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What a bombshell climate report and global wildfires mean for markets

Can enthusiasm for ESG investing be sustained and will greenwashing be addressed?

Wildfires are raging across Europe and North America, while the latest report from the IPCC (International Panel on Climate Change) warns temperatures are likely to rise 1.5 centigrade above pre-industrial levels in the next two decades, prompting extreme weather and environmental devastation.

And yet it looks like the recent boom in sustainable and ESG (environmental, social and governance) investing is starting to wane a touch, while claims of greenwashing – overstating environmental credentials or claiming something is green when it isn't – continue to abound.

Data from Morningstar shows inflows into ESG funds in Europe dropped 25% quarter-on-quarter in the three months to 30 June, while globally inflows were down 24% to \$139.2 billion.

Liberum notes that since 2002 the 20% of stocks in the UK with the lowest greenhouse gas emissions have outperformed the 20% with the highest greenhouse gas emissions by 2.4% per year.

But in 2021, this position has reversed with the highest emitters outperforming the lowest by 2.2% as at 1 August 2021. This likely reflects a rebound for oil and gas stocks as crude oil prices hit multi-year highs.

And in turn it could explain why investors' commitment to investing sustainably has wavered a touch, with oil stocks benefiting from higher prices and looking cheap on earnings and dividend metrics.

The Morningstar data should be treated with a measure of perspective given total assets in ESG funds still increased 12%.

Not all funds live up to their ESG billing.

Liberum investment strategist Joachim Klement commented: 'With the introduction of the Sustainable Finance Disclosure Regulation in the EU

in March, fund managers saw their ESG asset base shrink as they had to reclassify sustainable assets as non-sustainable.

'More recently, individual firms were publicly embarrassed by internal emails showing that almost none of their sustainable assets were subject to the company's ESG integration process. In short, fund managers need to "put up or shut up" when it comes to ESG integration as transparency and regulatory requirements increase.'

These new EU rules have not been without criticism, and the inconsistent application of regulations around the globe pose a challenge for both investors and asset managers.

Liberum has come up with its own index of the best low emitting UK stocks which it says has beaten the FTSE All-Share by 5.5% in the last seven months. The full list of constituents can be seen in the table.

Liberum Climate Portfolio	
Admiral	Integrafin
Circassia	ITM Power
Clipper Logistics	Kainos
Derwent London	Lloyds
Dotdigital	Luceco
Eagle Eye	Persimmon
Focusrite	Rightmove
Galliford Try	Smurfit Kappa
Gamma Communications	Softcat
Howden Joinery	Sthree

Source: Liberum, 6 August 2021



By Tom Sieber Deputy Editor

Morrisons and Vectura bid battles heat up

UK firms are increasingly being targeted by overseas buyers but a Deliveroo approach looks unlikely in the near term

The pace of UK takeovers shows no sign of slowing down as the buyout battle for **Morrisons (MRW)** heats up and inhaler technology developer **Vectura (VEC)** was briefly put on the auction block.

Takeover regulators have extended the battle for Morrisons by a further two weeks, giving US private equity suitor Clayton, Dubilier & Rice more time to make a bid. CD&R have been given until 5pm on 20 August to either say what it wants to offer for the UK's fourth largest supermarket chain, or to walk away.

CD&R had originally been turned down by the Morrisons board over a potential £5.5 billion bid in June, saying the proposed deal 'significantly undervalued Morrisons and its future prospects.' Since then the US private equity firm has been mulling whether it should up its offer for the supermarket chain.

The takeover took a twist last month when Morrisons' board received a rival £6.3 billion offer from a consortium led by Softbank-backed private equity company Fortress. That deal

was sweetened on 6 August when the Fortress consortium increased its offer to £6.7 billion in an attempt to put CD&R off from making another offer. That bid has been accepted and recommended by Morrisons.

In a similar vein, FTSE 250 medical device group Vectura was facing a rare takeover auction after being caught up in its own bid battle, with the company being fought over by Philip Morris International and Carlyle, the private equity investor.

The UK Takeover Panel handed the pair five working days to submit new offers in the hope of settling the saga that has dragged on since May. However on 11 August Carlyle dropped out of the running.

Several UK businesses have been targeted by overseas buyers this year, including aero-engineer **Meggitt (MGGT)** and fund administrator and asset services firm **Sanne (SNN)**. Both acquisition agreements are subject to shareholder votes, while Meggitt's takeover is also being closely watched by the UK Government over national security concerns.

WHY A DELIVEROO BID LOOKS UNLIKELY

News that its German rival Delivery Hero had taken a 5% stake in takeaways platform Deliveroo has helped light a fire under the share price and prompted bid speculation on 9 August. The shares are gradually clawing their way back to the 390p offer price after the company's disastrous market debut back in March 2021.

However, any prospective offer would bump up against the fact the company's founder Will Shu has a controlling vote for the next three years under its dual share structure. This would enable Shu to rebuff any deal. [SF]



Could changing consumer behaviour knock the recovery off course?

Rising prices and a shift in work-life priorities could impact the economy

In the last few weeks, fears of rising inflation have been joined by worries that the continued impact of the Delta variant could mean the UK economy might not grow as fast as hoped this year, leading to what economists call stagflation.

While many consumers were able to build up their savings during the pandemic, including some of those who were furloughed, retail sales have already plateaued since the April re-opening of non-essential stores.

According to the Office for National Statistics, retail sales fell 1.3% between April and May in volume terms and rose just 0.5% between May and June. Part of the problem for consumers is rising prices for everything from essentials like petrol and groceries to discretionary items like second-hand cars, which are suddenly hugely in demand.

Online retail sales, which peaked in June last year in volume terms, are falling in volume terms with a drop of 3.7% between May and June, hitting their lowest level since September. For the first time on record, online sales also fell in value terms in May and June.

Not only are consumers voting with their wallets, they are voting with their feet when it comes to the job market. For some more experienced employees, the benefits of working from home – like being able to set their own schedule and not having to commute – have changed their attitude towards work going forward.

Now that the genie is out of the bottle, some would happily take a pay cut or work longer hours for the same pay – effectively the same thing – in order to work from home and have a better job/life balance. That's not great for spending or

ONS says retail sales fell 1.3% between April and May in volume terms



the economy.

Meanwhile, many younger workers in low-paid, less prestigious jobs – such as retail and hospitality – are also re-evaluating their options. Many want something different and are willing to quit in order to find it, so wages are rising fast in low-paid jobs where retaining skilled staff is becoming hard.

As *Bloomberg Opinion* writer John Authers puts it, 'Cracking the code of inflation and unemployment is going to hinge on microeconomics — individual decisions made by workers and employers, and their perceptions of their best interests — more than on macroeconomics.'

'The pandemic has scrambled many of the precepts by which we lead our lives. It is quite possible that it will have enough of an effect on enough people's sense of their self-interest and desires to force a macroeconomic shift.'

'Put differently, if people want something different now, and set out to get it, it could send our assumptions totally awry.' [IC]

The story behind Smithson's soggy first half

Inflation fears and value stock resurgence left popular trust lagging the benchmark

Arare sub-par performance in the first half of 2021 for global small and mid cap investment trust **Smithson (SSON)** has been taken fairly calmly by investors.

Going forward its managers are confident they can navigate the inflation threat which has contributed to its holdings losing some of their sparkle.

Portfolio manager Simon Barnard notes rising prices would not cause significant issues for Smithson's portfolio companies as they have low input costs and capital requirements, as well as pricing power which should enable them to pass on cost increases.

For the half to June, NAV (net asset value) per share grew by just 5.9% against a 12.4% return for the MSCI World Small and Mid-Cap Index.

For the first time since launch, the trust underperformed its benchmark over six months as its portfolio of higher-rated growth stocks failed to keep pace with more lowly-rated stocks in the index thanks to growing expectations of rising inflation, while previous winners such as US payroll software company Paycom and medical technology firm Masimo fell back due to lower demand for their products and services compared with last year.

Encouragingly however, since 30 June the NAV is up 5.9% versus a 0.7% rise for the index and broker Investec Securities expects 'the power of compounding to generate superior returns over the long term'.

LONG-TERM PERSPECTIVE

Smithson has performed well since its October 2018 IPO, generating impressive relative and absolute returns by sticking to its clear and simple philosophy; buy good companies, don't overpay and then do nothing.

Its focus on buying high quality companies at reasonable valuations and then holding them for

the long-term has supported a NAV total returns of 86.1% since launch, which compares to 41.9% for the MSCI World SMID index.

The popularity of manager Fundsmith and strong appetite for the strategy has meant the trust has consistently traded at a premium to NAV and continued to issue new shares to sate demand, swelling the size of the trust north of £3 billion.

Leading holdings include companies with competitive market positions, ranging from property listings site **Rightmove (RMV)** to cybersecurity firm Fortinet, a beneficiary of the expected ramp-up in cybersecurity spending following December's Solarwinds hack.

Other companies in the book include water heaters business AO Smith, boosted by the improved construction outlook in the US and China, as well as lockdown beneficiaries **Domino's Pizza (DOM)** and Domino's Pizza Enterprises. Two new holdings bought in the first half were Rollins, the US pest control business with strong margins and returns on capital, and fast-growing franchised chicken wing restaurant Wingstop. [JC]

Company	% of portfolio	Total return 6 months to 30 June (%)
Fortinet	5.3	58.6
Domino's Pizza (Australia)	5.1	35.5
Domino's Pizza (UK)	4.3	26.2
Equifax	5.1	23.3
Temenos	4.5	13.7
Sabre	5.0	2.7
Fevertree	5.1	2.3
Recordati Spa	4.5	2.2
Rightmove	5.1	0.5
Ansys	4.2	-5.6

Holdings as at 30 June, source: Numis, company data, Bloomberg

Why gold has lost its shine

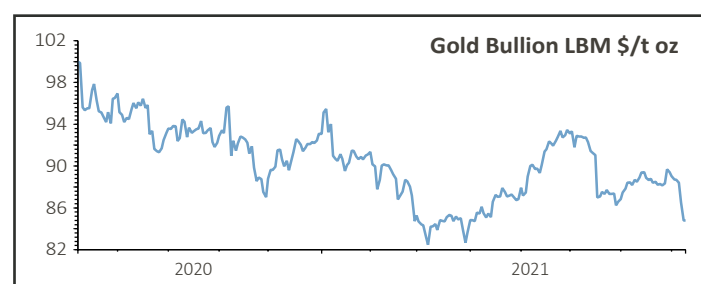
Recent volatility follows steady retreat for precious metal

The gold market has recovered a little from the 'flash crash' which saw signs of a strong US recovery, a strengthening dollar and technical factors conspire to send the precious metal 4% lower on 9 August.

A better-than-expected US non-farm payrolls report (6 Aug) is seen potentially as the catalyst for the US Federal Reserve (Fed) to begin tapering its support for the economy given the Fed's focus on the jobs market when it comes to making monetary policy decisions.

However, the longer-term slump in gold may still be shaking faith in its credentials as both a safe haven at times of market volatility and an inflation-busting asset despite its historic status as a traditional and physical store of value.

After all inflationary pressures and the threats to economic recovery from Covid variants have been the market's twin obsessions in 2021, which you might have expected to create ideal conditions for strong gold prices.



Since hitting a record high a little over a year ago at more than \$2,000 per ounce the price has in fact retreated more than 15%. In part this may have reflected a shift into cryptocurrency bitcoin as an alternative hedge against inflation – though this market has itself recently lost some of its shine.

Jefferies analyst Christopher LaFemina is negative on gold prices and by extension gold miners in the current environment. He comments: 'We are most bullish on gold in an environment



of slow growth, low real interest rates, a weak US dollar and modest inflation. A period of rising inflation due to potentially overheating economies is not a positive for gold, in our view.'

As the table shows gold miners and other gold-related investments have struggled so far this year.

Gold-related investments slump

Name	Year-to-date performance (%)
Greatland Gold	-54.1
Petropavlovsk	-39.9
Fresnillo	-31.6
Yamana Gold	-26.6
Centamin	-21.7
Polymetal International	-12.2
BlackRock Gold and General (fund)	-11.4
Wheaton Precious Metals	-0.687

Source: SharePad, Refinitiv. Data as at 10 August 2021

What's happening with oil?

At least some of 2021's rebound in oil prices has been predicated on a recovery in demand in the second half of this year as the impact of the global vaccination drive bears fruit.

However, this story has been clouded somewhat by the spread of the Delta variant with the impact on the world's top oil consumer China being closely watched and this is putting crude under renewed pressure.

China is facing its worst Covid outbreak since the start of the pandemic and recent data shows the country's oil imports slipped to 9.7 million barrels of oil per day (bopd) in July from 9.8 million bopd in June and down from 12.1 million bopd in July 2020. [TS]

Use this fund to invest in the best European companies

Manager has plenty of experience and has built up an impressive track record

This fund employs a high-conviction stock specific strategy based on identifying high quality, reliable growth companies which can be bought below their intrinsic valuations.

We like the straightforward, transparent investment approach of the manager, the impressive track record and the scalability of the strategy given the focus on large liquid companies.

It is also worth pointing out that although the companies in the portfolio are quoted on European exchanges, they are, in reality, global businesses. The fund has an ongoing charge of 1.19%.

Danish born portfolio manager Christian Diebitsch is a veteran of European stock markets and over the years (he started in 1990) he has 'collected' a group of what he calls Europe's finest companies.

He has followed some companies for more than two decades including secure door opening solutions group Assa Abloy and intimate healthcare products company Coloplast.

He defines the best companies as those with long-term organic sales growth of at least 6% a year, driven by both price and volume. This is around twice the growth rate of GDP.

He is looking for businesses

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with pricing power and entrenched market positions are preferred as they tend to offer more stability and over time increase their market share.

A good example is Danish insulin provider Novo Nordisk which has a 50% share of the global insulin market with the top three players representing a 85% of the total market.

An ageing global population and increased incidence of diabetes is a key driver of demand which is estimated to be growing between 6%-and-8% a year.

The benefits of operating leverage and good cost management can propel 7% revenue growth into mid-teens annual earnings per share growth.

CONCENTRATED PORTFOLIO

Diebitsch reasons that if he can successfully identify and invest in a concentrated portfolio businesses that are able to grow their earnings by between

12%-and-15% a year and ensures he doesn't overpay for them, that that should translate into good long-term returns for investors in the fund.

Heptagon steers clear of companies that are asset heavy with low growth prospects and consequently doesn't invest in utilities, telecoms, or mature manufacturing companies. Conglomerates are also off the menu to their 'lack of focus'.

The fund has strong ESG (environmental, social and governance) credentials and doesn't invest in businesses that do harm to society. Each investment candidate is screened through an exclusion list – no weapons, mining, tobacco, gambling, fossil fuels are allowed.

The manager also runs each investment candidate through an ESG progression checklist to compare the rate of improvement.

The companies that are on

Diebitsch's radar are generally not 'fly-by-night' firms but are established businesses which have been around for a long time, around 80 years when averaged across the portfolio.

The oldest is French luxury goods company Hermes which dates back to 1837. The youngest is German online fashion company Zalando which was founded in the early 1990's.

Diebitsch has reduced the European universe down to his best 40 stocks which he then constantly monitors to see how they perform as a group against the benchmark.

The logic is that if they are better companies with greater than average growth, through time they should outperform the benchmark.

He has discovered that over the long term more than 60% of the stocks outperform.

Fishing from a 'fish rich pond' increases his odds of selecting good investments for inclusion in the 20-stock portfolio. If the performance of the universe drops, like it did in 2014, Diebitsch



looks to reinvigorate the universe.

'As a rule-of-thumb, I try to add and take out one company annually to keep the universe somewhat vibrant' said Diebitsch.

RED FLAGS

The fund is looking to hold stocks for the long term to exploit the compounding of earnings, but there are conditions under which positions are sold.

If Diebitsch discovers that management haven't been honest, he sells immediately. If a company's strategy changes fundamentally, Diebitsch is also minded to sell because it means that the original investment thesis is no longer valid.

If a stock gets particularly overvalued the position is scaled back or sold depending on its severity. Heptagon uses eight different valuation metrics to keep tabs on intrinsic value.

Over the last three years the fund has delivered a compound annual growth rate of 17.5% a year compared with 12.5% for the MSCI Europe Growth index, according to Morningstar.

The top 10 holdings represented 55.5% of the fund at the end of July 2020. The largest holding is in Dutch semiconductor equipment maker ASML with a 7.6% weighting.

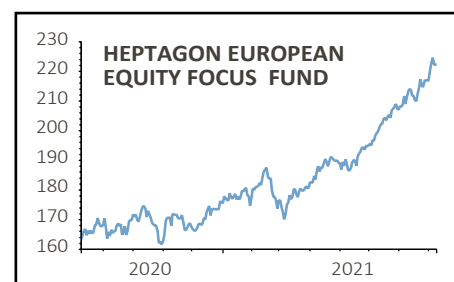
A lot has been written about the shortage of semiconductors in recent weeks as the world economy bounces back from the pandemic.

Beyond these shorter-term issues, Diebitsch believes the long term structural drivers of demand will remain a strong tail wind for ASML which has a leading market position. [MGam]

Heptagon European Equity Focus Top 10 Holdings

Name	% of Fund
ASML NV	7.6
Tomra Systems AS	6.9
Novo Nordisk A/S B	5.8
Zalando SE	5.7
Eurofins Scientific SE	5.6
Coloplast A/S B	5.1
Lonza Group Ltd	4.8
Hermes Int'l SA	4.7
Givaudan SA	4.7
Essilorluxottica	4.6
Total	55.5

Source: Morningstar data at 31 July 2021.



Big buying opportunity at high quality London Stock Exchange Group

Consensus beating results refocus attention on the strategic benefits of the Refinitiv acquisition

Shares in **London Stock Exchange Group (LSEG)**, have fallen 20% since March, on concerns surrounding integration costs associated with the group's \$27 billion acquisition of data provider Refinitiv.

However, recent interim results (6 Aug) should allay these fears as they demonstrated a sharp increase in pre-tax profits.

Moving forward, these consensus-beating results are likely to act as a watershed moment.

The Refinitiv acquisition redefines the wider business in three respects. First, it enhances exposure to higher margin subscription based revenues.

Second, it secures the firm's position in the critical growth markets of Asia and America.

Third, it creates the opportunity for it to re-rate as a data company. While not optically that cheap on a 2022 price to earnings ratio of 25 times (using consensus data from Refinitiv) pure data companies like Factset and MSCI, have historically traded on higher valuations than exchanges.

A WATERSHED MOMENT

First half pre-tax profit rose to £510 million, an increase from

£262 million in the prior year.

The group announced cost synergies ahead of plan, and increased its forecast for cost savings associated with the Refinitiv deal from £88 million to £125 million.

According to Credit Suisse the market will take comfort from estimated cost growth in the 'low single digits' for 2022 and 2023.

The myopic nature of recent commentary surrounding the costs associated with the Refinitiv acquisition has distracted investors from the key strategic benefits that it brings to the company.

The deal enhances its geographical scale and scope, specifically in the key markets of Asia and America. In the former, where it employs 10,000 people Refinitiv has deep relationships in the corporate market, as well as the asset management and analyst communities.

This cements London Stock Exchange Group's position in the world's fastest growing financial markets.

The combination of Refinitiv's foreign exchange and fixed income venues with London Stock Exchange Group's equities, ETF and derivatives businesses will undoubtedly foster innovation and new

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Market cap: **£39.5 billion**

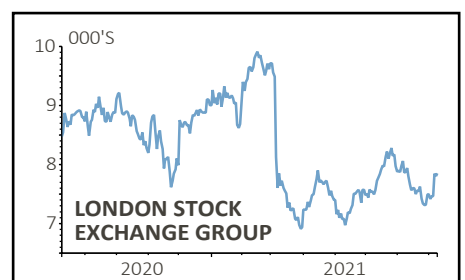
product offerings.

On a five-year basis, savings from the Refinitiv are expected to reach £350 million, equivalent to 11% of the group's current operating expenses.

THIS IS A TROPHY ASSET

The attempt by HKEX (Hong Kong Exchanges and Clearing) in September 2019, to acquire London Stock Exchange Group for \$39 billion reflects the unique nature of its market infrastructure and data assets.

In essence this is a trophy asset, meaning it benefits from incumbency, high barriers to entry and a dominant local market position. From an investor perspective this trophy asset premium is likely to act as a support for the share price. [MGar]



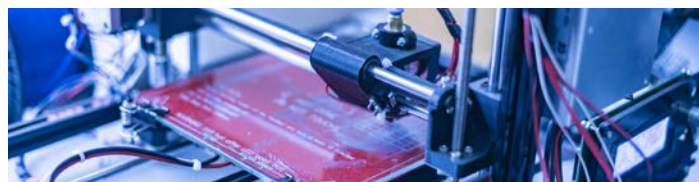
TT ELECTRONICS

(TTG) 277.5P

Gain to date: 31.5%

Original entry point:

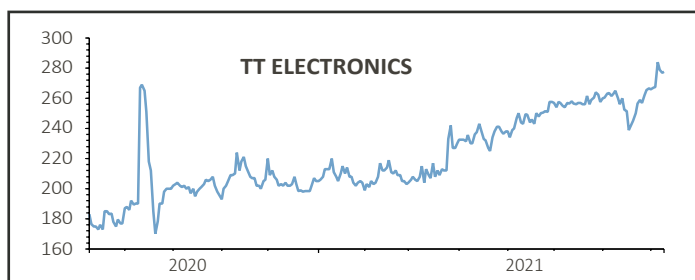
Buy at 211p, 25 March 2021



ENGINEER **TT ELECTRONICS (TTG)** is racing ahead as it goes far beyond the traditional sensors and instrumentation markets that it used to bank on, with fast-growing, and more profitable, digital areas very much becoming part of the recovery and growth story.

This includes supplying complex connectivity, automation and machine learning components and systems for industrial, renewables and medical applications, and strong interim results demonstrate the strategic progress that has been made, underpinning 'confidence on the path to double-digit margins, which we currently estimate in full year 2023,' spell out analysts at Numis.

TT started the second half with a record order book and of higher quality, with a first half book to bill of 134%, which means that 2021 forecast revenues of £481 million (Numis estimate) are already fully covered. There's some very decent visibility also being built up into 2022. Most of the company's restructuring will be finished this year and with improved end markets, more profitable business mix and operating margins (8% first half) heading north, TT looks in a great place.



SHARES SAYS: ↗

Numis anticipates another 20% upside from the shares, keep buying. [SF]

BOSTON SCIENTIFIC

\$43.81

Gain to date: 31.4%

Original entry point:

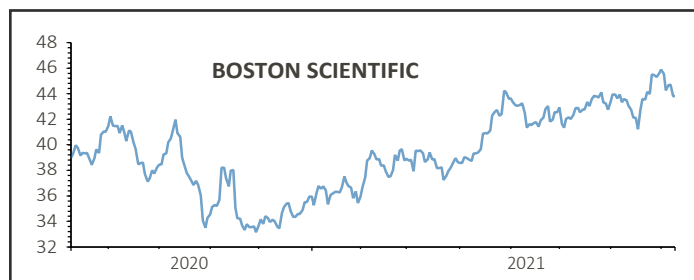
Buy at \$33.33, 26 November 2020

AS HOSPITALS AROUND the world start to make elective procedures the priority after months of Covid-19 issues, demand for medical equipment firm Boston Scientific's kit and services is starting to pick-up. The \$62 billion company reported second-quarter profit and revenue that beat expectations and raised its full-year outlook.



The medical technology company swung to net income of \$172 million, or \$0.12 a share, from a loss of \$153 million (\$0.11 a share) last year. Strip out one-offs, adjusted earnings per share were \$0.40 cents, topping the \$0.37 consensus. Revenue rose 54% to \$3.08 billion, above \$2.94 billion consensus, while its core cardiovascular revenue jumped more than 50%.

Boston Scientific's stock has rallied more than 24% in 2021 so far and investors have reason to keep backing the shares given that the company raised its guidance ranges for adjusted earnings per share (from \$1.53 to \$1.60, now \$1.58 to \$1.62) and for revenue growth, which is now expected to jump by more than 20%.



SHARES SAYS: ↗

Boston is reclaiming its markets, growing into new ones (prostate health, therapeutic oncology, for example) and widening its market base into China, India, and Malaysia. Still a buy. [SF]

EUROFINS

€112

Gain to date: 60%

Original entry point:

Buy at €69.99, 23 December 2020



SHARES IN WORLD-LEADING laboratory testing and environmental certification business Eurofins Scientific climbed more than 10% on the day of its recent interim results.

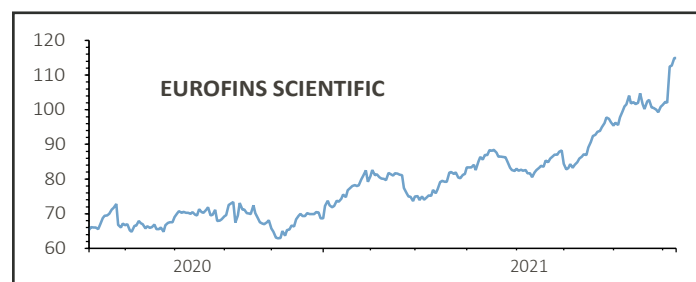
As well as posting record numbers – revenue was up a staggering 40% to €3.3 billion and earnings before interest, taxes, depreciation and amortisation were up 104% to £1 billion, meaning a margin of 30.3% compared with 21% last year – the firm substantially raised its full year guidance.

Full year revenue expectations were increased by 13% to €6.15 billion while EBITDA guidance was increased by 36% to €1.7 billion due to the proliferation of new Covid variants. However, even these figures look conservative and there

is a strong possibility that revenue and profit could blow away these forecasts, leading to more upgrades for 2022 and beyond.

'It appears that the pandemic will drive increasing demand for Eurofins' services for many years to come' commented chief executive Dr Gilles Martin.

Meanwhile, the core operations performed well with new product launches in areas such as clinical diagnostics and transplants contributing to overall growth in the first half.



SHARES SAYS: ↗

This is a quality business with high barriers to entry, growing faster than expected. We are still buyers. [IC]

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Digital
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The advertising and data strategy behind Reach's stellar share price gains

The media group has seen its shares increase eightfold in the past 12 months

For a business involved in the tricky task of selling newspapers in what is certainly a dwindling market, readers may be surprised to know that media group **Reach (RCH)** has seen its share price rise eightfold in the past 12 months.

Key to its success has been strong growth in its digital interests and a resurgence in the advertising market.

Reach is a news and lifestyle-focused content company, driving revenues and profit from both digital and print audiences. The group is also the largest commercial UK regional and national news publisher by circulation volume, with titles including the *Daily Express*, *OK* and *Daily Mirror*.

The group targets digital display advertising and online classified spend. The Advertising Association forecasts 2021 growth of 17% and 11% for online display and classified advertising respectively.



The market appears to be becoming increasingly cognisant of Reach's improving data analytics capability and its vast digital audience (42 million unique visitors) that have, until recently, escaped the attention of institutional investors.

According to ComScore, Reach's existing UK digital audience represents the fifth largest digital asset base within the UK.

From the perspective of total unique visitors, Reach scores only behind Google, Facebook, Amazon and Microsoft sites, reaching 80% of the UK's digital population.

Research by N+1 Singer analyst

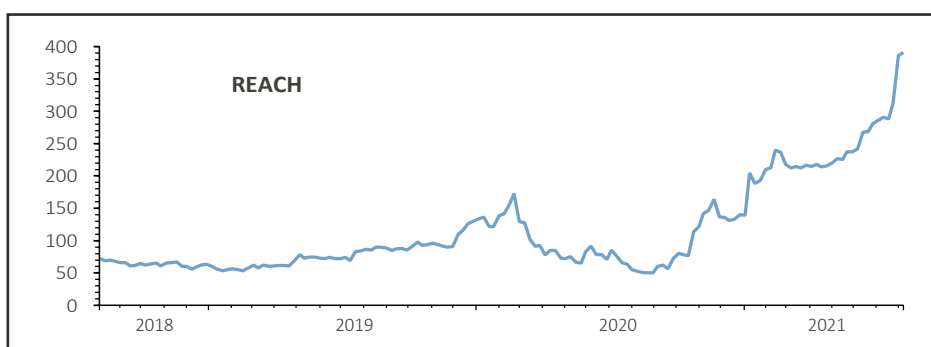
Caspar Erskine suggests that 'digital revenues at the group could double over a four-year period provided the group executes successfully in further improving customer engagement and experience'.

IMPORTANCE OF USER ENGAGEMENT

Last December Reach launched an initiative that provided each registered user with a single ID connecting all their interactions across all Reach products.

The rationale for this initiative was twofold. First, improved content targeting. Second, deeper data analytic capability provides more granular profiling of the audience base.

Its latest half-year results revealed that unique users (registrations) had reached 6.7 million, an increase of 150% year on year and ahead of the group's target of 10 million unique registered users by 2022.





Digital growth is predicated on driving user engagement and consequently improving advertising yields. A registered user consumes two to three times the amount of content compared to a non-registered customer. This is because Reach can more effectively target registered customers with content that resonates, through news for their local area. The revenue per user of a registered customer is three times that of a non-registered customer.

Management initiatives including the delivery of targeted content via personalised newsletters are already being reflected in monthly page views up 45% year on year, and page views per unique user by 40%.

Reach's 'inyourarea' portal provides localised content to users based on their submitted postcode. Relevant local news, updates and other data is scraped from a multitude of sources in real time.

INCREASING THE ADVERTISING YIELD

If you compare the advertising yield of open market sold slots (such as through Google auctions) with a private marketplace (advertising space which is sold directly), the latter can be several hundred percent higher in yield.

The increasing scale and

granularity of Reach's digital data will enable it to engage in more private marketplace transactions, thereby securing a higher yield for advertising. A good example is the 'inyourarea' portal, which creates hyper local digital data that is immensely valuable to small and medium-sized businesses.

BLUE VENN PARTNERSHIP

In March 2021 Reach announced a strategic partnership with customer data platform BlueVenn. The media group's customer information is pulled into a data cube that enables campaign analysis, customer targeting and cohort analysis.

For example, it will be able to help supermarkets to market to customers who haven't signed up to a loyalty scheme. Reach can cross reference its data with a supermarket's own data so as to have more targeted advertising.

It will also be able to target specific socio-economic groups and use postcode data to build an advertising campaign for a specific part of the country.

Reach's growing array of digital products coupled with the scale and granularity of its data is becoming increasingly valuable to advertisers. Significantly the group is only just starting to reap the benefits of its investment in digital transformation.

This bodes well for future

growth in an environment where data is becoming increasingly valuable. There is considerable scope to further monetise the group's 42 million customer base.

STOCK VALUATION

The shares are no longer the absolute bargain they once were, trading on 11.1 times forecast earnings for the current financial year. A year ago, they were on a price to earnings multiple of 2.6.

Investors might argue that a 11.1 PE ratio is not expensive, however one must account for the newspaper side of the business which is an industry in terminal decline. It also used to be penalised by the market for having a very large pension deficit but that's been brought down to £118.7 million.

Buying the shares at the current price would require taking the view that its digital growth will remain highly robust. Analysts have upgraded earnings on multiple occasions in the past year, meaning there is good momentum with the business and that has supported the share price growth.

While there is certainly a solid plan in place to capitalise on its data strength, one cannot ignore the fact that much of its content amounts to nothing more than 'clickbait' and low-quality journalism. That's been a successful way to attract eyeballs and build up data on users, but is that a sustainable business model? There is certainly a lot to think about with this stock.

By Mark Gardner
Senior Reporter

THE BIG

Why Facebook, Apple, Amazon, Google and Microsoft are superb stocks to own



By Steven Frazer News Editor

It's almost impossible to talk about the general stock market without including the big five tech titans in the conversation. Google-owner Alphabet, Amazon, Apple, Facebook and Microsoft are as well-known to UK investors today as **Lloyds (LLOY)** or **Sainsbury's (SBRY)**, the ubiquity of their products and services as wide as Heinz baked beans.

Often referred to by the acronym FAAMG (or GAFAM, take your pick), many investors remain reluctant to invest despite a decade of incredible returns. *Shares* believes all five companies are essential stocks to own and investors would be wrong to ignore them.

Together, FAAMG stocks have generated an average total return (share price plus dividends) of 50.5% a year over the past decade.

By contrast, the S&P 500 has delivered an equivalent 16.3% annual return since 2011. Even the Nasdaq Composite, the tech sector's banner benchmark, has performed less well, putting up 44.9% annual return.

WHY HAVE THEY DONE SO WELL?

There are multiple reasons why FAAMG stocks have performed so impressively over 10 years. The internet has become one of the most vital tools for communication, information and entertainment in today's globalised world. While technological advances continue to accelerate the digitisation of modern life, it is the FAAMG companies that dominate the digital universe.

The five tech giants boast user bases in the

billions and a combined market value of more than \$9 trillion, making them the largest digital commerce companies anywhere. With every new product, service and innovation, the big five cement their digital imprint and expand their influence on the global economy.

This has allowed them to continue to grow at a rapid pace. It was only August 2018 that Apple became the first listed company ever to break the \$1 trillion valuation bar – now all five have broken through that glass ceiling, while they all feature in the world's top 10 most valuable brands.

Many investors believe these stocks are too expensive. Buying shares trading at 40-plus times earnings may not sound like a good idea but that is exactly what Maneesh Deshpande, Barclays' head of equity derivatives strategy, has been telling clients to do.

As stretched as the FAAMGs may look, at an average a 32% premium over the S&P 500 Index, Deshpande says judging valuations based on an absolute level or comparing them to the rest of the market is flawed because it doesn't acknowledge the growth advantage that these tech giants offer in the long run.

In other words, they deserve a higher multiple because of their superior earnings power. And superior earnings are what the big tech five have been delivering.

RECORD QUARTER

Amazon was the last of the big five tech companies to report its earnings for the three months to 30 June 2021, and like the other four FAAMG companies, the quarter was a record-breaking one, despite falling just short of expectations in terms of sales and next quarter guidance.

The e-commerce behemoth saw net sales grow 27% to \$113 billion in the three months, partly offsetting a slowdown in its core e-commerce business with strong growth in its cloud and advertising segments.

While chief financial officer Brian Olsavsky was quick to point out that the slowdown in year-over-year growth was mostly due to unusually strong results caused by lockdowns in second quarter of 2020, Amazon's shares still tumbled more than 7% following the announcement. That looks like an over-reaction.

While Facebook and Apple also offered

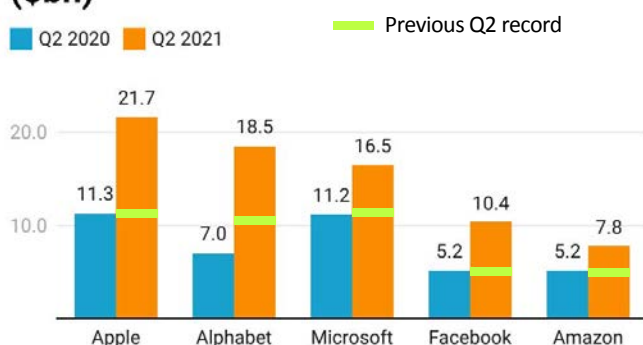
FAAMG STOCKS AT A GLANCE

- **Facebook** owns two of the most engaging and largest social media apps in the world – its namesake, Facebook, and Instagram – as well as two of the biggest messaging apps, WhatsApp and Messenger. It makes money by displaying advertisements to users while they browse through feeds of photos and videos.
- **Amazon** is the largest business-to-consumer e-commerce company in the world. Its Prime membership program has more than 200 million global subscribers who have proven loyal to the company's online marketplace. While e-commerce accounts for the bulk of its revenue, Amazon has found profit engines in cloud computing services and advertising.
- **Apple** is one of the biggest smartphone manufacturers in the world. Device sales account for most of Apple's revenue, but in recent years the company has also focused on higher-margin subscription services, including streaming music and video, gaming, news and cloud storage.
- **Microsoft** is one of the world's most dominant software companies with millions of businesses and private users relying on its Windows operating system to power PCs and laptops. Business applications remains its core source of profit, largely recurring because users get tied into its ecosystem, but it is also building a vast cloud computing empire that is highly profitable and growing fast.
- **Alphabet** is a tech conglomerate primarily split between Google and other interests. While Google started as an internet search company, it's continued to acquire and develop consumer-facing products, nine of which boast more than one billion users each. Google also encompasses a growing cloud computing business and a relatively small hardware business. The other parts of its business include automated-vehicle venture Waymo and health researcher Verily.

modest guidance, warning investors that the blockbuster growth rates achieved over the past 15 months couldn't be sustained forever, there were few signs of weakness in big tech's second quarter results.

The entire FAAMG group saw profits surge in the June quarter as big tech continued to profit from the pandemic's stimulating effect on online advertising, e-commerce and consumer spending. As the chart shows, each of the five companies crushed their previous record for June quarter profit, with Apple, Alphabet and Facebook almost doubling their previous best.

Tech giants crush profit records in Q2 (\$bn)



Source: Company accounts, Refinitiv • Created with Datawrapper

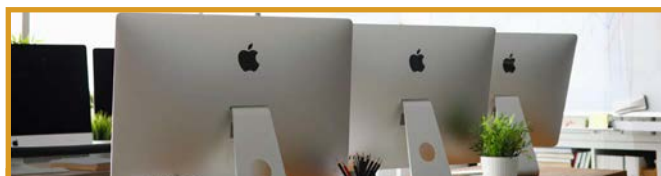
FAAMG stocks had a tough start to the year but they are now getting a break from investors after lagging the market for most of 2021.

'You really have a group that's underperformed the broader tape, that is still growing earnings and that's how they get cheaper,' said Art Hogan, chief strategist at US broker National Securities. As the analyst points out, a company capable of consistently growing in the double-digits should probably be ascribed something higher than one in mid-single digits.

Indeed, the FAAMG's combined income expanded by an annual average 15% in the past five years, four-times the S&P 500, according to data compiled by Bloomberg Intelligence. While their growth is expected to begin lagging in the three months to September, their edge will likely return next year, analysts say.

REGULATORY THREAT

The growth of the tech industry's powerhouses and their unmatched market dominance has far-reaching consequences for online users, competitors and the internet's entire architecture.



S&P 500'S 10 BIGGEST COMPANIES

	\$Billion
Apple	2,416
Microsoft	2,175
Alphabet	1,818
Amazon	1,694
Facebook	1,025
Tesla	692
Berkshire Hathaway	653
Roper Technologies	514
Visa	513
Nvidia	508

Source: Refinitiv, data as at 9 August 2021

By acquiring successful companies and newcomers (Facebook bought Instagram and WhatsApp) and promoting their own products and services (on Google's search results), the tech giants' oligopoly can eliminate competition and reduces digital diversity. This concentrated power has frequently prompted calls for antitrust action.

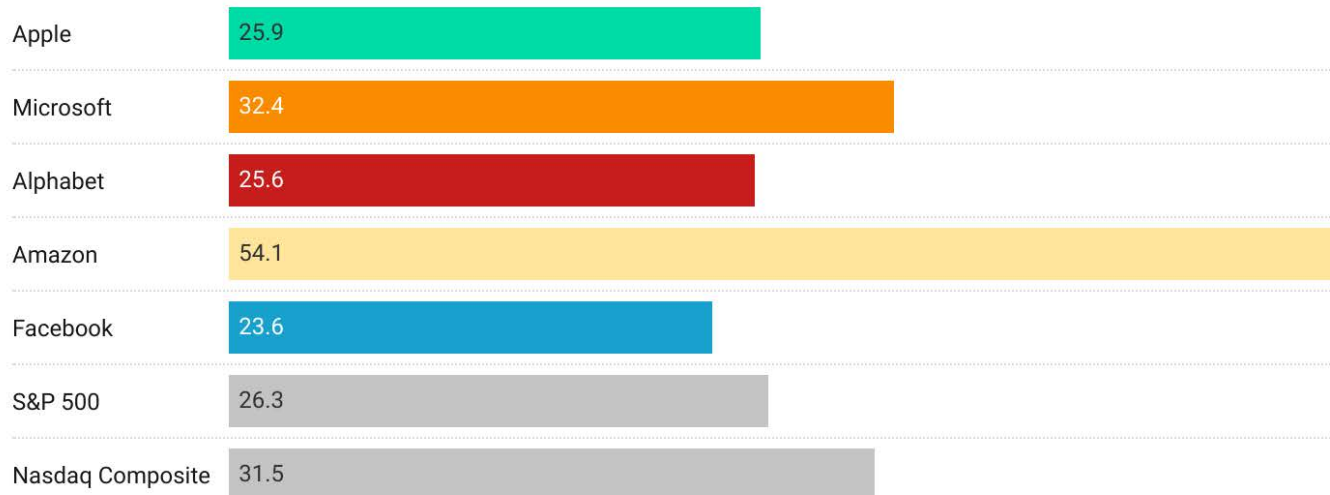
Since Microsoft's early antitrust battle in the 1990s, a series of lawsuits were filed to regulate big tech's grip on the internet and democratise digital infrastructure.

Between 2017 and 2019, the EU Commission fined Google over €8 billion for anticompetitive behaviour. Considering that FAAMG companies are among the top lobbying spenders in the US, antitrust investigations against Google, Amazon, Facebook and Apple could potentially undermine their ability to maintain the dominance in internet markets in the future, or at least unsettle investors enough to upset share prices periodically.

That said, **Blue Whale Growth Fund's (BD6PG78)** manager Stephen Yiu welcomes increased regulation in tech as it solidifies incumbent positions and makes it harder for disruptors to usurp them.

Interestingly, the fund believes that breaking up some of these tech titans, as has been threatened, could be good for shareholders since it believes they are now so big and ubiquitous, many of the stocks now come with a 'conglomerate discount'.

Big five – price to earnings versus the market



Source: Refinitiv. Data as at 9 August 2021. • Created with Datawrapper

UNLOCKING NEW PROFIT ENGINES

From electric and self-driving cars to augmented reality and virtual reality headsets, the tech giants have plenty of projects that could move the needle for them later this decade.

Assigning valuations based solely on the earnings thrown off by their current profit engines arguably fails to do justice to their other businesses and projects that could become major profit contributors down the road.

Read on to discover some of the 'in development' initiatives that are currently generating little or no income for Alphabet, Amazon, Apple, Facebook and Microsoft but where the story could be different in a few years' time.



ALPHABET

WAYMO

GOOGLE CLOUD PLATFORM

Waymo is Alphabet's self-driving car project. Progress (like that of the autonomous driving space at-large) has been slower than what many once hoped, and we remain years away from widespread autonomous vehicles.

Even so, Alphabet is still arguably the technology leader in the field. Over the next several years, Waymo's driverless taxi services, for now, available in just a part of the US city of Phoenix, could become available to a much larger number of consumers, and its partnerships with automakers such as Volvo, Fiat Chrysler and Nissan-Renault could yield commercial vehicle launches.



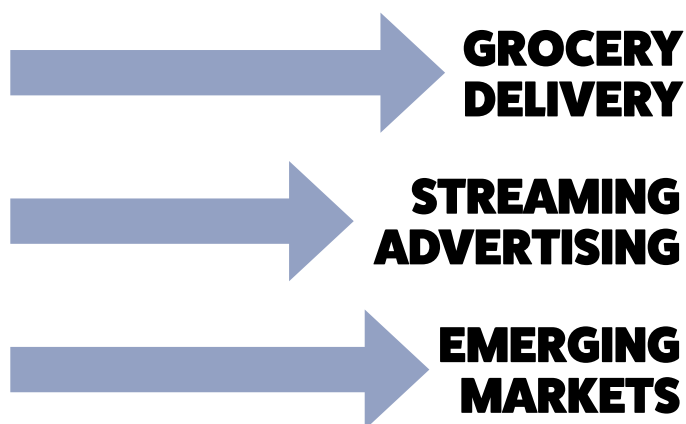
In contrast to Waymo, Google's public cloud operation is already a large business, yet it is currently losing money hand-over-fist.

In 2020, the Google Cloud segment, which covers both Google Cloud Platform – also known as GCP – and the Google Workspace productivity app business, posted a \$5.6 billion operating loss on revenue of \$13.1 billion, with GCP investments believed to account for much of the losses.

But GCP, which often gets high technical marks from cloud developers, also continues to see double-digit growth. In time, a combination of continued revenue growth and slowing spending growth should help GCP turn profitable.



AMAZON



In the short-term, Amazon's budding grocery delivery operations are at a scale disadvantage relative to rivals with larger retail store footprints to leverage for inventory and fulfilment.

But in the long term, Amazon's giant and steadily growing warehouse footprint, together with its delivery infrastructure, should give it important cost advantages.

That in turn could allow Amazon to profitably take share in a \$700 billion-plus US grocery industry that still sees the lion's share of its sales take place offline.

Amazon's massive advertising business, which is expected to bring in more than \$25 billion in revenue this year, revolves heavily around product and brand advertisements shown on its shopping websites and apps.

However, with the help of its customer relationships and shopping data, the company is laying the groundwork to also sell quite a few targeted advertisements via streaming services (including its own) and third-party websites and apps.

A recent deal to gain exclusive distribution rights to the NFL's Thursday Night Football games will aid this effort, and so does Amazon's reported plans to launch an identifier that would help it deliver and measure the performance of targeted advertisements on third-party properties.

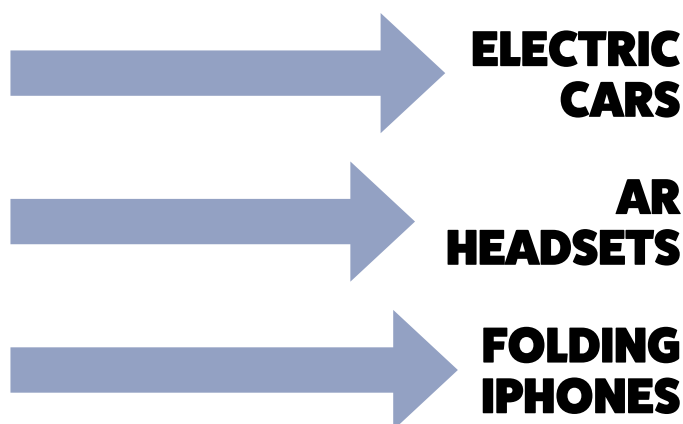
Amazon has invested billions in its Indian e-commerce operations in recent years, spending that has helped it become (along with Walmart-controlled Flipkart) a top two e-commerce player in the world's second-most-populous country.

It should get a good payoff from those investments this decade, as India's economy and e-commerce penetration rates keep growing.

In addition, the Middle East, where Amazon established a large presence in 2017 via its acquisition of e-commerce site, Souq.com, could become an international growth engine. So might Latin America, where Amazon has been gradually increasing its efforts to compete against local e-commerce giant MercadoLibre.



APPLE



A slew of media reports arrived in late 2020 and early 2021 stating that Apple is looking to launch an autonomous electric car somewhere in the middle of this decade.

While Apple reportedly wants its cars to be fully driverless from the start, the vehicles might only operate in a limited set of environments at first. But the company's engineering pedigree works in its favour as it tries to launch a differentiated solution in a crowded field, as does its knack for crafting end-to-end experiences covering hardware, software and services.

And when a car has no steering wheel, pedals or need for traditional driver visibility, its

designers can get creative about what its interior looks like.

Apple is reportedly looking to launch a high-end, low-volume, augmented reality/virtual reality headset for developers and enthusiasts in 2022, followed by a lightweight pair of AR glasses further down the line.

Much like autonomous driving, creating a mass market for consumer AR hardware remains a work in progress, as technical challenges related to aspects such as display resolution, field of view, battery life and miniaturisation continue to be worked on.

But between its chip and hardware engineering chops, its ability to pair AR headsets with iPhones and the large ecosystem that already exists for its ARKit platform for developing AR-capable mobile apps, there's arguably no company better positioned to take consumer AR mainstream than Apple.

This is a niche market right now with only a few manufacturers (Samsung and Huawei among others) to have launched innovative devices that appeal to a subset of high-end phone buyers.

Prices are high and there are significant technological shortcomings that prevent a true mass-market from forming.

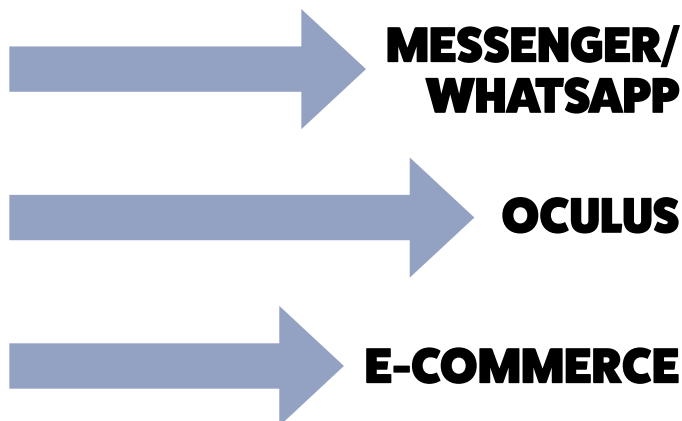
But considering how many consumers love having additional screen space, it feels like only a matter of time before a mass market does form, lifting smartphone average selling prices and upgrade rates in the process.

Apple, which has obtained various foldable phone-related patents and is reportedly looking to launch its first foldable device in 2023, probably won't be left out when a mass market emerges.



FACEBOOK

Facebook has moved cautiously when it comes to monetising Messenger and WhatsApp, which claim, respectively, more than 1.3 billion and 2 billion monthly active users.



The company is gradually making good on Mark Zuckerberg's vision of having its messaging platforms act as customer service and engagement channels for businesses marketing and selling on Facebook's core app and Instagram.

In addition, WhatsApp's product catalogue feature creates an e-commerce opening for the platform, and (though Facebook is opting not to do so for now) its stories service, known as Status, could eventually be monetised via advertisements.

The pandemic helped VR headset sales jump over the past 15 months, and no headset vendor benefited more than Facebook's Oculus unit, which now appears to be on a \$2 billion-plus annual revenue run rate.

Still, compared to tablets or even smartwatches, VR headsets remain in their infancy. And between the aggressive pace at which it keeps raising Oculus' headcount and the steady pace at which it keeps making VR-related acquisitions, Facebook seems quite intent on being a major VR platform provider over the long haul.

Facebook's Shops e-commerce platform, which launched in May 2020 across Facebook and Instagram, now claims more than one million active sellers and more than 250 million interacting users.

Facebook Marketplace, the company's Craigslist/Ebay rival, now has more than one billion people using it.

Both platforms stand to strengthen Facebook's advertising business in the coming years, given that they both allow consumers clicking on advertisements to make purchases without leaving a Facebook-owned app and allow Facebook and its advertisers to track when an advertisement click led to a sale with 100% accuracy. Perhaps in time, the platforms

might also generate meaningful commission-based revenue.



MICROSOFT

➔ **CLOUD/SUBSCRIPTION GAMING**

➔ **ENTERPRISE APPS**

Microsoft is pulling out all the stops to make its \$15 a month Game Pass Ultimate service (bundled Xbox Live Gold, the Xbox Game Pass game download service and Microsoft's new Xbox Cloud Gaming service) a marquee subscription gaming franchise.

Between Microsoft's Xbox user base, cloud infrastructure, relationships with third-party game publishers and own large game library (made larger by the recent Bethesda Softworks acquisition), Game Pass Ultimate looks poised to become a substantial business over the next few years.

Including both Game Pass Ultimate and cheaper plans, Microsoft had 23 million Game Pass subscriber as of April 2021. It's not hard to imagine that number surging past 50 million in the coming years.

With its Dynamics software suite, Microsoft has for some time been a major supplier of customer relationship management and enterprise resource planning apps to small and mid-sized businesses. Now, with the help of growing traction for Dynamics 365 cloud apps, Dynamics is making more headway within larger organisations.

While competition is intense (Oracle, SAP, Salesforce and Workday among them) there's still a lot of room to grow, as Microsoft continues differentiating Dynamics 365 apps by integrating

them with platforms such as Teams and LinkedIn, as well as by embedding a variety of data sharing, analytics and machine learning features. Research firm IDC estimated the total enterprise applications market was worth nearly \$225 billion in 2019, with Microsoft holding a modest 2.1% share.



THE INVESTMENT CASE

All five FAAMG companies have assets that should make them more profitable than their rivals.

Facebook, Amazon, and Alphabet have troves of user data they can use to target advertisements. Microsoft has become the leading software company for business, while Apple has built a large and loyal iPhone user base that is increasingly embracing high-margin apps and services.

The question on everybody's mind is how long these behemoths will be able to sustain current growth rates. We think they can achieve above-market averages for years to come, meaning these stocks should serve your portfolio well if held for the long term.

All five stocks can be easily bought via UK investment platforms. The alternative is to buy exchange-traded fund GraniteShares **GAFAM (GFME)** which tracks the performance of an equally weighted basket that contains Alphabet, Apple, Amazon, Facebook and Microsoft.

The main UK investment platforms should let you buy the US dollar-denominated version which has the code GFAM. There is a sterling-denominated version with the code GFMP, but availability is limited on the main investment platforms at present. This is a relatively new product, and it might take some time for it to become widely available.

The ETF charges 0.69% a year and may suit investors who only have a small amount of money to put into these companies, given some of the individual stocks cost several thousand dollars for a single share.

DISCLAIMER: The author Steven Frazer owns shares in Blue Whale Growth Fund.



The evolution of an investment thesis

Private equity investors like NB Private Equity Partners (LSE: NBPE) seek out companies with the potential to accelerate growth. However, one of the advantages of private equity is the ability for this very potential to grow significantly through bold but well-timed business decisions...

Private equity investors target businesses with the potential to achieve greater growth, on top of their established business operations, working closely with management to improve margins, explore new revenue streams and even contemplate acquisitions.

A distinctive feature of private companies versus their public counterparts is their ability to take big decisions that can transform businesses without consulting often relatively conservative shareholders. This can enable companies to make bold moves that improve their growth trajectory. These transformations take considerable expertise and time, and as a result are ideal for private equity investment – where managers are free of the focus on “quarterly earnings”.

For **NB Private Equity Partners (NBPE)**, these kinds of game-changing business decisions have emerged within their portfolio a couple of times in recent years. They demonstrate the strengths of investing in quality businesses, with able management teams and alongside strong private equity backers who are willing to follow their convictions.

BCA IMPROVES ITS PROSPECTS IN A CINCH

BCA Marketplace, now named Constellation Automotive Group, was taken in 2019. As Europe's largest business-to-business used car marketplace, it was already attractive, operating in a relatively defensive sector.

NBPE invested alongside TDR, a UK-based private equity manager, with experience of growing businesses in Europe, and in particular - digitalisation. This experience proved valuable in 2020, when subsidiary BCA Marketplace quickly and nimbly responded to the constraints of the Covid-19 pandemic, accelerating its digitisation to move 100% of its re-marketing online.

At the same time, the company had been exploring options in the business-to-consumer market. With a reduction in household spending being driven by

the economic lockdowns of early 2020, while fiscal interventions protected incomes, demand for cars dramatically rose through the second quarter of 2020. As a result, in July the company launched its consumer marketplace Cinch into an already feverish market.

This was a nascent opportunity that had been identified by TDR at the time of its investment. With only an estimated 1% of used car sales currently happening digitally, offering significant potential. The value of NBPE's stake in Constellation has been written up in June 2021 from c. \$22m to \$101m, making it NBPE's largest portfolio company.

PETSMART CHOWS DOWN ON CHEWY.COM

Petsmart is the market-leading pet store within the US, has strongly performing well-located physical shops and offers services alongside products within its stores.

It is also exposed to the resilient pet market, with its private equity backers, BC Partners, making the increasing 'humanisation' of pets a cornerstone of the investment thesis. Indeed, in 2015 at the point of its private equity buyout, the primary thesis was the attractive end market which was growing but also expected to be relatively stable in a downturn, coupled with the opportunity for company specific earnings growth.

Another key thesis of the buyout was to drive growth of the online business. During this same time period, Chewy.com was building a rapidly-growing online pet retailer and, seeing this success and rapid growth, Petsmart's private equity manager, BC Partners, opted to acquire it, while keeping it an entirely separate business. While Chewy was loss making at the time, the rapid revenue growth justified the price paid, which at the time was a record amount for an online retailer.

Chewy continued to grow rapidly, to the extent that it was logical to list the business publicly. Two years after acquiring it, Petsmart and its private equity owners listed Chewy at nearly \$9bn, an uplift on the \$3bn it acquired it for in 2017, and the company's stock price has continued to appreciate in value since then. The share price of Chewy has risen by over 250% since it listed and NBPE's stake in the combined business is now valued at approximately \$38 million as of 30 June 2021.

Click [here](#) to read more on the portfolio of NB Private Equity Partners

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Play the Asia Pacific opportunity with less China risk

Shares highlights diversified funds and trusts with less than a third of their assets allocated to China

Investors have long been lured to China for its burgeoning band of rapidly growing companies including national technology champions.

However, a widening regulatory crackdown by the authorities is having a big negative impact on sentiment.

This crackdown has caused significant losses for investors in emerging markets focused funds and investment trusts, many of whom have large weightings to China, and compounds the geopolitical tensions arising from the trade war with the US, the origins of coronavirus, the exertion of China's power over Hong Kong and its belligerence towards Taiwan.

Despite the situation in China, the wider Asia Pacific and Emerging Markets region, with its youthful demographics, emerging consumer classes and low financial services penetration, still has significant appeal.

Thankfully, among the main Asia Pacific and Emerging Markets funds available to UK retail investors are vehicles with less than 30% of their assets in China and strong performance track records to boot, which facilitate access to these compelling themes. In the

current climate, this makes them less risky than China-focused funds and trusts.

WHAT'S BEHIND THE CHINA SELL-OFF?

The recent sell-off in Chinese shares and investment trusts was caused by heightened concerns over the extent of Chinese state intervention in private sector businesses such as education, healthcare, property and technology. For months, the Chinese government has been waging war on private businesses it claims are profiteering at the expense of the broader public.

China's authoritarian rulers want everyone to have access to affordable education, healthcare and housing in a drive for social equality and to reduce what it sees as financial risk. The Chinese Communist Party is unhappy about the vast private data sets built up by tech firms such as Alibaba, Didi Global and Tencent, which gives them insights into the behaviour of vast swathes of the population.

LIMITED CHINESE EXPOSURE

For example, in the emerging markets trust universe, both **Templeton Emerging Markets (TEM)** and **Fundsmith Emerging Equities (FEET)** have less than



TOP PERFORMING ASIA PACIFIC/EMERGING MARKET TRUSTS WITH LIMITED CHINESE EXPOSURE

Trust	5 year return
Pacific Horizon	304.0%
Schroder Asian Total Return	123.1%
Aberdeen New Dawn	94.6%
Templeton Emerging Markets	87.6%
Pacific Assets	63.0%

Source: FE Fundinfo, 4 August 2021. Includes trusts with less than 30% exposure to China

30% of their assets invested in China, the former with 29.8% exposure according to FE Fundinfo.

Templeton Emerging Markets is the superior performer over five years, having generated a total return of 87.6% versus 28% for Fundsmith Emerging Equities, based on FE Fundinfo data,

although the former is invested in under-fire Chinese giants Alibaba and Tencent and the likes of China Merchants Bank.

The Templeton fund's managers Chetan Sehgal and Andrew Ness are able to draw on Franklin Templeton's global team of analysts, which enables them to seek out interesting opportunities rival investors may not have access to and deliver strong performance; the trust's net asset value (NAV) and share price total returns are meaningfully ahead of those of the MSCI Emerging Markets Index over the past three and five years.

As for the Michael O'Brien-steered Fundsmith vehicle, it does have China exposure through holdings in Tencent and NetEase to name a few, yet as of end July, just 5.9% of the trust's assets were in China versus 43.6% for India and 17.1% for the US.

In fact, all five of its top performers in the first half to June 2021 were Indian stocks, including medical diagnostics trio Metropolis, Dr Lal Pathlabs and Thyrocare, three beneficiaries of the surge in Covid cases in this immensely populous nation.

Among Asia Pacific trusts, one standout name with sub-30% of assets in China is the Baillie Gifford-managed **Pacific Horizon (PHI)**, which has blown away rivals with a 441.3% return over 10 years.

It is 29.7% invested in Hong Kong and China, with exposure to China 'A' Shares a modest 2.3%, with the portfolio also offering exposure to growth stocks in India, Korea, Singapore,

Vietnam, Indonesia and Taiwan. Holdings include the likes of Tata Motors, SEA, one of South-East Asia's online gaming and commerce firms, as well as smartphones maker Samsung to name a few.

Another option for investors concerned over China risk is **Pacific Assets (PAC)**, the Stewart Investors-steered trust with a sustainable investment strategy.

It aims to achieve long-term capital growth through investment in companies in the Asia Pacific region and Indian sub-continent, but excluding Japan, Australia and New Zealand. As of 30 June, China exposure was limited to 9.1%, behind India and Taiwan at 43.8% and 12.3% respectively.

OPEN-ENDED OPTIONS

Emerging markets funds with less than 30% exposure to China include **Goldman Sachs Emerging Markets Equity (BYZWWN5)** with a 27.1% China allocation, which has returned 129% and 89.2% respectively over the past 10 and five years, as well as the John Malloy-managed **RWC Global Emerging Markets (BD0CGQ4)**.

While 29.5% of the portfolio is invested in China, the fund's focus on growing companies with strong sustainable cash flows and attractive valuations has led it to names such as semiconductor foundry Taiwan Semiconductor Manufacturing, India's Reliance Industries and Brazilian lender Banco Bradesco.

MI Somerset Emerging Markets Dividend Growth (B4Q0711) has 18.8% of its assets in China, the fund has returned 83% on a 10 year view

TOP PERFORMING ASIA PACIFIC/EMERGING MARKET FUNDS WITH LIMITED CHINESE EXPOSURE

Fund	5 year return
GS Emerging Markets Equity Portfolio	89.2%
FSSA Asia Focus	79.5%
RWC Global Emerging Markets	78.9%
GS Emerging Markets CORE Equity Portfolio	70.6%
Waverton Asia Pacific	69.0%
JOHCM Asia ex Japan	67.7%
Alger Emerging Markets	64.5%
FSSA Asia All Cap	61.6%
Fidelity Asian Dividend	59.7%
Robeco Emerging Stars Equities	58.6%
JOHCM Global Emerging Markets Opportunities	58.1%

Source: FE Fundinfo, 4 August 2021. Includes trusts with less than 30% exposure to China

and offers a decent yield of just below 2%.

Co-managers Kumar Pandit and Mark Williams run a concentrated portfolio of quality 'conviction' ideas, with an unwavering focus on companies with prospects for long term cash flow and dividend growth.

Another impressive 10-year performer is **Waverton Asia Pacific (BONLMR0)**, which has a 28.9% allocation to China according to FE Fundinfo.

The fund is delivering against its stated objective of achieving capital growth and generating an income through a diversified book of Asia-Pacific equities.



By James Crux
Funds and Investment
Trusts Editor



Five ways to take the markets' temperature

Copper, small caps, transport stocks, junk bond yields and volatility readings tell us a lot

The FTSE 100 continues to paddle gently sideways – it is summer after all. The UK's benchmark index has gone nowhere since May and still stands around 10% below its May 2018 peak of 7,779.

Yet the vagaries of the FTSE 100 – which has exposure to sectors that are unpredictable (miners and oils), indigestible (banks) and stodgy (drinks, tobacco, food retailers) – should not cloud the good news elsewhere.

The FTSE 250 and FTSE Small Cap indices trade at all-time highs, the FTSE AIM All-Share is very close and the FTSE Fledgling is not far away from its loftiest mark since 2017.

Farther afield, the America's S&P 500 and Nasdaq Composite and Europe's Stoxx 600 also stand at fresh all-time peaks.

So rather than focus on the rather misbegotten FTSE 100, investors should look at the wider picture. They need to ask whether the good news can keep rolling or whether something is about to sneak up on them and derail global equities' momentum.

Regular readers will know this column has five tried-and-trusted tests and intriguingly all of them look inconclusive right now.

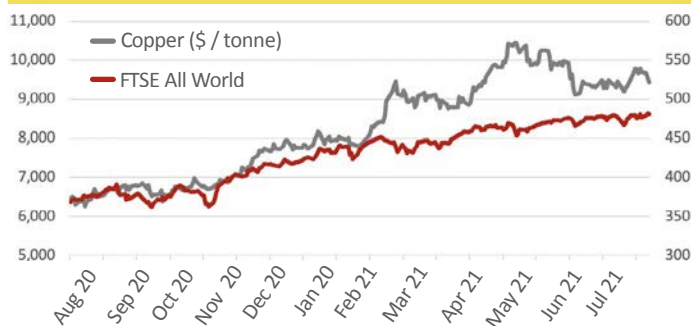
THE FIVE TESTS

1 Dr Copper: The industrial metal has this nickname because its malleability, ductility and use in everything from cars to housing to domestic appliances make it a great barometer for global economic health.

Copper's stunning surge over the past year looks to be fizzling out a little, as the metal is 10% off its highs. A fresh advance in copper would help to reaffirm investors' faith that the inflation/reflation



Copper is losing a little shine

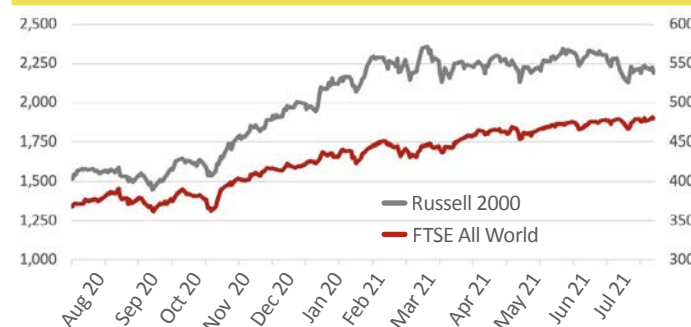


Source: Refinitiv data

trade is the right one, while further weakness would raise fears of an economic slowdown and even the worst of all worlds, stagflation.

2 Small caps: Market minnows are an excellent indicator of risk appetite. They tend to outperform when investors are bullish and fall

US small caps have stopped making big strides



Source: Refinitiv data



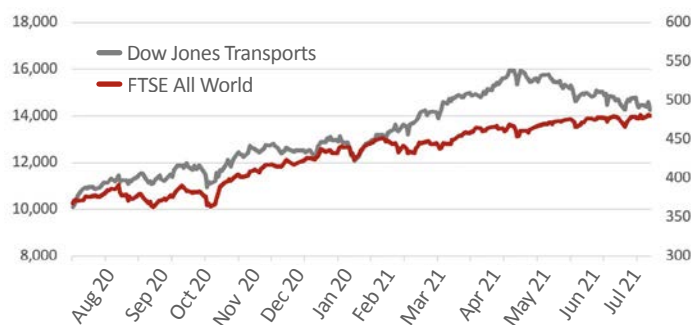
faster than the broader market when they are bearish. The UK's FTSE Small Cap index may be setting new highs, but America's Russell 2000 is not.

3 The transportation indices: The old theory goes that if the transport stocks are not performing, industrials cannot do so either. If nothing is being shipped, nothing is being sold.

It is therefore of some concern to see America's Dow Jones Transport index brushing up against the buffers. Bullish investors will feel happier if that index can start moving higher again.



Transport stocks have run into the sand



Source: Refinitiv data

4 Junk bonds: High-yield bonds lie at the riskier end of the fixed-income spectrum as their more pejorative name of junk bonds would suggest.

The issuers have creaky balance sheets, volatile cash flows or both, and they need to pay a higher coupon to attract buyers of the bonds.

They can trade a bit like equity, such is their risk profile, so bulls of stock markets will be pleased to see the US-listed iShares iBoxx High Yield Corporate Bond ETF performing well.

This may be down to the ongoing reach for yield

Junk bonds continue to perform well



Source: Refinitiv data

in a low-rates world, but the tracker is trading near six-year highs and is not close to going below the \$80 level, a move which proved to be a harbinger of wider market volatility in 2008, 2015 and 2020.

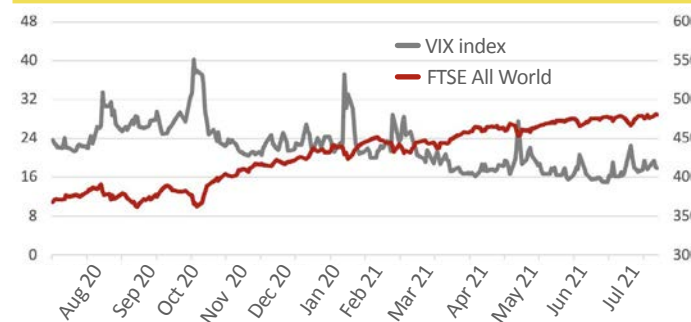
5 Volatility: This can be the friend of the investor as it can provide chances to sell stock expensively or buy it cheaply. Yet history shows that stock indices progress best when they make a series of modest gains and tend to fare less well when trading is choppy and there are big swings up and down.

America's VIX, the so-called 'fear index', stands well below its lifetime average of 19, which points to bullish sentiment.

Equally, the reading is creeping up, just as copper and the transports are creeping down.

This may just be a case of summertime lassitude, but it could be a sign the bull equity market is about to face its latest test, be it inflation, the pandemic, central bank policy or (more likely) an exogenous event.

The VIX index is creeping higher



Source: Refinitiv data

Winners and losers in the \$1 trillion 'American Jobs' infrastructure bill

Construction and materials stocks should benefit but green spending disappoints

Coming in at more than 2,000 pages, the bipartisan bill to revamp the US's ageing – and in some cases crumbling – infrastructure has taken months to put together and has inevitably resulted in a compromise.

While president Joe Biden can take many positives from the deal, which forms a crucial part of his economic agenda, he will no doubt be rueing the reduction in funding for clean energy and the inclusion of various pet projects by some of the legislators.

Still, taken as a whole, the \$1

trillion bill represents the biggest government outlay on public works projects in more than a decade. To put it in perspective, the post-war Marshall Plan to rebuild Europe after the Second World War cost the equivalent of \$132 billion in today's money.

RAIL, ROADS AND BRIDGES

According to data from the G20 Infrastructure Hub, the US typically spends just 1.6% of its annual gross domestic output in any given year on infrastructure compared with an average of close to 3% in Europe, over 3% in Japan and 6% in China.

One aspect of the plan which will please the president, known affectionately as 'Amtrack Joe' for his habit over many years of commuting daily from Wilmington, Delaware to Washington, will be the \$66 billion of funding allocated to the US railroad company to reduce its maintenance backlog as well as to upgrade the heavily used Northeast Corridor route from Washington to Boston.

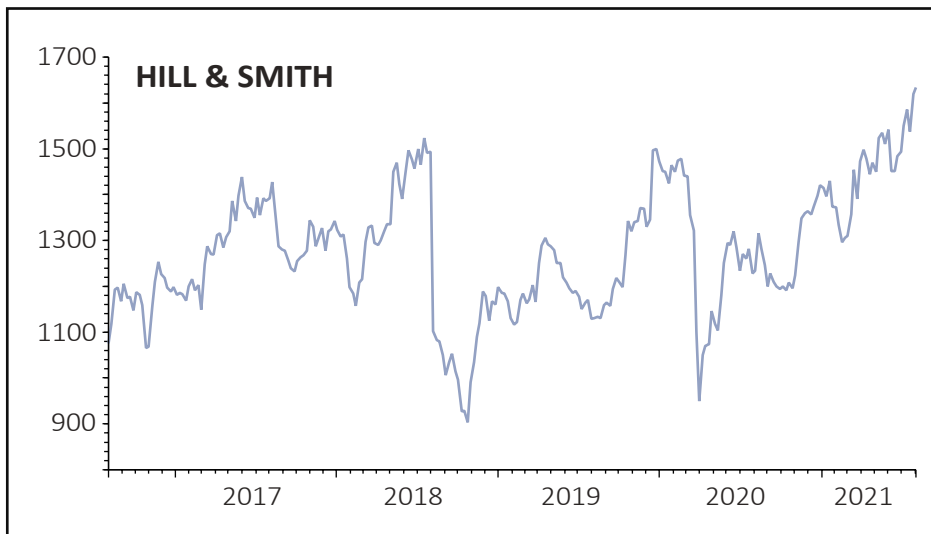
The core of the spending plan is on roads and bridges. According to a 2018 Department of Transport report, a quarter of US bridges need significant repair or simply cannot handle current traffic levels.

Between 2000 and 2019, freight truck delays in urban areas increased by more than 75%, costing the US economy in the region of \$75 billion in lost output last year according to the American Transportation Research Institute.

The infrastructure plan calls for modernising 20,000 miles of highways, roads and main streets, fixing the 10 most economically important bridges and repairing the worst 10,000 small bridges.

This is great news for UK companies like **Hill & Smith (HILS)**, which provides road





signage and barriers, **Keller (KLR)** which provides geotechnical services and groundworks, and **Ashtead (AHT)** which supplies rental equipment for construction projects.

The impact on earnings won't be instant, but it could be significant. 'Projects we work on need preparation so it may be a year before we get involved. However, it certainly puts us on the front foot,' says Keller chief executive Michael Speakman.

GREEN SPENDING FALLS SHORT

The bill includes \$73 billion to modernise the nation's electricity grid, the biggest government investment in power transmission in history, which will be essential for weaning the US off fossil fuels, but it also extends subsidies for natural gas and nuclear power.

Also, while the country has experienced everything from ice storms to floods and wildfire this year, money which has been earmarked to ready the country for the worst effects of global warming is going to existing projects rather than new initiatives.

In other areas, such as replacing lead water pipes across the country, funding is a fraction of the money industry

RAW MATERIAL BOOST

Adding up the investment set aside for the electricity grid, the electrification of the transport system, broadband and various other projects, the need for raw materials such as copper and nickel is set to soar.

According to a White House briefing paper, US demand for refined copper is set to grow by 6% per year over the next five years, with 2% of the increase due to the infrastructure plan.

Electric vehicles contain up

to 10 times more copper than internal combustion engine vehicles and each electric bus contains an estimated 370 kilograms of the metal. Even replacing a fifth of the US yellow school bus fleet with electric buses could mean an additional 35,000 tonnes of copper are needed, according to Statista.

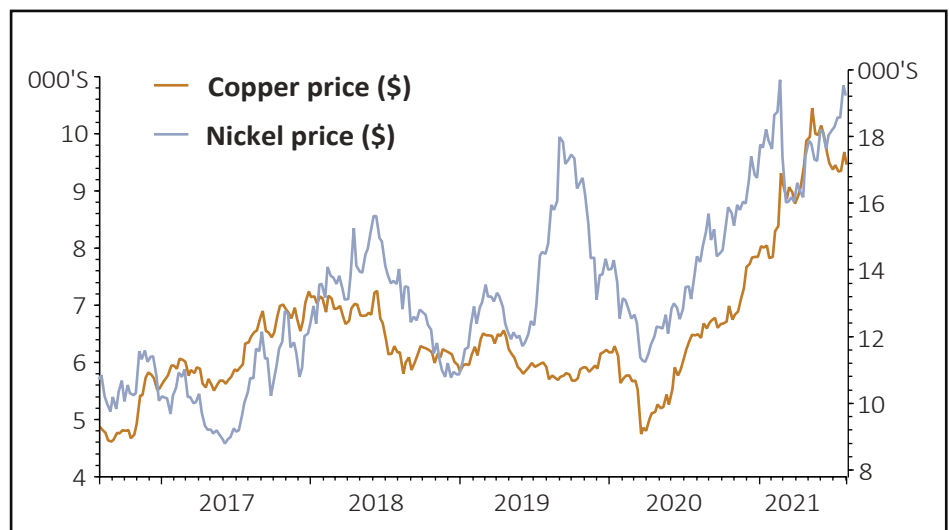
High-grade nickel is a key component in electric vehicle batteries, and car makers are already in a race to secure supply deals, so increased demand from the US will only push global prices higher.

Rather than trying to pick individual winners, investors can play the raw material angle using London-listed exchange-traded funds (ETFs) such as **WisdomTree Copper (COPA)** which tracks the copper price; and **WisdomTree Nickel (NICK)** which tracks the nickel price.

Disclaimer: The author owns shares in the Wisdomtree Nickel ETF



By Ian Conway
Senior Reporter



How to invest in Boris and Rishi's 'big bang'

Major investors are being encouraged by the Government to put money into illiquid assets, such as infrastructure and unquoted companies



The prime minister and the chancellor have written an open letter to the UK's institutional investors, challenging them to ignite an 'investment big bang' by investing in illiquid assets, such as infrastructure and unquoted companies.

The chancellor is also setting the groundwork for the launch of 'Long Term Asset Funds' later this year, which will be open-ended funds that invest in illiquid assets.

There are reasons why private investors might want to invest in illiquid assets, and ways they can already do so, but there are also significant risks to be considered when investing in this area.

APPEAL OF SMALLER COMPANIES

One of the illiquid assets into which the Government is trying to encourage money is small companies that aren't listed on the stock exchange.

Investors can potentially benefit by tapping into the high levels of growth these companies can experience before they float on public markets. There are risks as smaller, entrepreneurial businesses stand a much higher chance of failure than the big blue chips traded on the stock market.

INFRASTRUCTURE OPPORTUNITIES

Another illiquid asset class the

PM and chancellor are trying to promote is infrastructure. Investors tend to choose this sector because of the income streams on offer, which are often linked to inflation.

At the moment, many of the emerging infrastructure opportunities are in green infrastructure, which fits the bill for investors who want an ESG tilt to their portfolio. It's also why the PM and Chancellor want to promote the benefits of investing in this area, as it helps to pay for the Government's green agenda.

HOW TO ACCESS ILLIQUID ASSETS

One of the problems with illiquid assets is how to gain access to them. Open-ended funds offer investors daily dealing so aren't best placed to invest in illiquid assets, which take a long time to sell.

For example, someone might have money in an open-ended fund that invests in various big office blocks. If they decide to withdraw their money, the fund manager must immediately find cash to pay them back. If there isn't enough available cash, they would have to sell some assets and finding a buyer for an office block is not straightforward and certainly cannot be done in a day or



© UK Prime Minister

even a month.

However, investment trusts can offer investors access to these hard-to-reach areas of investment markets, because their closed-ended structure means they don't have to sell underlying investments to meet investor withdrawals.

When an investor wants to get out of a closed-ended investment trust, they simply sell their shares on the market to another investor. The fund manager doesn't have to do anything.

The cost of that liquidity is reflected in the premium or discount the investment trust is trading at, which adds to the volatility of the investment.

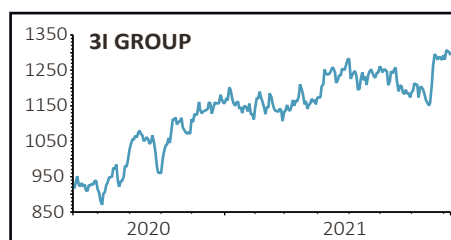
RANGE OF INVESTMENT TRUSTS

There are plenty of investment trusts which offer exposure to illiquid assets, though they may not all be as UK focused as the PM and Chancellor might like.

Investors are probably more

concerned with creating a diversified portfolio of good investment opportunities rather than using their money to do a bit of flag waving.

Pantheon International (PIN), for example, is an investment trust which invests in a global portfolio of private equity assets, while **3i Group (III)** offers exposure to private equity and infrastructure opportunities in Europe and North America.



If it's specifically green infrastructure you're after, there is the renewable energy infrastructure sector to consider, containing trusts such as **Greencoat UK Wind (UKW)** and **The Renewables Infrastructure Group (TRIG)**.

Investors need to be

wary of hefty premiums on infrastructure trusts, which have been driven up by the low interest rate environment.

To access some privately-owned companies in a more diversified growth trust, investors could look at **Scottish Mortgage Investment Trust (SMT)**, which has around 20% of its portfolio invested in unlisted equities.

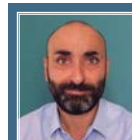
Investors can also invest in small unquoted companies through venture capital trusts or enterprise investment schemes, respectively known as VCTs and EIS. These tax wrappers offer investors exposure to small, unquoted companies with considerable tax breaks to boot.

VCTs offer investors up to 30% tax relief on their initial investment, with tax-free dividends and growth. To keep the tax relief, you must hold the VCT for at least five years.

EIS products also offer 30% upfront tax relief, with tax-free growth. There is also the potential to defer any previous capital gains from other assets by holding that money in an EIS product.

The tax benefits of these schemes are clearly very attractive, but the investments are very high risk and so only for investors with a high tolerance for risk and loss.

This really goes for illiquid assets more generally, and even for adventurous investors they should only make up a small part of a diversified portfolio.



By Laith Khalaf
AJ Bell
Financial Analyst

MONEY & MARKET\$

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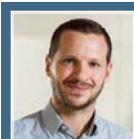


Could the state pension age hike be reversed?

Chances of a u-turn on when you can take your entitlement look slim

I'm one of the three million women affected by unfair increases in the state pension age and have had to delay retirement by four years because I simply couldn't afford to stop working. Given the Government has now been found guilty of maladministration, surely the women affected will now need to be compensated?

Dorothy



Tom Selby
AJ Bell Senior
Analyst says:

Today men and women in the UK have the same state pension age of 66. This has not always been the case, however.

Prior to 2010, women received their state pension from age 60, while men had to wait until age 65. The 1995 Pensions Act first put forward proposals to increase the women's state pension age to 65 – bringing it into line with men – between 2010 and 2020.

The 2011 Pensions Act accelerated this timetable, meaning state pension ages were equalised at age 65 in 2018 before increasing to age 66 by 2020.

From here, plans are in place to increase the state pension age to 67 by 2028 and 68 by 2046 (although the Government has previously

indicated this could be brought forward to 2039).

Campaigners have long argued the changes introduced under the 1995 and 2011 Pensions Acts were unfair to women born in the 1950s, with some forced to wait six years longer than expected to receive their state pension.

One of the central charges was that the Department for Work and Pensions (DWP) failed to adequately notify affected women so they could adjust their retirement plans.

This case was considered recently by the Parliamentary and Health Service Ombudsman (PHSO), which investigated complaints that since 1995 the DWP had failed to provide 'accurate, adequate and timely information about changes to the state pension age for women'.

The Ombudsman concluded that the DWP did not adequately respond to research in 2004 which recommended information should be 'appropriately targeted' at those affected by the reforms. As a result, it found maladministration had occurred.

While the Ombudsman's finding may feel like vindication to the so-called 'WASPI' (Women Against State Pension Increases) campaigners, it has no power to compel the Government to provide

compensation or redress.

In 2019 the High Court heard arguments that the state pension age increase discriminated on the ground of age and/or sex and sought a judicial review of the Government's 'alleged failure to inform them of the changes'.

The Court dismissed the claim on all three counts, and an appeal to the Court of Appeal in 2020 was also thrown out.

The Government has previously said putting men's and women's state pension ages back to 60 could cost £215 billion. Given the impact coronavirus has had on the UK's finances, it seems extremely unlikely the Government will cough up this amount of money – or anything at all for that matter – if it is not compelled to.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to editorial@sharesmagazine.co.uk with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

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

Find out how much you can save in your pension over your lifetime

We discuss the limits on total pension savings, and what happens if you breach them

The Government gives incentives to people who save in pensions, but there is a limit to its generosity and if you save too much then you may be hit with tax charges.

HOW MUCH CAN SOMEONE SAVE IN PENSIONS OVER THEIR LIFETIME?

There isn't a hard limit on the amount you can save over your lifetime, but the lifetime allowance caps the amount you can save without facing tax penalties.

The lifetime allowance covers all your savings in UK registered pension schemes. This includes defined contribution pensions (such as SIPPs) and any defined benefit pensions (such as final salary schemes) you may have.

This overall allowance has changed over the years but is currently set at £1,073,100 and will remain at that level up to and including the 2025/26 tax year. If you save more than the lifetime allowance, tax charges will apply to any excess.

WHEN DOES SOMEONE USE THEIR LIFETIME ALLOWANCE?

Your pension savings are tested against the lifetime allowance at certain trigger points – these are known as benefit crystallisation events or BCEs.

For most people the first trigger point will be when you take your tax-free cash – officially known as a pension commencement lump sum or PCLS.

It isn't possible to take PCLS without doing something with the rest of your pension. Depending on the type of pension scheme you will either start taking a scheme pension, buy an annuity or allocate funds to take as income drawdown, either immediately or at some point in the future.



All of these are also BCEs. It's important to remember that allocating funds to use for drawdown is the event that triggers the test, not when you actually take income, which could be many years later.

You can also choose to take funds out of your pension as a lump sum(s) which is part taxed, part tax-free – known as an uncrystallised funds pension lump sum or UFPLS. This will also trigger a test.

If you were to die before age 75 without accessing your pension, then your pension savings would be tested on your death. Similarly if you were to transfer your pension out to an overseas pension scheme, then your savings would be tested at that point.

The other time your savings are tested is if you reach your 75th birthday with pension savings that haven't been accessed. Also, importantly, any funds from which you have previously designated to take income drawdown are tested again.

When it comes to drawdown funds you get a credit for the amount you originally put into drawdown, so the test is on how much your funds have grown since that point. If you've been taking income out, meaning the fund value hasn't grown, you won't have anything to test.

HOW DOES THE LIFETIME ALLOWANCE TEST WORK?

When your pensions savings are tested you use up a percentage of your lifetime allowance. This is calculated as:

$$\frac{\text{Amount of pension savings being tested}}{\text{Lifetime allowance on date of test}} \times 100 = \text{\% of lifetime allowance used}$$



EXAMPLE

John had £1,000,000 in his pension at age 65 and decided to take all his tax-free cash. He didn't want to take any income.

The amounts tested are:

- £250,000 tax-free cash (immediately taken out)
- £750,000 designated to drawdown (funds remain in his pension – he can take income from them whenever he likes without triggering another test)

Test 1 (tax-free cash)

$$£250,000/£1,073,100 \times 100 = \mathbf{23.29\%}$$

Test 2 (drawdown fund)

$$£750,000/£1,073,100 \times 100 = \mathbf{69.89\%}$$

Lifetime allowance used

$$23.29\% + 69.89\% = \mathbf{93.18\%}$$

On John's 75th birthday his drawdown fund had grown to £800,000.

£800,000 less the amount previously designated to drawdown (£750,000) is tested against his available lifetime allowance.

Test 3 (age 75 drawdown)

$$£50,000/£1,073,100 \times 100 = 4.65\%$$

*the lifetime allowance applicable at John's 75th birthday would be used

Total lifetime allowance used

$$23.29\% + 69.89\% + 4.65\% = \mathbf{97.83\%}$$

Your pension scheme administrator will carry out the calculations for you and tell you how much of your lifetime allowance you have used.

HOW DOES THE LIFETIME ALLOWANCE WORK FOR DEFINED BENEFIT PENSIONS?

If you take tax-free cash from a defined benefit pension this is tested against the lifetime allowance in the same way as described above.

However, with defined benefit pensions you don't have a fund value, or a set amount that is used to provide you with your income. Instead, you receive a guaranteed income for life.

When you start taking your scheme pension the annual amount you receive is multiplied by 20, and this is the amount tested against your lifetime allowance.

EXAMPLE

Nadia, 65, starts taking her benefits from her final salary pension. She receives £100,000 tax-free lump sum plus pension income of £15,000 a year.

Test 1 (tax-free cash)

$$£100,000/£1,073,100 \times 100 = \mathbf{9.31\%}$$

Test 2 (scheme pension)

$$(£15,000 \times 20)/£1,073,100 \times 100 = \mathbf{27.95\%}$$

Lifetime allowance used

$$9.31\% + 27.95\% = \mathbf{37.26\%}$$

Once a scheme pension is in payment it is only tested against the lifetime allowance again if it is increased by a certain amount. This is a relatively unusual occurrence and outside the scope of this article. There is no test at age 75 for scheme pensions that are in payment.



IS IT POSSIBLE TO HAVE A LIFETIME ALLOWANCE ABOVE £1,073,100?

When the lifetime allowance was introduced in April 2006 it was set at £1,500,000. It increased for a number of years before peaking at £1,800,000 in 2010/11. Since then it has been cut on three separate occasions.

When the lifetime allowance was first introduced, and on each occasion when it has been cut, protection has been available for those who already had savings above the new level (primary or individual protection) and for those who stopped saving into their pension (enhanced or fixed protection).

If you hold enhanced protection then no lifetime charge will ever arise. For other types of protection you will have a protected value above £1,073,100 that will be used when calculating your lifetime allowance usage.



WHAT HAPPENS IF YOU BREACH THE LIFETIME ALLOWANCE? DOES IT EVER MAKE SENSE TO DO THIS?

If you breach the lifetime allowance the excess funds will be subject to the lifetime allowance charge, also known as LTAC.

If you choose to take the excess funds out of your pension, then a 55% tax charge will be deducted by the scheme administrator and the balance paid

out to you.

Alternatively, you can leave the excess funds in your pension and the scheme administrator will deduct a 25% tax charge.

When you later come to withdraw these funds, they will be subject to income tax. If you are a higher rate taxpayer then this means you effectively pay the same rate of tax as if you take it as a lump sum - i.e. 55%.

EXAMPLE

£10,000 excess, higher rate taxpayer.

Taken as a lump sum taxed @55%

= **£5,500** LTAC paid to HMRC

= **£4,500** paid to you

Excess left in pension taxed @25%

= **£2,500** LTAC paid to HMRC

£7,500 later paid subject to income tax @40%

= **£3,000** income tax paid to HMRC

= **£4,500** paid to you

Although nobody likes paying tax, there are instances where it makes sense to pay a lifetime allowance charge, rather than taking action to avoid it.

For example, if your employer is making contributions to your pension which ultimately may take you over the lifetime allowance, it is still better to have 45% of something rather than 100% of nothing, if there isn't an alternative to the pension contributions.

Some may consider taking income that they don't otherwise need to reduce the growth in the drawdown fund that is tested at age 75.

It is important to remember that your pension is usually outside your estate on your death, whereas if you withdraw funds and don't spend them in your lifetime, they are liable to inheritance tax.

While funds remain in the pension, they have the advantage of compound tax-free growth, so will grow at a faster rate than outside a tax wrapper.



By **Lisa Webster**

AJ Bell senior technical consultant

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HOW I INVEST: Turning £350,000 into £1.7 million

Roland outlines how he picks stocks and details his financial goals



Roland has only been looking after his own investments for around eight years, but he has already turned £350,000 into £1.7 million.

This includes an injection of £100,000 after a defined benefit pension was transferred into his SIPP (self-invested pension). The performance equates to an 18% compound annual return per year. He has subsequently had to give £700,000 to his former wife as part of a divorce settlement.

Roland has been managing his own investments since his career in corporate finance came to a halt before he turned 50. He was fortunate enough to have accumulated savings and a pension worth £350,000.

He has earned a Master's

in Finance from the London Business School and has taught MBA (Master's in Business Administration) programmes but had never managed money professionally before taking control of his own investments.

20-YEAR PLAN

Leading a quiet life, working out every day, doing some gardening and reading maths books, Roland has put in place an investment plan with the goal of maximising the value his investments over the next 20 years.

He puts enough cash into a building society account 'to live off happily for the next two-to-three years' and everything else including nearly 100% of his pension has been invested into shares.

Acknowledging that shares can be risky in the short term, Roland takes a longer-term view, believing his share portfolio will outperform cash and bonds over that time frame.

Roland says he has been 'pleasantly surprised' from the investment gains he has achieved over the past eight years which have exceeded his expectations as well as his annual expenditures.

He keeps tabs of the value of his savings plus investments and over the time their combined value has gone up slightly.

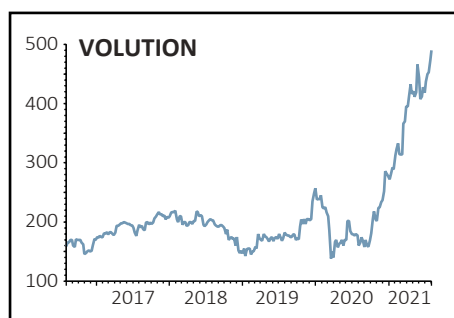
INVESTMENT PROCESS

Roland admits he isn't skilled enough to value individual shares but relies on his instincts to assess a company's long-

term prospects. He looks at the investor relation sections of corporate websites and analyses share purchases and disposals by company directors.

Essentially, he is looking for sensible management which is committed and executing a focused strategy.

An example which worked in his favour is ventilation products company **Volution (FAN)** where Roland increased his holding after visiting the website. The share price has risen by 206% in the past 12 months, according to data from Google.



At the other end of the spectrum is infrastructure software company **Micro Focus International (MCRO)** which Roland believed to be unconvincing, saying the website was 'full of empty cliches and convinced me management didn't have the faintest plan to recover'. Shares in Micro Focus are up by 35% over the past 12 months but down 79% on a five-year basis, according to Google.

Roland says there are two ways that he can make money from shares. He comments: 'One is by buying a share you hope is under-priced, the other is by holding a share while the company creates value over time. I believe in the second



Roland's portfolio has benefited from owning shares in Volution

method though it can be hard to maintain this discipline.'

His investment approach is based on two principles; first, keep costs low by trading infrequently and taking a long-term view; second, diversify as much as possible, holding over 100 stocks.

BIG BELIEVER IN THE UK

To get exposure to overseas investments Roland buys exchange-traded funds which provide diversified assess typically at a lower cost than actively managed funds. His biggest overseas exposure is to Japan, but he also has investments exposed to Vietnam, Australia, South Africa and Canada.

The largest portion of his investments is held in UK shares because Roland says he is a 'great believer' in the UK market. 'The UK has an excellent, stable political system, a Rolls Royce legal system, and an intelligent, creative, honest population.'

To add some spice and further diversification Roland puts around a quarter of his portfolio into AIM-listed shares in what he calls his 'cowboy portfolio'.

For many years Roland avoided the AIM market because of a bad experience

while working in a professional capacity for an AIM company.

He remarks: 'When I saw what had been said to investors to persuade them to invest, I was horrified. I was also surprised that the corporate governance rules allowed it.'

Shareholders subsequently lost all their money in the company, which wasn't a small business according to Roland.

SOURCING IDEAS

Roland finds investment ideas by reading specialist finance publications including *Shares* magazine. Occasionally he spends time researching companies in a particular sector and chooses a few to invest in based on several factors including research and development spend.

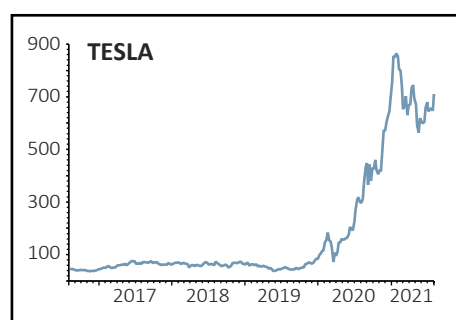
The keen investor also likes to 'keep his eyes open' for possible investment opportunities. A few years ago, he heard about a privately-owned cyber-security company called **Darktrace (DARK)** at a conference and after having a coffee with the speaker decided it might be a good investment should it ever join the stock market.

He subsequently invested in Darktrace when it eventually became a listed business, having floated on the London Stock Exchange in April 2021.

BEST AND WORST INVESTMENTS

A friend of Roland's who is passionate about the electric vehicle market and spends hours studying it every day decided to invest all his savings in US electric car maker Tesla and says he made 'a fortune'.

Roland followed his friend into Tesla's shares, making a 1,000% return.



Explaining his decision Roland says: 'This was for me a gamble and I only make small gambles, so I only spent about 1% of my pension on Tesla shares.'

His worst investment was small cap healthcare firm Nestor which lost 90% of its value on the same day that he bought the shares.

DEFINED BENEFIT PENSION TRANSFER ISSUES

Roland had a difficult time transferring a defined benefit pension to a SIPP (self-invested person pension) so he could manage his own funds. He was required by legislation to use a financial adviser because the value was greater than £30,000.

There are certain risks attached to swapping a guaranteed pension for an unknown one because you effectively take on the investment risk, but Roland



took the view that for him, at least, the benefits outweighed the risks.

One adviser quoted a price of £1,500 but after commencing work informed Roland that the rules had become more complicated, and they couldn't complete the work for the agreed price.

After spending a year looking for an alternative Roland went back to the same adviser and said he was willing to pay a higher price, but they explained the rules had become even more complicated and refused to do the work.

Roland then appointed a local adviser for a similar fee, but near the end of the process the

individual refused to proceed unless they could manage Roland's funds or he paid a higher fee, which he said was outrageous and at odds with what was agreed.

Meanwhile the defined benefit offers lapsed, and Roland had to wait another year.

There is a silver lining in the story because once he did get the transfer done, the last offer was 'significantly higher and I ended up doing ok,' explains Roland.



By **Martin Gamble**
Senior Reporter

WOULD YOU LIKE TO SHARE YOUR STORY?

We're looking for individuals or couples to take part in our case study column, particularly those willing to talk about how they manage their money in retirement or have become more active in the past year in choosing stocks, funds or bonds.

Please email editorial@sharesmagazine.co.uk with 'case study' in the subject line.

DISCLAIMER: Please note, we do not provide financial advice in case study articles and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term. Tax treatment depends on your individual circumstances and rules may change. ISA and pension rules apply.

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Full year results

16 August: Goodwin **17 August:** BHP, Van Elle.

19 August: Byotrol, Rank.

Half year results

17 August: Genuit, KAZ Minerals, Plus500.

18 August: Balfour Beatty, Persimmon.

19 August: Antofagasta, Helios Towers, Tremor International. **20 August:** Afarak, Kingspan.

Trading Statements

19 August: Castings.

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