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BANK STOCKS: CAN THIS YEAR'S RALLY CONTINUE?

REAL ESTATE

Commercial property is looking interesting again

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

05 EDITOR'S VIEW — Will Freedom Day represent the top of the market?

06 NEWS — Potential UK-listed takeover targets as the M&A frenzy heats up / Tobacco companies make push into healthcare space / Admiral raises forecasts and dividends despite lower insurance rates / Tate & Lyle could see higher share rating but lower dividends / The small cap e-commerce play which could follow in THG's footsteps / ECB makes first tweak to inflation target in two decades

10 GREAT IDEAS — **New:** Blue Prism / Dixons Carphone
Updates: ASOS / Equals / Zoo Digital

15 FEATURE — Why US-listed China tech shares are taking a beating

18 FEATURE — Bank stocks: Can this year's rally continue?

24 RUSS MOULD — Dividends: the FTSE 100 could yield 3.9% in 2022

27 FEATURE — Commercial property is looking interesting again

32 FUNDS — 10 years of Vanguard LifeStrategy: has it rewarded investors?

35 EDUCATION — Expert Investor: Using relative valuation models

37 ASK TOM — Does the lifetime allowance vary between pension types?

38 EDUCATION — Discover how much you can stick in a pension and still get government cash

42 INDEX — Shares, funds, ETFs and investment trusts in this issue


SIPPs | ISAs | Funds | Shares
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Will Freedom Day represent the top of the market?

Equities have taken a wobble and bonds are coming back into fashion

The UK's Freedom Day should have been cause for celebration. Instead, we're having to navigate choppier stock market conditions, hundreds of thousands of children and workers are stuck at home isolating, and don't even mention the Euro 2020 result.

It's worth understanding what has driven the increased market volatility. Global stock markets experienced a big sell-off on 8 July as investors started to panic about the strength of the global economic recovery. Earlier that week, China signalled it still needed to support its economy which spooked the market, fearing that its next set of GDP data might disappoint.

To make matters worse, Covid infection rates are on the rise again in various parts of the world, despite the rollout of vaccines. On top of this, there is a theory that the initial consumer spending splurge post-lockdown may now lose steam.

On 8 July, the FTSE 100 fell by 1.7%, wiping £32 billion off the value of the index. Hong Kong's Hang Seng index slumped by 2.9%, Germany's Dax index declined by 1.7% and the US S&P 500 index dropped by 0.9%.

Bond markets had already given some clues as to how investors were thinking as bond prices have recently been rising and yields falling. This suggests people have been putting more money into seemingly safer parts of the market and becoming less concerned about inflation risks.

Inflation is generally bad for bonds and for long-duration assets such as tech stocks, so the fact investors are interested in both these areas again would suggest they now share the view of central banks that the rise in the cost of living is only 'transitory'.

The next issue for UK investors is how the coming few months play out in the domestic market. With more restrictions being lifted, theoretically it should provide greater opportunities for companies to make money. However, the fact that prime minister Boris Johnson is telling people to be more cautious as the restrictions are lifted doesn't suggest 19 July will trigger an immediate boom in spending and investment.

'It doesn't feel like an environment to be taking lots of risk,' says Ruffer investment director Duncan MacInnes. 'Just as the Coinbase IPO marked the top in bitcoin, perhaps Freedom Day when we reopen the economy could mark the top in markets. That would be quite paradoxical.'

He makes a good point, particularly as markets have already priced in a lot of good news from the reopening trade.

MacInnes says there are lots of competing forces. On one hand there is evidence of economic recovery, ongoing support from governments and central banks, and the stock market being one of the few places to earn a return in an era where cash pays next to nothing.

On the other hand, one must also consider that many countries have a very large debt problem, and the economic recovery may well have some setbacks in the coming months. If you consider these issues, together with supply chain challenges, skilled staff shortages and rising inflation, the backdrop is not particularly friendly to investment markets.

We often give the same response in periods of uncertainty and it is worth repeating now. It really does pay to have a diversified portfolio and to keep feeding it with more money in good and bad market conditions. Be patient and do not panic.

By **Daniel Coatsworth** Editor

Potential UK-listed takeover targets as the M&A frenzy heats up

The UK market continues to look cheap relative to the US and Europe

A key theme in the UK market in 2021 has been a spate of takeovers, mergers and strategic deals involving British businesses as buyers, often from overseas, have been attracted by lowly valuations relative to other international equities.

By the reckoning of stockbroker Peel Hunt, nearly £25 billion worth of bids for more than 20 companies have been pitched in the last six months and interestingly it sees no signs of this letting up in the short term.

Among the recent deals announced were US tobacco giant Philip Morris making a somewhat surprising bid for inhaled drug delivery specialist **Vectura (VEC)**, **Tate & Lyle (TATE)** agreeing to sell a controlling stake in its commercial sweeteners operation to US private equity firm KPS Capital and the Rothermere family considering a deal to take **Daily Mail & General Trust (DMGT)** private.

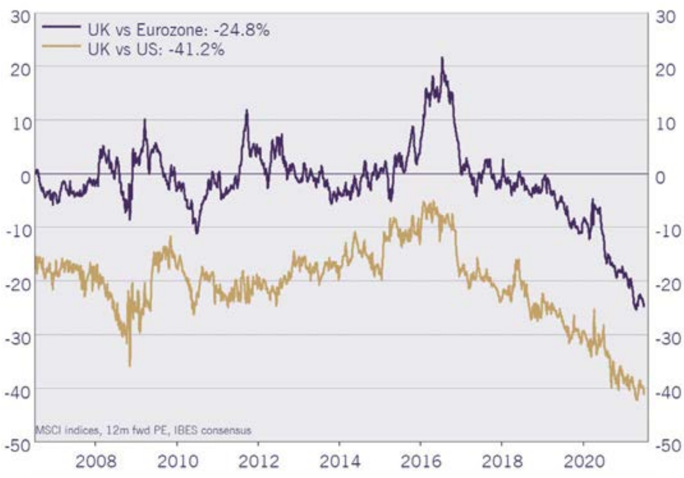
A lot of the bidders for UK firms, as well as being foreign, are to be found in the private equity space where companies have plenty of cash at their disposal. This is supported by a low interest rate environment which it makes borrowing costs for these operators very low.

According to information provider Preqin, in global terms private equity is sitting on some $1.7 trillion of funds available for investment.

Other reasons this wall of cash is finding its way to UK stocks, other than valuation, is the success of the vaccine rollout and a relatively liberal takeovers regime, where other governments globally may take a firmer stand against foreign buyers.

Peel Hunt has identified several names which could be potential takeover targets including food-on-the-go play **Greencore (GNC)**, food producer **Premier Foods (PFD)**, and wound care experts **Advanced Medical Solutions (AMS:AIM)** and **ConvaTec (CTEC)**.

World markets:
UK price to earnings discount



Source: Refinitiv Peel Hunt

It also flags vet operator **CVS (CVS)**, DIY goods seller **Wickes (WKS)**, packaging outfit **DS Smith (SMDS)** as well as price comparison site **Moneysupermarket (MONY)** and publisher **Bloomsbury (BMY)** as being possible bid targets.

Shareholders in companies receiving offers may welcome the boost to the pocket that bid premiums might provide but the impact longer term on the health of the domestic stock market is less encouraging.

If some of the UK's brightest companies are being snapped up, the breadth, depth and quality of the London market will inevitably be diluted.

It was perhaps encouraging in this context to see the ageing founders of high-tech engineering firm **Renishaw (RSW)** call off the sale process on their 52.8% stake (7 Jul) as they were unable to find a buyer which met the criteria of protecting the company's UK base, staff and shareholders. [TS]

Tobacco companies make push into healthcare space

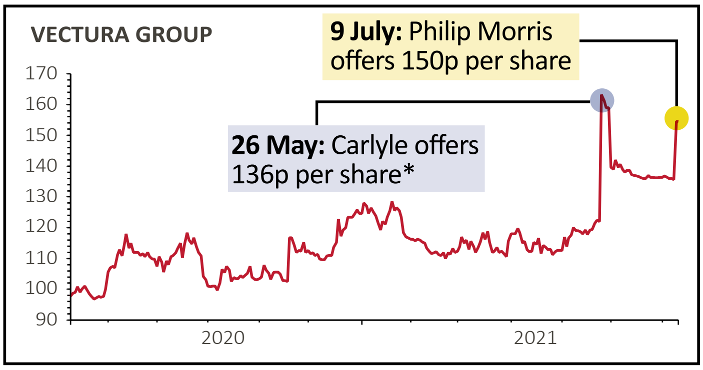
Philip Morris enters a bidding war for Vectura while British American Tobacco continues to develop Covid vaccine

Just one day before putting a takeover offer from private equity firm Carlyle to a shareholder vote, inhalation specialist **Vectura (VEC)** received a higher all-cash offer from tobacco company Philip Morris, which the board has recommended shareholders accept.

The shares closed higher than the new 150p offer on 9 July at 154.6p, suggesting the tobacco giant hasn't secured the prize just yet. Indeed, Carlyle urged Vectura's shareholders to do nothing while it considered its options, implying it could come back with a higher offer.

At first glance, it might sound a little counter-intuitive for a tobacco company to want to own an inhalation specialist, given that its core products can cause lung problems. However, Philip Morris is on a mission to clean up its act and has promised to disrupt its own traditional cigarette business by implementing the biggest transformation in its history.

Philip Morris has committed substantial financial and human resources to developing and commercialising innovative technologies to improve lives and phase out cigarettes altogether, spending over $8 billion since 2008.



*Plus right for investors to receive an already-declared 19p per share dividend from Vectura, which was subsequently paid in June

The company wants to generate more than half of its revenues from smoke-free products by 2025, up from a quarter in 2020. In addition, the firm aims to generate over $1 billion in net revenues from products outside tobacco and nicotine in a bid to become a health and wellness company.

The logic of the proposed deal is that combining Vectura's expertise in inhalation and respiratory drug delivery with Philip Morris' in-house scientific expertise and clinical manufacturing will create the backbone of an inhaled therapeutics business.

The pounce on Vectura follows an $820 million deal on 1 July to buy Fertin Pharma, a leader in the oral delivery of selfcare wellness products.

Philip Morris isn't the only tobacco company pivoting into the healthcare and wellness space. FTSE 100 listed **British American Tobacco (BATS)** has been working on a Covid-19 vaccine through its US biotech business KBC.

British American Tobacco is exploring partnerships with government agencies to bring its vaccine candidate into clinical studies. What's interesting about the potential vaccine is that it is based on the company's tobacco technology.

The vaccine is inserted into tobacco plants specifically cultivated for the purpose and transformed into 'biomanufacturing factories' that efficiently produce the required protein.

KBC says it can grow, harvest and process as many as 3 million protein-producing tobacco plants in a six-week cycle, a big advantage compared with the many months required for traditional biomanufacturing methods.

Historically some fund managers have steered clear of tobacco because of its perceived harm, so it will be interesting to see if that changes as tobacco firms push towards health and wellness. [MG]

Admiral raises forecasts and dividends despite lower insurance rates

The company is benefitting from lower levels of claims

Given the downward trend in insurance premiums this year, car and van insurer **Admiral (ADM)** surprised the market on 12 July when it raised its half-year earnings and dividend guidance, sending its shares to an all-time high.

Research group Consumer Intelligence says there has been a downward trend in insurance premiums across the board over the past 12 months with car premiums falling by 8.4% on average.

It put the decrease in rates down to increased competition due to fewer drivers on the road, especially younger drivers, which translates into a lower level of claims, as well as the increased use of telematics in quoting for cover and the Financial Conduct Authority banning firms from gradually increasing prices for loyal customers who renew each year.

Admiral admitted it had seen significant reductions in premium rates over the past year, added to which it refunded £110 million to customers in May 2020.

However, due to what it called an 'unusually positive development' in the cost of UK motor personal injury claims in a number of prior underwriting years, it was able to release higher than expected reserves this year leading to a sharp jump in earnings.

The firm also raised its interim dividend on the strength of its results and its 'very strong solvency position', on top of which it is paying a special dividend from the sale of its comparison businesses including Confused.com. [IC]

Tate & Lyle could see higher share rating but lower dividends

Restructuring plans will position Tate & Lyle as a faster growth business

INVESTORS MIGHT BE prepared to pay a higher earnings ratio for sweeteners-to-ingredients giant **Tate & Lyle (TATE)** once it completes the sale of a controlling stake in its lower growth Primary Products business to private equity firm KPS Capital Partners for $1.3 billion.

By concentrating solely on its faster growing Food and Beverage Solutions business, Tate & Lyle will tap into the growing global consumer demand for healthier food and drink.

The FTSE 250 food producer believes the break-up will strengthen its attractiveness as a partner to other speciality ingredients businesses, reduce its exposure to commodities markets and by bolstering the balance sheet, create 'a platform to refocus capital towards delivering stronger organic and inorganic growth'.

Tate & Lyle and KPS will each own half of steady free cash flow generator NewCo, which will be able to pay 'meaningful dividends over time to Tate & Lyle', which will need to rebase its dividend by around 50% to reflect a smaller earnings base post-sale.

However, Tate & Lyle still plans to return $500 million to shareholders via a special dividend, and undertake a share consolidation, once the deal completes, before maintaining a progressive dividend policy thereafter. [JC]

The small cap e-commerce play which could follow in THG's footsteps

Hawkwing plots takeover of Internet Fusion chaired by retail figure John Browett

Cash shell **Hawkwing's (HNG)** proposed takeover of Internet Fusion could create a small cap lookalike of e-commerce play **THG (THG)**.

Internet Fusion has developed a digital platform called Reactor and acquired nine specialised, web-based retail brands in areas such as surfing, horse riding and camping, which have been brought on to the platform to improve their profitability.

What may excite investors more is the possibility of offering an online retail business engine and warehousing and delivery systems to third parties.

This direct-to-consumer capability looks to be a broadly similar approach to THG, whose Ingenuity platform, which can count clients like Nestle and Johnson and Johnson, has generated much of the excitement around the shares since its stock market listing in September 2020.

The most recent set of Internet Fusion accounts filed with Companies House – covering the 12 months to 30 November 2019 – showed a pre-tax loss of £14.6 million on turnover of £81.1 million.

Assuming the deal goes through the enlarged group will be chaired by John Browett who previously served as chief executive of **Dunelm (DNLM)**, Dixons and Tesco.com.

Hawkwing's shares are now suspended pending publication of documents related to the takeover. [TS]

ECB makes first tweak to inflation target in two decades

Some economists believe the European Central Bank hasn't gone far enough to stimulate growth

THE EUROPEAN CENTRAL Bank has made the first change to its monetary strategy since 2003 after admitting that raising rates in 2011 just before the Eurozone debt crisis was a mistake.

Following years of failing to achieve a 2% inflation target the governing body has moved to a symmetrical target of 2% which means the bank considers positive and negative deviations 'equally' undesirable.

ECB president Christine Lagarde said she wanted to avoid negative deviations from target becoming entrenched.

Importantly, the new policy has inbuilt flexibility to tolerate inflation above target in the short term after a period of persistently low interest rates.

In practice analysts think the change will make it more likely that the central bank will keep interest rates lower for longer.

The bank also acknowledged that climate change has 'profound' implications for general price stability and committed to an action plan, including moving asset purchases away from heavy carbon emitting companies.

The ECB policy change doesn't go as far as the US Federal Reserve last autumn when it moved to an explicit average inflation target, which means it aims for higher prices to make up for past target undershoots. [MG]

Cheapest price in four years, it's time to buy Blue Prism

This could be one of many British companies taken over by a foreign company

Shares in robotic process automation technology company **Blue Prism (PRSM:AIM)** have fallen to their lowest level in four years, creating a great opportunity to buy this fascinating UK growth story.

UK investors are not blessed with lots of fast-growing technology businesses of scale and have often had to look to overseas markets such as the US.

But *Shares* strongly believes Warrington-based Blue Prism is very much a 'built in Britain' tech growth story with enormous potential.

Blue Prism is a virtual workforce disruptor which uses robotic process automation technology to automate manual back-office administration tasks.

This cuts costs for clients, frees the human workforce to do more value-added tasks, increases efficiency, improves customer service and speed, reduces the need for clients to invest in new IT systems and frequently beats customers' own return on investment hopes, all from a compliance-friendly platform.

This is a nascent, fast moving digital industry whose scope to benefit organisations is capturing the imagination of top management teams everywhere and is also pulling in serious money from investors around the world.

BLUE PRISM
BUY
(PRSM:AIM) 778.5p
Market cap: **£750 million**

Some serious customers trust Blue Prism to transform the future of how they run their businesses, with the likes of Ebay, Siemens, the NHS, Fidelity, the UK's Financial Conduct Authority and Telefonica among more than 2,000 clients.

WHY HAS THE SHARE PRICE FALLEN?

It wasn't so very long ago (2018) that the stock traded at over £25 for a market value greater than £2.5 billion. Unfortunately, lower than expected growth, execution issues and the fears of intensifying competition have dragged the shares to their current lows.

In April the company said that annual recurring revenue was approximately £168 million, versus £154 million at the end of October 2020. This means revenues are likely to be towards the lower end of the £170 million to £180 million range previously guided for the full year to 31 October 2021.

Guidance remained unchanged for losses, which are still expected to come in at around £25 million this year.

SO WHY BUY THE SHARES NOW?

Management sees improvements to its internal team leadership and improving upsell/cross-sell opportunities in the installed base as ways to put growth back on track.

At the half-year results in June, it said the net revenue retention rate was 115%, down on pre-

pandemic levels of 143%. This measures the net growth in monthly recurring revenues from customers.

Analysts are starting to wonder if competition is beginning to hurt Blue Prism's growth. Privately-owned Automation Anywhere and UiPath, which listed on Wall Street in April, are the big specialist peers in the market, but Microsoft and others are starting to move into the space, and you can see why given the enormous growth predicted by market researchers for robotic process automation.

The sector was estimated to be worth around $1.9 billion in 2019 but a report earlier this year by Global Market Insights predicted it to surge beyond $23 billion by 2026.

Combine that opportunity with Blue Prism's installed base of recurring revenue customers and the huge valuation gap that has opened between the UK company and its main rivals, and you could see how a deep-pocketed potential new entrant might look to acquire Blue Prism to get a headstart in the sector.

'Blue Prism is trading at circa 5.1-times forward looking enterprise value to sales, which compares to a 39.9 multiple for US peer UiPath,' pointed out Megabuyte analyst Cameron Naylor in May.

A RIPE-LOOKING TAKEOVER TARGET

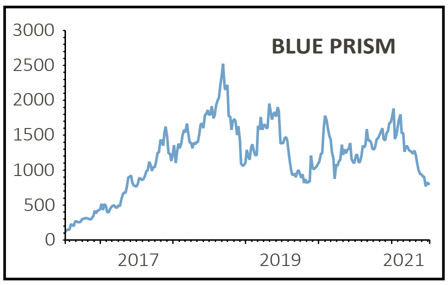
It's interesting that one of Blue Prism's biggest sceptics has changed tack and is now telling clients to buy the stock.

Analysts at broker Canaccord Genuity sent a note to clients on 27 May entitled 'Time to buy?' in which they noted that the stock's year to 31 October 2021 4.5 times enterprise value to revenue multiple is now 'substantially below the UK IT sector average' of 5.5-times, while 'forecast sales growth is materially above'.

This was a major change for the broker since the start of the year when Canaccord was a firm hater of the stock due to what the analysts saw as 'disappointing' 2021 guidance.

Canaccord's U-turn now means that not one of the 10 analysts that cover the stock, according to Refinitiv data, now has a sell recommendation, with seven buyers versus a trio of fence-sitting holders. Their average 12-month target price for the shares is £15, implying that the stock has scope to nearly double.

Blue Prism should be considered as a higher risk investment given recent setbacks and growing competition. But any patient investor who understands those risks could do well from buying now while sentiment is weak towards the stock. After all, takeovers often happen when people least expect it. [SF]



Dixons Carphone is a prime takeover target

The laptops-to-smart TVs seller is enjoying sustained strong trading and the dividend is back

DIXONS CARPHONE
BUY
(DC.) 129p
Market cap: £1.5 billion

Technology products and services retailer **Dixons Carphone (DC.)** is trading at the wrong price for a market leading company profiting from sustained strong trading.

Should this undervaluation persist, the laptops-to-smart TVs seller could even pique the interest of private equity, which prizes companies with strong cash flow such as Dixons, the company whose shares will soon go under the name of Currys.

The pandemic boosted demand for Dixons' products and services, yet management insists the retailer's markets will be structurally larger post-pandemic, and that not all last year's growth was pulled forward. Increasingly confident about its prospects, Dixons should also interest income seekers again, having reinstated dividends.

On 30 June, Dixons delivered better-than-expected adjusted pre-tax profit of £156 million (2020: £116 million) for the year ended 1 May 2021 as an online sales surge offset lost revenues from Covid-enforced store closures.

Like-for-like electricals sales grew 14% despite pandemic-enforced store closures in the UK, Ireland, Norway, Denmark and Greece. Online electricals sales grew 103% to £4.7 billion, highlighting the retailer's strengthening omni-channel position and market share gains.

Competition in online electricals is cut-throat, with rivals including Amazon and **AO World (AO.)**, yet brick and mortar outlets act as a destination for Dixons Carphone to showcase products and help customers struggling with electrical device problems.

Covid-19 has structurally increased the size of the technology market and Dixons Carphone should prove a major beneficiary of hybrid working, which will translate into more electronics usage and faster replacement needs.

The company says the new financial year has seen 'continued strong trading in all our markets', and management is 'more confident than ever' in Dixons' prospects.

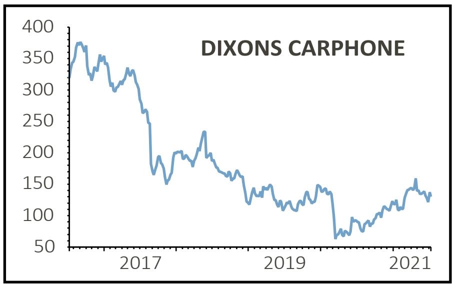
A 3p per share full year dividend has been proposed, which is expected to grow in future years supported by the strong free cash flow that has returned the company to a net cash balance sheet.

For the year to April 2022, Liberum forecasts £153 million pre-tax profit ahead of £237 million in 2023.

Based on estimated 2023 earnings of 15.4p and a forecast dividend of 6p, Dixons trades on 8.4 times earnings and investors are being offered a 4.7% yield while they wait for the shares to rerate.

Boasting a strong brand in Currys, Dixons' operating margins are improving as strong sales combine with restructuring-led cost savings and the turnaround of its UK and Ireland mobile business is on track.

Besides rerating scope, Dixons Carphone also offers upside in the form of a potential takeover bid, most likely from a private equity buyer keen to accelerate growth and push the Currys brand even harder. [JC]



ASOS

(ASC:AIM) £47.55

Loss to date: 2.5%

Original entry point:

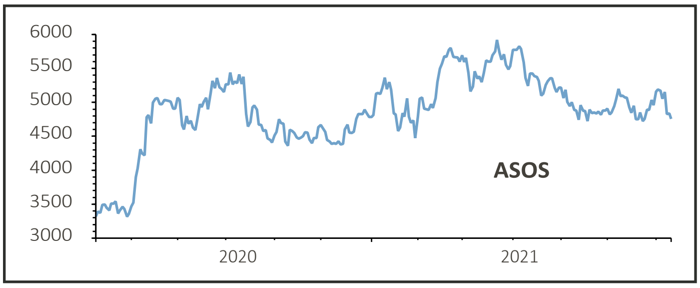
Buy at £48.79, 28 January 2021

SCHEDULED TO ISSUE its third quarter update as *Shares* went to press, on 12 July **ASOS (ASC:AIM)** announced a joint venture with US-based retailer Nordstrom designed to accelerate the growth of the ASOS and Topshop brands across the pond.

The first US retailer to offer the Topshop brand to the US market as far back as 2012, Nordstrom will invest for a minority interest in the brands ASOS acquired from the ashes of Arcadia – Topshop, Topman, Miss Selfridge and HIIT.

The joint venture will leverage Nordstrom's brick and mortar presence in the US with the launch of selected ASOS brands on Nordstrom.com and in 'high-impact' stores. A click and collect service will be rolled out across all stores.

One dissenting voice is broker Shore Capital, which doesn't see Nordstrom as the best partner for ASOS. 'We did not think ASOS needed this, given its established online presence, and we are concerned it will dilute the ASOS brand equity if the customer demographics of the two businesses do not align,' warns the broker.



SHARES SAYS:
The Nordstrom joint venture is a departure for ASOS but it has potential. Keep buying ASOS's shares. [JC]

EQUALS

(EQLS:AIM) 47.8P

Gain to date: 11.2%

Original entry point:

Buy at 43p, 29 April 2021

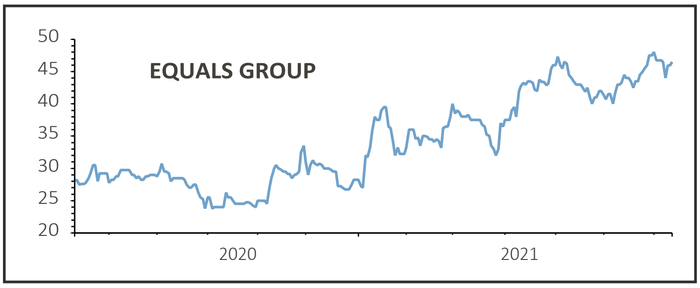
GLOBAL PAYMENTS GROUP **Equals (EQLS:AIM)** posted a strong first half trading update on 8 July, showing revenue growth of more than 20% compared with the first six months of last year even without a meaningful recovery in travel-related foreign exchange revenues.

In fact, travel-related activity made up less than 5% of group turnover compared with more than 30% historically, which not only shows how far the firm has diversified since the onset of Covid but also the potential upside to revenues when normal overseas travel is back on the agenda.

The majority of the growth is coming from the Equals Money suite of products aimed at corporate customers, with the firm seeing record levels of international payment transactions and record activity on its Spend platform in the second quarter.

Having turned cash flow positive at the end of last year, the firm now boasts £9.2 million of cash on hand and is claiming £1.3 million in R&D credits for last year.

Encouragingly, the shares have pushed on despite uncertainty over the 22.4% stake held by activist investor **Crystal Amber (CRS:AIM)**, which itself has become the target of an activist who aims to veto the fund's continuation vote in November, potentially triggering a break-up and the liquidation of its holdings.



SHARES SAYS:
Keep buying. [IC]

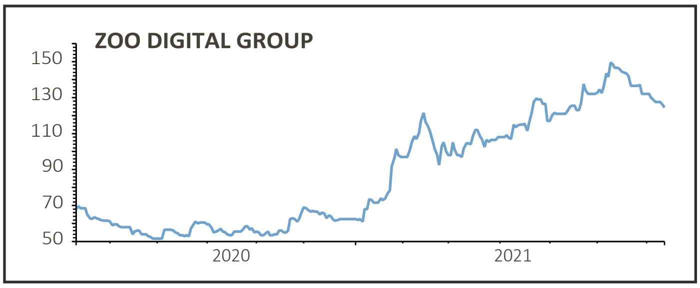
ZOO DIGITAL

(ZOO:AIM) 121.24P

Gain to date: 0.2%

Original entry point:

Buy at 121p, 13 May 2021



WE SEE EXCITING times ahead for **Zoo Digital (ZOO:AIM)** but investors should be prepped to bide their time as it pushes ahead with its invest to grow strategy.

To recap, the Sheffield and Los Angeles-based business runs an in-house designed, multi-tools technology platform in the cloud that allows media owners to repackage their TV and film content for different geographies, languages, formats and technologies.

The investment in the business means profit is currently lagging revenue growth, something that will take time to even out. In the 12 months to 31 March 2021 revenue and gross profit increased 33% and 35% respectively yet the company fell $3.6 million into the red at the pre-tax profit level.

Content creators have been focusing on back catalogues while production was slow or shutdown entirely during the pandemic but this should start to change through the rest of 2021 and beyond as vaccine availability sees restrictions loosen globally. This is illustrated by analysts at Stifel trimming 2022 forecasts but raising expectations for 2023.

In the meantime, the company is exploring opportunities to establish regional hubs in Asia to make it is easier to bridge content cultural and technical divides, and it is also looking at in-fill acquisitions to add talent and expertise.

SHARES SAYS: ↗
Still a buy for the longer term. [SF]

Why US-listed China tech shares are taking a beating

Regulatory interference has a cast a cloud over these stocks

China's technology giants have seen more than $800 billion combined wiped from their market value since February thanks to Beijing's expanding crackdown on the sector.

The recent crackdown by China's authorities on ride hailing firm Didi Global and other US-listed Chinese tech stocks has sent Chinese American Depository Receipts, or ADRs for short, tumbling and has investors puzzled about what to expect next.

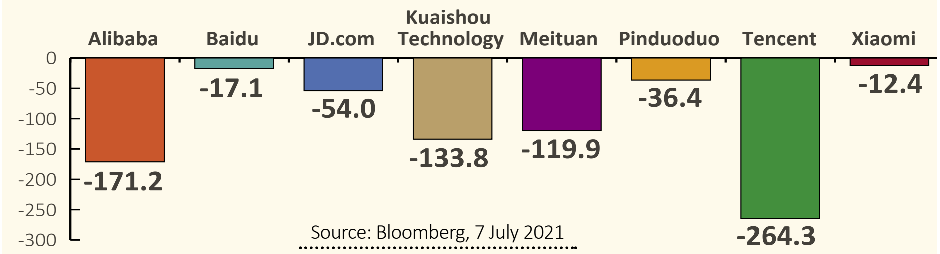
Many of the largest Chinese technology companies, like Alibaba, Tencent and JD.com, use a complicated structure to allow overseas investors to invest in them.

Often registered in the Cayman Islands, they use a variable interest entity, or VIE structure, allowing them to get around Chinese restrictions on foreign ownership and capital and currency controls.

Didi's US-listed ADRs have lost more than 30% since the start of July, erasing about $25 billion from its market value.

The VIE structure has long raised questions but has been largely ignored by investors. After four years of headwinds from the trade war between former US president Donald Trump's administration and Beijing,

Reduction in market value since February for Chinese tech stocks ($bn)



the Chinese Communist Party now appears to be upping the ante, posing a significant threat to US-listed Chinese stocks and fuelling investor concern that the sell-off is far from over.

Under the ADR/VIE structure, Chinese companies can pledge to pass cash flows and earnings through the offshore vehicle, but if anything goes wrong, investors have little ability to enforce better governance in these companies since decisions are made on the mainland, absent of investor participation.

Bank of America analyst Michael Li said a new statement by the China Securities Regulatory Commission indicates that China will soon be revising rules on overseas listings of Chinese companies.

The changes could have implications for both new Chinese listings and current Chinese stocks that trade on major US exchanges, such as online retail platform Alibaba, AI company Baidu and Pinduoduo, the groceries delivery platform.

'Today there are more than 100 publicly-traded Chinese firms in the US with VIE structures, according to one Asia-focused broker,' said Henry Taylor or Mirabaud Securities. 'About 42% of those across a variety of industries employ this structure, according to research by the Peking University's Guanghua School of Management,' Taylor adds.

Chinese authorities are struggling to balance their desire to maintain absolute power over Chinese corporations with a need for outside investment to fuel economic growth.

The Didi crackdown immediately following its US listing on 30 June 2021 and the wider sabre rattling over US-listed Chinese firms looks like a slap in the face to investors, including those in the UK. The risk is that Chinese companies using US-listed ADRs could become toxic.

By **Steven Frazer**
News Editor

Seeking Resilience through Flexible Indexing

New FlexShares ETFs enhance traditional defensive strategies

Exchange-traded funds (ETFs) have many appealing features, from low costs to transparent portfolios. But common ETF strategies can't discriminate between the best, most sustainable and most climate-friendly companies and the rest. Enter FlexShares, which builds ETF portfolios using a proprietary flexible indexing process. Two FlexShares ETFs, newly available to UK investors, apply this innovative approach to venerable defensive strategies:

- **QDFD** — FlexShares Developed Markets High Dividend Climate ESG UCITS ETF
- **QVFD** — FlexShares Developed Markets Low Volatility Climate ESG UCITS ETF

THE POWER OF RESILIENT PORTFOLIOS

Major global events from the pandemic to natural disasters have driven home the value of portfolio resilience. FlexShares' new funds offer time-tested approaches for protecting equity portfolios:

- High-dividend stocks may provide income that could help to stabilize returns when markets are turbulent.
- Low-volatility stocks have historically performed better than more-aggressive shares during downturns.

Past performance does not predict future returns

FlexShares® EXCHANGE TRADED FUNDS | MANAGED BY NORTHERN TRUST ASSET MANAGEMENT

ADDRESSING UNNECESSARY RISKS

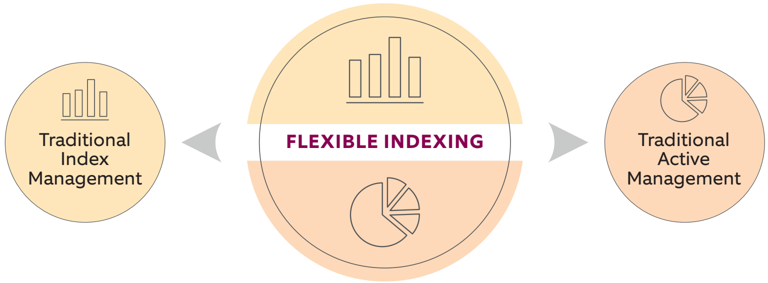
Other ETFs that focus on these strategies may be built in ways that amplify certain risks. For example, traditional high-dividend and low-volatility strategies often rely heavily on shares of utility companies. That kind of concentration in a single sector can be risky in its own right. What's more, many investors are wary of investing in companies that could be especially exposed to climate-related risks—and utility companies fall squarely in that category.

Likewise, high-dividend approaches often hold large weights in traditional energy companies, which may be at risk as the world transitions away from fossil fuels.

FlexShares specializes in addressing problems like these. The company offers carefully designed, intelligent ETFs, backed by the strength and expertise of Northern Trust Asset Management—part of a 132-year-old global financial services firm with over $1 trillion in total assets under management.*

MAKING INDEXING FLEXIBLE

An innovative approach to portfolio construction called flexible indexing makes these ETFs possible. FlexShares partners with a variety of index providers to build products that address a defined index need. Then the company may use a proprietary scoring systems such as Northern Trust quality score and the Northern Trust ESG score. This enables FlexShares to offer funds with the potential for reduced risk and sustainable long-term returns.



FLEXIBLE INDEXING PROCESS

1	2	3	4	5	6	7
Articulate Objectives	Conceive Strategy	Design Index	Construct Index	Develop Fund	Launch Fund	Manage Fund

RESILIENT PORTFOLIOS THAT CONTROL FOR QUALITY AND CLIMATE

Resilience demands flexibility. FlexShares' uniquely flexible approach to building ETFs helps investors strengthen their equity portfolios, putting them in position to navigate the market's risks while continuing to pursue their goals.

To find out more, click here

**31 December 2020. Northern Trust Asset Management.*

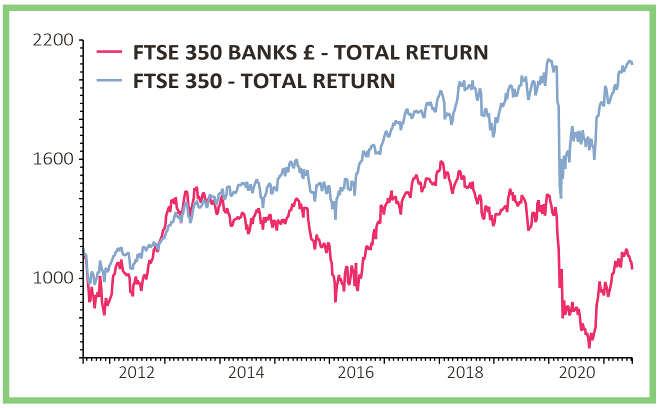
BANK STOCKS: CAN THIS YEAR'S RALLY CONTINUE?

By **Ian Conway**
Senior Reporter

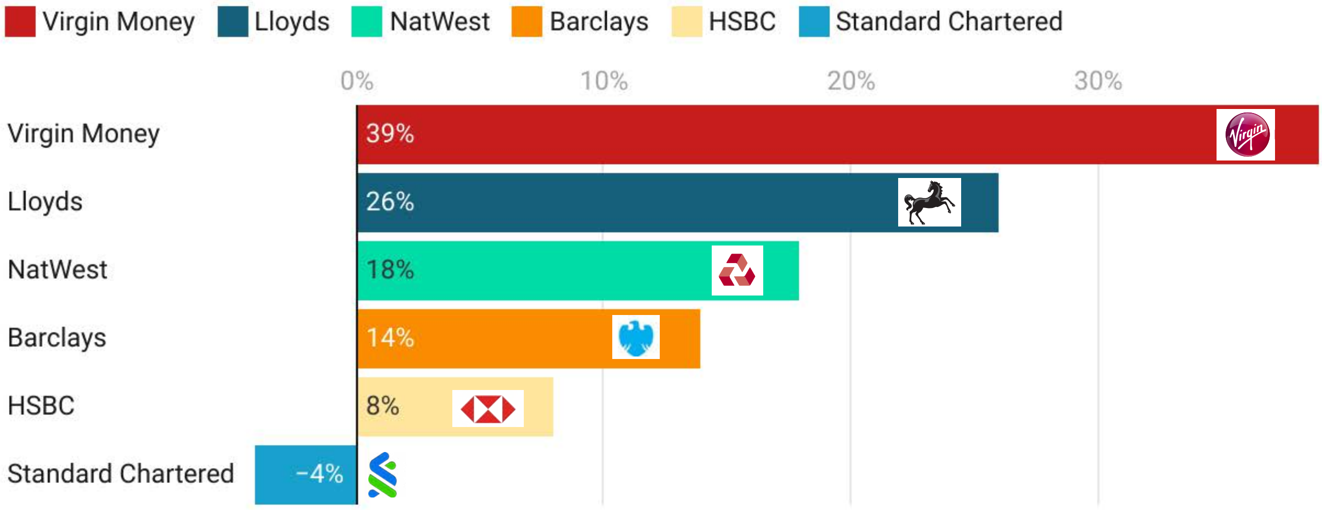
Having underperformed the FTSE 100 and the FTSE 350 for the best part of 10 years, September 2020 saw the FTSE 350 banks index stop making decade lows and start to make short-term highs, much to the excitement of analysts and investors.

As the market rotation towards value stocks took hold, the UK's unloved banks jumped sharply in the final quarter of last year.

At the start of this year, the narrative shifted from banks being a pure value investment



UK-listed banks: share price performance year to date



Source: SharePad, to 9 July 2021 • Created with Datawrapper to being a play on the reopening of the UK economy, which in theory would lead to a recovery in loan demand and margins.

The narrative morphed again more recently, with analysts flagging the potential for large dividends and share buybacks as the banks unwind the excess loan loss provisions they took during the pandemic.

So, with the UK banking sector having rallied 50%, it's stick or twist time. Is there more upside to come, and if so, what will drive it, or should investors bank their gains – assuming they were fleet-footed enough to buy at the bottom – and move on?

REASONS TO BE CHEERFUL

In their first-half investment report, the managers of **Polar Capital Global Financials Trust (PCFT)** – Nick Brind, John Yakas and George Barrow – describe the six-month period to the end of May as 'an excellent one for financials in both absolute terms and relative to wider equity markets'.

A combination of the rapid rollout of vaccines, positive economic data, massive government and central bank stimulus, rising bond yields and inflation expectations sent financials in general and banks in particular soaring.

Being overweight banks, and especially US regional banks, saw the Polar trust's net asset value jump 22.2%, while the MSCI All-Countries Financials index rose 21.5% and the broader MSCI Global index increase 'just' 9.3% over the period.

The managers say they are 'constructive on the outlook for the sector as we believe the tailwinds remain very positive for the foreseeable future'.

They cite cheap valuations, takeover activity, a lower cost of capital, rising interest rate and inflation expectations, and the prospect of capital returns as the key drivers.

LESS RISKY?

The suggestion that banks are less risky – and therefore their cost of capital should be reduced – is an interesting one.

'We have seen some indications that investment bank analysts are starting to consider that, as the sector is less risky today than it was previously, it deserves a lower cost of capital in their valuation models,' say the Polar Capital managers. 'This would justify higher share prices, all things being equal.'

> *'We have seen some indications (from analysts) that the sector deserves a lower cost of capital in valuation models. This would justify higher share prices'*
>
> ***Polar Capital Global Financials Trust managers***

They base their observation on the fall in yields on subordinated bank debt issued by European banks over the past five years, which they say suggests credit investors 'are happy to be paid relatively little for the risk of owning bank bonds'.

Yields on European banks' subordinated loans

Currency	Dec 16	Dec 17	Dec 18	Dec 19	May 21
Sterling	7.8%	5.8%	8.0%	5.0%	4.1%
Euro	5.5%	4.5%	7.1%	3.5%	3.3%
US Dollar	7.2%	5.1%	8.2%	4.7%	3.5%

Source: Polar Capital Global Financials Trust, Bloomberg, Shares

The table speaks for itself in as much as the yield on banks' subordinated debt has indeed come down in the last five years, but surely yields on everything have come down over that period.

In the US, yields on junk or sub investment-grade bonds are at their lowest level in history at 3.8% as the economic recovery and the Federal Reserve's low interest-rate policy forces investors to double down on risky investments in the hunt for income.

In addition, the volume of junk bond issuance has hit new highs with even first-time issuers receiving a warm welcome from investors desperate for yield given the backdrop of negative real interest rates.

So, while yields on their subordinated bonds may have fallen, does that make the banks less risky? We would argue not.

BUMPER PAYOUTS?

Ironically, one of the things that makes them less risky is the large reserves of capital which they put aside in case the pandemic led to a flood of bad loans and corporate bankruptcies.

Those reserves are now being eyed by analysts and investors in the hope that, as the banks can't lend the money out – because excluding mortgages there is almost zero demand for borrowing among consumers and corporates, despite the reopening of the economy – they will return it in the form of extra dividends or share buybacks.

The *Financial Times* reported earlier this month that the US banking sector would pay out an extra $2 billion in quarterly dividends after the Federal Reserve loosened restrictions on payouts, which would be good news for Polar Capital Global Financials Trust given its skew towards US financials.

After the Fed's latest 'stress test' found the banks were healthy enough for it to ease its restrictions on dividends and buybacks, Morgan Stanley said it would double its quarterly dividend to 70 cents and raise its buyback from $10 billion to $12 billion.

US banks quarterly dividend payments post Fed stress test

Company	Previous	New	Increase
Bank of America	$0.18	$0.21	17%
Goldman Sachs	$1.25	$2.00	60%
JPMorgan Chase	$0.90	$1.00	11%
Morgan Stanley	$0.35	$0.70	100%
State Street	$0.52	$0.57	10%
US Bancorp	$0.42	$0.46	10%
Wells Fargo	$0.10	$0.20	100%

Source: FT, Company Announcements, Shares

While US investors are addicted to share buybacks, in the UK income and dividends are more highly prized. However, as it stands the banks are far from the biggest income payers.

According to AJ Bell investment director Russ Mould, who compiles the quarterly Dividend Dashboard report, overall FTSE 100 dividends are expected to grow by 25% or £15.2 billion this year to a total of £76.9 billion with **Rio Tinto (RIO)** leading the way, followed by **British American Tobacco (BATS)**, **Royal Dutch Shell (RDSB)**, **BHP (BHP)** and **Unilever (ULVR)**.

None of the banking stocks feature on the list of the top 10 highest yielders in the FTSE, although non-bank financials such as insurers **Admiral (ADM)** and **Phoenix Group (PHNX)** and asset manager **M&G (MNG)** are present.

After the Prudential Regulatory Authority made them cancel all dividend payments last year, the UK banks have resumed distributions on a smaller scale (due to regulatory restrictions) this year. Even though they have all raised their payouts in sterling terms in total they account for less than a quarter of the £15.3 billion increase in FTSE dividends. Rio Tinto by itself accounts for 29% of the increase.

What to expect from UK-listed banks' dividends

Bank	Prospective dividend yield*
NatWest	5.9%
Lloyds	5.5%
Barclays	4.9%
HSBC	4.8%
Standard Chartered	4.5%
Virgin Money	3.6%

*based on estimates for 2022
Source: Stockopedia

In fairness, **Barclays (BARC)** and **Standard Chartered (STAN)** have instituted share buybacks to raise their total shareholder returns, but even these don't come close to making up for the lost dividends from 2019 and 2020.

On 13 July the Prudential Regulation Authority removed the remaining restrictions on dividends and share buybacks for UK banks imposed during the pandemic, paving the way for higher payouts.

MORTGAGES AND MARGINS

Bank of America analysts flagged strong mortgage demand during May, which they expect to continue into the third quarter, but at the same time they noted 'intensified'

UK consumer credit annual rate of change

Month	Change
Mar-19	3.0%
Jun-19	2.5%
Sep-19	3.0%
Dec-19	3.0%
Mar-20	3.0%
Jun-20	-5.0%
Sep-20	-7.5%
Dec-20	-9.0%
Mar-21	-9.0%
May-21	-6.5%

Source: Bank of America, Shares magazine

competitive pressures.

They estimate mortgage spreads have fallen by 45 basis points or 0.45% since the start of this year, with a marked acceleration in June.

'Barclays, NatWest and HSBC consistently offer among the lowest rates and Virgin Money is more competitive in higher loan-to-value lending. Lloyds continues to adopt a multi brand approach, but with Halifax now generally in the middle of the pack and Lloyds among higher priced lenders,' they observe.

Meanwhile, consumer credit demand – which fell off a cliff in April last year as people pulled in their horns in the face of the pandemic – continues to shrink as people reduce their borrowings thanks to cash amassed during lockdown.

The flip side is that deposits continue to grow, with recent inflows driven by instant-access offers. This is negative for the banks' net interest margins as relatively speaking they are now paying out more than they were on deposits while generating less income on loans.

The only saving grace is that the interest cost of new time deposits is at least below the rate of existing balances.

The Bank of America analysts note that 'pricing on deposits has been volatile but would be positive for smaller lenders like Virgin Money if sustained'.

UK Household Deposits (£bn)

Month	Change
Mar-19	747.2
Jun-19	755.2
Sep-19	763.4
Dec-19	773.8
Mar-20	784.0
Jun-20	823.7
Sep-20	836.7
Dec-20	880.3
Mar-21	914.6
May-21	937.7

Source: Bank of England, Shares

Corporate deposits by manufacturers at UK Banks (£ billions)

Month	Change
Mar-19	38.7
Jun-19	38.7
Sep-19	40.0
Dec-19	41.0
Mar-20	46.6
Jun-20	53.5
Sep-20	55.0
Dec-20	55.0
Mar-21	53.5
May-21	53.0

Source: Bank of England, Shares

It's a similar picture in terms of corporate loans and deposits. While lending increased under the Government's support scheme, deposits have ballooned as healthy companies have stockpiled cash.

INVESTMENT VIEW ON BANKING STOCKS

Overall, *Shares* remains lacklustre towards banking stocks. However, many readers may disagree with our cautious tone and instead share the more positive views expressed by various fund managers.

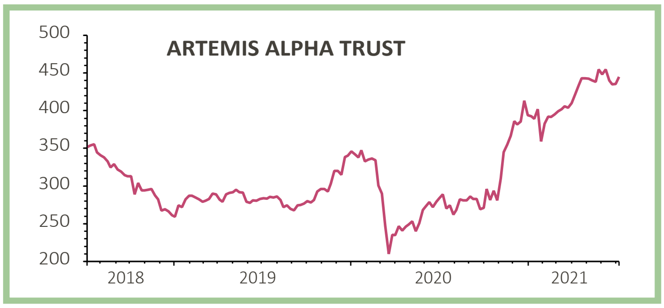
For example, in March, **Temple Bar Investment Trust (TMPL)** outlined reasons why it likes the banking sector, with its portfolio including positions in **NatWest (NWG)** and Standard Chartered.

It said: 'Whilst the banks have been negatively impacted by ultra-low interest rates, they are still able to make a reasonable return on equity capital as lending spreads remain satisfactory.

'They also are using technology to reengineer their cost bases for the world in which they now operate.

'Whilst it is difficult to imagine that these companies will ever again make the mid-teens return on equity that they did pre the financial crisis, a high single digit return, as targeted by the management teams, will be possible in the medium term.'

Many of the funds run by Artemis invest in UK banks, with the **Artemis Alpha Trust (ATS)** having 10% of its portfolio invested in Barclays and **Lloyds (LLOY)**.



The investment trust's managers argue the sector sell-off during the pandemic was unwarranted as UK banks entered the crisis with much higher capital ratios, plus the problem didn't originate in the financial sector as it did in 2008.

They also argue that loan impairment forecasts have been unrealistically high, and that the pandemic has shown people can bank without branches.

'This, combined with cost savings from changing ways of working (e.g. lower office costs/automation), should provide a long-term cost opportunity,' they say, adding that higher interest rates would be beneficial to a degree.

In contrast, the specialist Polar Capital Global Financials Trust only holds one of the big UK lenders. Its largest UK holding is specialist mortgage lender **OSB (OSB)** in 20th place with a 1.7% weighting, followed by HSBC in 27th place with a 1.6% weighting.

The trust's other main UK holdings are insurers **Beazley (BEZ)**, **Direct Line (DLG)**, **Lancashire (LRE)** and **Prudential (PRU)**, and stock market operator **London Stock Exchange (LSE)**.

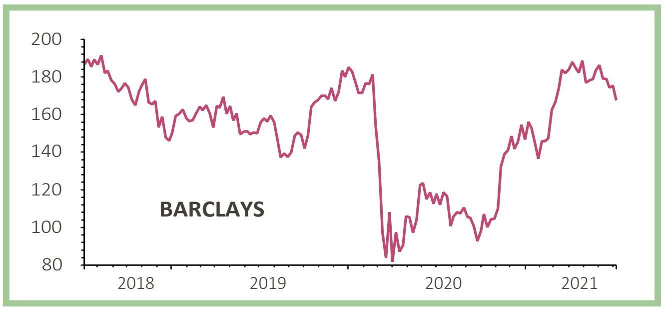
ARGUING THE CASE FOR BARCLAYS

Artemis Alpha co-manager Kartik Kumar is positive on Barclays. 'The business has the benefits of diversification through having retail and investment banking operations. It was one of the few UK banks to be profitable in all four quarters of the year,' he says.

'The business also has several opportunities to improve returns, particularly by addressing the opportunities in payments and credit cards where its existing market positions seem under-appreciated.'

Meanwhile, analysts at Berenberg point to upside for Barclays' investment bank, improving trends in credit cards in the UK and the US and the relative valuation gap with its European rivals as reasons to like the stock.

'Barclays faces an easier year on year hurdle in its investment bank than peers and appears to be gaining further market share in its fee businesses. We believe this provides a highly supportive backdrop which can be bolstered further by clarity over Barclays' cost reduction plans. Given this, and its attractive capital returns, we believe Barclays' c20% discount to European banks is too wide.'



Coincidentally, *Shares* recently looked for stocks which had been derated by the market, but which are enjoying earnings upgrades, and Barclays screened well.

Its price to earnings multiple has shrunk from a five-year average of 12.3 times to just over seven times for 2023, despite average growth in earnings of more than 10% per year, and the stock is now experiencing 35% upgrades to current-year earnings forecasts, meaning it combines value and positive earnings momentum.

Disclaimer: AJ Bell referenced in this article is the owner of Shares magazine. Ian Conway (author) and Daniel Coatsworth (who edited this article) own shares in AJ Bell.

RUSS MOULD
AJ Bell Investment Director

Dividends: the FTSE 100 could yield 3.9% in 2022

Payouts are improving but a renewed drop in economic activity could put them at risk

Environmental campaigners may grimace and investors who run strict environmental, social and governance ESG screens are likely to remain indifferent, but yield-seeking portfolio builders will doubtless be delighted to see **Royal Dutch Shell (RDSB)** promise higher cash returns to shareholders in the second half of the year.

The oil major was already expected to be the fourth-highest individual dividend payer in cash terms in the FTSE 100 this year, chipping in some £4 billion, or more than 5% of the forecast total for the entire index.

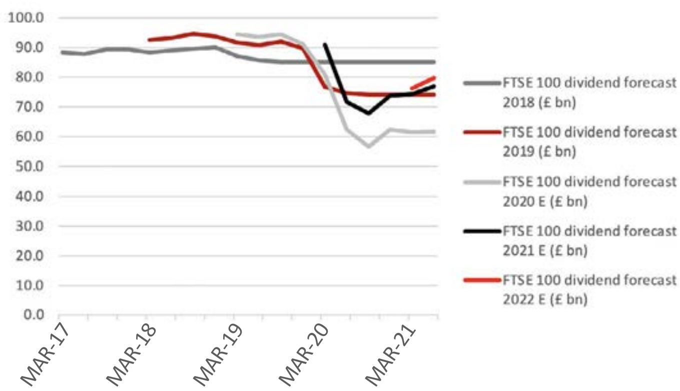
Aggregate dividend forecasts for the FTSE 100 in 2021 have already advanced for three quarters in a row, buoyed by more optimistic forecasts for miners and banks, and now the oil majors have provided a further boost.

This reflects higher metals prices and the recent steepness in the yield curve as confidence in the economic recovery grows. A strong oil price and gushing cash flow at major producers can therefore only help to underpin consensus forecasts of a 3.7% yield from the FTSE 100 in 2021, with 3.9% potentially on offer in 2022.

UP, UP AND AWAY

Based on the latest analysts' consensus forecasts, 95 FTSE 100 firms are expected to pay a dividend in 2021, against 84 in 2020, as corporate confidence returns. Total FTSE 100 payments

Dividend forecasts for the FTSE 100 keep rising



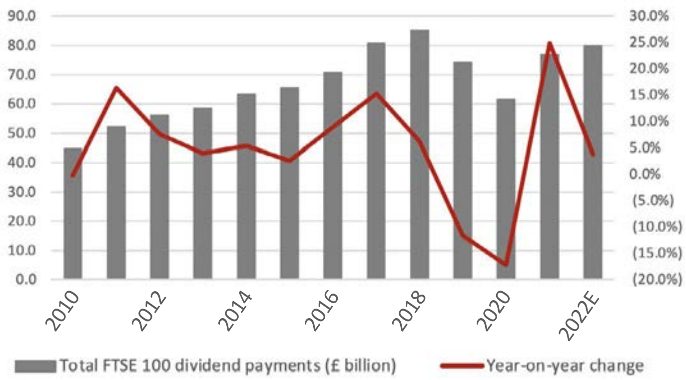
Source: Company accounts, Marketscreener, analysts' consensus forecasts

RUSS MOULD
AJ Bell Investment Director

(excluding special dividends) are now expected to grow by 25% this year to £76.9 billion.

That is, however, still shy of 2018's £85.2 billion peak even if 2022 is quite not expected to return to that level as corporate profits, cash flows and confidence look to recover from the effects of the pandemic.

Dividends are not expected to return to 2018 levels until at least 2023



Source: Company accounts, Marketscreener, analysts' consensus forecasts

Even so, boardrooms do seem to be taking a more positive view of the world because 13 FTSE 100 constituents have also declared share buyback programmes this year, with an aggregate value of £8 billion.

By contrast, just two FTSE 100 firms – **JD Sports Fashion (JD.)** and **Severn Trent (SVT)** – have tapped investors for money so far this year and that was for just £714 million between them. That compares to 14 deals which raised a total of £16.3 billion in 2020.

That may offer some encouragement to those investors who have hefty exposure to UK equities within their portfolios, bearing in the mind the adage about how 'bull markets end when the money runs out'.

For the moment, cash is flowing into investors' pockets and not out, as dividends and buybacks are outpacing cash calls from initial public offerings, secondary placings of stock and secondary fund raisings. Even so, this is a trend which must be monitored. Experience suggests a sudden rush of deals could be a red flag, especially if quality declines as numbers grow.

Earnings cover for FTSE 100 dividends is forecast to reach a seven-year high in 2021

Source: Company accounts, Marketscreener, analysts' consensus forecasts

TAKE COVER

Investors can also draw comfort from how earnings cover is improving, too. At 1.83 times for 2021 and 1.84 times for 2022, dividend cover is seen reaching its highest level since 2014.

Even so, income-seekers cannot quite set off on a victory lap yet despite the dividend cuts of 2020 fading into the background. Miners, banks and oils are forecast to generate 51% of FTSE 100 dividends this year and miners and banks are expected to provide 90% of 2021's forecast £15.3 billion increase in payments between them.

Moreover, just 10 companies are expected to generate 87% of 2021's dividend increase. **Rio Tinto (RIO)** and **BHP (BHP)** are the top two, so income-seekers will need to keep an eye on the price of iron ore in particular. The yield curve and trajectory of interest rates and government bond yields must be followed too, given their importance to the big banks' net interest margins and earnings power.

RUSS MOULD
AJ Bell Investment Director

A renewed drop in economic activity – for whatever reason – could still pose a big risk to dividend forecasts.

Analysts currently believe that aggregate FTSE 100 (adjusted) net profits will come very close to the pre-pandemic peaks in 2022, although they are still seen coming in some 10% below the 2011 zenith, when commodity prices were roaring higher and miners and oil producers generated 42% of the FTSE 100's profits between them. A stumble in profits would potentially threaten dividends too.

The fact that analysts are not expecting profits to immediately return to former highs is in some ways encouraging, as it suggests they are not going overboard. It leaves scope for an upside surprise in terms of profits and dividends if metal and oil prices in particular keep rising, or at least stay firm. It also shows how the FTSE 100 could be an interesting index if central banks are wrong and the economic upturn leads to a sustained bout of inflation.

10 biggest forecast dividend increases by FTSE 100 members in 2021

	2021 E	2021 E
	Dividend growth (£ million)	Dividend growth (% FTSE total)
Rio Tinto	4,383	29%
BHP	2,009	13%
Anglo American	1,738	11%
HSBC	1,167	8%
Barclays	845	6%
Lloyds	838	5%
BT	764	5%
NatWest	677	4%
Glencore	479	3%
Persimmon	399	3%

Source: Company accounts, Marketscreener, consensus analysts' forecasts

Commercial property is looking interesting again

Our top ways to play the space and the types of funds to avoid

The gradual reopening of the UK economy has been matched in the property investment space by a similarly gradual reopening of open-ended real estate funds. This follows a long period when trading in numerous property funds was suspended due to the difficulty of valuing their holdings in the pandemic.

There are mounting arguments that these vehicles are becoming 'uninvestable' thanks to the mismatch between their structure and the difficulty in rapidly buying or selling their commercial property assets.

Fortunately for those looking to invest in UK property for income and inflation-busting credentials, as well to play a post-Covid rebound in the economy, there are plenty of closed-ended funds (investment trusts) which don't suffer from the same structural problems.

In this article we'll discuss how different parts of the property market are performing and highlight several options for investors.

LATEST TWIST FOR PROPERTY FUNDS

The property funds that had suspended dealing began reopening at the beginning of 2021 and have seen big outflows

in the interim – figures from funds network Calastone showed that May saw the second-largest monthly outflow on record for UK real estate funds at £445 million.

Unsurprisingly against this backdrop Aegon and Aviva have announced their property funds are to be permanently closed. These two funds were the weakest in the space – with others benefiting from greater scale.

AJ Bell head of active portfolios Ryan Hughes doesn't expect further closures in the short term, with open-ended property

WHY THE OPEN-ENDED PROPERTY FUND STRUCTURE IS A PROBLEM

When an investor wants to sell their holding in an open-ended fund, the fund manager must pay the investor back by selling some of the assets in the portfolio or using any cash on hand – and the fund has to offer the ability for investors to buy and sell on a day-to-day basis.

The problem for fund managers holding commercial property assets is that they cannot be bought or sold in quick timeframe. This means they are under pressure to keep a large amount of cash on hand to meet investor redemptions which could act as a drag on returns.

funds instead in a holding pattern while the regulator considers measures such as a 180-day notice period for exiting a property fund. However, he believes open-ended property funds are not 'sensible investments' at present.

> *'The open-ended property fund market is uninvestable in my view right now because of the uncertainty over access.'*
>
> ***Ryan Hughes, AJ Bell***

He says: 'The open-ended property fund market is uninvestable in my view right now because of the uncertainty over access. We know the structure is not right and you have this liquidity mismatch.'

This is not a problem with real estate investment trusts which are also known as REITs. These are closed-ended vehicles which are traded among investors on the stock market. When someone wants to sell their investment, they sell the shares on the market to another investor – which means the fund manager doesn't have to deal with any cash outflows from their portfolio.

The share price is determined by investor demand and means REITs can trade at a premium or discount to the value of their underlying assets.

DIFFERENT TYPES OF PROPERTY

Traditionally there have been three main classes of commercial property – offices, retail and industrial – and the following section summarises the current market dynamics for each of them as well as the level of investor sentiment.

In addition to the mainstream property vehicles, there are also investment companies set up to put money into niche or alternative property assets including healthcare facilities, self-storage units and student accommodation.

The big winners among the REITs in the wake of coronavirus have been those which invest in logistics assets as stay-at-home restrictions have accelerated an existing trend towards shopping online, requiring retailers to have

Selected REITs trading at premiums to net asset value

REIT	Disc/prem to NAV
Tritax Big Box REIT	24.9%
Warehouse REIT	12.4%
Supermarket Income REIT	12.3%
Target Healthcare REIT	8.6%
GCP Student Living	8.3%
Civitas Social Housing	6.2%
Impact Healthcare REIT	5.2%

Source: AIC, data as at 8 July 2021

UK PROPERTY CLASSES WHAT'S HOT AND NOT

HOT

INDUSTRIAL

There is huge demand for warehousing space. The penetration of online retail was accelerated by the pandemic and has driven up valuations for logistics assets and the vehicles which invest in them, even after a strong run pre-Covid.

LUKEWARM

OFFICES

The jury is still out on how the work from home trend will persist as we return to some form of normality and what implications this trend has for occupancy levels and demand for office assets. However, we note that some investors are starting to sniff around for bargains in this space.

COLD

RETAIL

The UK high street and shopping malls were struggling before coronavirus and the situation has only deteriorated since. Nonetheless, some parts of retail property have outperformed like supermarkets, convenience, value and DIY stores.

lots of warehouse space to sort and distribute orders.

Generic or diversified property REITs which hold a broad spectrum of assets, by contrast, have been out of favour with investors and have traded at large discounts to net asset value, although as Stifel notes they have recently 'experienced a strong positive discount re-rating as investor fears about the impact of the pandemic abated and their inflation protection attributes became more relevant'.

DIVERSIFIED REITS LAG SPECIALISTS

The table shows there is still a big disparity between these diversified products and some of the more popular niche plays.

We think there are two good options for investors depending on their appetite for risk and the time and inclination to do their own research.

One is to buy a diversified trust at a discount, but to conduct due diligence to see what types of retail or office assets they hold and whether the discount is warranted. It is also worth looking at the manager's performance and track record and whether you would be comfortable relying on their expertise to pick the right assets.

This diversified approach means you still get exposure to assets with strong market dynamics like warehouses but at the same time can benefit from a prospective recovery in office and retail assets.

The other is to create your own portfolio by buying several different specialist REITs, an approach AJ Bell's Hughes thinks could increasingly represent the future of property investing.

'One of the attractions of the closed-ended property space is you can cherry pick, if you want a mix of logistics, healthcare and supermarkets you can do that,' he says.

To help generate some UK property investment ideas we've highlighted one generic REIT which we think is worth buying and three more specialised vehicles to create a mini portfolio.

How discounts have narrowed on commercial property REITs

REIT	Discount to NAV 2 February 2021	Discount/ premium to NAV 9 July 2021
AEW UK	-6.8	-1.9
Alternative Income REIT	-26.2	-15.4
BMO Commercial Property	-35.4	-23.2
BMO Real Estate Investments	-28.8	-22.3
Custodian REIT	-2.9	3.2
Drum Income Plus	-58.9	-12.8
Picton Property Income	-14.4	-6.9
Regional REIT	-20.1	-5.3
Schroder Real Estate IT	-31.3	-18.2
Standard Life Invmts Property Income	-26.0	-10.6
UK Commercial Property	-21.0	-9.6
Value and Indexed Property Income	-14.2	-17.8

Source: Winterflood

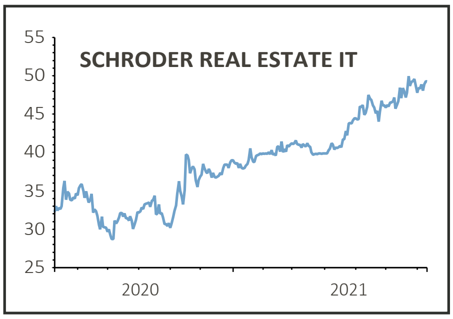
A DIVERSIFIED REIT TO BUY

SCHRODER REAL ESTATE INVESTMENT TRUST (SREI) 48.9P

BUY

Discount to NAV: **18.2%**
Dividend yield: **4.7%**
Source: **AIC, Winterflood**

This diversified UK property



investor still trades at a material discount to NAV which in our view is unjustified. Recent annual results (2 Jun) showed an improvement in performance and, encouragingly for its prospects, the vacancy rate.

We like the approach of focusing on so-called 'Winning Cities' – urban areas with characteristics that will make them attractive places to live and work in the long term.

The investment trust has 73% of its portfolio in industrial and office assets and its retail holdings include almost zero exposure to structurally challenged shopping centres.

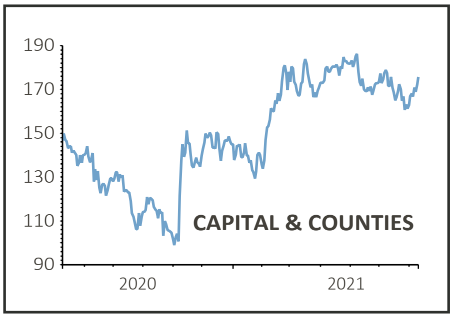
SHARES' REIT PORTFOLIO

This selection captures an experienced asset manager in an attractive part of the UK commercial property market, a reliable income payer with inflation protection built in, and recovery potential through a London-focused vehicle.

CAPITAL & COUNTIES (CAPC) 168P

BUY

Discount to NAV: **12%**
Dividend yield: **8.9%**
Source: **Berenberg**



The REIT trades at a 12% discount to net asset value based on Berenberg's 2021 forecast and offers a dividend yield of nearly 9%.

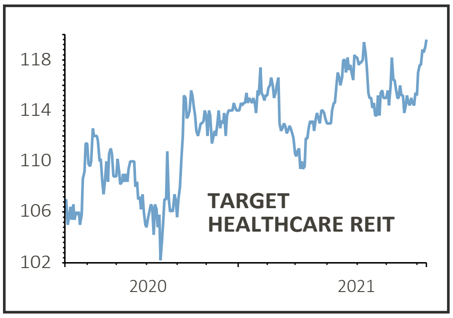
Management took action to weather the Covid storm, and the portfolio of prime West End real estate, including shops and leisure assets, should benefit as London returns to a new normal in the wake of the pandemic.

Capital & Counties has also taken a 25% stake in close peer **Shaftesbury (SHB)** which offers exposure to the latter's own recovery as the capital reopens for business and may offer the potential for a transaction of assets or tie-up between the two in the future.

TARGET HEALTHCARE REIT (THRL) 118.6P

BUY

Premium to NAV: **8.6%**
Dividend yield: **5.7%**
Source: **AIC**



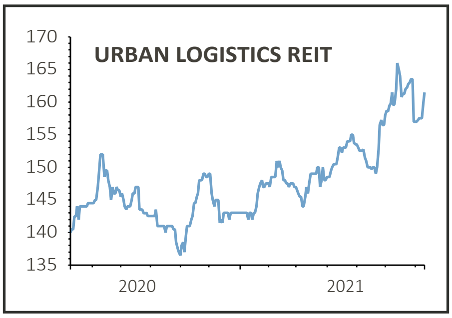
While you must pay a premium to gain exposure to **Target Healthcare REIT's (THR)** portfolio of care homes we think this is worth it given the quality of the assets and the inflation-linked and generous income reflected in a near 6% yield.

The sector has been heavily disrupted by coronavirus, but Target benefited from its focus on homes with single-occupancy rooms and en-suite wet rooms which supported infection control. This is likely to be an ongoing priority, while demographic trends provide strong long-term drivers for this space.

URBAN LOGISTICS REIT (SHED) 157.5P

BUY

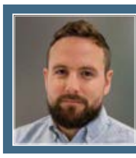
Premium to NAV: **5.4%**
Dividend yield: **4.8%**
Source: **AIC**



Urban Logistics trades at a much more modest premium to NAV than other logistics-focused peers. It recently raised £108 million to invest in pipeline of assets at an attractive net initial yield of 6.1% with the majority of the deals likely to be completed off market.

It deliberately targets smaller assets under £10 million and 200,000 square feet where it feels it can create value by actively managing the assets and where it probably faces less competition – hence its ability to complete deals on properties which aren't being marketed to other buyers.

DISCLAIMER: AJ Bell referenced in this article is the owner of Shares magazine. Tom Sieber (the author) and Daniel Coatsworth (who edited this article) own shares in AJ Bell.



By **Tom Sieber**
Deputy Editor

10 years of Vanguard LifeStrategy: has it rewarded investors?

The fund series has been incredibly popular since launch

The Vanguard LifeStrategy range of funds has just celebrated 10 years since launching in the UK, over which time it has proven to be a big hit with investors, amassing £29 billion of assets to date.

Performance has been strong too, with the LifeStrategy funds beating most active funds in their sector over the past decade, quite a feat for a passive investment vehicle.

However, performance has been more muted in the past year or so, and the future may not look quite as rosy as the first 10 years for these funds.

WHAT IS LIFESTRATEGY?

The appeal of the LifeStrategy funds is clear to see. They offer simple, low-cost exposure to global stocks and bonds.

There are five funds in the range. **Vanguard LifeStrategy 100% Equity (B41XG30)** invests in global stocks, with the portfolio approximately split half in US-listed companies, nearly a quarter in UK shares and the rest from Europe and Asia.

The other four funds in the LifeStrategy range have varying amounts of exposure to equity markets, and the remainder in bonds, so investors can choose a fund which meets their appetite for risk.

For example, **Vanguard LifeStrategy 80% Equity (B4PQW15)** has 80% of its assets in shares and 20% in bonds. **Vanguard LifeStrategy 40% Equity (B3ZHN96)** has 40% of its assets in shares and 60% in bonds.

The funds across the range are regularly rebalanced to maintain a fixed allocation to equities and bonds as specified in the product name. This makes things easy for investors who want a mix of assets but don't want to manage a large portfolio of funds themselves.

HOW HAVE THEY PERFORMED?

Since launch, the LifeStrategy funds have outperformed the average fund in their respective sectors.

It might sound strange that a passive fund can outperform, particularly by the margins

	% Total return		Sector rank	
	1 year	10 year	1 year	10 year
Vanguard LifeStrategy 20% Equity	3.1	73.6	62/64	1/28
IA Mixed 0% to 35% Equity Sector Average	6.3	47.1		
Vanguard LifeStrategy 40% Equity	7.4	97.4	157/172	5/90
IA Mixed 40% to 60% Sector Average	11.7	65.1		
Vanguard LifeStrategy 60% Equity	12	123.6	164/188	15/100
Vanguard LifeStrategy 80% Equity	16.7	151	69/188	5/100
IA Mixed 40% to 85% Sector Average	15.6	94.3		
Vanguard LifeStrategy 100% Equity	21.4	179.2	277/432	118/196
IA Global Sector Average	23.3	174.4		
MSCI World Index	22	224.9		

Source: FE total return 23/06/2021

clocked up by the LifeStrategy funds. But they have not beaten the stock market indices they are tracking.

After costs are deducted, that's impossible. Rather they've outperformed their respective sectors, which are made up of other active and passive funds which have a similar split between stocks and bonds.

The relative performance of the LifeStrategy range doesn't come down to active management decisions that are right or wrong, but rather to the design of the funds. They simply do what they say on the tin, and in some markets conditions they will fare well or badly compared to peers.

The past decade and more has been characterised by ultra-loose monetary policy, which has seriously boosted the returns provided by bonds.

That's helped the mixed LifeStrategy funds compared to their competitors, because many active managers have dialled down their exposure to bonds, believing that a bubble has been stoked by the quantitative easing programmes of central banks.

While that rationale certainly has merit, avoiding bonds has been the wrong investment decision, until recently that is.

DISADVANTAGES OF HOLDING BONDS

The success of the vaccine programme has prompted markets to consider when central banks might stop administering life support to their respective economies and unwind quantitative easing. As a result, the mixed Vanguard LifeStrategy funds have fallen down the pecking order over the past year.

This is perhaps a sign of things to come. If the economic recovery continues apace, or worse, inflation takes hold, we can expect further pain in the bond market.

This would likely make it harder for the mixed Vanguard LifeStrategy funds to perform well compared to active peers, which can reduce their bond exposure and increase exposure to other areas like shares, gold, property and cash.

If the past 10 years have taught us anything, it's not to write off the bond market, and the longevity of ultra-loose monetary policy. However, at some point, central banks will tighten monetary policy, and the big tailwind that has filled the sails of the LifeStrategy range in the last decade may well moderate, or worse still, go into reverse.

While the LifeStrategy funds are designed as a one stop shop for investors, they can also be blended with other mixed asset funds to create a portfolio that has a few different approaches to asset allocation, which will perform well at different points in the market cycle.

That should help to smooth out volatility in a portfolio without denting long term returns, and there's no need to go overboard in terms of the number of funds in a portfolio.

WHY THE 100% VERSION IS DIFFERENT

It's worth mentioning the Vanguard LifeStrategy 100% Equity fund, which is a bit different because it has no bond exposure. Performance has not been quite as stellar, particularly compared to the global stock market, as measured by the MSCI World Index.

That's because this fund has a higher weighting to the UK stock market, which has been a laggard on the global stage in the last 10 years.

The annual charges for the LifeStrategy funds are 0.22% per year, and you can't get a mixed asset fund much cheaper than that.

However, there are cheaper global tracker funds available which do a similar job to the LifeStrategy 100% Equity fund, such as **Fidelity Index World (BJS8SJ3)**, or the **Lyxor Core MSCI World ETF (LCWL)**, both of which are available for just 0.12%.

These funds don't have as high a weighting to the UK as the LifeStrategy funds, and you might feel that's an advantage for the Vanguard fund. Or you might agree with the late, great, John Bogle, the founder of Vanguard and grandfather of index investing, when he said: 'Common sense tells us that performance comes and goes, but costs go on forever.'

DISCLAIMER: Daniel Coatsworth who edited this article has a personal investment in Fidelity Index World

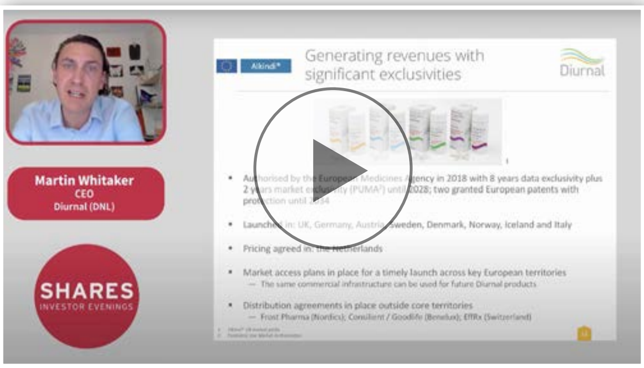
By **Laith Khalaf**
AJ Bell
Financial Analyst

WATCH RECENT PRESENTATION WEBINARS

India Capital Growth Fund (IGC)

Gaurav Narain, co-head of Equities and Fund Adviser and Camilla Bryden Senior Marketing Manager

India Capital Growth Fund is a closed ended Investment Company, listed on the main board of the London Stock Exchange. It follows a bottom-up long-term investment approach focused on India's small and midcap market with a concentrated portfolio of around 30 holdings.



Diurnal Group (DNL)

Martin Whitaker, CEO

Diurnal Group is a specialty pharmaceutical company developing hormone therapeutics to aid lifelong treatment for rare and chronic endocrine conditions, including Congenital Adrenal Hyperplasia, Adrenal Insufficiency, Hypogonadism and Hypothyroidism.

Destiny Pharma (DEST)

Neil Clark, CEO

Destiny Pharma is a clinical stage biotechnology company. It is engaged in the development of new anti-microbial drugs to address the growing and unmet demand for prophylaxis and treatment of life-threatening drug-resistant bacteria.

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Expert Investor: Using relative valuation models

Using common earnings-based valuation metrics can help you identify stocks which stick out against their peers

The reason that professional investors care about whether a company is sensibly valued or not is because they want to avoid shares that underperform the market.

If most of the good news is already factored into a share, its price can fall precipitously depending on the extent of the over-valuation or at the very least, it can slumber for many months as the fundamentals catch up with an over-extended rating.

In this article we discuss comparable company analysis, which is probably the most common method used by market analysts.

UNDERSTANDING HOW IT WORKS

Think about it as using recent sales of houses in your street as a good guide to the value of your own home.

The advantage of using comparable analysis, sometimes called peer group analysis, is that it is easy to calculate and allows an apple-to-apples comparison.

The financial metrics used broadly fall into four categories; earnings based, book value based, revenues based and sector specific metrics.

By calculating a sector average for each metric, investors can quickly identify 'cheap' and 'expensive' companies.

Some of the sector-specific metrics can be a little unorthodox especially in fast growing embryonic industries that haven't reached profitability.

For example, during the dot-com bubble in the late 1990s internet companies were valued based on the number of eyeballs or unique monthly website visitors they attracted.

After all, you couldn't compare companies' profitability back then because there wasn't any to speak of and some didn't even have revenues.

More recently, when Facebook bought messaging company WhatsApp for $19 billion, some investors questioned the seemingly high price given that WhatsApp is a free service.

But analysts pointed out that Facebook was paying roughly $42 for each of WhatsApp's 450 million users, which was a bargain compared with Facebook's own $141 per user valuation.

WHICH EARNINGS-BASED METRICS ARE BEST?

Other than the price to earnings ratio, which can have limitations even when comparing businesses in the same sector because it doesn't encompass debt, the most popular earnings-based multiples are EV (enterprise value) to EBITDA (earnings before interest, tax, depreciation, and amortisation) and EV to EBIT (earnings before interest).

EBITDA is a proxy for the cash generated by a business and is calculated before interest and tax payments, which means it can be used to compare companies in the same sector which have different financial structures and tax domiciles.

Similarly, EBIT is a useful metric because it a pure operating measurement and ignores interest payments and taxes which may differ even for companies in the same industry.

Enterprise value is a measure of a firm's total value including the net debt or net cash on the balance sheet.

Comparing multiples for companies in different sectors won't tell you which ones are cheap or expensive. To illustrate why, let's compare pharma company **AstraZeneca (AZN)** to supermarket chain **Tesco (TSCO)**.

According to data provided by Sharepad, Astra trades on an EV to EBITDA multiple of 21 times which compares with 8.8 times for Tesco.

However, it is the size of a firm's EBITDA margin and the growth which determine the appropriate EV to EBITDA ratio. In general, higher rated shares have higher margins and growth rates.

Astra achieves an EBITDA margin of 20% compared with Tesco's 6.2%.

Supermarkets: comparing valuations

	EV/ EBITDA (x)	EBITDA Margin (%)	EV/ Sales (x)
Sainsbury's	6	6.6	0.4
Tesco	8.8	6.2	0.5
Morrisons	10.8	4.8	0.5
Sector Average (ex-Ocado)	**8.5**	**5.9**	**0.5**
Ocado	203	3.1	6.5

Source: Stockopedia, Refinitiv, Sharepad. 8 July 2021
EV=Enterprise value. EBITDA Margin=Earnings before interest, tax, depreciation and amortisation, divided by sales

It makes more sense to compare Tesco to other retailers because they are have comparable profit margins and growth rates.

It's worth pointing out here that just because **Sainsbury's (SBRY)** looks cheap relative to the sector doesn't mean that it is cheap in an absolute sense.

It might be the case that the sector is expensive relative to its own underlying fundamentals and this highlights one of the disadvantages of using comparable analysis.

As the table shows Sainsbury's trades at a discount to both **Morrisons (MRW)** and Tesco on EV to EBITDA and EV to Sales.

One of the main advantages of comparing companies in this way is that it can throw up possible anomalies and online retailer **Ocado (OCDO)** seems to qualify.

Some analysts might quibble at including Ocado as a peer, arguing the company's customer fulfilment centre technology means that it should be considered as a technology firm.

Ocado trades at roughly 24 times the sector average EV to EBITDA multiple (203/8.5) and 13 times the average EV to Sales multiple (6.5/0.50), suggesting that investors see a much brighter future for the company than its peers.

Using sales to compare companies in the same sector is useful because revenue is typically more stable than profits and it can be applied even when there are no profits.

We can also infer future growth from the EV to Sales ratio. For example, to bring Ocado's ratio into line with peers, its revenues would need to rise by 13 times, everything else being equal.

In such a competitive and relatively low growth market like food retail, this implies that Ocado will take market share. We can estimate how much by multiplying its current 1.8% share by 13, implying a 23% share.

Whether that is sensible or not is anyone's guess, but the analysis helps to frame and quantify what is expected from the fundamentals of the company.

Comparable analysis is a popular and relatively easy way to identify potentially cheap and expensive shares, making it a useful part of an investor's toolkit.

That said, valuation tools are only one component of company analysis and should never be relied upon in isolation.

OTHER MEASURES OF VALUATION

There are several ways to approach valuation. For example, analysts covering the banking and insurance sectors tend to use price to book values to compare companies because they are more stable than earnings.

In addition, banks and insurers are heavily regulated and need to maintain minimum levels of capital which makes book value more relevant to financial stability.

We plan to cover more of the most popular methods of valuing stocks in future editions of *Shares*.

By **Martin Gamble** Senior Reporter

Does the lifetime allowance vary between pension types?

Our expert compares rules for defined benefit and defined contribution schemes

Do defined benefit scheme members really benefit from a higher lifetime allowance than defined contribution savers? If so, how can this possibly be justified?
Ron

Tom Selby
AJ Bell
Senior Analyst says:

The current lifetime allowance is £1,073,100 – a figure which will not change for the rest of this Parliament following chancellor Rishi Sunak's decision to freeze the limit at the March Budget.

Because defined benefit members build up a right to a retirement income rather than a pot of money, a multiplier is used to convert their income entitlement into a notional fund. This is then tested against the lifetime allowance when the person starts receiving their pension.

This multiplier is set at 20, meaning whatever income a defined benefit member is entitled to at their normal pension age – the date their pension becomes payable – is multiplied by 20 to give a figure which is tested against the lifetime allowance.

If, for example, a defined benefit member received an inflation-protected pension income of £20,000 a year from their scheme, for the purposes of the lifetime allowance this would be multiplied by 20 to give a notional fund value of £400,000.

The maximum income someone in a defined benefit scheme could take without breaching the lifetime allowance is therefore £53,655 (20 x £53,655 = £1,073,100).

Defined benefit schemes usually offer to pay at least half of their guaranteed income to their spouse when they die (often referred to as a spouse's pension). If the member receives a tax-free lump sum from the scheme, then this will be added to the notional fund value for the purposes of calculating how much lifetime allowance they have used.

Defined contribution savers have a pot of money which is tested against the lifetime allowance when they turn it into an income.

With a fund worth £1,073,100, someone could buy an annuity paying an inflation-protected income with a 50% spouse's pension – roughly mirroring what a defined benefit member might expect to receive – worth just over £30,000*.

In other words, the effective available lifetime allowance is almost 80% higher for a defined benefit saver than their equivalent defined contribution counterpart.

The disparity exists because the lifetime allowance multiplier used to convert a defined benefit income into a notional fund is woefully out of date.

However, addressing what looks like an anomaly in the tax rules would likely create a huge row with the public sector – including doctors who have worked on the frontline during the pandemic.

There is therefore no guarantee that the Treasury will address this unfairness in the rules.

*Quote sourced from the Money Helper annuity calculator on 8th July 2021. Assumes annuity is bought at age 66 (state pension age) paying 50% spouse's pension on death and rising each year by 3%.

Discover how much you can stick in a pension and still get government cash

We discuss the limits and annual and lifetime allowances on tax relief for retirement savings

The government operates generous incentives to encourage people to use a pension to save for their retirement, but it is worth bearing in mind these incentives are subject to a few controls and limits.

WHAT IS THE ANNUAL ALLOWANCE FOR PENSIONS?

The pensions annual allowance is the amount of money that can be saved across all your pensions each year before a tax charge applies. This includes money you save personally, any tax relief claimed by your pension provider from HMRC for you, as well as what is saved into your pensions on your behalf, by an employer or by a third party.

The standard annual allowance is set at £40,000 for the current tax year. However, for some people it will be lower, and for some higher, as we'll come onto.

There is nothing to stop you having total pension contributions over the annual allowance, but anything over your available annual allowance will be subject to a tax charge.

HOW DOES THE ANNUAL ALLOWANCE WORK FOR DEFINED BENEFIT (DB) PENSIONS?

The value paid to most schemes is easy to work out – it is simply the total amount that has been paid in.

For defined benefit pensions, there is an additional calculation that works out the capital value of the increase in your pension and tax free cash benefits over the year. This value is then added to contributions made to other scheme types to give you your total pension input. Your scheme administrator will give you details of value of the increase (also known as the defined benefit pension input amount) after the end of the tax year.

If you have been a deferred member of a defined benefit scheme for a whole tax year, then you will normally have no pension input under this calculation for the tax year.

CAN I USE ANY ANNUAL ALLOWANCE FROM A PREVIOUS YEAR?

You can carry forward unused annual allowance from the previous three full tax years, providing you were a member of any UK pension scheme for those past years. This can be particularly useful if your earnings or self-employed trading profits vary from one year to the next.

'Carry forward' only relates to unused annual allowances from the previous three years. You cannot carry forward unused tax relief from any year before that

'Carry forward' only relates to unused annual allowances from the previous three years. You cannot carry forward unused tax relief from any year before that.

Carry forward for contributions to defined contribution schemes (SIPPs and personal pensions) is not available if you have already accessed your pension fund to provide you with a flexible income.

WHAT IS THE TAPERED ANNUAL ALLOWANCE?

The annual allowance taper reduces the annual allowance applies for savers who have both: an 'adjusted income' of more than £240,000; and a 'threshold income' of £200,000.

It is important to note that it is not just earnings that count towards these limits, any income from investments such as dividends, rental income or interest is included too. Adjusted income also includes all pension contributions (including any emplyer contributions), while threshold income excludes pension contributions.

If you are subject to the taper, your annual allowance is reduced by £1 for every £2 of adjusted income you have above £240,000, to a minimum allowance of £4,000.

The income limits were lower in previous tax years – the adjusted income was £150,000 and the threshold income was £110,000 for the tax years 2016/17 to 2019/20 (inclusive)

HOW IT WORKS IN PRACTICE

Saira's adjusted income for the year is £300,000 and her threshold income is £250,000.

Her adjusted income is £60,000 over the limit and her annual allowance will be reduced by the taper by £30,000, to £10,000.

David's adjusted income is £250,000 but his threshold income is £195,000. He is not subject to the annual allowance taper.

As the calculation is carried out each tax year, you could find you are subject to the taper in one year but not another. This might be the case if your income was above the previous limits but is now below the new limits that were increased in 2020/21.

You can still make use of carry forward if you are subject to the tapered annual allowance in a year. Your available annual allowance will be calculated in relation to whatever your unused annual allowance was for the relevant year.

The unused annual allowance available to carry forward from a tax year in which the taper applied will therefore be the balance of the tapered amount from that year.

The rules surrounding the tapered annual allowance and the adjusted income calculations can be very complex. You should obtain professional financial and tax advice if you are unsure.

WHAT IS THE MONEY PURCHASE ANNUAL ALLOWANCE? AND CAN IT BE AVOIDED?

The money purchase annual allowance (MPAA) applies to savers who have accessed their pensions to provide them with a flexible income or taxable pension lump sums. It is currently set at £4,000 per tax year.

The MPAA is not triggered if you only take your tax free cash and no income.

Once the MPAA has been triggered, a tax charge will apply if more than £4,000 is paid into your money purchase pensions. Money purchase pensions include SIPPs, personal pensions and some workplace pension schemes. It does not apply to defined benefit schemes.

If you have triggered the MPAA, then you are not permitted to use carry forward from a previous tax year to offset contributions of over £4,000 to your money purchase pensions.

> *Your pension provider will tell you within 31 days if you have triggered the MPAA for the first time*

Your pension provider will tell you within 31 days if you have triggered the MPAA for the first time.

They will also tell any new pension provider you transfer your pension to, but if you join a new scheme without making a transfer, it is your responsibility to tell them you are subject to the MPAA within 91 days or you could face a penalty from HMRC.

I THINK I HAVE EXCEEDED MY ANNUAL ALLOWANCE – HOW MUCH TAX WILL I HAVE TO PAY?

If you have exceeded your annual allowance and have no carry forward available, then the excess contributions amount will be subject to a tax charge.

The level of the tax charge will be determined by your marginal rate of income tax – the excess contribution over your applicable allowance will be added to your earned income to determine the income tax band (or bands) it falls into.

The annual allowance tax charge is normally collected through self-assessment. If you will have an annual allowance tax charge to pay but you do not normally complete a self-assessment tax return then you must contact HMRC.

It might be possible for the tax charges to be paid from your pension, meaning you do not have to find the money to do so via self-assessment. This is a known as 'scheme pays'. Pension schemes can choose to offer this facility, or under very specific circumstances they can be compelled to do so.

SO HOW MUCH CAN I SAVE IN A PENSION EACH YEAR?

This should be a straightforward question, but the reality can be a little more complicated.

In this article we have just looked at the annual allowance. If you are making personal contributions, you will also need to consider the rules around tax relief.

You can find out more about tax relief and how it operates in our recent article, but in short you cannot get tax relief on contributions exceeding your UK taxable earnings, and pension providers will not typically accept contributions that aren't eligible for tax relief.

Therefore, for some people the annual allowance will be the limiting factor. For others, it will be the rules on tax relief.

If you are considering making large contributions it may be worth speaking to a regulated financial adviser.

By **Charlene Young**
Senior Technical Consultant, AJ Bell

INDEX

Main Market	
Admiral	8, 20
AO World	12
AstraZeneca	36
Barclays	20
Beazley	22
BHP	20, 25
Bloomsbury	6
British American Tobacco	7, 20
ConvaTec	6
Daily Mail & General Trust	6
Direct Line	22
Dixons Carphone	12
DS Smith	6
Dunelm	9
Greencore	6
Hawkwing	9
JD Sports Fashion	25
Lancashire	22
Lloyds	22
London Stock Exchange	22
M&G	20
Moneysupermarket	6
Morrisons	36
NatWest	21
Ocado	36
OSB	22
Phoenix Group	20
Premier Foods	6
Prudential	22
Renishaw	6
Rio Tinto	20, 25
Royal Dutch Shell	20, 24
Sainsbury's	36
Severn Trent	25
Standard Chartered	20
Tate & Lyle	6, 8
Tesco	36
THG	9
Unilever	20
Vectura	6, 7
Wickes	6

Overseas	
Alibaba	15
Baidu	15
Didi Global	15
Facebook	35
JD.com	15
Microsoft	10
Philip Morris	7
Pinduoduo	15
Tencent	15
UiPath	10

Funds	
Fidelity Index World	33
Vanguard LifeStrategy 20% Equity	32
Vanguard LifeStrategy 40% Equity	32
Vanguard LifeStrategy 60% Equity	32
Vanguard LifeStrategy 80% Equity	32
Vanguard LifeStrategy 100% Equity	32

ETFs	
Lyxor Core MSCI World ETF	33

Investment Trusts	
Artemis Alpha Trust	22
Capital & Counties	30
Polar Capital Global Financials Trust	19
Schroder Real Estate Investment Trust	29
Shaftesbury	30
Target Healthcare REIT	30
Temple Bar Investment Trust	21
Urban Logistics REIT	30

AIM	
Advanced Medical Solutions	6
ASOS	13
Blue Prism	10
Equals Group	13
Zoo Digital	14
Warpaint London	32

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

20 July: Gateley, Sosandar, Begbies Taynor, Supreme.
22 July: Ideagen, Mulberry

Half-year results

19 July: SThree. **20 July**: Audioboom, One Media IP. **21 July:** Gresham Technologies. **22 July:** Breedon, Centrica, Franchise Brands, Howden Joinery, Unilever. **23 July:** Beazley.

Trading statements

16 July: Burberry, Eve Sleep, Rio Tinto.
19 July: Parsley Box. **20 July:** Anglo American, BHP, CVS, Luceco. **21 July:** Antofagasta, Close Brothers, Euromoney, Petra Diamonds, Royal Mail.
22 July: Daily Mail & General Trust, Diploma, SSE, PensionBee. **23 July:** Brewin Dolphin

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