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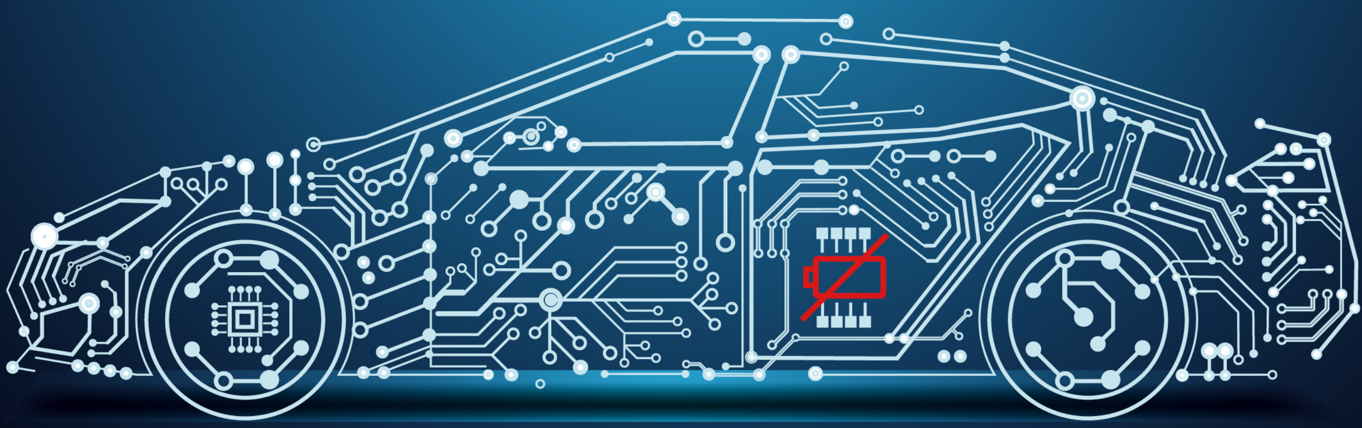

PLUS

MORRISONS BID BATTLE COULD **RAISE GROCERY SECTOR VALUATIONS**

ROBINHOOD HEADS FOR THE US STOCK MARKET: **KEY POINTS TO KNOW**

FUNDSMITH FANS WHO WANT MORE TECH **SHOULD LOOK AT BLUE WHALE**


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Common theme for UK takeovers: property assets

Private equity buyers are attracted to real assets which have historically done well in times of rising inflation

Property assets have become the common theme connecting this year's flurry of takeovers on the UK stock market.

As *Shares* went to press, **Morrisons (MRW)** was subject to a bidding war and **GCP Student Living (DIGS)** had just received a takeover approach. In May, both **Spire Healthcare (SPI)** and **St Modwen Properties (SMP)** were subject to bids.

All four of these companies own significant amounts of property – something that falls under the category of real or tangible assets alongside commodities. These assets have historically done well during a period of rising inflation, such as we are now seeing.

Rising prices can boost the resale value of property and the amounts tenants pay in rent. Inheriting property assets as part of a company takeover also provides options for the buyer to sell them in the future and realise any hidden value.

Fortress says in its bid for Morrisons that it wouldn't engage in any material store sale and leaseback transactions, which is the opposite of what one might expect from someone trying to buy a property-rich business.

That approach might play well to the supermarket's internal culture but ultimately shareholders will decide which suitor wins, most likely based on the price per share offered rather than promises of maintaining a consistent culture.

'There is significant dry powder in private funds seeking to acquire real assets,' says Liberum, referring to how private equity companies are flush with cash and ready to do deals.

'We believe that bids for quality portfolios of assets will continue, particularly when public market pricing is depressed by short-term factors and private buyers can take a longer-term view on the underlying investment case.'

While demand is growing for companies with real assets, it is also worth noting that the first bid may not necessarily be the final one.

Private equity companies are eager to do deals, but they also want to see if they can buy companies at the lowest price that could be considered reasonable.

Morrisons was right to reject a 230p per share approach from CD&R as Fortress was quick to offer more at 254p per share. With Apollo in the frame to potentially make a bid, the final takeout price could be even higher.

The board of St Modwen recommended a 542p per share price offer but that was considered too low by some of its biggest shareholders and they fought for a higher price, with Blackstone then agreeing to pay 560p per share.

Several of Spire Healthcare's big shareholders pushed back against the 240p per share offer from Ramsay Health Care recommended by the target's board. They said the £1 billion offer could be the value of Spire's freehold property assets alone, meaning the suitor would be paying nothing for the operating business. On 5 July, Ramsay raised its bid to 250p per share.

We're in the middle of a takeover frenzy involving UK stocks and it would be wise to sit tight should any of your portfolio companies receive an offer. The average premium paid for all deals involving UK stocks since October 2020 is 37%, but the actual amounts vary from company to company.

It would seem sensible not to rush and sell in the market immediately upon a bid as you just might see a higher offer judging by recent transactions.

By **Daniel Coatsworth** Editor

Morrisons bid battle could raise grocery sector valuations

Investors in other supermarkets and REITs could also be winners

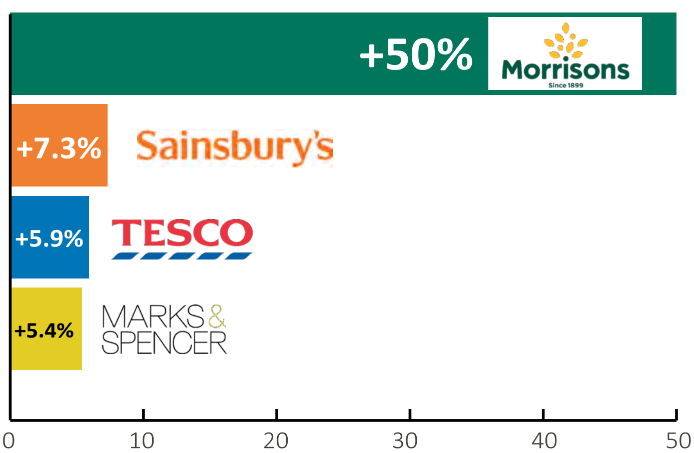
A bidding war for the UK's fourth-largest grocery chain **WM Morrison (MRW)** has put the spotlight on the food retail sector and pushed up valuations of other companies in the space.

Investors have taken the view that supermarkets and other food retail-related businesses should be worth more if there is considerable takeover activity around Morrisons, where three private equity companies have either bid or expressed an interest, namely CD&R, Fortress and Apollo.

Tesco (TSCO) has seen its share price rise 5.9% to 234.75p since Morrisons' takeover interest was first revealed on 19 June. **Marks & Spencer's (MKS)** shares have gone up 5.4% to 156.65p over the same period, with its food retail operations considered the group's key sales growth driver.

The biggest riser of the three has been **Sainsbury's (SBRY)** whose shares have gone up 7.3% to 279.1p, with the company seemingly considered to be the most likely takeover target.

Share price gains since Morrisons' takeover interest went public



Source: Shares, Google Finance as of 6 July 2021

IMPORTANT METRICS

With private equity takeovers, the key ratio when assessing deals is enterprise value to free cash flow as it shows how quickly the cost of an acquisition can be paid back.

However, Morrisons reported £450 million of negative free cash flow in the year to January due to lower profits and the temporary impact of lower fuel sales, higher stock levels and its decision to pay small suppliers quickly so that they survived during the pandemic.

Therefore, Fortress has pitched its offer at an enterprise value (market value plus net debt) of 8.3 times underlying EBITDA – earnings before interest, tax, depreciation and amortisation – for the past year instead.

This is a higher multiple of EBITDA than the Issa brothers and TDR Capital paid for Asda, although that supermarket likely had a higher level of 12-month trailing EBITDA.

READ-ACROSS TO OTHER STOCKS

Fortress' offer is substantially higher than the current enterprise value to EBITDA multiples of Morrisons' key competitors in the UK grocery retail sector.

Market leader Tesco, which owns the freehold to around 60% of its stores and therefore also has significant asset backing, is trading on 6.6 times last year's EBITDA according to Refinitiv. Marks & Spencer is trading on an identical multiple to Tesco, while Sainsbury is trading on just 4.5 times EBITDA.

That means in a comparative takeover situation the uplift to the valuations of M&S and Tesco could be 25% while theoretically the uplift for Sainsbury's could be over 80%. It is worth stressing that none of these companies are currently in takeover talks and that these figures are merely illustrations of what to expect if private equity did show an interest in other parts of the food retail sector.

Ultimately, if a bidding war does develop for Morrisons, valuations could go higher still, not just for the retailers but also for investors in retail assets like **Supermarket Income REIT (SUPR)**, although higher prices could translate into lower yields in the very long term.

NEXT STEPS FOR MORRISONS

As it stands, Morrisons remains the focal point for takeover activity in the sector. Its shares at 266.83p are now trading 50% higher than on the eve of when CD&R's interest first went public.

CD&R's 230p per share proposal was rejected and then Morrisons' board subsequently recommended a 254p per share offer from Fortress. On 5 July, Apollo said it was evaluating a possible offer, pushing up the share price even further.

Apollo narrowly missed out last year on buying Asda, the UK's number three grocery chain by market share, which was sold to private buyers backed by TDR Capital for £6.8 billion.

It has almost $50 billion of cash available for investment, making it a serious contender.

There have also been persistent rumours that Amazon, which has a grocery joint venture with Morrisons, might also be considering an approach.

TICKING THE RIGHT BOXES

The timing of the private equity interest in Morrisons is consistent with the standard approach for the sector, wherein buyers look for companies which have been through a tough period, reorganised themselves and emerged stronger, meaning they need less cash to support them.

While they have benefited from higher sales during the pandemic, the supermarket chains have spent hundreds of millions of pounds on protecting their staff and customers from Covid, on hiring additional staff to cover absences due to sickness, and on reshaping their businesses to cope with the surge in online shopping, while at the same time cutting overheads.

With those costs now sunken and margins improving, private equity buyers can reap the rewards of the target companies' hard work through rising cash flows which otherwise would have gone to shareholders in the form of increased dividends.

Morrisons is also asset-rich, as it owns the freehold to 85% of its stores. By some estimates, the value of its stores even outstrips the Fortress bid.

One of the reasons for Morrisons' board recommending the Fortress bid is the promise that it would respect the history and culture of the business and not make any radical changes.

Fortress also promised to honour the recent £10 per hour pay award, not to raid the pension scheme and not to engage in a mass sale and leaseback of its substantial owned-store portfolio. [IC]

Why Ocado's latest deal is more important than you might think

It has secured a new overseas technology customer and provided further evidence that its grocery online model can make a profit

First-half results from online groceries business **Ocado (OCDO)** on 6 July are arguably less relevant than the company's latest deal – a partnership with Spanish supermarket chain Auchan Retail for its Alcampo brand.

One reason why Ocado shares had stalled in 2021 after a strong run in 2020 was the lack of international deals to act as a catalyst for the share price, which has now been addressed.

Ocado has benefited from increased demand and focus on web-based food sales in the wake of the pandemic but travel restrictions had prevented management from traversing the globe to sign up new international customers for its technology system.

It licences the technology to global supermarkets to power massive warehouse fulfilment centres with the majority of the picking for shoppers carried out by robots.

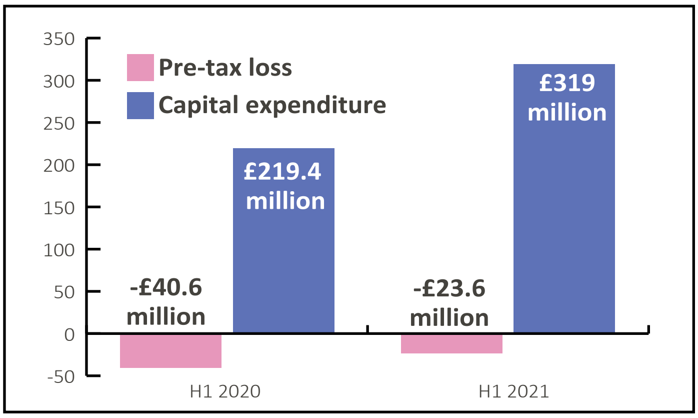
A typical agreement sees Ocado incur up to £30 million of cost for the technology hardware and software for each warehouse with the partner paying for site construction. Ocado then books a cut of the sales from each of these fulfilment centres.

Now that the Auchan Retail deal has been struck and with global economies beginning to be unlocked, sentiment towards Ocado may improve as investors get increasingly confident in its ability to sign up more customers for its systems.

Importantly, Auchan operates across 13 different countries and the statement announcing the transaction confirms the partnership may be expanded into other geographies, creating scope for significant growth in the future.

Existing Ocado partners span territories as diverse as Japan, the US and France and include Aeon, Kroger, Sobeys, **Morrisons (MRW)**, Groupe Casino, Coles Supermarkets, ICA Group, Bon Preu Group, and a joint venture with **Marks & Spencer (MKS)**.

Ocado's losses narrow despite increase in capital spending



Source: Ocado

This latter venture is the most visible part of Ocado's business to the average UK consumer and in addition to providing a revenue stream, it acts as a shop window for the benefits of the technology system.

Bank of America notes that the robust profit performance of the Marks & Spencer joint venture in the six months to 30 May is 'evidence for Ocado's partners and potential future partners that the grocery online model is profitable when run at full capacity'.

One of *Shares'* top picks for 2021, Ocada remains an investment for patient investors with the company still loss making as it sinks the upfront cost required to get fulfilment centres up and running. [TS]

Robinhood heads for the US stock market: key points to know

Some commentators believe it could achieve a valuation close to $40 billion

On 1 July US-based free stock trading app Robinhood released its prospectus ahead of a planned stock market listing on the US Nasdaq exchange, laying bare the underlying fundamentals of the business.

Robinhood was valued at $11.7 billion in last September's funding round, and reports suggest it is targeting a $40 billion valuation as a listed company.

Even before the app was launched in 2015 it had attracted 700,000 customers via a waiting list. Customer numbers surged to 5.1 million in 2019, rising to 12.5 million in 2020 and then hitting 18 million customers as of the end of March 2021.

Robinhood is probably most famous for the role it played in the WallStreetBets Reddit social media forum battle against hedge funds where thousands of activist investors bought GameStop shares, forcing hedge funds to buy back their 'short' positions.

This has led to the so-called democratisation of investing with retail investors calling the shots in 'meme stocks' and posting sassy videos on social media.

Controversially the company doesn't charge any commissions on client trades for the basic account. Instead Robinhood passes on orders to large hedge funds such as Citadel Securities which aggregate them to secure a better price.

Robinhood gets paid for its order flow, raking in around $700 million in 2020, representing 75% of total revenues of $959 million. The percentage shot up to 81% in the three months to March 2021.

While other US brokers also sell customers' order flow it generally makes up a much smaller proportion of revenues according to BrokerChooser.

Critics of the payments for order flow system say the arrangement incentivises Robinhood to find the highest price rather than best execution.

That's one of the reasons why the practice has been banned in the UK and Canada and even the US regulator the SEC (Securities and Exchange Commission) is said to be taking a closer look and consulting on a change in the best execution rules.

In addition, Robinhood has come under scrutiny for the 'gamification' of investing, whereby it uses in-app prompts, rewards and bonuses to encourage frequent trading.

The company's business model means it makes benefits financially from more frequent trading. And it seems to be working; in the first quarter of 2021 revenue per customer increased 65% year-on-year to $137.

It has drawn the attention of various US regulatory bodies and on 30 June the company was fined $70 million by the Financial Industry Regulatory Authority for causing 'widespread and significant harm' to customers over the past five years by giving them 'false or misleading information' and for 'systematic supervisory failures'. [MG]

Pullback in hydrogen shares hasn't deterred new fund launch

HydrogenOne hopes to raise £250 million to invest in hydrogen energy projects

A hydrogen-themed investment trust planning to launch on the UK stock market will hope it has a better debut than another hydrogen investment product which launched earlier this year.

Exchange-traded fund **L&G Hydrogen Economy (HTWG)** floated on the London market in February and has since fallen by nearly 20% in value. UK hydrogen-related stock **ITM Power (ITM:AIM)** is down nearly 30% over the same period, with some investors asking if there has been too much hype around the theme in the past few years.

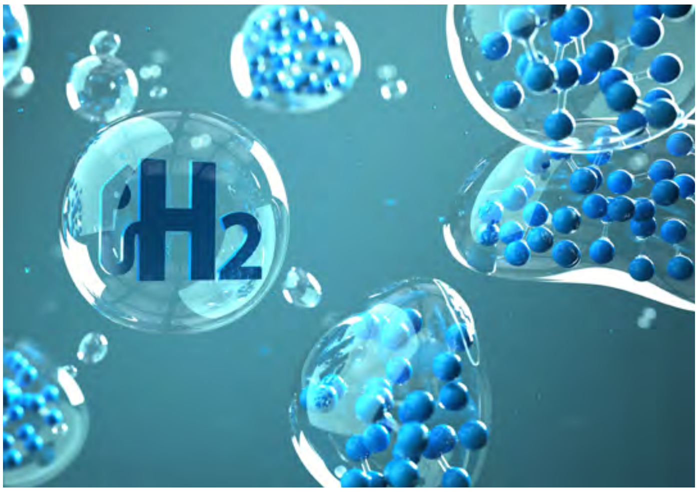
For the UK to reach its target of zero carbon emissions by 2050, using hydrogen to generate electricity and as a replacement for other fossil fuels is the second-highest priority after electrification, according to the Government's climate change committee.

HydrogenOne Capital Growth plans to list its shares on the London stock market in what would be the capital's first listed investment fund dedicated to 'clean hydrogen'.

Hydrogen has long-been touted as a potential mass clean fuel because the only by-product it emits is harmless water vapour.

However, most of the world's hydrogen is currently extracted from natural gas in a process that produces vast amounts of carbon emissions. Clean hydrogen must be made via electrolysis or for the emissions from natural gas production to be captured and stored.

HydrogenOne hopes to raise at least £250 million to back a diversified portfolio of listed and private clean hydrogen projects and complementary hydrogen-focused assets to deliver capital growth with a strong environmental, social and governance focus, known for short as ESG. It has already identified 36 potential investments.



The company points to research showing governments have announced more than $70 billion in funding for hydrogen and believes clean hydrogen could hit sales of $2.5 trillion by 2050.

According to Bank of America and Goldman Sachs research last year, global governments are aiming to have nearly a quarter of the world's energy come from clean hydrogen by 2050.

Over 200 hydrogen projects have now been announced worldwide, says HydrogenOne, with $300 billion capital expenditure potential. Approximately $80 billion of that amount is currently thought to be in production, construction or in the detailed design phase.

HydrogenOne was launched by former **Royal Dutch Shell (RDSB)** executive JJ Traynor and Richard Hulf, who worked at Exxon Mobil and has been an energy fund manager at Artemis. UK chemicals giant Ineos will be a cornerstone investor, buying £25 million worth of shares.

'HydrogenOne is for energy investors who want to move beyond fossil fuels now, not later, and deploy substantial growth capital into the energy transition,' says Traynor. [SF]

The investment to make if you want to dial down portfolio risk

Investment trust Ruffer has a track record of making money in up and down markets and can help guard against inflation

Global equity markets have performed strongly year-to-date thanks to a cocktail of reopening optimism, forecast-beating corporate earnings and a boost from continued central bank largesse.

Yet the looming threat of inflation has the potential to roil markets with the US Federal Reserve having hinted that interest rates could rise earlier than expected and with central banks around the world set to wind down Covid stimulus at some point.

At the same time, pockets of exuberance in everything from so-called 'meme' stocks to cryptocurrencies are giving seasoned investors the jitters.

Given this uncertain backdrop, **Ruffer (RICA)** look very appealing, given it has a proven track record of making money in up and down markets.

We think it is well worth paying the 2% premium to net asset value to access Ruffer, a wealth preservation specialist which should help investors guard against the threat du jour, inflation. It would certainly suit a nervous investor who wants some market exposure but without excessive risks.

Breakdown of Ruffer Investment Company's portfolio

Asset allocation	% holding
UK equities	20.0
Illiquid strategies and options	10.9
Long-dated index-linked gilts	10.4
Short-dated bonds	8.5
Gold and gold equities	8.4
Cash	7.9
North American equities	7.6
Japan equities	7.3
Non-UK index-linked bonds	7.0
Index-linked gilts	5.6
Europe equities	5.3
Asia ex-Japan equities	1.2

Source: Ruffer, as of 28 May 2021

WHY RUFFER?

Managed by Hamish Baillie and Duncan MacInnes, Ruffer focuses on preserving and growing real – i.e. inflation adjusted – capital, regardless of financial market conditions. Since Ruffer started in 2004, its investment process has produced returns ahead of equity markets, but with much lower volatility and risk.

This flexible investment trust can invest in multiple asset classes including individual shares – the likes of **BP (BP.)**, **Tesco (TSCO)**, **Lloyds (LLOY)** and Italian bank UniCredit were in the top 10 at last count – as well as index-linked government bonds and gold. Its ongoing charges are 1.08% a year.

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

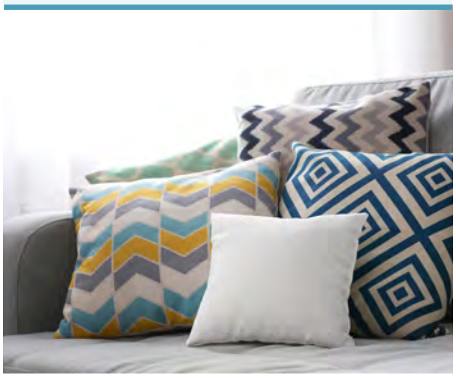
Ruffer invested in bitcoin in late 2020 before selling out completely at a substantial profit in early April 2021. Speaking on *Shares' podcast*, MacInnes

RUFFER INVESTMENT COMPANY

BUY

(RICA) 287.25p

Market cap: **£587 million**



explains that last year, the macro environment was 'perfect for a gold-like money that is digital and independent of governments and central banks'.

What changed dramatically was the price of bitcoin, which triggered the outright sale. 'At the top it was up more than 400% from our purchase price in just five months,' he explains.

Bitcoin may yet prevail, but MacInnes and Baillie were concerned by signs of froth, hence the highly profitable sale. 'In our view in the short term, bitcoin was exhibiting risk-on characteristics and therefore no longer fulfilled the role that we bought it for, which was as portfolio protection.'

IS THE '60-40' PORTFOLIO DEAD?

Markets were recently spooked by the Fed's forward guidance that US interest rates could go up earlier than expected, though MacInnes says investors shouldn't overreact to this. He thinks it is all a bit of a storm in a teacup – 'effectively, they've said that they are thinking about raising interest rates by a quarter or a half a per cent, two years from now.'

Moreover, the Ruffer manager believes the major problems that existed before the pandemic remain the same, namely too much debt and too little growth.

He believes governments and central bankers are going to do everything that they possibly can to ease the debt burden and to stimulate growth. 'That requires keeping interest rates very low, so below the rate of inflation, and that creates a really big question mark over the role of bonds in portfolios,' he says.

MacInnes pinpoints two great fears that should be keeping investors awake at night; the first is inflation, which is making 'a generational comeback', and the second is the question of whether or not the balanced '60-40' portfolio (60% shares, 40% bonds) is dead in light of a recent odd dynamic which has seen equities and bonds become positively correlated.

According to MacInnes, this dynamic is a problem for investors who now face a menu of asset classes offering lower than expected returns, negative returns after inflation and a lack of diversifying and protective characteristics.

Ruffer Investment Company: Top equity holdings

Stock	%
Lloyds Banking	2.7
iShares Physical Gold	2.0
BP	1.8
Royal Dutch Shell	1.8
NatWest	1.6
Centene	1.3
Cigna	1.2
GlaxoSmithKline	1.2
Bristol-Myers Squibb	1.2
Tesco	1.1

Source: Ruffer, as of 28 May 2021

DIALLING DOWN THE RISK

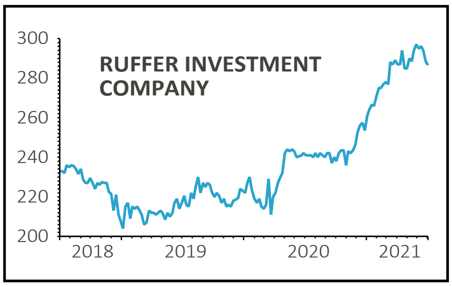
'The simple answer is that your bond allocation, which is 10%, 20%, 40% or whatever it is, should become a Ruffer allocation. We've done the thinking and preparing on this for you,' says the fund manager.

If bonds will no longer cut it in a lower return, inflationary world, investors need to transition into an array of real assets which multi-asset trust Ruffer can provide exposure to – think inflation-linked bonds or gold, the largest contributor to the trust's returns in May, as well as property, infrastructure, carbon credits and commodities.

'The challenge is to own the right ones, in the right amounts at the right time. That's going to be the trick,' says MacInnes, adding that Ruffer has been 'dialling down the risk in our portfolio, so reducing equities and increasing cash and other protections after a period of quite strong returns. It just doesn't feel like an environment to be taking lots of risk. I think caution is warranted.'

The investment trust has outperformed the UK stock market over the past three and five years, returning 26.6% and 41.1% respectively. In contrast the FTSE All-Share index of UK stocks has returned 8.9% over three years and 37.1% over five years. However, it must be noted that Ruffer has lagged on a 10-year basis, returning 60% versus 86.4% from the benchmark index, according to FE Fundinfo.

Fundamentally, investors should understand that a multi-asset trust like Ruffer will generally lag a strong rising market but equally it could do better on a relative basis when markets lose momentum or are weak. [JC]



Buy CareTech shares ahead of its property revaluation

The care services provider has a clear policy to reinvest free cash flow into organic and acquisitive growth while maintaining a progressive dividend

Having successfully integrated the strategic £374 million acquisition of Cambian in 2018 and reduced leverage below three times, leading care services provider **CareTech (CTH:AIM)** is well positioned to continue growing its share of a fragmented market.

Importantly, its significant freehold property portfolio is due to be revalued at the end of August which may provide a positive share price catalyst. The property is carried on the balance sheet at £774 million but was last valued in 2018.

Analysts at Numis argue that investors should take greater notice of the freehold property which represents hidden value and provides flexibility to reconfigure and optimise properties to meet local needs.

Since listing on the stock market in 2005, CareTech has grown revenues at a compound average growth rate of 22% per year and earnings per share by 17% per year.

This means profits have increased over 10-fold in the past 15 years. Meanwhile, cumulative dividends since listing have totalled 107.44p per share. Investors who bought in at the listing price would have seen their purchase cost reduced by 62% from dividend payments.

CARETECH
BUY
(CTH:AIM) 619p

Market cap: £699 million

Despite the strong growth achieved over many years, CareTech estimates it has a market share of 6.4% in children's and young people services and only 2.6% of the adult services market, implying a long growth runaway.

Essentially CareTech's services enable children, young adults, and adults with complex needs to regain their independence and to work and engage in their communities.

The market opportunity is driven by the continuing trend to outsource specialist services from local councils while the underlying market itself is growing at 5.5% a year.

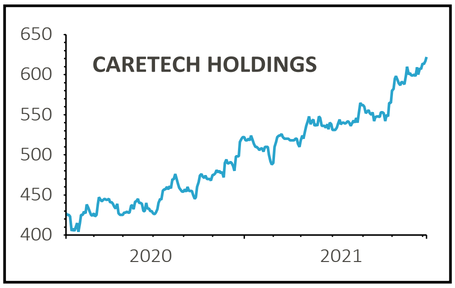
Demand is underpinned by increasing regulatory burdens, a shortage of specialist beds, a need to recruit, train and supply staff as well as favourable demographic trends.

At the recent half-year results, the company confirmed it had a significant pipeline of development for new sites and improvement within the existing portfolio.

The company has also identified a significant new opportunity to become a tech-enabled care management business.

The idea is to use the recent acquisition of Smartbox as a base to buy, build and partner to selectively develop a portfolio of technology assets. This side of the business is expected to make up a sizeable chunk of revenues within five years.

Trading at just 11.8 times expected earnings with double digit growth, CareTech's shares look too cheap relative to the quality of the fundamentals and potential for a revaluation of the assets. Buy the shares now. [MG]



BLACKROCK NORTH AMERICAN INCOME

(BRNA) 183.4P

Gain to date: 12.9%

Original entry point:

Buy at 162.5p, 3 December 2020

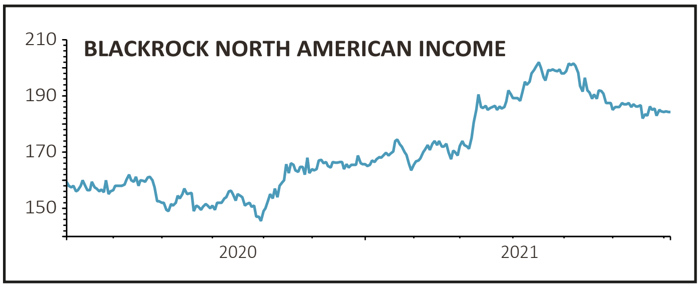
SIGNIFICANT CHANGES to the investment policy at **BlackRock North American Income (BRNA)**, announced alongside its first half results (29 Jun), do not detract from our positive stance.

The announcement of a new sustainability strategy is likely to be welcomed by the market with the trust also planning to expand its focus to encompass mid cap firms alongside the large caps which currently dominate the portfolio and to look outside the US to Canada and other parts of North America.

This will also be a more concentrated portfolio going forward with 30 to 60 companies as opposed to the 80 to 120 currently targeted, with 86 held at present.

Numis says: 'The decision to maintain the fund's focus on value and dividend paying stocks appears sensible in our view, as many shareholders will hold the fund for income, rather than chasing performance.'

The changes are set to be put to a shareholder vote on 27 July, with a change of name to BlackRock Sustainable American Income Trust and a reduction in annual fees from 0.75% to 0.7%.



SHARES SAYS:

The shift to focus more on sustainability makes sense and we are reassured that the income focus is being retained. [TS]

JUPITER GREEN INVESTMENT TRUST

(JCG) 246.9P

Loss to date: -8.2%

Original entry point:

Buy at 268.85p, 6 May 2021

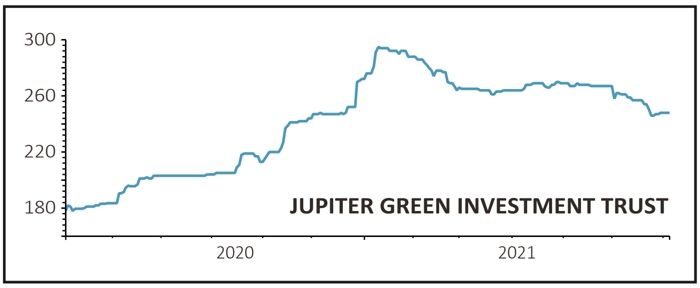
OUR *Great Idea* on ESG-focused **Jupiter Green Investment Trust (JGC)** is yet to pay off but we remain confident in its long-term prospects after the publication of annual results (6 Jul).

These confirmed the change of approach which had sparked our interest in the trust – moving towards an increased focus on growth and smaller innovative companies and away from more established names in the sustainability space.

The flipside is a reduced level of income for investors, reflected in the plans to pay a final dividend for the financial year to 31 March 2021 of 0.64p per share compared with 1.3p for the previous 12-month period.

The sluggish recent performance of the shares may also reflect some short-term cooling of investor appetite for ESG investments, with asset manager **Liontrust (LIO)** abandoning the launch of its ESG trust amid a lack of institutional interest.

However, we are still convinced that the company's new strategy of focusing on businesses with disruptive technologies, often focused on industries with 'difficult to tackle' environmental problems, will pay off over time.



SHARES SAYS:

Buy. We reckon this trust will reward investors' patience. [TS]

THE PANOPLY HOLDINGS
(TPX:AIM) 285P

Gain to date: 217%
Original entry point:
Buy at 90p, 6 August 2020

ANALYSTS HAVE once again had to rip up forecasts for public sector digital enabler **The Panoply Holdings (TPX:AIM)** after the company said 2022 results would be 'significantly ahead of current market expectations'.

For the year to 31 March 2021, revenue soared 62% and adjusted earnings before interest, tax, depreciation and amortisation jumped 87%, or 19% and 31% respectively if we strip out the benefit of acquisitions.

The period saw four contract wins worth £3 million or more versus none in the previous year, while 11 customers were billed more than £1 million, compared to six the year before. Average contract spend leapt 48% to £176,000.

Stifel has raised its revenue estimates by 12% for the current financial year and the following year, although higher costs will drag on profit progress.

Chief executive Neil Gandhi is getting more ambitious, rolling out a target for a £200 million revenue run-rate by 2025 and plans to unify product and services branding which he anticipates will streamline the sales process far better. This will probably see the company change its name, although we'll hear more on this in September.

SHARES SAYS: ↗
Still a buy. (SF)

Where Asia leads the world

The historic perception of Asian companies lagging their Western peers is being swept away by global leaders in their fields. Here, we discuss the drivers of this shift Eastward and a company that exemplifies this trend...

UK investors have traditionally been inclined to focus their portfolios on UK and, more recently, US-listed shares. Conversely, many have steered clear of investments in emerging markets, such as those in Asia, on the perception that investing in these regions is more challenging and riskier than investing in their Western peers.

While the familiarity of the companies available in the US and UK provides comfort to investors, in an increasingly globalised economic context, avoiding exposure to Asian markets could mean missing out on potentially attractive returns.

Historically, Asian businesses have often been perceived as regional equivalents of US or UK-listed companies. However, many of the companies listed in Asia are leaders in their markets globally, meaning that investors can find quality, innovative businesses here. For example, after years of market domination by US-listed players, TikTok, with headquarters in Beijing, was the most downloaded app in the world in 2020, according to AppAnnie.

It is no surprise that Asian businesses have started to take the lead in some sectors, particularly those in emerging or rapidly-developing technologies. Tertiary (degree-level) educational attainment is world-leading in South Korea and China, while governments in many of the region's countries have ploughed significant sums of money into incentivising and supporting technological innovation within companies and institutions.

BUYING THE BEST IN ASIA

As an investing region, 'Asia' encompasses a broad array of markets, each with different economic, governmental and cultural influences that impact their markets. As such, a presence 'on the ground' is crucial to effectively investing in the region, and identifying the companies truly living up to their operational promises.

JPMorgan Asia Growth & Income (JAGI) is run by two portfolio managers, Ayaz Ebrahim and Robert Lloyd, who have built a diverse portfolio of equities based on the best ideas and insights of 36 analysts covering the region.

The team invests in companies with a five-year view, which enables them to tap into improvement stories, where currently undervalued companies generating strong earnings are able to make changes that boost their valuations. One such company is TSMC.

Taiwan Semiconductor Manufacturing Company (TSMC) is a Taiwanese-listed semiconductor foundry, recently described as "a linchpin of the global economy" by the Financial Times. The company is a technical leader in its field, being one of only two operators in the world to master the technology required to manufacture three nanometre chips, the latest stage in the rapid development of the chips used in a mind-boggling range of products from phones to supercomputers.

In a world where such chips have been in such short supply that they have halted car production lines in Japan and the US, being so technologically dominant in the field has led to the company going from strength-to-strength. Indeed, the US' leading chip manufacturer, Intel, has outsourced some of its production to TSMC.

Not only is it the global dominant player in its market, it was also one of the first emerging market companies to include the cost of carbon emissions in its financial analysis when building new foundries. Last year, it also signed a significant offshore wind power contract with Orsted. Altogether, the substantial tailwinds behind TSMC and its improving ESG credentials have more than vindicated the team's original investment thesis. Since JAGI first invested in late 2011, the company's share price has delivered a share price total return of 1180% in sterling terms, comfortably beating both the Taiwanese Stock Exchange and JAGI's benchmark, the MSCI AC Asia Ex Japan Index.

GO GLOBAL FOR GROWTH

Far from lagging their Western peers, many Asian companies are now world-leaders in their markets. By utilising the access and depth of knowledge available to those like the team behind JPMorgan Asia Growth & Income, investors can tap into this building dominance and access valuable growth with a differentiated risk profile to US and UK-listed growth stocks.

Click **here** to read our latest research on JPMorgan Asia Growth & Income...

Stiff competition stymies Liontrust ESG investment trust launch

While there was plenty of interest from retail investors, a lack of institutional support means the IPO has been scrapped

It comes as quite a shock that **Liontrust Asset Management (LIO)** has scrapped plans to launch an ESG (environmental, social and governance) investment trust.

It might have been more understandable if Liontrust was a newbie to the world of sustainable investing, but it has built a rich pedigree in the discipline, managing ESG funds for over 20 years and having more than £10 billion of assets under management in the space.

Last year the sustainability investment team won three awards, including Harriet Parker who was named ESG fund manager of the year at the Women in Finance awards.

Poor institutional interest meant Liontrust failed to raise the £100 million required to launch the investment trust despite nearly 2,000 private investors applying to buy shares in the launch offer.

Sustainable funds attracted £1.3 billion in May alone according to the Association of Investment Companies, which suggests that demand for ESG investment has not peaked.

A better explanation for the failure of Liontrust ESG Trust is

that there are already plenty of global investment trusts in the ESG space trading at discounts to net asset value such as **Keystone Positive Change (KPC)**, now run by Baillie Gifford, on a 3% discount, while **Jupiter Green (JGC)** is trading on an 8% discount.

Liontrust ESG Trust joins Buffettology Smaller Companies Trust and Tellworth Recovery & Growth Trust in the list of failed launches in the past few years due to a lack of investor demand. *Shares* is also aware of a China-focused investment trust launch which was recently pushed back.

According to the AIC, investment trust stock market listings in the first half of 2021 raised £1.2 billion, the most since the first half of 2017.

As the economic landscape evolves so does the demand for different investment products and solutions, which might explain why investors are being pickier with the new trusts they decide to back.

Two of the biggest issues facing investors today are the lack of income, emanating from historically low interest rates and the increasing threat of inflation. Products purporting to address these issues should in theory be better received than a new investment trust already targeting a crowded market such as global equities, for example.

Examples of trusts that have launched in the past few years include **Round Hill Music Royalty Fund (RHM)** and **JP Morgan Global Core Real Assets Trust (JARA)**, pitched respectively at investor needs for income and inflation protection.

By **Martin Gamble**
Senior Reporter

Why investors were wrong to give Dr. Martens the boot

Its first set of results as a listed business triggered a share price slump, but that gives investors an opportunity to get in at a much better price

Shares in iconic footwear brand **Dr. Martens (DOCS)** received a bit of a kicking from investors following its first set of financial results as a publicly listed company (17 June).

These showed pre-tax profit down 30% to £70.9 million after accounting for one-off costs linked to its stock market listing on 29 January and staff bonus payments.

The absence of any upgrades to earnings forecasts for the current year and the announcement that chief product and marketing officer Darren Campbell and chief digital officer Sean O'Neill are leaving the group not long after the listing also disappointed many investors.

Yet the results-driven stumble has created a buying opportunity at Dr. Martens, which exhibits many of the hallmarks of a high-quality company with high and rising profit margins and return on capital employed marching in the right direction.

In the context of a global pandemic, Dr. Martens' annual numbers were robust, with revenue up 15% to £773 million and adjusted pre-tax profit (before costs of floating the company on the stock market) striding 34% higher to £151.4 million. Operating cash flow rose by 65% to £234.1 million.

Despite the impact of Covid-19 store closures and restrictions on physical retail sales, down 40% to £99.7 million in the period, the £4.45 billion cap still managed to generate strong growth across all regions. In China, where it continues to establish the Dr. Martens brand and lay the foundations for the future, revenue sprinted ahead by 46%.

DURABLE AS OLD BOOTS

Dr. Martens is an iconic British brand founded in 1960 in Northamptonshire. Originally produced for workers looking for tough, durable boots, the brand was quickly adopted by diverse youth subcultures and associated musical movements including mods, ska fanatics, punk rockers and goths.

The boots have since transcended their working-class roots while still celebrating their

Financial overview

Year	Revenue (£m)	EBITDA margin (%)	EBITDA (£m)
2021	773	29	224.2
2020	672.2	27.4	184.5
2019	454.4	18.7	85

Source: Dr. Martens annual report 2021

Return on capital employed (%)

Year	ROCE
2018	13.9
2019	22.0
2020	34.4
2021	47.5
2022 (F)	42.6
2023 (F)	47.6
2024 (F)	51.3

Source: Company data, HSBC estimates

proud heritage. People all around the world wear their instantly recognisable 'Docs' or 'DMs' as a symbol of empowerment and their own individual attitude.

Modern-day Dr. Martens is an iconic global footwear brand selling more than 11 million pairs of footwear annually across 60 countries through a network of its own retail stores, online and through wholesale partners. One attractive feature of the company's growth profile is that it is global in nature and the brand remains relatively under-penetrated across parts of Europe, the Americas and Asia Pacific.

A BOOTIFUL BRAND

In February, Peel Hunt said Dr. Martens 'embodies everything we look for in a brand'. It added: 'There's an authentic rebelliousness to the brand which perfectly define what it means to consumers. The product is instantly recognisable and iconic, transcending fashion trends, like Levis or Converse.' That results in a wide and diverse customer base.

Peel Hunt also pointed out consumers are loyal and sticky, typically coming in young and staying with the brand. It also highlighted the company's global growth opportunity as well as attractive financials, with Dr. Martens achieving gross and EBITDA (earnings before interest, tax, depreciation and amortisation) margins of around 60% and 27% respectively, as well as strong cash generation which should see future free cash flow being paid out in ordinary and special dividends.

DOCS ACCELERATES 'DTC'

Dr. Martens' business model is similar to larger footwear peers, with the company primarily engaged in product design and brand equity building whilst it outsources the majority of its manufacturing to third parties.

Deleveraging progress

Year	Net debt to EBITDA ratio
2018	6.7
2019	3.9
2020	2.1
2021	1.1
2022 (F)	0.8
2023 (F)	0.3
2024 (F)	0

Source: Company data, HSBC estimates

The downside is there have been grumbles over product quality since a manufacturing shift east years ago.

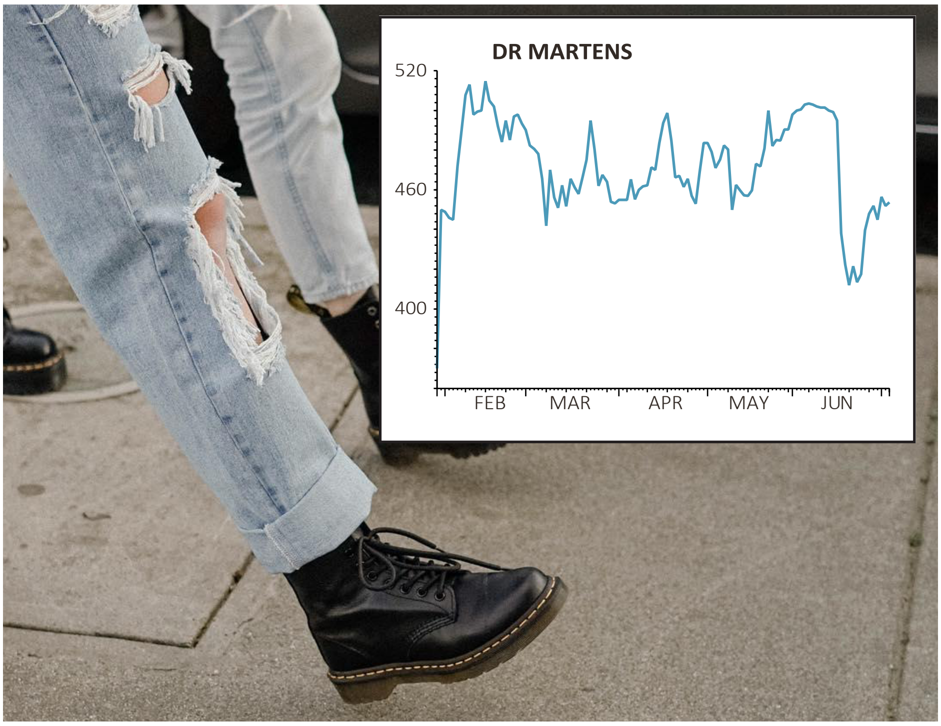
Brick and mortar retail remains a profitable and important channel for Dr. Martens, as physical stores allow it to showcase the brand. Despite the dreaded coronavirus, Dr. Martens opened 18 new stores globally last year, taking its total own-store estate to 135 sites.

The wholesale strategy is to have fewer, deeper relationships with quality partners who understand and appreciate its brand. And like other global footwear giants such as Nike and Adidas, it is now prioritising selling directly to consumers, so it can have greater control over the brand messaging and better margins.

With retail severely impacted by Covid-19 restrictions, Dr. Martens has focused its efforts on a step-change in e-commerce, achieving revenue growth of 73% last year, taking online sales to 30% of the total sales mix.

This strong e-commerce result was due to the improvements made in its online proposition over recent years, as well as increased investment in digital marketing, together with the shift in consumer spending from shops to online.

Supply chain investments made in recent years, along with its multi-country sourcing model and close supplier relationships allowed Dr. Martens to react quickly to the changes created by the pandemic, ensuring minimal disruption and maintaining good product availability throughout the crisis.



PROFITABLE STEPS

Led by chief executive Kenny Wilson, who previously spent 19 years with Levi's and Cath Kidston, Dr. Martens came to the stock market setting out its intentions to double sales across all geographies and grow EBITDA margins from 27% to 30% over time, with a focus on direct-to-consumer sales and key third-party partnerships.

This year, Dr. Martens expects to deliver high teens revenue growth. From full year 2023 and over the medium-term, investors can expect sales growth in the mid-teens.

Furthermore, management is targeting e-commerce to grow to 40% of the sales mix, with total direct-to-consumer including retail rising to 60% of the mix. There is a medium-term target of 30% EBITDA margin and the company also expects to begin paying a dividend this year. RBC Capital Markets forecasts the dividend will be 3.85p per share.

RBC forecasts adjusted pre-tax profits of £195 million and earnings per share of 15.4p this year, ahead of £227 million and 18p respectively in 2023, then £263 million and 20.8p in 2024.

Based on this year's estimates, Dr. Martens shares at 452p aren't cheap, even after their results-induced de-rating, swapping hands for 29 times this year's earnings.

That rating drops to 25 times based on RBC's estimates for 2023 and given the global growth potential of the brand, the strengthening balance sheet and with a cash-generative model to support progressive dividends, we think there is potential for the shares to be a decent investment.

Looking at the valuation in a different way, Dr. Martens trades on 21 times calendar 2022E enterprise value to earnings before interest and tax, which is less than the luxury sector average of 23-times, according to Goldman Sachs.

UPSIDE/DOWNSIDE FACTORS TO CONSIDER

Upside risks include:

Stronger consumer environment:
A faster return of traffic to physical stores post Covid restrictions or consumers spending lots of the cash they saved in lockdown could boost sales forecasts.

New products and collaborations:
These may increase the buzz around the Dr. Martens brand, increasing purchase frequency and average purchase value.

Accelerated timeline for distributor conversions:
Conversions in Germany and the Netherlands resulted in accelerated revenue growth in each region as well as a higher proportion of direct-to-consumer sales.

Faster shift towards direct-to-consumer distribution:
This would boost margins and give Dr.Martens greater control.

Higher levels of cost control and operating leverage:
These could also boost margins.

Downside risks include:

A cyclical industry:
The luxury fashion industry has limited visibility and is dependent upon consumer confidence.

Fashion cycle:
Inherent to all branded fashion retailers, a major miss on a collection could impact sales growth and profit estimates.

Increased competition:
The footwear market is highly fragmented, characterised by a few dominant brands and a long tail of smaller players.

Higher customer acquisition/retention costs:
Risk to margins if Martens decided to increase spend on customer acquisition and retention investment.

Execution risk:
This exists around geographical expansion, particularly in China where the brand entered in 2007, changed distribution partner in 2017 and appointed new management in 2019.

Foreign exchange and currency volatility:
Volatility in key currencies versus pound sterling represents a key risk. Dr. Martens is a global brand, deriving c.40% of sales from EMEA, c.40% from the Americas and c.20% from APAC.

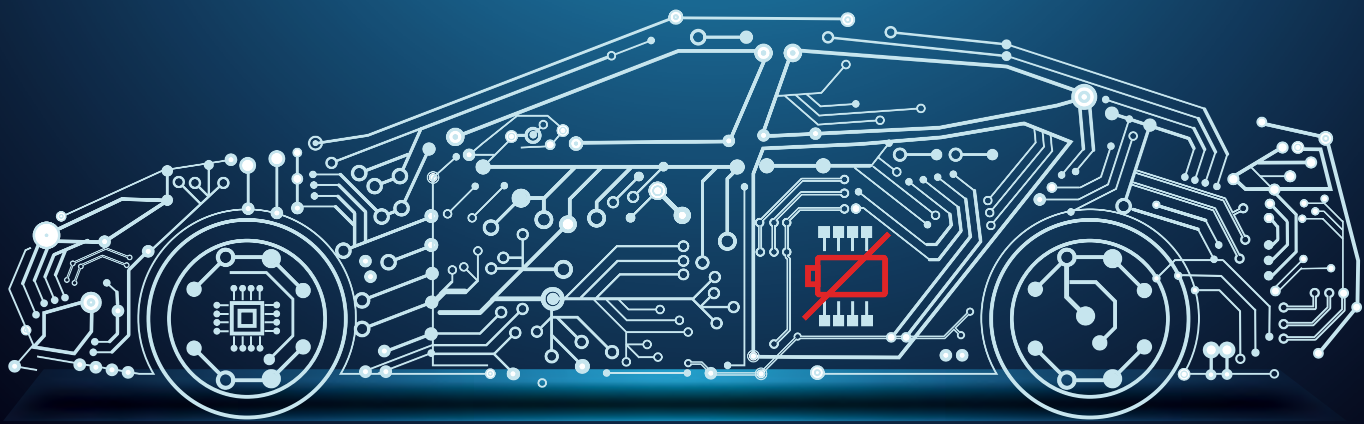
Dilutive capital allocation, M&A and store expansion:
Value destructive acquisitions and/or capital allocation through store expansion or otherwise are a potential source of downside to estimates.

Source: Goldman Sachs, Shares

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

TESLA

Great investment or waste of time?



Is there a more Marmite stock than Tesla? It commands the attention of investors like almost no other company on the market.

It ranks in the top 10 of the S&P 500's 30 and 90-day average volume leaders, is the world's most valuable car maker, and you can barely search the internet without tripping over some sort of opinion or commentary on the company. Co-founder and chief executive Elon Musk's Twitter account even has 57.7 million followers.

As such, *Shares* thought it would be useful to look at both sides of the investment case, giving a platform for journalists to argue both the 'buy' and 'sell' case.

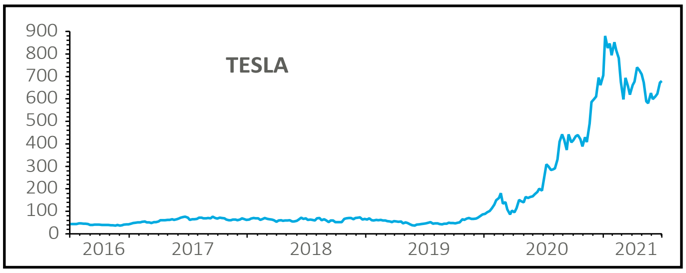
Let us know what you think of the stock by emailing editorial@sharesmagazine.co.uk with 'Tesla debate' in the subject line and we may publish some of the responses in a future edition. We would also like to hear your suggestions for other stocks to debate.

Why Tesla is a good investment

By **Steven Frazer** News Editor

Tesla's 6% stock slide so far in 2021 draws a sharp contrast with the firm's incredible 2020.

Yes, the pandemic early last year took its toll, nearly halving the share price from $160 to about $85 during the teeth of the sell-off, yet what came next almost beggars-belief. From those lowly levels the stock went on a tear that saw it surge more 700% for the year.



Putting aside the more excessive bluster and hype, investors might well wonder whether the stock is worth the risk. After all, the short-term valuation is still eye-popping.

The company is trading on more than 13 times the near-$49 billion revenue expected for 2021 (to 31 December) and a price to earnings multiple of 151. Nonetheless, there are good reasons to own the stock.

1 TESLA IS MORE THAN CARS

Tesla has established itself as a major player in the electric vehicle market and created a highly desirable brand.

Yet Tesla is more than about a set of wheels taking you from A to B. It is also a renewable energy player, selling solar panels and special batteries that store energy, detect outages and act as a power source when the grid goes down.

Elon Musk won't stop there. His diverse ideas for the future include millions of self-driving robo-taxis, a network of underground roads to avoid traffic, an online platform to sell Tesla cars, design and engineering centres in China… the list keeps growing.

Some of the more immediate opportunities include its Powerwall energy storage solutions and SolarCity. The latter creates and sells solar panels and roof tiles, but Musk sees the Tesla-owned business playing a big role in helping eliminate our dependence on fossil fuels and instead drawing energy from the 'giant fusion reactor in the sky', or in other words, the sun.

The battery and energy storage opportunities may end up being Tesla's biggest markets, with revenues that eclipse those of its cars. This is opportunity is often overlooked by retail investors.

2 IT COULD BE WORTH $1 TRILLION IN TIME

Tesla's rapid growth trajectory demands a pricey valuation. It is not difficult to find studious analysis that predicts scope for Tesla to become the 6th US-listed company to break the $1 trillion market value level in the coming years, after Apple, Amazon, Microsoft, Alphabet and Facebook. The company is currently worth more than $650 billion.

UK investors are becoming increasingly used to hearing seemingly outlandish stock price predictions from ARK Invest, Kathy Wood's US-based investment firm that has become one of

ARK's 2025 price target scenarios

Scenario	2025 price target	What ARK says
Expected value	$3,000	"This projection is our base case for Tesla stock in 2025"
Bear case	$1,500	"There is a 25% probability that Tesla could be worth $1,500 per share or less in 2025"
Bull case	$4,000	"There is a 25% probability that Tesla could be worth $4,000 per share or more in 2025"

Source: ARK Invest

Breaking down ARK's scenarios

	2020	2025 bear case	2025 bull case
Cars sold (m)	0.5	5	10
Average selling price	$50,000	$45,000	$36,000
Electric vehicle revenue ($bn)	26	234	367
Human-driven ride-hail revenue ($bn)	0	42	0
Autonomous ride-hail revenue ($bn)	0	0	327
Electric vehicle gross margin (ex-credits)	21%	40%	25%
Total gross margin	21%	43%	50%
Total EBITDA margin	14%	31%	30%
Enterprise value/EBITDA	162x	14x	18x
Market cap (bn)	$653	$1,500	$4,000
Share price	$677	$1,500	$4,000
Free cash flow yield	0.4%	5%	4.2%

Source: ARK Invest

Tesla biggest bulls. But ARK is not alone.

US broker Trefis believes Tesla's stock currently at $678 could approach $1,600 by 2025 and over $7,500 by 2035, based on its analysis of the company and its opportunities.

Tesla will need to scale annual vehicle deliveries from about 500,000 in 2020 to around 3.2 million in 2025, with a trajectory to 30 million by 2035, its research states.

3 CLOSE TO A TIPPING POINT

Electric car adoption across the globe is expected to gather pace as price, range anxiety and other frequent objections put forward by consumers are worked out. This should mean hitting a popularity tipping point when most new vehicle buyers will want electric, and that's presumably when Tesla will be able to really leverage its technological and time advantage.

'Expecting electric vehicles to become mass market makes sense,' say analysts at CB Insights, the venture capital research company. The UK has already voted to ban the sale of new petrol and diesel cars from 2030, while China has said that 20% of cars sold in the country should run on some alternative source of fuel by 2025.

UK has already voted to ban the sale of new petrol and diesel cars from 2030, while China has said that 20% of cars sold in the country should run on some alternative source of fuel by 2025

Car makers are racing to take advantage of this major shift in the world's transportation. 'General Motors plans to have 20 electric vehicle models on the road by 2023, and Volvo is expecting to sell one million electric cars by 2025,' says CB Insights.

4 PRODUCTION IS INCREASING

The electric shift is worldwide and industry-wide so Tesla will face a lot of competition. But data shows the company is making progress. For example, it believes deliveries will increase to more than 750,000 in 2021, driving revenue growth of 50% this year, and more than 30% higher in 2022.

For context, data from research firm Wards Intelligence estimated around 1.32 billion cars, trucks and buses were on the world's roads in 2016, with projections then anticipating 2.8 billion by 2035.

'(Tesla's growth goals are) a big jump, and a lot needs to fall into place, but then Tesla did achieve the uphill task of increasing deliveries from 30,000 in 2015 to 500,000 in 2020,' says Trefis. 'Tesla said that it expects to grow deliveries at a compound average growth rate of 50% a year over a multi-year horizon.'

> *Tesla said that it expects to grow deliveries at a compound average growth rate of 50% a year over a multi-year horizon*

5 MARGINS COULD GET A LOT BETTER

For Tesla's shares to keep rising to ARK and Trefis' bull case levels, it will need to continue improving adjusted earnings margins. Estimates draw to 20%-plus margins over the coming years from 2020's 7.7%, made possible through increased production automation, improving economies of scale, declining battery costs and higher software content in its vehicles.

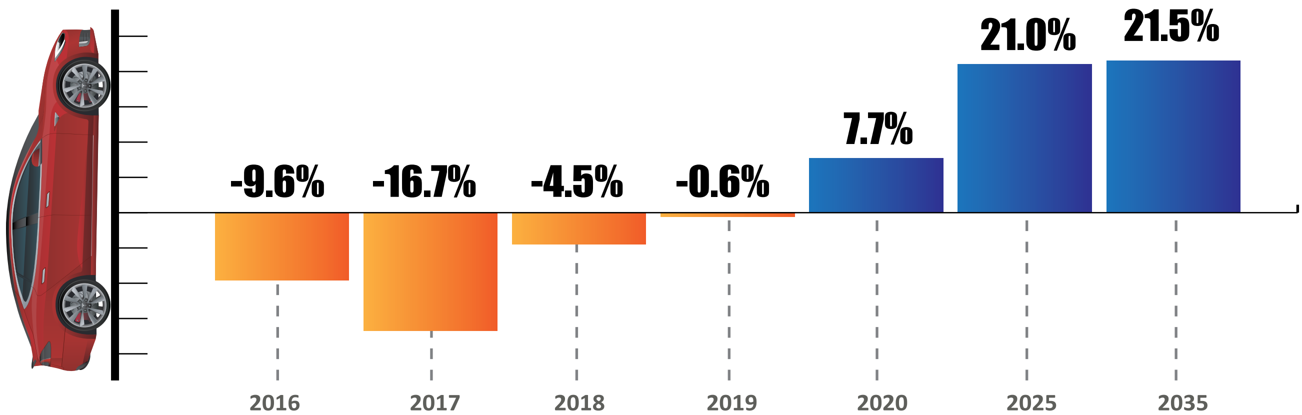
Judging the stock's valuation on a 12-month or even two-year view is missing the point. It's the next decade or two that matter, and this author believes that investors willing to take that longer-term view will be rewarded in time.

Tesla's shares are not cheap at this level, yet the stock's aimless drift through 2021 so far makes this a great time to take a manageable stake for the longer-term.

Alternatively, a more risk-managed way to gain exposure to this ambitious and world-changing business would be to consider a buy a fund or investment trust with a decent-sized stake in Tesla. For example, **Scottish Mortgage (SMT)** has 4.5% of its near-£19.5 billion of assets under management in the company.

DISCLAIMER: Steven Frazer owns shares in Scottish Mortgage.

Net profit margin surge predicted



Source: Trefis

Why Tesla is a bad investment

By **Ian Conway** Senior Reporter

There is no question electric vehicles will play a key role in the future of urban transport and in reducing greenhouse gas emissions. Under the International Energy Agency's Sustainable Development Scenario, there could be 230 million vehicles on the road by 2030 compared with just 10 million last year.

For the winners, the spoils are potentially vast. Bloomberg estimates the market opportunity between 2020 and 2040 to be $24 trillion.

The question is whether Tesla is a long-term winner, and does it represent an attractive investment? Based on its valuation, the progress being made by its competitors, the firm's lack of real earnings, its lack of a long-term strategy and its poor corporate governance, I would argue it isn't.

1 LUDICROUS VALUATION

The most obvious case for not buying Tesla is its ludicrous valuation. The current $581 billion market cap compares with vehicle revenues of $31 billion in the 12 months to March, or a multiple of 18.7 times. In terms of units, Tesla delivered just 587,000 vehicles over the period at an average price of just under $53,000.

Even factoring in full production of the Model 3 sedan and the Model Y compact SUV from Shanghai, which will take several years, annual production will still be less than 1 million units. Meanwhile, the average selling price will be lower due to fewer sales of the more expensive Model S and Model X.

Tesla Model Y 2021

If by 2024 Tesla can produce – and sell – 950,000 vehicles a year at say $50,000 apiece, annual sales could rise to $47.5 billion, which is still less than a tenth of the firm's current market value.

Compare these figures with mainstream manufacturers like Ford, which makes the world's best-selling vehicle, the F-150, and Volkswagen, which is among the biggest investors in electric vehicles. Ford generates annual revenues of $130 billion and VW generates annual revenues of €250 billion yet both are valued at just 0.5 times sales.

It seems obvious that, as these and other manufacturers increase EV production and take market share from Tesla, this valuation gap will close as mainstream car makers' ratings rise and Tesla's falls until they reach some equilibrium.

2 DON'T UNDERESTIMATE THE COMPETITION

According to the IEA, global sales of electric vehicles grew 41% last year to 3 million units or just under 5% of all new car sales, taking the global 'park' to 10 million.

This resilience, given total car sales were down 15% last year, is due to three factors: supportive regulatory frameworks, purchase incentives and the falling cost of battery technology, which is making electric vehicles cheaper.

In the first quarter of 2021, electric vehicles sales jumped 140% driven by demand in Europe and China, while US sales more than doubled, albeit from a low base.

Having had the field to itself for much of the last decade, Tesla is now facing genuine competition. Of the world's top 20 manufacturers, 18 have plans to rapidly scale up their electric vehicle production.

Tesla is already ceding market share. According to investment bank Credit Suisse, its global share of electric vehicle sales tumbled to 11% in April from 29% in March as the firm lost ground in China, Europe and the US to new competitors with cheaper models.

After its Chinese sales tumbled in April on production issues, Tesla posted a recovery in May, but it was outshone by local electric vehicle makers Nio and Xpeng which reported growth in deliveries of 95% and 483% respectively.

However, the top selling electric vehicle in the world's largest vehicle market is the Hong Guang Mini. A four-seater city car produced by a joint venture between General Motors and state-owned car makers SAIC and Guangxi Automobile, the Mini has sold more than a quarter of a million units since it was launched last July.

With zero sales tax, the cheap and cheerful Mini costs around $4,500 and is infinitely customisable

With zero sales tax, the cheap and cheerful Mini costs around $4,500 and is infinitely customisable. Having bought them as a second vehicle, many owners now use them as their primary means of city transport.

The manufacturers are targeting annual sales of 1.2 million vehicles next year, or nearly three times Tesla's total output from its Shanghai plant.

In its home market, Ford is powering ahead with its Ford+ EV programme. Electric vehicle sales in May were up 184% on the strength of the hybrid F-150, the Mustang Mach-E SUV – which is selling out as soon as it hits dealerships – the Explorer hybrid SUV and Escape compact SUV, and the average selling price is going up.

New rivals Lucid and Polestar have launched high-performance models at the top end of the market, and Apple – which has been toying with launching an electric vehicle since 2014 – is in talks with Chinese firms CATL and BYD to supply it with batteries for a rumoured 2024 launch.

In Europe, VW more than doubled Tesla's sales in the 12 months to May and the German firm continues to grow its lead according to Schmidt Automotive Research. Of the 856,000 electric vehicles sold during the period, VW accounted for 206,000 units while Tesla slipped to fifth place with 102,500 units, behind Renault/Nissan, Hyundai/Kia and Stellantis.

Tesla's German plant is nowhere near opening, and even when it does the firm will find it hard to compete with the huge range of electric vehicles already on the market.

Storm Uru, manager of the **Liontrust Global Equity Fund (B28R330)**, believes electric vehicle manufacturing costs will collapse so that within five years they are on a par with conventional cars. Just as Apple invented the smartphone and now struggles to hold a 10% market share, he believes Tesla will lose out to the volume carmakers, in particular VW.

3 THE CAR BUSINESS LOSES MONEY

Bulls of Tesla can at least point to the fact that first quarter profits of over $1 billion were better than expected. However, Tesla presents its figures on a non-GAAP (Generally Accepted Accounting Principals) basis.

On a GAAP basis, net income was $438 million or 60% less than the touted figure. Moreover, during the quarter Tesla received $518 million in regulatory credits and booked $101 million of gains from the sale of bitcoin, so in fact the car making business lost money, which has been the case since the firm joined the stock market.

While unit volumes were higher, average selling prices were down 13% after a hiatus in production of the higher-priced Model S and Model X and as a greater number of lower-priced cars were sold in China. Supply chain costs were higher, as were research and development costs, which it could be argued are non-discretionary in such a competitive industry.

Going forward, average selling prices will likely continue to fall meaning the level of credits will be lower, while the company still needs to invest billions in getting its Chinese and German factories to full manufacturing capacity, so there seems little prospect of Tesla making a profit from car manufacturing for some time, bringing us back to the issue of valuation.

4 NO CLEAR STRATEGY

Tesla has had the electric vehicle market almost to itself for much of the past decade, and while it has made good use of that time to grow it has never had an over-arching strategy.

Instead, strategy is made up on-the-fly. Production targets are fired off, then typically missed. Range is described as a top priority, then it isn't. The Model S Plaid+ model went on sale for advance orders, only for the programme to be cancelled months later.

The firm recently unveiled the $130,000 Model S Plaid, with a top speed of 200 miles per hour and a 0 to 60 time of less than two seconds, which is utterly non-sensical when most electric vehicle owners use them for urban driving.

There are hints the company wants to create a lifestyle brand after it applied for three new trademarks that broadly cover restaurant services, self-service and take-out restaurant services, which makes no commercial sense.

In contrast, the volume carmakers are also investing tens of billions of dollars to put electric vehicles at the centre of their long-term strategies.

Earlier this year, Volkswagen presented a vision of the electric vehicle as part of the wider energy eco-system, integrated into the home and public buildings, allowing customers to be independent of the grid while reducing emissions.

On the small Greek island of Astypalea, VW is replacing all 1,500 combustion engine vehicles with electric cars, vans and scooters, with charging points powered by solar panels and wind turbines to create 'an eco-lab for decarbonisation'.

VW isn't alone in dreaming big. Toyota is building an entire city at the foot of Mount Fuji in Japan to trial its self-driving electric vehicle technology and provide a blueprint for urban centres of the future.

As charging networks become denser, electric vehicles will be able to use smaller battery packs which will substantially reduce their overall cost. VW aims to cut battery costs by up to 50% by using a single unified cell technology and use its economies of scale to make 'e-mobility' genuinely affordable.

According to the firm Transport & Environment, VW is the only volume carmaker in the world with a credible strategy to electrify its entire range by 2030 and take the fight to Tesla.

5 GOVERNANCE RED FLAGS

Chief executive Elon Musk's erratic, anti-establishment behaviour – smoking cannabis while appearing on a podcast, praising then damning bitcoin, backing 'meme stocks' and violating US Security and Exchange Control rules with his tweets about taking the company private – may endear him to some but it is increasingly out of tune with the governance codes of serious investors.

There is also the question of executive compensation. In the first quarter of this year, Musk took $299 million in share-based compensation thanks to his 2018 performance award after the company hit a market value of $650 billion and based on what the company called 'a new operational milestone becoming profitable'.

Basing compensation on the company's share price, market cap or earnings targets encourages management to think short-term and is old fashioned.

Lastly, while the SEC may have forced Musk to step down as chairman, there remain concerns over the independence of the board and the ability of shareholders to call for change or challenge management.

Tesla appears to lack direction strategically and is facing greater competition than ever before, yet the shares are still valued on outlandish multiples and what earnings there are depend on government subsidies. Combined with the firm's poor record on corporate governance, I can find no reason to own the stock.

Governments near agreement on global corporate tax 'alignment'

Ireland opposes move which would see multinationals pay more

One hundred and thirty countries and jurisdictions have joined together to ratify a two-stage plan to reform international tax rules, curtailing tax avoidance by large multinational companies and giving smaller countries more tax revenues from overseas firms.

According to the OECD, the current international tax system, which dates back several decades, 'is no longer fit for purpose in a globalised and digitalized 21st century economy'.

The new regime, which applies to all companies with profit margins of 10% or more, aims to be fairer and to ensure that large companies pay tax where they operate and earn profits.

US President Joe Biden, who needs Congress to pass the proposal, said the new system 'will level the playing field and make America more competitive'.

He also warned large multinational companies they would 'no longer be able to avoid paying their fair share by hiding profits generated in the United States, or any other country, in lower-tax jurisdictions'.

Illustrating the challenge facing his administration, however,

US President Joe Biden needs Congress to pass the proposal

Republican Congressman Kevin Brady of Texas, who sits on the Ways and Means Committee, called the tax deal 'a dangerous economic surrender'.

Meanwhile, three European countries are holding out against the agreement, which would see multinational companies pay a minimum of 15% corporate income tax and generate around $150 billion in increased tax receipts globally.

Opposition from any of the three countries – Estonia, Hungary and Ireland – could prevent the 27-member European Union from implementing the plan as to become law it needs unanimous support.

Ireland's finance minister called the agreement 'an important signpost' but argued the country was not ready to lose up to a fifth of its overall annual tax revenue (around €2.3 billion).

Ireland's corporate tax rate of 12.5% is among the lowest in the world and has been instrumental in attracting investment from large, mainly US, multinational corporations.

Other countries, including China, India and Turkey, expressed reservations about the deal but came on board late in the day in the hope that their issues could be ironed out through talks in the next few months before the G20 meeting in October.

The new policy is likely to impact US tech giants such as Amazon, Alphabet which owns Google, and Microsoft more than UK companies.

While Amazon's group profit margin is below 10% due to the low returns on its retail business, under segregation rules proposed as part of the new tax agreement by the OECD the firm's highly profitable cloud services business AWS would likely be included as a special case.

By **Ian Conway**
Senior Reporter

Stocks making highs and lows and how investors can use this information

With UK markets near their highs, investors are seeking diversification

Keeping a regular watch on stocks with positive and negative share price momentum is a useful exercise as it tells us which areas of the market are hot or not.

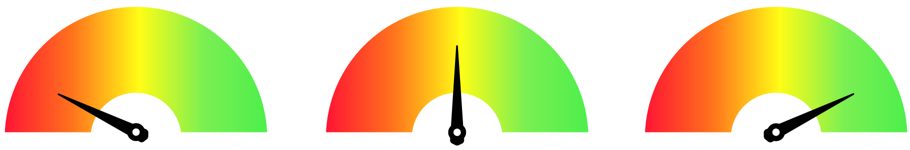
Investors who follow a pure momentum strategy like to buy stocks that keep a hitting a new 12-month high in the belief the share price is on a roll and can keep going up.

Some investors avoid stocks hitting a new 12-month low, for fear this negative price momentum can be sustained and the share price has further to fall.

Others may view stocks hitting 12-month lows as a place to seek bargains although a lot of due diligence is required as there is typically a reason why they have been falling.

Simply being on a list of stocks with positive or negative share price momentum doesn't automatically explain why certain sectors or sub-sectors are hot, but it does give us pointers. Also, counting the number of highs and lows can tell us whether we are near a short-term top or bottom in the market.

If we rewound to April last year, it's a fair bet that more than half of the stocks in the FTSE All-Share and on AIM would have



Investment trusts making 12-month highs in the last week

Trust	Sector
Alliance Trust	Global
BlackRock Greater Europe	Europe
BlackRock Throgmorton Trust	UK Smaller Companies
BMO Private Equity	Private Equity
Brown Advisory US Smaller Companies	North American Smaller Companies
CVC Credit European Opportunities	Debt
European Opportunities	Europe
Gresham House Strategic	UK Smaller Companies
Harbourvest Global Private Equity	Private Equity
HGCapital	Private Equity
JPMorgan American	North America
JPMorgan Global Growth & Income	Global
JPMorgan Russian Securities	Country Specialist
Martin Currie Global Portfolio	Global
Mid Wynd International	Global
NB Private Equity Partners	Private Equity
North Atlantic Smaller Companies	Global Smaller Companies
Pacific Assets	Asia Pacific
Personal Assets	Flexible
Polar Capital Global Healthcare	Biotechnology & Healthcare
Smithson	Global Smaller Companies
Standard Life UK Smaller Companies	UK Smaller Companies
Urban Logistics	Property
Witan	Global

Source: Shore Capital, Shares, Association of Investment Companies. Data correct as of 2 July 2021 been making 12-month lows in sympathy with the market and virtually nothing would be making 12-month highs.

As we rolled forward into May 2020, however, the number of stocks making new lows would have started to fall so even without concrete evidence that the worst was behind us we might have started to feel more confident in the rebound.

NEW HIGHS

As it stands today, with the FTSE All-Share just shy of its all-time high, unsurprisingly there are many more highs than lows, spread across a wide range of sectors. Also, that number has been growing over the past week or two so there seems to be no need to worry for now about market direction.

Using a screen of the FTSE All-Share and AIM All-Share compiled by analysts at Shore Capital, the first thing we note is that roughly a third of the nearly 60 stocks which have made 12-month highs in the past week are investment trusts, almost all of which are focused on overseas, alternative or inflation-protection assets rather than plain vanilla UK stocks.

This suggests investors are happy to diversify their holdings away from the UK market, rather than put all their eggs in one basket, and it would seem to point to a relatively high degree of risk appetite, which is noteworthy and is something qualitative to add to our quantitative analysis.

LIMITED UK EXPOSURE

The theme of international

diversification carries through to individual stocks, with most benefiting from large foreign exposure. Typical examples are equipment rental firm **Ashtead (AHT)** and plumbing supplies firm **Ferguson (FERG)**, which generate most of their revenue in North America.

Among the handful of companies with a majority of domestic sales, most are in the consumer discretionary sector, such as toy company **Character Group (CCT:AIM)**, sporting goods and clothing seller **Frasers (FRAS)**, bicycle and auto parts chain **Halfords (HFD)**, sportswear retailer **JD Sports Fashion (JD.)**, car dealership **Marshall Motor (MMH:AIM)** and cosmetics group **Warpaint London (W7L:AIM)**.

This would seem to tally with enthusiasm for the reopening trade as Covid-related restrictions are eased, although it is notable there are no bar, pub or restaurant stocks on the list, nor are any travel and leisure firms making new highs.

Other sectors that are not making new highs include traditional banks, insurers, oil and gas companies, miners, utilities, telecoms and housebuilders.

FINANCIAL AND LEGAL EAGLES

One area of the market we highlighted some time ago as rich with potential high-fliers was legal services, so it's gratifying to see shares in **DWF (DWF)**, **FRP Advisory (FRP:AIM)**, **Gateley (GTLY:AIM)**, **Keystone Law (KEYS:AIM)**, **Litigation Capital Management (LIT:AIM)** and **RBG (RBGP:AIM)** all making new 12-month highs last week.

Investors have clearly come to appreciate the high returns on capital and the growth runway these firms offer.

Wealth management and investment groups also feature on the 12-month highs, with stocks as varied as **Chrysalis Investments (CHRY)**, **Frenkel Topping (FEN:AIM)**, **Georgia Capital (CGEO)** and **Liontrust Asset Management (LIO)** featuring on the list.

As markets hit new highs, it's reasonable to expect well-run asset managers to benefit from both rising prices and net inflows.

NEW LOWS

With the market almost at its highs, it makes sense that there aren't many lows to mention. Also, their number hasn't grown particularly in the past week, rather the list of stocks has varied, although several names have made repeat appearances.

The most common stocks on

Stocks making 12-months lows in the last week	
Stock	**Sector**
ADM Energy	Oil & Gas
Caledonia Mining	Basic Materials
Foresight Group	Financials
Fresnillo	Basic Materials
Hochschild Mining	Basic Materials
Keras Resources	Basic Materials
Lekoil	Oil & Gas
Parsley Box	Consumer Staples
Salt Lake Potash	Basic Materials
Simec Atlantic Energy	Oil & Gas
TP Group	Industrials
W Resources	Basic Materials

Source: Shore Capital, Shares, London Stock Exchange

the list are natural resources companies, mainly in the basic materials and oil and gas sectors, which seems anomalous given the strength of base metals and crude oil in recent weeks. Meanwhile, a trio of non-resource stocks stand out.

TP Group (TPG:AIM) is a software and consulting business which took a hit to margins during the pandemic but looks to have stabilised and is shedding its non-core engineering operations.

Parsley Box (MEAL:AIM) joined the stock market in April this year so technically it isn't making a 12-month low. The stock listing clearly wasn't a roaring success, possibly because the Baby Boomer meal delivery story was a bit long in the tooth by the time the company came to market.

Foresight Group (FSG) has also been on the stock market for less than 12 months. It invests in green projects such as waste to energy, wind and solar farms and battery storage, so it is something of a surprise to see it making effective 12-month lows (in reality, an all-time low) in the current environment.

Shares will be publishing the list of stocks hitting 12-months highs and lows on a regular basis going forward.

By **Ian Conway**
Senior Reporter

RUSS MOULD
AJ Bell Investment Director

Cash is being drained from the banking system: why this matters

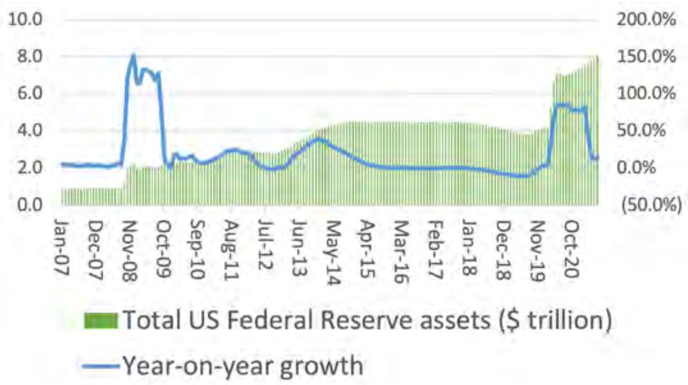
Is the Federal Reserve reversing course after all?

US journalist Edward R. Murrow may be known for the line which he used to end his broadcasts – 'Good night, and good luck' – but this column's favourite comment of his goes 'Anyone who isn't confused really doesn't understand the situation'.

There is one particularly confusing situation in financial markets right now, and that is the US overnight (reverse) repo market.

A reverse repo is the direct opposite of quantitative easing, in that it drains cash from the banking system. The US Federal Reserve is using reverse repos in vast quantities even as it continues to run QE at $120 billion a month.

US Federal Reserve assets now exceed $8 trillion



Source: FRED – St. Louis Federal Reserve

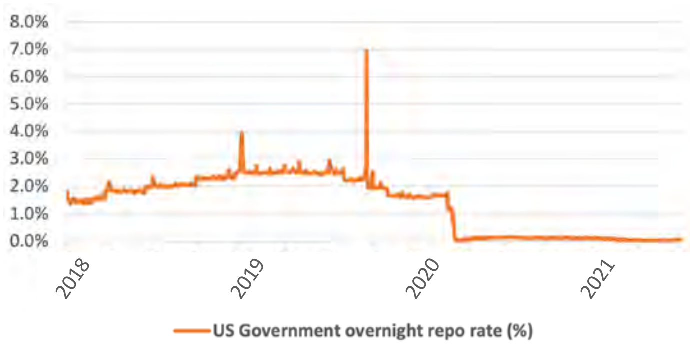
That programme means the US central bank's asset base now exceeds $8 trillion, or more than a third of US GDP, for the first time ever. But as fast as the Fed is pumping liquidity into the system it is taking it away with another. Confused? You should be.

A repo or repurchase agreement sees a financial institution sell government bonds to a bank or central bank on an overnight basis. It then buys them back the next day, usually at a slightly higher price.

The idea is the seller can raise immediate liquidity if required. It also enables the counterparty to make a financial return pretty much without risk, given the short time horizon involved and the collateral backing the trade.

The repo rate spiked suddenly in the US in autumn 2019 in a sign that the Fed's then-quantitative tightening plan of raising rates and withdrawing quantitative easing was working well – so well that banks were scrambling for cash as the financial system began to creak.

US repo rates spike in 2019 but have ground lower since



Source: Refinitiv data

Under Jay Powell, the US central bank backtracked on quantitative tightening and – as the pandemic hit – cranked up quantitative easing to ever-more dizzying levels in 2020. That tidal wave of liquidity means the US overnight repo rate is now 0.07%, down from a panicky 6.9% one-day

RUSS MOULD
AJ Bell Investment Director

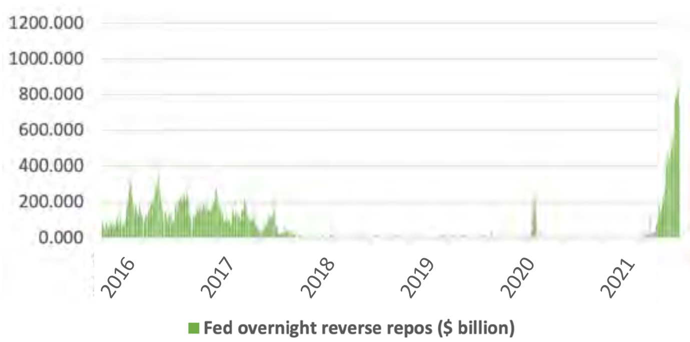
spike two Septembers ago.

WHAT IS A REVERSE REPO?

A reverse repo or reverse repurchase agreement is when a bank or central bank sells government bonds in exchange for cash to a range of counterparties, over a pre-determined timeframe.

This drains cash out of the financial system, at least if a central bank is doing it and the Federal Reserve is hard at work here right now. At the last count, the Fed's outstanding reverse repo liabilities were $791 billion, the equivalent to six and a half months of quantitative easing.

Fed reverse repo deals have spiked in the past three months



Source: FRED – St. Louis Federal Reserve

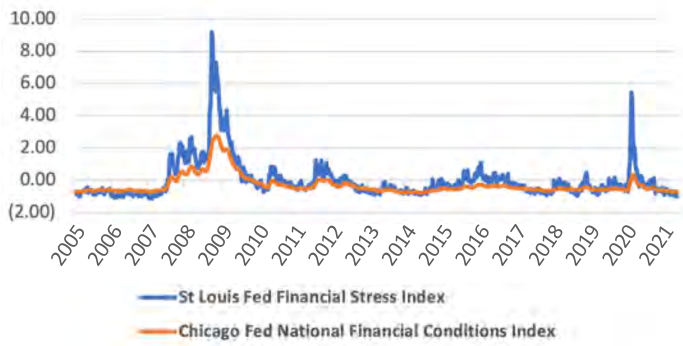
POLICY SHIFT

Perhaps the US Federal Reserve is laying the groundwork for tightening monetary policy after all and taking these initial steps to test how financial markets and the economy will react.

The answer appears to be 'so far, so good' on both counts. The S&P 500 index of US shares trades at record highs while there is no sign of financial stress anywhere in the system, at least according to the tried-and-tested St. Louis Fed Financial Stress and Chicago Fed National Financial Conditions indices. Both are trading close to their all-time lows.

As US equity markets trade at all-time highs, American unemployment ticks lower and wage growth reaches 5.7% on an annualised basis and US house prices rise at the fastest rate in nearly 30 years. Perhaps the Fed is getting nervous that there is too much cheap liquidity around.

US economy is showing no signs of financial stress at all



Source: FRED – St. Louis Federal Reserve

This initial foray into tightening policy could be seen by Fed officials as a success since neither financial markets nor the economy appears to be wavering.

This is in stark contrast to autumn 2019's repo rate spike, as that was when WeWork's much-hyped stock market flotation fell apart, bitcoin sank 25% in a month and wider equity and bond markets both got the jitters, albeit very briefly.

It would surely be a good thing if financial markets could break their addiction to cheap Fed liquidity.

Any business model or asset valuation that is being goosed by zero interest rate policies and quantitative easing will face biggest tests if the Fed really is going to surprise the markets and tighten monetary policy, no matter how gently.

This ranges from loss-making so-called unicorns and equity growth stocks to private equity firms which are feasting off cheap money to make acquisitions.

In theory, tighter money could have negative implications for gold and other real assets. Equally, a fresh backtracking by the Fed and an end to the reverse repo scheme, while quantitative easing keeps running at $120 billion a month, could stoke fresh interest in precious metals and other perceived stores of value.

Gold did well when investors felt central banks were losing control (2007-11 and 2019-2020) and less well when they took the view the authorities had matters in hand (2012-18 and 2021).

Fundsmith fans who want more tech should look at Blue Whale Growth fund

It follows a similar approach by targeting high quality companies and performance has been better than Fundsmith over the past three years

Fundsmith Equity's (B41YBW7) strategy of investing in high quality companies has been a big draw for investors, particularly as the fund's performance has been strong since launch in 2010. While this fund may be serving investors well, some people want to know what else they can add to their portfolio that follows a similar approach with a bigger slant towards technology.

One route is to look at **Blue Whale Growth (BD6PG78)**, whose 72% total return over the three years to 30 June 2021 outperformed Fundsmith's 61% return over the same period, and comfortably trumps the 38% put up by **Lindsell Train Global Equity (B3NS4D2)** which is another fund with a quality bias, albeit with less of a focus on technology and more on consumer products.

The Investment Association Global sector returned 43% over the same three-year period, according to Fe Fundinfo.

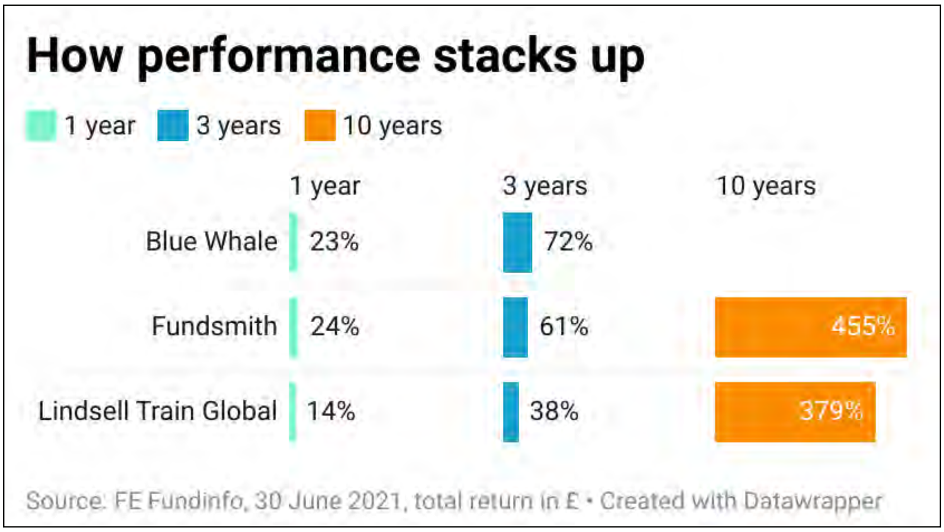
Since launch in September 2017 Blue Whale's fund has seen assets under management soar to more than £850 million and its performance has drawn a loyal following of retail investors.

Run by lead manager Stephen Yiu and assisted by co-manager Daniel Allcock and a small team of in-house analysts, the fund's own investment philosophy is deceptively simple; invest in high quality businesses at attractive prices.

Fundsmith has a similar approach up to a point – it invests in good companies, it doesn't overpay and doesn't trade in and out of them. The last bit is where the two differ as Blue Whale isn't afraid to be more active with buying and selling.

Like its better-known, much larger peer, Blue Whale concentrates first and foremost on identifying quality stocks capable of producing sustainable growth over multiple years.

Beyond the capability to put up above-average growth year after year, investee companies must also demonstrate reliable profits and all-round financial excellence, often measured by investment criteria such as return on capital employed, return on



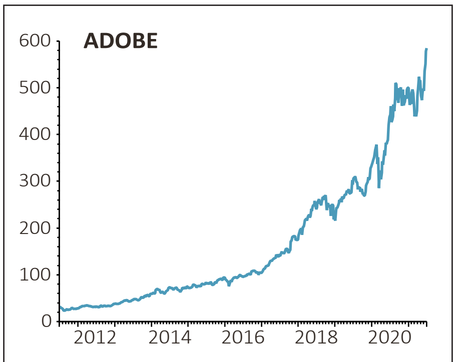
equity and free cash flow.

Blue Whale talks a lot about how its team spend a considerable amount of time researching companies and it believes this gives the fund an edge over some of its competitors. It only invests in 25 to 35 companies at a time; Fundsmith aims for a portfolio of 20 to 30 stocks and Lindsell Train has between 20 and 35 holdings.

STRUCTURAL GROWTH DRIVERS

Blue Whale likes companies with strong competitive positions and good management teams that can leverage structural growth drivers, such as digital transformation, cloud computing, online payments and robotics and automation.

This is evident from its current top stakes, including engineering software firm Autodesk, Quickbooks accounting software owner Intuit and Kering, the luxury goods company that owns Gucci. It also owns many technology giants, such as Mastercard, Microsoft and Facebook.



A big holding is creative digital design technology firm Adobe, the firm behind PDF document technology. It has a long history of gross margins above 85%, 30%-plus operating margins, and improving return on equity (44.2% in 2020) and return on invested capital (52.6% in 2020). This year (to November 2021) Adobe is forecast to post revenue growth above 20% and free cash flow of nearly $6.8 billion.

What's in the top 10?

Blue Whale	Fundsmith	Lindsell Train Global
Adobe	PayPal	Diageo
Alphabet	Microsoft	Heineken
Autodesk	IDEXX Laboratories	Unilever
Facebook	Facebook	Nintendo
Intuit	L'Oreal	London Stock Exchange
Kering	Estee Lauder	Intuit
Mastercard	Intuit	Mondelez
Microsoft	Philip Morris	PepsiCo
Nintendo	Novo-Nordisk	RELX
Visa	Stryker	PayPal

Source: Trustnet, Morningstar • Created with Datawrapper

While Blue Whale's investment style has much in common with Fundsmith and Lindsell Train Global, their respective portfolios are not full of the same companies. Blue Whale and Fundsmith both have Microsoft in their top holdings and Blue Whale and Lindsell Train Global both have Nintendo, but otherwise Blue Whale's largest positions are different to the other two funds.

GREATER TECH EXPOSURE

The technology sector accounts for 52% of Blue Whale's portfolio, nearly double that of Fundsmith (28.9%). Lindsell Train Global has less than 5% of its holdings in software and computer services, but it would probably argue that many of its investee companies use technology to do business rather than being pureplay tech names.

Google-owner Alphabet and Facebook recently returned to Blue Whale's top 10 holdings list. 'Facebook and Google in our top 10 reflects our view they were undervalued during the recent sell-offs,' said manager Stephen Yiu, referring to earlier this year when technology stocks were out of favour. 'We have held Facebook and Google consistently in our portfolio since fund inception in September 2017 and both have more than doubled.'

Yiu believes this illustrates the fund's strict valuation discipline, taking advantage of the inevitable peaks and troughs in their share prices as tech giants became lightning rods for regulation with the increasing politicisation of tech.

'We welcome increased regulation in tech as it solidifies the incumbent position of Facebook and Google and makes it harder for disruptors to usurp them,' explains Yiu. Interestingly, the fund believes that breaking up some of these tech titans, as has been threatened, could be good for shareholders since Blue Whale believes they are now so big and ubiquitous, and many stocks now come with a 'conglomerate discount'.

PAY AND GET PAID

The digital payments space is an area exciting Blue Whale's team and explains why both Mastercard and Visa have been long-run holdings, as is PayPal, albeit the latter having recently drifted out of the fund's top 10 holdings.

'We view the drivers behind the payments industry in a similar way to how we see software – digital payments are changing companies just as digital transformation (the primary driver for software consumption) is transforming all sectors,' says Yiu. 'Everyone and every company needs to pay and get paid in a secure, fast and reliable way, and Visa, Mastercard and PayPal help do that.'

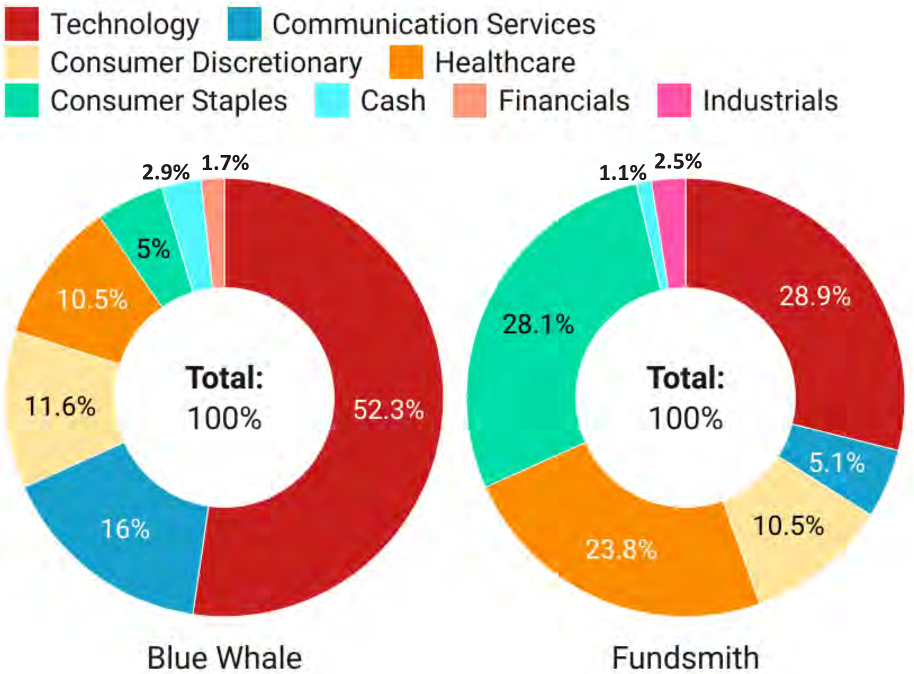
The fund manager believes that all three stocks are not only beneficiaries of rising inflation (they get paid in nominal terms, so they capture a slice of the inflation) but are also beneficiaries of society reopening after Covid.

'With household savings ballooning after a year and a half of lockdown, the big bang in consumer spending across all categories – restaurants, cruise ships, air travel, hotels, auto – will contribute to sales at Visa and Mastercard,' says Yiu.

Far from leaving investors to choose either Fundsmith or Blue Whale, we believe both could comfortably sit side-by-side in a portfolio. Each fund stamps its own unique footprint on stock selection without straying outside of the quality growth strategies. That's a useful tool for investors if they choose it, and we believe both funds are worth buying.

Sector allocations

% of portfolio



Source: Blue Whale: Data as of 31 May 2021. Fundsmith: Data as of 30 June 2021 • Created with Datawrapper

DISCLAIMER: Author Steven Frazer has a personal investment in Blue Whale Growth and Fundsmith Equity. Daniel Coatsworth who edited this article has a personal investment in Fundsmith Equity.

By **Steven Frazer**
News Editor

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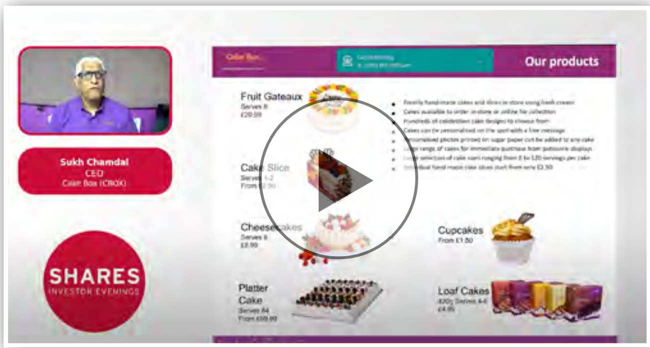
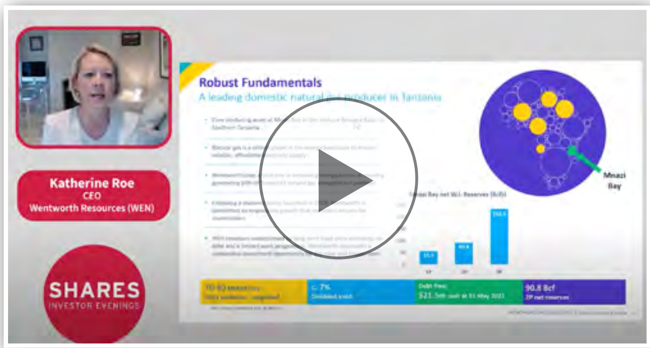


Cake Box (CBOX)
Sukh Chamdal, CEO & Pardip Dass, CFO

Cake Box Holdings generates revenue from the sale of goods and services. Geographically, it derives revenue from the United Kingdom.

Strix Group (KETL)
Mark Bartlett, CEO

Strix Group manufactures and markets kettle controls for appliances worldwide. The Group is engaged in the business of design, manufacture, and supply of kettle safety controls and other components and devices.



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.

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The winning and losing investments so far in 2021

We look at FTSE 100 stocks, sectors and popular funds and investment trusts

We're now halfway through the year, and it's been a good six months for stock market investors, with the FTSE 100 returning 11% and the S&P 500 returning 14% in pounds and pence.

But the real standout performer has been the UK Smaller Companies market, which has returned around 20% in the past six months alone.

So far this year the FTSE Small Cap index has repeatedly set new record highs, and now sits around 20% higher than pre-pandemic levels.

The smaller companies market does have a greater exposure to domestic revenues than the big blue chip index, so this is partly a vote of confidence in the UK economy, but also a sign of investors positioning themselves for a risk-on market.

At the other end of the spectrum, bond funds have had a pretty grisly year so far, as vaccine optimism and inflationary fears have led to a sell-off in safe haven assets.

Bonds can still offer portfolio diversification, but it's hard to maintain a hugely positive outlook on the asset class, given such low yields and a global economy that looks like it's beginning to take off.

While inflationary fears have surfaced, they have not yet really taken root, otherwise the UK 10-year gilt (UK government bond) would not be yielding a meagre 0.7%.

If inflation does prove more than transitory, we can therefore expect further selloffs in bonds, particularly at the longer dated end of the market. Should that happen, it would be a shock to bond investors who have enjoyed a long bull market, and who generally invest in these assets because they're risk averse.

Best and worst performing IA sectors

Fund Sector	H1 total return %
UK Smaller Companies	20.0
North America	13.1
Property Other	12.3
UK Equity Income	12.2
UK All Companies	11.9
Global EM Bonds Local Currency	-4.8
Global Government Bond	-4.8
UK Gilts	-6.0
EUR Mixed Bond	-6.4
EUR Government Bond	-6.6

Source: FE total return GBP

OLD MEETS NEW ECONOMY

Looking at stocks within the FTSE 100, the top end of the performance table carries a distinct whiff of the old economy, with names like **Royal Mail (RMG)**, **BT (BT.A)**, and Ladbrokes owner **Entain (ENT)** evoking aromas of a bygone era.

However, while communications, logistics and gambling are longstanding industries, these markets have moved with the times.

Royal Mail derives much of its revenues from delivering parcels ordered by consumers online, BT owns the mobile network EE, and Entain derives most of its revenues from online betting and gaming.

The business lines may be old, but that doesn't mean they can't benefit from new trends.

The bottom end of the FTSE 100 performance table is a bit of a mishmash of lockdown winners that have come off the boil, and more cyclical names that have failed to ignite demand,

Best and worst performing FTSE 100 shares so far this year

Best performers 2021 year to date	H1 share price performance %	Worst performers 2021 year to date	H1 share price performance %
Royal Mail	71	Fresnillo	-32
Ashtead	56	Tesco	-24
Entain	54	Just Eat Takeaway	-19
BT	47	Flutter Entertainment	-13
Kingfisher	35	Melrose Industries	-13
Glencore	33	London Stock Exchange	-12
St James's Place	30	Ocado	-12
Lloyds	28	Rolls-Royce	-11
Johnson Matthey	27	Avast	-9
Evraz	26	Informa	-9

Source: Sharepad, share price performance, dividends not included

despite hopes for a global economic recovery.

POPULAR STOCKS

In terms of what DIY investors have been buying, the most popular shares bought on the AJ Bell Youinvest platform in the past six months showcase a number of investment trends which we've witnessed this year.

At the fizzier end of proceedings, **Argo Blockchain (ARB)** has been used by investors to get access to cryptocurrency, and US-listed Gamestop was the epicentre of the meme investing craze.

But purchases of stocks like British Airways owner **International Consolidated Airlines (IAG)**, banking group **Lloyds (LLOY)** and engineer **Rolls Royce (RR.)** show investors also continue to seek out bargains amongst the UK's value stocks.

Growth orientated funds still dominate the leaderboard of most popular funds, with offerings from Baillie Gifford continuing to attract investment.

But there are a couple of signs of a tentative shift in investor preferences, with demand for **Jupiter UK Special Situations (B4KL9F8)** and **Blackrock World Mining Trust (BRWM)** suggesting some investors are positioning themselves in more cyclical areas, in preparation for an economic recovery, and perhaps inflation.

These are in the minority though, and in large part fund investors are still backing secular growth over economic reflation.

Most popular investments with AJ Bell Youinvest customers H1 2021

Shares	Funds	Investment Trusts
Argo Blockchain	Vanguard Lifestrategy funds	Scottish Mortgage
GlaxoSmithKline	Fundsmith Equity	Scottish Investment Trust
BP	Baillie Gifford American	Monks Investment Trust
Lloyds	Baillie Gifford Positive Change	City of London
Rolls Royce	Baillie Gifford Global Discovery	Edinburgh Worldwide
International Consolidated Airlines	Fidelity Global Special Situations	Blackrock World Mining Trust
Gamestop	Jupiter UK Special Situations	Smithson
Unilever	Vanguard FTSE Global All Cap	Finsbury Growth & Income
Tesla	Baillie Gifford Global Alpha Growth	Baillie Gifford US
Aviva	Polar Capital Global Technology	JP Morgan China Growth & Income

Source: AJ Bell Youinvest, 01/01/21- 30/06/21

DISCLAIMER: AJ Bell referenced in this article is the owner and publisher of Shares magazine. Daniel Coatsworth who edited this article owns shares in AJ Bell, Smithson and units in Fundsmith Equity.

By **Laith Khalaf**
AJ Bell
Financial Analyst

Is it worth opening a SIPP when I'm already retired?

AJ Bell pensions expert Tom Selby considers the case of a reader trying to understand if there are any advantages to having a self-invested personal pension

I have just read a piece about the tax advantages of a SIPP, but I have already retired and live on my existing pensions.

I am 68 and have never had (or understood) a SIPP. Is it possible to gain a small advantage by opening a SIPP and is one any better than another in my situation?

Arthur

Tom Selby
AJ Bell
Senior Analyst says:

As you have not yet reached your 75th birthday, from a tax perspective, the tax advantages of a SIPP for you should be the same as for anyone else aged 18 or over.

These include:

- Contributions qualify for pensions tax relief, meaning you benefit from a 25% upfront boost
- You can get a quarter of your pension tax-free from age 55, with the rest taxed in the same way as income
- You have flexibility over how to access and invest your retirement pot
- You can pass on your retirement pot tax-free if you die before age 75, while if you die after 75 the money will be taxed in the same way as income when your beneficiary or beneficiaries come to access it

Note that once you reach your 75th birthday you will no longer receive tax relief on pension contributions.

Because SIPPs benefit from generous tax treatment, the maximum you can contribute each year is restricted by the Government to 100% of your 'relevant earnings' or £40,000, whichever is lower.

Relevant earnings include earned income like salary, commission and bonuses. Dividends, rental income and pension income do NOT count as relevant earnings.

If you have 'flexibly accessed' income from a retirement pot, then your annual contribution allowance will be reduced from £40,000 to £4,000. 'Flexibly accessing' your pension includes taking taxable income via flexi-access drawdown or certain ad-hoc lump sums from a 'defined contribution' scheme.

Buying an annuity or taking an income from a 'defined benefit' scheme won't trigger a drop in the annual allowance.

Finally, those who don't have relevant earnings can still pay £3,600 a year into a SIPP, inclusive of tax relief.

CHOOSING A SIPP

There are a number of factors to consider when deciding whether to invest in a SIPP, including your priorities, personal circumstances and tax position.

If you decide a SIPP is the right option, you should have a look around the market to find one that suits your needs. Things like the amount of support the firm provides and the investment options available will vary from provider to provider.

Keeping your costs as low as possible should be an absolute priority, so make sure you understand the charges you will pay both for administering your pension and for your investments too.

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

Main Market

IPOs coming soon

Funds

Overseas

ETFs

Investment Trusts

AIM

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

13 July: Omega Diagnostics, Zoo Digital.
14 July: Knights Group, Kromek **15 July:** Polar Capital Technology Trust, Redcentric.

Half-year results

12 July: Photo-Me International. **13 July:** Synectics

Trading statements

9 July: MJ Gleeson. **12 July:** Dechra Pharmaceuticals
13 July: Kier. **14 July:** Ashmore, Barratt Developments, Dunelm, Pagegroup. **15 July:** Costain, Experian, Galliford Try, Hays, Johnson Service Group.
16 July: Burberry, Eve Sleep, Rio Tinto.

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