay competitive, engage better with customers, improve access to information and services, bolster efficiency or simply trim costs. On the infrastructure side it supplies customers with the desktop PCs, tablets, smartphones and other devices on skinny profit margins.

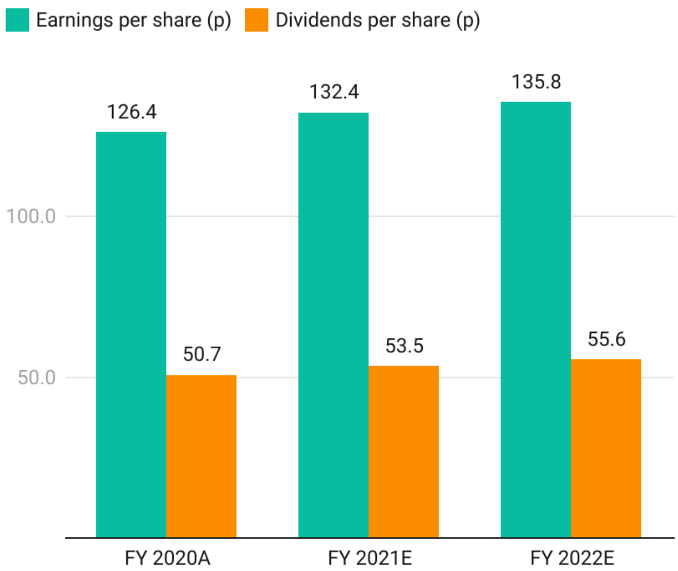
Professional services is where Computacenter experts consult and advise clients on a multitude of best-in-class software and applications, and resell what's right for them. We're talking about proper blue-chip venders, such as Microsoft, Apple, Oracle, Adobe, AWS, Cisco, Symantec and many more.

Managed services go further still, providing an entire outsourced IT solution, which means clients don't need to run their own large and expensive in-house IT teams. Computacenter effectively runs the IT show remotely on the client's behalf, with 24/7 support, advice and problem solving available and local software engineers on-call when needed.

It is a model that has worked for years thanks to steady growth, consistent profits and superb cash flows that feed into those reliable dividends. Investor returns resumed in October last year and the full year 2020 dividend of 50.7p per share was 37% up from its 2019 pre-pandemic payout.

We believe this sort of performance will continue into the medium, even longer term, and recent trading seems to back that view up, with guidance raised twice this year already. That makes the shares, on a 12-month rolling price to earnings ratio of less than 20 look very attractive. (SF)

Computacenter earnings and dividend growth



Source: Refinitiv • Created with Datawrapper

FREE CASH FLOW COWS

TOP FREE CASH FLOW SHARES

Name	Market cap (£ million)	Free cash flow/ long-term debt (%)
Acer Inc	2357	337
Gattaca	50	243
H & T	114	238
Steppe Cement	113	236
Dish Tv India	230	210
Charles Stanley	188	207
Aib	6025	205
Robert Walters	523	139
Stock Spirits	**547**	**88**
Halfords	767	68

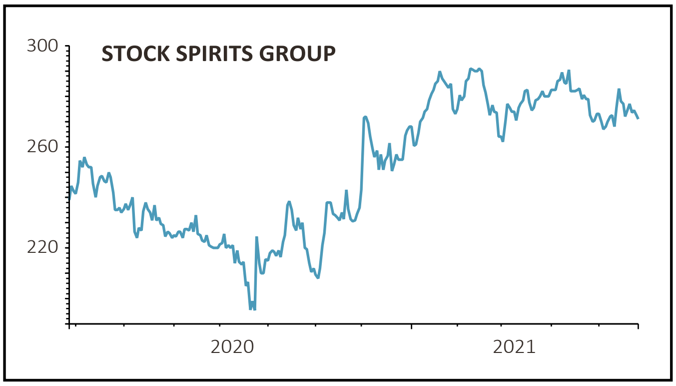
Source: Stockopedia, Refinitiv. Data as at 26 May 2021.

This screen tries to find stable, cash rich companies where the free cash flow is growing. Free cash flow measures the cash generated by a company after all expenses and investments have been deducted.

Cash cow companies tend to be larger businesses with strong market positions that throw off lots of cash that can be used to reinvest in the business or pay progressive dividends.

STOCK SPIRITS (STCK) 272P

You should buy **Stock Spirits (STCK)**, the central European branded spirits producer trading at an unwarranted discount to the wider European beverages sector. Robustly cash generative and with a record of progressive ordinary and special dividends, Stock Spirits offer a play on the premiumisation trend across central and Eastern Europe and Italy and might even have appealed to the father of value investing. Stockopedia's Benjamin Graham Cash Flow Screen reveals free cash flow for the last twelve months covers 88% of Stock's long-term debt, which implies it could pay off its debt in less than two years.



Led by Polish CEO Mirek Stachowicz, Stock Spirits is the spirits and liqueurs business behind well-established brands including Żołdkowa, *Lubelska*, *Božkov* and *Stock Prestige*, not to mention local leaders *Stock 84 brandy*, *Fernet Stock bitters*, *Keglevich* and *Limoncè*.

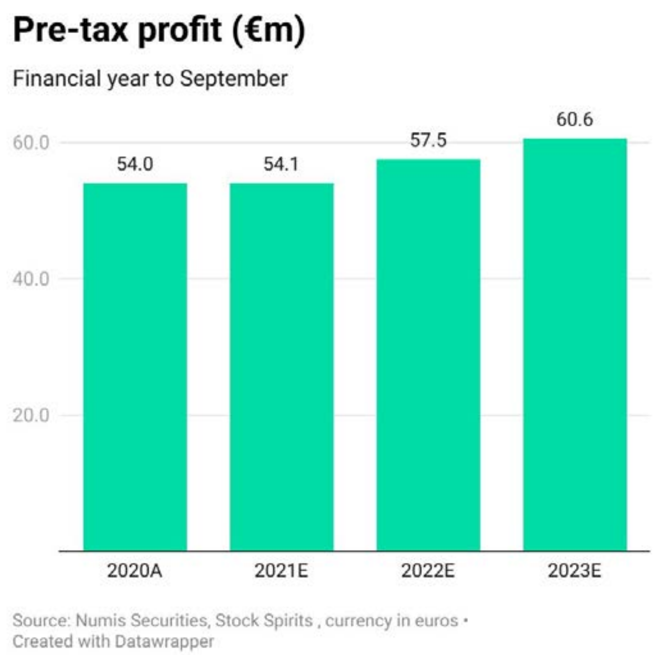
Highly resilient and blessed with brand strength and pricing power, the £549 million cap has navigated pandemic restrictions thanks to limited exposure to the on-trade and continued strong performance in the off-trade, and should cope comfortably with the introduction of additional excise via Poland's Small Format Tax.

Despite Covid-related headwinds, results for the half to March 2021 (12 May) revealed total revenue down just 3% to €183.4 million with earnings bubbling higher in both Poland and Italy. This more than compensated for the decline in the Czech Republic, the territory most affected by on-trade restrictions and heightened local competition. Stock Spirits also achieved 10.6% growth in the Polish vodka market, outpacing market growth of 6.8% and achieving a five-year market share high of 30.7%.

A 7.6% increase in the dividend to 2.98 cents demonstrated management's confidence, while Stock Spirits' net debt-to-earnings ratio remains a modest 0.55 times and its €200 million financing facilities have been extended out to May 2024. This gives the company plenty of firepower for further earnings enhancing acquisitions.

Shore Capital argues Stocks' 'strong local market positions, capacity to deliver organic annual revenue growth of circa 5-6% per annum and robust cash generation merit a much narrower discount to peers' and also sees 'optionality' in the balance sheet, 'where successfully delivering on its M&A strategy would be positive to the valuation through accelerated earnings and further diversification of the income stream'.

Based on Numis' year to September 2022 forecasts - equity free cash flow of €36.3 million (£31.4 million), earnings per share of 22.3 cent (19.3p) and a 10.5 cent dividend (9.1p) – we think Stock Spirits' qualities are underrated on a free cash flow yield of 5.7%, a prospective price-to-earnings ratio of 14.1 and a 3.3% dividend yield. (JC)



DIVIDEND YIELD AND PRICE TO BOOK

TOP DIVIDEND YIELD AND PRICE TO BOOK SHARES

Name	Forecast dividend yield	Price to tangible book value
Newriver Reit	12.2	0.6
Morses Club	10.2	1.7
M&g	7.9	1.5
Taylor Wimpey	7.3	1.5
Lancashire Holdings	7.0	1.6
Secure Trust Bank	6.4	0.8
Aviva	6.2	1.1
Impact Healthcare Reit	6.1	1.1
Hargreaves Services	5.6	1.0
Redde Northgate	**5.3**	**1.6**

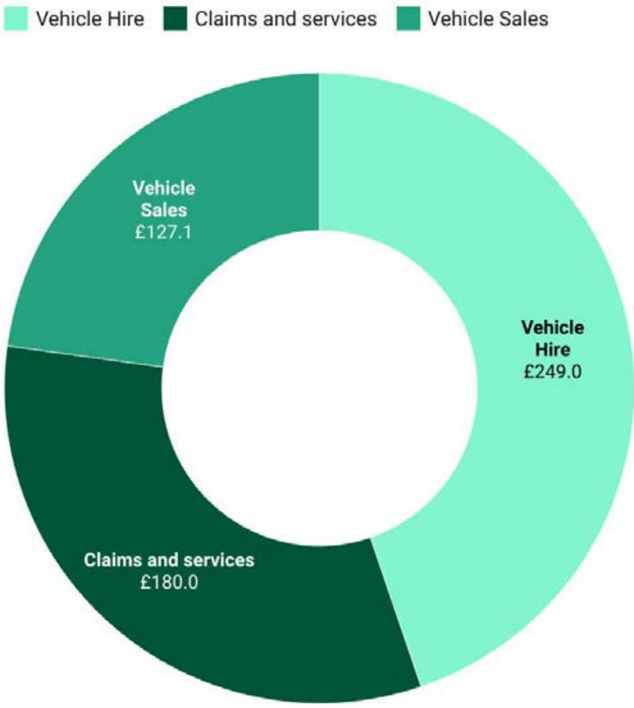
Source: Stockopedia, Refinitiv. Data as at 26 May 2021.

This screen might appeal to investors trying to find good income and value. It looks for shares with a forecast dividend yield above 4%, which is at least 1.5 times covered by earnings.

We have combined this attribute with price to tangible book value, looking to isolate those shares trading around the 1.5 times mark or below. Tangible book value represents the hard asset backing of a company and is the theoretical value shareholders would receive if the business was liquidated.

REDDE NORTHGATE (REDD) 382P

Redde Northgate – Revenue breakdown (£ million)



Source: Redde Northgate. Six-month period to 31 October 2020 • Created with Datawrapper

Van hire and legal services firm **Redde Northgate (REDD)** offers an attractive dividend yield of 3.9% and trades on a price to earnings ratio of 12.9 based on Numis' 2021 forecasts.

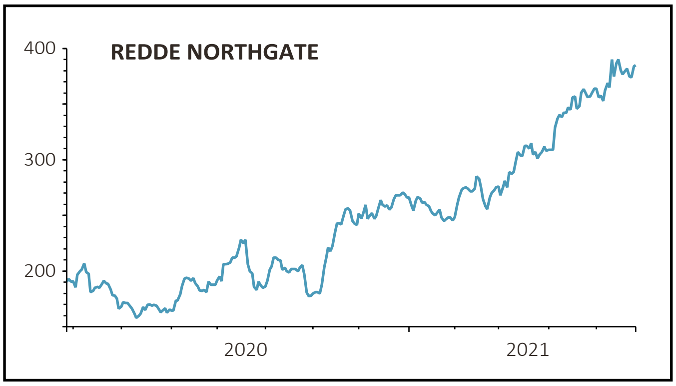
We think this rating undervalues the potential for growth in earnings and cash flow driven by economic recovery, robust van rental demand and continued progress in its strategy of offering a broad-based mobility solutions business.

It scores well as a cheap stock based on price to tangible book value (1.6), rolling two-year yield (5.3%) and an 86 'stock rank' rating from Stockopedia. The latter is a score based on value, quality and momentum factors, with 0 the worst and 100 the best.

Updated market commentary when Redde Northgate posts its full year numbers on

7 July could act as a near-term catalyst to unlock this value.

The group supplies, services, repairs and recovers light vans for a large customer base which includes large e-commerce operators all the way down to individual traders, as well as providing ancillary accident management and legal services.



Formed through an all-share merger between two separate businesses – Northgate and Redde – which completed in February 2020, the integration process appears to be going well.

On 12 May the group revealed synergies from the merger of £14.6 million against an April 2022 target of £15 million, and costs associated with achieving the synergies of just £2.5 million or 75% less than budgeted.

It has been a beneficiary of strong demand given the accelerated shift into online shopping as a result of the pandemic. With a fleet comprising upwards of 110,000 owner vehicles and more than 500,000 managed vehicles in the UK, Ireland and Spain the company has had the scale to respond quickly to the surge in demand.

In the 12 months to April 2021 the number of vehicles on hire was up 11%. The company also profited from a strong used van market which helped support higher selling prices.

Recent chip shortages affecting the automotive industry could drive demand for used vehicles yet higher in 2021.

The accident management business was affected by lower volumes of traffic amid Covid restrictions but this business is likely to see a recovery as the economy reopens.

Redde Northgate has flagged strong cash generation of late which as well as underpinning dividend payments should allow the company to build on the recent acquisition of 2,000 vehicles from a Scottish vehicle rental business for £25 million.

The company is also investing in more electric vehicles with a plan for this part of the fleet to double in size in the short term.

QUALITY, VALUE, GROWTH AND MOMENTUM

TOP QUALITY, VALUE, GROWTH, MOMENTUM SHARES

Name	Market cap (£ million)
BHP	104,626
Rio Tinto	95,600
Anglo American	42,025
National Grid	33,668
Barclays	30,527
Ashtead	22,706
Burberry	8,474
Kingfisher	7,671
Barratt Developments	7,644
Johnson Matthey	**6,156**

Source: Stockopedia, Refinitiv. Data as at 26 May 2021.

This screen looks for shares which are good quality, cheap and with improving growth. The idea is to get exposure to several positive factors which are known to drive share price performance.

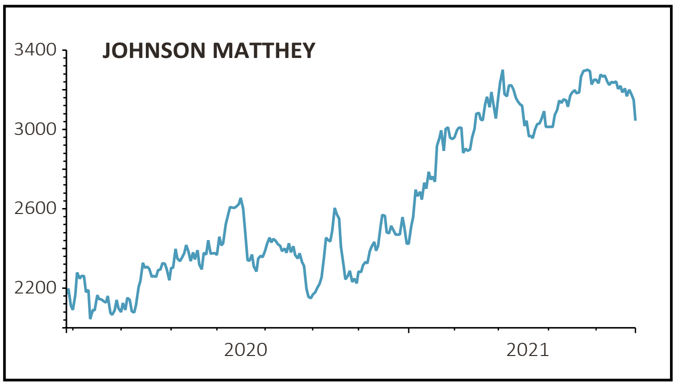
The qualifying companies have the highest combined exposure to these factors according to Stockopedia. In the table we have ranked companies by market cap but all of the names included are in the top 10% of UK stocks screened on these metrics.

BUY

JOHNSON MATTHEY (JMAT) £31.28

FTSE 100 chemicals firm **Johnson Matthey (JMAT)** is a stock that has long held promise, an innovative industrial company at the cutting edge of science that has the scale to match its ambitions.

But with hopes continually raised only for progress to take longer than investors, perhaps more so than the company itself, had anticipated, the stock has traded sideways for the last five years and sits well inside the value bucket with a 12-month forward price-to-earnings ratio of 14.5 times.



The firm currently makes most of its money from catalytic converters in cars – it's estimated one in three cars on the road worldwide has a Johnson Matthey catalytic converter.

Two areas in particular mark the company out as a potentially very exciting growth stock, and the company has finally made sufficient progress that now is the time to buy before the catalysts that could drive a rerating of the shares are realised.

One is the customised electric vehicle battery it is developing – enhanced lithium nickel oxide, or eLNO. This is the area the market is most focused on with Johnson Matthey, as the firm reacts to what could over time be structurally declining demand for its catalytic converters as the world transitions to electric vehicles.

The company has previously told *Shares* it has been consistently getting 'really good feedback' on eLNO from its potential customers, typically the big car manufacturers but also others outside the auto industry. In its full year results to 31 March 2021, the company said it expects to sign its first automotive contract in 2023, for commercial production in 2024.

Meanwhile the firm is also developing fuel cells and is seeing rapid growth with the product, with sales up 20% in the past year. It supplies key fuel cell components for a range of automotive, non-automotive and stationary applications, and has partnerships in place with a diverse range of manufacturers.

Another area of promise for Johnson Matthey is hydrogen. The firm is developing green hydrogen, building on its fuel cell technology, as well as its expertise when it comes to platinum group metals.

In a trading update in April 2020 Johnson Matthey said it was making 'fast progress' and had received 'positive feedback' from testing with leading electrolyser manufacturers.
It also announced new manufacturing capacity for products used in green hydrogen production, with the ability to scale to multi-gigawatt capacity 'as the market continues its anticipated growth'.

Based on Johnson Matthey's market size estimates and a 15% market share across its relevant technologies, analysts at Morningstar think sales in its hydrogen and fuel cell businesses could reach around £850 million by 2030, up from £100 million in 2021. (YF)

JOHNSON MATTHEY FINANCIALS SNAPSHOT

Pre-tax profit	£238m
Earnings per share	106.5p
Dividend 2020	55.6p
Dividend 2021	70p
Dividend 2022E	74.2p

Source: Johnson Matthey annual results to 31 March 2021, Stockopedia

Flexible investment trusts can protect you against inflation

Assets like gold, commodities, property and bonds can aid the preservation of capital and income

Moving up and down is hard-wired into the stock market but 2021 has, so far, been particularly volatile. Year-to-date the UK's benchmark FTSE 100 index has on four occasions slumped around 2.5% in a single day, while twice ripping higher by similar-sized advances. Moves of more than 1% in either direction have become almost routine.

Most readers will know that the threat of surging inflation has held the key to these sudden jolts in stock markets, we have covered the topic multiple times in *Shares*.

Day traders may chase these short, sharp spikes up and down but most investors sensibly avoid trying to second guess the market's mood. However it doesn't hurt to equip your portfolio with the right tools to protect against volatility. This is where flexible investment trusts can really add value, typically putting your money to work across many different asset classes – bonds, gold, property say, in markets all over the world in one simple package.

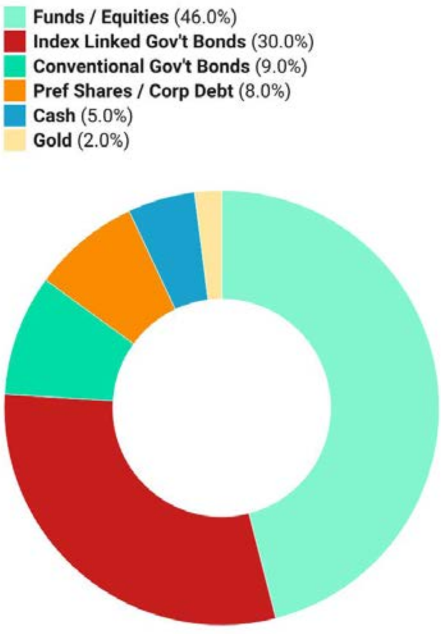
In much the same way that open-ended multi-asset funds work, the idea of a flexible investment trust is to give you instant diversification by blending together different asset classes with a view to improving performance and managing risk.

Whereas most investment trusts are largely focused on equities, a flexible investment trust can hold substantial investments in things like corporate and government bonds, index-linked cash vehicles, illiquid income assets and even other funds, providing significant shelter for your money during periods of extreme unpredictability and protection for any income you may rely on.

'Assets like commercial property, infrastructure and renewable energy can all offer a higher level of income,' says the AIC (Association of Investment), the investment trusts industry body.

Take the flexible **Capital Gearing Trust (CGT)**. It has the twin objective of preserving shareholders' real wealth and achieving absolute total returns over the medium to longer term so its portfolio net is cast far and wide to provide returns and protection for shareholders.

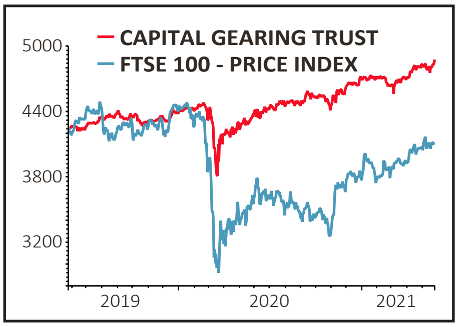
Capital Gearing – asset allocation



Source: Capital Gearing • Created with Datawrapper

The trust has less than 50% of its portfolio in funds and individual equities. About a quarter of assets are UK based and around 5% is in cash.

Compare that with, say, **Lindsell Train Investment Trust (LTI)**, a popular choice with retail investors that mainly buys shares – 93.1% of assets are currently in stocks, based on AIC data.



This is spread over companies large and small and from all over the world, including many well-known names, like **London Stock Exchange (LSE)**, consumer products groups **Diageo (DGE)** and **Unilever (ULVR)**, plus Japanese computer games designer Nintendo and PayPal, the digital payments firm.

From a performance perspective, Lindsell Train wins hands down when markets have been relatively stable. However, in the year between May 2019 and 2020 it would have lost an investor a third of their money, mainly because of the huge uncertainty created by the Covid-19 outbreak. By contrast, over that same year period, Capital Gearing would not only have avoided losing you money, it would have made 3% for investors, continuing to outstrip the commensurate level of inflation.

That said, Capital Gearing's annual average total return of 7.85% over the past five years falls far short of Lindsell Train's 21.1%.

Craig Richardson, who is involved in running a small private fund, starting properly looking at investment trusts in 2018 when he decided to consolidate a company pension scheme into a SIPP that he could self-manage. Since then he has become a big fan of closed-end funds, and particularly of flexible investment trusts for both his SIPP and ISA.

Other examples of flexible trusts beyond Capital Gearing include **RIT Capital Partners (RCP)** and **Caledonia Investments (CLDN)**, both originating from private family wealth fund, **Personal Assets Trust (PAT)** and **BMO Managed Portfolio Growth Trust (BMPG)**, 'an investment trust that invests largely in other investment trusts,' Richardson points out.

'Investment companies can hold back some income in good times to pay it out in leaner ones'

For illustration, these five flexible trusts (if we include Capital Gearing) have combined for an average annual total return of 24.8% over the past three years, according to Winterflood data, smashing the dismal 0.68% equivalent performance of the FTSE 100 over the same time frame.

Thanks to their structure flexible trusts (and the wider investment trust universe) were useful for income seekers in 2020 when many corporate dividends were axed or postponed. Companies battening down their balance sheet hatches as the pandemic broke and they went into capital preservation overdrive.

During such times of stress, trusts are able to call on their reserves to protect investors from the worst effects of those dividend cuts.

'Investment companies can hold back some income in good times to pay it out in leaner ones,' says the AIC. 'This means that investment companies can maintain or increase their dividends even at times when the companies they invest in are reducing theirs.'

For all the reasons discussed above flexible investment trusts could have a place as part of a retail investor's overall portfolio, providing capital and income protection during a period when inflation risks and the continuing course of the Covid-19 pandemic are creating considerable uncertainty.

By **Steven Frazer**
News Editor

HOW FLEXIBLE TRUSTS HAVE PERFORMED

	Total return 3 years %	Total return 5 years %
Aberdeen Diversified Income & Growth	-8	1
BMO Managed Portfolio Growth	31	85
Caledonia Investments	19	42
Capital Gearing Trust	24	44
JPM Multi-Asset Trust Growth & Income	19	n/a
JZ Capital Partners	-74	-67
Miton Global Opportunities	27	112
Momentum Multi-Asset Value Trust	19	52
New Star	25	79
Personal Assets	23	35
RIT Capital Partners	27	63
Ruffer Investment Company	27	47
Average	**12**	**44**
FTSE All Share	**4**	**42**

Source: Winterflood

Some of the best funds come in small packages

Collectives with a lower level of assets can be more agile and flexible than their larger counterparts

Sometimes investors ignore funds which have accumulated a limited amount of funds from investors, often because they are seen as not having much of a future due to a lack of scale or just because they don't have the marketing budgets of the big asset managers.

However, ignoring these smaller funds could mean neglecting some potentially interesting investment options.

Fund	1yr perf	3yr perf	5yr perf
TM CRUX UK Special Situations	64%	n/a	n/a
CFP SDL Free Spirit Acc	35%	51%	n/a
MFM UK Primary Opportunities	34%	20%	63%
Benchmark: IA UK All Companies	**31%**	**10%**	**43%**
Heptagon European Focus Equity	21%	53%	94%
Benchmark: IA Europe Including UK	**28%**	**24%**	**65%**
MI Chelverton European Select	50%	36%	n/a
Benchmark: IA Europe Excluding UK	**31%**	**25%**	**74%**

Source: FE Fundinfo, 27 May 2021
All funds and indices measured in GBP

VICTIMS OF SUCCESS

While we are long-term admirers of fund management 'legends' who have built multi billion-pound businesses, like Terry Smith and Nick Train, one of the disadvantages of running enormous amounts of money is the inability to invest in smaller companies.

Quite simply, if you run a fund managing £1 billion or more, investing anything less than 1% or 2% (ie £10 million or £20 million), in an individual stock isn't going to 'move the needle' in performance terms unless that stock is going to double.

That inevitably limits the size of company you as a manager can invest in, as most funds have rules on the size of holdings meaning typically they can't own more than say 5% of a company's outstanding equity.

Anyone looking to invest £10 million to £20 million in a single stock is therefore likely to be prohibited from investing in companies with a market cap below say £400 million.

> **Rather than its absolute size - a better measure of how a fund is doing can be the trajectory assets are heading in**

Hence Smith set up **Smithson (SSON)** to invest in 'small- and mid-cap investments that have superior operating numbers'.

Meanwhile, liquidity rules typically mean large funds can't buy anything which doesn't turn over the value of its holding several times a day in the secondary market. In practice, that could mean it is limited to owning stocks with a market cap of several billion pounds.

SMALL-CAP FACTOR

Not only do funds with lower assets under management have more flexibility in what they can invest in, smaller companies have historically outperformed larger companies because they grow their earnings faster, so a higher exposure to small cap stocks should generate outperformance.

Also, smaller listed businesses tend to be less well-researched than large caps, so in theory there should be more 'undiscovered' opportunities. On the flipside small caps can be harder to deal in and prices can be more volatile.

Just as with larger funds, there are different strategies among smaller funds, ranging from quality growth to value and momentum. Sometimes managers who have established track records elsewhere can be found managing less established funds. Below we look at five examples of funds with relatively limited assets.

UK-ONLY

TM Crux UK Special Situations Fund (BG5Q5X2)

Market cap: £96 million

Manager: Richard Penny

As its name suggests, the fund sets out to find stocks which due to 'special' circumstances the manager believes are mispriced.

This could mean a company's shares are down in the dumps because investors have been disappointed and lost confidence after the latest trading update, but the manager sees upside potential beyond the short term.

On the other hand it could be that the market has failed to accurately price in a company's high underlying growth potential.

Aside from a low price, Penny looks for good management teams, usually with their own money invested in the business; low levels of debt; broad geographic exposure; and the potential to generate sustainably high returns on capital.

'The UK stock market seems to be going through a "textbook" recovery progression' says Penny, a seasoned manager who had a long spell at Legal & General Investment Management. '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.'

The fund has racked up a good performance in stocks like **Rio Tinto (RIO)** and **Bellway (BWY)** but recent outperformance has come through holdings in much smaller names like **Diurnal (DIU:AIM)**, **Ebiquity (EBQ:AIM)** and **Escape Hunt (ESC:AIM)**.

MFM UK Primary Opportunities Fund (B905T77)

Market cap: £27 million

Manager: Oliver Brown

The fund takes the unusual but straightforward investment approach of 'only buying good quality companies when there is a natural, primary opportunity to do so', such as an initial public offering or a placing.

'This allows us to typically buy at a discount to the market price, adding alpha and protecting the downside,' says the manager.

Thanks to a strong market for initial offerings and placings, the fund had a busy start to 2021. As well as adding new investments in **Arena Events (ARE:AIM)**, **Barclays (BARC)**, **Chrysalis (CHRY)** and **Duke Royalty (DUKE:AIM)**, the firm participated in the flotations of **MusicMagpie (MMAG)** and **PensionBee (PBEE)**.

The UK's successful vaccination programme, together with a positive first quarter earnings season with many companies raising their outlook, meant markets performed well.

In April the fund rose for a sixth consecutive month, returning 5.4% against 4.3% for the FTSE All Share and 4.2% for the Investment Association's UK All Companies sector benchmark.

Inevitably, the fund's strategy means a higher than average level of turnover as stocks which have performed well are sold to fund new investments. Sales in April included **Accrol (ACRL:AIM)**, **GlaxoSmithKline (GSK)**, **The Hut Group (THG)** and **Watches of Switzerland (WOSG)**.

CFP SDL Free Spirit Fund (BYYQC27)

Assets: £98 million

Managers: Andrew Vaughan, Keith Ashworth-Lord

The fund applies what it calls the methodology of Business Perspective Investing, picking stocks according to their 'strong customer proposition, with pricing power and growth potential, with sustainability assessed by reference to identifiable economic moats'.

It is an approach co-manager Keith Ashworth-Lord has pursued with some success at the much larger fund – **CFP SDL UK Buffettology (BF0LDZ3)**.

To be selected for the portfolio, stocks must have high returns on capital employed, sound balance sheets, strong conversion of earnings to free cash flow, and 'rational allocation of capital by management', a factor which can trip up many firms.

The fund outperformed the market and its peer group in the year to the end of February, racking up a 20% gain compared with a 5% rise in the FTSE All Share and an 8.5% rise in the IA's UK All Companies Sector.

The fund had limited direct exposure to travel and hospitality or to the 'troublesome' oil and gas or banking sectors. 'Our perennial preference for non-consumer facing businesses with locked-in recurring revenues and strong balance sheets came into its own, without having to reposition the portfolio', says Vaughan.

However, growth investing 'is about more than just protecting the downside', he adds. Portfolio companies need to keep investing in their businesses to strengthen their competitive positions and drive future returns on capital.

'These are the traits we focus on rather than distractions such as the level of the wider market or whether a so-called 'value' style might underperform or outperform relative to a 'growth' style in the near term.'

PAN-EUROPEAN

Heptagon European Equity Focus Fund (BPT3468)

Assets: £60 million

Manager: Christian Diebitsch

The fund employs a high-conviction, stock-specific investment strategy to identify a small number of companies with focused business models which demonstrate genuinely sustainable long-term growth prospects and can be bought below their intrinsic valuations.

The fund purposely avoids areas such as commodities, fossil fuels, gambling, tobacco and weapons, and is actively engaged in fostering good ESG practices among companies whose shares it owns. It has consistently scored highly on ESG criteria with ratings agencies such as Morningstar and MSCI.

In contrast to the other funds covered, the manager favours large-cap stocks with ample liquidity, and as well as UK holdings such as **Diageo (DGE)** and **Serco (SRP)**, many of its European holdings will be familiar to UK investors, including German sportswear maker Adidas, Dutch chipmaker ASML, French cosmetics giant L'Oreal and Danish insulin-maker Novo Nordisk.

The advantage of this is that, as the fund grows in size it doesn't need to change style or strategy as the stocks it owns are liquid enough to cope with much bigger position sizes, meaning it is scalable.

The majority of the fund's holdings beat expectations in the first quarter, leading to upgrades and demonstrating what the manager calls the 'sales and earnings power' of the portfolio.

'It goes to show that the investment community generally underestimates companies' ability to adjust to changes in business conditions, as in the current case by converting their operations and business models to a digital format and by embracing e-commerce' he adds.

EUROPE EX-UK

MI Chelverton European Select Fund (BFNL2P3)

Assets: £44 million

Manager: Dale Robertson, Gareth Rudd

The fund invests in companies across Europe, excluding the UK, down to a market cap of €50 million, which it believes are undervalued by the market and which offer what it calls a 'safety buffer' should the market correct.

The managers argue that the traditional 'value investing' approach, which relies on mean reversion, is no longer applicable given the pace of technological change and the emergence of 'disruptors' in many businesses.

Instead of looking at earnings, they focus on analysing a company's free cash flow, cash conversion, working capital and fixed capital intensity. In order to avoid 'value traps', they steer clear of companies with high levels of net debt and the portfolio as a whole tends to have a much healthier credit profile than the market.

The fund has a large weighting in technology and industrial stocks, but few investors are likely to recognize many of the holdings as they are typically small-cap and highly specialized.

In fact, aside from a handful of mega-cap stocks such as Total and Unilever, most of the holdings will be completely foreign to UK investors, such as lead holding Caverion, a Finnish building systems provider, and second-largest holding, Belgian industrial insulation manufacturer Recticel.

Disclaimer: The author (Ian Conway) owns shares in Heptagon European Equity Focus Fund.

By **Ian Conway**
Senior Reporter

How to buy foreign shares and the key details you need

We run through costs, tax issues, market opening hours and more

Many investors only look at the UK stock market for opportunities, but in doing so they would be missing out from a much bigger pool of interesting companies listed on overseas markets.

Some of the world's leading companies trade on stock markets outside of the UK, including retail giant Amazon, German carmaker Volkswagen, Swiss food producer Nestle and US consumer electronics giant Apple.

Most mainstream investment platforms offer the ability to buy and sell shares that trade on overseas markets and dealing costs have reduced materially over the past decade or more.

There are some key points to consider when you are buying and selling foreign shares, which we discuss in this article.

COST AND CURRENCY CONSIDERATIONS

You must consider the impact that currency movements can have on your investment returns when buying overseas-listed stocks.

Foreign exchange costs and how they are applied vary between investment platforms. Typically, conversions into the local currency are done on a deal-by-deal basis and when you look to trade an overseas stock on a UK platform your price will be quoted in sterling. Dividends are also converted into sterling when they are received.

As with any exchange of currency a charge is incurred when converting from one to another. Depending on the platform provider, some foreign investments may only be possible to trade over the phone which typically comes with much higher costs than trading online – occasionally three times as much.

Having the ability to trade international stocks online is largely a function of whether they are available as CDIs which stands for Crest Depository Interests. In effect these are UK securities which represent an underlying interest in an overseas share. You may see some stocks with CDI in their name.

Some markets, such as India, are very difficult for UK investors to trade due to a lack of liquidity or because there are restrictions on foreign ownership. Funds and exchange-traded funds can be an alternative way of gaining access to equities in these countries.

The extent to which charges matter to you will depend on whether you're planning to hold stocks for the long-term or looking to trade in and out of them frequently.

It is also worth remembering you are at the mercy of fluctuations in exchange rates. A fall in sterling relative to other currencies would increase the value of your international holdings when they are converted back into pounds but if the UK's currency rallies their worth to you will be negatively impacted.

TAXES AND DIVIDENDS

Overseas shares can be held in an ISA or SIPP (self-invested personal pension) if they trade on an 'HMRC recognised exchange'. You can find a full list here.

Before investing in US shares, you will need to complete a W-8BEN form, which you can normally do online. Tax treaty arrangements between the US and UK mean that the usual 30% withholding tax on US dividends is halved to 15% by completing this form.

A W-8BEN form is not required for US investments held within a SIPP as the relevant US authority, the IRS, recognises SIPPs as a qualifying pension scheme and all qualifying US dividends and interest are automatically paid free of any withholding tax.

There is a Canadian equivalent, the NR301 form, which cuts withholding tax on Canadian shares from 25% to 15%. Just as with US shares, Canadian shares held in a SIPP are not subject to withholding taxes. Most investment platforms do not reclaim withholding tax on income from any other foreign countries.

Like the stamp duty paid on UK shares, there are government levies in some territories on share purchases and additional charges associated with local stock exchanges. These will be shown on the contract note you receive from your platform after completing a trade.

WHAT ARE ADRS AND GDRS?

It is possible to gain access to other markets through the US with some non-US firms tradeable through ADRs (American depository receipts). These are certificates that represent shares in an overseas company.

A bank buys shares, holds them in a depositary, and sells the receipt to an investor typically in another currency. Generally, each ADR will contain more than one share per depositary receipt.

The UK market has a similar version called a GDR or global depositary receipt.

A UK investor might find it easier to buy and sell US-listed ADRs in Chinese e-commerce giant Alibaba than to invest in its China-listed stock, for example.

There are some UK-listed stocks which have dual listings overseas, such as **AstraZeneca (AZN)** in the US or **Unilever (ULVR)** in the Netherlands. In these examples, UK investors may find it easier and cheaper to trade the UK shares than their overseas-listed counterparts.

Examples of big companies whose shares trade on overseas markets

Company	Country
Apple	US
Amazon	US
Tencent	China
Alibaba	China
SoftBank	Japan
Samsung Electronics	South Korea
LVMH	France
ASML	Netherlands
Toyota Motor	Japan
Coca-Cola Co	US
Pfizer	US
Siemens	Germany

Source: Shares

UNDERSTANDING THE IMPACT OF FX CHARGES AND DIVIDEND TAXES

If you bought £500 worth of shares in US e-commerce platform Ebay and paid a typical £10 dealing charge and 1% foreign exchange charge, £15 or 3% of the overall value of your investment would go on dealing costs.

The charge on converting your dividend into sterling might be around half the 1% forex costs paid when purchasing the shares. If you factor in a 15% withholding tax, the 18 cents dividend per share announced in Ebay's 2021 first quarter numbers would come to you as roughly 15 cents per share once the charges and taxes had been applied.

Opening times of selected markets in UK GMT

Country	Opening time
Germany	8am - 4.30pm
US	2.30pm - 9.00pm
Canada	2.30pm - 9.00pm
Australia	12.00am - 6.00am
Japan	12.00am - 6.00am
Hong Kong	1.30am - 8.00am
Shanghai	1.30am - 7.00am

Source: Local exchanges

WHEN ARE OVERSEAS MARKETS OPEN FOR BUSINESS?

Another consideration with trading overseas stocks is the different time zones involved.

This is not a significant issue with the European exchanges, most of which open at a broadly similar time to the London market.

The North American markets do not represent too much of a problem either as they close at 9pm UK time. On the face of it though, active trading on the stock exchanges in the Asia-Pacific region is likely to remain the preserve of insomniacs.

Time zones are not an insurmountable problem as some brokers allow you to place orders outside of an exchange's normal hours of trading. In addition, you can often place a 'limit order' to purchase the shares at a specified price when the market is open.

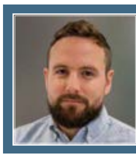
You should also consider that international markets may be open on UK bank holidays (when trading in London is paused) and countries may have their own public holidays which see local exchanges closed.

GETTING THE INFORMATION

It is potentially harder to get the same level of information on overseas-listed companies as it is for UK stocks.

The internet can help, and price information can be found at sites such as finance.yahoo.com and www.google.com/finance. In addition, most large foreign-listed companies have websites in English offering news updates and the latest financial reports.

But transparency is a potential issue with smaller companies, even though most of the markets available to trade in the UK have good levels of disclosure.



By **Tom Sieber**
Deputy Editor

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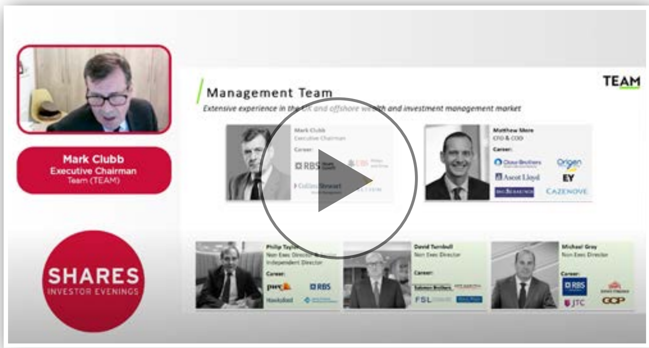
James Hickman, CCO

Equals Group is a part of the financial service sector in the United Kingdom. The company's core business is the provision of foreign exchange payment services for individuals and corporates.

Jadestone Energy (JSE)
Paul Blakeley, President and CEO

Jadestone Energy is an independent oil and gas production and development company focused on the Asia-Pacific region. It owns interests in the Montara project and the Stag oilfield, offshore Western Australia.



Team (TEAM)
Mark Clubb, Executive Chairman

Team is a specialist, investment-led active fund manager providing discretionary and advisory portfolio management services to private clients, trusts, and charities.

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Managers vs machines – are active funds worth the extra cost?

We unpick the performance of trackers versus actively managed products

One of the biggest investment trends of the past decade has been the rise of passive funds. These funds mechanically track an index, rather than trying to beat it by selecting certain stocks.

Their simple objective, combined with low charges, has provided serious competition to active managers, and these passive funds now make up around £1 of every £5 held by UK investors.

To find out how active managers have fared against the machine-like strategy of index trackers, we looked at performance across the three biggest fund sectors over the past 10 years, to see just how many active funds outperformed their passive peers. The results can be seen in the table.

The performance figures show returns in the past 10 years have been all about where you put your money, rather than who you invested with.

The US stock market has been the place to be, and that's reflected in the strong absolute performance of active funds investing across the pond, and global active funds too, because the US now makes up such a large part of the investable international universe.

It's simply been better to be invested in a poorly performing US or global fund (bottom quartile performance), than a UK high flyer (top quartile performance).

However active managers as a whole have not thrived in the US and Global sectors, and only a relatively small proportion have beaten a typical index tracker, 34% of funds in the Global sector and 23% in the US.

In contrast, the UK has been a bright spot for active management, with more than eight in 10 active funds outperforming the average tracker, despite absolute returns looking shabby compared to global and US peers. Our analysis suggests that investors with a budget for active management would therefore be better off

Best performing UK funds	% 10 year total return
Premier Miton Ethical	222
LF Lindsell Train UK Equity	214
Royal London Sustainable Leaders	210
Liontrust Special Situations	200
EdenTree Responsible and Sustainable UK Equity Opportunities	191
Premier Miton UK Growth	188
Liontrust UK Ethical	187
Marlborough Multi-Cap Growth	185
TB Evenlode Income	177
Liontrust Sustainable Future UK Growth	175

Source: AJ Bell, FE Total Return GBP 14/05/2011 to 14/05/2021

How active and passive compare for different sectors

	Global	UK	US
% active outperformers	34%	85%	23%
Average passive performance	199%	75%	308%
Average active performance	183%	109%	281%
Top quartile active	212%	128%	296%
Bottom quartile active	134%	86%	234%

Source: AJ Bell, FE Total Return GBP 14/05/2011 to 14/05/2021

Some tracker funds failed to match their benchmark

	% 10 year total return	Index tracked	Ongoing charges %
Index : FTSE All Share	86	N/A	N/A
Best performing UK tracker fund*	84	FTSE All Share	0.06
BMO FTSE All-Share Tracker	76	FTSE All Share	0.43
Index : FTSE 100	74	N/A	N/A
Virgin UK Index Tracking	70	FTSE All Share	0.6
Halifax UK FTSE All Share Index Tracking	66	FTSE All Share	1.04
One Family Stockmarket 100	64	FTSE 100	0.35
Marks & Spencer UK 100 Companies	59	FTSE 100	0.5

Source: AJ Bell, FE Total Return GBP 14/05/2011 to 14/05/2021. *Vanguard FTSE U.K. All Share Index

allocating this to the UK portion of their portfolio, rather than the Global and US sectors.

While they are in the minority, in the global sector there were still a substantial number of funds which posted strong outperformance of their passive peers, including offerings from well-known names like Baillie Gifford, Fundsmith and Lindsell Train. However, these are the exception rather than the rule, and so investors need to be very discerning if they are allocating money to global active managers.

It pays to be discriminating wherever you're allocating money, but UK funds have shown a much greater tendency to outperform their passive peers over the long term, so your chances of getting value from active management are improved when you go fishing in this pool.

UK MANAGERS – FLATTERED BY MID CAP EXPOSURE

There are undoubtedly skilful active managers plying their trade in the UK, but there are also structural reasons why the UK market is a fertile hunting ground for active management. The standout performers of the past 10 years in the UK have been mid cap and small cap stocks.

Active managers tend to be overweight these areas, while UK index trackers have most of their portfolio invested in the FTSE 100, because they just invest according to market cap.

The strong outperformance of UK mid and small caps is in stark contrast to the US where in recent years, exceptional performance has been derived from megacap stocks like Apple, Alphabet and Amazon. These stocks will be in the top holdings of passive funds in both US and Global sectors, lifting the bar that much higher for active managers operating in these areas, because these companies have delivered such high returns.

TRACKER SLACKERS

In the UK there is a much wider dispersion of returns amongst passive funds compared to the US, with some funds posting performance significantly below their benchmark index. This lowers the threshold UK active managers need to beat to outperform the average tracker. In part, this again comes down to the highly divergent performance of small and mid caps compared to large caps, because some of the trackers available to UK investors simply follow the FTSE 100.

But even looking at funds tracking the broader FTSE All Share, the best performing passive fund returned 84% over 10 years, and the worst performer returned 66%. This comes down to that silent destroyer of tracker performance, charges.

Many UK tracker funds are now keenly priced to support investor demand, but there are still a few 'tracker slackers' kicking around – passive funds which charge fees more commensurate with an active approach.

If your gross returns are simply the index, high charges on a tracker fund are going to lead to substantial underperformance over the long term.

DISCLAIMER: This article cites research from AJ Bell which is the owner and publisher of Shares magazine.

Tom Sieber and Daniel Coatsworth who edited this article both own shares in AJ Bell.

By **Laith Khalaf**
Financial Analyst

Can I recycle tax-free pension withdrawls into a SIPP?

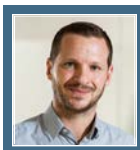
Our resident expert helps with a question about moving cash between pension pots

I'm hoping for some plain English help on recycling tax-free lump sums into a SIPP. I'd like to take advantage of my Local Government defined benefit pension scheme at age 55 and take my 25% tax-free lump sum.

I'd like to split this between my Stocks and Shares ISA and a SIPP, but I'm aware of conditions that mean you can't pay anything significant into a SIPP from a tax-free lump sum without incurring a penalty.

Would significantly increasing my regular pension contributions from my salary and compensating for that loss by drawing down from the increased ISA be classed as recycling?

Jack



Tom Selby
AJ Bell
Senior Analyst says:

HMRC has rules which are designed to ensure people do not excessively 'recycle' their 25% tax-free lump sum back into a pension.

These measures are in place to protect the exchequer – without them, people would be free to keep putting their 25% tax-free cash back into a pension, generating extra tax relief and additional tax-free cash entitlements.

There are specific conditions which need to be met for HMRC to consider that tax-free cash recycling has taken place. It's probably easiest to ask yourself a series of questions to determine whether or not you breach these conditions:

1 Have you received or are you planning to take a tax-free lump sum from your pension?

2 Is the amount of tax-free cash received over 12 months from all pension plans more than £7,500?

3 As a result of receiving the tax-free lump sum (or sums), have pension contributions increased by more than 30% of what might have been expected?

4 Are the extra pension contributions more than 30% of the tax-free lump sum (or sums) received?

5 Is the recycling pre-planned?

If the answer to *all* these questions is 'Yes' then pension tax-free cash has been recycled and the lump sum will be treated as an 'unauthorised payment'. This means the payment will be subject to a charge of at least 55%. There will also likely be 15% 'scheme sanction' charge, taking the total hit to an eye-watering 70%.

While an increase in pension contributions 'by more than 30% of what might have been expected' (see question 3) may sound a bit vague, it's actually a specific condition. HMRC looks at pension contributions paid in the rest of the tax year after you took your tax-free cash plus up to two more years afterwards.

This is then compared with the contributions made during a similar period before tax-free cash was taken.

You can't get round this by paying the tax-free cash into different pension schemes as HMRC will look at all of your contributions when making its assessment.

HMRC also won't consider what you do in relation to other products, such as ISAs, when deciding whether pensions recycling has occurred.

If you want to stay the right side of HMRC's rules, the easiest thing to do is make sure you can answer 'No' to at least one of the five questions above.

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

7 June: Sirius Real Estate. **8 June:** BP Marsh & Partners, Card Factory, Intermediate Capital, OnTheMarket, Renold, Vp. **9 June:** Urban Logistics REIT. **10 June:** Auto Trader, CMC Markets, Halma, JLEN Environmental Assets, Norcros, Ted Baker.

Half-year results

7 June: RedX Pharma.
8 June: Driver, Paragon Banking, RWS.

Trading statements

8 June: Ferguson. **10 June:** ITM Power.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg
Ian Conway @SharesMagIan

REPORTER: Yoosof Farah @YoosofShares

CONTRIBUTORS Laith Khalaf, Russ Mould, Tom Selby

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

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

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