STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 23 / ISSUE 24 / 24 JUNE 2021 / £4.49

SHARES

WE MAKE INVESTING EASIER

HARDER TIMES FOR MINERS?

Why you need to get smart with commodity exposure

PLUS

WHAT **BLOCKBUSTER BID** FOR **MORRISONS** MEANS FOR GROCERIES STOCKS

HOW **EARNINGS MOMENTUM** IMPACTS SHARE PRICES

AIM'S LARGEST EVER **NEW LISTING**

SCOTTISH MORTGAGE INVESTMENT TRUST

How long do we invest in companies that we believe are delivering progress?

Somewhere between five years and forever.

As actual investors we understand the importance of patience and looking to the long term. Because it takes time to change the world. And we seek out those innovative, growth companies aiming to achieve just that. This approach to investing, we believe, means **Scottish Mortgage** can also deliver exceptional returns for your portfolio over the long term. Over the last five years the **Scottish Mortgage Investment Trust** has delivered a total return of 347.9% compared to 98.5% for the sector*. And **Scottish Mortgage** is low-cost with an ongoing charges figure of just 0.36%**.

Standardised past performance to 31 March*	2017	2018	2019	2020	2021
SCOTTISH MORTGAGE	40.9%	21.6%	16.5%	12.7%	99.0%
FTSE ALL-WORLD INDEX	33.1%	2.9%	10.7%	-6.2%	39.6%

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

Find out more by watching our film at scottishmortgageit.com
A Key Information Document is available. Call 0800 917 2112.

BAILLIE GIFFORD | *Actual Investors*

*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

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for 30 days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within 30 days after the on-sale date of the magazine.

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
Capital at risk.
Pension rules apply.
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

Can oil and gas ever be ESG friendly?

An increasing number of oil and gas firms are focused on reducing their carbon footprint

While the pledge to hit net zero targets by oil and gas majors **BP (BP.)** and **Royal Dutch Shell (RDSB)** may have captured the headlines over the past 18 months or so, the push for more ESG-focused strategies is permeating further down the industry food chain.

In most of this author's recent discussions with companies in the sector, the ESG (environmental, social and governance) angle has been brought up unsolicited by the management teams involved.

However, can buying oil and gas shares ever truly be compliant with an ESG investment approach or are these companies just paying lip service to the latest hot trend in the markets?

An example of a small cap company positioning itself to be at the forefront of energy transition is **Kistos (KIST:AIM)**. It is run by Andrew Austin, who may be familiar to some investors from his previous ventures Rockrose Energy (taken over in July 2020 in a £243 million deal) and **IGas Energy (IGAS:AIM)**.

Austin explained to *Shares* that the acquisition of Tulip Oil Netherlands, on which the company recently completed, was a step on the road to Kistos being one of the lowest emitting operators in Europe.

The Q10-A field picked up as part of the deal uses solar and wind power, and carbon emissions were less than 10 grammes per barrel of oil equivalent in 2020 compared with an average level of 21 kilogrammes for the North Sea as a whole. The plan is to further develop these assets using solar and wind power.

Kistos is a bit of an outlier in that its strategy is explicitly built around reducing emissions. However, **Orcadian Energy**, which plans to list on AIM in late June or early July, is another company which has signalled its commitment to reducing emissions.

Orcadian is raising £5 million to support the development of its Pilot heavy oil field in the

North Sea and chief executive Steve Brown told *Shares* that the company is in talks with wind power firms about the installation of turbines to help supply power to the project which has 77.8 million barrels of proven and probable reserves. This is part of a wider Oil & Gas Authority-led electrification project in the North Sea.

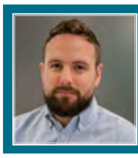
While oil and gas firms can reduce the emissions of their operations, there is no escaping the reality that the hydrocarbons they produce are themselves polluting.

However, before we dismiss these companies' ESG ambitions entirely, it is worth remembering that demand for oil and gas is not going to disappear overnight.

The International Energy Agency recently put out a forecast suggesting oil demand would surpass pre-pandemic levels in 2022.

Even if the priority of these businesses is inevitably to profit from sales of oil and gas, by seeking to be good stewards of these assets, which would likely be developed anyway, they are at least limiting the harm done to the environment.

Whether or not that makes them suitable for those investing with an ethical bent is open to question.



By **Tom Sieber** Deputy Editor

M&A fever in the supermarket sector after Morrisons bid

Groceries stocks are among the most shorted in the market

Surprise news that supermarket group **Wm Morrison (MRW)** had been approached by US private equity firm Clayton, Dubilier & Rice with a £5.5 billion bid, sent the shares 30% higher on 21 June and has sparked a frenzy of speculation in the wider groceries sector.

CDR, which was advised on its bid by former **Tesco (TSCO)** boss Sir Terry Leahy, is no stranger to the UK retail scene having acquired **B&M European Value (BME)** in 2013 before taking it public in 2014.

Morrison's board, led by chairman Andrew Higginson and chief executive David Potts, by coincidence two of Leahy's closest lieutenants during his reign at Tesco, rejected the 230p per share bid on the basis it 'significantly undervalued Morrisons and its future prospects'.

GAINS FOR SOME, PAIN FOR OTHERS

While major shareholders in Morrisons such as Silchester (15%), Threadneedle (7.4%), Majedie and **Schroders (SDR)**, both with holdings of just under 5%, were busy celebrating, the hedge fund community was licking its wounds at the 30% price spike.

Morrisons is one of the most shorted stocks in the FTSE 100, with 5.7% of its outstanding capital on loan. Major short sellers include BlackRock (2.29%), Pelham (1.65%), Citadel (0.73%), GLG Partners (0.53%) and Third Point (0.5%) according to data collected by ShortTracker. Shorting involves taking a position to benefit from the share price falling.

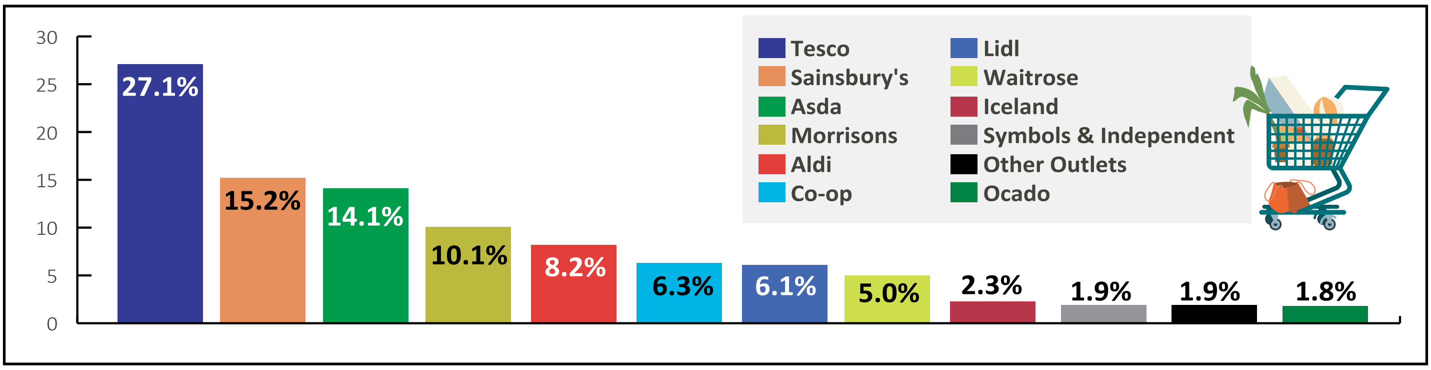
Rival supermarket group **Sainsbury's (SBRY)** is *the* most shorted stock in the main index, with four of the five fund managers short Morrisons replicating their bet while Marshall Wace (1.29%) and KPS (0.68%) are also on the list of short sellers. Sainsbury's shares jumped 4% to 271p on 21 June, their highest level since 2019.

CHEAP CASH COWS

While sales have started to normalise following a year of spectacular growth during the pandemic, the supermarkets are still prodigious generators of cash thanks to their negative working capital model (they get customers' cash before paying suppliers) making them highly attractive to private buyers.

Earlier this month the regulator nodded through the £6.6 billion takeover of Asda – the UK's third-largest grocer by market share – by the Issa

UK supermarkets market share



Source: Kantar, data covers 12-week period to 13 June 2021 brothers and private equity backer TDR Capital. Results for the year to March show former owner Walmart took almost £3 billion in dividends before the handover.

Despite a sharp fall in return on capital in the year to January, caused by a net cash outflow of £450 million due to lower fuel sales, lower profits and higher inventories, Morrisons still increased its full year pay-out by 27% and paid a special dividend. CDR will be rubbing its hands at the prospect of a recovery to a more normal level of cash flow this year.

SALES STAGNATING

To illustrate the slowdown in sales, according to the latest data from consultancy Kantar, the UK grocery market shrank by 1.6% in the 12 weeks to 13 June 2021 compared with 2020, although sales were still £3.3 billion higher than the same period in 2019.

Take-home food sales are down on 2020 as last year's lockdown prompted a huge jump in demand for eating at home, added to which the number of shoppers fell during May and June as indoor hospitality reopened and people dined out more.

Average basket sizes fell as fewer people did the 'big weekly shop' and the supermarkets reverted to promotions to attract customers. Prices were down a whopping 19% on average as almost 30% of grocery spending involved some kind of discount or deal.

Having struggled against their rivals last year through having no online ordering or delivery service, discounters Aldi and Lidl have outperformed this year and now hold a record 14.3% joint share of the market, putting them ahead of third-placed Asda with 14.1% of the market.

If anything, the pandemic and consumers' focus on essential products – categories where the discount chains have always been strong – have

opened the discounters up to an entirely new demographic.

According to GlobalData, the UK discount market could grow by more than a third over the next year to reach £32.5 billion of sales. That presents an enormous challenge to the Big Four supermarkets as well as to smaller rivals like Coop and Iceland.

AND THEN THERE WERE TWO?

CDR has until the close of business on 17 July to announce whether it will make a firm offer for Morrisons. If it does manage to buy Morrisons, investors will be left with a straight choice between market leader Tesco and runner-up Sainsbury.

Berenberg analysts comment that the Morrisons news should have a 'positive readacross to the rest of the UK grocery space; the UK grocery sector's relatively cheap valuations and cash generation may appear increasingly compelling to private markets'.

Tesco's first quarter update was encouraging in as much as the internet shopping habit has stuck, with customers who are now used to ordering online ordering more frequently and the firm handling 1.3 million orders per week.

Also positive was the recovery in clothing and general merchandise as people gear up for the summer, while the Booker wholesale business benefitted from the reopening of the food service sector with sales up by more than two thirds on last year.

However, with little clarity on the outlook, in particular the possibility of more restrictions to halt the spread of new variants, chief executive Ken Murphy remained in cautious mood, sticking to his guidance that earnings would recover to pre-pandemic levels and no more.

Sainsbury publishes its first quarter results on 6 July, which if Kantar's sales data is any guide should at least match Tesco in terms of growth, although it has a significantly smaller market share. [IC]

Earnings remain key to returns amid inflation and rates shock

Experts hopeful that stock markets can continue to make progress as Fed fears fade

Global stock markets could be powered higher by strong corporate earnings in the months ahead, experts believe, despite ongoing expectations for tighter monetary policy measures potentially weighing on valuations through the rest of this year and into 2022.

'We expect earnings to drive returns in 2022,' said analysts at US bank Wells Fargo, who estimated that earnings per share for the S&P 500 will increase to $220 in 2022. That compares to a 2022 earnings consensus forecast of $205.45, according to data compiled by Refinitiv, and $187.17 for this year to 31 December.

If those estimates prove correct it would imply earnings growth of between 10% and 18% in 2022. 'Our year-end [2021] median price target for the S&P 500 is 4,900,' the Wells Fargo analysts said, 16% above current 4,225 levels.

Rising inflation and how best to manage it has been on the minds of economists and investors right through 2021 yet the debate looks set to run and run. Fresh economic projections released after the Fed's policy meeting on 16 June showed 11 of 18 policymakers are pencilling in at least two quarter-percentage-point rate increases by the end of 2023, a shift from March when a clear majority of policymakers favoured no change to borrowing costs until 2024.

The tilt to a faster than expected start to hiking rates caught markets by surprise and saw a sharp sell-off in US stocks, which suffered their worst week in several months. The Dow Jones posted its largest weekly fall since October while European markets followed with a broad sell-off. The UK's FTSE 100 lost 1.6% before rebounding.

Japan's Nikkei 225 index enjoyed a particularly see-saw response to the Fed's meeting, slumping more than 3% on 21 June and rebounding by a

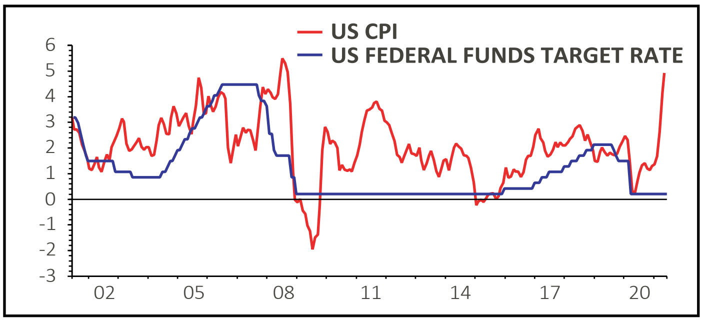
similar amount in percentage terms on 22 June.

The Bank of Japan made its first purchase of exchange-traded funds tracking Japanese stocks since April as it stepped in to support the market.

IMPROVING ECONOMIC PROSPECTS

'The takeaway from the Fed meeting was straightforward, the long-run outlook for economic activity is better, the long-run outlook for inflation is unchanged,' said analysts at Jefferies.

Quite how the inflation versus recovery debate plays out in the UK is also up in the air. The Bank of England has indicated a greater willingness to dial back its emergency stimulus but it is not facing the same pace of price rises as the US, which is dealing with an annual inflation surge to 5%.



'The Bank of England is likely to talk of upside risks to its existing inflation view for this year while also reiterating its message that much of the current price surge is likely to be transitory,' believe analysts at Nomura. [SF]

Victorian Plumbing is AIM's largest ever float as Wise plots direct listing

The latest market newcomer show there's still life in London's IPO pipeline

Despite the likes of Marex Spectron, Tungsten West and Elcogen postponing proposed flotations, there are still signs of life in London's new listings market.

Payments app Wise is planning a so-called direct listing that could value the company at £9 billion, while online bathroom products retailer **Victorian Plumbing (VIC:AIM)** arrived on AIM (22 June) with a starting tag of £850 million, the biggest debut market cap the junior exchange has ever seen.

Spotify, Slack and Roblox have shown direct listings can work successfully in the US, but Wise is seeking the first direct listing of a technology company on the London Stock Exchange.

Direct listings have been around on the London market for quite some time and are better known as introductions, differing from an initial public offering in that the company joins the stock market without raising any capital.

Wise doesn't need to raise any fresh funds and has been profitable since 2017, but pursuing a direct listing will raise the company's profile and provide the opportunity for the payments play to strengthen relationships with customers and enable them to become shareholders.

Having a dual class share structure however means Wise won't qualify for the FTSE indices. Being in the FTSE 250 or FTSE 100 is considered a badge of honour for businesses, so that is a missed opportunity for the company.

Wise's pre-tax profits more than doubled to £41 million in the year to March 2021 and the payments app says it serves 10 million customers worldwide and sends over £5 billion across borders each month, saving customers over £1 billion a year compared to these transactions being made with a bank.

Top 10 AIM admissions by market cap

Company	Commenced trading	Market cap at IPO (£ million)
Victorian Plumbing	22-Jun-21	850
Nikanor	17-Jul-06	839
Market Tech	22-Dec-14	750
New Star Asset Management	08-Nov-05	704
Eddie Stobart Logistics	25-Apr-17	573
Boohoo	14-Mar-14	560
Lancashire Holdings	13-Dec-05	556
Playtech	29-Mar-06	548
Delek Global Real Estate	03-Apr-07	530
Northumbrian Water	23-May-03	518

Source: Dealogic, LSE, Shares

Guided by founder and CEO Mark Radcliffe, Victorian Plumbing enjoyed a strong market debut after raising £11.6 million of fresh funding at 262p, investors evidently enthused by the potential of the company.

Victorian Plumbing has grown far more rapidly than its competitors to become the UK's leading online specialist bathroom brand by revenue in 2020 according to Mintel and the country's second largest retailer of bathroom products with an estimated 14.2% of the bathroom market by sales in 2020.

Other firms planning to go public include digital transformation services company Silverbullet and another set to test investors' appetites is Seraphine, the posh maternity-to-nursing wear brand whose revenue grew at a compound annual growth rate of 22% between the 2014 and 2021 financial years, driven by expansion into new geographies and the rapid growth of its own digital platform. [JC]

Investors should hitch a ride on Volex's growth train

EVS AND DATA CENTRES MAKE UP 20% OF VOLEX'S REVENUE

Volex seems to be well positioned to deliver profitable growth

We think power cords and cable assembly company **Volex (VLX:AIM)** can achieve double digit growth driven by a proven acquisition strategy and increasing demand for EVs (electric vehicles) and data centres.

Cables and power cords might sound like a dull business, but they are essential kit for many industries, from consumer electronics and medical imaging equipment, to fast growing data centres and EV charging.

A new management team came on board in 2016 led by executive chairman Nat Rothschild and they have engineered an impressive turnaround.

Operating margins have increased from less than 2% to around 10%, which management believe is sustainable given the operational changes made to the business. The company is now more resilient and geographically diversified.

Although the shares are up 10-fold over the last five years, that doesn't reflect the even bigger improvement in profitability with adjusted operating profit up more than 11-fold.

Having fixed profitability, management have targeted top-line growth. The goal is to expand revenues and operating profit to $650 million and $65 million respectively by 2024.

VOLEX
BUY
(VLX:AIM) 372p

Market cap: **£539 million**

This represents roughly 50% growth on the just reported (17 June) 2021 figures which delivered the strongest performance in 20 years.

Nat Rothschild told *Shares* that the company 'had a good runway' for growth.

Mergers and acquisitions will play a key role in achieving the growth targets. In the last three years Volex has executed six acquisitions investing over $100 million.

The company says it has a strong pipeline of quality targets and is aiming acquisitions to contribute 10% annualised growth.

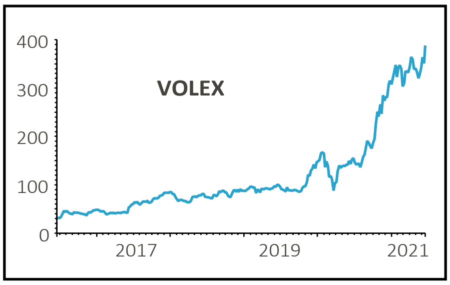
Each deal must satisfy strict criteria including deepening customer relationships, providing greater valued-added capabilities, and increasing geographical exposure.

The auto industry's move to electric vehicles has created a strong driver for the group's power cords business which has been enhanced by the company's experience in the technology associated with electric vehicle charging.

In the year to 4 April 2021 revenue grew 193% year-on-year to $53.1 million and Volex is actively investing to increase its range of products in this area.

Volex generates around $42 million of revenues from providing power cords and equipment to data centres. The move towards remote working has increased the demand for cloud-based services which in turn has increased the utilisation of data centres.

Exposure to these fast-growing industries which make up around 20% of revenue combined, together with a strong pipeline of acquisitions, should provide a potent cocktail for growth. [MG]



Want to invest in Asia's best companies? This trust is a bargain

Snap up Asia Dragon Trust at a wider than normal discount to net asset value

The beauty of investment trusts is that you can occasionally buy £1 of assets for 90p or less.

Some trusts trade on a discount for a good reason such as investing in illiquid assets, namely companies where it would be difficult for the trust to sell its holdings quickly.

But a few trusts trade below the value of their assets for no obvious reason, which creates a good place for bargain hunters to search. That's certainly the case with quite a few trusts focused on Asia Pacific (excluding Japan) and one stands out from crowd.

Asia Dragon Trust (DGN) trades on an 11.3% discount to net asset value, wider than its 10.4% average discount over the past 12 months, according to Winterflood data. That's also the widest discount of all the six Asia Pacific ex-Japan trusts on the UK stock market with the group trading on an average 5.5% below net asset value.

OUTPERFORMANCE TRACK RECORD

Managed by Aberdeen Standard Investments, Asia Dragon Trust has had a decent performance over the years, beating its MSCI AC Asia ex-Japan benchmark on a one, three, five and 10-year basis. Its ongoing charges are 0.89%.

ASIA DRAGON TRUST
BUY
(DGN) 512p

Total assets: **£655 million**

Its investment style of focusing on quality companies is not in vogue at present, perhaps offering one explanation why the trust's shares are trading on a wider than normal discount. Many investors are currently chasing value-style investments.

Shares believes now is an ideal time to load up on world-class companies and the trusts and funds that invest in them, as valuations could be cheaper. Asia Dragon Trust looks like an ideal investment to tuck away for the long term.

There are plenty of reasons to have exposure to Asia Pacific in your portfolio, including strong economic growth potential which should create a positive environment for companies to grow earnings. In turn, earnings growth will drive share price growth.

HOW THE TRUST DIFFERS

Admittedly, the trust's top holdings feature in many Asia-focused funds, including semiconductor group TSMC, Chinese internet giants Tencent and Alibaba, and Indian housing finance group HDFC.

You may therefore wonder what separates Asia Dragon Trust from other funds in its space. Co-manager Pruksa Iamthongthong says the distinction can be found in holdings beyond the top 10 and the weightings for the biggest positions.

'Yes, our top holdings are similar to other Asia-focused funds, but the biggest positions are quite concentrated. In the

Asia Dragon Trust's history of outperformance

	1 year	3 years	5 years	10 years
Asia Dragon Trust	35%	40%	117%	141%
Benchmark: MSCI AC Asia ex-Japan index*	24%	25%	101%	133%

Source: FE Fundinfo, 18 June 2021. *MSCI returns calculated in GBP next layer you'll find some differences to other funds, such as quite a few onshore domestic names in China.'

One example is China Tourism Group Duty Free which Iamthongthong says has done very well for the investment trust. The company is one of the biggest duty-free operators in the world, its shares are up 120% in the past 12 months and it was the eleventh biggest position in Asia Dragon Trust's portfolio as of 28 February 2021.

'International travel stopped last year due to Covid. As a result, the Chinese government tried to boost domestic consumption,' explains Iamthongthong. 'If you look at the duty-free industry globally, lots of it is driven by Chinese spending, so the Chinese government lifted the cap on duty free goods and widened the variety of products that you could buy. China Tourism Group Duty Free is a simple story, and a company that will benefit from economies of scale.'

Asia Dragon Trust recently took a position in Tongcheng-Elong to play the growth in domestic travel. This is the biggest online travel agency by monthly active users in China, offering air, train and bus tickets as well as hotel bookings.

GROWTH OPPORTUNITIES

Another Chinese domestic stock owned by Asia Dragon Trust is Nari Technology which makes power grid automation and industrial control products. Iamthongthong says the power grid in China needs to be upgraded as the percentage of renewable energy goes up, creating a positive backdrop for Nari.

Adrian Lim, fellow co-manager of the investment trust, points to Indian company Info Edge as an example of a stock which has significant opportunities to grow earnings. 'India's internet market is years behind, with slower adoption rates. But the opportunity for scaling up means there is a longer lifespan for successful businesses. Info Edge is a nice company with a leading position in multiple segments.'

Info Edge describes itself as India's 'premier online classifieds company' in recruitment, matrimony, real estate, education and related services, and says it is one of the few profitable pure play internet companies in the country.

MARKET LEADERS

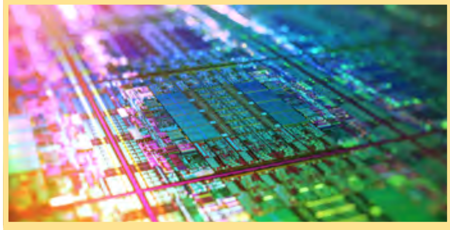
Asia Dragon Trust is focused on investing in market leading businesses, making this investment trust an ideal addition to a diversified investment portfolio.

You've got two fund managers, supported by significant resources within Aberdeen Standard, making informed decisions about which are the best companies to own across Asia and whether it's worth having greater exposure to certain ones.

'Strong balance sheets are key for the investment team, as they bring resilience in tough economic times and give companies options for investment,' says Thomas McMahon, an analyst at research group Kepler.

'The team look for resilient, repeatable earnings streams and companies which can consistently grow their revenues at an above-average rate and with limited variability through the cycle, at least compared to other companies in their industry.'

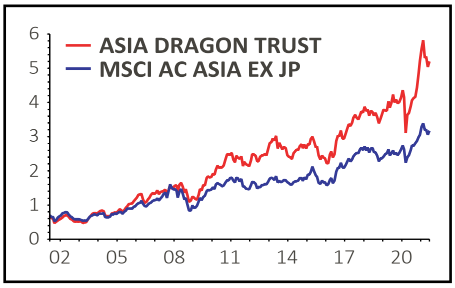
Lim says he is cautious about the market outlook near-term. However, he is confident that stocks in the trust's portfolio should deliver attractive earnings growth and do well in an inflationary environment. [DC]



Asia Dragon Trust top holdings

Stock	Country	% of portfolio
TSMC	Taiwan	9.7%
Samsung Electronics	Korea	9.1%
Tencent	China	8.7%
Alibaba	China	5.2%
AIA	Hong Kong	4.7%
HDFC	India	3.4%
Bank Central Asia	Indonesia	2.2%
Kweichow Moutai	China	2.2%
China Resources Land	China	2.1%
Overseas Banking Corp	China	2.0%

Source: Aberdeen Standard Investments, as of 30 April 2021



SHARES
INVESTOR EVENING
WEBINAR

06 JULY 2021

Presentations:
18:00 BST

Sponsored by
AJBell Youinvest

Join ***Shares*** in our next Spotlight Investor Evening webinar on Tuesday 6 July 2021 at 18:00

CLICK HERE TO REGISTER

COMPANIES PRESENTING:

DESTINY PHARMA
Neil Clark, CEO
Destiny Pharma is dedicated to the discovery, development and commercialisation of new antimicrobials that have unique properties to improve outcomes for patients and the delivery of medical care into the future.

DIURNAL GROUP
Martin Whitaker, CEO
Founded in 2004, Diurnal is a UK-based, globally-focused specialty pharma company developing high quality products for the life-long treatment of chronic endocrine conditions.

INDIA CAPITAL GROWTH FUND
The Company's investment objective is to provide long term capital appreciation by investing directly, or indirectly, in companies based in India

WAREHOUSE REIT
Andrew Bird, Managing Director
The investment objective is to provide shareholders with an attractive level of income together with the potential for income and capital growth.

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

MONKS INVESTMENT TRUST

(MNKS) £13.52

Gain to date: 2.9%

Original entry point:

£13.14, 10 December 2020

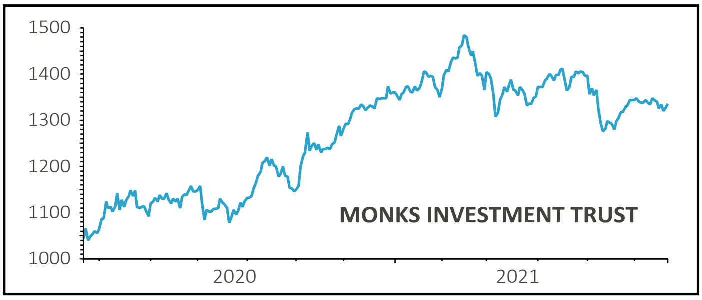
WE WERE EXPECTING more than a 2.9% share price gain when adding Baillie Gifford-managed **Monks (MNKS)** to our *Great Ideas* selections list in December, but the recent renaissance of value stocks created headwinds for a trust focused on companies with above-average earnings growth.

Having consistently traded at a premium to net asset value over the past five years, Monks now trades at a 3% discount that offers an attractive new entry point.

Shares is pleased to see the trust smashed its FTSE World benchmark in the year to 30 April 2021, delivering a total return of 55.5% compared to 33.9% for the index.

Reaffirming its 'buy' rating, Investec Securities insists Monks gives investors 'a differentiated and actively managed exposure to global growth' and highlights the portfolio's 'rotation towards Rapid Growth companies from Cyclical Growth in recent years', while also noting the ongoing charge is now 'a frugal 43 basis points'.

We share Investec's expectation that Monks' growth philosophy and proven investment process should 'underpin superior returns over the long term'.



SHARES SAYS:

Keep buying Monks Investment Trust. [JC]

HIPGNOSIS SONGS FUND

(SONG) 122.6P

Gain to date: 6.1%

Original entry point:

Buy at 115.5p, 18 June 2020

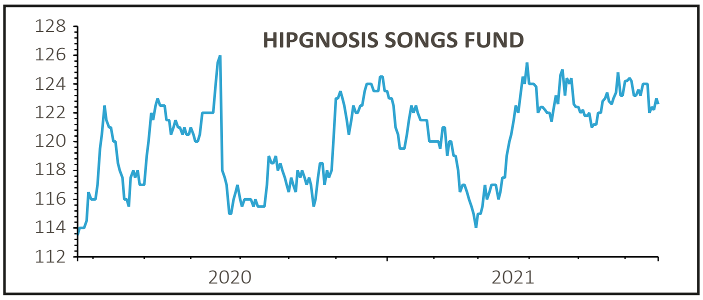
IN THE YEAR since we recommended them, shares in **Hipgnosis (SONG)** have gained just over 6% against a 27.4% return for the benchmark FTSE 250 index.

However, in that time the market capitalisation of the firm has grown from £700m to £1.33 billion as a result of repeated capital raises to fund acquisitions of song catalogues.

The latest raise, of £150 million in new shares at 121p, is earmarked for 'a substantial pipeline of songs that the investment advisor has identified', which includes 'some of the most influential and successful songs of all time' and offers 'substantial revenue growth opportunities'.

The firm claims that since listing it has built 'a portfolio of songs with a value over $2.2 billion and delivered a total return NAV of 40.7% against the most challenging social and economic backdrop of our lives'.

The firm has paid 5.2p per share in dividends since last June, making for a yield of 4.5% on our purchase price and taking total returns to 10.6%, which is adequate.



SHARES SAYS:

For income seekers the yield will appeal, but those in search of capital gains should look elsewhere. [IC]

STENPROP
(STP) 156.6P

Gain to date: 33.8%
Original entry point:
Buy at 117p, 10 September 2020

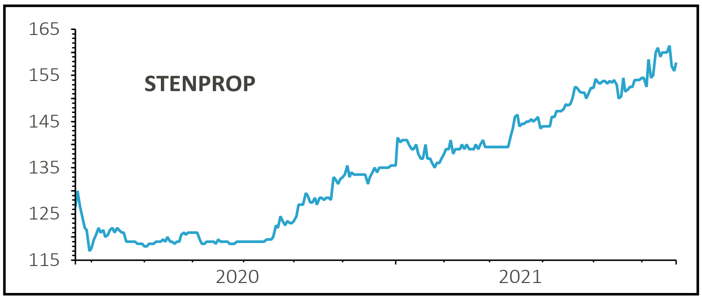
THE MOMENTUM BEHIND multi-let industrial property investor **Stenprop (STP)** continues to build with recent full year results (11 Jun) revealing the company's ongoing progress.

The company saw the value of its properties increase from £532.6 million to £582.3 million in the 12-month period to 31 March 2021, with revenue ticking up from £44.1 million to £44.9 million and the dividend maintained to deliver a full-year payout of 6.75p.

Perhaps more importantly the company confirmed it was on track to become a 100% multi-let industrial play by the end of the current financial year as it sells off non-core assets and targets £100 million in industrial acquisitions, targeting a 10% return over the medium term.

Numis commented: 'The strong results, new dividend and total return target should be well received by the market and firmly place Stenprop as one of the most attractive real estate offerings in our peer group.

'The fundamentals of multi-let industrial remain compelling and we believe that Stenprop has the ability to maximise returns from the sub-sector through its unique operating platform approach.'



SHARES SAYS: ↗
While the shares have rallied strongly we still have a buy rating on them. [TS]

THIS IS AN ADVERTISING PROMOTION

BlackRock.

MyMap helps you do more with your savings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Lockdown has created a country of savers

A staggering £1.5 trillion is sitting in UK savings accounts right now[1]. But that excess cash isn't working for savers with interest rates so low. We are also seeing inflation on the rise and that means higher prices, which can reduce your savings' purchasing power. In 2020, the 12-month inflation rate was 0.6%, meaning the country's £1.5 trillion in savings would have depreciated by £9 billion when adjusted for inflation[2]. And by January this year, inflation had risen once more to 0.7%[2] - knocking another £1.5 billion off savers' real spending power.

We all want to see our savings stretch further. But as the economy recovers from Covid-19, we are likely to see prices rise and the real-world value of our money fall.

Is investing the best way to grow your capital?

Investments in the right stocks and bonds may have delivered better returns than cash and mitigate the risks of rising inflation. For example, let's compare £10,000 kept in a bank account with a portfolio of stocks and bonds between 2010 and 2020.

The purchasing power of the £10,000 cash investment is eroded by inflation to the tune of £1,300 over the 10-year period, despite inflation not being at particularly high levels historically[3].

The £10,000 investment in a portfolio of 60% stocks and 40% bonds, however, has almost doubled in that time, reaching £18,500 by the end of 2020[4]. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

"The industry is rightly concerned about highlighting the risks of investing but there is a balance to be struck. Holding cash for the long term is unlikely to meet your goals and allow you to retire one day." Joe Parkins

Could your savings be doing more?

Are you a dedicated saver who wants your money to do more in the face of rising inflation and low interest rates, but are too busy to build a portfolio of investment funds? Perhaps you're looking for an introduction to the world of investing? Or are you an experienced investor who wants a one-stop investment that does more for your retirement fund and your family's future?

If you're among the many savers who could benefit from investing, consider BlackRock's simple, cost-effective and risk-managed MyMap range of funds – investment products designed to help you do more with your money.

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Find out more about BlackRock's MyMap range

[1]Bank of England Database - November 2020
[2]Office for National Statistics – Consumer price inflation, January 2021
[3]Bank of England and Office of National Statistics, as of 31 December 2020. Monthly interest rates on savings calculated from the BoE deposit rates estimates on instant access savings, excluding unconditional bonuses. Note: Methodology changed from 2013. Inflation adjustment based on UK CPI index harmonized and seasonally adjusted.
[4]Bloomberg, as at 31 December 2020. Portfolio performance is a composite of 60% MSCI All Countries World Index and 40% Bloomberg Barclays Global Aggregate Index in GBP adjusted with inflation and is shown cumulatively between 31 December 2010 and 31 December 2020. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

THIS IS AN ADVERTISING PROMOTION

Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

BlackRock has not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the Key Investor Information Document and Prospectus available at **www.blackrock.co.uk**

Important Information

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 2020394. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

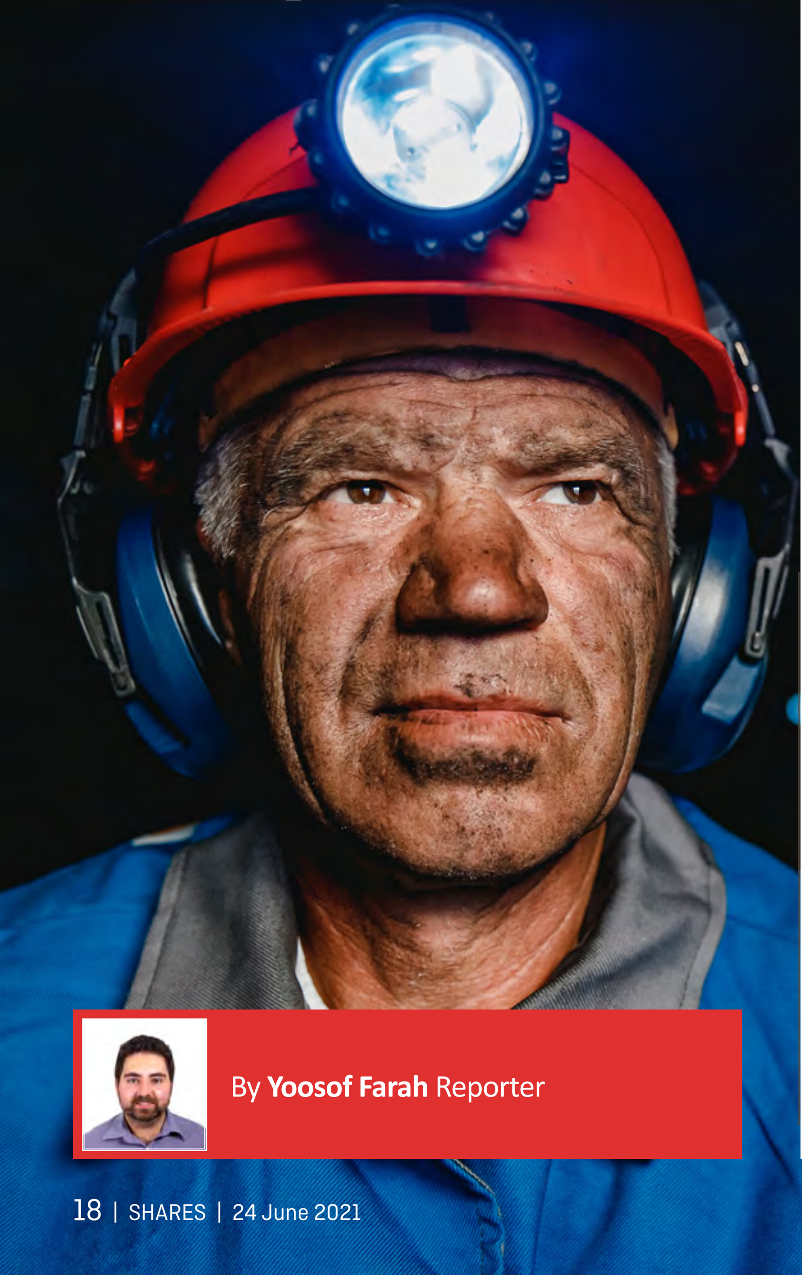
Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2021 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES, BUILD ON BLACKROCK and SO WHAT DO I DO WITH MY MONEY are trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.
MKTGH0621E/S-1680996

HARDER TIMES FOR MINERS?

Why you need to get smart with commodity exposure



By **Yoosof Farah** Reporter

Commodities have enjoyed a surge in the first half of 2021 as the global economic recovery gathers pace and the outlook for demand gets stronger and stronger.

Copper and iron ore have been two of the standout stars, their prices rising sharply over the past year as the rollout of coronavirus vaccines sparks a surge in economic activity and optimism over the worldwide recovery.

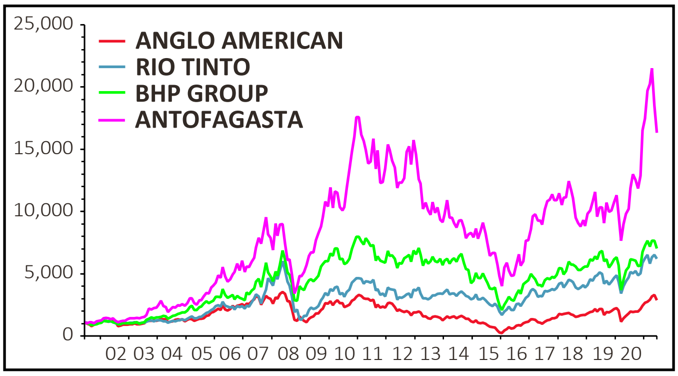
A range of metals, copper included, are also expected to do well long into the decade thanks to strong structural demand growth due to the world's ongoing decarboisation and the rapid rise of electric vehicles.

But in a market full of intelligent investment professionals whose job it is to make money for themselves and others, all of this exciting potential is already very well-known and to a large extent already priced in.

And the US Federal Reserve's recent decision to bring forward rate hikes is boosting the dollar and hitting commodity prices

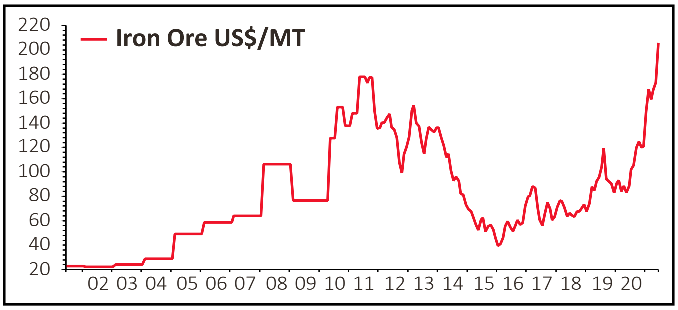
ROBUST LONG-TERM RETURNS

For those who want to invest regardless with a view to potentially making solid returns over the long-term, FTSE 100 mining stalwarts **Antofagasta (ANTO)**, **Anglo American (AAL)** and **BHP (BHP)** are all potential options and have delivered robust returns for shareholders in the past couple of years.



But for those who want to take a more strategic approach to entering the commodities sector and, having seen the strong run commodities have been on the past six months, want to wait for a better buying opportunity, we tell you everything you need to know about the current cycle and provide two options that could well be the smarter way to play the mining sector.

One thing that is clear is that in the next three to five years or so, commodities demand will be much greater than it is now as new technologies,



particularly around clean energy and electric vehicles, and infrastructure continue to develop.

Thanks to the properties that make it practically impossible for engineers to design out when it comes to various applications, copper is arguably the commodity that will be most in demand. It's certainly the one that's talked about the most in the commodities and finance world at the moment.

COPPER GETTING HARDER TO FIND

Outgoing **Glencore (GLEN)** chief executive Ivan Glasenberg said the copper price must rally 50% for supply to meet demand. He told the *Financial Times* recently: 'You'll need $15,000 copper to encourage a lot of this more difficult investment. People are not going to go to those more difficult parts of the world unless they're certain.'

He added new projects would need to be in more riskier areas of the globe including Russia and parts of Africa. There's a sense that all the 'easy' projects in the world have already been done.

In May 2021, the International Energy Agency warned that high minerals prices could delay a transition to clean energy given the amount of metals needs for batteries, solar panels and wind turbines.

Goldman Sachs expects copper to reach $15,000 by the middle of this decade, as does commodity trader Trafigura.

Meanwhile Steele Li, chief investment officer of China Molybdenum, the country's largest cobalt producer says the electric vehicle sector needs 2.4 million tonnes of copper by 2030 if electric cars make up 30% of the market by then.

He told the *Financial Times*: 'We need another two Glencores. That's the scale we're talking about… I don't know how we'll find that much copper to fill that gap.'

This is a view echoed by Stuart MacDonald, president of North American copper miner **Taseko Mines (TKO)**, who says there is a 'very limited pipeline' of new deposits and new mines coming to market.

Part of the problem is the long lead time, he explains. Production can't be turned on and off like it's oil and gas. He says: 'With copper, these projects are usually high in the mountains, they require a lot of drilling, you need a lot of permits, you need to get all the supplies up there, it needs a major investment of capital. Then you're looking at a two to three year construction period.'

MacDonald adds there's also political risk in many countries, particularly in the world's two biggest producing countries – Chile and Peru – which is also putting off miners and investors.

Chilean politicians have backed constitutional reform that would impose a flat 3% royalty on production of copper and lithium to finance environmental and social programs near mining operations.

In Peru, left wing presidential candidate Pedro Castillo, the frontrunner according to opinion polls at the time of writing, has pledged that 70% of mining profits would stay in the country.

MacDonald says: 'Chile are rewriting their constitution, and in Peru if the election goes the wrong way it could be really bad for mining. Who wants to go to these countries and make a billion-dollar investment when there's so much risk involved?'

But in the here and now, despite the clear structural growth drivers and what evidently looks like a looming supply crunch, some believe prices are too hot and are pricing in too much future demand, with current supply of commodities meeting demand.

COMMODITIES ALREADY PRICING IN RECOVERY

Mike McGlone, senior commodity strategist at Bloomberg Intelligence says the optimism for recovery that's priced in commodities 'is the risk for the rest of 2021, as we expect more of the same conditions from before the pandemic, favoring ones with low rather than high supply elasticity.'

He says corn and crude oil have been 'major duds' in the past decade and for good reason, as rapidly advancing technology has buoyed supply at a greater pace than demand. He adds: 'This isn't new by historical standards, but the pace of electrification, decarbonization and digitalization is accelerating. Supply is harder to bring on in metals, which are the easiest to store and sit at the forefront of demand from innovation.'

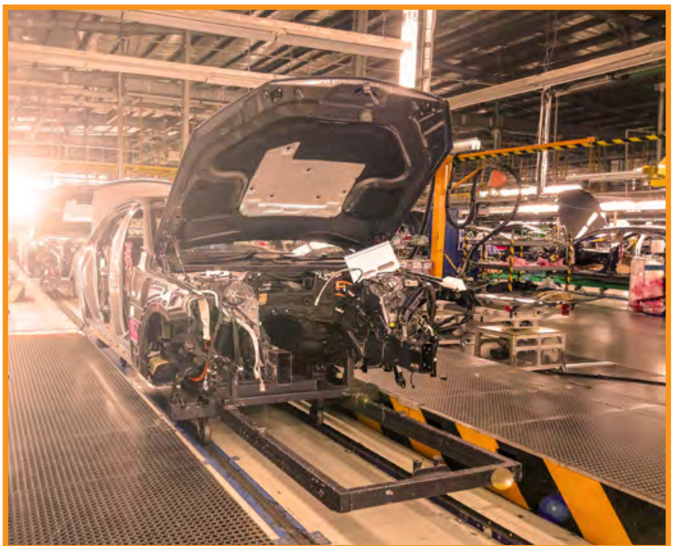
Though McGlone adds that if by the end of 2021 the stock market has continued its upward trajectory, 'broad commodities should be fine', pointing out that gold and silver appear 'well situated if equities revert a bit'.

One investor who isn't convinced about current prices is Mark Smith, manager of **TB Amati Strategic Metals (BMD8NV62)**, who is getting ready for a correction in commodity prices, particularly copper.

Smith believes the market is ahead of the supply and demand fundamentals in metal markets right now, and while there could well be a looming supply deficit, 'I don't think it's the same degree as what the commodity prices on the screen are telling us at the moment.'

Using copper as an example, he thinks the price should really be around $3.25 to $3.40 per pound, 'certainly not $4.50 that we're seeing on the screen at the moment.'

He explains: 'What happened is we've had this thematic come through for investors that 'okay there's this green wave' and the globe will be short of strategic metals needed, and at the same time we've had a lot of money, a lot of liquidity in the markets looking for an investment – the two have really come together and created this bubble we're seeing in the copper space at the moment.'



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

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

Source: BloombergNEF

GETTING READY FOR A CORRECTION

Smith does believe there will be a 'strong super-cycle' later this decade, but in the short-term forecasts a looming correction, with the current price spike being driven by investment fund managers looking for places to put their cash.

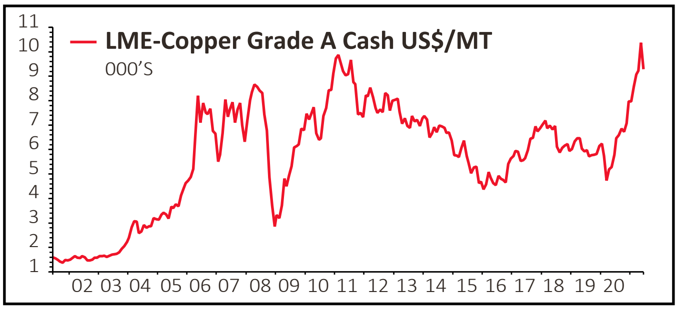
He says: 'When you've got the framework of global inflation coming through, copper is one of the metals which is a good way to play that inflationary trade, but at the same time investors are playing this green theme as well so it's a good way to do it, but we'd rather step aside for a correction.

'The reality is we've got a balanced market in the copper space at the moment, supply is meeting demand, but the metal price you are seeing on the screen is telling you something else. It's really been manipulated by inventory investments and moving inventories around the world to create shortages in certain exchanges.'

This general view regarding a correction is echoed by UBS analyst Daniel Major, who thinks we could be at the top of the cycle in commodities and despite a 'robust' near-term outlook would not recommend topping up positions in mining stocks at the moment, believing that prices very well 'normalise' in the not too distant future.

Major highlights that 10 years ago, 'commodity super-cycle euphoria was reaching fever pitch' – Glencore listed on 31 May 2011 – and commodity prices and the combined market cap of the five largest UK miners were at similar levels as today, with many components of the investment case for the mining sector being the same then as they are now.

WHEN COMMODITIES PEAKED BEFORE



As it turned out, the first quarter of 2011 was the top of the commodities cycle. The LME metals index proceeded to fall 50% and the market cap of the five largest UK listed miners fell by around 75% over the next five years.

Major says: 'Looking at history does not necessarily help to predict the future, but it is a reminder that commodities/miners are cyclical and at some point the cycle will turn. In our opinion, the commodity outlook is better (i.e. less vulnerable) than 10 years ago and the miners are much better companies than in 2011; they will deliver attractive cash returns near-term and we do not see an obvious reason for a near-term collapse in commodity prices.

'However, we do not see a fundamental shift in the major commodities that supports materially higher commodity prices long-term and we struggle to find fundamental valuation upside for the miners at normalised commodity prices.'

For investors interested in the space, Smith says the biggest mistake is the fear of missing out: 'Once these investments in these metal markets start to take off they generally over-reach on the upside and over-correct on the downside.

'Because there is that euphoria and excitement over discovery, generally the exploration stocks will price in more than they've actually discovered because the market wants to join in on these investments.'

He continues: 'That's the biggest mistake people make. You need discipline, you need to be patient in the markets because it's cyclical. It's hard to do nothing. The easiest thing is to chase the trend but that trend can correct very quickly, so that's the biggest mistake, not doing your homework and not being patient.

'The markets always give you a second chance and you have to be methodical in the way you invest. Because of the cyclicality of the metal markets, they'll always come back.'

FOCUSING ON FUNDS

For investors who want to take a more strategic approach in the shorter term, with the view that commodity prices could correct at some point soon, it could be worth looking at funds that invest in the mining and metals sector as they have flexibility to hold cash back to take advantage of opportiunities created by volatility and can have selective exposure to different commodities.

However, it's important not to just pick any resources or commodities fund that invests in the mining sector. If you're thinking about choosing a fund in the sector, always check its factsheet first, as many in the resources sector still have a large weighting to oil and gas firms, have underwhelming three and five year returns and can be particularly expensive, with an annual fee of 1.5% or more.

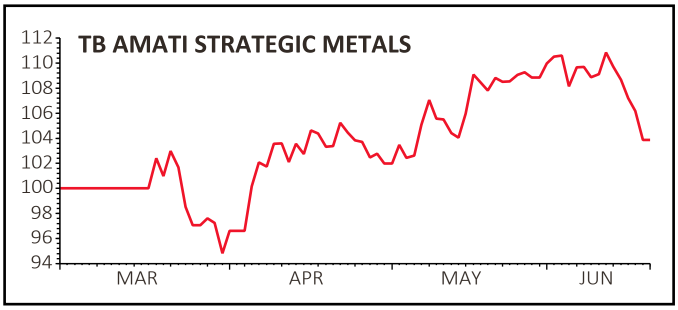
Also worth considering are comments from analysts at Stifel, who point out the commodities sector now trades on an average discount of 3%, having started the year on a 10% average discount.

They say: 'This is a significant reversal for a sector which traded around a 20% discount before the pandemic started. This suggests that should inflation expectations not be met and/or the strong commodity price rises are not sustained, then there could be a sharp reversal of both underlying prices, as well as the sector rating.'

So for an investor looking for a smarter way to play the commodities and mining sector, below we pick out two options that are worth considering.

TWO MINING FUNDS TO BUY NOW

TB Amati Strategic Metals (BMD8NV62) 103.86p



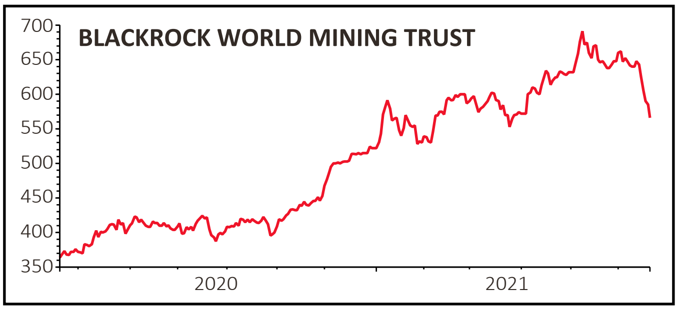
A relatively new fund having launched in March 2021, **TB Amati Strategic Metals (BMD8NV62)** aims to achieve long-term growth by investing in a portfolio of 35-40 metals and mining companies listed in London, the US, Canada and Australia whose main revenues are sourced from selling 'strategic metals.'

These are metals deemed to be of strategic importance to the global economy and future macroeconomic trends, including gold, silver, platinum group metals, copper, lithium, nickel, manganese, and rare earth metals.

The fund currently has room to add another three to four stocks to its portfolio and is sitting on a significant amount of cash as it adopts a disciplined approach to investing in the base metal sector, choosing to wait for a correction in the copper market before deploying capital in the sector.

The managers of the fund look for attractively valued stocks that generate free cash flow, having strong operating margins and are well-diversified in terms of their mines and assets. Combined with their strategic approach to deploying capital and a reasonable 1% annual fee, this fund could well be a smarter way to play the commodities super-cycle.

BlackRock World Mining Trust (BRWM) 565.9p



One of the diversified ways to capture the upside in the rise of the commodities sector as a whole could be through FTSE 250 investment trust **BlackRock World Mining Trust (BRWM)**.

On paper, the £1.2 billion trust's one-year return of 78.9% return looks incredible, though it's worth remembering that this came after the market sell-off in March 2020 and the subsequent bounce back after the value and commodities rally in November.

Nonetheless the trust still has a strong track record with a three-year annualized return of 21.5% and a five-year annualized return of 27.4%, making its 0.99% annual fee look decent value. It also pays a quarterly dividend with a 3.3% yield, and the managers see further upside on the income front given soaring iron ore prices, with miners likely to return surplus cash from the iron ore boom back to shareholders in the form of share buybacks and higher dividends.

Analysts at Numis call the trust 'a good way to gain diversified exposure to the mining sector', which they say can be 'highly volatile on a stock-specific basis.'

It does admittedly have a 21% weighting to copper, though its exposure to iron ore – another primed for a pullback – is much lower at 5%, while its 19% allocation to gold should provide protection in the event of a correction in copper.

While copper and gold technically speaking have no fundamental relationship, copper is a bellwether metal for the global economy while gold is a safe-haven asset and an inflation hedge, so when one goes down the other has typically gone up.

DUNEDIN INCOME GROWTH INVESTMENT TRUST:

POSITIONED FOR A CHANGING WORLD

By Ben Ritchie and Georgina Cooper, Investment Managers, Dunedin Income Growth Investment Trust PLC

- There has been a decisive move among investors to incorporate environmental, social and governance (ESG) considerations into their analysis of companies.
- Poor management of risks around carbon emissions, water or labour rights put businesses in peril.
- For Dunedin Income Growth Investment Trust, we wanted to formalise our ESG process and make it clearer to our investors.

Even before the pandemic wrought profound and enduring changes on the world, 'disruption' had become commonplace. Industries as diverse as financial services, healthcare or car manufacturing have all seen technology force change in recent years. Post-pandemic, many of these structural shifts have accelerated and it has become even more important for investors to stay ahead.

At Dunedin Income Growth Investment Trust, we have pivoted towards these trends over the past five years, bringing in higher growth companies on the right side of structural economic change. As we see it, these companies should be in a good position to grow their pay-outs to investors over time, but also deliver higher capital growth.

This has seen the Trust take exposure to trends such as the digitalisation of industry, the growing wealth of emerging market consumers and rising healthcare spending. Today, we believe the Trust is positioned for economic recovery, without being vulnerable should it fade. Importantly, it is relevant for a changing world.

However, there is one area where we wanted to be clearer about our decision-making. Over the past few years, there has been a decisive move among investors to incorporate environmental, social and governance considerations into their analysis of companies. It has become far more than simply a 'nice to have', but an integral part of risk and performance management.

Why? Governments across the world, from the US to China, have committed to low carbon targets. Companies that are on the wrong side of this movement have found their businesses under greater scrutiny, subject to fines and regulatory sanctions. Their cost of capital has increased as banks and other lenders have considered them at greater risk. In this way, poor management of risks around carbon emissions, water or labour rights puts businesses in peril.

At the same time, there are a lot of exciting companies emerging that address these problems in sectors such as renewable energy, waste management or environment technologies. These companies are benefitting from an increasing wave of government and private sector capital.
While this means that investors need to be wary on valuations, particularly among some of the companies involved in emerging technologies, there are a range of new opportunities.

Environmental considerations
We have lengthy experience of managing ESG risks at Dunedin Income Growth Investment Trust and across all Aberdeen Standard Investments portfolios: every business in our portfolios has been graded on ESG by our investment analysts. However, we recognise that some of the language in this area can be alienating and investors often don't know what they're getting. As such, we wanted to formalise our ESG process and make it clearer to our investors. This is why we asked shareholders to support more formal screening in the portfolio. It doesn't change the investment philosophy or dividend policy. It simply formalises our existing research work.

In building our plan for the Trust, we didn't want to make too many value-based judgements. We recognise that investors' ethical priorities can vary considerably. With this in mind, we focused largely on the environment, tobacco and weapons. This follows Aberdeen Standard Investments' socially responsible investing (SRI) approach, which has been well-established and rigorously reviewed. We also see these as the areas of greatest regulatory pressure. Companies that don't align themselves with those requirements are going to face a cost of capital and/or fines and sanctions. Today, we see that pressure building for oil, big tobacco and weapons companies. It could happen to other sectors and if so, we will be ready to adapt.

In practice
We are automatically excluding those companies that make weapons and tobacco, plus those oil and gas companies that don't have a meaningful weighting in renewables and natural gas. We are also excluding companies that get low scores based on our proprietary ESG quality ranking and the bottom 10% of the index ranked on our in-house scoring metrics.

This makes a small difference to our universe of stocks. Around 6% are excluded on the sector screen, another 13% on quality analysis and another 10% are excluded on the in-house score. On current

analysis, 29% of the market is screened out, once some overlap is taken account of.

This change will have an impact on our income options in the portfolio. Areas such as tobacco are significant dividend payers, so their exclusion inevitably reduces choice. However, if anything, it pushes us to re-allocate into other, higher growth ideas. Having the flexibility to invest up to 20% overseas is helpful. In terms of sectors, we might see a bigger swing towards financials and away from commodities. We believe though that this impact is more manageable with the investment opportunities that we have available to us.

To our mind, the move to formally incorporate environment, social and governance considerations in investments analysis is a significant and long-term shift in the way financial markets operate. It cannot be ignored and will increasingly be reflected in the price of shares. We wanted to make it an explicit part of our Trust's mandate for the future.

Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:

Issued by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Registered Office: 10 Queen's Terrace, Aberdeen AB10 1XL. Registered in Scotland No. 108419. An investment trust should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.

Find out more at www.dunedinincomegrowth.co.uk or by registering for updates. You can also follow us on Twitter and LinkedIn.

Expert Investor: Find out what earnings momentum can mean for your shares

Good news tends to travel slowly, while bad news travels quickly

Recently there has been a lot of attention on the 'growth' versus 'value' debate and the thinking behind each investment style.

The successful development of Covid vaccines in November 2020 sparked an apparent rotation out of more expensive stocks which are growing their earnings rapidly and consistently into more attractively valued shares which are benefiting from pandemic recovery.

However, value is just one of five 'factors' which academics and quantitative analysts believe influences share price performance.

Value investing goes back to Graham and Dodd and the 1930s, while American economist William Sharpe identified beta as a factor in his 1964 paper on asset prices and what made them move (a stock with a high beta has a higher level of risk associated with it and therefore can be expected to move more than the market, both up and down).

Subsequently size or market capitalisation was identified as factor, along with price momentum, or the idea that winning stocks tend to keep winning.

EARNINGS NEWS DRIVES PRICES

In a paper published in 1993, researchers Narasimhan Jegadeesh and Sheridan Titman found that over short periods of up to three months, prices tend to revert to the mean (or go back to the average price after any initial move in either direction), but over say six to 18 months they tend to follow a trend, be it positive or negative.

This suggests that markets overreact to information in the very short term or the long term, causing mean reversion, but they under-react to news over the medium term, which in theory presents a significant opportunity for investors.

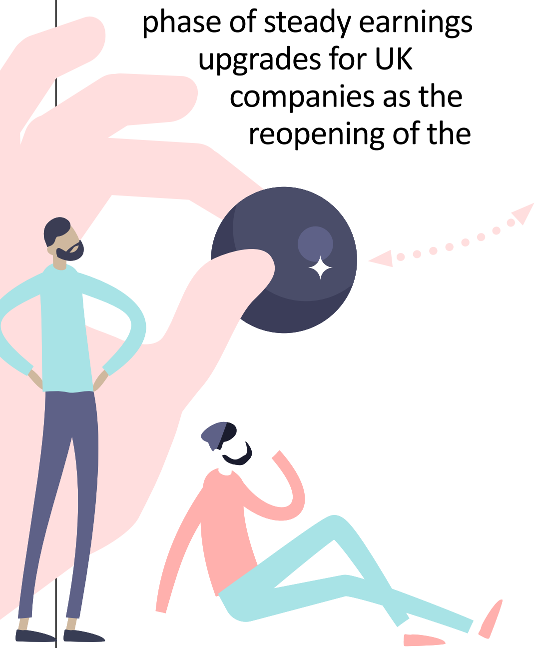
Further studies have shown fairly conclusively that price momentum is largely a function of earnings momentum, or more specifically what is known as the 'second derivative' – that is, not the rate of change of expectations, but the rate of change of the rate of change.

If a company consistently beats earnings expectations one quarter after another, and analysts are consistently raising their forecasts, it is more likely than not that the shares will go up.

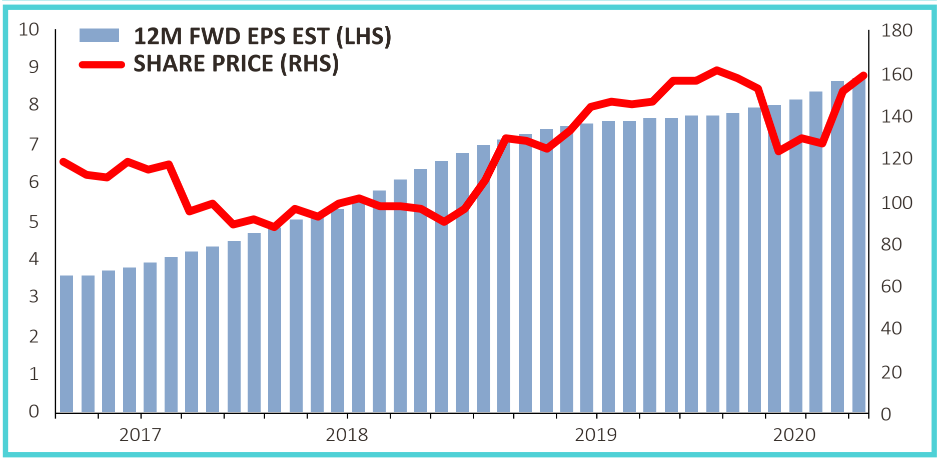
Moreover, if earnings are rising faster than expected *and* faster than the average of the market as whole, it's reasonable to expect that the shares will go up more than the market. Here we're entering the realm of *relative* earnings momentum.

In the same vein, a company which continually undershoots expectations, or which just meets them, when the rest of the market is beating expectations, is likely to lag the market or even see its share price fall.

The first half of 2021 saw a phase of steady earnings upgrades for UK companies as the reopening of the economy spurred higher than expected demand.



GOOD NEWS TRAVELS SLOWLY – SERCO



Source: Shares, Morningstar, Stockopedia

GOOD NEWS TRAVELS SLOWLY

If a firm has been out of favour for a while, it can take quite a while for the market to latch onto good news and earnings upgrades.

A case in point is public sector outsourcer **Serco (SRP)**, which along with the rest of the sector suffered a spectacular fall from grace a few years ago and was subsequently ignored by many investors.

However, with a great deal of self-help the firm cleaned up its act, worked off its onerous contract provisions and started plotting its recovery.

The first obvious sign the firm was back on track was the bold 2019 acquisition of Naval Business Systems in the US, which in one fell swoop doubled its revenue in naval support, a key growth area.

Since then the firm has gone on to win billions of pounds in new contracts and extensions, it surprised the market positively when it reinstated its earnings guidance in June 2020, and it has repeatedly raised guidance since.

When we look at the chart of 12-month forward earnings expectations for Serco, we can see they started rising steadily as early as January 2018 as analysts began nudging up their forecasts.

At about the same time the shares stopped falling and found support, but it wasn't until the beginning of 2019 that the shares really responded to the upgrades, by which time forward earnings estimates were around 7p per share or double the level of mid-2017.

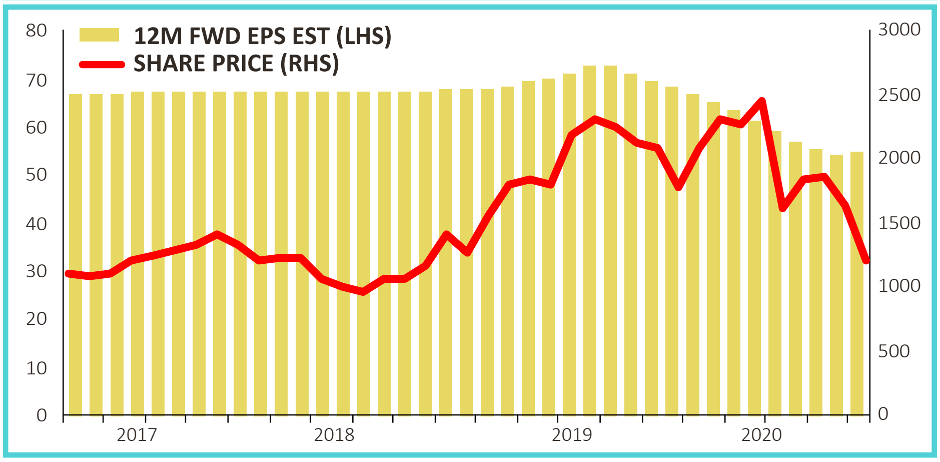
Impressively, earnings forecasts continued to rise through the pandemic and as of June 2021 the expectation was for earnings per share of 9.6p by June 2022.

BAD NEWS TRAVELS QUICKLY

The inverse scenario is when a company which has endeared itself to investors by consistently beating forecasts is no longer capable of delivering positive surprises.

A good example is bakery and food-on-the-go producer **Greggs (GRG)**, which was something of a market darling pre-pandemic thanks to its decision to sell

BAD NEWS TRAVELS FAST – GREGGS



Source: Shares

vegan sausage rolls in early 2019.

That sparked an explosion in the share price from £12.66 at the end of 2018 to almost £23 six months later, after the company had upgraded its sales forecast.

Yet when the firm maintained its guidance at the start of October 2019, analysts stopped raising their estimates, prompting a tell-tale wobble in the shares. From that point on, forecasts were progressively cut, even though the shares carried on rallying into the pandemic.

When a stock is on a lofty valuation – as Greggs was at the start of 2020 – at the very least it needs positive earnings momentum. In the event, the pandemic masked the rate of underlying downgrades and the stock corrected anyway, but investors who spotted the trend-change six months earlier could have reacted earlier.

By **Ian Conway**
Senior Reporter

Initial Public Offer: The UK Residential REIT plc

A listed REIT, offering a predictable and growing income stream through exposure to UK residential property, with scope for attractive capital appreciation through a strategy of adding value

- The UK Residential REIT will invest in a diversified portfolio of residential property in strong rental markets (outside London).
- The Company will target an initial dividend yield of 4%, rising to 5.5% from year 2 (once fully invested and levered) and a 10% total return (dividend and capital, based on issue price). The Investment Adviser looks to execute a value-add initiatives (refurbishments and repositioning) to drive excess returns. These target returns are not guaranteed, and the value of the shares may fall as well as rise. Capital is at risk.
- The Investment Adviser is L1 Capital, an independent global investment manager with A$3.5bn in Assets Under Management.

Applications close: Monday 12th July 2021

ukresidentialreit.com/investor-centre

Participating intermediaries include:

AJBell Youinvest

EQi

iDealing.com

interactive investor

Redmayne Bentley

IMPORTANT INFORMATION: THIS DOCUMENT IS AN ADVERTISEMENT AND NOT AN OFFER, INVITATION, SOLICITATION OR RECOMMENDATION TO INVEST IN THIS COMPANY OR ANY OTHER COMPANY. DETAILED DISCLOSURE OF RISKS ARE INCLUDED IN THE PROSPECTUS WHICH YOU SHOULD CONSIDER CAREFULLY BEFORE TAKING ANY ACTION TAKING PROFESSIONAL ADVICE IF NECESSARY

UK RESIDENTIAL REIT

This advertisement has been approved by Carne Global Advisers (UK) Limited, which is authorised and regulated by the Financial Conduct Authority

How earnings upgrades can boost stock returns

We highlight three stocks to buy with upwards momentum behind analyst forecasts

In this article we are going to look at bold earnings revisions and explore if they help identify winning stocks. In this context 'bold' refers to a large percentage change in a consensus earnings forecast, as well as the rarer, but possibly more important case where a top-rated analyst moves significantly away from the consensus.

We have also run the data and identified three stocks to buy which could be at the beginning of an earnings upgrade cycle.

UNDERSTANDING THE EARNINGS EFFECT

In order to explain what's at work here, we need to delve a little into what is called behavioural science, popularised by Daniel Kahneman and Amos Tversky in the 1960's.

Even back in the 1930's economist John Maynard Keynes was acutely aware that human psychology could have a big impact on investing, where decisions are made under extreme uncertainty.

Keynes likened professional investing to an old-fashioned beauty contest where competitors must pick the six prettiest faces from 100 photos.

The closest match to the average of all the competitors was awarded the winner. This meant that it was more important to choose the picture that you thought would be the most popular, rather than focus on your own choice.

Arguably modern-day fund managers still operate in the same way, often choosing stocks that fit a particular style or narrative which they believe other managers will find attractive a few months down the line.

BOLD REVISIONS AND HERDING

Looking in from the outside it would seem reasonable to expect earnings forecast to 100% reflect a particular analyst's view. But the reality is slightly distorted from this ideal world.

When analysts make their forecasts, they are all too aware of where their estimate sits relative to their peers. It is this dynamic which creates a strong 'group think' or herding mentality.

To quote from Keynes, 'worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally'.

In other words, analysts feel a natural psychological pull towards the herd, and therefore tend not to stray too far away from consensus (the equal weighted average of all analyst recommendations).

In practice this means that analysts are more inclined to tinker with their spreadsheets rather than 'stick their necks on the block' and make change which is significantly different from the crowd.

Given this tendency, research

has shown when an analyst moves his or her earnings estimate away from the herd, it may be an important signal for future stock performance.

In his book *Investment Philosophies*, Professor Aswath Damodaran highlighted that forecast revisions that diverge the most from consensus have a bigger impact on price and are more likely to be accurate than revisions that stay close to the pack.

Like all pack animals, humans work best when there is a leader and often, although unspoken, there will be a 'lead' or superior analyst in each sector.

Recognising that there will always be a hierarchy among analysts, in the 1990's Joe Gatto set out to quantitively find a better way of measuring the accuracy of analysts' forecasts.

The company Starmine was born out of Gatto's efforts and in 2008 the company was purchased by Reuters (now Refinitiv).

Starmine places different weights on each analysts' forecast based on their historical accuracy and the most recent revisions, rather than equal weighting each forecast.

When the Starmine consensus estimate is more than 2% away from the regular IBES (Institutional Brokers Earnings Estimate) constructed consensus forecast, Starmine claims that there is 70% chance of a positive/negative earnings surprise.

Refinitiv says analyst skills are persistent and the top analysts are roughly four times more likely to remain among in the top tier than fall to the bottom tier.

FIRMS SEEING EARNINGS UPGRADES

Company	Number of upgrades over the last month	EPS upgrade current financial year over last month (%)
Virgin Money Uk	6	7.6
Greggs	7	4.0
Rio Tinto	3	3.3
Imperial Brands	3	1.6
Direct Line Insurance	3	1.5
Tyman	4	1.5
Redde Northgate	4	1.4
Morgan Advanced Materials	3	1.2

Source: Stockopedia

SCREENING FOR REVISIONS

Our investment focus for this article is long term, so we are have looked for situations where there is potentially a sustainable improvement in earnings, rather than a short term 'beat'.

Consequently, we have taken the approach of searching for shares where analysts have materially increased their estimates, suggesting growth prospects are greater than expected.

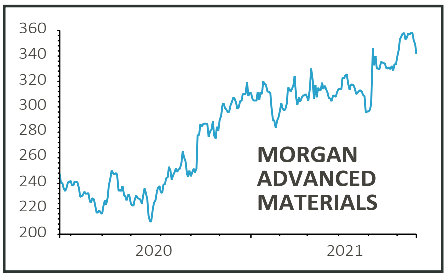
Some of these revisions look fairly modest in isolation but what we have tried to capture is the start of an upward earnings revisions cycle which can be a powerful driver of returns. The behavioural factors we have discussed mean that it can take quite a while for analysts to catch up, sowing the seeds for further upgrades.

Using Stockopedia, we searched the market for companies which have received the biggest revisions over the last month, where at least two analysts have upgraded their numbers.

We have chosen three of the best from the list of candidates based on the quantitative data, as well as our qualitative assessment of company fundamentals and outlook for the respective businesses.

BUY

Morgan Advanced Materials (MGAM) 353p



Like several of the UK's engineering businesses, **Morgan Advanced Materials (MAGM)** is far from a simple metal basher.

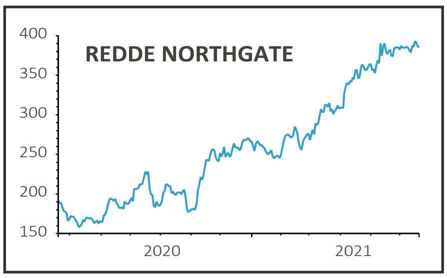
It designs smart materials to create more advanced and energy efficient products and has significant technological expertise.

The company is part way through a programme of self-help under a management team which joined in the mid-2010s. This is driving improvement in margin performance which, allied with a recent broad based recovery in sales and orders coming out of the pandemic, is creating some momentum behind earnings forecasts.

The shares trade at around 15 times Jefferies' forecast earnings per share in 2021, falling to 12.7 times for 2022 and Jefferies' analyst team comment: 'It is difficult to find value in the UK industrials sector, yet we argue that Morgan offers compelling value at current levels, and we see the group evolving positively, which should positively impact the group's valuation over the medium term.' (TS)

BUY

Redde Northgate (REDD)
Price: 393.3p



Light commercial vehicle rental and legal services firm **Redde Northgate (REDD)** is riding a huge wave of demand in both the UK and Spain with its fleet of vehicles on hire growing by more than 10% this year.

Four out of seven analysts that cover the stock have increased their earnings forecast over the last month.

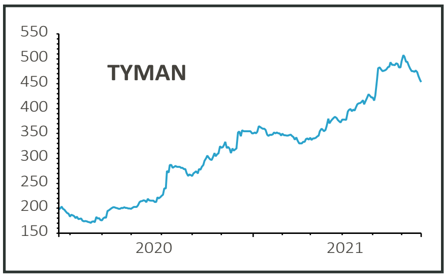
As the pandemic accelerated consumers' adoption of online ordering and home delivery, demand for LCVs has never been stronger, which has helped the firm raise hire rates and boosted the resale value of its used vehicles.

Costs have been reined in, and merger synergies have reached the company's £15 million target a year ahead of schedule. Total annualized cost savings are now expected to be £18.8 million, at a cost of just £2.5 million against an original estimate of £10 million.

The firm's prodigious cash flow generation has allowed it to invest in a large fleet of UK vehicles, which will add to growth this year meaning earnings upgrades are likely to continue well into the second half. (IC)

BUY

Tyman (TYMN) 463.7p



Like several businesses in the building materials sector, **Tyman (TYMN)** has real momentum behind its business driven by a boom in housebuilding and renovation work. This makes a 2021 price to earnings ratio of

14.7 look attractive.

The company makes highly engineered products like hardware for windows and doors, smart entry and monitoring products, as well as seals and extrusions and access solutions for commercial buildings.

Most of its brands are leaders in their respective markets and are well known by industry professionals. Its largest market is the US, which accounted for 65% of 2020 revenue.

The company has a track record of making bolt-on acquisitions to build its share of a fragmented market, although this was paused in 2019 to focus on organic growth and this pause was extended due to the pandemic.

The company may now return to targeted M&A activity, which should help support the current earnings momentum. The main risk facing the business is the current shortage of raw materials. (TS)

By **Martin Gamble**
Senior Reporter

THIS IS AN ADVERTISING PROMOTION

THE JOURNEY TO NET ZERO

BLACKROCK ENERGY AND RESOURCES INCOME TRUST PLC

The world's energy mix is changing, but the transition to renewables is a process that demands the coordination of all stakeholders. Investing through an evolution such as this requires a nuanced approach, says Mark Hume, Co-Portfolio Manager of the BlackRock Energy and Resources Income Trust plc.

Mark Hume

*Co-Manager,
BlackRock Energy and
Resources Income Trust plc*

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

The transition from fossil fuels to renewable energy sources is one of the greatest challenges faced by policymakers today. Like any challenge, this brings both risk and opportunity for investors.

In June 2020, we started to incorporate companies specifically involved in the transition to a low carbon economy in the BlackRock Energy and Resources Income Trust. This proved well-timed, coinciding with increasing investor interest in the energy transition. A third of the portfolio is now allocated to this area, but we have remained flexible in the allocation, increasing our weighting to traditional energy companies in November, for example, as tailwinds for the sector emerged off vaccine news.

We are often asked why we have not moved fully to become a fully 'energy transition' portfolio. We outline the key reasons for why we have chosen a more balanced approach, investing across the energy mix.

TRADITIONAL ENERGY COMPANIES HAVE A ROLE

Hydrocarbons today remain an important part of the energy mix and any transition will take time. Infrastructure needs to be developed, for example, and the entire energy value chain will be required to adapt to support a new energy mix while also ensuring reliability. The magnitude of this transition will need to be managed and will take time.

The move to renewable energy sources is likely to be incremental, particularly in the early years. This shift will, when combined with ever-changing macro-economic factors, have implications on commodity fundamentals and price, and thus company valuations. The most recent World Energy Report found that oil consumption declined by 8% in 2020 and coal use by 7%[1]. This includes the profound impact of the pandemic and economic lockdowns. To most appropriately manage a portfolio in such a dynamic sector it is important to have exposure to all parts of the energy mix.

Starving hydrocarbon companies of capital is not expected to be a responsible way to progress the energy transition. Many of these traditional energy companies understand the imperative to transition their business and have been important investors in renewable energy. For example, leading energy companies have committed to become a zero-carbon business by 2050 and to increase their renewable power generation capacity 20-fold over the next few years[2]. These companies will need capital to deliver on this transition successfully and responsibly.

2020 was a critical inflection year for energy companies and this forced a high-grading of portfolios, increase of operational efficiencies, and change in dividend policies. The improvement in the commodity price environment since has amplified the impact of those decisions and now positioned many companies in high cash flow generation mode. This increased cash flow is expected to enable increased diversion of capital to renewables initiatives for many of these companies. As investors, we are wary of greenwashing and rely on our analysis of a company's balance sheet and its disclosures to assess whether it is meeting its commitments to this increased allocation.

INVESTMENT BALANCE

2020 was also a formative period for sustainable energy investment. The pandemic demonstrated the urgency of having a better relationship with the planet. Companies with exposure to the energy transition did extremely well, being seen by investors as high growth at a time when growth was scarce.

2021, however, has brought new dynamics. Many of the traditional energy companies whose valuations suffered in 2020 under the intense and rapid shift in fundamentals, and subsequently price, that came with the global shutdown have seen a reversal in 2021. Some traditional energy companies have emerged as 'value' companies, being supported now by more stabilised fundamentals and stronger commodity prices.

Market sentiment can shift between high growth and value depending on a range of factors, such as the economic backdrop or outlook for interest rates. A portfolio with exposure to both, and with allocation flexibility, is well-positioned to navigate through fads and fashions and provide cushion against volatility for investors.

The energy transition is multi-layered. We believe it is more productive to invest across the energy complex, creating a rising tide, rather than limit ourselves to those already at the top.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy. The opinions expressed are as of June 2021 and may change as subsequent conditions vary.

For more information on this Trust and how to access the opportunities presented by the energy and resources markets, please visit: www.blackrock.com/uk/beri

TO INVEST IN THIS TRUST CLICK HERE

Sources: [1] IEA, October 2020. [2] Financial Times, April 2021.

RISK WARNINGS: Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

TRUST SPECIFIC RISKS

Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Emerging markets risk: Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.

Mining investments risk: Mining shares typically experience above average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

IMPORTANT INFORMATION

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

BlackRock have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our products are suitable, please read the Key Investor Documents (KIDs) and the Annual and Half Yearly Reports available at blackrock.co.uk/its which detail more information about the risk profiles of the investments. We recommend you seek independent professional advice prior to investing.

The Company is managed by BlackRock Fund Managers Limited (BFM) as the AIFM. BFM has delegated certain investment management and other ancillary services to BlackRock Investment Management (UK) Limited. The Company's shares are traded on the London Stock Exchange and dealing may only be through a member of the Exchange.

The Company will not invest more than 15% of its gross assets in other listed investment trusts. SEDOL™ is a trademark of the London Stock Exchange plc and is used under licence.

Net Asset Value (NAV) performance is not the same as share price performance, and shareholders may realise returns that are lower or higher than NAV performance.

The BlackRock Energy and Resources Income Trust plc currently conducts its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Any research in this material has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This material is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2021 BlackRock, Inc. All Rights reserved.
ID: MKTGH0621E/S-1682371-3/3

What to do if one of your investments warns on profit

Examining how warnings can differ in severity and the questions they pose investors

A 'profit warning' is where a company's actual profit is materially lower than forecasts set by sell-side analysts and can cause an investor acute portfolio pain; reports of an earnings 'miss', a material deterioration in trading or an unforeseen shock are typically punished by brutal share price slumps.

Profit warnings come with the territory when putting money into equities and you'll probably encounter many of them during your investing life. The best advice is not to panic and to try and work out if problems can be fixed. If they can't, you may have to consider selling out, even if it means incurring a loss.

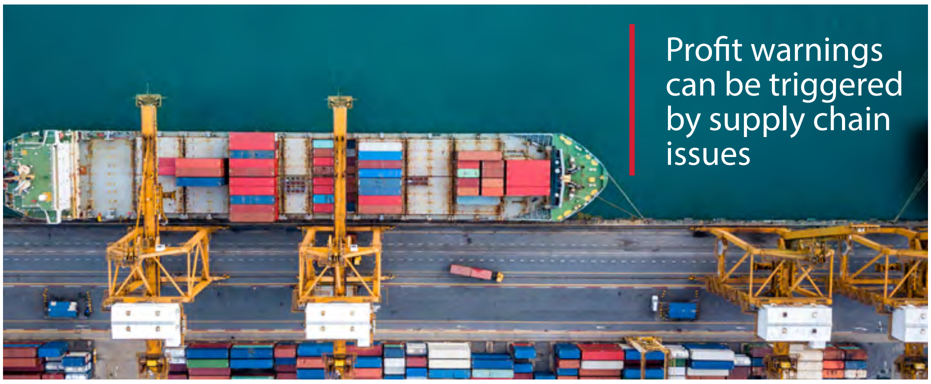
WHAT CAUSES A WARNING?

Profit warnings can be triggered by various factors such as lost sales, missed contracts and supply chain issues or macro-economic reasons and they can create confusion for investors. Some view them as a 'buying opportunity', while others avoid 'catching a falling knife' and buy into the old adage they always 'come in threes', which is something of an investment myth.

Sometimes profit warnings come out of the blue, but often a share price will underperform the market ahead of a profit warning, which can be explained by two factors; the industry backdrop may have already started to deteriorate and the market has begun to price this deterioration into the share price; and insiders may have leaked some information to analysts.

Many investors will hold on to shares in a troubled company in the hope they will recoup some of their losses, though research by Stockopedia has found there are extremely low odds of outperforming the market over a one-year basis by continuing to hold a share that has suffered a profit warning.

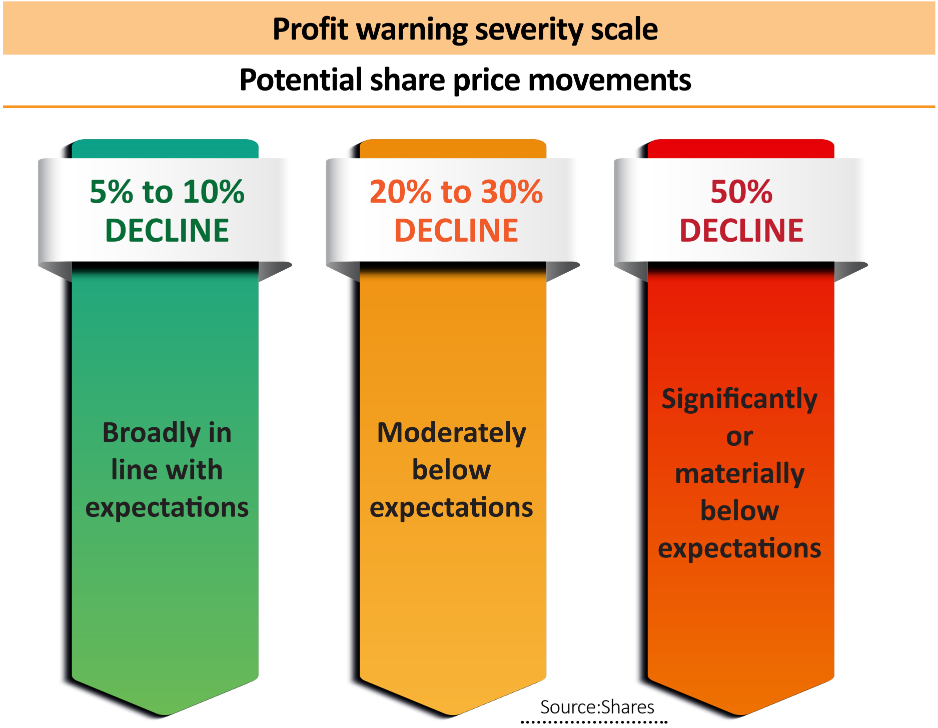
As a general rule of thumb, if a profit warning stems from a clearly identified problem that looks like it can be fixed by short term management actions, the chances of a full recovery in the share price are good to fair. However, anything related to falling demand for a company's



Profit warnings can be triggered by supply chain issues products or a rapid change in the competitive landscape is usually bad news for the longer term development of the business, and the share price.

DIFFERENT LEVELS OF WARNINGS

Understandably, companies will try and put the best possible spin on things when they are forced to issue profit warning, but there are different warning levels. For instance, a 'broadly in-line' statement is typically interpreted as a small miss against market expectations. Price reactions can vary, but generally a 5% to 10% fall in



THE FUND MANAGER'S VIEW

Michael Crawford, manager of the **TB Chawton Global Equity Income Fund (BJ1GXX3)**, points out profit warnings 'pertain to the short term ranging from a quarter up to a year'. However, he says their implications can 'stretch much further into the future depending on the cause.

'Most seriously, if it is caused by competitor or substitute products starting to take market share or compete away high returns on capital, the implied value of the company can fall steeply.'

Conversely, 'if a company is increasing investment and therefore expense, which will improve longer term growth rate and returns, it could actually increase implied value'.

Crawford says many quoted companies suffer from 'a misalignment between long-term shareholders and executive management often caused by the lack of influential shareholders with a long-term mindset'.

In such cases, 'management can persuade weak boards to incentivise by annual earnings per share (EPS) growth. So incentivised, such teams will prioritise and normally meet or exceed short term earnings expectations even if it is to the long-term detriment of the company'.

Crawford says they will 'also be overtly optimistic and lack candour. Such companies tend to attract shareholders with shorter term time frames. When such a company warns, the effect can be catastrophic and investors, fearing the worst, will normally bail out. GE (General Electric), under Jack Welch, is the classic example'.

In contrast, other companies are 'much better aligned with long-term shareholders due to founders or families with large holdings or as a result of cultural values embedded by a former high-quality manager. Incentivisation structure will be based on return on invested capital and longer-term growth.

'Management will be more candid and transparent with what is actually going on and their thinking. This will attract longer term shareholders who will stand behind the company even when profits are reduced significantly in the short term.

'One of the best exponents of this is **Next (NXT)** under the leadership of Simon Wolfson. His reports to shareholders are amongst the clearest there are in explaining where the business is doing well, where not so and how the company's strategy is developing.'

the share price would be a common reaction.

'Moderately below' market expectations is a clear statement that performance has fallen short of consensus expectations and is generally understood by market professionals to mean 10% to 15% below expected earnings. Share price declines with these types of warnings can be more brutal, in the range of 20% to 30%.

Sometimes, a company will report that earnings are 'significantly' or 'materially below' market forecasts. In these cases, investors should brace themselves for a 20%-plus miss or perhaps a loss against a previously expected profit. Share price reactions can be falls of 50% or more, as in the example of **MySale (MYSL:AIM)**.

MYSALE'S IN THE 90% CLUB

Online retailer MySale floated on AIM at 226p in June 2014 and just six months later (15 Dec 2014) issued a severe profit warning that destroyed investors' confidence in the story. In the poorly received update, MySale warned that while full year revenues would show double-digit growth, pre-tax profit would be 'materially below market expectations' due to challenging trading conditions in its original markets of Australia and New Zealand.

This sent the shares down 53% to 81.5p on the day of the warning. Today, they are priced at just 7.7p, 97% below the IPO issue price, with investors put off by the unpredictability of the business which has resulted in upgrades, downgrades, losses and much else in the intervening seven years.

A VARIETY OF WARNINGS

Global products and pharmaceutical services company **Clinigen (CLIN:AIM)**, sank 26.5% to 615p after warning in June 2021 profit would be lower than guided as Covid-19 continued to impact hospital-based cancer treatments and delayed clinical trials. **McBride (MCB)**, the private label consumer goods maker, endured a 16% plunge to 78.8p on 5 May 2021 after unexpectedly cutting its annual earnings estimate due to a combination of slower sales growth and a 'rapid, significant and sustained price escalation' in many raw materials.

And online competitions provider **Best of the Best (BOTB:AIM)** slumped 32% to £18 on the day of strong final results in June 2021 on what was read as a profit warning. The company said it had experienced 'somewhat of a reduction in customer engagement' since the latest easing of lockdown restrictions on 12 April 12, 'specifically relating to the understandably long-awaited re-opening of hospitality and non-essential retail'.

Another example is **Frontier Developments (FDEV:AIM)**. Though the video games developer said in a June 2021 update that it expected to report record revenues for the year to May 2021, analysts downgraded forecasts due to Covid-related development challenges which have delayed planned launches.

Specifically, the release of its Jurassic World Evolution 2 title would now fall into the financial year to May 2022, while the first of the annual F1 Manager title was expected to launch early in the 2023 financial year, so after 1 June 2022, rather than in full year 2022, with the following iterations all pushed back a financial year.

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

AJBell Media

SHARPEN YOUR **INVESTING SKILLS** WITH **SHARES**

A **SUBSCRIPTION** TO **SHARES HELPS YOU** TO:

- Learn how the markets work
- Discover our best investment ideas
- Monitor stocks with our customisable watchlists
- Enjoy our guides to sectors and themes
- Get the inside track on company strategies
- Find out how fund managers make money

Digital magazine

Online toolkit

Investment ideas

The potential for a green advancement in emerging markets

A report identifies multi-trillion investment opportunity in areas like renewables and low-carbon infrastructure

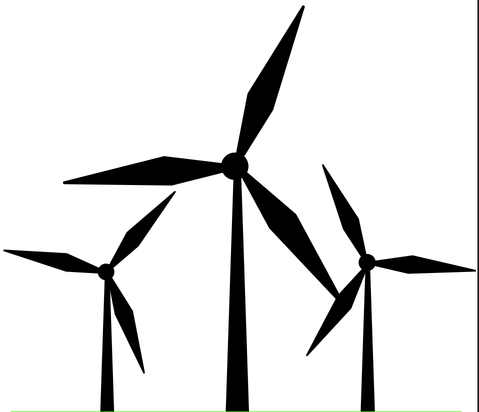
Investors often associate emerging markets with a reliance on fossil fuels like coal, which would suggest that tackling climate change is not going to be easy.

As the middle class population in emerging markets grows and factors like car ownership and consumption of meat go up, so emissions are expected to increase.

Research published in April 2021 by the International Finance Corporation, a sister organisation of the World Bank, reported that emerging markets account for 62% of the world's population and 48% of global emissions.

If emissions were to grow to match emerging markets' share of the global population, this could have damaging consequences for the environment.

However, more optimistically, the same report also highlighted the potential for a green recovery from the Covid-19 pandemic over the next decade. It stated: 'As countries shift from short-term pandemic relief measures towards long-term economic recovery, governments face important decisions about the type of economies they want to rebuild and how to allocate limited resources effectively.'



$10.2 TRILLION OF GREEN INVESTMENT OPPORTUNITIES IN EMERGING MARKETS 2020-2030

In partnership with market research firm Guidehouse Insights the IFC identified over the next 10 years $10.2 trillion in investment opportunities, 213.4 million cumulative new direct jobs and 4 billion tonnes of carbon dioxide equivalent reduction in greenhouse gas emissions across 21 major emerging market economies.

Half of these investment opportunities are centred around East Asia and the Pacific, encompassing China, Indonesia, Philippines and Vietnam.

FRANKLIN TEMPLETON

This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit here

Emerging markets: Views from the experts

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

1. US president Joe Biden's stimulus plans have reached $6 trillion, paired with continued vast quantitative easing. The expected resurgence in US growth boosted equity markets and led to a bounce in the US dollar earlier in the year. However, the US dollar has resumed its decline, with EMs also outperforming US equities after a brief period of underperformance. The spurt in US growth is expected to be relatively short, petering out by 2022. **Emerging markets (EM)** are still expected to lead the global economic recovery [ENDS], with forecasted 2021 GDP growth of 6.7% vs. 6.4% for the United States. The EM growth premium widens to 1.5% in 2022.

2. We believe disruption in innovation and technology continues to support the powerful long-term structural case for investing in EMs. **Solar** is one opportunity we have identified within this theme of disruption. Advancements in technology and innovation are allowing more sunlight to be converted into energy, and the scope for future growth is considerable. One aspect of solar that has deterred investors in the past is policy risk.

This risk is falling, however, as the environment and concerns about global warming are at the top of global leaders' agendas and new solar projects no longer require government subsidies. For example, in China, president Xi Jinping has set a target for the country to be carbon-neutral by 2060 and for 25% of the energy mix to be from renewables by 2030.

3. Despite its strong market performance in recent years, we believe **Russia** remains one of the most undervalued markets in Europe as well as the EM universe. It has little sovereign debt and considerable foreign exchange reserves, allowing it to withstand most financial shocks. In addition to being one of best-positioned oil producers globally, the country's new economy is also thriving.

For example, the country's leading bank has developed a digital network that incorporates artificial intelligence, big data and robotisation. Similarly, Russia's leading search engine has built an impressive ecosystem. Looking forward, given a gradual recovery in business activity, higher oil prices and stable environment for the Russian ruble, we believe that Russian companies will likely benefit from positive earnings revisions and improved distribution to shareholders as buybacks and dividends also increase.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

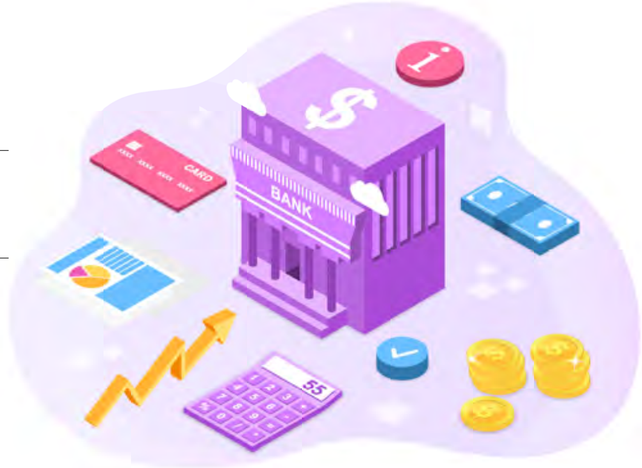
Andrew Ness
Edinburgh

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

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Assessing the Fed's policy options



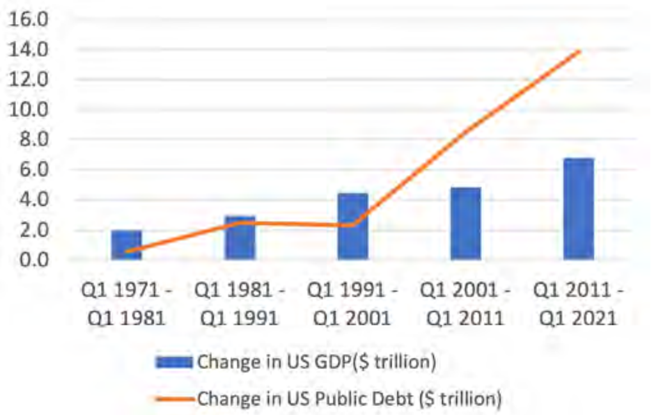
Discussing the long-term picture after the latest US Federal Reserve meeting delivered a shock

During the first 200 years of its existence, the US accumulated a cumulative federal debt of $1 trillion, the equivalent of 30% of its GDP (gross domestic product). In the last 40 years, that figure has surged to $28 trillion.

The good news is that the US economy has grown too, as annual GDP has advanced from around $3 trillion to $23 trillion. As a result, America's national debt-to-GDP ratio has therefore grown from roughly 30% to 128% and that is bad news for two reasons.

First, it means that it is taking ever-increasing amounts of debt to generate an extra dollar of GDP.

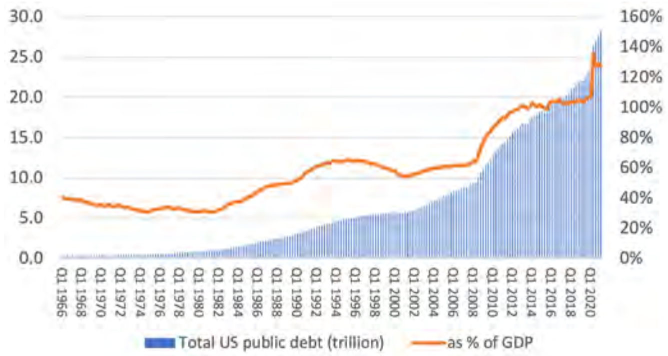
Extra debt is generating progressively lower returns in GDP



Source: FRED – St. Louis Federal Reserve database

Second, it leaves the US sitting well above the 80% to 90% debt-to-GDP ratio described by economists Kenneth Rogoff and Carmen Reinhart as a key tipping point, whereby economic growth would slow thanks to (unproductive) debt servicing costs – although that research, used by many governments as the basis for austere fiscal policies in the last decade, has since been widely challenged.

US debt-to-GDP continues to surge



Source: FRED – St. Louis Federal Reserve database

Whether you side with Reinhart and Rogoff or their detractors, the challenge that faces the US Federal Reserve is undeniable.

The US central bank needs to keep interest rates as low as it can to help the US government fund its interest payments even as it maintains welfare programmes, spends on defence, education and other vital needs, such as investment in public infrastructure.

That may leave the Fed having to raise interest rates to fend off inflation, maintain the value of the dollar relative to other currencies and maintain

RUSS MOULD
AJ Bell Investment Director

its credibility with financial markets and also holders of US treasuries, since they are effectively bankrolling America's economy.

Investors now have to assess which way they think the Fed (and the White House) will go and to what degree the central bank's ultimate policy path is priced into bonds, equities, commodities and currencies.

In the end, every option available to the chair Jay Powell and president Biden may help in some areas but do damage in others, as if to confirm the view of Stanford University professor Thomas Sowell that: 'There are no solutions, only trade-offs.'

MULTIPLE OPTIONS

To make a reasoned decision here – and then draw up an appropriate asset allocation – investors will need to think like the Fed and its officials. History is very clear that there are only four ways out once a national debt reaches America's current levels, relative to GDP:

Rapid economic growth. This is the best option, but it is not proving easy, if the period from 2009 and the end of the financial crisis is any guide. This underpins the push toward Modern Monetary Theory and the argument that governments should spend on productive assets and focus on the long-term payback rather than worry about near-term borrowing.

Default. This is not ideal, as serial offenders like Argentina will attest. It leaves you locked out of international debt markets and means you must pay higher coupons even if you can persuade someone to lend to you. It can also prompt capital flight, hitting both your currency and value of other assets and financial markets. The US will not countenance anything that jeopardises the dollar's status as the world's reserve currency (although most other developed countries face the same dilemmas and policy options).

Inflate. This is more like it and is exactly what the US and UK did when debt ballooned thanks to the Second World War. Rebuilding programmes and public spending fuelled growth, interest rates were kept below inflation and lenders were repaid in effectively devalued currency as a result. Yet again, though, this leaves the Fed with the dilemma of stoking some inflation but not too much that investors take fright and both financial markets and the wider economy are destabilised, as happened in the 1970s.

War. This is the option that no-one in their right minds would consider, even if the new Cold War between China and America feels like it is getting steelier by the month, even if president Biden is now in the White House rather than Donald Trump. Taiwan is still a potential flashpoint for 'Hot War', both territorially and technologically, thanks to Taipei's predominance in the global silicon chip supply chain.

PATH OF LEAST RESISTANCE

If growth is unlikely (or least relies on wanton government borrowing and overspending) then inflation still appears the likeliest outcome, but the Fed will not want to tighten policy too far, too fast. Just look at how financial markets are welcoming talk of two Fed rate hikes to the far-from-challenging level of 0.75% by the end of 2023. Equity and commodity price wobbled and volatility indices such as VIX moved higher.

Yet the US 10-year treasury yield fell, the last thing you would expect if inflation is coming, especially when yields are already miles below the current rate of increases in the cost of living.

These trends may not be as mutually exclusive as investors might think. The Fed is still running QE (quantitative easing) flat out to massage yields lower. There is more uncertainty now over its policy direction than there has been for some time. Investors seek havens, like bonds, at times of concern.

Perhaps the bond *and* stock markets are getting ready for the return of volatility and bumpier times ahead. But then the chances of the Fed raising rates or hauling in QE may recede further, as the end of the debt-fuelled bull market and economic upturn would surely be seen as deflationary and any policy response would have inflation as its ultimate goal.

Can property ever replace a pension?

Buy to let opportunities may look attractive but you need to consider taxes and fees

The Bank of England's outgoing chief economist, Andy Haldane, got into a bit of bother in 2016 by claiming he preferred investing in property to pensions. As many were quick to point out, it's easy to be blasé about pensions if you're a member of a gold-plated final salary scheme.

But clearly the property market has been a good place to have money invested, really since the financial crisis provided the last blow-out that showed house prices don't always head in an upwards direction.

REMEMBER PROPERTY TAXES AND FEES

Clearly in a world where cash is paying next to nothing in interest, a buy to let property yielding 5% sounds extremely attractive, particularly when you stand to benefit from house price growth too. But the return might not look quite as good once fees and taxes are factored into the equation. When buying a property, there are legal fees, survey fees and stamp duty to consider. Buy to let investors now face a 3% stamp duty surcharge too, which makes the cost of buying a property even steeper.

As well as the fees associated with purchase, there are also ongoing costs associated with running the property, which will reduce the gross yield to something less eye-catching hitting your bank account. You'll need to pay for maintenance of the property, landlord insurance and letting fees, usually in the region of 15% if you don't intend to manage the tenancies yourself. You should also brace yourself for void periods when the house is vacant, as this will happen from time to time.

Then there's the issue of tax. Depending on your tax bracket, you'll pay tax of 20%, 40% or 45% on the income generated by the property. If you're income is just over £100,000, you actually face marginal income tax rates of up to 60%, because your personal tax-free allowance is reduced by £1 for each £2 of income above £100,000, until it's extinguished entirely.

TAX RELIEF LIMITED

You can claim some tax relief on the mortgage interest you pay, but this is now limited to 20%, rather than your marginal rate. If and when you sell the property, you will also face capital gains tax of 18% or 28% on any profits above the capital gains tax free allowance (currently £12,300), depending on whether you're a basic rate or higher rate taxpayer.

On top of the costs, the tax you pay also serves to chip away at the returns that probably attracted you to the property purchase in the first place. That's particularly when you consider that other assets like shares or funds can be held in an ISA to protect them from tax.

The great joy of investing in property however, is that you can largely fund it with someone else's money. Borrowing from the bank via a buy to let mortgage can turbo charge your returns in good times, and boy, have times been good for the housing market of late. Of course, property prices can fall and leave you in the lurch, as anyone who found themselves in negative equity during the financial crisis will testify.

You also have to service the mortgage debt, which you can do with the yield you get from the property, after costs. At current interest rates, that probably looks pretty manageable, but if you take a variable rate mortgage, interest rates can rise on you at any time. Even if you fix, when your deal expires you still face the risk of remortgaging at significantly higher rates, which may leave you in the unenviable position of having to fund the mortgage out of your other income.

NEED FOR THOROUGH ANALYSIS

There are many reasons to believe the property market will continue to do well, though no-one should expect prices to rise every single year. But anyone considering a buy to let property as an investment should make sure they do a thorough analysis of all the costs and tax implications before parting with their money, to make sure the investment case actually stacks up.

As ever, it's prudent not to have your eggs all in one basket either, so if you buy a rental property, it's probably best alongside an investment portfolio to provide some diversification.

By **Laith Khalaf**
Financial Analyst

READ MORE STORIES ON OUR WEBSITE

***Shares* publishes news and features on its website in addition to content that appears in the weekly digital magazine.**

THE LATEST STORIES INCLUDE:

Gear4music hits the right note with another upgrade

Kingspan hits new high on increased guidance

SHARESMAGAZINE.CO.UK

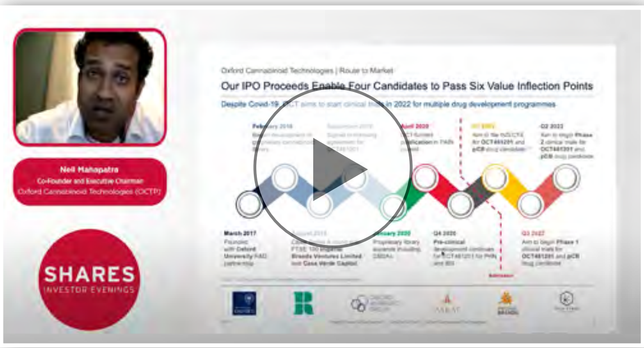
SIGN UP FOR OUR DAILY EMAIL

For the latest investment news delivered to your inbox

WATCH RECENT PRESENTATION WEBINARS

Impax Asset Management Group (IPX)
Ian Simm, Founder & Chief Executive

Impax Asset Management Group offers a range of listed equity, fixed income and private markets strategies. All strategies utilise the firm's specialist expertise in understanding investment opportunities arising from the transition to a more sustainable economy.



Oxford Cannabinoid Technologies (OCTP)
Dr John Lucas, CEO &
Neil Mahapatra, Executive

Oxford Cannabinoid Technologies is a UK-based next generation cannabis pharmaceutical company focussed on the development of cannabinoid-based prescription medicines.

Polar Capital Global Financials Trust (PCFT)
Nick Brind, Fund Manager

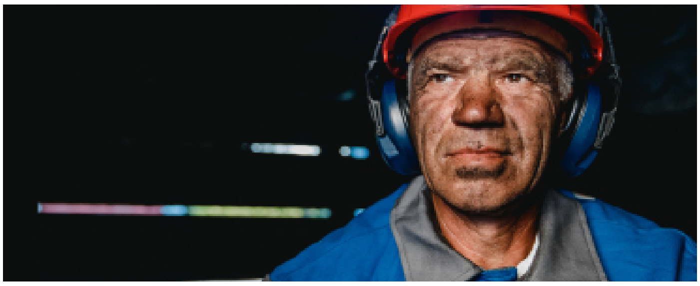
Polar Capital Global Financials Trust aims to select the best investment opportunities from the world of financials. The five-strong investment team, with almost 100 years' experience invest solely in financials, scouring the globe and actively investing in developed regions.

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



KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

25 June: Jade Road Investments, Norman Broadbent. 29 **June:** Appreciate Group, D4T4 Solutions, Lamprell, Lookers, Novayct, SEEEN. **30 June:** Aminex, Civitas Social Housing, Dixons Carphone, Non-Standard Finance, OptiBiotix Health, PCF, Stagecoach, Studio Retail. **1 July:** AO World, Polar Capital.

Half-year results

28 June: Porvair. **30 June:** Harworth, Velocity Composites.

Trading statements

30 June: Serco. **1 July:** Associated British Foods, Loungers.

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.

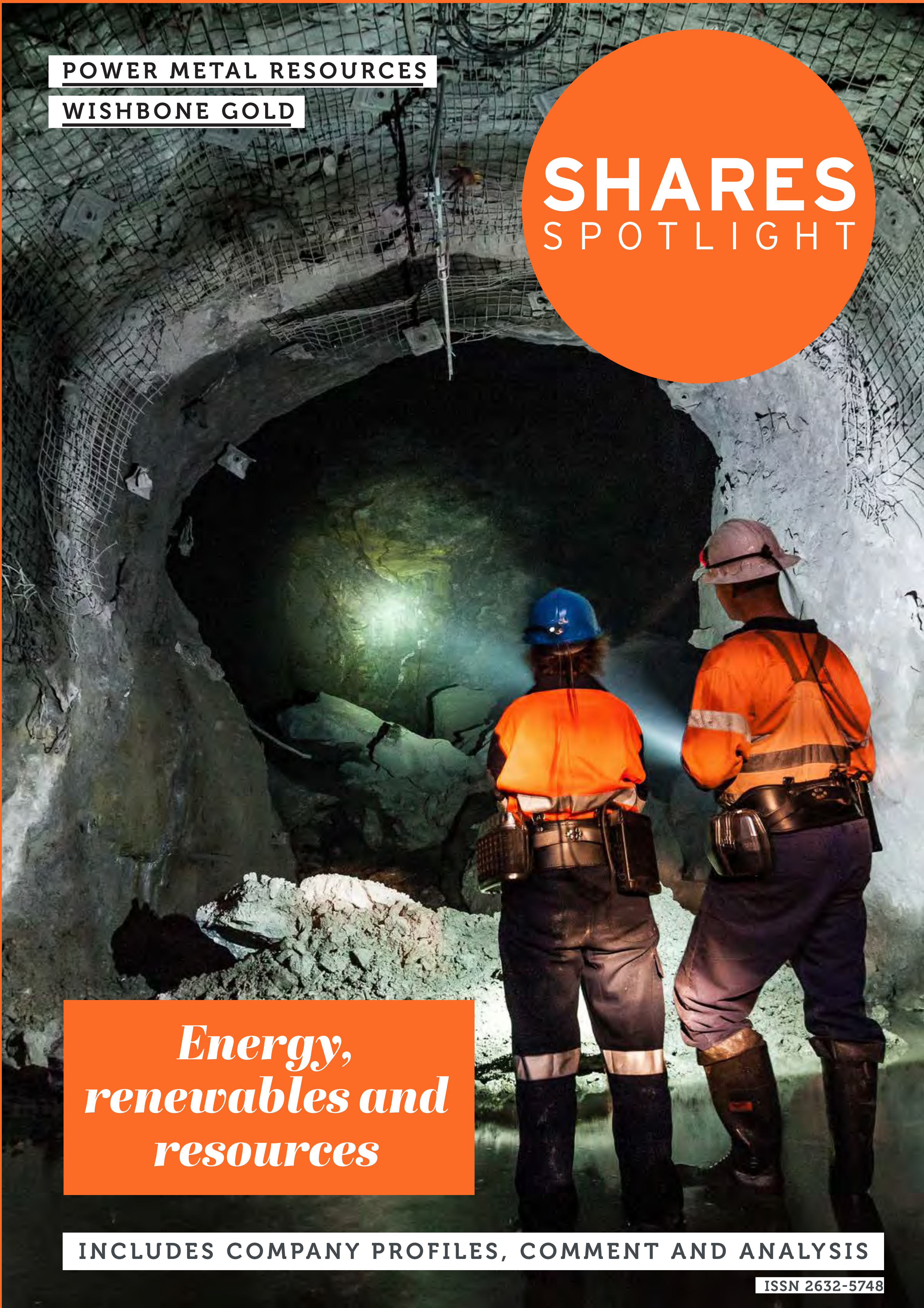
All Shares material is copyright.
Reproduction in whole or part is not permitted without written permission from the editor.

THIS WEEK: 11 PAGES OF BONUS CONTENT

POWER METAL RESOURCES

WISHBONE GOLD

SHARES SPOTLIGHT

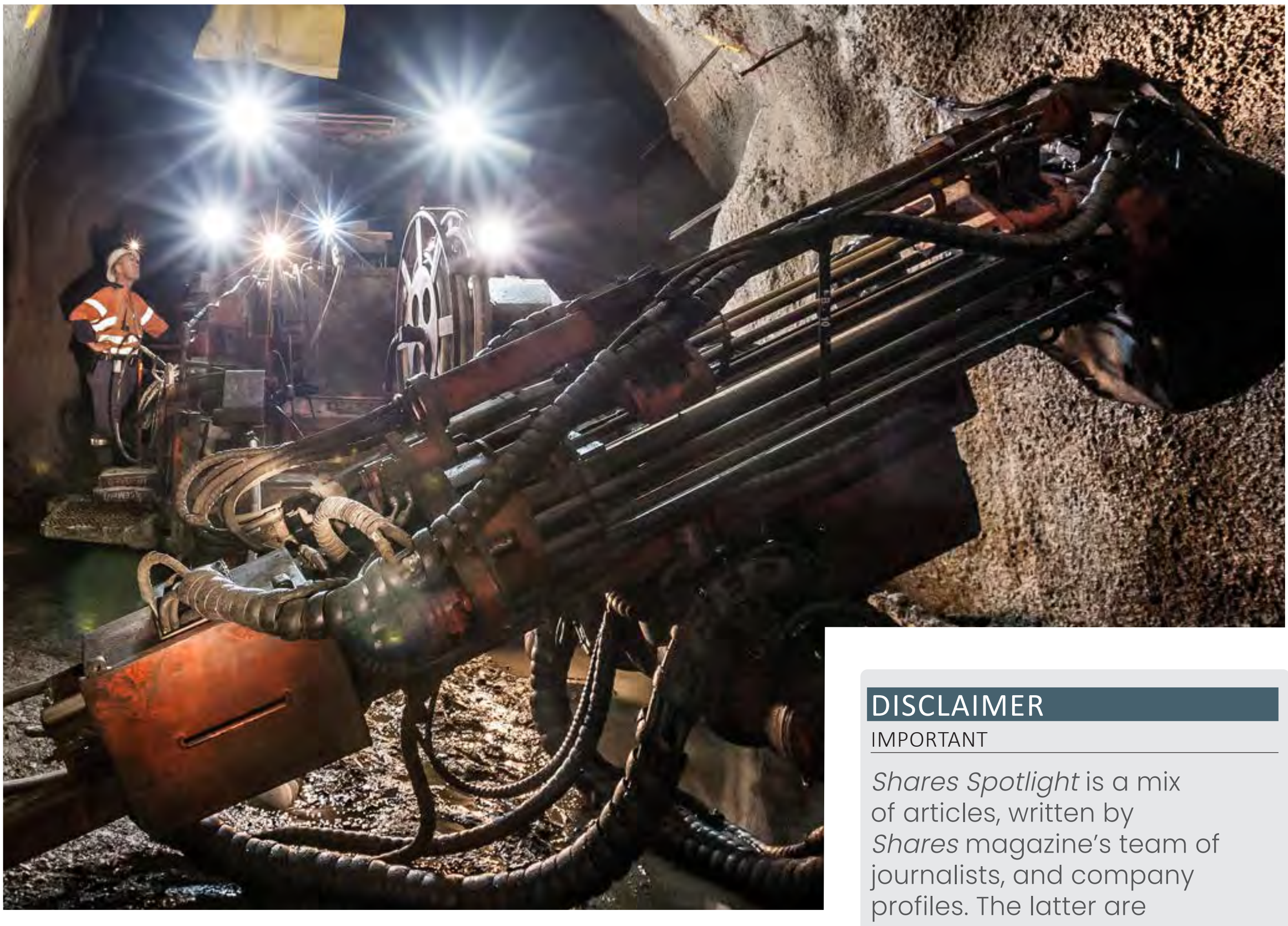


Energy, renewables and resources

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

JUNE 2021

ISSN 2632-5748



Introduction

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

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

This edition is dedicated to businesses powering the global economy, whether that be in mining, oil and gas, the renewables space, infrastructure or energy provision.

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

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

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

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

Click [here](#) for details of upcoming events and how to register for free tickets.

Previous issues of *Spotlight* are available on [our website](#).

DISCLAIMER

IMPORTANT

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

Members of staff may hold shares in some of the securities written about in this publication. This could create a conflict of interest. Where such a conflict exists, it will be disclosed. This publication contains information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments in this publication must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. This publication, its staff and AJ Bell Media do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

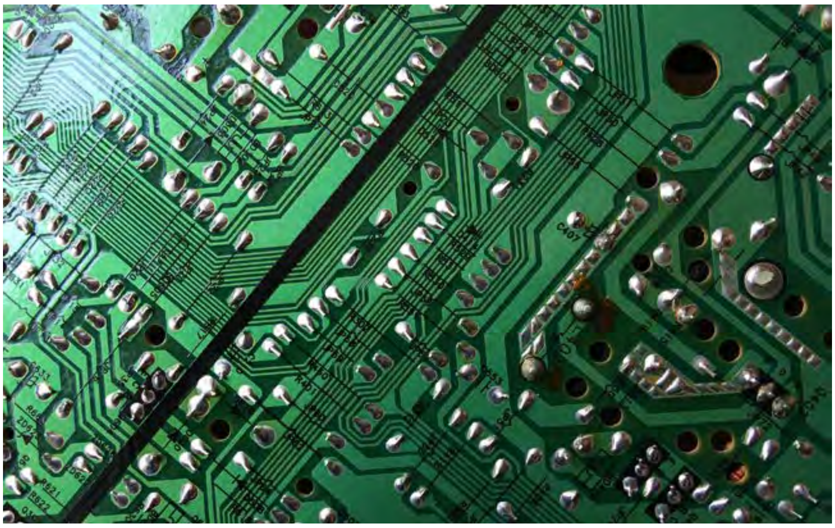
Why the future is bright for tin prices

The metal is used in wide variety of applications and supply is under threat

Tin's largest application, at 49%, is in solders – low melting point, conductive alloys. Solders act as both glue and conductor between individual electronic components and between components and PCBs (printed circuit boards).

It is this combination of being able to fix components in place and to ensure good conduction that makes them critical to electronic circuitry. Previously, solders were typically a 60:40 tin–lead alloy, but with the banning of lead in solders in 2006 by the European Union, China and California, 95% of solders are expected to be lead-free by 2023.

The second application is in chemical compounds, at 18% of demand. Largest among these is as a stabiliser in PVC (7.7% of annual usage), with smaller applications such as catalysts in the production of other plastics, pigments in the ceramic industry and as a coating for glass.



OPPORTUNITIES FOR DEMAND GROWTH

The growth potential for tin cannot be underestimated. It is so fundamental to renewable energy, electric vehicles and IT systems that the Massachusetts Institute of Technology (MIT) estimates tin is the most pivotal metal to new technologies and the energy transition, well ahead of cobalt, lithium and with more than twice the number of applications as nickel.

Of tin's applications, electronics is both the most significant today and also the greatest source of potential demand expansion. It is inconceivable to consider life without electronic devices, which would be unfeasible without tin solders, and looking forward electronic demand is only set to increase. Appetite for electronic devices has been forecast to grow at 4.8% each year to 2025. These figures now look conservative given that the Covid-19 pandemic has sped up the move to home-working and increased the appeal of smart-home and in-house entertainment systems.

Electronics are also lifting demand for tin-based chemicals. Capacitive touch-sensitive screens, used on smartphones for example, employ a thin layer of indium-tin oxide to detect screen contact. The proliferation of touch-screen electronics has boosted demand for this oxide. Tin demand will be further bolstered by the accelerating environmental sector. In the near term, renewable infrastructure development, such as solar-panel farms and wind turbines, require extensive control circuitry, which will feed into solder demand.

Further out is the potential demand from batteries for electric vehicles. Tin compound additives already offer important performance improvement in lead acid batteries, but this could be overshadowed by tin usage in electric vehicles (EVs). Lithium-ion batteries (LiB) have been shown to achieve significant increases in specific energy – the amount of power in a kilogram of battery – if tin is added to the graphite anodes. This is especially useful in EVs and electric planes, as it would allow the same range from smaller or lighter batteries. With the exponential growth in electric cars, demand for tin from LiB batteries is forecast to ramp up from almost nothing today to account for 3–4% of tin demand by 2025, and more as EVs usurp internal combustion engine vehicles in the second half of the decade.

WHERE DOES TIN COME FROM?

Only one tin ore, cassiterite, is economically extractable. The majority (54%) of cassiterite is found in China and the Southeast Asia Tin Belt, running from Myanmar and Thailand to Malaysia and Indonesia. Other sizeable deposits are found in Latin America (Peru, Bolivia and Brazil), Northwest Europe, the Democratic Republic of the Congo (DRC) and Australia.

Since around 2000, supply-demand fundamentals had been moving into deficit due to mine depletion and the shift to lead-free solders. The International Tin Association (ITA) had expressed concerns of significant deficits from 2010. However, this challenge was avoided by ore supplied from Myanmar. Myanmar, which recorded almost no tin ore mining in the years to 2009, ramped up output to become the third-largest miner by 2015.

With no domestic production, the US has championed recycling to reduce its import dependence. This also brings environmental benefits and so is also attractive to the European Union. In 2020, recycling returned approximately 24% of tin back into the US supply chain. Volumes from recycling are expected to increase as processes for breaking down electronics and batteries are further developed.

HOW IS SUPPLY THREATENED?

Tin supply is a major concern. Of the five London Metal Exchange (LME) base metals – lead is not covered – the OECD assessed tin as having the highest supply risk, the highest political risk rating and the second-lowest recycling rate.

The first worry is falling output from Myanmar. In 2016, the country accounted for 19% of global production, but this had fallen to 14% in 2019 and 11% in 2020. Without this supply, deficits are likely, which has already lifted prices. Supply will tighten as mine depletion continues, demand strengthens and any new facilities take time to ramp up, with some level of deficit expected for the next three to five years.

Secondly, a significant part of mining is from the unregulated, informal sector. That is, by artisan miners with little in the way of tools. This is prevalent in Myanmar and the DRC. As the proceeds from tin mining could be used to fund armed groups, it was included in '3TG' – tungsten, tantalum, tin and gold – conflict mineral legislation. Both the United States' 2010 Dodd Frank legislation and the EU's 2017 Conflict Minerals Regulation (applying from 1 January 2021) require companies to conduct due diligence on sources of tin ores. This could effectively cut out artisanal sourced material to companies working in regions affected by these regulations, and so reduce usable supply availability.

The EU has so far not classified tin as a critical mineral because supply risk is reduced by domestic producer Metallo of Belgium.

However, for the US the concerns are more acute as it has no domestic production, and reduced supply would have an impact on many industries, especially those in the value-adding, high-tech sector. The US includes tin on its critical minerals register and maintains a strategic reserve of 4,000 metric tons, although this is equivalent to just 35 days of 2020 consumption.

This article is based on a report produced by Edison Investment Research, other Edison Explains and thematic research is available here.

POWER
METAL RESOURCES

Power Metal Resources gears up for potentially game-changing drilling in Botswana

powermetalresources.com

The South Ghanzi copper-silver project lies within the prolific 1,000 kilometre-long Kalahari Copper Belt (KCB), which stretches from north-eastern Botswana all the way to western Namibia.

Held within a JV by **Power Metal Resources (POW:AIM)**, together with its 50/50 joint venture partner **Kavango Resources (KAV)**, an impactful drill campaign here could soon be about to transform both companies.

For any exploration company to drill in Botswana, securing an environmental management plan (EMP) is essential. Right now, it's the only box left to be ticked at South Ghanzi, before drilling can commence. The JV partners are *already* in the final stages of the EMP process and believe the rig could mobilise in the very near future.

This is when things could really start to get exciting. Since the copper-silver targets at the South Ghanzi project are relatively shallow, it should only take a few weeks to test once the drill bit has started turning.

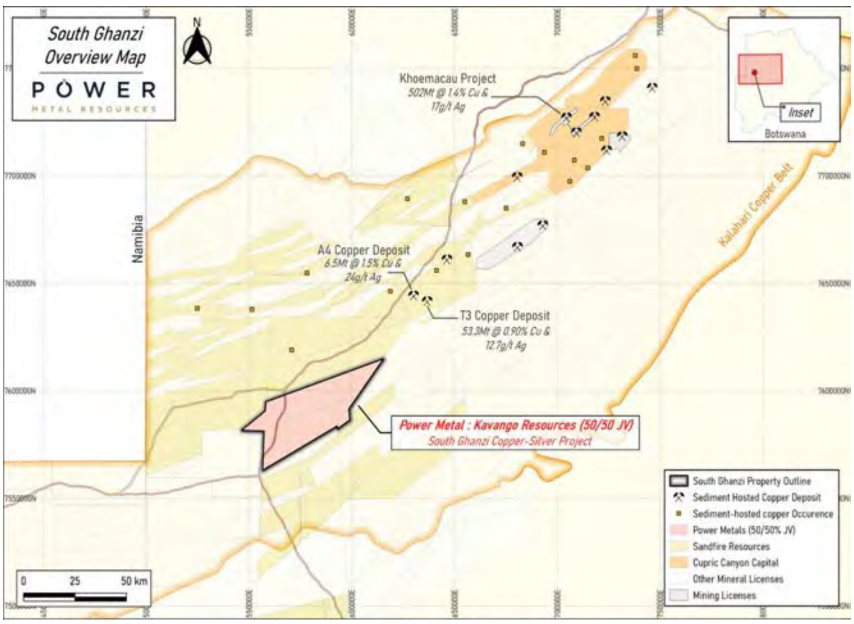
Assays will arrive thereafter and it should soon become clear just how valuable the South Ghanzi project really is to Power Metal.

As chief executive Paul Johnson points out: 'South Ghanzi is drill ready, we have a contractor lined up and funds in place to start operations immediately.

'We will know very quickly of this project's true potential. It's an exciting time for all involved.' For investors so often frustrated waiting for other companies to share results, the immediacy of these plans will no doubt be refreshing.

There is good reason to be confident in what drilling could reveal. So far, all the work at South Ghanzi has validated the project's original exploration hypothesis. In fact, ever since Power Metal's JV partner Kavango first applied for the prospecting licences, all evidence points towards the potential for the project to host multiple mineralised systems.

Indeed, the licences were originally pegged based on Kavango's interpretation of



the regional geology. The company's expert exploration team identified what are known as a 'fold noses', where other discoveries within the Kalahari Copper Belt have been concentrated. In technical terms, a 'fold' is when rocks are bent or flexed by temperature, pressure, or stress. And the 'nose' term is applied when there's a curved shape at the tip of the fold – an area where concentrations of precious and base metals are known to accumulate

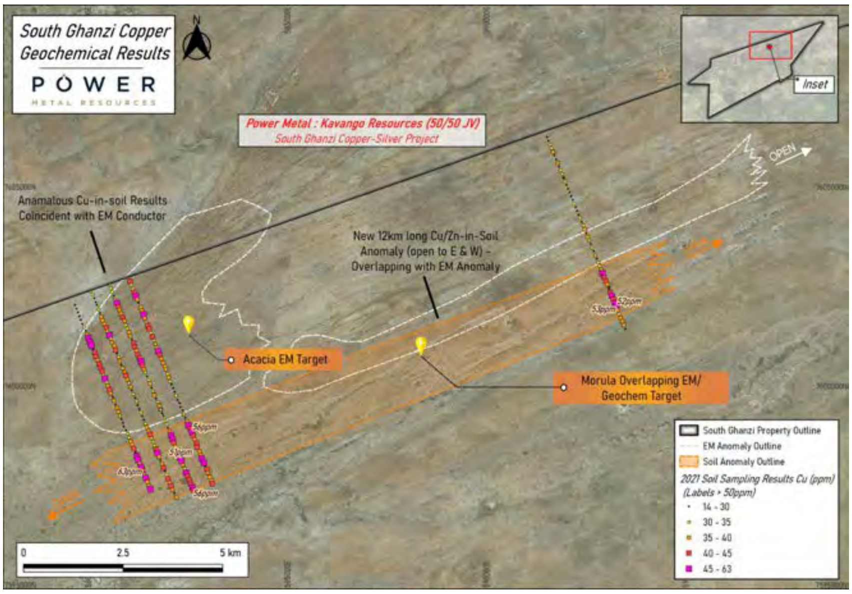
Folds can plunge, meaning they tilt in one direction rather than being horizontal. At South Ghanzi, the prospective fold plunges southeast and is coincident with a large four kilometre by four kilometre conductor, which was identified by a recent airborne electromagnetic (AEM) survey that was flown over the project. This conductor—named Acacia—is now a primary exploration target, as it possesses several geological and geophysical comparisons as several of the KCB's other major proven copper-silver discoveries.

THE PATH TO RICHES?

What's particularly interesting is that soil sampling recently completed over Acacia outlined a coincident geochemical anomaly with highly elevated levels of zinc and copper, both of which are key indicators of buried sedimentary-hosted copper-silver deposits within the KCB.

Alongside these promising exploration results at the Acacia target, the AEM survey led to the discovery of seven other discrete conductive targets, which are all potentially prospective for significant copper-silver mineralisation.

Results so far have



been promising, with soil geochemistry directly over Acacia outlining elevated copper at more than 42 parts per million (ppm). At another prime target, Morula, copper-in-soil concentrations were between 38 and 62ppm copper.

Interestingly, copper is less mobile in soils than zinc, which makes finding these elevated copper results at surface and right on top of a fold nose very encouraging.

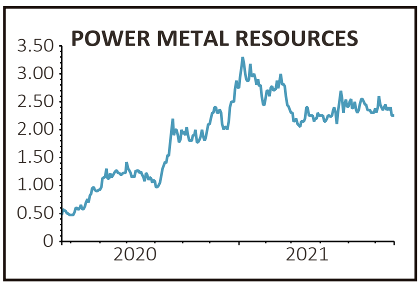
For Paul Johnson, this is a case of history possibly repeating itself in a most profitable manner.

Johnson is no stranger to Botswana exploration, having previously been CEO of **Metal Tiger (MTR:AIM)**. While there he negotiated a 30% stake in a MOD Resources' project in 2015 in the KCB that turned out to be a game-changer and became one of the belt's most famous discoveries.

Drilling at that project—which came to be known as T3—started in early 2016 and within the first few holes a significant copper-silver discovery was made. T3 was eventually acquired by Sandfire Resources and is now moving swiftly towards commercial production and notably sits only 35 kilometres from South Ghanzi.

Johnson notes: 'We're seeing exploration evidence at South Ghanzi, which is in line with what we saw at Metal Tiger when we were in the early days exploring the T3 project, which is obviously extremely exciting for us at Power. The only thing to do now at South Ghanzi is drill.'

With an approved EMP, that's exactly what the joint venture partners plan to do. From that point the starting gun will be fired. Very quickly, South Ghanzi could then have the same transformational effect on Power Metal and Kavango that T3 had on Metal Tiger and MOD Resources back in 2016. Expect to see fast progress in the field this summer.



In 2020 the world stopped flying but Wishbone continued

wishbonegold.com

Figure 1: Wishbone Gold's Wishbone Project in Queensland, Australia

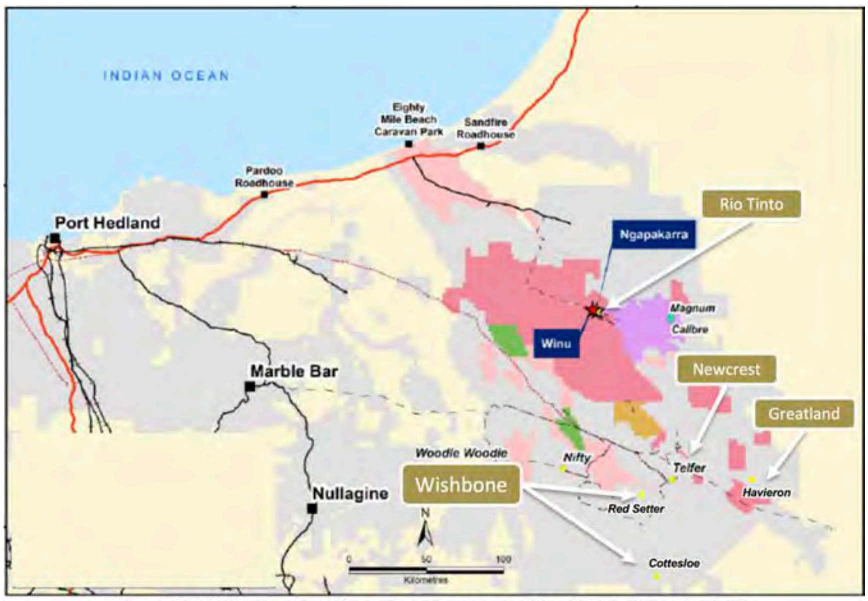


Figure 2: Wishbone Gold's exploration properties in Western Australia

In March 2020 Emirates airlines, the lifeblood of Dubai, grounded all but a few of its fleet of nearly 300 planes.

Overnight the thriving nexus of trade in Dubai from across the world stopped as if it had never existed. This cut off **Wishbone Gold's (WSBN:AIM)** supply of traded gold arriving on daily flights from African capitals and once its stocks were sold it was over.

There are many ways the firm could have responded in such a situation: Panic, despair, head to the beach.... None of these would have been out of line with many other respondees around the world.

Instead, during April and May, Wishbone restructured the company taking it back to its exploration roots in Australia. A recapitalization financing was announced on 2 June 2020 at 1.35p giving it a market cap of £1.25 million. As of writing (June 2021) its shares are at 18.5p and has a market cap of £31.3 million. Just over one year later, and Wishbone sees great things for 2021 and beyond.

This has helped make Wishbone one of the top performing shares in London over the last 12 months.

WISHBONE TODAY

The company has six exploration properties in Australia: four in Western Australia in the Paterson Ranges area of the Pilbara and two in Queensland.

WESTERN AUSTRALIA

Wishbone has four exploration tenements in WA comprising the Red Setter group of three tenements and the Cottesloe tenement.

RED SETTER AND ASSOCIATED TENEMENTS

The major focus in WA is the Red Setter project. This is a 57.4 square kilometer (km) tenement, which is the major part of the 67 square km package acquired in November 2020. Red Setter is located only 13 km south-west of the **Newcrest Mining (ASX:NCM)** Telfer gold mine and about 60km west of Newcrest and **Greatland Gold's (GGP:AIM)** Havieron discovery.

For exploration appeal, it is hard to conceive of a better area to be in than the Paterson Ranges in the Pilbara and this where all Wishbone's properties are located. But to get a feel for why this whole area is one of the hottest exploration areas in the world you need to know the Havieron story. Greatland acquired Havieron towards the end of 2016 for A$250,000 and some contingent payments if they mine it. Havieron had been drilled previously and abandoned but Greatland's geologists believed that the drilling had simply not gone deep enough. They were right. Accordingly, they copied an existing hole and simply drilled deeper. Once through the Permian cover, at a depth of about one kilometre, there was massive mineralization which drove Greatland to more than £1 billion market cap.

When something like this happens, it is a real head smacking moment for geologists the world over. All the previous models they have been using turn out to be wrong and there has been a scramble for properties in that region ever since.

Wishbone now employs some of the specialists who

worked on Havieron and has modelled and analyzed Red Setter and will be drilling later this year. The modelling of the original government data looked promising but the acquisition of new 3D inversion ultra-detailed magnetics in February 2021 delineated three highly magnetic bodies over an expanded area covering three km by one km. The largest individual priority one magnetic target has a 1,500 metre strike length with a width of 400 metres and starts at around 75 metres from surface. In addition, this survey revealed that all the magnetic targets are much shallower than 150 metres to 250 metres depth previously modelled. The relatively shallower target depth could be advantageous both from an exploration and future development potential perspective.

In the RNS which Wishbone issued at the time there was this comment from Simon Beams, the managing director and principal geologist of Terra Search: 'The detailed magnetic survey substantially expands and enhances Red Setter. There are some very promising indications of a large hydrothermal system, with similarities to the new Havieron gold/copper discovery in the area.

'The previous drilling on the main 1.5 km long target intersected similar alteration, and the right pathfinder metal indicators, peripheral to the main target. We now have multiple untested high-order magnetic targets across the entire prospect.'

In May 2021 a Program of Work was approved by the Western Australian Government's Department of Mines. This includes a drilling program for up to 100 drill holes to depths of 300 metres. These are designed to test for potential gold and copper mineralization on the multiple magnetic targets.

Richard Poulden, chairman comments: 'It sounds a bit downbeat set out like that but in fact it is amazing.'

COTTESLOE PROJECT

In March 2021 Wishbone acquired an option on 100% ownership of the 92.19 square km Cottesloe project which is also in the Patersons Range region. Cottesloe is located 35 km south east of Red Setter and around 55 km south of

Newcrest's Telfer gold mine. Cottesloe consists of one granted exploration license E45/4543 and is considered highly prospective for precious and base metals.

Wishbone acquired Cottlesloe to give its exploration portfolio a balance by adding silver and lead: essential minerals for the manufacture of electric vehicles of all types. There is known mineralization at Cottesloe at surface and a few historic drilling results confirm high grades of silver in different parts of the property.

As with Red Setter the company has an approved program of works for drilling later this year which will give a clearer idea of what it has here.

QUEENSLAND

In Queensland the company has the Wishbone group of licences in the highly prospective Mingela area about 80 km south of the major Queensland port city of Townsville. This is situated between two large producing areas with Charters Towers to the west and Ravenswood to the east, which was recently sold for up to A$300 million. These two mines have combined inferred reserves of over 10 million ounces.

The Wishbone property was recently compared to the 5 million ounce Ravenswood gold mine by Dr Simon Beams of Terra Search Australia at the annual AusIMM conference in June 2021. The presentation generated a lot of interest as it was the application of new technology to existing resources leading to a revised view on the prospectivity of the region.

Wishbone has high-grade surface rock-chip samples with assays at surface up to 25.2 grams per tonne gold (g/t Au) at the Hanging Valley prospect and 7.32 g/t Au at the Oaky Mill prospect. Also, there were significant copper systems running up to 3.3% copper found at multiple locations.

WHITE MOUNTAINS

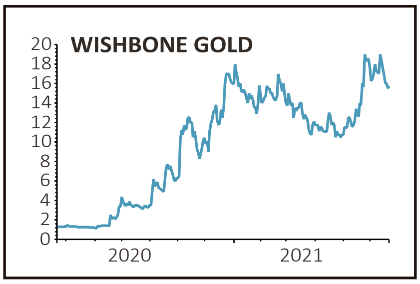
The Granite Castle deposit on the western boundary of White Mountain has recently been drilled by others to confirm significant gold and silver in grades and tonnage of potential economic significance. In addition, at the centre of White Mountains is an intrusion of an Ordovician-Silurian granitoid which hosts a trend of deposits, namely the Diecon Mine (gold); Edwards prospect (antimony) and Northeast Workings (gold).

SOME HIGHLIGHTS FROM RECENT EXPLORATION

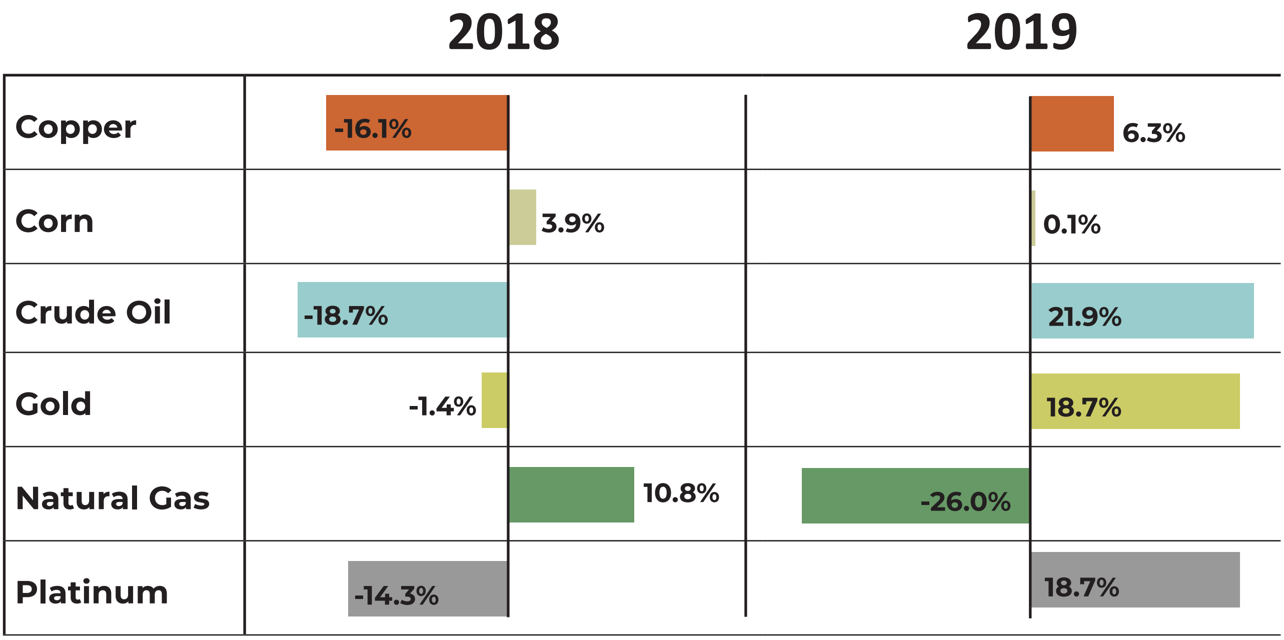
Grades up to 44 g/t Au (grams per tonne gold) returned from NE Workings from stream sediments. Grades up to 11.9 g/t Au reported from rock chips at NE Working.

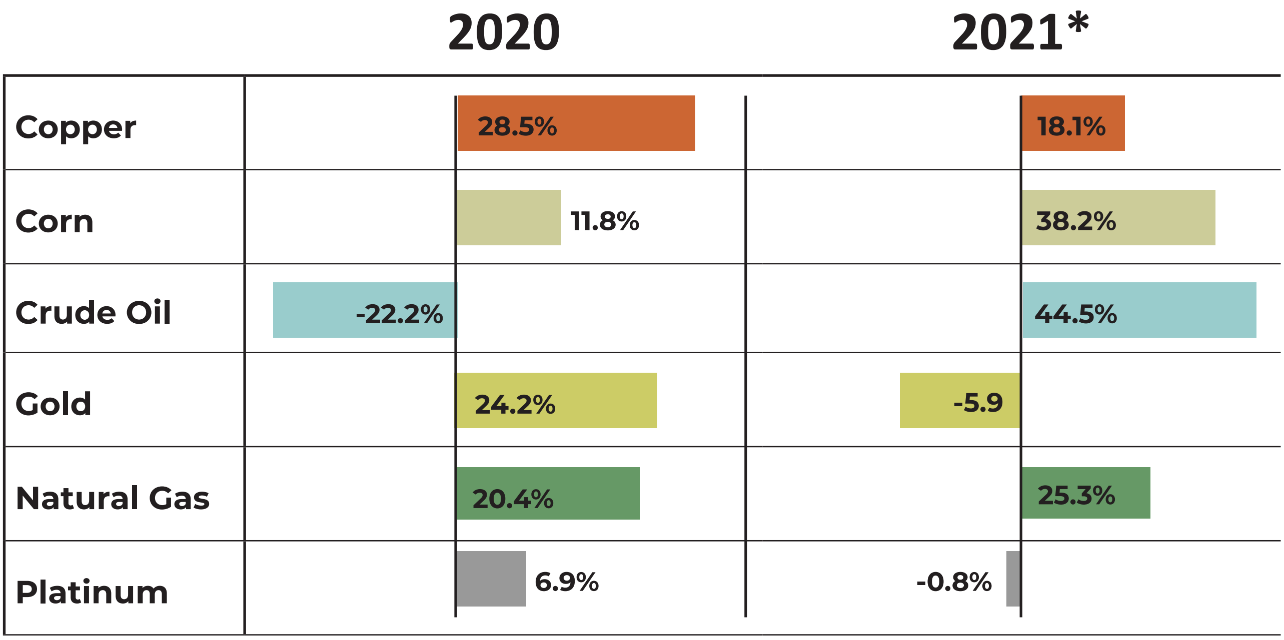
CONCLUSION

Richard Poulden, chairman comments: ' We are at the foothills of building an amazing company. We have a great team both within the company and with our advisors most of all we are grateful to our shareholders for your support.'



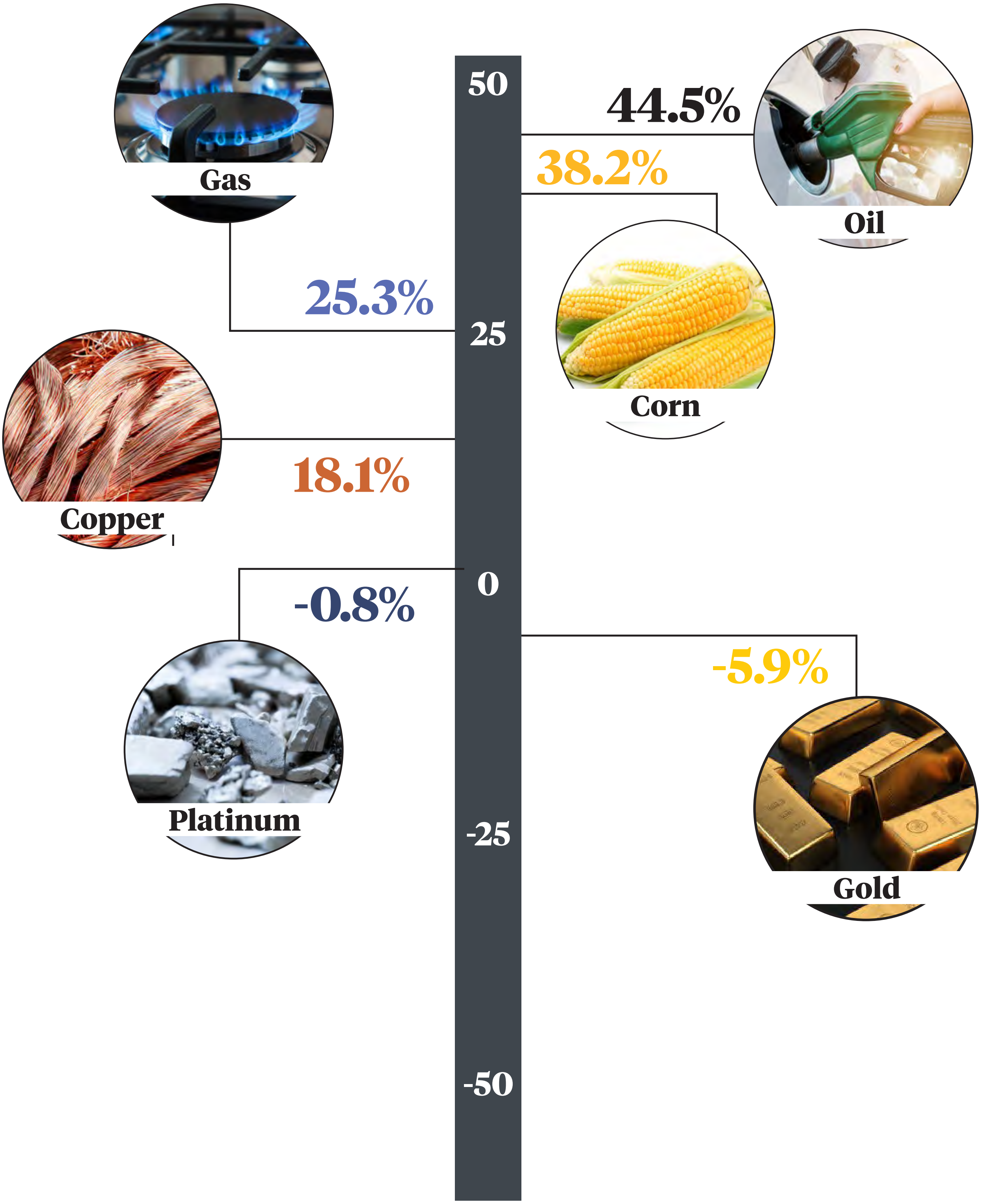
Databank – Commodity price performance 2018-2021





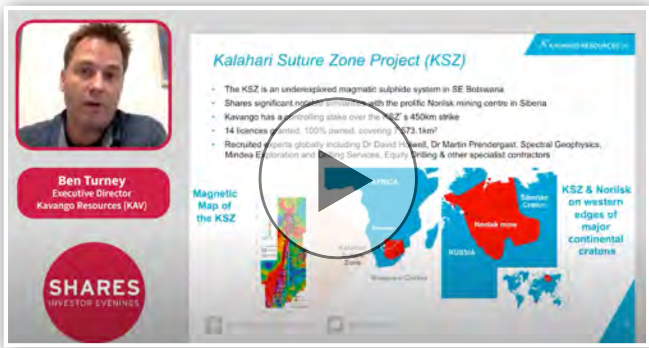
Source: Refinitiv. *Data to 22 June 2021.

Databank – Gain / loss so far in 2021



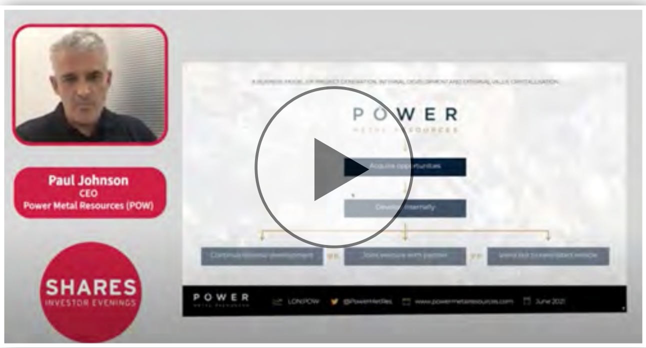
Source: Refinitiv. Data to 22 June 2021.

WATCH RECENT PRESENTATION WEBINARS



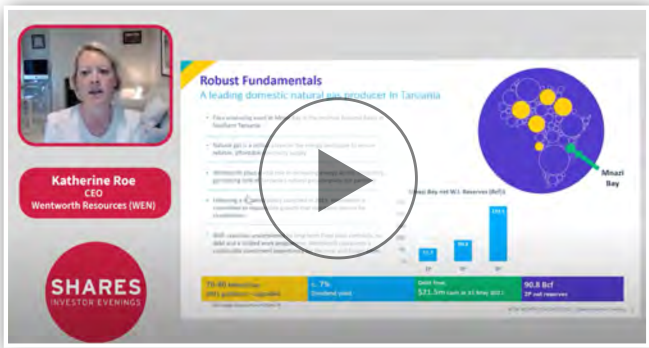
Kavango Resources (KAV)
Ben Turney, Executive Director

Kavango Resources is an exploration group targeting the discovery of mineral deposits in Botswana. The company's operating segment include Exploration and Corporate. Its projects include Kalahari Suture Zone; Ditau and Kalahari Copper Belt.



Power Metal Resources (POW)
Paul Johnson, Chief Executive Officer

Power Metal Resources is an AIM listed metals exploration and development company seeking a large scale discovery. The Company has a global portfolio of project interests including precious and base metal exploration in North America, Africa and Australia.



Wentworth Resources (WEN)
Katherine Roe, CEO

Wentworth Resources is an upstream oil and natural gas company. It is actively involved oil and gas exploration, development, and production operations. The company operating segments are Tanzania Operations, and Corporate.

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