STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 23 / ISSUE 21 / 10 JUNE 2021 / £4.49

SHARES

WE MAKE INVESTING EASIER

MARKET HEALTH CHECK

Why have global stocks stalled and should you worry about inflation?

PLUS

TURNING POINT STOCKS IN **PRIVATE EQUITY'S** SIGHTS

SHAKE-UP AT **SCOTTISH INVESTMENT TRUST**

AMC RALLY SIGNALS **MEME STOCK** RESURGENCE

*Source: Morningstar, share price, total return in sterling as at 31.03.21. **Ongoing charges as at 31.03.21 calculated in accordance with AIC recommendations. Details of other costs can be found in the Key Information Document. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

Want to play the UK property market? Here's a new way

The market is surging and a new vehicle provides exposure to a buoyant rental sector

The latest Halifax house price index data (7 Jun) showed a UK property market still in runaway form.

This might be good news for the value of your own home, but it will also make it more difficult for many to get on the property ladder – meaning more demand for rental properties.

In investment terms the options for people looking to put money to work directly in the residential property market are limited. This is more so since the change to the buy-to-let regime which have made the process more taxing, both literally and in terms of the amount of paperwork a landlord must fill in.

A lot of the current stock market listed vehicles offering exposure to the private rental sector focus on new and high-end developments or specialise in areas like social housing or assisted living.

However, one investment trust hoping to join the UK stock market on 16 July is an exception. **UK Residential REIT** focuses on existing buildings outside London, and it is also focused on mid-market tenants.

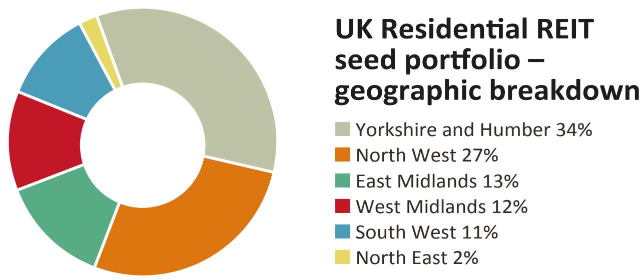
Kee Gan, chief investment officer of the trust's manager L1 Capital UK Property Advisors, tells *Shares* that an archetypal asset is a 60-year-old shoe factory in Leicester which has been converted into apartments.

Gan explains the underlying building is 'well maintained and high quality' but by repainting and uplifting furniture it has been possible to charge rent at £800 per calendar month from a tenant roster which includes doctors, nurses, students and people working in technology.

This reflects a strategy which is about, in Gan's words, 'taking existing buildings, reconditioning, repurposing them and achieving an uplift in rent'.

The seed portfolio, which has previously been managed privately, and the avoidance of any from-scratch developments means the investment trust will be generating income from the word go.

There is a £440m pipeline of investment opportunities and the trust is targeting a dividend yield of 5.5% from 1 July 2022 and a net total shareholder return of 10% a year. Until the targeted funds of £150 million are deployed the trust plans to pay a minimum of 4p per share.



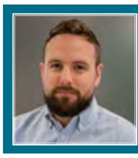
Source: UK Residential REIT prospectus.

Gan is confident of deploying the new cash from the listing within 12 months thanks to its existing relationships with vendors.

So how does this stack up against other investment opportunities already on the UK stock market? **Grainger (GRI)** has some similarities in terms of a focus on quality rental properties aimed at professionals. However, unlike UK Residential REIT, Grainger doesn't have REIT status, a legacy of holding regulated tenancies which was an obstacle to achieving this position.

The tax status of REITs mean they are the closest thing to replicating the experience of holding property directly for investors with 90% of rental income paid out in dividends.

On balance, the launch of an investment trust like UK Residential REIT is well timed given renewed interest in the UK property market, and the ongoing search for yield means it could attract income-hungry individuals. But like any such opportunity, it's worth reading the small print before making an investment.



By **Tom Sieber** Deputy Editor

What a reopening delay would mean for stocks

The hospitality sector faces the largest impact if the June 21 unlocking date is postponed

The latest official figures show new coronavirus cases rising at their fastest rate since March 2021 due to the more transmissible 'Delta' variant which is putting pressure on the government to choose between leaving some measures in place after June 21 or postponing so-called Freedom Day by a couple of weeks.

The UK isn't alone in balancing risks of new variants against the progress made in blocking the link between infections and hospitalisations through an effective vaccination programme.

The Seychelles is one of the most vaccinated countries in the world, but recently was forced to reimpose restrictions.

Since the government removed Portugal (3 June) from the green list of countries deemed safe for travel while adding no other countries, travel companies have reported very hot demand for staycations.

For example, the *Financial Times* reported that holiday rentals company Awaze saw a 40% increase in demand compared with the same day in 2019, while **Trainline (TRN)** said bookings for the next two weeks surged 86%.

Even if you are lucky enough to secure a booking, anecdotal evidence gathered by *Shares* indicates that some companies are simply not equipped to handle the extra demand with a reported two plus hours waiting times food and drinks.

A shortage of hospitality staff (see page 7) is no doubt having a big impact on the level service despite reduced capacity due to social distancing protocols.

With demand outstripping supply, consumers have been warned to expect higher prices with *Which* magazine reporting that some popular holiday resorts such as Brighton have seen a 127% increase in the cost of accommodation, year-on-year.

Some parts of the hospitality sector will benefit from the staycation trend such as restaurant/café/bar operator **Loungers (LGRS:AIM)** whose estate is exposed to coastal towns and any delay to workers going back to the office will result in more time and money spent locally.

Pubs which have developed more outdoor capacity during lockdown and are located in suburban locations such as **Young's & Co (YNGS:AIM)** and **Marston's (MARS)** could also be beneficiaries.

That said, a delay to full reopening may impact hospitality shares more than otherwise would have been the case because investors seem to have got carried away and according to Shore Capital, valuations are now pricing in a 'rapid recovery' in profits.

The risks of investor complacency were illuminated when best premium bar operator **Revolution Bars (RBG:AIM)** shocked investors with a deeply discounted share placing on 26 May, less than two weeks after issuing a bullish reopening statement.

If the Government decides to keep some restrictions in place for longer than its original roadmap, it wouldn't be surprising to see more rights issues as firms move quickly to shore up their finances. [MG]

Staffing crisis hits multiple sectors

Hospitality is in the front line, but it's not the only industry struggling

After suffering cruelly during the pandemic, with thousands of venues closing permanently and most of those that survived racking up horrendous debts, the hospitality industry now faces another crisis: a lack of staff.

And the wider dynamics in the labour market, affecting all sectors, could add to inflationary pressures as businesses are forced to pay higher wages to attract new employees. Unsurprisingly the recruitment companies are enjoying strong share price performance amid the clamour for workers.

The most obvious reason for the shortage in hospitality is Brexit, which caused the exodus of close to 190,000 young workers back to Europe. The squeeze was compounded by Covid, with many full-time hospitality workers finding alternative jobs during furlough or only returning to work part-time.

STAFFING FIRMS: RETURNS YEAR TO DATE

Company	Perf YTD	Market cap	12m fwd PE
Empresaria	50%	£34m	16x
Gattaca	183%	£73m	38.6x
Hays	23%	£2.95bn	58.4
Norman Broadbent	57%	£4m	n/a
PageGroup	36%	£2bn	27.8x
Prime People	21%	£9m	n/a
Robert Walters	44%	£518m	31.4x
Staffline	32%	£40m	62.2x
SThree	55%	£617m	22.3x

Source: Sharepad, Shares. Date to 7 June 2021.

The result is bars, pubs and restaurants are struggling to attract staff, particularly chefs, with reports of poaching and of staff demanding loyalty bonuses. Job site Indeed registered a near 600% increase in job vacancies in London for food preparation and service between the government setting out its 'roadmap' in February and mid-May.

Even Tim Martin, the **JD Wetherspoon (JDW)** boss who was a vocal supporter of Brexit and who called those who warned of a staff shortage 'doomsters', has called for 'a more liberal immigration system' because he can't get enough bar workers.

SURGE IN VACANCIES

Bars and pubs aren't alone in struggling to recruit, however. According to the Office for National Statistics, job vacancies advertised across the UK rose by 88,000 in April to a staggering 747,000. Of these hotels and restaurants accounted for close to 30,000.

The Road Haulage Association claims there is a shortage of 70,000 heavy goods vehicle drivers in the UK, mainly due to older, experienced foreign drivers leaving ahead of Brexit and not enough (younger, inexperienced) British candidates applying in their place.

The Association of Staffing Companies even recorded a shortage of jobs in finance, with vacancies up more than 250% year-on-year in April. Demand for fintech specialists was already close to three quarters of 2020's requirements by the end of April.

Confirming this hiring enthusiasm, the latest Labour Market Survey by the Chartered Institute of Personnel and Development shows employment intentions among its member firms at their highest level since 2013 when the measure was introduced.

The issue for employers, and the staffing firms they advertise through, is convincing good candidates to move. Experienced staff, typically with a mortgage and dependents, aren't confident enough to switch jobs in case there is another lockdown and a risk they could be laid off.

Despite the offer of more money, many would rather hunker down and ride out the ups and downs of the economy over the rest of this year, rather than risk jumping now and falling between two stools. [IC]

Why 'meme stocks' are surging once more

AMC, Blackberry and GameStop rally as Reddit investors go up against hedge funds again

The boom in the so-called 'meme stocks' AMC Entertainment, Gamestop and Blackberry first seen in January and February 2021 looks like it could be repeating itself.

Shares in all three have rallied since the last week of May and are once again closing in on peaks reached at the end of January after being targeted once more by retail investors on the WallStreetBets forum on social media network Reddit.

In early trade on 7 June, AMC shares shot up around 19% to $56.70, Blackberry shares around 12% to $15.50 and GameStop over 10% to $273, despite no corporate news from any of them.

There have been renewed calls on WallStreetBets to 'pump' the three stocks, with posters calling for their fellow investors to hold AMC at a 'resistance level' of $55 before aiming to take it $100 per share, and to take Blackberry to over $30 a share.

While other stocks have been targeted before like Nokia and even commodities like silver as well as cryptocurrencies, the current frenzy of retail interest remains pretty much restricted to AMC, Blackberry and GameStop.

These were the main stocks that were a focus of a push earlier this year by Reddit investors to force a 'short squeeze' on hedge funds that were shorting the companies and looking to profit from their misfortunes.

HEDGE FUNDS DOUBLE DOWN

Some hedge funds incurred heavy losses as a result, but others have doubled down on their bets against the three stocks, arguing that their current valuations are vastly inflated compared to the fundamentals of their businesses.

That has led the Reddit investors to pile in once more as they look again to inflict losses on the hedge funds shorting the shares.

In part this is being sold as an attempt to draw attention to a wider point about how financial markets operate, with short interest in GameStop earlier this year reaching a high of 140%.

Whether this attempt will be long lasting remains to be seen, with regulators potentially more likely to seize on any volatility in the wake of the previous episode.

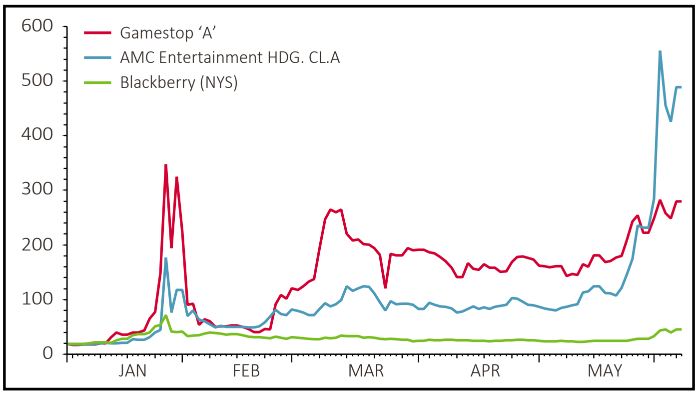
Meanwhile cinema operator AMC put out messaging to smaller investors as it launched a new share sale, effectively telling people not to buy the stock 'unless you are prepared to incur the risk of losing all or a substantial portion of your investment', adding that its current share price reflects 'market and trading dynamics unrelated to our underlying business'.

This is a pretty stark warning, and should at least be food for serious thought for prospective investors. It came as AMC unveiled plans to sell up to 11.6 million shares off the back of its surging share price, with money raised going towards 'general corporate purposes', which could include paying off debt or buying new cinemas. [YF]

MEME STOCK PERFORMANCE

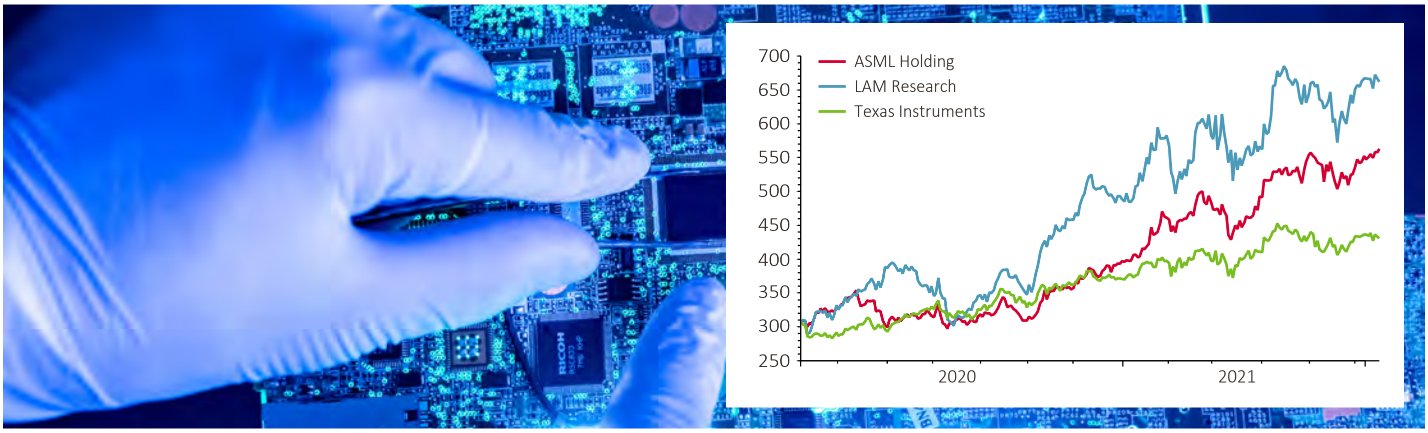
	One month	Three months	YTD
AMC	477%	490%	2490%
GameStop	73.8%	44.5%	1390%
Blackberry	85.5%	61.1%	137%

Source: SharePad, data taken after market close on 7 June 2021



Chip shortages set to continue into 2022

Semiconductor supply issues set to persist with long-term drivers for demand



Semiconductor designers and manufacturers have warned that the global semiconductor shortage could run into 2022 or even 2023 despite billions being spent on new fabrication capacity.

TSMC, or Taiwan Semiconductor Manufacturing Company, Intel and Nvidia have all said they expected the crisis to drag on for a couple of years, as new plants take time to come online. This is after TSMC, the world's largest microchip manufacturer, upped its fabrication spend from $28 billion to $30 billion this year and plans to invest $100 billion over the next three years.

The industry has been plagued by a series of exceptional supply shocks in recent months that have added to capacity constraints created by the Covid outbreak. These have included the particularly bad past winter in Texas, one of the world's semiconductor manufacturing capacity centres, water shortages in Taiwan and a fire at a key installation in Japan.

'These issues in the first quarter of 2021 came at a time when semiconductor supply chains were already under pressure,' note Peel Hunt's technology analysts. Importantly, the Peel Hunt team believe that the industry was caught out by how rapidly the initial pandemic pause would turn into a 'demand explosion' fuelled by home working and other changes to people's day to day lives.

Technology adoption has not seen this sort of device demand boom for several years. For example, analysts at market researcher Canalys calculate that in the first quarter of 2021, worldwide smartphone shipments reached 347 million units, up 27% year-on-year.

The semiconductor supply issues are affecting everything from car manufacturing to smartphone production.

These factors have lit a fire under leading industry stocks as investors look towards a massive ramp-up in fabrication investment and equipment spend to boost capacity in the months ahead. The sector benchmark Sox, or the Philadelphia SE Semiconductor index, has rallied 15% in 2021 to date, and has soared around 125% since stock markets bottomed as the pandemic broke.

Semiconductor equipment designers ASML and Lam Research have seen their share prices more than double over the past year or so, while analogue chip maker Texas Instruments is up 65%.

Taiwan Semiconductor continues to forecast 'multiple years of growth opportunities' as the digital economy increasingly becomes 'the' economy. We expect chip demand to remain high, if somewhat cyclical, with the need for faster, smaller, more powerful and more complex semiconductors driving strong returns for the right companies and their investors. [SF]

Continental is a great play on electric vehicles

Tyre and component-maker is cheap and is growing rapidly

UK investors will probably know Continental from its TV advertisements for tyres during the UEFA Champions League, which it used to sponsor, and the FA's women's football league cup.

However, the German firm isn't just a dull but worthy tyre-maker, it happens to be one of the world leaders in automotive technology, in particular autonomous driving, vehicle software and safety systems.

It is also going through a period of restructuring which will leave it leaner, with a clear focus on just two high-growth business areas. We believe that, at the current price, the shares haven't begun to discount this year's recovery in margins or the long-term growth potential of its autonomous driving business.

CONTINENTAL
BUY
€130
Market cap: €26.25bn

SALES AND MARGIN RECOVERY

While 2020 was something of a disaster for car makers due to collapsing demand, the year finished better than many had expected with total motor vehicle production reaching almost 78 million units, a fall of around 15% on the previous year according to Statista.

China, Japan and Germany were the largest producers of passenger and light commercial vehicles, with China making more than 21 million vehicles or nearly a third of all cars, many in joint ventures with western firms such as General Motors and Volkswagen.

Given it supplies tyres and systems to most of the world's volume manufacturers, Continental was hard-hit by the fall in production, with sales declining nearly 15% to €37.7 billion and adjusted operating profit more than halving to €1.3 billion from €3.2 billion the previous year.

At the start of this year, with car production expected to recover by 9% to 12%, the firm set out a target of generating between €40.5 billion and €42.5 billion in sales and an operating profit margin of between 5% and 6% compared with 3.5% last year.

STRONGER GROWTH

Fast-forward to the first quarter and despite a 'persistently challenging market', passenger and light commercial vehicle production increased by 14% on the previous year to over 20 million units.

Continental's sales were up a better than expected 8.6% on an organic basis, while operating was up a staggering 92% meaning a margin of 8.1%. Moreover, orders for its high-performance engine computer systems soared.

The firm increased its margin target to between 6% and 7% and announced a major strategic shake-up. Once it has spun off the Vitesco powertrain

CONTINENTAL FORECASTS			
	FY21	FY22	FY23
Sales	€41.7bn	€45bn	€47bn
EBIT*	€2.5bn	€3.5bn	€4bn
Pre-tax profit	€2.1bn	€3.1bn	€3.7bn
EPS	€ 6.80	€ 11.30	€ 13.80
DPS	€ 2.40	€ 3.40	€ 4.10
PE	19.1	11.5	9.4
Dividend yield	1.8%	2.6%	3.1%

EUROPEAN AUTO SECTOR MULTIPLES				
	PE 2021	PE 2022	Enterprise value/Sales 2021	Enterprise value/Sales 2022
BMW	8.4	7.9	1.4	1.3
Continental	19.1	11.5	0.7	0.6
Daimler	8.1	7.4	1.2	1.1
Michelin	14.9	12.2	1.2	1.1
Pirelli	15.2	11.2	2	1.8
Stellantis	7.4	6.2	0.3	0.3
Valeo	21.6	10.4	0.6	0.5
Volkswagen	9	7.8	1.2	1.1

Source: Refinitiv, Shares. Date as at 8 June 2021. *Earnings before interest and tax

business in September, from next January the company will be divided into two separate businesses, Autonomous Mobility and Safety.

This will allow it to implement its different strategies. 'We are focusing systematically on growth and pioneering future technologies when it comes to assisted, automated and autonomous driving, and we are focusing on value when it comes to safety,' says chief executive Nikolai Setzer.

WIN-WIN SCENARIO

The attraction of a tyre and component maker over a car manufacturer is that whoever wins in the race for market share in electric vehicles, new cars all need tyres and complicated electronic systems to work.

With so few volume producers of tyres, Continental and its rivals have good pricing power, so if raw material costs rise it can typically pass these on to its customers.

Meanwhile, if there is a global shortage of key items, as there is at present with computer chips, it has strong ties with German firms such as Infineon, one of the leading producers of semiconductors for automotive uses.

When questioned about the global squeeze in chip supplies, the chief executive was typically understated: 'From an operational point of view, we have made a good start to the year.'

The Vitesco powertrain division had an excellent first quarter thanks to growth in electric vehicle component demand, growing sales by 12.8% on an organic basis and winning hundreds of millions of euros of new orders.

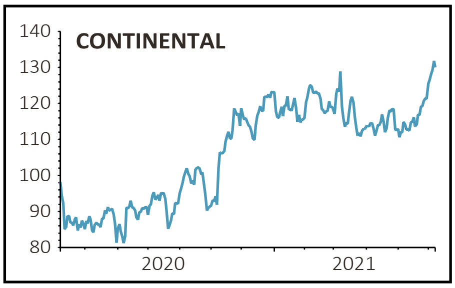
While spinning off Vitesco will mean a slowdown in sales growth at Continental in the short term, the disposal of the legacy combustion-engine assets and the simplification of the business will allow management to use the steady cash flows from the tyre division to fund higher-growth segments.

ATTRACTIVE VALUATION

Within the automotive and parts sector, Continental is one of the cheapest stocks in Europe in terms of enterprise value to sales.

Analysts at Swiss bank UBS believe consensus expectations for Continental could be upgraded significantly this year. The bank is forecasting earnings before interest and taxes, or EBIT, of €3.2 billion this year, which would equal 2019's level and is around 20% above the current consensus.

Continental trades on the Frankfurt Stock Exchange and can be traded on most UK investment platforms although you should be aware buying overseas stocks can involve extra costs and charges. [IC]



Belvoir is a great way to invest in the booming property market

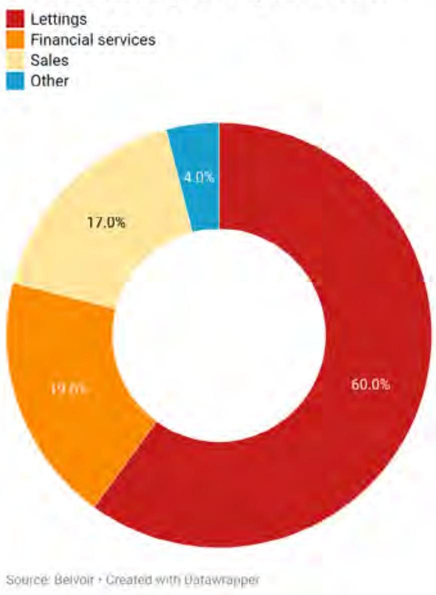
The lettings and estate agent has delivered 24 years of unbroken profit growth

Investors are not too late to benefit from a rising share price in estate and letting agent **Belvoir (BLV)**. The company's attractions are finally being recognised by the market after years of largely being ignored.

The valuation remains undemanding against a positive backdrop, with the housing market continuing to surge and demand for rental properties extremely robust. This makes it an excellent time to buy.

Based on 2022 forecasts from FinnCap, the shares trade on a price to earnings multiple of 11.9 as well as offering a free cash flow yield of 8.6% and a dividend yield of 3.3%.

Belvoir gross profit split in 2020



BELVOIR BUY
(BLV:AIM) 235p

Market cap: £83 million

Belvoir provides support and guidance to its franchisees across 300 high street offices in return for a management service fee. Its franchise model means it has relatively limited costs and obstacles to expansion and is highly cash generative.

The company also has a solid balance sheet with net debt of just £3.7 million as of 31 December 2020.

Founded more than two decades ago, Belvoir joined AIM in 2012 and despite the pandemic, has achieved 24 years of uninterrupted profit growth.

This earnings progression has been supported by acquisitions both at a group level and so-called assisted acquisitions where it helps local franchisees to identify and make bolt-on additions to their local operations.

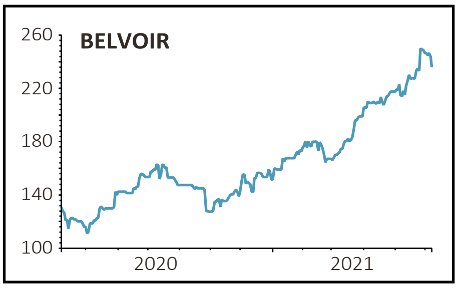
Belvoir has built-in diversification thanks to its substantial lettings business, income from which is generally more stable than property sales and is typically recurring. This provides some protection against any downturn in the property market.

The company is also expanding into ancillary financial services like savings and mortgages. On 2 June the company exchanged contracts on a £600,000 deal to buy The Nottingham Building Society's mortgage services business.

Belvoir has an existing partnership with The Nottingham and FinnCap analyst Guy Hewett notes the lender has 50,000 Lifetime ISA savers (expected to reach 100,000 within a few years) which are likely to need their first mortgage in the future once they've amassed enough in the tax-efficient savings vehicle to get on the housing ladder.

He notes that over the medium term this could drive a significant increase in the 12,000 mortgages Belvoir arranged in 2020.

Hewett adds: 'Belvoir has a range of growth opportunities in a changing, large and fragmented market and has the model and proven management skill to continue to take advantage of them.' [TS]



BLOOMSBURY

(BMY) 350P

Gain to date: 23.3%

Original entry point:

Buy at 283.84p, 4 February 2021

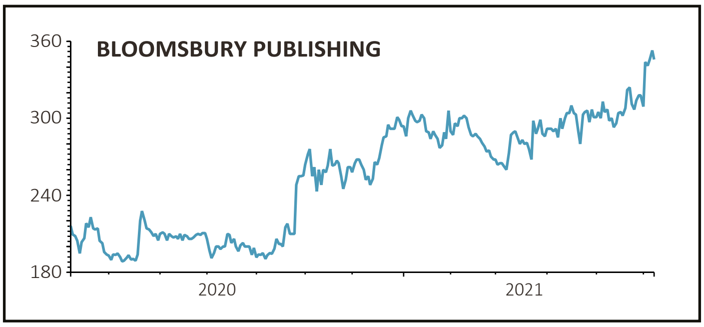
WHEN WE added publishing group **Bloomsbury (BMY)** to our *Great Ideas* list in February the company had already enjoyed a strong share price run. Our view that the lockdown-inspired boom in reading would continue has been borne out.

Results for the 12 months to February 2021 were ahead of estimates on almost every level with sales increasing 14% to a record £185.1 million and pre-tax profit up 22% to £19.2 million. What's more, the company noted a strong start to the current financial year and said it expected revenue to be 'ahead' and profit to be 'comfortably ahead' of expectations.

Thanks to its strong financial position and cash generation, Bloomsbury was able to not only increase the final dividend by 10% to 7.58p, but also propose a special dividend of 9.78p.

Numis upgraded its February 2022 earnings per share forecast by 13% from 15.7p to 17.7p which puts the shares on a price to earnings multiple of 19.8 times.

Analyst Steve Liechti said the £8.5 million acquisition of Head of Zeus, announced alongside the numbers, 'looks an interesting UK consumer publishing bolt-on'.



SHARES SAYS:

We remain positive on the shares. [TS]

DISCOVERIE GROUP

(DSCV) 854P

Gain to date: 42%

Original entry point:

Buy at 600p, 10 December 2020

SHARES IN SPECIALIST electronics maker **DiscoverIE (DCSV)** continue to power ahead following an increase in earnings guidance in April and a positive pre-close trading update at the start of this month.

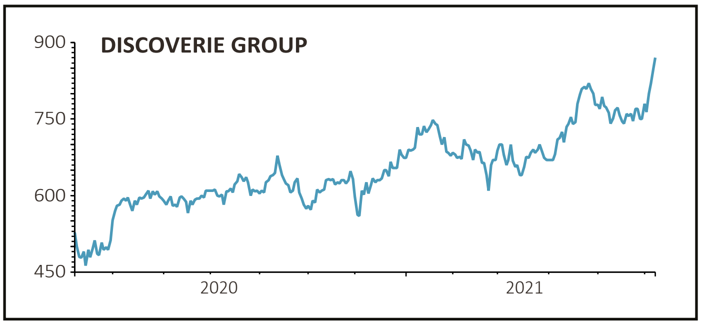
Thanks to the firm's focus on specific markets, sales for the full year were down just 3% as orders saw a strong second-half rebound, while organic revenue growth turned positive in February and March.

Demand was resilient in Asia, especially from customers in the renewable energy sector, and while US demand was lower as Covid led to slowdown in spending in the transport sector, president Biden's huge infrastructure programme has prompted customers to increase their orders again.

The firm made another bolt-on acquisition in the US high-performance switches and sensors market, yet thanks to strong cash generation still reduced its gearing and increased its full year dividend.

The current financial year has started with a record order book which continues to grow faster than sales, providing excellent visibility, and margins continuing to improve thanks to cannier purchasing and tight control of operating costs.

Analysts at Peel Hunt and Shore Capital raised their pre-tax profit forecasts again for the next two years, while Stifel – whose forecasts were already ahead of consensus – expect to have to raise theirs along with the consensus.



SHARES SAYS:

The stock is benefiting from mega-trends in transport and renewables and we remain fans [IC]

AVIVA

(AV.) 425.6P

Gain to date: 41.4%

Original entry point:

Buy at 301p, 17 September 2020

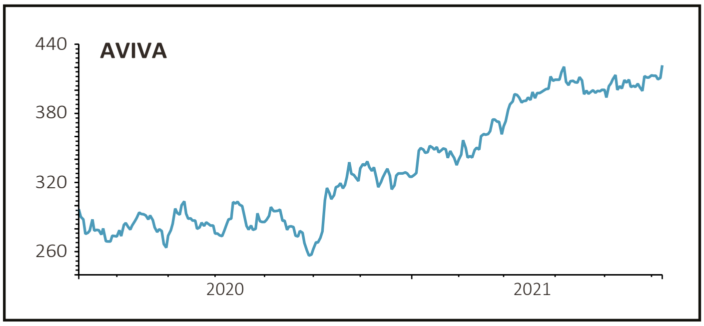
OUR POSITIVE CALL on insurance firm **Aviva (AV.)** continues to be richly rewarded with stake building by activist investor Cevian acting as the latest catalyst for the share price.

Chief executive Amanda Blanc, who took over the helm in July 2020, has already disposed of eight businesses for more than £7.5 billion and has pledged to return cash to shareholders, although has not specified a figure.

Cevian clearly likes the general direction Blanc is taking the business, as it is not calling for a change at the top, but it wants her to go further and faster.

The Swedish investment firm said Aviva should return £5 billion of excess capital in 2022 and target cost cuts of at least £500 million by 2023. Aviva last year said it was targeting £300 million worth of cost cutting by 2022.

Cevian says the business should have a value of more than 800p per share within three years and should more than double its dividend to 45p, equating to a yield of more than 10% on the current share price.



SHARES SAYS: ↗

The latest developments should give the share price a further leg up. Stick with the shares to see if Cevian can influence change. [TS]

Change coming at Scottish Investment Trust after weak performance

Manager Alasdair McKinnon is a well-known contrarian investor but his style has failed to keep up in the current value rally

Value-focused investment trust **Scottish Investment Trust (SCIN)** is looking at options to replace manager Alasdair McKinnon after its board of directors lost patience with poor returns.

This comes as the trust has significantly lagged its peers over a five-year period and, more damagingly, in the current value rally which should favour its investment approach.

In 2015 the trust appointed McKinnon as it adopted a high conviction, global contrarian investment approach with the view at least five years would be needed to evaluate returns under this mandate.

The trust doesn't have a formal benchmark but in a statement announcing a 'review of investment management arrangements', it compared the net asset value total return to the MSCI All Country World Index over five years.

The trust has significantly underperformed the index in that timeframe, returning 59.21% according to FE Analytics, compared to a 92.35% return from the index. The trust also trades at a 10.4% discount to net asset value.

'Scottish Investment Trust trades at 10% discount to NAV'

It has underperformed all other value-focused trusts, funds and exchange-traded funds since the value rally began, with its 18% return since 1 November hugely underwhelming when compared for example to the **Chelverton UK Dividend Trust (SDV)**, which has returned over 100% in that timeframe.

The trust's board says it's looking for proposals to take over the trust from established fund management groups with the experience of managing listed closed-ended funds, 'designed to deliver, over the longer term, above index returns through a diversified global portfolio of attractively valued companies with good earnings prospects and sustainable dividend growth.'

Though they're also keen to stress proposals will be considered alongside the current management, given its robust short-term performance with the trust up 13.9% compared to 8.8% for the MSCI AC World index over the last six months.

'OVERWHELMED WITH SUITORS'

Analysts say the trust is likely to be 'overwhelmed with suitors' given its large following.

Winterflood analyst Simon Elliott says the big decision for the board is likely to be whether they persevere with a value style or appoint a manager with a broader starting point, and wonders if they'll consider a merger with another investment trust.

He adds: 'There have been several instances of this in recent years, and there are advantages in providing greater scale, including a lower cost base, as well as offering greater liquidity in the secondary market.'

Numis analysts comment: 'The manager has had some success marketing to retail through the press, but it remains off the radar of many investors and has lived up to its ugly-duckling pitch in its marketing materials.'

They don't think there will be 'anything that radical' out of the trust's review, but also point out it is 'difficult to predict the result of a beauty parade'.

By **Yoosof Farah**
Reporter


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

MARKET HEALTH CHECK

Why have global stocks stalled and should you worry about inflation?

By **Martin Gamble** and **Steven Frazer**

Despite healthy double-digit gains in 2021, driven by successful vaccination rollouts and recovering economies, major stock markets around the world appear to have stalled since early May.

London's FTSE 100, the Standard and Poors 500, Japan's Nikkei 225 the Nasdaq 100 indices have failed so far to push on from recent highs.

The exception is emerging markets with Brazil's Bovespa index up 6%, while China's Shanghai Composite and India's BSE 100 are up around 5%, arguably beneficiaries of recent weakness in the dollar.

Investors are now wondering if stalling momentum is part of the natural ebb and flow of markets or if perhaps there are fundamental reasons behind the market's hesitation.

There are a lot of factors to consider, not least the lofty valuations which many stocks currently trade on.

FTSE 100'S PROGRESS HAS STALLED SINCE BEGINNING OF MAY 2021

WHAT THE CAPE RATIO IS AND ISN'T TELLING US

Nobel Prize winning economist Robert Shiller reckons the best way of assessing value in forward looking markets is to look to the past.

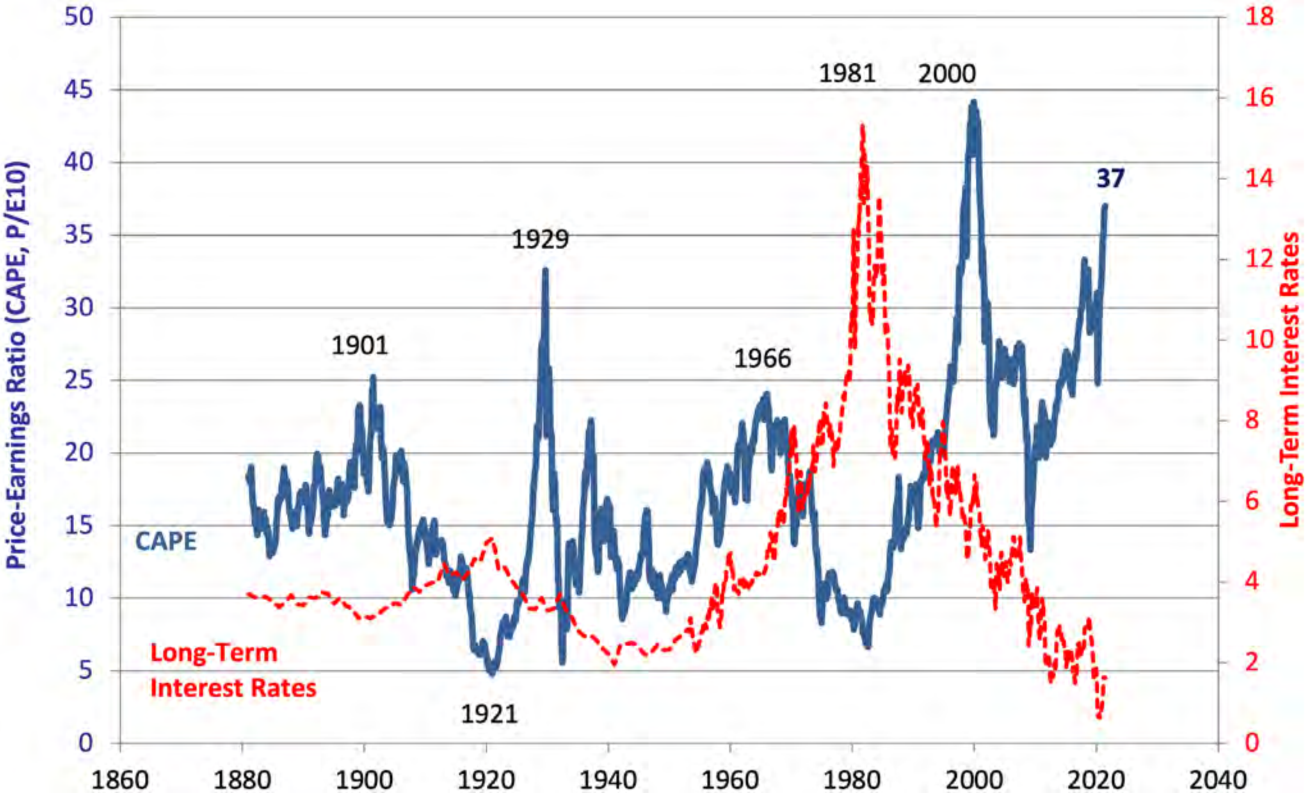
In 1988 he popularised the cyclically-adjusted price to earnings (CAPE) ratio, also known as the Shiller PE, to help investors decide if a stock, sector or market is trading at a premium or discount to its historical value.

Whereas a price to earnings (PE) ratio is calculated with one year's earnings, CAPE uses the average over 10 years to avoid factoring short-term fluctuations in earnings into the assessment.

To calculate the CAPE, you divide the latest share price by the average earnings over the previous 10 years, which are adjusted for inflation.

US stocks on this metric are trading at their highest levels since the dotcom bubble at 37 times.

While this is a warning signal for some, others believe the fact bonds are offering such low returns in a rock-bottom rates scenario and the outsized returns achieved by global technology companies makes the CAPE ratio less relevant.



Source: Robert J. Shiller

TAXES AND TAPERING

The stronger than expected recovery in the economy has seen the Bank of England raise its expectations for growth to 7.5% this year, up from 5% in February.

Meanwhile the OBR (office for budget responsibility) has said it now expects the economy to return to its pre-pandemic level by the middle of 2022, sooner than originally forecast.

The rosier outlook has given chancellor Rishi Sunak the chance to increase corporate tax rates to 23% in April 2023 from the current 19% as he attempts to get government finances back under control.

The Government has borrowed a peacetime record £355 billion since the start of the pandemic and expects to borrow a further £234 billion next year, around 10.3% of GDP, according to the OBR.

US president Joe Biden has also signalled that taxes will rise from 21% to 28% to pay for pandemic fuelled expenditures. Investment bank UBS estimated that the effect could impact S&P earnings by 7.4%.

That might be good news for governments but it will also act as a drag on post pandemic earnings growth and valuations.

Meanwhile bond investors, whom collectively own government debts, haven't been asleep at the wheel. Since the start of the year US 10-year bond yields have risen sharply from 0.9% to 1.6%, reflecting increasing bond price volatility and a higher risk of inflation.

Because bonds generally pay a fixed rate of interest, the value of the income is diminished by rising prices.

There has also been speculation that the US Federal Reserve, which sets monetary policy, may be close to slowing its monthly asset purchases, known as tapering.

Historically, reducing asset purchase has had a big impact on financial markets, creating heightened volatility in so-called 'taper tantrums'.

In 2013 when Fed chairman Ben Bernanke attempted to taper asset purchases, markets panicked, and bond yields spiked higher.

This matters to investors because risk free government rates are used to discount company earnings and everything else being equal, higher rates reduce the theoretical value of shares.

THE ELEPHANT IN THE ROOM

Perhaps the biggest risk factor threatening a continuation of the rally in equities is increasing inflation expectations. In recent trading updates more companies have mentioned inflation as a key risk.

As a reminder, a key gauge of US inflation, the PCE (personal consumption expenditure) rose 3.1% year-on-year in April, higher than expected and above the 2% that the Fed considers healthy to promote full employment.

Economists at UBS argues that the current factors affecting rising inflation are likely to prove transitory and that conditions for a longer-term regime shift in inflation aren't in place.

The investment bank notes that inflation expectations as represented by surveys remain at very low levels (despite the recent tick-up) compared with earlier periods where inflation was generally below central bank targets.

Economists at wealth manager BlackRock are less sanguine and see higher medium-term inflation, due to rising production costs, the Fed's new policy framework which allows inflation overshoots, and rising debt levels that they say will make it harder for central banks to lean against inflation.

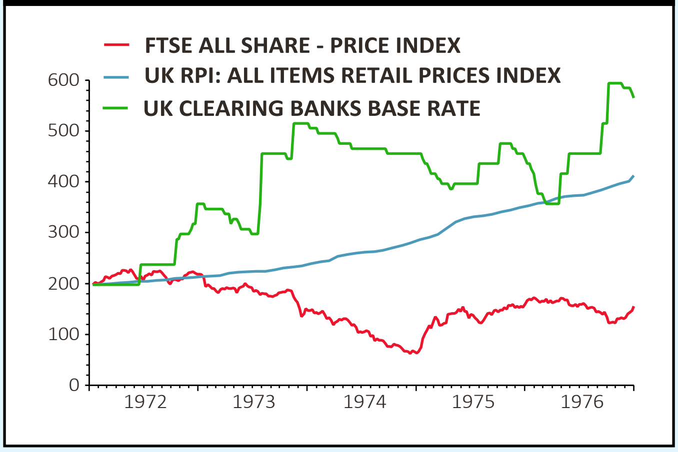
However, for now, both investment banks remain constructive on equities despite their diverging views on inflation. BlackRock is of the view that a taper tantrum, 'would ultimately reduce the attractiveness of fixed income but reinforce that of equities'.

IF INFLATION STICKS AND THE ECONOMY OVERHEATS

There has been a growing chorus of economists and policymakers sounding the alarm about inflation for most of 2021. They warn that a combination of government stimulus and the impending economic snapback will cause prices to overheat. The more excitable among them hark back to the 1970s as an example of inflation spinning out of control, warning that a similar scenario might be on the horizon.

By the mid-1970s average inflation in the UK was running at 16%, compared to this year's 1.5% forecast, based on the consumer prices index, or CPI. You can see what that did to interest rates and the performance of UK stocks in the chart.

MID-1970S INFLATION SURGE SANK STOCKS



PICKS FOR INFLATION AND RATES PROTECTION

The inflation hawks have remained in the minority so far yet in June 2021 BlackRock chief executive Larry Fink warned that investors might be underestimating the potential for a spike in inflation.

'Most people haven't had a 40-plus year career, and they've only seen declining inflation over the last 30-plus years,' Fink said at a virtual event hosted by Deutsche Bank on 2 June. 'So this is going to be a pretty big shock.' As the boss of the world's largest fund manager, Fink's voice echoes loudly around investment markets.

Inflation has been low for a while, but it could quickly turn around, the arguments go. This could force the hand of central banks to heave their interest rate levers that would launch the UK and other major economies on a potentially painful rate hike spiral.

When central banks increase interest rates it cools things down, making borrowing more expensive and in turn triggering a slowdown in spending.

The Bank of England and US Federal Reserve have talked about inflationary pressures easing as the global economy gradually returns to some sort of normality, and the Fed has also changed tack to allow more leeway with its inflation measurement. But what if inflationary pressures prove stubbornly resistant, it could feasibly force the Fed into a dramatic policy u-turn. If so, what should investors do?

Avoiding heavily indebted companies is a good start, where borrowing cost rises could push firms into breaking banking covenants which would hammer their share prices. Stocks like utilities and housebuilders could benefit if energy prices are rising and new homes can sell for more. While banks traditionally do better when rates are rising as it boosts the profitability of their traditional lending activities. **SPDR MSCI World Financials (WFIN)** would be a low-cost way of securing exposure to this theme.

Ruffer Investment Company (RICA)
– 296.7p –

BUY

Investors seeking an all-weather investment vehicle to help guard against inflation should buy **Ruffer (RICA)**, an investment trust with a long track record of making money in up and down markets.

Managed by Hamish Baillie and Duncan MacInnes, Ruffer focuses on preserving and growing real, that is inflation adjusted, capital, regardless of financial market conditions. Ruffer invests in multiple asset classes including shares, index-linked government bonds and gold.

And this wide mandate also includes scope to invest in unconventional asset classes, leaving Ruffer well-equipped to deal with the increasing inflation and economic and market volatility that Baillie and MacInnes see ahead.

Ruffer also incorporates hedging strategies not typically seen in many products readily available to the retail investor, including exposure to credit default swaps, which offer asymmetrically high upside in adverse economic scenarios with limited downside, and more recently bitcoin, though the position has now been exited at a substantial profit. (JC)

Unilever (ULVR)
– £42.63 –

BUY

Consumer goods giant **Unilever (ULVR)** should be prized for the pricing power conveyed by its strong portfolio of brands in an inflationary environment.

And if prices don't run out of control but the economy still recovers its products are likely to be in demand, while equally its defensive qualities should come to the fore if we see another Covid-inspired downturn.

The company, maker of everything from Magnums to Marmite, targets solid growth of 3% to 5% over the longer term and a first quarter trading update on 29 April saw the company guide for first-half growth to be at the top end of this range as it showed signs of being able to pass through increased raw material costs to consumers.

Unilever also signalled some confidence in the outlook by commencing a €3 billion share buyback in May. The shares are some way off 2019 highs and based on consensus forecasts trade at an undemanding 17 times 2021 earnings. (TS)

GOLDEN 20S COULD SEE REVENGE OF THE GROWTH STOCK

Readers with a head for history may have already drawn parallels with the past with the decade ahead evoking the 'Roaring 20s' of a century ago. The post-war growth of the 1920s also followed a health pandemic, after 1918's Spanish Flu outbreak, but it was also a time of great change galvanised by new technology, such as the motor car, radio and much else.

'We see a great chance of a strong recovery from the Covid-19 pandemic followed by a long period of solid economic growth thereafter,' analysts at investment bank Berenberg wrote in a note to client last month. They claim that policymakers have learned how to cope with occasional crises that do not necessarily need to end in a big bust, as the Roaring 20s did with the Great Depression.

'If economic policy does not make major mistakes, large parts of the western world could indeed enjoy a Golden Twenties this time.'

'When new business models, underpinned by technology, are driving forward industries that have hitherto seen little progress, it's more important than ever to focus on what the world might look like over the decades ahead, rather than concentrating on the past,' said Baillie Gifford.

The current inflation pressures are transitory, believes Stephen Yiu, manager of the **Blue Whale Growth Fund (BD6PG78)**. Yiu sees the digital transformation and changing habits brought about by the pandemic, including online shopping, less business travel and homeworking, will act as a headwind to inflationary pressure and a catalyst that whipsaws investors' new-found love of value stocks back towards stock strategies that embrace sustainable growth.

BlackRock's Nigel Bolton, chief investment officer of fundamental equities, suggest that investors seek out sticky spending and companies that can display strong earnings into 2022 and 2023. 'This means identifying the areas where Covid hasn't simply pulled forward demand, but has where consumer behaviour has changed permanently.'

Two examples, Bolton offers, are pandemic pets and food from your phone. 'Dog ownership soared during the pandemic, and people are spending more on their pets. This means premium pet-food companies could be well placed to profit,' he says.

Similarly, thousands of us have ordered takeaways via online apps for the first time during lockdown and many of us will continue to do so. 'There is some evidence that consumers enjoyed the experience so much that they may use takeout apps more often in a post-pandemic world,' says Bolton. 'Sales for food delivery apps in some parts of the US have actually strengthened as these areas open up.'

GOLDEN 20s PLAYS

Watches of Switzerland (WOSG)
– 821p –

BUY

Shares in luxury goods group **Watches of Switzerland (WOSG)** have enjoyed a spectacular run, bid up on a series of earnings upgrades.

Yet the high-end watches and jewellery purveyor has real momentum and offers inflation protection, as the luxury watches it sells are durable assets with outsized demand compared to supply, giving retailers like Watches of Switzerland significant pricing power.

Selling coveted watch brands including Rolex, OMEGA, TAG Heuer and Breitling, Watches of Switzerland recently reported a strong finish to the financial year with adjusted earnings expected at the upper end of guidance thanks to robust UK trading, outstanding growth in the US and a step-up in online sales.

Group revenue for the fourth quarter grew 82% at constant currency to £218.2 million, with UK stores generating strong growth upon re-opening. According to Refinitiv Eikon, Watches of Switzerland trades on 26.2 times forecast earnings for the year to April 2022, although a price-to-earnings growth (PEG) ratio of 0.69 suggests investors aren't overpaying in comparison to the growth the timepiece specialist is delivering. (JC)

BlackRock Smaller Companies (BRSC)
– £19.82 –

BUY

As the world enters what could be a new 'Golden 20s' decade with fortunate individuals still in jobs liberated from their homes and splashing cash saved during Covid lockdowns, a good way to capture this upside could be through **BlackRock Smaller Companies (BRSC)**.

A favourite of wealth managers and investment professionals, the investment trust offers exposure to wide range of exactly the type of stocks that would benefit from a boom in both consumer spending and the economy in general.

Among its top holdings are well-positioned consumer-focused stocks such as **Stock Spirits (STCK)** and **Pets at Home (PETS)**, and others that would do well with a jump in economic activity such as food products manufacturer **Treatt (TET)**, building materials group **Breedon (BREE:AIM)** and highly regarded fund manager **Impax Asset Management (IPX:AIM)**.

The trust has performed well since the value rally began with a 35% gain, with its shares now sitting above pre-pandemic levels. But it still sits at a 4.2% discount to net asset value. (YF)

RWS (RWS:AIM)
– 634.5p –

BUY

If Berenberg's 2020's version of the roaring 1920's proves correct, growth in productivity will be a key driver of performance because of the drag from declining population growth, accompanied by rapid innovation.

We believe that **RWS (RWS:AIM)** is well positioned to thrive in such an environment due to its strong position providing translation services to half of the top 20 patent filers in the world.

The company is also the world's leading provider of language services and technology, serving 90 of the top 100 brands by value and the top 10 pharmaceutical firms.

The greater role likely to be played by technology should be a key driver of demand for RWS, providing good growth opportunities for its machine learning translation technology.

In the shorter term, the company is benefiting from better than expected cost synergies from the merger with language company SDL. (MG)

DISCLAIMER: Author Steven Frazer has a holding in Blue Whale Growth Fund referenced in this article

The turning point stocks becoming takeover targets

Private equity increasingly looking for firms which have already been fixed

There has been a wave of takeover approaches for listed companies, both from rivals and from private equity buy-out firms in 2021.

Something we have noticed is that, where private equity is concerned, rather than looking for companies which are on their knees and in desperate need of turning round, buyers seem to prefer companies which have already begun the turnaround process and therefore require less money to be pumped into the business.

We have screened the FTSE 100 and the FTSE 250 for firms which seem to have taken a good dose of self-help medicine and are on the road to recovery, meeting private equity's criteria, yet which haven't as yet been rewarded by the market.

RICH PICKINGS

Of the most high-profile takeover bids in the last six months or so the majority have been private equity transactions. Most deals have either gone through or been recommended by the target companies, although there have also been some notable failures such as the MGM Resorts bid for **Entain (ENT)**, which the company's board rejected.

The most recent approach, and in a way the most audacious, was by US private infrastructure equity investor MSI Inc for

hazardous waste recycling firm **Augean (AUG:AIM)**.

On 26 May, Augean posted a trading update to say that, with respect to the HMRC's assessment of landfill tax on its South Augean asset, it would put aside a provision of £1.6 million including interest in its final 2020 results.

With that, the firm drew a line under a bitter dispute which had dogged it for several years. It commented: 'There will therefore be no impact on guidance going forward or on the group's profit as a result of the receipt of the assessment. The assessment will be paid forthwith in order to prevent further accrual of interest.'

A day later, MSI revealed it was 'in the preliminary stages of considering making an approach to Augean regarding a possible offer' for the company.

MSI has until 24 June to decide whether or not to bid, but it has put its cards on the table for all to see. Crucially, it waited for the news on Augean South before showing its hand.

POSITIVE CHANGE

By only targeting firms which have already begun a regime a self-help, private equity buyers are fishing in the same pond as fund managers like Fidelity's Alex Wright, who runs the £2.8bn **Fidelity Special Situations (B88V3X4)** and the £850 million **Fidelity Special Values (FSV)** investment trust.

Both Fidelity funds focus on finding unloved companies which are 'entering a period of positive change' and where Wright believes the shares' recovery potential isn't being recognised by the market.

Wright says he is finding 'a lot of opportunities and of better quality than usual', especially

Private equity firms often look at the ratio of enterprise value to free cash flow when assessing deals as it shows how quickly the cost of an acquisition can be paid back

POTENTIAL PRIVATE EQUITY TAKEOVER TARGETS

Name	Enterprise value/ free cash flow trailing 12-month average	Industry
Imperial Brands	7.5	Food & Tobacco
Kingfisher	6.6	Specialty Retailers
J Sainsbury	6.4	Food & Drug Retailing
Royal Mail	7.8	Freight & Logistics Services
Centrica	7.8	Multiline Utilities
Airtel Africa	9.5	Telecommunications Services
Ferrexpo	8.1	Metals & Mining
Serco	9.5	Professional & Commercial Services
Dixons Carphone	3.2	Specialty Retailers
CMC Markets	9.0	Professional & Commercial Services
Centamin	5.0	Metals & Mining
Lenta	9.5	Food & Drug Retailing
Morgan Sindall	4.5	Construction & Engineering
Mitie	5.7	Professional & Commercial Services
Jersey Electricity	8.6	Electric Utilities & IPPs
Gem Diamonds	4.5	Metals & Mining
Steppe Cement	7.2	Construction Materials

Source: Stockopedia, 2 June 2021.

among smaller-cap stocks and domestically-focused companies like specialist retailers and housing-related businesses which are 'beneficiaries of the current backdrop but not valued accordingly'.

Firms he identifies which are starting to change for the better operationally are **Aviva (AV.)**, **ContourGlobal (GLO)**, **Dixons Carphone (DC.)**, **Inchcape (INCH)**, **John Laing (JLG)** – already subject to a takeover approach – **Imperial Brands (IMB)**, **Pearson (PSON)** and **Vistry (VTY)**.

FIRST-HAND EXPERIENCE

Trevor Green, head of UK institutional equities at Aviva Investors, has seen four of his portfolio firms bid for this year alone: John Laing, **Sanne Group (SNN)**, **St Modwen Properties (SMP)** and **UDG Healthcare (UDG)**.

'The interesting aspect for me is the *timing* of the bids', says Green. 'With John Laing, the new-ish chief executive had sorted out the firm's problems in Australia and was really accelerating the reshaping of the portfolio, yet the share price hadn't responded. For private equity, the execution risk in buying now is miles lower than a year ago so they swooped.'

In the case of St Modwen, the new chief executive 'was only in the job six months and came from outside the industry, so he hadn't had a chance to make his mark' says Green. 'Crucially though, previous boss Mark Allen had done all the hard work tidying up the business but the board wouldn't do the big break-up, so buyers were circling ready to do it.'

The logistics part of the business was obviously a hot area, and while the housebuilding unit was sub-scale, the buyers 'could probably sell it after a couple of phone calls', which just left the land and regeneration part, which is much cleaner now, says Green. 'Again, the execution risk is much lower now than it was a year or two ago', he adds.

MISSED OPPORTUNITIES

There have been a few cases where management has orchestrated a turnaround, or at least convinced the market they have turned round, and the shares have bolted before private equity or other buyers have had a chance to pounce.

Obvious examples are **Hargreaves Services (HSP)**, which simplified its structure by folding its legacy mining business into a German subsidiary which has subsequently shot the lights out, while its property site development business is benefitting from strong demand for new housing. A running *Great Idea*, the shares have almost doubled from less than 200p to 380p in under a year.

Two companies much talked-about as takeover targets, **Premier Foods (PFD)** and **Royal Mail (RMG)**, have both seen their share prices soar since summer 2020, Premier more than doubling from less than 50p to 105p and Royal Mail almost quadrupling from 150p to nearly 600p.

POTENTIAL TARGETS

We have picked three firms which we believe have reformed themselves through hard work and would potentially appeal to private equity buyers.

All three firms are a decent size, meaning they are big enough to 'move the needle' for most private equity firms if they execute well.

Balfour Beatty (BBY)

Buy at 310p
Market cap: £2 billion

Under its 'Built To Last' programme, infrastructure firm **Balfour Beatty (BBY)** has upgraded its capability and its capital discipline to the point where it is now exceeding its internal cash-generation targets.

While 2020 put a brake on progress due to the pandemic, analysts at Numis say the company's turnaround is 'now substantively complete' and they predict growth both in revenues and orders going forward.

With the investment case moving from turnaround to total shareholder returns – the firm has already committed to £150 million of share buybacks this financial year – this would seem the ideal time for private equity to get involved.

Add in an investment portfolio of £1.1 billion which until last week had seen no disposals since 2019, and there is a substantial 'store of value' for potential buyers.

Dixons Carphone (DC.)

Buy at 137p
Market cap: £1.6 billion

Thanks to its market-leading position in home electricals and tech kit and its strong online offering, **Dixons Carphone (DC.)** came through the pandemic in better shape than many analysts predicted.

'We're winning online, where we're the biggest and fastest-growing specialist technology retailer in all our markets', said chief executive Alex Baldock in the firm's January trading update. 'While the outlook remains uncertain, this strong performance makes us more confident than ever that we're on the right path to create a world class business'.

While the mobile business has yet to break even, the wider strategy to simplify the group – which from September will just be called Curry's, a rebrand the chief executive called a 'no-brainer' – and the firm's substantially-improved balance sheet mean the execution risk for private equity is much lower than pre-pandemic.

Serco (SRP)

Buy at 135p
Market cap: £1.6 billion

Most readers will be familiar with the dramatic fall from grace of the UK public sector outsourcing firms during the last decade, but we feel that of the companies involved **Serco (SRP)** has shown the most progress in making itself fit for purpose and a reliable counterparty.

Ironically, the pandemic not only showed the essential role of outsourcing companies but has also likely sped up the procurement process with a particular focus on defence, employment and healthcare, three of the firm's key markets.

Recent contract wins in UK with the Department for Work and Pensions and the acquisition of US defence services firm WBB – which will add to Serco's already impressive US defence assets – are driving both sales and margin upgrades.

Improving momentum in its business combined with new contracts, and a strong balance sheet with no more onerous contract provisions, should make the firm an appealing target for private equity buyers, as long as they pass muster at government level.

By **Ian Conway**
Senior Reporter

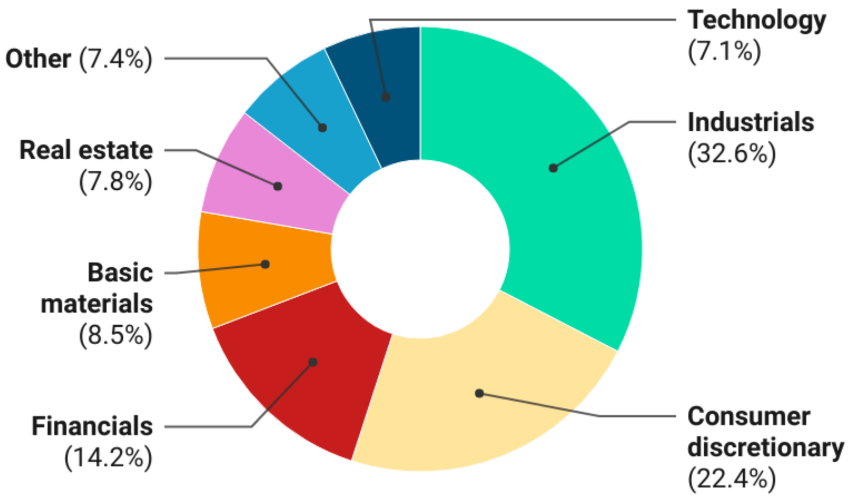
How the 'Heineken Index' can refresh your returns

Maths whizz Jean Roche steers FTSE 250 focused Schroder UK Mid Cap

Since the Covid bottom in March 2020, London's FTSE 100 has rebounded by 36% to 7,061.78 points, but the FTSE 250 has rallied an even more impressive 67.8% to 22,813.47 and this index of 'second liners' is testing new highs.

Mid cap companies are attractive to investors for a variety of reasons; more established than smaller firms, they are regarded as less risky, yet they also tend to be faster growing than their larger, more mature counterparts.

Schroder UK Mid Cap –sector breakdown



Source: Schroders, 30 April 2021 • Created with Datawrapper

MID CAP APPEAL

The FTSE 250 index is also attracting a renewed level of bid interest at present from overseas buyers, with Brexit done and dusted and debt financing having cheapened again after policymakers slashed interest rates and restarted monetary easing in response to the pandemic.

A fervent fan of the UK mid cap space is Jean Roche, lead manager of the **Schroder UK Mid Cap Fund (SCP)**. A former sell-side analyst with a masters in mathematics and a preference for the price-to-earnings growth (PEG) ratio popularised by Jim Slater, Roche describes the mid cap space as 'very dynamic'.

And the overriding reason she likes it is because it is 'capturing those stocks that have come up from the small cap ranks, so have had a chance to establish themselves, and it is catching them at a really great point in their growth path before they get into the FTSE 100.

'Traditionally it is a space where they don't tend to overdistribute dividends,' continues Roche. 'And just look at the 25-year chart of the FTSE 250 versus any other index including the S&P 500. It has outperformed all of those on a total return basis over the last 25 years. It has done way better than the FTSE 100, it stacks up really well globally, but the most exciting thing is at the moment it is actually looking very cheap versus almost any other developed market.'

PORTFOLIO REFRESH

Roche and co-manager Andy Brough, an experienced small and mid cap investor, are often heard referring to the FTSE 250 as the 'Heineken Index' given its potential to 'refresh' portfolios in a way other parts of the market cannot.

Think about it. M&A activity makes room for the next tranche of exciting mid cap companies, which can either be new (or returning companies) which join the stock market through initial public offerings, or small caps vying for promotion to the FTSE 250.

Trading on a 5.7% discount to net asset value (NAV) at the time of writing, Morningstar shows Schroder UK Mid Cap has delivered ten year annualised

AIC UK All Companies Sector			
Company	**Ticker**	**Discount/ Premium (%)**	**5 year share price total return (%)**
Artemis Alpha Trust	ATS	-7	110.1
Henderson Opportunities	HOT	-3.7	110
Schroder UK Mid Cap	SCP	-5.7	89.9
Mercantile	MRC	-4.7	89.2
Baillie Gifford UK Growth	BGUK	3	80.6
Fidelity Special Values	FSV	0.8	73.3
JPMorgan Mid Cap	JMF	1.1	71.8
Aurora	ARR	1.9	52.9
Independent Investment Trust	IIT	-11.4	51.3

Source: The AIC, London Stock Exchange

share price total returns of 13.1%, ahead of the 9.5% generated by the FTSE 250 ex investment companies index benchmark.

And according to the Association of Investment Companies (AIC), the trust is the third best five year performer in the competitive UK All Companies sector on a share price total return basis and has also outperformed **JPMorgan Mid Cap (JMF)**, though its closest peer is actually ahead over 10 years.

Its ongoing charge is 0.9%, with JPMorgan Mid Cap broadly similar at 0.88%.

SCHRODER UK MID CAP FUND

(SCP) 739p

Discount to NAV – 5.7%

Source: Morningstar

FOCUS ON QUALITY

Roche, takes a high conviction approach focusing on high quality companies capable of delivering excess risk-adjusted returns with rising cash flows and earnings, and explains 'we're trying to catch them on their way into the FTSE 100. And the fantastic thing is we have this sell signal which is its going into the FTSE 100, and for a lot of these stocks that's as good as it gets'.

The resilience Roche and Brough look for comes from strong finances, leading environment, social and governance practices as well as a clear strategic direction.

In terms of valuation metrics, Rocher has 'always been a big fan of the PEG, as it gives you something to measure the price to earnings against, but more and more we are starting to look at free cash flow yield and enterprise value (EV) to revenue'.

Top 10 holdings include instrumentation and controls maker **Spectris (SXS)**, fantasy miniatures phenom **Games Workshop (GAW)**, autos distributor **Inchcape (INCH)** and enterprise technology reseller **Computacenter (CCC)**, while the recent M&A glut has seen the trust benefit from the takeovers of two gambling-related stocks in William Hill and **Gamesys (GYS)**.

'We're looking for companies with growth, resilience and pricing power,' says Roche, stressing that the latter characteristic is increasingly important 'as inflation is roaring into the headlines'.

Examples of stocks with pricing power in the portfolio according to Roche include asset manager **Man Group (EMG)**, able to hold its margins by offering differentiated product, as well as **Diploma (DPLM)**, a distributor of essential products to customers in specialised industry segments, and also retail names **Pets at Home (PETS)** and **Dunelm (DNLM)**, which derive a degree of pricing power by selling lots of own brand products.

TRUST IN TRUSTPILOT

'We don't do a lot of IPOs because the seller knows more about the company than you do,' adds Roche, 'but we did participate in **Trustpilot (TRST)**. The currency of trust is becoming more important in an online world and from a consumer point of view, every time I look at a new website or a new company

'I see it has got a Trustpilot rating and I think there's a lot of value in that.' Roche points out that the online reviews platform is 'at an early stage' in terms of its growth, has high gross margins and is 'considerably ahead' of the competition in the UK and in Denmark.

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

RUSS MOULD
AJ Bell Investment Director

What new floats say about the market's future direction

Fresh market listings raise questions about the risks of a downturn for equities

The plunge into bankruptcy of the Softbank-backed, self-styled 'construction industry disruptor' Katerra spares investors in US equities the decision over whether to buy into what would have doubtless been an eventual IPO (initial public offering).

Katerra had been given 'Unicorn' status – a valuation in excess of $1 billion – before it ran out of cash, so investors may have ducked one there, although another Softbank firm, WeWork, is still seeking a US listing, albeit via a deal with a SPAC (special purpose acquisition company), rather than the more traditional flotation route.

This stuff really matters. As John Brooks wrote in his book *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s*: 'If one fact is glaringly obvious in stock market history, it is that a new issues craze is the last stage of a dangerous boom.'

This is because sellers see their chance to cash out at inflated prices as buyers are lured in by rising markets and prevailing bullish sentiment.

The way in which multi-billion-dollar valuations at both WeWork and Katerra just melted away is perhaps confirmation of that warning and investors in UK equities might like to therefore keep a close eye on trends in the new listings market in London.

HOT AND COLD

The bad press surrounding the initial poor performance of both the **Deliveroo (ROO)** and **Alphawave IP (AWE)** flotations may suggest that the London market is far from overheating when it comes to new issues and that, as a result, such concerns may not be warranted.

If anything, the 43 IPOs to have taken place on the London Stock Exchange so far in 2021 appear to have struck a good balance. The average gain provided to those who were able to buy at the listing price is 24, although this column accepts the difficulties that private investors face in accessing IPOs is a major bugbear of many portfolio builders.

FIVE BEST AND WORST PERFORMING IPOS IN LONDON TO DATE IN 2021

Company	Gain/loss vs IPO price
Five best performers	
Nightcap	129.5%
Cornish Metals	115.6%
Caerus Mineral Resources	111.3%
Auction Technology	97.3%
MGC Pharmaceuticals	80.5%
Five worst performers	
Team	(14.8%)
Cornerstone FS	(20.6%)
Alphawave	(23.9%)
Cizzle Biotechnology	(33.0%)
Deliveroo	(34.2%)
Average gain	**23.7%**

Source: London Stock Exchange, Refinitiv data. Data to 7 June 2021.

RUSS MOULD

AJ Bell Investment Director

Insightful commentary on market issues

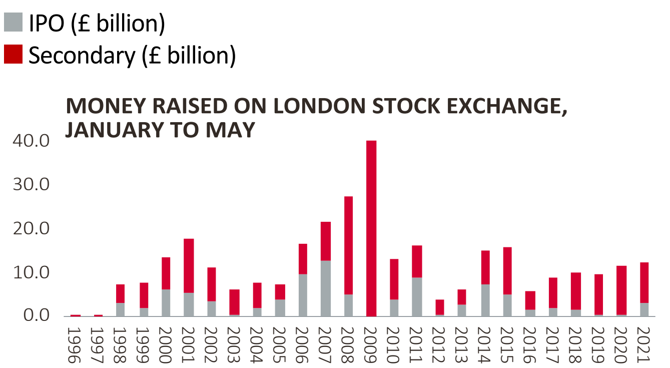
Nor does the amount of capital raised seem excessive, at £3.3 billion, according to data from the London Stock Exchange. This is the highest figure since 2015 but it pales compared to the £10 billion and £13 billion raised in the first five months of 2006 and 2007 respectively, after which trouble arrived in no uncertain terms, to again back up Brooks' analysis of how the US equity boom of the 1960s came unstuck in the early 1970s.

The first five-month tally for 2021 also lags the boom of 2000 and 2001 as tech, media and telecom (TMT) companies rushed to list and sell stock to the unwary enthusiast.

ROUND TWO

Better still, the flow of secondary deals so far seems digestible, as companies whose shares are already listed have raised £9.5 billion in the year to date. It may be the highest figure since 2015 but again it lags the peaks of 2008-09 and 2000-02.

Primary and secondary offering activity in London in 2021 is way below prior peaks



Source: London Stock Exchange. Data to 7 June 2021.

Even though share prices and valuations were collapsing, backers of technology firms were still willing sellers on the latter occasion because they knew the game was up. Perhaps therefore the real warning sign is not so much a rush of (potentially) dud IPOs but a string of secondary offerings that come regardless of how well – or badly - the IPO went.

Investors in Deliveroo and Alphawave IP should take particular note in this case, although this column was intrigued by commodities broker Marex Spectron's decision to list on the London Stock Exchange. This could have been a good test of the current surge in commodity prices.

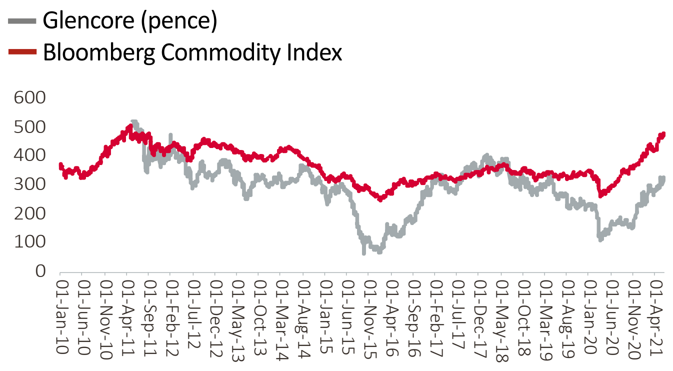
If anyone should know a good time to buy – or sell – it is surely a broker who is an expert in their field, so Marex's move to give existing investors a chance to liquidate some of their investment now did look intriguing, given that the Bloomberg Commodity index is trading very close to its all-time highs of 2008 and 2011.

SMART MONEY

Investors – and thus would-be buyers of the stock – could have be forgiven for asking themselves whether the sellers may know anything they do not and, as *Shares* went to press, the IPO was quietly pulled.

The last big commodity trader who came to market in London was **Glencore (GLEN)**. It did so in 2011 – barely a month after the Bloomberg Commodity index peaked that April at 513, a level to which it is yet to return.

Glencore floated at the top of the last commodities boom



Source: Refinitiv data.

The aggregate amount of money raised by IPOs and secondary placings in 2021 to date is £12.8 billion. Investors have received over £8 billion from share buybacks and some £30 billion in dividends. Bull markets tend to wither when the money runs out and it does not look like we are reaching that stage, at least just yet.

VIETNAM HOLDING

Vietnam Emerging Strongly

Craig Martin, Chairman – Dynam Capital

FOR STEPHEN CAMERON of Motherwell, a large Scottish town, Vietnam is a life saver. In 2020, the nation's 100 million population rallied around him when he became 'Patient 91' and spent 10 weeks in a coma due to Covid-19. "I'd be dead in any other country," he sighed on his safe return to the UK. Vietnam may seem exotic to many and dreamy for those who have visited, given the wonderful food, beautiful scenery and bustling cities buzzing with motorbikes and busy entrepreneurs. Geography book pictures of rice-paddies or history book mentions of victory in a war against the United States might spring to mind for those who have not yet been fortunate to visit the country. Today Vietnam is recognized as a trade and manufacturing champion, attracting large international companies in recent years given its strategic location in the center of Southeast Asia.

Vietnam is on a mission. In March, its newly elected government re-affirmed it was on path to become a middle income, modern, industrialized nation and a key component of the world's global supply chain. Having grown its economy by 3% during the global pandemic in 2020, as many others around the world shrank, the country is back on its 30-year track of 7% GDP growth despite recent outbreaks of Covid-19 variants. It is also one of the most digitalized economies in the region, with more mobile phones than people and a growing e-commerce sector. The per capita GDP has recently passed US$ 3,000, which is considered by many as an inflection point towards a consumer society.

For investors, Vietnam can be a great diversification play, with investment trusts such as **Vietnam Holding (VNH)** often trading at an attractive discount to their underlying Net Asset Values (NAV). In the current financial year, for example, the NAV per share of VNH has risen by 90%, outperforming the main Vietnam Index, which increased 62%. The shares themselves can even be bought at a 20% discount to the underlying NAV.

VNH's manager, Dynam Capital, has constructed a portfolio with a forecast earnings per share growth of 40% for 2021 and yet at an undemanding price-earnings ratio of just 11x. Dynam Capital has an active style of management, engaging with its portfolio companies on Environmental, Social and Governance (ESG) matters and VNH has been a signatory of the UN's Principles for Responsible Investing for over a decade.

For UK investors, buying an investment trust like VNH is straightforward – see VNH page for more information and deal as you would with any share through your AJ Bell account.

More information on the Fund may be found at **www.vietnamholding.com**

Everything you need to know about pensions tax relief

We provide an extensive run through of the different limits, allowances and rules

Successive governments have encouraged saving for later life by offering the financial incentive of not paying income tax on money paid into a pension plan.

Pension tax relief boosts pension savings and the final amount available to retire on, thereby increasing the chance of a decent income to live on in later life. Therefore, fewer people are likely to fall back onto state benefits.

It's a valuable incentive and it's worth understanding how it works in practice.

CAN EVERYONE GET PENSION TAX RELIEF?

You must be a 'relevant UK individual' to qualify for relief. The definition is a bit complicated, but this is generally someone who:

- has 'relevant UK earnings' (see below for what that means);
- has been resident in the UK at some time during that tax year, or;
- was resident in the UK at some time during the previous five years.

You can only receive pensions tax relief on contributions up to the age of 75. Some providers will still accept pension contributions after that age, but some won't.

HOW DO I GET THE PENSION TAX RELIEF?

How you get your pension tax relief depends on the type of pension plan you are paying into.

If you are paying into an employer's defined benefit scheme the scheme will operate pension tax relief by the 'net pay method'. This is also the case for some defined contribution workplace pensions.

This is when your employer will take your pension contributions from your salary before it's paid to you; after National Insurance has been taken off, but before any income tax is deducted. That way you receive the pension tax relief immediately.

Other types of pension schemes – including SIPPs – operate a 'relief at source method'.

Under this method you will pay pension contributions from 'take-home' salary – in other words National Insurance and income tax have already been deducted. When you pay into your pension the provider claims the basic rate tax relief at 20% from HMRC, and this is paid directly into your pension plan.

To work out your 20% basic rate tax relief calculate 25% of your pension contribution.

EXAMPLE:

Raj pays £1,000 into his SIPP. His provider claims back the basic rate tax relief from HMRC. This is £250 and added to his pension pot. Raj's pension plan is now worth £1,250.

(In effect the £1,000 paid in is £1,250 salary less 20% tax that is then reclaimed.)

EXAMPLE:

Emily earns £60,270 in the 2021/22 tax year and pays 40% tax on £10,000. She pays £15,000 into a SIPP.

She automatically gets relief at source on the full £15,000 at 20%. She can claim an extra 20% on £10,000 (the same amount she paid higher rate tax on) through her self-assessment tax return. She doesn't get further relief on the remaining £5,000 paid into her pension (as this is the proportion she only paid basic rate tax on).

WHAT HAPPENS IF I DON'T PAY 20% TAX?

The relief at source method may make sense if you pay tax at the basic rate of 20%. But not everyone does.

Those who pay a higher rate of tax can claim the difference between that and 20% by claiming it through their self-assessment or by getting in touch with HMRC (additional rate taxpayers must use self-assessment). The amount of tax they owe to HMRC will automatically be adjusted to take account of this additional tax relief, or a refund may be paid.

If you don't have any relevant UK earnings – perhaps because you are unemployed or a student – then you can still receive the automatic 20% basic rate tax relief for a net contribution of up to £2,880 every tax year, meaning your total pension contribution with tax relief would be £3,600.

For example, grandparents could pay £2,880 into their grandchild's Junior SIPP each year, and it would be boosted to £3,600 by the addition of pensions tax relief. Those whose earnings are within the personal allowance can also receive the automatic relief even though no tax is actually paid if their scheme operates relief at source.

Scottish residents pay different rates of income tax, so they can claim different rates of pensions tax relief. They can claim further tax relief of 1% (if they pay 21% tax), 21% (if they pay 41% tax) and 26% (if they pay 46% tax). If they pay 19% tax they can receive the automatic 20% tax relief on the whole of their contribution (up to the limits allowed – see below).

IS THERE A LIMIT ON THE AMOUNT OF TAX RELIEF I CAN RECEIVE?

There are a couple of limits to be aware of when it comes to pensions tax relief.

First, personal contributions which can receive tax relief are limited to 100% of your relevant UK earnings. Generally, all earned income, such as pay, bonus, overtime and commission, qualify as relevant earnings. But investment income and dividends are not included, nor is income from pension products such as an annuity or income drawdown.

HMRC rules allow contributions to be paid which are more than 100% of UK relevant earnings without tax relief, however your provider may not accept them.

WHAT IS THE ANNUAL ALLOWANCE?

Second there is the annual allowance. If your total contributions – including any tax relief, employer contributions, and any contributions paid to your pension plan by a third party – exceed the annual allowance then a tax charge applies.

The standard annual allowance is £40,000. But if you are a very high earner then the tapered annual allowance will apply. That will reduce the annual allowance, potentially as low as £4,000 (if you have an income of more than £312,000).

If you have 'flexibly accessed' your pension plan – for example you have taken a taxable income from it – then the money purchase annual allowance will be triggered, and this is only £4,000 per tax year.

If your total contributions are over and above your annual allowance, then you will have to pay an annual allowance charge. You cannot get a refund of contributions simply because you breached the allowance. You must report the charge through your self-assessment, in certain circumstances you can ask your pension scheme to pay it for you.

IS THAT IT FOR LIMITS?

It's worth being aware there is another big limit for pensions – the lifetime allowance. Your pension funds are tested against this limit when you take benefits, reach age 75 or if you die earlier without accessing all your funds. The lifetime allowance is currently £1,073,100 and will be frozen for the next five tax years (although you may have a higher lifetime allowance if you have claimed protection.)

If you exceed your lifetime allowance, then there will be a charge on the excess amount.

ARE THERE ANY OTHER TAX INCENTIVES FOR PENSIONS?

There are other valuable tax incentives associated with pensions. Once contributions are invested, they grow largely free of taxes until you decide to draw your retirement benefits. When you do, 25% of the pension pot can usually be paid as tax-free cash.

The remaining 75% is taxed as income when you take it. But

you could have the freedom to decide how and when to take the money to make sure it's tax efficient.

Pension pots are usually sheltered from Inheritance Tax (IHT). If you die before age 75 then any income or lump sums taken from your pension pot by your beneficiaries will usually be free of income tax. Although, if you over 75 when you die then they will have to pay income tax on the money they receive.

Employer pension contributions are treated as a legitimate business expense, so no tax is due on them.

HOW DOES PENSION TAX RELIEF COMPARE TO THE LIFETIME ISA BONUS?

Lifetime ISAs allow payments in of up to £4,000 a year, with each payment benefitting from a 25% Government bonus. In practice this is exactly the same as basic-rate pension tax relief

You must be aged 18-39 to open a Lifetime ISA, and once opened you can keep paying in up to £4,000 annually and receiving the 25% bonus until the day before your 50th birthday, regardless of your income tax band. You can then withdraw the money tax free if it's being put towards a first home worth £450,000 or less, from your 60th birthday, or if you become terminally ill.

In all other circumstances the Government will levy a 25% early withdrawal charge.

Like a pension, investment growth is tax-free in a Lifetime ISA.

From a tax angle Lifetime ISAs represent a viable alternative to pensions for basic-rate taxpayers, benefitting from the same upfront bonus on the first £4,000 paid in but being able to take the whole fund tax free (albeit a few years later than a pension).

Lifetime ISAs also offer extra flexibility as you can access the money at any age (subject to an early withdrawal charge). For higher and additional-rate taxpayers, pensions mean higher tax relief.

But be aware: by choosing not to pay into a pension you may lose your valuable employer pension contributions, and that will seriously impact your later life savings. As ever, it all depends on your personal circumstances.

By **Rachel Vahey**
Senior AJ Bell Technical Consultant

WATCH RECENT PRESENTATION WEBINARS

Equals Group (EQLS)
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.

Trackwise (TWD)
Philip Johnston, CEO

Trackwise Designs is the manufacturer of printed circuit boards. T It primarily serves the aerospace, industrial, automotive, marine, space, defense, Scientific and telecommunications industries.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos

Will pension death benefits survive Covid?

Our resident expert looks at whether changes to the inheritance status of retirement pots are coming

Do you expect the Government to continue to allow such generous pension death benefits given the financial challenges posed by coronavirus?
Chris

Tom Selby
AJ Bell
Senior Analyst says:

It's probably worth explaining how pension death benefits work before getting into any possible future changes.

Two sets of reforms were introduced in April 2015 designed to make pensions more attractive. The first and likely most well-known reform were the 'pension freedoms', allowing anyone aged 55 or over to access their defined contribution pot as and when they want.

This marked a changing of the guard for retirement income options, opening a world of choice and flexibility up to ordinary savers.

Since 2015 around three people enter drawdown for every annuity bought, whereas before securing a guaranteed income from an insurance company was the most common option.

The second less-heralded change was to how defined contribution pensions could be passed on to loved ones on death.

It is now possible to pass any undrawn funds tax-free to your nominated beneficiaries if you die before age 75.

If you die after age 75, any funds passed down to your beneficiaries will be taxed at their marginal rate when they come to make a withdrawal.

If your beneficiary then dies before age 75, that money can be passed on to their beneficiaries tax-free too. This reform at a stroke made pensions not just a tax-efficient inheritance vehicle, but one which can potentially be used to pass wealth down the generations. In many cases, it now makes sense for your pension to be among the last financial assets you spend in retirement.

There are a couple of important things to remember here. If you die before age 75 then funds must be paid to your beneficiaries within two years to be tax-free. If they are not then they will be taxed at your recipients' marginal rate of income tax.

If your fund or part of your fund hasn't been tested against the lifetime allowance before you died, a test will be carried out before any funds are passed on. However, any inherited pension funds will not count towards the lifetime allowance of your beneficiaries.

You should also make sure your nominated beneficiaries are kept up-to-date so your pension provider knows who you would like to receive your pension when you die.

WILL THE GOVERNMENT MAKE CHANGES TO DEATH BENEFITS?

There are no guarantees about policy in this area – or any other area for that matter. We have already seen the chancellor announce a freeze to the lifetime allowance for the rest of this parliament, although encouragingly the treasury has played down the prospect of radical pension tax relief reform.

Given the level of uncertainty that exists around all tax-incentivised savings products, the best anyone can really do is save based on the rules as they see them today and adjust plans as and when any changes are announced.

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.

How sectors can help with fund and trust selection

Familiarising yourself with different investment categories can be really useful

For novice investors, selecting the right fund or investment trust from the thousands available to suit your target returns and risk tolerance is not easy.

To help you decide industry trade bodies the Investment Association (IA) and the Association of Investment Companies (AIC) provide a menu to choose from by separating collectives into different sectors.

This enables you to narrow down choices and make like-for-like comparisons between funds in one or more sectors in terms of performance and fund charges.

Sector definitions based on what assets the fund is invested in, largely equities (shares) or fixed income (bonds), as well as their geographic focus.

The recent addition of over 530 exchange-traded funds (ETFs) increased the number of funds classified by the IA across 52 sectors to 4,100-plus.

Broadly, the IA system splits funds between 'income' and 'capital growth', then classifies them by asset type, region or industry sector. The AIC's sector classification system provides more than 50 categories.

GO FOR GROWTH

The IA UK All Companies sector's funds must invest at least 80% of their assets in UK companies and these collectives have capital growth as their main objective. This sector could be a good first port of call for a novice, since it offers exposure to domestic companies and household name brands with which the first-time investor will be familiar.

Elsewhere, IA UK Equity Income encompasses funds that invest the bulk of their assets in UK shares and aim to deliver a higher yield than the FTSE All-Share.

And for those wishing to venture overseas, the IA Global sector houses funds that invest in a diversified mix of global shares.

Asia Pacific ex Japan is a longstanding IA sector that includes funds which invest at least 80% of their assets in Asia Pacific equities and exclude Japanese shares, although up to 5% of the total assets of its fund can be invested in Japanese equities (to allow flexibility for corporate actions, for example).

Why, one might ask, is Japan excluded from this sector when major regional country rivals aren't? An IA spokesperson has the answer: 'Japan is the largest developed market in Asia with a highly developed economy. China and India are considered developing countries and may be more difficult for investors to access.

'We keep all our sectors under review to reflect the evolution of the retail investment market.'

Investors looking for exposure to the US, the world's largest, most liquid stock market, are well served by the IA and AIC

IA SECTORS (RANKED BY FUNDS UNDER MANAGEMENT)

Sector	£ billion
Global	172.1
UK All Companies	165.5
North America	84.8
Mixed Investment 40-85% Shares	81.6
£ Corporate Bond	70.5
Europe Excluding UK	65.2
Mixed Investment 20-60% Shares	56.5
Targeted Absolute Return	49.8
Volatility Managed	47.6
UK Equity Income	44.9

Source: Investment Association, data to 30 April 2021.

North America sectors through funds such as **Baillie Gifford American (0606196)** or the **JPMorgan American (JAM)** and **North American Income (NAIT)** investment trusts.

BONDS & PROPERTY

Investors seeking reliable income rather than rapid growth should familiarise themselves with the IA's Fixed Income sectors - these include the UK Gilts, Sterling Strategic Bond and the Global Government Bond and Global Corporate Bond sectors.

Put simply, corporate bonds are loans to companies that pay a fixed rate of interest to investors and help diversify your portfolio away from equities to reduce risk and volatility. Strategic bond funds invest in a greater variety of fixed-interest investments, giving their fund managers more options.

The IA's global bonds sectors might suit investors who want exposure to overseas fixed-income markets as a global approach to bond investing can help diversify a balanced portfolio and provide opportunities that are not available in the UK; the Global Government Bond sector includes funds which invest at least 80% of their assets in government backed securities from around the world in a variety of currencies.

For those interested in real estate, the IA's property sectors can provide you with exposure to property assets ranging from commercial and residential assets to care homes and doctor's surgeries.

However, risk-averse investors should be aware that in recent years, dealings in numerous open-ended property funds has been suspended, tying up investors' cash as the funds were unable to sell property quickly when investors wanted their money back.

The structure of investment trusts, which trade on the stock market, means they do not face the same problem. Although they may trade at a discount (or premium) to the value of the underlying assets.

FIND OUT MORE

These are just some of the principal sectors, but as the first-time investor gains experience, he or she might elect to purchase funds and trusts offering broad-based exposure to regions such as Europe and Latin America – investment trust examples include **BlackRock Latin American (BRLA)** and **Fidelity European (FEV)** – or country specific funds focused on the US, China, India and Vietnam.

There are also sectors focused on opportunities in the infrastructure, private equity and leasing industries, as well as on niche areas such as music royalties. The AIC now has a Royalties sector, which contains **Hipgnosis Songs Fund (SONG)** and **Round Hill Music Royalty (RHM)**.

More information on the Investment Association's fund sectors, can be found here [insert hyperlink over here and you can drill down further into the AIC's sector classification system here.

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

SHARES
INVESTOR EVENING
WEBINAR

16 JUNE 2021

Presentations:
18:00 BST

Sponsored by
AJBell Youinvest

Join ***Shares*** in our next Spotlight Investor Evening webinar on Wednesday 16 June 2021 at 18:00

CLICK HERE TO REGISTER

COMPANIES PRESENTING:

IMPAX Asset Management

IMPAX ASSET MANAGEMENT GROUP
Ian Simm, Founder & Chief Executive
Impax Asset Management Group offers a range of listed equity, fixed income and private markets strategies utilising the firm's specialist expertise.

KAVANGO RESOURCES plc

KAVANGO RESOURCES
Ben Turney, Executive Director
Kavango Resources is an exploration group targeting the discovery of mineral deposits in Botswana. The company's operating segment include Exploration and Corporate.

POWER METAL RESOURCES

POWER METAL RESOURCES
Paul Johnson, Chief Executive Officer
Power Metal Resources is an AIM listed metals exploration and development company. The Company has a global portfolio of project interests North America, Africa and Australia.

wentworth

WENTWORTH RESOURCES
Katherine Roe, CEO
Wentworth Resources is an East Africa-focused upstream oil and natural gas company. It is actively involved oil and gas exploration, development, and production operations.

The webinar can be accessed on any device by registering using the link above

Event details
Presentations to start at 18:00 BST

Contact
Lisa Frankel
media.events@ajbell.co.uk

Register for free now
www.sharesmagazine.co.uk/events

INDEX

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

11 June: MindGym, Stenprop. **14 June:** Augmentum Fintech, Draper Esprit. **15 June:** Anemoi International, CML Microsystems, Iomart, Tatton Asset Management, Thalassa, TP Group, Vianet. **16 June:** AO World, Best of the Best, Castings. **17 June:** Halfords, NextEnergy Solar Fund, Record, Renold, Syncona, Volex.

Half-year results

14 June: Crest Nicholson. **15 June:** On The Beach, Oxford BioDynamics, Pressure Technologies, Ramsdens.

Trading statements

11 June: Frontier Developments. **14 June:** Shree. **15 June:** Ashtead. **16 June:** Origin Enterprises.

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

All chart data sourced by Refinitiv unless otherwise stated

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.